

UNIVERSITY OF GHANA, LEGON



**IMPACT OF FOREIGN DIRECT INVESTMENT ON HOUSEHOLD CONSUMPTION
EXPENDITURE**

BY

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DECLARATION

I do hereby declare that this thesis is the result of my own research and has not been presented by anyone for any academic award in this or any other University. All references used in this work have been accordingly acknowledged.

I take full responsibility for any shortcomings in this work.

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CERTIFICATION

I hereby certify that this thesis was supervised in accordance with procedures laid down by the University

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LIST OF ACRONYMS/ABBREVIATIONS

ADF	Augmented Dickey-Fuller
ARDL	Autoregression Distributed Lag model
ECM	Error Correction Model
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Country
IMF	International Monetary Fund
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Square
WDI	World Development Indicators
WEO	World Economic Outlook
CPI	Consumer Price Index
MNC's	Multinational Companies
FDI	Foreign Direct Investment

ABSTRACT

Many developing countries are striving to attract foreign direct investment into their country of which Ghana is no exception. They believe foreign direct investment inflows can boost domestic consumption expenditure and eventually aid in the alleviation of poverty in their respective countries. This key objective of this study is to investigate the impact of foreign direct investment (FDI) inflow on household consumption expenditure in Ghana, the research used secondary data from the world development indicators, ranging from 1975 through to 2016. Foreign direct investment, trade openness, human capital, were some of the independent variables used against household consumption as the dependent variable.

The model was estimated using the Ordinary Least Square Estimation Technique. The study result reveals that, foreign direct investment has an adverse influence on household consumption in the country, reason being most foreign direct investment are directed towards the extractive industries and the mining of natural resources, proceeds from such ventures are usually repatriated back to the foreign country, with very little done to enhance domestic consumption, the study also reveals that electricity consumption which served as proxy for expenditure and human capital development has a positive influence on household consumption expenditure. The result of the study recommends that the state should redirect juicy policies and incentives given to foreign direct investors to development of human capital and better infrastructure to domestic investors since this is likely to have a significant positive effect on household consumption expenditure relative to foreign direct investment.

CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

Frequently, destitution is seen as far as pay. Individuals can be considered to live in destitution when they don't have salary and different assets needed to satisfy the states of existence, for example, counts calories, material, offices products and ventures; this necessity would have made them to assume jobs and partake in the connections and conventions of their general public (AfDB, 2015). Notwithstanding, it is accepted that salary gives a biased sketch does and is not inclusive of the more extensive way of life or human improvement. Poverty is defined by the World Bank as “encompassing not only material deprivation (measured by an appropriate concept of income or consumption) but also low achievements in education and health” (Azam, Haseeb, & Samsudin, 2016)

Typically most types of FDI's are intended to expand house hold salaries. Outside direct venture inflows is typically transmitted either legitimately or by implication through multilateral establishments or private deliberate associations so as to improve the social and financial advancement of the creating nations. Along these lines, the broadly useful of inflows from worldwide association and outside contributors is to invigorate monetary improvement, support residential assets preparation and spending and in the long run diminish the instance of neediness particularly in low salary financial aspects. At first outside guide appears to improve normal pay in the guide getting nation and after that assumes job in neediness alleviation(Alvi & Senbeta, 2012; Sachs & McArthur, 2005) showed that the focused on foreign inflows to a great extent to kill neediness in creating nations. In a comparative report, (Wetherill & Gray, 2015) out that the major goals of outside guide are to relieve neediness; these targets incorporate empowering monetary development, boosting institutional change, and diminishing destitution in the creating scene. (Steele, 2013) gives

motivations to giving guide by contending that remote guide offered on a fundamental level, straightforwardly or in a roundabout way will encourage the improvement of the lives of those individuals who truly need it. Direct foreign inflows (FDI) has been seen as a critical resource for monetary progression. Various people battle that the movements of foreign inflows may perhaps fill the opening amongst needed endeavors and privately arranged saving (DeMartino, 2002; Stebek, 2012) It moreover may extend charge livelihoods and improve the board, development, similarly as work capacities in recipient nations (DeMartino, 2002; Stebek, 2012) Numerous scholars broadly accept that the advantages accumulated from direct foreign inflows may incorporate the securing of novel innovation, neediness decrease, work creation, human capital advancement, commitment to worldwide exchange reconciliation, upgrading household venture, and expanding charge income produced by direct foreign inflows (Bank, 2000; Duffield, 2014) Some of these advantages are required to add to higher financial and work development which is a successful apparatus for accomplishing enhancement in the decrease of neediness particularly in provincial regions.

In any case, the influences of direct foreign inflows on desperation depends upon various components including the host countries' foundations and systems, the nature of the work promote, the money related condition, and the endeavor itself (Bush & Mayne, 2004). Overall examples in FDI streams to making countries have extended radically in quantity and quality respectively. FDI streams came to \$70 billion out of 1993 (Nair-Reichert & Weinhold, 2001) and about \$180 billion of each 2015 (Montero et al., 2016)

As shown by Global Development Finance report (Hsu, Tian, & Xu, 2014), FDI has slipped from \$179 billion of each 2009 to \$143 billion out of 2014, yet in spite of everything, it remains an overwhelming wellspring of financing for making countries and for dejection facilitating. The connection between direct foreign inflows and destitution decrease is

separated into two sections. These parts are the connection among direct foreign inflows and development on one hand, development and destitution decrease then again. Concerning connection among direct inflows and development, it is commonly discovered that progression of direct foreign inflows in the nation support increasingly fast monetary development, progressively way of life of the people which at last outcomes in more decrease of destitution in the nation.

1.2 Problem Statement

The significance of remote capital, most particularly FDI, to creating nations can't be over underlined. It fills in as an enhancement to their locally prepared reserve funds and it is regularly went with innovation and administrative abilities which set the tone for monetary improvement. Remote direct venture (FDI) can contribute in different approaches to monetary improvement in creating countries, in particular breaking the endless loop of destitution. The patterns of the progressions of direct foreign inflows (FDI) all-inclusive and the dispersion of its orderly impact over the areas of the world have been a subject of observational choices over the previous decades (S. O. Akinmulegun, 2012). A few examinations have given proof of upsurge and expanding level of the worldwide capital portability among the created and creating economies of the world. Regardless of how attractive is the inflow of FDI to creating countries; numerous commentators of this capital inflow likewise affirm that global organizations will in general find generation in nations or area with low wages, low assessments and powerless ecological and social models. They contend that FDI subsequently not add to neediness easing which is a fundamental piece of a nation's economy. It is surely obvious that these highlights of the business condition assume a huge job in the choices of multinationals (Hsu et al., 2014).

The journey to diminish destitution particularly in the provincial economy is one of the prime

orders of governments everywhere throughout the world. However, given constrained spending assets, the nation's deficiency in framework can't be met by the legislature alone through spending distributions. There is the need to scan for outer money related help. This has taken a more noteworthy criticalness, particularly in most creating nations like Ghana. Without simple access to moderate credit for private segment improvement, there has been an endeavor in growing and drawing in outside direct venture (FDI) into Ghana since 1992. Thus, through the improvement of the business atmosphere Ghana keeps on accepting considerable interest in foundation advancement. However, notwithstanding the various research and enthusiasm for different types of FDI to national improvement in various measurements, there is a shortage of observational investigations in regards to the effect of remote direct speculation on country destitution. This exploration work, consequently, is gone for diving into the job, advantages and difficulties of Foreign Direct Investment in framework advancement as for Ghana's provincial economy.

