

Original Research Article

Foreign capital and poverty reduction in West Africa

Abstract - This paper investigates the effect of foreign capital on poverty reduction. For our analysis, we used recent panel data for ten West African countries* for the period 2000 - 2014. Results of the empirical test of the simultaneous equation model indicate that foreign capital affects poverty through growth and inequality. The total effect on poverty reduction is negative when the inequality effect outweighs the growth effect. Thus, foreign capital inflows promotion policies should necessary account for receiving countries socioeconomics mutations

Keywords: Foreign capital, growth, inequality, poverty, panel data.

Classification JEL: C33, F3, I32, O4.

1. Introduction

The rapidly growing experiences of a small number of new industrial countries in East Asia and especially China over the last fifteen years have contributed to the idea that foreign capital plays a key role in mitigating lack of resources in low-income countries (Jude, 2012). This dynamic leads some economists to argue that foreign capital affects economic growth and, in turn, alleviates poverty. However, this dynamic does not seem to be reflected in the case of sub-Saharan Africa, which received net FDI inflows in 2015 estimated at \$ 54 billion and on average between 2011 and 2013, around \$ 40 billion a year. These flows accounted for 3% of global FDI stocks in 2013. Official Development Assistance (ODA) granted by member countries of the Organization Economic Cooperation and Development (OECD) Development Assistance Committee increased by 6.9% in constant 2015 to reach a total of \$ 131.6 billion. The external debt of sub-Saharan African countries is on average one of the lowest in the world. According to the IMF, it stood at less than 30% of GDP in 2015, and represented in stocks, 911 billion US

dollars in 2014 (IMF, 2015). Currency transfers by African migrants have increased substantially and now represent the second largest source of financial flows to Africa - behind FDI - with about \$ 62 billion annually in 2013 (OECD, 2014).

At the same time, poverty in sub-Saharan Africa is slowly declining. It stood at 43% in 2012 with a forecast for 2015 of 35.2% of the population living on less than US \$ 1.9 (World Bank, 2015) per day. However, poverty is still too high in Africa compared to other parts of the world, specifically Asian countries that are experiencing a reduction in poverty rates due in part to foreign investment in Africa's natural resources. In addition, the majority of foreign capital received is concentrated in the exploitation of these natural resources (Koussani and Tozanli, 2014). From this contrast arises the need to analyze the relationship between foreign capital and poverty, identify the mechanisms that link them, and assess the magnitude of the effects transmitted on poverty.

This necessity also motivates the current study to examine the relationship between foreign capital and poverty based on the case of the West African countries. The purpose consists on examining the role of foreign capital in promoting growth and their effects on inequalities and poverty. Theoretically, the study is based on the fact that the relationship between an economic phenomenon based on reasons of profitability or global strategy of foreign capital and another intrinsically social and also economic phenomenon, that is, poverty; this relationship is composed of various transient effects (Lahimer, 2009). The study also finds its foundation in the research of Bourguignon (2003) on the interactions between growth, inequalities and poverty designated through the triangle growth-inequalities-poverty. Indeed, the triangle growth-inequalities-poverty allows analyzing the mechanism by which the foreign capital affects poverty through their effects on growth, inequalities and poverty. In the same vein, this article is part of that the scientific interest is threefold, in order to identify the relationship between foreign capital and poverty in West Africa.

First, this study differs from previous studies by simultaneously taking into account three types of foreign capital: foreign direct investment (FDI), official development assistance (ODA) and long-term debt (DELT). Second, the empirical analysis is based on an econometric model in simultaneous equations tested on non-cylinder panel data, with the majority of studies using rolled panel data. It differs, like that of Lahimer (2009), by the addition of an equation for poverty that allows estimating the totality of the interactions within the trilateral relationship growth-inequalities-poverty. Finally, this research targets an economic zone, West Africa which has not yet been the subject of a similar study.

The remainder of the study is organized in three (3) sections. Section II consists of the literature. Section III covers the basic model, the estimation methods, the data used and the econometric results. Section IV deals with the conclusion and resulting policy recommendations.

2. Model of theoretical analysis

Foreign capital should play an important role in reducing poverty. This section attempts to explain the theoretical relationship between foreign capital and poverty. More specifically, it seeks to identify the mechanisms underlying this relationship in ten (10) West African countries; eight countries of the Economic and Monetary Union of West Africa and two (2) English-speaking countries (Ghana and Nigeria) which are close to this geographical area. To this end, it adopts the framework of analysis of the interactions between growth, inequalities and poverty established by Bourguignon (2004). This framework the author designated by the triangle "growth - inequalities - poverty" emphasizes that the three factors influence each other, hence a simultaneity of their interrelations. In the same vein, we posit that the effect of foreign capital on poverty is not direct, it passes first through growth. For that reason, understanding the dynamic between foreign capital and poverty implies first, analyzing the transitory effects of foreign capital on growth; second, examining the transitory effects of foreign capital on inequality, and third, assessing the final effects on the incidence of poverty in these countries. To achieve these

objectives, we build like Lahimer (2009), a model with three simultaneous equations, built on the trilateral relationship "growth-inequalities-poverty". The first equation explains economic growth, the second one explains inequality and the last one explains poverty. The general model to be estimated is stated as follows:

$$CPIBH_{i,t} = \delta_1 INE_{i,t} + \theta_1 CAPETR_{i,t} + \rho_1 X_{i,t} + \varepsilon_{i,t} \quad (1) \quad W$$

$$INE_{i,t} = \gamma_2 CPIBH_{i,t} + \theta_2 CAPETR_{i,t} + \rho_2 Y_{i,t} + \mu_{i,t} \quad (2)$$

$$PAUV_{i,t} = \gamma_3 CPIBH_{i,t} + \delta_3 INE_{i,t} + \theta_3 CAPETR_{i,t} + \rho_3 Z_{i,t} + \omega_{i,t} \quad (3)$$

here:

CPIBH = per capita income growth; INE = income inequality; PAUV = absolute poverty rate;
 i = transversal dimension (the countries); t = time dimension that is to say (the year).

Each equation has common variables and specific variables. The CAPETR variable is assumed to be a vector of variables consisting of official development assistance (ODA), foreign direct investment (FDI) and long-term debt (DELT) that are common to all three equations. Concerning the specific variables, they are represented by the following vectors:

- "X" is the vector of growth-specific economic variables (domestic investment, education, trade openness and inflation).
- "Y" is the vector of variables specific to income inequality. It mainly includes institutional variables.
- "Z" is the vector of the variables specific to poverty. It includes, among other things, the rate of population growth, the unemployment rate, the quality of infrastructure and the access of the population to telecommunications, drinking water and electricity.

The structure of the model indicates both a transitive and reflexive relationship between each retained variable and the endogenous variable. In order to identify the total effect of all the variables, we substitute equation (1) in (2) and then in equation (3) to obtain the reduced form and determine the total effect of all the variables tested in the three poverty equations. Thus, the

"reduced" form of equation (3) represents the answer to the main objective of this work, which consists on determining the total and independent effect of CAPETR on poverty. The "reduced" form of equation (3) is stated as follows:

$$PAUV_{i,t} = (\gamma_3\vartheta + \delta_3\pi + \theta_3)CAPETR_{i,t} \quad (4) \quad W$$

here ϑ is the total effect of CAPETR on growth. It is equal to the following function:

$$\vartheta = \frac{\theta_2\delta_1 + \theta_1}{(1 - \delta_1\gamma_2)} \quad (5) \quad A$$

and π is the total effect of CAPETR on inequalities. It is deduced from ϑ and it is equal to:

$$\pi = \gamma_2\vartheta + \theta_2 \quad (6) \quad In$$

the following of this study, we break up CAPETR in three (3) previously mentioned variables in ODA, FDI and DELT which are besides the only explanatory variables common to the three equations and likely to affect simultaneously, but in different ways, each of the three endogenous variables. In addition, the choice of variables specific to each equation was made in such a way to minimize the risk of correlation with the endogenous variables of the other equations. Hence, we study the matrix of correlations between the variables of the model in order to avoid statistical biases and reduce the risks of endogeneity.

The estimation model is stated as follows:

$$CPIBH_{i,t} = \alpha_0 + \alpha_1 INE_{i,t} + \alpha_2 ODA_{i,t} + \alpha_3 FDI_{i,t} + \alpha_4 DELT_{i,t} + \alpha_5 INV_{i,t} + \alpha_6 TSS_{i,t} + \alpha_7 PIBHI_{i,t} + \alpha_8 OUV_{i,t} + \alpha_9 INF_{i,t} + \varepsilon_{i,t} \quad (7)$$

$$INE_{i,t} = \beta_0 + \beta_1 CPIBH_{i,t} + \beta_2 ODA_{i,t} + \beta_3 FDI_{i,t} + \beta_4 DELT_{i,t} + \beta_5 PIBHI_{i,t} + \beta_6 (PIBH)_{i,t}^2 + \beta_7 IPC_{i,t} + \mu_{i,t} \quad (8)$$

$$PAUV_{i,t} = \varphi_0 + \varphi_1 CPIBH_{i,t} + \varphi_2 INE_{i,t} + \varphi_3 ODA_{i,t} + \varphi_4 FDI_{i,t} + \varphi_5 DELT_{i,t} + \varphi_6 TSS_{i,t} + \varphi_7 TPOP_{i,t} + \varphi_8 TCHO_{i,t} + \varphi_9 TEL_{i,t} + \omega_{i,t} \quad (9)$$

Like Lundberg and Squire (2003) and Lahimer (2009), we assume that the specific variables in equation (7) are orthogonal to inequality and poverty; those in equation (8) are orthogonal to growth and poverty; and those in equation (9) are orthogonal to growth and inequality; In other words, the variables form a set of non-collinear vectors.

3. Empirical analysis

The first equation is built from Solow's "standard" growth models from 1956. It is further enriched by Mankiw et al. (1992), Borensztein et al. (1998) and Barro (2001). The variable to be explained in this equation is GDP per capita growth (CPIBH). The equation contains in addition to the inequality indicator, the vector of foreign capital variables (ODA, FDI and DELT) found in the three equations of the model, the initial GDP per capita (GDPHI) and the aggregate variables defined by standard growth models. The second equation explains the inequalities evaluated by the GINI coefficient. This is the most empirically used measure for studying income inequality (Forbes 2000, Deininger and Squire 1998 and Lundberg Squire 2003). Moreover, we introduce in this equation, the growth of the average income (CPIBH), the ODA, FDI and the DELT. The relatively weak correlation between these four variables allows introducing them simultaneously.

