

## NEXUS BETWEEN FOREIGN CAPITAL INFLOW, POVERTY AND ECONOMIC GROWTH AMONG SELECTED WEST AFRICA COUNTRIES: A SECTORAL APPROACH

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### ABSTRACT

*In the selected West African nations, issues concerning foreign capital inflows, poverty, and economic growth are complex and multifaceted. These issues encompass reliance on commodity exports, fluctuations in foreign capital inflows, debt burdens, corruption, poor governance, and lack of diversification. Therefore, understanding the nature of these challenges is both relevant and imperative. Consequently, this paper investigates the relationship between foreign capital inflow, poverty, and economic growth in the chosen West African countries. To estimate the model, the study employs a Random Panel model. The findings reveal, among other things, that foreign capital inflows have a beneficial impact on the agricultural, health, and educational sectors in the selected West African nations. It is recommended that in order to support sustainable development and reduce reliance on external expertise, foreign investors should be encouraged to engage in technology sharing, skills transfer, and local capacity building, particularly in the agricultural and industrial sectors. Additionally, incentives should be tailored to attract foreign investment in sectors where these nations excel. This may include measures such as land access, tax breaks, and other sector-specific advantages.*

## INTRODUCTION

In some West African nations, the relationship between foreign capital inflows, economic growth, and poverty can be complex. Economic growth is significantly influenced by foreign capital inflows, such as Official Development Assistance (ODA), Foreign Portfolio Investment (FPI), and Foreign Direct Investment (FDI) (Oshikoya, 2003). The infusion of capital could result in increased investments in technology, infrastructure, and job creation, all of which would support overall economic growth (Asiedu, 2002). However, the impact of foreign capital inflows on poverty varies depending on several factors, such as how resources are distributed, the inclusiveness of economic growth, and the effectiveness of governance (Gupta, 2010).

Foreign capital inflows may exacerbate income inequality and have no effect on reducing poverty when economic growth is not inclusive (World Bank, 2001). Thus, evaluating the relationship among foreign capital inflows, economic growth, and poverty requires a deep understanding of the unique conditions of each nation in West Africa (Easterly, 2001). To maximize the potential benefits of foreign capital inflows for regional economic growth and poverty reduction, effective policies and strategies are necessary. Foreign capital enters West Africa through various channels.

Foreign direct investment (FDI) is often sought after due to its potential to stimulate economic growth through investments in infrastructure, technology transfer, and job creation. On the other hand, poverty reduction and socioeconomic development are the primary objectives of ODA. FPI could have a more unpredictable impact and come with a higher risk profile in exchange for the potential for rapid profits. The relationship between these inflows and local economies varies and is complex across different countries. Economic expansion is a key component of development and the fight against poverty in any given region.

The economies of the sixteen West African countries have grown at varying rates; some have experienced rapid growth, while others have struggled to keep up with population expansion. It is essential to investigate whether foreign capital inflows have a lasting and direct effect on the development and expansion of the chosen nations' economies.

The economies and development environments of the sixteen West African countries differ significantly from one another. While a few nations in the region have experienced impressive economic growth and a decline in poverty, others still face significant poverty rates and underdeveloped economies.

The region boasts a wealth of natural resources, is experiencing an increase in foreign capital inflows, and is gaining popularity among youth. It is imperative that international development organizations, investors, and policymakers understand the connection between these migration waves and economic expansion. West Africa is grappling with poverty despite its economic potential.

Persistent problems in many nations include high rates of poverty, income inequality, and limited access to essential services. Given the complex relationship between foreign capital inflows and poverty reduction, it is crucial to determine whether these inflows promote inclusive growth or exacerbate regional inequality.

While numerous studies have delved into the relationship between foreign capital inflows, poverty, and economic growth in various contexts, few comprehensive studies focus exclusively on West African nations. A focused investigation is needed to fully grasp the dynamics at work due to the unique political and socioeconomic circumstances in this region.