1.3 Study Objectives

This research work seeks to accomplish the following under-listed goals:

To establish the association that exist amongst household consumption expenditure and FDI

To determine the relationship that exist household consumption expenditure and Price level

1.4 Questions the Research Seeks Answers

The ensuing are the key inquiries this research seeks to address

To study the connection between household consumption expenditure and direct foreign inflows in Ghana?

To study the connection that exists between Household consumption expenditure and Price level?

1.5 Significance of the Study

This study will be useful when it comes to how FDI do affect household consumption expenditure in Ghana. The state do avail appreciable resources both financial and human to attract FDI in to the country over the past few years, it is beneficial to both governments and policy makers to know the real impact of the FDI on household consumption can encourage economic growth in Ghana. This study therefore provides this very important information to the various stakeholders and policymakers involved in managing the affairs of the country.

1.6 Study Organization

This research is presented in five parts. The first part provides an outline which consists background of the study, problem statement, objectives of study, importance of the study, and overview of the study.

Chapter two talks about some theories related to how FDI do impact household consumption expenditure in Ghana.

Chapter three delves into the methodology which will be engaged in the analysis of the data obtained throughout the research process. This is very important, since this will help us know if indeed FDI in a way have some relationship with household consumption expenditure in Ghana. Chapter four will talk about the technique of analysis and estimation that will be used in our work. The last chapter, which will be chapter five, will present end result and discussion of the study, what was found out and the various recommendation that will be suggested as a result of this piece of research. Thus, recommendation and inference to be deduced from the examination.

CHAPTER TWO

LITERATURE REVIEW

2.0 Outline

This section brings to bear some previous works and detailed analysis of literature when it comes to how FDI do impact household consumption expenditure on the various recipient economies.

2.1 Theoretical Review

The hypothetical survey covers the speculations that clarify the effect of FDI on neediness mitigation. The World Bank characterizes foreign direct speculation as "venture made to get an enduring administration in a proprietorship working in another nation unique in relation to where the proprietor of the assets occupies." We can term it for the most part as making venture which incorporates, in any event, a 10 percent possession privileges of an organization, we term this as Foreign direct venture (World Bank, 2014) As shown by (Hayami & Godo, 2005) and (Todaro & Smith, 2003) the obligations of direct foreign inflows to the improvement of a nation are regularly observed as filling the opening between the required undertaking and secretly incited sparing, broadening the commitment pay rates, and improving association, progression, likewise as work aptitudes in host nations. This can help the country by breaking the interminable circle of under development(Hayami & Godo, 2005). FDI is accepted to be significant in taking care of creating economies issues (Mbilinyi, 2003) in his paper postulated the importance foreign direct investment when it comes to forming the base of capital formation mostly low income countries which Ghana is part, cannot be belittled. In his analysis, he went ahead to state that, the spillover effects of

technology when it comes to local production process, can be huge. This assertion was backed by (Maingi, 2014). In their paper, they also stated that direct foreign inflow as a key inflow, in terms of finance from external sources for developmental purposes in low income countries and thus boosting household consumption expenditure, due to expansion in the economic process attributed to such inflows.

2.2 Household Consumption Expenditure

The task of detailed analysis of house hold consumption expenditure in developing countries can be herculean due to challenges of having access to reliable household consumption data which is also poverty related. Aside this challenge, of assessing the right kind of data, the multi-dimensional way poverty presents us with a challenge, in terms of clear-cut definition or depth for poverty. The issue of poverty has context and it means different things to different people in general. (Alkire & Santos, 2014). Available research by scholars generally classify poverty into monetary and nonmonetary measurement. Consumption expenditure of households is usually used to measure the monetary aspect of poverty, thus is income related. In this case, individuals or households whose income or consumption fall below a predefined income threshold which is not enough for daily survival are categorized as poor. The household consumption side of poverty classifies as poor, those people who cannot pay for a certain predetermined basket of services and goods, which are vital and necessary towards normal human growth. Scholars usually prefer this consumption measure of poverty is to the income measure because the former reflects a household's real standard of living and their inherent ability to survive, thus cope with everyday normal life.

Nonmonetary classification of the issue of poverty, on the other hand scratches across different facets. This may include but not limited to welfare, health, security, and social relations, education and many others. Many current literature supporters this kind, when it

comes to challenge of measuring poverty. When it comes to the nonmonetary approach, one key example or approach is the capability approach postulated by (Robeyns, 2003) With this, issue of poverty is described as lacking or been in want of specific crucial capabilities to function in society in the areas of education, health care and ability to act freely. However, the nonmonetary classification of poverty is not consistent when it comes to its definitions. The scope is clearly defined and not specific in terms of measurement. This has resulted in various complexities associated with the nonmonetary measure, a number of publications and literature from astute researchers had decided to tow the lines of the (Bank, 2016) in its definition of what poverty is. This Bretton wood organization currently employs a \$1.90 per day poverty line at international prices. The \$1.90 poverty line is the average national poverty line when it comes to the measure used in the poorest region of the world, this is usually measured in United States dollars. That is, for each country, the national poverty line was adapted to 2011 using the individual consumption to obtain each country's poverty line. The World Bank develops different pointers of measurement when it comes to monetary poverty with respect to the poverty line. A case of such a measure is the destitution headcount proportion (HCR) which stands at \$1.90 per day. One such pointer utilized by the World Bank is the neediness whole list which reports on the rate of destitution as well as considers the profundity of destitution. It is portrayed as "the typical insufficiency from the poverty line in terms of the degree.

2.3 Development of Direct Foreign Inflows

The issue of foreign direct investment dates back to the late 1940s. This started off as international post-war support which was part plan termed as the Marshall Plan with the sole objective of rebuilding (Sallis, 2014). The imminent success of the Marshall Plan elevated hopes that international financial transfers which take the form of direct inflows from can

help low income countries to develop as the Western European economies did. Later on, the issue of foreign direct investment became an essential inflow when it comes to the economic development of numerous developing countries. After this was done, other key international organization like United Nations the (IMF), International Monetary Fund and World Bank, which were charged with the tasks of distributing international funds.

The unfortunate global downturn in the early 1980s triggered by the oil price shock of the 1970s left many developing countries greatly indebted. To help alleviate this challenge faced by developing countries cope with their debt, contributor countries and the other key international financial bodies made available loans advances to aid them deal effectively with their debt under the condition of making structural changes. The end of the Cold War in 1989 saw an improved rate of involvement in developmental projects by charitable organizations in developing countries to help decrease poverty alleviation and also to help boost economic growth and development. After some time in the 1990s, a couple of developing countries were still deteriorating and besieged to pay back their loans, so the contributors saw it suitable to write off some of their debt obligation off (Phillips & Chumney, 2013).

Several queries were raised about the usefulness of this assistance as some receiver countries still remained gripped with poverty. This was an indication of the fact that many and large amounts of assistance did not always achieve their planned goals. As a result of this issue, reputable researchers from countless academic dialogues which sort to examine the issue at stake. Thus based on empirical and theories, how effective assistance can be on economic growth, development and poverty reduction. Contributors have relied heavily on economic research to select on their foreign assistance strategies. For example, the Harold-Domar model for growth has further inspired the decision by contributors to ignore human development and channel assistance into highly capital-intensive projects. Later on in the 1960s and 1970s there was a turn of events. The neoclassical growth model arose and did

emphasize a basic-needs approach to well-being economics. The Contributors swapped aid policies for social intervention programs such as education and health which was targeted at poverty reduction and increasing household consumption expenditure. Afterward, in the 1980s and 1990s, the importance was on the influence of openness and export progress to growth motivated by the work of (Bhagwati & Krueger, 1973) From that time onwards, aid became gradually conditioned on the readiness of developing countries to accept trade liberalization policies, which included, reducing import tariffs and abolishing quantitative import restrictions. At the moment, a growing number of foreign aid policies is geared towards reducing poverty. One such policy is the AFT approach, which comprises foreign aid directed into trade-related activities.