The third equation explains the absolute poverty rate (Dollar and Kraay 2000, Ravallion, 1997). As such, the only indicator of income poverty is used; it is available for the countries of our sample in the World Bank database (WDI). This indicator is "the rate of the population living below the national poverty line". It corresponds to the absolute poverty approach where the threshold is set according to the basic needs of local populations. All the variables of these three (3) equations and their expected signs are shown in Table 1 below.

Table 1: Description of the variables

Variables	Description	Expected signs
Equation 7		
INV	Investment rate (gross fixed capital formation) as% of GDP	+
TSS	High school enrollment ratio, It represents a proxy of human capital.	+

OUV	Indicator of commercial opening. It is measured by the sum of imports and exports in relation to GDP.	+
INF	Inflation rate. This is the indicator of economic stability	-
Equation 8		
IPC	Transparency International Corruption Perceptions Index. Being considered as a proxy for measuring corruption,	+
PIBH	Gross domestic product per capita. It allows testing the hypothesis of Kuznets in the short term.	+
(PIBH)²	Square of gross domestic product per capita. For the verification of the Kuznets long-term hypothesis	+
Equation 9		
TSS	Secondary school enrollment rate. It tests the effect of education on poverty	+
TCHO	Unemployment rate	-
TPOP	Population growth rate	+/-
TEL	Proportion of people with access to the telephone (public or private) per 1000 inhabitants.	+

142 Source: Author, from the literature.

143 To empirically test the simultaneous equations model, we have separately estimated each of the
 144 three equations identified including equations (7), (8) and (9). The identification tests indicated
 145 that they are all "over identified"; this led us to adopt three different estimation techniques to
 146 address the problems of endogeneity and simultaneity. These are the least squares (2SLS), least
 147 squares (3SLS) and least squares (W3SLS) least squares method.

148 3.1. Data from the study

149 The description of the variables of the model is recorded in Table 2.

150 **Table 2: Descriptive statistics**

Variables	Observation	Mean	Student deviation	Minimum	Maximum
CPIBH	130	4.29	3.38	-6.71	15.00
INE	130	40.14	4.16	31.16	46.26
PAUV	130	46.35	11.61	24.2	69.3
ODA	130	9.56	5.39	0.51	33.10
FDI	130	2.65	3.02	0.28	16.62
DELT	130	3.92	5.90	0	27.69
INV	130	18.94	7.53	5.46	39.95
PIBH	130	677.73	348.49	183.67	1604.90
OUV	130	2.37	4.04	0	14.29
TSS	130	31.28	13.64	6.95	58.29
INF	130	6.27	10.21	-9.82	80.74
POP	130	2.73	0.53	1.37	3.83
TCHO	130	5.90	2.71	0.7	10.1
TEL	130	28.93	27.47	0	100.9

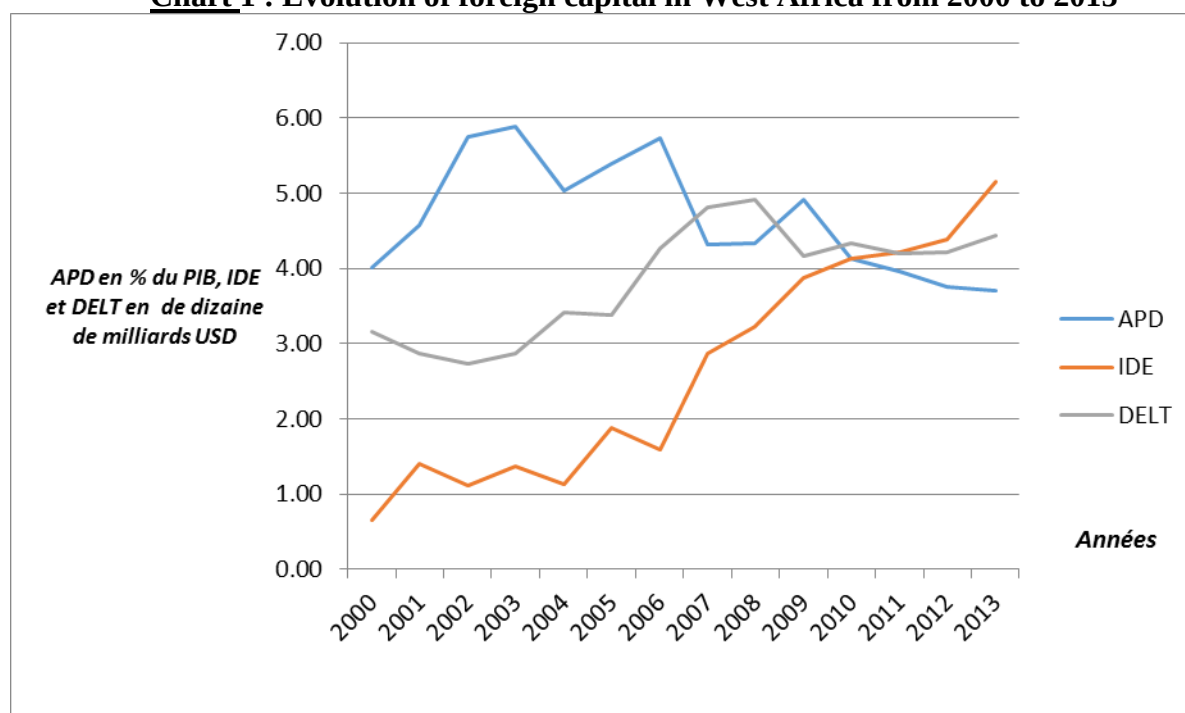
IPC	130	2.76	0.61	1.4	4.5
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Source: Author's calculations from data used.