## LITERATURE REVIEW

### *Theoretical literature*

The Dual Economy Model offers a framework for understanding the connection between foreign capital inflows, economic growth, and poverty. It was initially developed with developing economies in mind by Sir Arthur Lewis. According to this model, an economy can be divided into two distinct sectors: a modern, capital-intensive, high-productivity sector and a traditional, labor-intensive, low-productivity sector. The following explanation elaborates on the connection between the Dual Economy Model and foreign capital inflows, economic growth, and poverty:

### *Impact on economic growth*

According to the Dual Economy Model, the expansion of the modern sector is the primary way that foreign capital inflows can stimulate economic growth. For instance, technology transfer, the construction of new factories, and the adoption of contemporary production methods are all potential outcomes of foreign direct investment (FDI). The growth of the modern sector is fueled by foreign capital, which also contributes to the overall economic growth of the nation. Increased production in contemporary industry may lead to gains in GDP and productivity.

### *Impact on poverty*

The Dual Economy Model also has implications for poverty. The traditional sector is mainly comprised of low-income subsistence farming and informal employment. Foreign capital inflows that support the modern sector have the potential to reduce poverty within that industry by raising wages and creating employment opportunities, but these benefits are not always distributed equally. If workers in the traditional sector do not directly benefit from the growth of the modern sector, then income disparities may persist or even worsen. In this scenario, the traditional sector may not experience as much of the economic growth as the modern sector, which could widen the wealth gap.

Ensuring a more equitable distribution of the benefits of economic growth fueled by foreign capital inflows is crucial to reducing poverty, as is taking steps to improve the living conditions of those employed in the traditional sector. This may include programs for rural development, availability of credit, and skill development.

Thus, the Dual Economy Model helps us comprehend the relationships between inflows of foreign capital, economic expansion, and poverty in developing nations. Even though foreign investment can support the growth of the modern sector and increase incomes for some, it also draws attention to the possibility of persistent poverty and income inequality in the traditional sector. To guarantee that foreign capital inflows support inclusive growth and the reduction of poverty, effective policies and strategies are needed.

### *Empirical literature review*

Numerous studies have been conducted globally, especially in developing countries, to ascertain the actual correlation between foreign capital inflows and economic growth.

Huong (2022) examined the connection between foreign direct investment (FDI) and Vietnam's economic growth between 1990 and 2020 using the VAR model. She discovered that foreign direct investment negatively impacted growth in the short and long terms. FDI capital has grown over time and has a lot of potential, but its effectiveness has remained relatively low.

Additionally, in 2022, Iwegbu and Dauda studied the connection between foreign aid's ability to reduce poverty in Africa and fiscal policy. This 1980–2017 study employs the panel dynamic ordinary least squares (DOLS) estimation method. The findings demonstrate that effective education-related fiscal policies combined with foreign aid raise income levels considerably in all regions—except Central Africa—and increase consumption in the Western and Central regions. Therefore,

governments' allocation to the health and education sectors needs to be improved to maintain the effectiveness of foreign aid in Africa and raise household income.

Examining the relationship between growth, the reduction of poverty, and the remittances from Nigerian migrants between 1981 and 2019, Lawal, Adegun, Aderemi, and Dauda (2022) employed the Granger causality techniques and the ARDL Bounds test to analyze the study's goal. They found a strong positive correlation between GDP per capita and migrant remittances. Moreover, the country's economic growth drives efforts to combat poverty. Thus, it makes sense to conclude that the primary causes of Nigeria's declining poverty are economic growth and migrant remittances.

Between 1996 and 2018, Arogundade, Mduduzi, and Eita (2022) looked into the connection between host absorptive capacity and poverty in countries in sub-Saharan Africa. By using the fixed-effect panel threshold model, fixed-effect instrumental regression, and heterogeneous Granger-causality test, the study discovered that although foreign direct investment (FDI) affects the host country's absorptive capacity, it has no direct impact on the frequency and severity of poverty. It also shows how foreign direct investment (FDI) can lessen poverty to some extent when paired with human capital and elite institutions. Lastly, there is a causal relationship that runs both ways between foreign direct investment and poverty.

Similarly, Musakwa, Odhiambo, and Nyasha (2021) examined the impact of foreign capital inflows on the decline in poverty in Vietnam using secondary data from 1990 to 2018. The study's autoregressive distributed lag (ARDL) method showed that foreign direct investment lowers poverty both short- and long-term using household consumption expenditure as a proxy for poverty. Nevertheless, the study found that FDI exacerbated poverty in the short term

when the infant mortality rate and HDI were substituted for poverty.