2.4 Impact of FDI on Household Consumption Expenditure

It is usually believed that, the benefits that might accrue from FDI include technology and knowledge spillovers, the creation of jobs and the creation of competitive business environments that lead to production efficiency, all of which incite household income and thus aid in reducing poverty (Goetz & Jenkins, 2005). There is the need to note however that, all these profits associated with FDI are contingent on the absorptive size (enough mechanisms in place to optimize these benefits) of the host country (Aitken & Harrison, 1999). Much like the works on the sway of AFT on household consumption expenditure, a few number of first-hand studies places emphasis on the impact of FDI on household consumption expenditure. Some minority of authors on the other hand have tried to appraise the direct impact of inflows from international agencies or units on household consumption expenditure but ended up with no noteworthy outcomes. Foreign direct investment may affect directly household consumption expenditure at the micro level over spillovers to the private segment, through both forward and backward ties. The spillovers may occur if foreign direct

investment has the prospect to create positive vertical spillover effects with native producers either through backward or forward linkages. The introduction of new technologies and increased competition on the other hand may also be accompanied by positive horizontal spillovers. Through the introduction of new technologies, FDI can have a direct impact on welfare through job creation which will produce income for people and thus potentially increase household consumption expenditure. One key way through which foreign direct investment can increase household consumption expenditure and reduce poverty, is when is channeled into labor-intensive sectors such as agriculture where it can propel pro-poor growth.

Foreign direct inflows can have quick and atypical impacts on dejection decline in the host country. The underhanded impact of FDI on the lessening of destitution is through money related advancement which results in the improvement of desires for ordinary solaces in light of the development in GDP, improvement of development and gainfulness, similarly as the monetary condition. The prompt impact of FDI on poverty can be seen through the extension in business and the diminishing of people living underneath the dejection line coming about on account of the development in the enthusiasm for business, and the improvement of workforce and security nets.

Direct Foreign Inflows adds to monetary development straightforwardly by making work opportunities available and in a winding way through the making of business openings in different associations. Backhanded work made by remote partners in host nations can be enormous, most likely bigger than that made legitimately. With the development of a worldwide generation, the portion of business creation by outside partners is developing.

At the macroeconomic level, most studies analyzing the impact of FDI on poverty find that FDI is not an end in itself but a means to an end (Andrew, 2004). Thus, even if FDI does not impact poverty directly, it increases growth just as do other investments. These studies draw

on the impact of FDI on poverty through indirect transmission channels such as exports, growth and employment. (Tambunan, 2005) considered the influence of foreign direct inflows on poverty in Indonesia through its effect on export growth, technological transfers and pro-poor government programs financed by tax revenues from FDI. He shows that FDI causes poverty reduction only through export but does not find enough evidence to support the other two transmission channels he hypothesized. He also finds that the positive impact of FDI can only be realized if FDI is complemented with pro-poor policies. (G Gohou & Soumaré, 2009) investigate the regional differences in the impact of FDI on poverty in Africa. Using the assumption that growth implies poverty reduction, they choose per capita GDP as a proxy for the Human Development Index (HDI). They employ the Granger causality Wald test to show that FDI increases per capita GDP, implying a reduction in poverty. However, they find that the impact of FDI on poverty differs across regions. Similarly, (M. Ogunniyi & Igberu, 2014) empirically analyze the link between FDI and poverty reduction. They apply ordinary least square estimation techniques to time series data on Nigeria from 1980 to 2012. Using per capita income as a proxy for poverty, their results show that FDI has a positive but insignificant impact on real per capita income. They conclude that FDI does not have the potential of reducing poverty in Nigeria due to under-development of human capital and crowding out of domestic investment. Using a random panel data analysis for 21 countries from 2000 to 2009, (Durowah, 2017) examine the effect of FDI and institutional quality on poverty. Using the Human Development Index as a proxy for poverty, they find that FDI significantly reduced poverty in these 21 countries. They finalize their study with the suggestion that FDI should be channeled into productive sectors in order to create jobs and raise income earnings. From the above studies, the influence of direct foreign inflow on poverty depends on the absorptive capacity on the recipient nation. For example, FDI's impact on reducing poverty rests on how adequate and prepared the human resources base

in the host economy is to absorb the technological changes associated with FDI. This explains why the conclusions are mixed in these studies.

2.5 Foreign aid and FDI interaction

One vital part of the aid efficiency debate is whether or not foreign aid is able to support private sector enabling environment. It is essential to assess the connection amongst aid flows and foreign direct inflows. (Kimura & Todo, 2010) employed a gravity estimation technique to examine the effect through which aid from donor countries increase the attraction of foreign direct investment from the same patron nations. Using a big set of data from developing countries, the researchers indicated that direct foreign inflows in general has very little positive effect on household consumption expenditure. Nonetheless, they did find robust evidence that Japanese aid has a significantly positive influence on attracting direct foreign inflows from Japan but does not entice FDI from other nations. The writers relates this finding to the fact that 50 percent of Japanese aid inflows is jeered towards the building of economic infrastructure which ends up enticing foreign direct investment in the country.(Selaya & Sunesen, 2012) use two-stage least squares estimation to examine how effective foreign direct investment can be on developing nations. They concluded that foreign direct investment invested in factors complementary to physical capital tend to increases household consumption, while aid directly channeled into physical capital crowds out foreign direct investment. They conclude that in order to attract FDI, aid should target corresponding inputs which have a tendency to improve absorptive capacity and rise foreign direct investment without causing capital flight. (Bhavan, Xu, & Zhong, 2011) ended up with a similar conclusion using data for South Asian economies from 1995 to 2007. They classify foreign direct investment into two forms, namely foreign direct investment directed towards physical capital (FDI that goes straight into production) and foreign direct investment that is

invested into human capital and infrastructural development (aid that goes into the provision of electricity, roads etc., to complement production). Adopting the co-integration analyses to study the long-run equilibrium association between direct foreign inflows and household consumption expenditure, they found that both types of direct foreign inflows have a long-run positive effect on household consumption expenditure in India, Sri Lanka and Bangladesh but found no evidence of a long-term relationship in the case of Pakistan. They also employed fixed effect estimation technique to test the relationship and ended up with similar results.

A general deficit in the foreign direct household consumption expenditure literature and direct foreign inflows is the lack of agreement on the specification of the foreign direct investment –household consumption relationship. Some obvious gap in the literature is the notion that increased economic growth indicates can effect in increase in household consumption expenditure. This postulation is highly controversial because growth can only lead to a rise in expenditure households and lessening on poverty if the former occurs in sectors where the poor are economically involved. A parallel shortfall could also be found in the foreign direct investment -poverty literature. Given these limitations, the study first analyzes the impact of direct inflows from foreign units and consumption expenditure of households. Second, we do a robustness test by ascertain the effect of the diverse components of AFT in reducing poverty for the aggregate group of developing countries and for the different income groups. One key aspect of this study is that we cluster countries into high and low argic based economies built on the proportion of labor in agriculture in each nation to appraise the efficacy of AFT in reducing poverty in both sets.