In the framework of our work, we have generally been able to build a base of 44 observations characterizing ten (10) West African countries (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Conakry, Mali, Niger, Senegal, Togo, Ghana and Nigeria) over the period 2000-2014. The model variables are mostly extracted from the World Bank database (WDI-2014). Considering the Corruption Perception Index (CPI), it comes from the Transparency International (TI) base and is used in our model as an institutional variable.

As shown in Chart 1, FDI flows have increased steadily since 2006, four times higher than their level in 1995. Furthermore, since 2010, FDI flows have been higher than development and debt. In 2013, for example, they were almost ten times higher than ODA flows (Cnuced, 2014). However, these flows have benefited more the oil or mining countries and the most industrialized economies (Nigeria, Ghana, Ivory Coast, Senegal, etc.).

Chart 1 : Evolution of foreign capital in West Africa from 2000 to 2013



Source: Author, based on data from the World Bank, 2015.

Note: ODA: Official Development Assistance, FDI: Foreign Direct Investment and DELT: Long-Term Debt

The Corruption Perception Index (CPI) is expressed on a scale of [0; 10] where 0 means a very high level of corruption and 10 represents a very low level of corruption equivalent to a high level of probity. Indeed, the average of these corruption scores is 2.76. The minimum is only 1.4 while the maximum does not reach 5. This shows how much the problem of corruption arises acutely in the countries our sample. In addition, some variables are characterized by large differences. This is the case, for example, with GDP per capita, the rate of inflation, access to telecommunications, high school enrollment, public support and poverty.

These differences are probably related not only to the differences in development between countries but also to the international economic situation, especially when we know that the countries in our sample are mostly exporters of raw materials. Finally, there is a little difference in relation to the unemployment rate, which averages 5.90%, once again demonstrating the homogeneity of the countries in the sample on the issue of unemployment. After this brief data analysis, we present in the next section, the interpretation of the main results of our estimates.

3.2. Results and interpretations

The results of the regression of the system of poverty equations are summarized in Table 3.

Table 3: Estimation of the determinants of poverty - Dependent variable: PAUV

Growth and CAPETR				Growth without CAPETR			CAPETR without growth		
Variables	2SLS	3SLS	W3SLS	2SLS	3SLS	W3SLS	2SLS	3SLS	W3SLS
CONS	97.1** (2.52)	102.3*** (3.13)	117.1*** (3.95)	-91.5 (-1.52)	-89.2 (-1.53)	62.27* (1.68)	174.8*** (4.51)	149.2*** (6.99)	129.8*** (6.41)
CPIBH	0.579 (1.32)	-0.09** (2.07)	0.71*** (3.13)	0.82 (1.58)	0.97 (1.69)	0.69 (0.09)	-	-	-
INE	0.25** (2.31)	0.27** (2.75)	0.616** (2.47)	0.74** (2.53)	0.84*** (3.05)	0.87*** (2.99)	0.59** (2.01)	0.89*** (3.58)	0.93*** (4.02)
ODA	0.481 (0.92)	0.49 (0.81)	-0.531 (-2.05)	-	-	-	0.07 (0.41)	0.08** (2.35)	0.09** (2.24)
FDI	5.7*** (3.05)	5.19*** (3.82)	-6.06*** (-3.94)	-	-	-	4.49 (1.29)	3.87*** (3.91)	3.99*** (4.04)
DELT	0.437* (1.95)	0.367 (0.51)	-0.913 (-0.81)	-	-	-	0.46* (1.94)	0.47*** (2.98)	0.51*** (3.91)
TSS	- (-3.93)	-0.53*** (-3.69)	-0.58** (-2.38)	0.88 (0.39)	-0.83 (-0.35)	-0.09 (-0.41)	-0.07*** (-3.11)	-0.69** (-2.64)	-0.64*** (-4.89)
TPOP	7.03 (1.37)	7.92* (1.97)	6.23*** (3.51)	3.88 (1.34)	4.79 (1.08)	1.28 (0.09)	1.57 (0.79)	1.99*** (3.29)	1.48*** (4.02)
TCHO	0.85*** (5.62)	0.94*** (3.09)	0.39*** (3.09)	0.813* (1.72)	0.57** (3.51)	0.93*** (3.12)	0.91** (2.46)	0.64** (2.58)	0.62** (2.03)
TEL	-0.23 (-0.72)	-0.09 (-1.27)	-0.083 (-1.51)	-0.94 (-1.51)	-0.12 (-1.39)	-0.17 (-0.98)	-0.17 (-1.39)	-0.12** (-2.41)	-0.14** (-2.93)
RMSE	1.261	1.072	0.974	0.991	1.095	0.925	1.13	1.09	1.315
Statistic	53.03	91.54	89.07	19.13	46.13	42.17	27.42	109.2	91.8
(Prob)	(0.007)	(0.000)	(0.000)	(0.00)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Adj. R ²	0.76	0.78	0.83	0.65	0.69	0.64	0.85	0.86	0.89

*, ** and *** refer to 10%, 5%, and 1% significance levels, respectively. Figures in brackets represent z-statistics.

