

## **Effect of Terrorism on Foreign Direct Investment in Burkina Faso**

### **Impact du Terrorisme sur les Investissements Directs Etrangers au Burkina Faso**

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### **Abstract:**

This article examines the effects of terrorism on foreign direct investment (FDI) flows to Burkina Faso. The study uses data for the period 2015 - 2018, collected from the Global Terrorism Database and the World Bank. Using ordinary least squares (OLS) technique for data analysis, two models have been tested. Model 1 tests the immediate effect of terrorism on FDI flows. As for model 2, it takes into account the lag and is based on the principle that the effect of terrorist attacks is not immediate on FDI flow. The results of the two models show that terrorism does not explain the changes in FDI inflows to Burkina Faso over the period 2015 - 2018. But the study has important limitations: the sample size is very small for a matter of data availability. In addition, the models used do not take into account the media echo of terrorist attacks. This can be explained by a difficulty in quantifying this variable. However, despite these limitations and the results obtained through ordinary least squares (OLS) technique, it has been recognized that terrorist activity is a real obstacle to the country's economic growth. On the basis of this conclusion, recommendations and avenues for future research were highlighted.

**Keywords:** Terrorism, FDI, Burkina Faso, Casualties and Injuries, OLS

**JEL Classification:** F21, F23, H56, O55

**Paper type:** Empirical research

### **Résumé :**

Le présent article examine les effets du terrorisme sur les flux d'investissements directs étrangers (IDE) au Burkina Faso. L'étude utilise des données pour la période 2015 - 2018, recueillies dans la base de données sur le terrorisme mondial et auprès de la Banque mondiale. Deux modèles ont été testés en utilisant la technique des moindres carrés ordinaires (MCO) pour l'analyse des données. Le modèle 1 teste l'effet immédiat du terrorisme sur les flux d'IDE. Quant au modèle 2, il prend en compte le retard et repose sur le principe que l'effet des attaques terroristes n'est pas immédiat sur les flux d'IDE. Les résultats des deux modèles montrent que le terrorisme n'explique pas l'évolution des flux d'IDE au Burkina Faso sur la période 2015 - 2018. Mais l'étude présente des limites importantes : la taille de l'échantillon est très limitée pour une question de disponibilité des données. En outre, les modèles utilisés ne tiennent pas compte de l'écho médiatique des attaques terroristes. Cela s'explique par une difficulté de quantification de cette variable. Cependant, malgré ces limites et les résultats obtenus par la technique des moindres carrés ordinaires (MCO), il a été reconnu que l'activité terroriste est un véritable obstacle à la croissance économique du pays. Sur la base de cette conclusion, des recommandations et des pistes de recherche pour l'avenir ont été mises en évidence.

**Mots clés :** Terrorisme, IDE, Burkina Faso, Décès et blessures, MCO

**Classification JEL:** F21, F23, H56, O55

**Type d'article:** Recherche empirique

## **1. Introduction:**

After the popular insurgency of 2015, Burkina Faso has faced a series of terrorist attacks, each as violent as the last. Hitherto unaffected by the actions of terrorist groups operating in the region, the country has become a prime target. These attacks have an impact on the economic health of the territory. The cost of terrorism in general is difficult to determine, however, according to the US Congress, Joint Economic Committee (2002), the costs of terrorist activity in a country can be divided into 4 categories. Firstly, domestic capital stock (both human and physical) is lowered as a result of terrorist attacks. Second, the terrorist menace leads to higher degrees of uncertainty. Third, terrorism leads to more expenditure on counterterrorism, drawing resources from the productive sectors into security. Finally, terrorist attacks adversely influence certain particular sectors, such as tourism. As Kinyanjui (2014) points out, terrorism also raises the costs of doing business through higher insurance premiums, which increases the costs of security and reduces the attractiveness of foreign investment.

As a developing country, Burkina Faso needs foreign investment to finance and initiate the development of his economy. As a target of the terrorist attacks, foreign investors will be hesitant to invest in the country. Sandler and Enders (2004) propose a definition of terrorism as a calculated and deliberate use of violence to achieve a political objective through intimidation or fear. This fear repels investors who view the country as risky. As highlighted by some authors such as Collier et al. (2003), terrorist attacks affect the economy by rerouting foreign direct investment (FDI), destroying the infrastructure, and misdirecting government investments into security.

The objective of this paper is to study the impact of terrorism on inward FDI flows into Burkina Faso. This study follows a positivist approach in the sense that we will have no influence on the object of our study.