2.5 How Household Consumption Expenditure Benefit From Direct Foreign Inflows

Aside from the spillover connections, some direct foreign inflows provide assistances to the beneficiary nation (Miyamoto, 2003). Key assistances include, increase in capital inflows

which are important for the growth of the economy, aside generation of employment openings. The influence of direct foreign inflows on household consumption expenditure in the recipient nation may not be termed as a basic relationship, it is slightly varies subject to a number of features. It provides the state of the art technology and need capital for investment, which so vital for growth of the economy (Miyamoto, 2003). Thus, the end result been growth in the economy which plays a central role in poverty lessening and increase in household consumption expenditure. (Edward & Sumner, 2014) accentuated on the significance of remote direct speculation through the net impact on the capital record. A positive net transmission in favor of the capital record tips to an expansion in speculation, which results more often than not bring about the high effect development of the economy (Edward & Sumner, 2014). FDI impact on venture capital lay on the net impact of outside direct speculation inflows and sending home of incomes, intra-backup and sovereignties and different credits funded out by the remote firm (Edward & Sumner, 2014) The flood in the money theory and FDI inflows to some degree depends upon the substitution and complementarily between home capital and remote direct endeavor (Goldstein, 2003).

Typically, most outside direct speculation are relates to venture setting, more prominent the extent with regards to commitment towards developing family utilization consumption and neediness decrease (Goldstein, 2003) Foreign direct investment on the other hand replaces internal inflows, which may result in the swarming out of home businesses, then foreign direct investment influence on entire venture capital and it poverty reducing ability may be subject to whether the crowding-out effect is entirely counter balanced by original inflows which are FDI related (Goldstein, 2003).

The manner of entrance of direct foreign inflows shows an essential part in the resultant effects of FDI on increasing household consumption expenditure and reducing poverty in the host nation (Andrew, 2004).

Direct foreign inflows; now and again additionally take the structured procurement, mergers or Greenfield. Outside direct interest as mergers and securing may not wind up in development in capital, yet just possession evolving hands. This sort more often than not drives less change which is welfare related benefits to the occupants (Andrew, 2004). Then again, Greenfield outside direct venture – in fact identified with new capital inflow, brings about arrangement of real advantages to the beneficiary country instead of procurement and mergers (Andrew, 2004). We ought to proceed in spite of any potential dangers, in a condition where the inflow is basically capital genuine or contracts forefront development when the host nation may have the need scope of capacities to arrange the inflow (Haas, 2006). The refinement in the approach of the entry of outside direct hypothesis makes any theory of the impact of FDI on the host nation off kilter. A state-by-state assessment of the alliance that exists between remote direct theories, nuclear family usage utilization and decreasing poverty remains huge.

The benefits related to FDI the beneficiary country may differ as per the heading of the outside auxiliary (Lipsey, 2004) at foreign direct investment can be market seeking in nature, this may end up increasing in domestic employment opportunities and content; when it is raw material seeking on the other hand, the recipient nation do enjoy enormous exports benefits. The case of spillover effects and employment may be restricted in nature; or may inclined towards export which adds to export revenue and industrial transmission as the subsidiary hires series of advance technology to generate inexpensive services and good for onward export (Lipsey, 2004)In accordance with what , if foreign direct investment trails after the “race to the bottom”, thus in situation where FDI looks for nations low taxes, royalties, labor cost and relatively low standards. Chances are that, the total influence of direct foreign inflows on household consumption expenditure is limited in such instances. (Harrison & Klein, 2007). A race to the top on the other has different outcome as put across by (Harrison

& Klein, 2007). At such occasion direct foreign inflows will result in considerable progress in welfare through income progression in the recipient nation in the course of time.

Taxes paid by foreign direct investment holdings enhances state revenue base, enhancing their ability make available elementary goods and services and other income redistribution programs that are central towards reducing insufficiency (Harrison & Klein, 2007). When the state capacity to provide quality, cover a lot grounds in terms provision of basic services is imperative for reducing poverty. The progressively outstretching influences of duties paid by remote direct speculation firms on destitution decrease rely upon the size of the state monetary promptings accessible to tempt outside direct venture.(Kirk, 2005) states over the bar subsidies and fiscal relief may leave the state current account vulnerable.

How well outside direct inflows can be bridled somewhat relies upon reach out of improvement by the beneficiary nation (Meyer & Sinani, 2009)? The degree of monetary advancement influences the country's capacity to give home-developed organizations that are fit for utilizing the advantages that accumulate because of a section of direct foreign inflows, the required range of abilities, and the capacity of the beneficiary country to set up approaches that help improve family unit utilization and destitution decrease (Meyer & Sinani, 2009). The deviation in the degrees of advancement financially brings about a shifted edge between the advantages got from the remote direct interest in rich in addition to poor countries (Kemeny, 2010; Meyer & Sinani, 2009). It qualified to not so much effect of the outside direct venture is generally solid in low salary nations with extraordinary collective capacities (Kemeny, 2010). Such communal capacities comprise a powerful correspondence process, accommodating institutional structure just as an edify work power accessible and required framework to help the procedure (Kemeny, 2010).

2.6 Some Review of the Empirical write-up on the Impression Foreign Direct inflows on Household Consumption Expenditure

Most observational review do concentrate on the immediate result of direct foreign inflow on family entity utilization use and destitution mitigation is constrained, and the outcomes are isolated. A few investigations have discovered outside direct venture to lessen destitution, in this manner expanding family pay and consumption others have discovered remote direct speculation to intensify neediness, but then others have discovered remote direct venture to insignificantly affect destitution. Subsequently this area talks about the exact writing on experimental examinations that have discovered a positive effect of remote direct inflows on family unit pay and destitution decrease, those that have discovered a negative outcome of outside direct speculation on family consumption increment, and those that have discovered outside direct venture to insignificantly affect pay of family and hence their use.

A few examinations that have discovered a positive relationship of remote direct venture on the pay of families, such authors incorporate (Hung & Wong, 2000)

(Kotkin, 2002) examined the connection between outside direct speculation and destitution somewhere in the range of 1992 and 2002 out of an example of 12 regions and urban communities in Vietnam. Utilizing neediness frequency as a proportion of destitution, and utilizing board information, the investigation presumed that remote direct speculation reduces neediness, in this way the high probability of high family unit pay related to FDI. (Kotkin, 2002) inferred that a 1% expansion in remote direct venture diminished the sum of individuals living in destitution by 0.05%. This fast impact of direct remote inflows on desperation decrease supposedly was higher than shrewd impacts through GDP improvement.

Jalilian and Weiss

(2002) assessed the impact of FDI on sadness in the ASEAN nations during the period 1997

to 2007, utilizing unequal board information and the remuneration of the base 20% of the general population as the neediness measure. They found that outside direct endeavor affected the poor through augmentation in family compensation.

Various experts like (Mattessich, 2006) investigated the impact of remote direct endeavor on desperation in South America from 1984 and 1998. He used board data, desperation headcount and poverty opening we used as go-betweens for destitution. They found that the benefits of remote direct hypothesis favorable circumstances keep changing depending upon novel neighborhood conditions and the course of the outside assistant. They found outside direct hypothesis to lessen dejection at a total level. If remote capital inflows duplicated, the headcount extent of poverty weakened by 5.3% (Mattessich, 2006)

The further portrayal of countries into those with high and low headcount potential reveals a basic and strong connection between and sadness in those nations with low strong potential. (Reiter & Steensma, 2010) similarly drove an appraisal on the connection between human improvement, gotten by the Human Development Index (HDI), and strong for a situation of 49 making nations somewhere in the extent of 1980 and 2005. They utilized the utilization of uneven board information; the outcomes were experiencing the divulgences of (Jalilian & Weiss, 2002). The remote direct undertaking had a solid, useful result on human progress if control and confinement were put on outside direct hypothesis. They built up a negative impact of disconnection on outside direct undertaking inflows, yet worried on the passage as having the focal effect and improvement on humans.