The study conducted by Sikandar, Erokhin, Wang, Rehman, and Ivolga (2021) examined the impact of foreign capital inflows on agricultural development and poverty reduction in developing countries. Using the panel unit root test and pool mean group estimation techniques, the short- and long-term relationships between dependent and explanatory variables were observed across fourteen developing economies in Latin America, Asia, and Eastern Europe. As a result, the results suggest that increasing the value of agricultural exports, foreign direct investment, foreign development assistance, and remittances from migrant workers may help to reduce poverty.

Dada and Akilo (2021) investigate whether environmental degradation has an effect on foreign direct investment and the fight against poverty in sub-Saharan Africa between 1986 and 2018. The results of threshold regression show that FDI significantly lowers poverty at higher levels of environmental degradation when household final consumption is used as a proxy for poverty. Furthermore, FDI is not very effective at decreasing poverty when methane and nitrous oxide emissions are higher.

Using FMOLS to estimate the model, Awad (2021) examined foreign capital inflows and economic growth in low-income Sub-Saharan African nations from 1990 to 2018. The results showed that trade and aid eventually had a positive impact on these countries' per capita income growth rates. On the other hand, it appeared that external debt was detrimental to this type of growth.

Olowookere, Oluwole, Mabinuori, and Aderemi (2020) conducted a significant study that examined the relationship between foreign capital inflow and the decline in poverty in Nigeria using time series data spanning the years 1990 to 2019. The

study concluded that there is a long-term equilibrium between foreign capital inflows and the decline of poverty in Nigeria. The model was estimated using FMOLS and the Granger causality technique. Moreover, there is a unidirectional causal relationship between foreign direct investment and the decrease in poverty. Granger's efforts to combat poverty are reflected in his investments in foreign portfolios.

In a study published in 2020, Adebayo and Oluwaseun investigated the relationship between foreign capital inflow and the economy of Sub-Saharan Africa from 1990 to 2018. The study used variance decomposition, impulse response, and structural vector autoregression (SVAR) to demonstrate a positive correlation between growth and foreign capital inflow in Sub-Saharan Africa. Additionally, it discovered a negative relationship between economic growth and foreign capital inflow into Sub-Saharan Africa and macroeconomic instability.

Between 1980 and 2017, Fagbemi and Olufolahan (2019) looked at Nigeria's financial development, capital inflow, and initiatives to reduce poverty. VECM was used in the study to estimate the model. The findings thus highlight the critical indirect role that capital inflows and financial deepening play in the mechanism that reduces poverty. Furthermore, they show how the interaction term between financial development and capital inflows points to a significant decrease in the population living in poverty over the long and short terms.

Adekunle and Sulaimon (2018) used secondary data from 1986 to 2015 along with the autoregressive distributed lag (ARDL) methodology to evaluate the relationship between capital flows and economic growth in Nigeria. They found that portfolio inflows and foreign remittances had a statistically significant negative short-term impact on growth, while net foreign investment increased growth. According to their findings, the Nigerian government ought to foster an atmosphere

that would attract both foreign and domestic capital inflows for the good of the nation. The findings of Adekunle and Sulaimon (2018) are consistent with the findings of Onyekachi and Okparaka (2017), who noted that foreign capital inflow positively and directly impacted growth.

Padhan, Behera, and Sahu (2023) looked into whether corruption hinders India's economic growth despite the nation's rising capital inflows and remittances. Data from 1995–1996 to 2016–2017 were analyzed using Bayer-Hank (B-H) and Autoregressive distributed lag (ARDL) in this study. The conclusion is that trade balance, government consumption spending, foreign capital inflow, and corruption are all related to economic growth in the long run.

Using generalized methods of moments, Githaiga and Kilongi (2023) examined the effects of institutional quality on the relationship between foreign capital flow and human capital development in sub-Saharan Africa from 2009 to 2019. The study shows that the influence of FDI and remittances on the development of human capital is moderated by the institution's quality. Nonetheless, the impact of ODA on the development of human capital is independent of institutional quality. The study's conclusions can provide policymakers with important new information. The importance of FDI and remittances in fostering the growth of human capital in sub-Saharan Africa is highlighted by this study.