As a third world country, the country has been suffering from the consequences of terrorism since the major attack in the capital Ouagadougou during 2015. This terrorist attack, which was one of the deadliest in the country's history, claimed thirty victims, including six Canadians and five Europeans. In December 2019, a double attack in Arbinda in northern Burkina Faso killed 35 civilians - including 31 women - and 7 others in the security forces. Attacks of this type have been a regular occurrence in the country since 2015. There is therefore no doubt that all these attacks have affected Burkina Faso's economy in one way or another. Using data on terrorist attacks and FDI inflows into the country between 2015 and 2018, this paper hence seeks to determine the effect of terrorism on FDI inflows into Burkina Faso.

This paper is organized as follows: Section 2 provides an extensive review of the previous literature on the subject, followed by a discussion of the research methodology and data in Section 3. Section 4 is about the presentation and discussion of the empirical results and section 5 concludes this work.

## **2. Literature review and hypothesis development:**

Research on the impact of terrorism on the economy and on inward FDI in a territory has a long history. Several authors have worked on the subject. The results of these studies agree that terrorism deteriorates the investment climate and results in huge costs to the economy. The effect of terrorism on capital flows has been studied by Enders and Sandler in 1996. They found that there is a negative effect of terrorism on FDI in two selected countries namely Spain and Greece. Later in 2006, Enders et al. noted that the terrorist attacks on U.S. interests in OECD countries have substantially diminished the stock of U.S. direct investment.

Larrain and Tavares (2004) look at the costs of terrorist violence in developing countries. They concluded their studies by suggesting that terrorist violence in a country has a negative impact on that country's economic growth.

Filer and Stanišić (2012) have attempted to analyze the effect of terrorist attacks on capital flows. Taking data from 160 countries over 25 long years, they found that there is a significant inverse effect of terrorism on FDI.

Shahbaz et al. (2013) researched the connection between terrorism and FDI in Pakistan. Their findings show that as terrorist violence rises, foreign investor confidence declines, indicating that there is a negative correlation between foreign investor confidence and terrorist activities.

Ullah and Rehman (2014) study correlation between FDI and terrorist. As a measure of the terrorism indicator, they used the number of terrorist attacks, injuries and deaths. The authors used monthly data and Johanson's Co-integration technique to determine the relationship between FDI and terrorism. The results of the study indicated that there is an inverse relationship between the EDI and terrorist violence in Pakistan. Employing yearly time series data over the period 1980 to 2015, Ali et al. (2017) conclude that FDI has a significant negative relationship with deaths and injuries related to terrorist attacks while terrorist events have no long-term relationship with FDI. This reflects the fact that deaths and injuries that occur due to terrorist activities significantly affect the flow of foreigners into Pakistan.

Kinyanjui (2014) uses secondary data on terrorist attacks and FDI from 2010 to 2012 and a multiple regression model to find that terrorist activities have a negative impact on FDI in Kenya. According to Kinyanjui, terrorist activities reduce the confidence of foreign investors, which in turn reduces FDI.

Morisson et al. (2016) reviews the effect of terrorist activities on foreign direct investment in five selected countries in Africa. The primary objective of the study was to determine whether or not terrorism in its various facets impacted FDI in the participating economies. They use secondary data collected from two major international databases: UNCTAD's World Investment Report (WIR) and the Global Terrorism Database (GTD). Applying Ordinary Least Squares (OLS) regression analysis, they concluded that terrorism has a significant effect on FDI. Thus, the increase in terrorist activities has a tremendous negative influence on the inflow of foreign investment.

Kechagia et al. (2017) discuss the relation between FDI and terrorism in some Asian countries for the period 1996 to 2015. The original contribution of the study consists mainly in the fact that it includes both deaths and injuries resulting from international terrorist attacks and that it is not limited to the case of a single country. They find that terrorism has a negative impact on the FDI flows of the countries studied.

Ukwueze et al. (2019) investigate whether there is a correlation between terrorist threats and FDI in Nigeria. They use the Autoregressive Distributed Lag (ARDL) approach and conclude that the terrorist attacks have significant negative impacts on FDI in Nigeria.

Zakaria et al. (2019) explore how terrorism affects economic growth in Pakistan. For their empirical analysis, the researchers use annual data for the period 1972-2014 and the Generalized Method of Moments (GMM) technique to assess the influence of terrorism on economic growth in Pakistan. They notice a detrimental impact of terrorist attacks on FDI.