(Gaston Gohou & Soumaré, 2012) did some assessment on the impact of remote direct theory on nuclear family use utilization using a case of 52 nations some place in the scope of 1990 and 2007, utilizing GDP per capita and HDI as substitutions for family unit utilization consumption. By methods for board information and changing for endogeneity and creation of utilization of twofold stage least square backslide, their decision was that, there is a solid

and noteworthy positive connection between GDP per capita and family unit utilization use.

Utilizing five African facilitated commerce zones which establish five custom associations and financial associations, they found the effect of remote direct venture on family utilization consumption to be essentially extraordinary among African districts. Outside direct speculation was found to have a critical positive effect on neediness decrease in East and Central Africa.

(Jalilian & Weiss, 2002) tried the association between remote direct theory and nuclear family utilization in Pakistan for the period 1985 to 2011, he used dejection headcount as a go-between for poverty. Using the Ordinary Least Squares (OLS), they built up an advantageous result of outside direct hypothesis on destitution decline at the urban, rural and national stages. They found that a 1% extension in remote direct hypothesis realized a lessening in poverty by 0.47% in inside city zones, 0.44% in wide-open locales, and 0.46% at the countrywide stage.

(Chaudhary, Shah, Bagram, & Research, 2012) also considered the responsibility of remote direct set out to disheartening diminishing in Pakistan some spot in the extent of 1973 and 2003, utilizing the neediness headcount as a go between for edginess.

Using the Autoregressive Distributed Lag (ARDL) approach, the remote direct endeavor was found to decrease misery in Pakistan.(Fowowe, Shuaibu, & Restructuring, 2014) explored the effect of FDI on the poor because of 30 African countries, using pooled data from 1981 to 2011. The World Bank poverty headcount was used as a middle individual for misery. In light of the Generalized Methods of Moments (GMM), they saw FDI to be gainful for poverty stricken individuals. In a relative report, and clear with the exposures by (Fowowe et al., 2014)and (Fowowe et al., 2014), the profitable aftereffect of FDI on destitution rot as far as anyone knows was high in poor countries with a high event of earnestness. (Dang, Liu, Marnat, Shamim, & Tsang, 2014) reviewed the impact of FDI on misery in Pakistan from

1973 to 2011, using the sadness headcount as a middle individual for destitution. Using time plan data, they found FDI to reduce distress, various partners to (Fowowe et al., 2014; Jalilian & Weiss, 2002) confined the impact of FDI on hysteria for a circumstance of 26 making countries, using clashing board evaluation for the period some place in the degree of 1990 and 2009. He found a negative impact of FDI on dejection in picked countries, thusly requesting that FDI recognize a work in decreasing pity in these picked countries. (Kotze, Zeeman, Niehaus-Coetzee, & Roux, 2014) contemplated the impact of FDI on despondency in 35 making countries from 1990 to 2004. In the evaluation, FDI was used as a go-between for globalization, while the headcount degree and desperation gap were used to survey trouble. Using a board break confidence, (Kotze et al., 2014) saw FDI to be unfavorably related to the headcount degree. FDI evidently was gainful to discouragement decline in the model countries. (Ohale & Series, 2018) got some information about the impact of FDI on poverty decline in Nigeria, using the time system data and the ruin headcount from 1980 to 2009. He found FDI to relentlessly affect dejection rot. This is as opposed to the results gained by (Akinmulegun, 2012) and (Ogunniyi, 2014) in free evaluations on the impact of direct outside inflows on deficiency in Nigeria. (Soumaré, 2015) analyzed the connection among FDI and welfare in Northern Africa from 1990 to 2011, using dynamic board data lose confidence and Granger-causality. In the appraisal, HDI and GDP per capita were used as go-betweens for welfare. They found a strong and positive connection between net FDI inflows and welfare improvement.

Another clever analyst, (Siti Muliana, 2017) inspected what decides remote speculation inflows, he additionally discussed key reasons in some ASEAN countries.

His paper presumed that, there was a positive connection among FDI and family unit utilization consumption which influences neediness in that area of the world. A spatial board information from 1995 through to 2011 was actuated in this exploration. In any case, aside

the way that some writing built up a positive connection among's FDI and family unit utilization consumption, many finished up through their work of a negative connection between the two factors. These incorporate yet not constrained to works done by (Hung & Wong, 2000) investigated the impact of remote speculation on neediness in 12 countries from Latin and East American countries extending the year 1970 through to 2005.

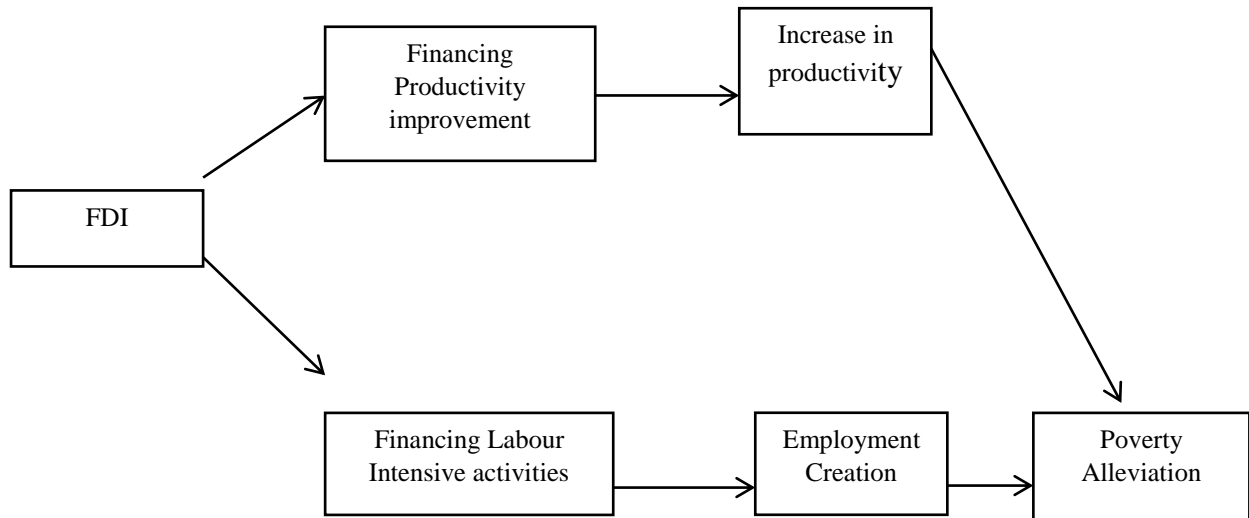
(Ali, Rehman, Yilmaz, Khan, & Afzal, 2010), utilizing the utilization of time arrangement information from 1973 through to 2008, contemplated the relationship among neediness and outside speculation. Autoregressive Distributed Lag (ARDL), was utilized and headcount proportion was utilized as portrayal for neediness. This examination was done in country of Pakistan.

(Akinmulegun, 2012; Hung & Wong, 2000; Ogunniyi, 2014; Soumaré, 2015), , also conducted similar research, making use of time series data from 1964 through to 2003, joined the earlier school of taught as put across by (Ali et al., 2010)The relationship between FDI and household consumption was not significant. This study used mean quintile income of the less endowed as proxy for household consumption.

(Akinmulegun, 2012), in his work sort to find out how foreign direct investment inflows affects the welfare of Nigerians. He employed data from 1986 to 2009. His paper concluded that foreign direct inflows does not exhibit any substantial influence on welfare and consequently, household consumption expenditure.(Akinmulegun,2012), result is in similar to that of (Ogunniyi, 2014) They controlled for endogeneity, using panel data of 52 African nations, between 1980 through to 2012. The effects of FDI on household consumption expenditure and subsequently poverty alleviation was insignificant across the Northern and Southern regions of Africa. They used the Ordinary Least Squares (OLS) approach, instead the robust regression approach, perhaps this may have been a reason both scholars ended on similar conclusion.