Note: PAUV is the poverty rate, CPIBH is GDP per capita growth, INE is income inequality (GINI), ODA is official development aid as % of GDP, FDI is foreign direct investment as % of GDP, DELT is the long-term public debt as a % of GDP, TSS is the secondary school enrollment rate, CPI is the corruption index, TCHO is the unemployment rate, TEL is telephone access per 1000 inhabitants, TPOP is the growth rate of the population.

The econometric model of this study estimates the interactions between growth, inequality and poverty (See also appendix for results). Further, it highlights the role of foreign capital. First, present the results of the growth estimates. Second, we focus on understanding the determinants of inequality within our sample. Finally, we estimate the equation that defines the rate of absolute poverty, which allows us to determine the reduced form of the model (Equation 4) (See also appendix for results).

Table 4: Estimation of the determinants of the growth equation - Dependent variable: CPIBH

Variables	2SLS	3SLS	W3SLS
CONS	43.291** (2.09)	32.876* (1.87)	27.631 (1.09)

INE	-0.029 (-0.95)	-0.041 (-0.74)	-0.072 (-1.23)
ODA	0.217** (2.14)	0.282** (2.77)	0.219 (0.98)
FDI	0.071** (2.61)	0.078*** (3.16)	0.069 (1.57)
DELT	0.472** (2.01)	0.496*** (4.03)	0.408*** (4.21)
INV	0.81* (1.92)	0.629*** (3.04)	0.731*** (4.46)
PIBHI	0.437** (2.06)	0.456*** (2.89)	-0.519*** (-3.46)
OUV	-0.724** (-2.31)	-0.961*** (-3.87)	-0.586 (-0.801)
TSS	0.570** (2.95)	0.672*** (3.13)	-0.294*** (4.21)
INF	-0.837*** (-3.83)	-0.852*** (-4.37)	-0.795*** (-5.17)
RMSE	1.086	0.975	1.127
Statistic	52.31	81.32	70.92
(Prob)	(0.001)	(0000)	(0000)
Adjusted R ²	71.01%	73.03%	76.15%
Number of observation	130	130	130

Source: Author's estimate from Stata 12 software.

*, ** and *** refer to 10%, 5%, and 1% significance levels, respectively. Figures in brackets represent z-statistics.

Note: RMSE is the Root Mean Standard Error. Statistic represents Chi2 (for 3SLS and W3SLS) or F statistic (for 2SLS). CPIBH is per capita GDP growth, GDPHI is initial GDP per capita, INE is income inequality (GINI), ODA is official development aid as% of GDP, FDI is foreign direct investment as% of GDP, DELT is the long-term public debt as a% of GDP, INV is domestic investment, OUV is trade opening, TSS is the secondary school enrollment rate, finally INF is the inflation rate.

a) Growth equation

In this equation, the influence of the variables of interest i.e. ODA, FDI, DELT and inequalities as well as the other determinants (control variables) of growth are presented in the table (Table 4). The results show that ODA, FDI and DELT all have a positive and significant effect in the first two estimation methods with practically stable coefficients. Thus, an increase in these capitals, by one point respectively, would result in an increase in per capita GDP growth of 0.21, 0.07 and 0.47 point respectively (2SLS) then 0.28, 0.07, 0.49 point (3SLS). Moreover, the effects of these capitals are not significant in the last estimation method, except for that of the DELT, which remains significant. These findings are identical to those found by Wade (2014) who

reported that public debt stimulates economic growth in WAEMU countries, especially when its level is below a threshold estimated at 48%.

Overall, foreign capital taken as a whole has a positive effect on growth because it contributes to strengthen national investments, true machines of endogenous growth models. The variable "income inequality" is statistically insignificant; however, the test results for the linear effects assumption are positive. Thus, as expected, an increase of the GINI index by 1 point would decrease the growth of 0.029 point in the method (2SLS), 0.041 point in the method (3SLS) and 0.072 point in the method (W3SLS). These results are consistent with several empirical works. Indeed, Forbes (2000) found that the effect of inequalities on growth is equal to 0.0036; Deininger and Squire (1998) reported that it is equal to 0.047 and Mbabazi et al. (2002) found that it is at most 0.04. Moreover, Lahimer (2009) estimated that this effect is 0.63 points for sub-Saharan Africa countries.

Yet, these studies, with the exception of Lahimer (2009), deal with heterogeneous panels with different biases. In this context, simple control by dummy variables is not enough to control the structural effects. Our result is therefore more in keeping with the particular case of West African countries.