Using OLS estimation techniques, Juwaid and Saleem (2017) ascertain the impact of capital inflows on growth in Pakistan from 1976 to 2015. The findings showed that while remittances and external debt had a positive effect on GDP, direct investment had a negative one. The study found that policymakers needed to guarantee that foreign direct investment (FDI) growth would continue in order to reduce reliance on external debt. Furthermore, Waweru and Ochieng (2017) used secondary data from 1984 to 2014 that was acquired via the use of ARDL to study the

effect of capital inflows on economic growth in Kenya. The outcome proved that capital inflows have a direct effect on growth.

Sothan (2017) examined the relationship between direct investment and growth in Cambodia between 1980 and 2014 using VECM and discovered a positive correlation. Thus, it is imperative that the government enact prudent macroeconomic policies, encourage financial development, construct infrastructure, eliminate obstacles to foreign direct investment, and advance trade and investment.

Although foreign direct investment and other capital flows also contribute to economic growth, Adeola (2017) used VECM to study economic growth and foreign capital flows in a few Sub-Saharan African countries. Results show that remittances, an increasingly important source of foreign capital flows, account for most of economic growth in two of the four sub-Saharan African countries examined. This suggests that increasing foreign direct investment and remittances ought to be the top policy goals for fostering economic growth in sub-Saharan Africa.

Nguyen (2017) used ARDL and ECM estimation techniques on secondary data from 1986 to 2015 to study the relationship between exports, direct investment, and growth in Vietnam. The study concludes that exports have a negative effect on growth while direct investment has a positive effect. Thus, the study concluded that major adjustments to export policy are required if the government hopes to achieve sustainability in future growth. Furthermore, Abdullahi, Garba, and Magaji (2017) used secondary data covering the years 2010 to 2015 to examine the impact of capital inflows on growth in Sub-Saharan Africa and discovered a negative correlation between the two using the GMM technique. Thus, governments in sub-Saharan Africa should ensure that people and property are

adequately protected in order to promote an environment that is conducive to business. They should also give technologically advanced countries the incentives they need, like tax holidays, since they are ultimately responsible for maintaining foreign direct investment.

Oluwaseyi, Abdullahi, and Mahmood (2017) used secondary data sets spanning the years 1980–2015 and the Granger causality test to examine the effects of capital inflow on growth in West African nations. The outcome demonstrated that there is no correlation between capital inflow and growth in those regions. Therefore, policies that promote political stability, create a favourable environment, and liberalise domestic economies are required to encourage capital inflows.

The synopsis above shows that empirical research is inconclusive when it comes to the nature and extent of foreign capital inflows' effects on economic growth and the eradication of poverty in various Nations and cross-national studies. Therefore, our research adds to the body of knowledge in this field, particularly in West African Nations.

## METHODOLOGY

### *Empirical Model Estimation Technique*

Before investigating the correlation among sectoral growth, poverty, and foreign capital inflow, the unit-root test needs to be employed to assess the time-series properties of the variables. To establish a long-term relationship, variables need to be integrated at level I (1). To estimate a long-run relationship, it is first necessary to show that the variables are integrated of mixed order I (0) and I (1). A cointegration test is the next action to take. The Pedroni (2004) panel cointegration test, which uses seven test statistics to assess cointegration among variables, was used in the study to test for cointegration.

After Pedroni (2004) found that the variables are not cointegrating, the long-term relationship is estimated. The study's approach for estimating the long-term relationship was the Random Effect Model. The method is preferred for estimating long-term relationships among variables because it can account for unobserved heterogeneity and has advantages in efficient estimation, balancing model, statistical efficiency, and mixed effects modelling. The definition of the random effect model is as follows:

$$Y_{it} = \alpha + \sum_{k=1}^N \beta_k X_{k,it} + \mu_{it}; \quad k = 1, \dots, N$$

Where:

$Y_{it}$  = the explained variable for the  $i$ th country at time  $t$ ,

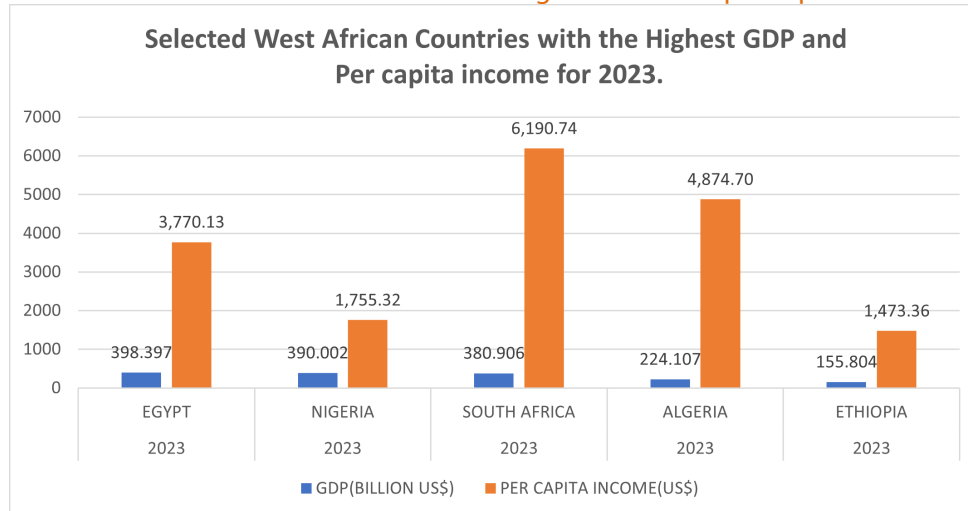
$x$  = vector of the independent variables to be estimated,

$\mu$  = is the composite error term which can be decomposed further into specific effects and remainder disturbance term. However, the specific effects have been further categorized into individual specific effects and time specific effects.

Therefore, estimation of Static panel models is as follows:

Where  $g_j$  is the sectoral growth and the superscript " $j$ " corresponds to service, Agriculture and Industrial sectors. Sectoral growth is measured as a percentage of GDP.  $fci$  is foreign capital inflows,  $pov$  is poverty level and  $gdpgro$  is the GDP growth rate and  $\mu$  is the composite error term. The above panel model will be estimated via the fixed effect and random effects regressions whereby the best model will later be chosen through the Hausman test. The parameters to be estimated are:  $\alpha$ ,  $\beta_k$ , and  $\mu$ . Data on Poverty, GDP, foreign capital inflows and GDP per capita growth was taken from world development indicator (WDI). The five West African countries (Nigeria, Egypt, South Africa, Algeria and Ethiopia) selected were chosen depending on two criteria as suggested in figure 1: highest GDP and Per capita income. For FDI, poverty and GDP growth rate, the period for the analysis is 1980–2022.

**Figure 1: The five West African countries with highest GDP and per capita income in 2023**



## FINDINGS

### *Descriptive statistics and correlation matrix*

According to Table 1’s descriptive statistics, the service sector in the selected West African countries makes up the largest portion of GDP, with agriculture having the lowest average value over the sample period at 6%. According to the measures of volatility, services are the most volatile sector, while foreign capital inflows are the least volatile. The relatively low mean growth rate of 2.87 observed in the selected West African countries is indicative of the underdeveloped state of these sectors. The poverty mean value indicates that poverty, which is still a significant factor, may either encourage or hinder these countries’ continued economic development. Remittances of foreign capital, on the other hand, have a lower mean value, which suggests that less foreign capital is flowing into these economies.

**Table 1: Descriptive Statistics**

Variable	Obs	Mean	Std.Dev.	Min	Max
Foreign Capital	215	1.52	2.25	-7.39	9.89
Poverty	215	2.88	5.00	-15.45	13.86
Agric	215	6.56	3.36	6.35	1.11
Service	215	39.02	23.72	0.20	97.80
Industry	215	8.25	6.92	2.06	2.49
Gdp Growth rate	215	2.87	3.30	3.71	1.19

Source: Authors finding.

In order to determine the direction and strength of the correlation between the variables, the study also generated a correlation matrix. Serial collinearity is less of an issue in the first scenario since Table 2’s findings show that there is little correlation between the explanatory variables. Additionally, the matrix demonstrates a positive correlation between sector growth, poverty, foreign capital inflows, and GDP growth rate.