2.7 Some Conceptual Framework

Figure 1: Relation between Foreign Direct Investment and Household inflows



Generally speaking, in spite of the capability of outside direct speculation to upgrade monetary development and reduce destitution in some creating countries through three different ways as examined above, there is in any event two key concern. To start with, the monopolistic propensities of remote auxiliaries may group out residential venture or enterprises, and along these lines the nearness of outside direct speculation may expand destitution as opposed to diminishing it in the beneficiary nations (Lentz, Barrett, & Hoddinott, 2005). Expanded challenge among outside and household firms could be gainful regarding supporting challenge, improving adequacy among incapable firms, and guaranteeing the most beneficial designation of rare assets. Enormous outside firms which are worldwide in nature with higher innovation, human asset, data, and promoting, capital circulation and with prevailing publicizing arrangements will consistently wind up making them exploitative in nature. This will adversely effect on household organizations by uprooting them. Some other negative or "swarming out" impacts of outside direct venture

include: offering rare assets (e.g., gifted work, credit) away from nearby firms, or pressing out local supply organizes as new remote contestants carry with them incorporated downstream and upstream supply chains. Such amazing outside worldwide organizations will in general be monopolistic or oligopolistic, and they can take part in unquenchable evaluating to restrict imminent contestants from getting access into the market.

The conceivable result might be abatement in the size of the business when all is said in done. The decrease in getting to openings for work and an upsurge in the shortage may guarantee because of that. Swarming out of local ventures might be back regardless of whether conceivable, in that capacity FDI advantages are progressively predominant. Cotton and Cotton and Ramachandran (2001) in their work presumed that upgraded challenge, improved productivity, and expanded advancement are a portion of the advantages of FDI.

2.8 Conclusions

This section discussed the various write-up by astute writers on the outcome of foreign direct inflows and its bearing on household consumption expenditure and eventually poverty alleviation. Some empirical studies reveal the continual debate over the impact of direct inflows from foreign nations when it comes to increasing household income and poverty alleviation. The school of thought that backs the positive impact when it comes to the reduction in poverty is enormous though there may be other negative externalities associated with foreign direct investment, the total net benefits to the society, especially when it comes to income generation, increase in productivity which significantly helps in drastically reducing poverty and increasing household income and expenditure cannot be shoved to the background.

CHAPTER THREE

METHODOLOGY

3.0 Overview

This chapter outlines the steps that would be employed to fulfill the research objectives. The first part takes a look at the theory supporting the research. The second segment considers how the variables would be defined and their *a priori* signs. The third division focuses on the pragmatic framework that would be used to estimate the relationships derived from the theoretical framework. Finally, this chapter describes how the data for the study was obtained.

3.1 Theoretical Framework

The study relies on the model of (Jalilian & Weiss, 2002) which establishes a direct link between poverty and FDI. The model merges theoretical model of the connection between foreign direct inflows and growth of the economy, and the nexus amongst scarcity and growth of the economy.

Specifying a modified version of the growth-FDI model by (Nonneman & Vanhoudt, 1996) gives:

$$g_{GDP} = \beta_1 g_d + \beta_2 g_f + \beta_3 g_h + \sum_{i=1} \gamma_i x_i \quad (1)$$

Where g represents growth and the subscripts GDP, d, f, and h represent GDP, domestic investment, foreign investment, and human capital, individually, d, f, and h are indicated as proportions of capital contributions to GDP. $X_1=1\dots m$ characterizes some fixed or subjective factors which control for highlights of an economy.

However, due to the tendency of FDI to inflate the output elasticity of capital in a classic

growth accounting model and in following in the stead of (Nordin & Nordin, 2013) the domestic investment capital is excluded from the equation. The equation becomes:

$$g_{GDP} = \beta_1 g_f + \beta_2 g_h + \sum_{i=1} \gamma_i x_i \quad (2)$$

The growth-poverty model specified by (Jalilian & Weiss, 2002) is motivated by authors particularly (Dollar & Kraay, 2000) The growth-poverty model is thus specified in a log-linear form as:

$$\ln(y^p) = u_1 \ln y + \sum_{i=2}^m u_i x_i \quad (3)$$

Where y^p denotes per capita income in the poorest quintile of the population, y stands for average per capita income for the entire population and x is a vector of all other determinants of mean income of the poor respectively. Vector x includes proxies for control variables that may include macroeconomic policies, trade openness, and institutional quality.

After first differencing equation of (3), a relationship between growth of income of the poor and growth of average income is established as follows:

$$g_p = u_1 g + \sum_{i=2}^m u_i \Delta x_i \quad (4)$$

Where growth of income of the poor is represented by g^p , and growth of average income, g

By merging equation (2) with equation (4), a direct relationship between growth of income of the poor and determinants of average income, including FDI is setup as follows:

$$g^p = \sum_{j,k} \phi_{1j} g_k + \sum_i \phi_{2i} x_i + \sum_i \phi_{3i} \Delta x_i \quad (5)$$

26 | Where, $\phi_{1j} = \beta_j u_1$, $\phi_{2i} = \gamma_i u_1$, $\phi_{3i} = u_i$, $j = 1, 2, 3$; $k = f, h$ and $i = 4 \dots m$

To suit the objectives of the study and in line with Magombeyi and Odhiambo (2018), the structural form of the model is thus specified as:

$$POV = f(FDI, CPI, HK, TOP, FTL) \quad (6)$$

3.2 Definition of Variables and Their Expected Signs

Household consumption expenditure: This variable the dependent variable and it is measured by two distinct variables in line with (Magombeyi, Odhiambo, & Society, 2018): the household consumption expenditure and life expectancy.

Direct foreign Investment (FDI): Direct foreign Inflows is measured by direct foreign inflows as a proportion of Gross Domestic Product. Based on available theory, due to spillover effects and direct effects, foreign direct inflows is projected to exhibit an affirmative effect on household expenditure and poverty as a whole.

Price Level (CPI): Price is one of our control variable and Consumer Price Index (CPI) the substitute for it, in 2010 constant prices. Price level is anticipated to have an adverse outcome on household consumption expenditure. A general increase in the existing price levels would affect household income and consequently the consumption expenditure.

Human Capital (HK): The human capital is highlighted by the gross primary school enrolment. This variable is anticipated to have an affirmative effect on household consumption expenditure since education increases the productivity of individuals, which increases their earnings and therefore reduces poverty.

Trade Openness (TOP): The trade openness is represented by the sum of ratio of export to GDP and the ratio of import to GDP. The effect of trade on poverty is ambiguous since it depends on net welfare impact of consumption, production and labor market channels of

trade.

Infrastructure (FTL): electric power consumption is the serves as proxy for infrastructure and this is projected to have a positive impact on the reduction of poverty. Access to power and its consumption enhances the capacity of the poor in society to benefit from the growth process.

3.4 Empirical Approach

An Auto-Regressive Distributed Lag (ARDL) model would be used to estimate the aforementioned equation and to fulfill the objectives of the study. The ARDL is a regression model which is usually estimated by the use of the Ordinary Least Squares (OLS) estimation tool, comprises of the delays of the independent variable and the dependent units used. The ARDL usually does not require the knowledge of the degree or order of integration since its estimation technique can handle a blend of $I(0)$ and $I(1)$ sequences. However, the test of stationarity becomes necessary due to the fact series which are integrated of order 2 i.e. $I(2)$ render the estimation technique unsuitable of (Fedderke, Perkins, & Luiz, 2006) does not require any order of integration since the procedure is suitable for either $I(0)$ or $I(1)$ or mixed integration (Pesaran, 1997) the presence of $I(2)$ makes the ARDL unsuitable for such series. Hence in order to test for the stationarity of the variables to make sure the series are free of $I(2)$ variables, the study employed the Augmented Dickey-Fuller (ADF) test and the Phillips-Perron (PP) test. The null hypotheses in both the ADF and the PP tests are that the series is unit root. To reject the null hypotheses, the computed test statistics should be greater than the critical value. The key focus of the PP test is the modification of the t-ratio so that the asymptotic distribution of the test statistic is not affected by serial correlation.