In short, we find from our estimates that income inequality is a determinant of growth, reason why we are now analyzing its determinants and their relationships with foreign capital, growth, and institutions.

b) Equality inequality and the Kuznets hypothesis applied to the countries of the sample

This equation attempts to test three types of effects: the effects of institutional variables, the effects of foreign capital, and the effects of growth on inequality. The third effect itself includes two eventualities, namely, linearity and nonlinearity.

In developing countries, the institutional characteristics explain much of the income is distributed to the population.

Table 5: Estimation of the determinants of the inequality equation - Dependent variable: INE

Variable	Growth and CAPETR			Growth without CAPETR			CAPETR without growth		
	2SLS (1)	3SLS (2)	W3SLS (3)	2SLS (4)	3SLS (5)	W3SLS (6)	2SLS (7)	3SLS (8)	W3SLS (9)
CONS	39.4*** (3.07)	38.9*** (5.76)	37.08** *	42.3*** (5.21)	49.1** *	24.9** *	32.4** *	39.7** *	41.5*** (6.99)
CPIBH	-0.18** (-2.06)	0.22*** (3.17)	(6.73) -0.30**	-0.28 (-1.06)	(5.26) -0.22*	(3.47) -0.19	(4.98) -	(7.10) -	-
ODA	-0.235 (-1.42)	-0.241* (-1.87)	(-3.07) -0.35*	-	(-1.89)	(-1.70)			0.36 (1.24)
FDI	0.91** (2.12)	0.89*** (5.02)	(-0.96) 0.78***	-	-	-	(0.97) 0.153*	(1.48) 0.235	0.243 (0.81)
DELT	0.48*** (2.96)	0.47* (1.90)	(3.92) 0.49***	-	-	-	(1.92) 0.290	(0.91) 0.23	0.39 (1.42)
PIBH	0.07*** (3.09)	0.08*** (2.93)	(3.05) -0.06	0.042* **	-	-	(1.07) 0.08**	(1.51) 0.09**	-
PIBH ²	0.51*** (-3.12)	-0.89*** (-4.69)	(-1.42) 0.638	(3.35) -	0.05** (3.45)	-0.037 0.72	(-1.21) (1.51)	* -2.01**	* -1.9***
IPC	0.013** (2.15)	0.019*** (3.17)	(1.72) 0.014**	0.79*** (-3.03)	0.62** (2.02)	(1.51) 0.06**	-2.01** (-2.58)	-1.9*** (-3.51)	(2.59) 0.71***
			*	0.02 (1.57)	0.031 (0.81)	*	0.071 (0.81)	0.05** (2.03)	(3.24)
RMSE	1.197	1.040	0.980	1.152	1.423	1.391	1.039	0.9751	0.960
Statistic	21.95	38.12	39.77	19.51	31.74	25.75	29.31	48.05	41.53
(Prob)	(0.005)	(0.000)	(0.000)	(0.002)	(0.00)	(0.000)	0.007	(0.000)	(0.000)
R ²	68.77%	71.03	69.08	71.41%	74.20 %	72.14%	85.12%	)	)
Obs	130	130	130	130	130	130	130	130	130

*, ** and *** refer to 10%, 5%, and 1% significance levels, respectively. Figures in brackets represent z-statistics.

Note: INE is income inequality (GINI), CPIBH is GDP per capita growth, ODA is official development assistance as % of GDP, FDI is foreign direct investment as % of GDP, DELT is the public debt long-term as % of GDP, GDPH is GDP per capita, GDPH2 is the square of GDP per capita, CPI is the perception index of corruption.

According to the estimation table of the inequality equation (Table 5), an increase in the corruption index by one point would imply an increase in inequalities of 1.3 points according to the 2SLS method (column 2) and 1.9 points according to the 3SLS method (column 9). The robustness of our results is confirmed by the relative constancy of the CPI coefficients estimated by the three different methods. In fact, corruption directly affects interactions among economic agents such as contract fulfillment, property rights, administrative procedures and the functioning of the public sector. The results clearly show that a reduction in corruption is synonymous with greater equality in access to opportunities. Thus, the reduction of corruption is one of the arguments in favor of a fairer redistribution and likely to favor the reduction of inequalities.

Moreover, against all odds, foreign capital (with the exception of ODA) reinforces inequalities. Indeed, the FDI and DELT coefficients are positive and significant in the three estimation methods; this confirms their robustness. Thus, a respective increase of one point of debt and FDI would increase respectively between 4.8 points (column 1) and 4.9 points (column 3) and between 8.9 points (column 2) and 7.8 points (column 3) of the coefficient from GINI. Such a result seems to be confirmed by economic theory which shows that foreign capital is likely to increase inequality in host countries by favoring sectors with a revealed comparative advantage over others and relatively skilled labor, compared to the non-qualified. The results also show that ODA attenuates (but not significantly) inequalities. This may be due to the fact that in recent years many projects and programs in sub-Saharan African countries have been funded by ODA. According to Development Assistance Committee statistics (CAD-2013), bilateral projects, programs and technical cooperation in support of development accounted for 58.67% of net total ODA. Thus, the execution of these projects, especially in rural areas, contributes significantly to the reduction of inequalities, taking into consideration the beneficial effect of humanitarian aid, which is a component of the ODA.