**Table 2: Correlation Matrix**

Variable	Foreign capital	GDP growth rate	Industry	Poverty	Services	Agriculture
<b>Foreign capital</b>	1.000000					
<b>GDP growth</b>	0.003183	1.000000				
<b>Industry</b>	0.382082	-0.260119	1.000000			
<b>Poverty</b>	0.088222	0.134695	-0.203285	1.000000		
<b>Services</b>	0.735010	-0.098896	0.744986	0.067534	1.000000	
<b>Agriculture</b>	0.581543	-0.049547	0.495661	0.219647	0.785071	1.000000

Source: Authors finding

### *Unit root test*

Table 3 displays the outcomes of the panel unit-root test. Both the intercept and the trend were included in the unit root test. All other variables were non-stationary at level I (0) but became stationary after the first difference I (1), except poverty, GDP growth rate, and industry.



**Table 3: Panel Unit Root Test using Fisher-ADF**

Variable	Level	First difference	Decision
Foreign capital	9.7168	62.1889**	I(1)
Poverty	44.0263	-	I(0)
GDP growth rate	40.4758**	-	I(0)
Agriculture	0.2862	56.1311**	I(1)
Industry	23.9287	-	I(0)
Service	4.7224	44.7695**	I(1)

Source: Authors finding

*Panel Co-integration test*

The variables are not cointegrated, which suggests that there is no long-term relationship between them and does not refute the null hypothesis that there is no cointegration, according to the cointegration test results shown in Table 4.

**Table 4: Test for Cointegration**

	Agriculture	Industry	Service
Panel v-Statistic	-1.377922 (0.8827)	-0.122409(0.6267)	-1.101794(0.8559)
Panel rho-Statistic	-1.178917 (0.2502)	-1.183848(0.3171)	-0.498252(0.3727)
Panel PP-Statistic	-1.632646(0.1290)	-1.683314(0.1751)	-0.452820(0.3918)
Panel ADF-Statistic	1.584841(0.8592)	0.541090(0.7906)	2.008541(0.9642)
Group rho-Statistic	0.360998(0.6409)	-0.215289(0.4148)	0.376961(0.6469)
Group PP-Statistic	-0.507629(0.3059)	-1.196727(0.1157)	-0.123710(0.4508)
Group ADF-Statistic	1.938039(0.9737)	0.715965(0.7630)	2.326492(0.9900)

Note: P-values are in parentheses

The Fixed effect model and the Random effect model are selected using the Hausman test. Consequently, the Hausman test result is shown in table 6. To confirm that the specific effects estimated are, uncorrelated and in fact, random effects, the Hausman test is widely used. The PV of the test summary, which is shown below, indicates that since the effects are not correlated, the random effects regression might offer a better fit than the fixed effects model. As a result, the Random Effect Model assumed way.

*Selection between Fixed effect model and Random effect model*

**Table 6: Hausman Test**

Test Summary	Chi-sq statistic	Chi-sq d.f	Prob.
Cross section random	143.318	3	0.0000

Source: Authors computation.

The data presented in Table 7 demonstrate that every variable is statistically significant, with the exception of the GDP growth rate for each of the chosen West African nations. The foreign capital inflow coefficient is positive and statistically significant at the 5% significant level for each of the three

sectors. This means that as the output of the industrial, agricultural, and service sectors grows, so too should the amount of foreign capital inflows into these countries. This demonstrates even more how an increase of a thousand foreign capital inflows will, on average, lead to an increase in output in the

three chosen economic sectors of more than a million. On the other hand, this is consistent with the results of Juwaid and Saleem (2017) and Oluwaseyi, Abdullahi, and Mahmood (2017). Similarly, poverty benefits all three of these sectors in these countries. This suggests that the anticipated degree of development in the agricultural, service, and industrial sectors of these economies is positively correlated with the degree of poverty in the chosen West African nations. Thus, a decrease in the percentage of the population living in poverty in these nations will undoubtedly lead to increased output from the industrial, service, and agricultural sectors. In actuality, this outcome agrees with Adekunle and Sulaimon's findings (201). That, however, runs counter to Juwaid and Saleem's (2017); and Guo and Luo's (2017). findings.

It makes sense that the economic effects of a foreign capital inflow can vary significantly, depending on the specifics and how the capital is used. Nevertheless, in countries like Algeria, South Africa, Nigeria, Egypt, and Ethiopia, foreign capital inflow usually has some positive effects on the industrial, agricultural, and service sectors. Higher tax receipts, more infrastructure and technology spending, support for agriculture, industrial growth, knowledge and skill transfer, export promotion, and the development of jobs and infrastructure are a few potential financial outcomes.