Under the bounds test, the asymptotic distribution for the F-statistic is non-standard under the null hypothesis of no level relationship between the variables. The null hypothesis of no level relationship is rejected if the F-statistic is higher than the upper boundary I (1). Thus, with regards to equation (1), the ARDL framework is specified as:

$$\begin{aligned} \Delta POV_t = & b_0 + \sum_{i=1}^p \theta_i \Delta POV_{t-1} + \sum_{i=0}^p \mu_i \Delta FDI_{t-1} + \sum_{i=0}^p \delta_i \Delta TOP_{t-1} + \\ & \sum_{i=0}^p \tau_i \Delta CPI_{t-1} + \sum_{i=0}^p \rho_i \Delta HK_{t-1} + \sum_{i=0}^p \pi_i \Delta FTL_{t-1} + \gamma_0 POV_{t-1} + \gamma_1 FDI_{t-1} + \\ & \gamma_2 TOP_{t-1} + \gamma_3 CPI_{t-1} + \gamma_4 HK_{t-1} + \gamma_5 FTL_{t-1} + \\ & \varepsilon_t \end{aligned} \quad (2)$$

Where Δ is the difference operator and ε_t is white noise error term. The level relationships between the model variables can be conducted based on the F-statistic by imposing restrictions on the estimated long-run coefficients of one period lagged level of the variables equal to zero, stated below as:

$$H_0: \gamma_0 = \gamma_1 = \gamma_2 = \gamma_3 = \gamma_4 = 0, \text{ No level relationship}$$

Against the alternative hypothesis as:

$$H_1: \gamma_0 \neq \gamma_1 \neq \gamma_2 \neq \gamma_3 \neq \gamma_4 = 0, \text{ Level relationship}$$

To arrive at the decision as to whether the variables are co-integrated or not, the calculated F-statistics is evaluated with two sets of critical (5% and 10%) values computed by (Pesaran, 1997) and divided into lower critical bounds (I(0)) and upper critical value bounds (I(1)). If the F-stat that is computed goes beyond the upper critical value, the null hypothesis of no co integration is rejected regardless of the order of integration of the series. However, when the converse occurs we do not reject the null hypothesis.

To determine the optimal lag length for the estimated long-run model, the Akaike Information Criterion (AIC) is used. When the F statistics falls within the lower and upper bound, the test of the level relationship is inconclusive values. When a level relationship is established, both the extended run and short run inaccuracy adjustment are detailed below:

$$POV_t = \sum_{i=1}^p \omega_1 FDI_{t-1} + \sum_{i=0}^p \omega_2 TOP_{t-1} + \sum_{i=0}^p \omega_3 HK_{t-1} + \sum_{i=0}^p \omega_4 CPI_{t-1} + \sum_{i=0}^p \omega_5 FTL_{t-1} + \mu_t \quad (3)$$

$$\Delta POV_t = b_0 + \sum_{i=1}^p \omega_1 \Delta FDI_{t-1} + \sum_{i=0}^p \omega_2 \Delta TOP_{t-1} + \sum_{i=0}^p \omega_3 \Delta HK_{t-1} + \sum_{i=0}^p \omega_4 \Delta CPI_{t-1} + \sum_{i=0}^p \omega_5 \Delta FTL_{t-1} + \vartheta_t ECT_{t-1} + \mu_t \quad (4)$$

where μ_t the error is term and ϑ_t represents the coefficient of the error correction term ECT_{t-1} which is measures the speed at which the system gets back to the long-run equilibrium in the event of short run disequilibrium. When the bound test results show that there is co-integration this implies that there exists causality at least in one direction (Engle & Granger, 1987).

3.5 Data Source

The data that is used for the study is an annual data, which ranges from 1975 to 2016. The data was mainly acquired from World Development Indicators (WDI). Data was analyzed using Eviews 9.

CHPATER FOUR

ANALYSIS OF DATA AND DISCUSSION OF RESULTS

4.0 Introduction

This section introduces the aftereffects of the information investigations done to accomplish the destinations of the examination. The principal segment takes a gander at clear measurements of the factors associated with the investigation. The subsequent segment endeavors to find out the stationary properties of the factors utilized in the investigation. The third segment talks about the consequences of the experimental examination and the fourth segment finishes up the section.

4.1 Expressive Statistics

Table 4.1: Graphic Statistics of the Variables

VARIABLE	CONSUMPTION EXPENDITURE	FDI	ELECTRIC POWER CONSUMPTION	PRIMARY SCHOOL ENROLLMENT	TRADE OPENNESS	CONSUMER PRICE INDEX
Mean	82.96128	2.238055	316.3292	82.42040	56.06854	28.56099
Maximum	94.23171	9.517043	425.9385	108.0360	116.0484	150.2096
Minimum	69.40263	-0.660372	93.49242	65.01888	6.320343	0.004460
Std. Dev.	5.488680	2.795764	74.72252	11.81816	30.71094	41.90043
Observations	42	42	42	42	42	42

Source: Writer's own calculation

Table 4.1 presents a description of the data used in the study. Over the period, 1975-2016, the household consumption expenditure in Ghana has been above 60 % of GDP. The average

household consumption expenditure was 82.96% of GDP. The lowest consumption expenditure by households was 69.4% of GDP whilst the highest household consumption expenditure was 94.23% of GDP.

Also, between 1975 and 2016, the mean net inflow of foreign investment as a percentage of GDP was 2.24. The least recorded net FDI as a percentage of GDP within the period was -0.66 whilst the highest recorded net FDI was 9.52. The FDI in Ghana never crossed 10 percent of GDP within the period under study.

Moreover, the average consumption of electric power in Ghana, over the 1975-2016 period, was 316.33 kilowatts per hour per capita (kWh per capita). The highest electric power consumption within the period under study was 425.94 kWh per capita whilst the least electric power consumption was 93.49 kWh per capita.

For the proxy for human capital, gross primary school enrolment, the average for the period between 1975 and 2016, was 82.42. The least figure recorded for the gross primary school enrolment was 65.02 whilst the highest figure for the gross primary school enrolment was 108.04.

Between 1975 and 2016, trade openness in Ghana, on the average, was 56.07. The highest level of trade openness recorded for the period under study was 116.05 whilst the lowest level of trade openness in Ghana was 6.32.

The proxy for the price level in Ghana, consumer price index, averaged 28.56 between 1975 and 2016. The consumer price index reached a pinnacle of 150.21 and a nadir of 0.004 within the study period, 1975-2016.

4.2 Stationary Properties of the Variables

Table 4.2: Results of the Augmented Dickey-Fuller Unit Test

Augmented Dickey Fuller (ADF)		
VARIABLES	LEVEL	FIRST DIFFERENCE
Log(Household Consumption Expenditure)	-1.6839	-6.8103***
Log(FDI)	-1.9215	-12.859***
Log(Trade Openness)	-1.0629	-3.239**
Log(Electricity)	2.6581*	-
Log(Price Level)	3.4824**	-

*Source: Author's own computation; *** denotes $p > 0.01$, ** denotes $p > 0.05$, * denotes $p > 0.1$*

Time series indicators are usually prone to the phenomenon termed spurious regression. This is the case where an estimated regression exhibits a statistically significant relationship however, it lacks any useful economic interpretation. The results of the time series properties of the variables are displayed in Table 4.2.