Overall, it appears that foreign capital has a positive effect on income inequality. However, these regressions would contain a high risk of endogeneity between growth and CAPETR foreign capital. According to the results, the sum of the estimated coefficients of the four variables is not significant (close to one). To control this risk of endogeneity and verify the robustness of the CAPETR coefficients, we remove the growth of the equation (columns (7), (8) and (9)). As a result of this change, the effects of CAPETR on inequality remain positive but lose in terms of magnitude and even significance. Also, the internal characteristics of the countries that make up our sample are perceptible in their redistribution and adjustment processes because the CAPETR coefficients are more negligible and insignificant in the W2SLS method (short term).

The effect of growth on inequalities is tested in two ways: the direct effect through the test of GDP per capita growth and the quadratic effect through the introduction of GDP per capita (GDPH) and its square $[(\text{GDPH})^2]$. The first hypothesis test shows that an increase in per capita GDP growth of one point would be followed by a decrease in inequality of about 2.2 percentage points. However, in the absence of foreign capital, the coefficient of growth loses its significance. In the latter case, an increase in the average income growth rate of 1 point would reduce inequality by 2.5 percentage points. According to Mbabazi and Morrissey (2002), growth reduces inequality by coefficient equal to 0.8, especially when controlling estimates by a dummy variable indicating sub-Saharan Africa.

Finally, our model has made it possible to better explain inequalities with a variability that is more than 68% translated in the three estimation methods while that of growth is explained to 71%. However, it is important to test Kuznets' (1955) hypothesis that the relationship between inequality and average income forms an inverted "U" curve.

Moreover, the hypothesis of the economist Simon Kuznets (1955) assumes that inequality in the distribution of a country's income evolves during its economic development according to a U-shaped inverted scheme: it increases in a first time, then stabilizes and eventually decreases. The results of our estimates show that the quadratic relationship between GDP per capita and the GINI coefficient is reversed in the W3SLS method and confirmed in the 2SLS and 3SLS methods. Indeed, the coefficient of GDP per capita is positive and significant while the sign of the coefficient of its square is negative and significant.

c) Equation of poverty

The ultimate purpose of this research is to estimate the equation of poverty. Indeed, the analysis of the poverty equation completes the analysis of the model. Table 6 summarizes the estimation results. Hence, the effects of per capita GDP growth on poverty are mixed. In fact, according to the 3SLS method, growth is followed by a decline in poverty in the countries of our sample.

However, the W3SLS method transforms the growth coefficient into a positive coefficient, showing that in the short term an increase in growth is synonymous with an increase in poverty. Against all odds, according to the 2SLS and 3SLS methods, foreign capital would increase poverty. On the flip side, the application of the W3SLS method leads to a contrary result.

Tableau 6: Total Effect of CAPETR on Growth, Inequality and Poverty

Estimation methods	2SLS (1)	3SLS (2)	W3SLS (3)
1-Model with growth and CAPETR			
1.1- Total effect on growth $(\hat{\alpha})$	0.392	0.369	0.358
1.2- Total effect on inequality $(\hat{\pi})$	0.746	0.794	-0.806
1.3- Total effect on poverty	3.719	5.083	2.891
2-Model with growth only			
2.1- Total effect on growth $(\hat{\alpha})$	0.285	0.293	0.207
2.2- Total effect on inequality $(\hat{\pi})$	-0.052	-0.063	-0.081
2.3- Total effect on inequality	0.351	0.338	0.095
3- Model with CAPETR only			
3.1- Total effect on growth $(\hat{\alpha})$	0.358	0.371	0.396
3.2- Total effect on inequality $(\hat{\pi})$	0.526	0.581	0.049
3.3- Total effect on inequality	6.834	7.546	6.908

Source : Author, tables of author estimates

Note: The total effects of CAPETR on poverty, growth and inequality are calculated from the estimates found in Tables 3, 4 and 5 and using respectively the formulas: (4), (5) and (6). As a reminder, the total effect of CAPETR on poverty is equal to, in this framework, i) the total effect of CAPETR on poverty through growth and ii) the total effect of CAPETR on poverty across inequalities. Finally, it is the direct effect of CAPETR on poverty.

In this context, we suspect the presence of a strong endogeneity between growth and foreign capital. We then proceed to a separate test between the effects of growth and those of foreign capital on poverty in order to control the robustness of the results.

Following this test, the influence of growth on the incidence of poverty becomes positive but not significant in all regressions. That of foreign capital remains positive and significant with the 3SLS and W3SLS methods and not significant in the 2SLS method. These results indicate that the direct effects of growth and foreign capital on poverty reduction in sub-Saharan Africa appear to be fragile and inconsistent in their entirety. The analysis of the effect of inequality on absolute poverty shows that they are positive and significant in all regressions with all methods. Thus, a 1-point increase in the GINI coefficient would increase the incidence of poverty by 0.25

points to 0.93 points according to different estimation methods. It is therefore doubtful that the most effective way of reducing poverty in sub-Saharan Africa, and particularly in the countries in our sample, is certainly the reduction of inequalities through a better redistribution of wealth.

In line with our expectations, unemployment statistically and significantly increases poverty in all regressions, while education negatively influences the poverty rate. In fact, sufficient education is synonymous with the creation of new skills, know-how and skills that are essential for an adequate integration into the labor market. Such a result revives the debate about the importance of human capital.