It's crucial to remember that the benefits of foreign capital inflow are not always guaranteed and rely on a number of variables, such as the investment's nature, the host nation's policies, and the state of the world economy. The influx of foreign capital may also carry certain risks, such as an excessive dependence on foreign investors and possible

capital flight. These nations should enact laws and policies that support ethical foreign investment, guarantee that the influx of funds supports their development objectives, and encourage openness and sound governance in the handling of foreign exchange in order to optimize the gains and reduce the risks. They should also focus on developing the nation's technological prowess and ability to reduce its long-term dependency on foreign investors. The industrial, agricultural, and service sectors in the chosen African nations (Ethiopia, South Africa, Nigeria, Egypt, and Algeria) may benefit economically from decreasing poverty. Reducing poverty can lead to several potential benefits for these sectors: increased consumer demand; agricultural productivity; industrial growth; service sector expansion, human capital development; reduction in income inequality; enhanced agricultural and industrial supply chain. However, it's important to note that the relationship between poverty reduction and economic development is complex and multifaceted. Reducing poverty is a long-term process that requires a comprehensive strategy, including social safety nets, education, healthcare, and job creation. Additionally, the specific impacts can vary by country, depending on their unique circumstances, policies, and the pace of poverty reduction. Governments and policymakers in these nations should concentrate on putting poverty reduction programs into action, encouraging inclusive economic growth, and making sure that the advantages of development are widely distributed among the populace in order to achieve these favourable effects on the service, agricultural, and industrial sectors. Policies that support corporate expansion and investment in vital industries should be implemented in addition to these initiatives.

**Table 5: Panel Random effect Model**

Variables	Dependent variable: Agriculture		Dependent variable: Industry		Dependent Variable: Service	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
Foreign capital	7.61	0.0000**	4.240735	0.0000**	22.60806	0.0000**
Poverty	1.64	0.0023**	60.159631	0.0323**	48836993	0.0000**
GDP growth rate	2.36	0.3449	-1.24E+08	0.3397	-1.43E+09	0.6446
c	1.01	0.0004**	6.18E+10	0.0000**	5.04E+10	0.0045

Source: Authors finding

Note: \*\*\*, \*\* and \* implies stationary at 1%, 5% and 10% respectively.

## CONCLUSION

In these African nations, foreign capital inflows have the potential to be extremely important for promoting sectoral development, job creation, and economic growth. These investments can expand the industrial, agricultural, and service sectors as well as improve infrastructure and productivity when managed well. It is crucial to clarify that poverty itself does not benefit the industrial, service, or agricultural sectors. Poor consumer demand, a lack of resources, and limited access to healthcare and education are all associated with poverty and can impede economic growth.

On the other hand, as the preceding response indicated, there may be advantages for these industries if poverty is successfully reduced. Consequently, the recommendations and conclusions in the chosen African countries (Ethiopia, South Africa, Nigeria, Egypt, and Algeria) centered on poverty reduction and its possible benefits for these sectors. As a result, the industrial, agricultural, and service sectors may benefit from the decrease in poverty in these selected African nations. People become more engaged members of the economy when they are able to escape poverty and have access to vital services and higher incomes. Enhanced economic involvement can consequently result in amplified consumer demand, investment, and productivity within these industries.

The main takeaways from this research include the necessity of implementing comprehensive strategies for reducing poverty that prioritize giving the poor better access to jobs, healthcare, and basic social services. To create a favorable business environment, governance should be strengthened, corruption reduced, and the rule of law promoted. Moreover, boosting the general investment climate in these nations by cutting back on bureaucratic red tape, expediting the business registration process, and enhancing transparency and legal protections for foreign investors is essential. In a similar spirit, encouraging foreign investors to participate in technology sharing, local capacity building, and skills transfer—particularly in the agricultural and industrial sectors—will help advance sustainable development and lessen dependency on outside knowledge. Finally, incentives should be designed to attract foreign investment in fields where these nations excel. These might consist of land access, tax breaks, and other sector-specific advantages.

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