The results indicate that only the consumer price index (CPI) and the proxy for infrastructure (electricity) are stationary at levels. This implies that they do not contain unit roots. The price level is stationary at 5 percent level of significance whilst electricity is stationary at 10 percent level of significance level.

The other variables used in the study which includes household consumption expenditure, direct foreign inflows (FDI), the proxy for human capital (gross primary school enrolment),

and the trade openness are not stationary at levels. This implies that they contain unit roots. To make them stationary, the first difference was applied to them. The first difference of the variables were thus stationary. The proxy for poverty was stationary at first difference at 1 percent level of significance. The proxy for human capital was stationary at first difference at 1 percent significance level. Foreign direct investment was also stationary at first difference at 1 percent significance level. Moreover, trade openness is stationary at first difference at 5 percent.

4.3 Discussion of Results

Table 4.3: Results of Estimation of the Factors Affecting FDI

Variable	Coefficien			
	t	Std. Error	z-Statistic	Prob.
$\Delta(\text{FDI})$	-0.030765	0.013448	-2.287677	0.0222
$\Delta(\text{Human Capital})$	0.032307	0.203963	0.158397	0.8741
$\Delta(\text{Trade Openness})$	-0.055243	0.030250	-1.826220	0.0678
Infrastructure	0.000192	0.001475	0.130141	0.8965
Price Level	-0.002367	0.002597	-0.911275	0.3622
Robust Statistics				
R-squared	0.203013	Adjusted R-squared	0.109249	
Rw-squared	0.347283	Adjust Rw-squared	0.347283	
Akaike info criterion	61.21063	Schwarz criterion	70.81252	
Deviance	0.060085	Scale	0.033832	
Rn-squared statistic	11.14347	Prob(Rn-squared stat.)	0.048608	

Source: Writer's own calculation.

Table 4.3 displays the outcome of the robust regression estimation of the relationship between household consumption expenditure and foreign direct investment. Since variables such as foreign direct investment, human capital, trade openness and household consumption expenditure are not stationary at levels, to avoid spurious regression, the differenced values are used in the estimation. Whilst, the price level and the proxy for infrastructure (electricity) are used in levels for the estimation. According to Table 4.3, foreign investment has a negative impact on household consumption expenditure. Particularly, when foreign investment increases 1 percent, household consumption expenditure decreases proportionally by 3 percent. This is statistically significant at 5 percent. This result is contrast with the findings of studies such as (Soumaré, 2015) and (Uttama Nambi, Reyes Lua, & Prasad, 2015).

However, studies such (Ali et al., 2010) confirm the negative effect of FDI on household consumption expenditure. This result is not surprising since most of the FDI inflows into Ghana go to capital intensive sectors such as the mining and the extractive industries.

Moreover, trade openness has an adverse effect on poverty. Specifically, when trade openness increases by 1 percent, human consumption expenditure reduces by 5 percent. This result is statistically significant at 5 percent level. The likely reasoning for this is due to the fact that Ghana is import based economy. Moreover, human capital has a positive influence on poverty as expected. In particular, when human capital increase by 1 percent, household consumption expenditure increase by 3 percent. However, this relationship is not statistically significant.

Also, in line with *a priori* expectations, electricity (the proxy for infrastructure) has an

affirmative influence on consumption expenditure of household in Ghana, albeit statistically insignificant. Specifically, when infrastructure increases by 1 percent, the human consumption expenditure increases by a negligible magnitude of 0.01 percent. The lack of statistical significance and the very minimal impact of electricity (proxy) for infrastructure might be due to the erratic nature of power supply in the country. Furthermore, the price level has a negative effect on human consumption expenditure. Even though, the impact is not statistically significant, its magnitude is 0.2 percent decrease in human consumption expenditure as it increases by 1 percent. The lack of statistical significance maybe due to the small sample nature of the data.

CHAPTER FIVE

SUMMARY RECOMMENDATIONS AND CONCLUSION

5.0 Overview

This section brings the study to a close. The chapter comprises a summary of the findings, policy prescriptions, challenges faced during the research process and further areas that can be considered in the future.

5.1 Summary of Findings

The quest to reduce poverty especially in the rural economy is one of the prime mandates of governments all over the world. However, given limited budget resources, the country's deficit in infrastructure cannot be met by the government alone through budget allocations. There is the need to search for external financial assistance. This has taken a greater urgency, especially in most developing countries like Ghana. In the absence of easy access to affordable credit for private sector development, there has been an attempt in expanding and attracting foreign direct investment (FDI) into Ghana since 1992. Consequently, through the improvement of the business climate Ghana continues to receive substantial investment in infrastructure development.

However, in spite of the numerous research and interest in various forms of FDI to national development in different dimensions, there is a dearth of empirical studies regarding the influence of direct foreign inflows on expenditure of household and eventually on rural poverty alleviation. This research work, therefore, is aimed at delving into how Foreign Direct Investment influences poverty reduction with respect to an emerging economy such as Ghana.

The study thus attempted to answer the following research questions:

- To establish the relationship that exists between Household Consumption Expenditure and Foreign Direct Investment
- To determine the relationship that exists between Household Consumption Expenditure and price level

In line with objectives, the results of the study revealed that:

Direct foreign inflows (FDI) have an adverse effect on household expenditure related to consumption. This was significant at 5 percent. Specifically, when FDI increases by 1 percent poverty as represented by household consumption expenditure decreases by 5 percent.

The price level has a negative effect on household consumption expenditure even though the effect is not statistically significant. In particular, when price level increases by 1 percent household consumption expenditure reduces 0.2 percent. This is statistically significant at 5 percent. However, infrastructure has a positive impact poverty. Specifically, when infrastructure increases by 1 percent, the human consumption expenditure increases by a negligible magnitude of 0.01 percent. This impact is not statistically significant.

5.2 Other Findings

Human capital has a positive influence on poverty as expected. In particular, when human capital increases by 1 percent, human consumption expenditure increases by 3 percent. However, this relationship is not statistically significant.

Moreover, trade openness has an adverse effect on poverty. Specifically, when trade openness increases by 1 percent, human consumption expenditure (proxy for poverty) reduces by 5 percent.

5.3 Policy Recommendations

Recommendations that are proposed by this study would stem mainly from the major findings which are the focus of the study. Thus, this study recommends the following policy prescriptions:

The results of the study revealed that FDI has an adverse effect on poverty and this is mainly due to the fact that the FDI inflows are channeled to capital intensive sectors such as the mining sector. The study recommends that government should fashion out juicy incentives such as tax rebates to attract foreign investors to direct their funds to labour intensive sectors such as agriculture sector. This would generate employment, increase incomes and reduce poverty.

Infrastructure particularly electricity was found to have an affirmative but statistically insignificant influence on expenditure of households, suggesting that this might be due to erratic nature of electricity supply. The study therefore proposes that the government should invest massively in the electricity infrastructure of Ghana, so that the positive effect of electricity on expenditure of household would be felt substantially on poverty reduction.

The price level was found to have a negative effect on household consumption outflow though not statistically significant. This indicates that inflation hurts the poor more, thus the monetary authorities should put measures in place tame the rate of inflation the country to boost efforts aimed at reducing poverty.

5.4 Limitations and Further Research Areas

The data used for the study was very short (45 annual periods) for extensive data analysis. For further studies, it is recommended that the short run and long run dynamics of the relationship between poverty and FDI should be considered. Particularly, an Autoregressive Distributed Lag (ADL) should be used for the study of the relationship since the estimation

technique is very robust against non-spurious regression issues.

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