In fact, our simultaneous equations model allows evaluating the direct effects and the total effects of each variable on the variable of interest. Hence, we recognize that CAPETRs affect growth which in turn affects inequality and poverty. Similarly, CAPETRs directly affect the inequalities and poverty that affect growth. In order to evaluate the total effect of CAPETR on the growth, inequality and poverty triangle, all of its interactions should be taken into account. These effects are determined from the reduced model of the set of estimated equations. As such, the total CAPETR effect on poverty breaks down into three effects, two of which are indirect through growth and inequality respectively, and one direct. The final result is a function not only of the sign and magnitude of each effect, but also of the importance of each of these factors in the poverty equation. Table 6 summarizes the results by showing the total effect of CAPETR on growth, inequality and poverty, taking into account different assumptions and different estimation methods.

d) Foreign capital and dynamic growth, inequality and poverty reduction

Overall, the results indicate that CAPETRs in the countries in our sample do not contribute to poverty reduction; on the contrary, they would aggravate pre-existing situations in the short and medium term. Such a result remains unchanged even when structural differences among the countries in the sample (W3SLS) are neglected.

However, although estimates in all methods indicate that CAPETRs stimulate economic growth, they show that the total effect of these CAPETRs on poverty reduction is positive but very low. It is clear that the CAPETR appears in the medium term to widen inequalities further and apparently worsen poverty in the countries of our sample. In fact, it seems that the scale of inequality significantly decreases the potential for reducing poverty through growth.

The result obviously indicates in cases where the total effect of CAPETR on inequalities is negative, their total effect on poverty decreases and varies between 0.095 and 0.351 [line (2.2) and (2.3)]. Therefore, this once again insists on the determinism of income distribution in poverty reduction. Moreover, when the estimates show that the CAPETR aggravate the inequalities [line (3.2)], the total effect of the latter on poverty would increase and vary between 6.83 and 7.546 depending on the estimation method and the assumptions used.

The results indicate that economic growth may not automatically lead to poverty reduction. The economic growth negatively affects poverty in the long run, only when it leads to a redistribution of income for the benefit of the poorest.

4. Conclusion

This study aimed to examine the role of foreign capital on growth, inequality and poverty reduction policies in ten (10) West African countries over the period 2000-2014. Empirical analyses were conducted on panel data over fourteen (15) years and several important results in development policies in West Africa were found. Indeed, the study revealed that the effects of foreign capital on poverty are subdivided into two main components.

The first component shows that foreign capital favors the fact that foreign capital contributes to the increase of overall welfare when promoting economic growth. Truly, the model shows that this effect is robust. However, it is difficult to envisage the existence of a technology transfer or other positive impact on local businesses due to the isolation of foreign capital in the panel countries.

The second component indicates that foreign capital taken as a whole affects the reduction of poverty through its effects on distribution of income. Hence, the model shows that foreign capital directly favors the increase of inequalities in the short and medium term (Kuznets effect). However, corruption, political instability and the emergence of social conflicts are likely to increase inequalities and delay the reduction of poverty.

In addition, growth, inequality and poverty affect each other. Foreign capital seems to be a major factor of growth; however, the benefits of this growth do not seem to be significant enough to generate positive growth or at least to offset the negative effects of foreign capital by acting effectively and quickly on the economy.

It is therefore clear that the effect of growth on poverty is much more complex than it theoretically appears, especially since its effects on poverty are both negative and positive depending on the period. In all cases, income growth affects long-run inequalities in a non-linear or inverted U-shaped relationship. There is then an increase of inequalities in the first stages of growth to fall after reaching the turning point of the Kuznets curve. Finally, the effects of capital depend very much on the characteristics of each country and the sectors in which foreign capital intervenes.

In sum, the total effect of foreign capital on poverty depends on three factors: (1) the effects of foreign capital on growth and inequality; (2) the double causality between growth and inequality; (3) the income elasticity of the poor relative to changes in average income and distribution. The conclusions of the analysis of the effects of foreign capital conflict with the generally accepted notion that foreign capital produces automatic effects. On the other hand, reducing inequality is an effective policy for reducing poverty.

It should be noted that foreign capital tends to increase the incidence of poverty in West African countries, especially when the outcomes of growth are not distributed to the entire population.

On the contrary, the significant presence of foreign capital strengthens the socio-economic systems of host countries and increases the risks of marginalization, exclusion and conflict.

This analysis challenges African countries in their policies to reduce inequality and poverty. Complementary policies are then required to achieve sustainable levels of inequality. Indeed, the existence of a rule of law that promotes social equity on one hand and growth through investment on the other hand. We also believe that these countries must prioritize their investments in so-called social sectors such as education and health because the current situation of emerging countries, such as China, shows that foreign capital is not just looking for raw materials but also attracted by the human capital endowment in R&D. The more this sector is developed in an economy, the more this economy has the chance to attract foreign capital and capture more technology.

Further, investors can increase the impact of foreign direct investment on development in developing countries by improving investment conditions, both domestically and internationally; especially by reinvesting the benefits of these investments in developing countries and in basic social infrastructure sectors. It is also important to reflect on the potential function of ODA as a source of counter-cyclical financing to cushion the impact of the instability of other components of foreign capital.

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