Taken as a whole, most studies on the relationship between terrorism and FDI show a negative impact and *this will be our principal research hypothesis*. Our contribution will be to test this hypothesis in the context of Burkina Faso, a country that has long been spared from terrorist attacks until 2015.

### 3. Research method or methodology

#### 3.1. Research models et hypotheses

This study aims to study the impact of terrorist attacks on FDI inflows into Burkina Faso. To do so and following a positivist epistemological approach, this paper uses a linear model in which the number of terrorist attacks and FDI flows are linked. The positivist epistemological approach separates the subject from the object of knowledge, and develops a deterministic process, characterized by the predictability of the knowledge to be acquired, in the logic of the reproduction of predetermined models.

The dependent variable in this study is foreign direct investment (FDI) from Burkina Faso and the independent variable is terrorism. FDI is measured by the net inflow of foreign direct investment in dollars into Burkina Faso and terrorism is measured by the number of terrorist attacks. Data on terrorist attacks come from the Global Terrorism Database (GTD) and FDI data are collected from the World Bank.

The alternative and null hypotheses of this paper are:

- Ho: there is no link between terrorism and foreign direct investment in Burkina Faso
- H1: There is a connection between terrorism and foreign direct investment in Burkina Faso.

$$\text{Model 1: } FDI = a + \beta \text{Terrorism} + \varepsilon$$

$a = \text{Constant}$ ,  $\varepsilon = \text{Error term}$  and  $\beta = \text{Coefficient}$ .

This model will be the basis of the present work. Nevertheless, assuming that the effect of terrorism on inward FDI flows is not immediate, a second model will take into account the lagged effect of the "Terrorism" variable on the "FDI" variable. This second model is presented as follows:

$$\text{Model 2: } FDI_n = a + \beta \text{Terrorism}_{n-1} + \varepsilon$$

- $FDI_n$  = inward FDI flows to Burkina Faso for year n.
- $\text{Terrorism}_{n-1}$  = number of terrorist attacks in Burkina Faso in year n-1.

These two models (Model 1 and Model 2) will be tested separately and each result will be reported.

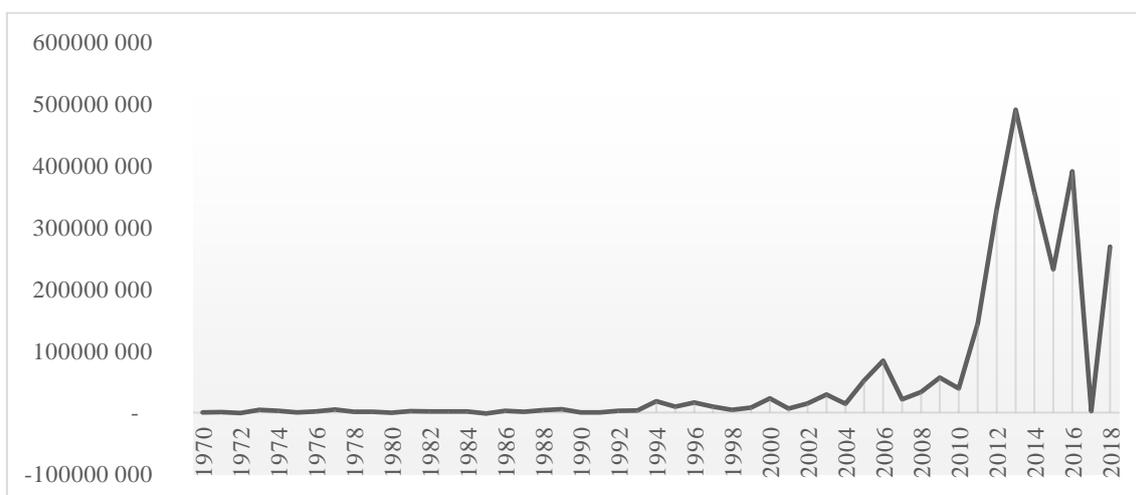
#### 3.2. Data and description

This paper studies the effect of terrorism on FDI inflows into Burkina Faso over the period from 2015 to 2018. The choice of this period is obvious since the first major terrorist attacks in the country took place in 2015. The dependent variable in this study is the FDI inflows into Burkina Faso and the independent variable is terrorism (number of attacks).

- **Dependent Variable: Foreign Direct Investment in Burkina Faso**

A graphical analysis shows that there are two phases in the evolution of FDI in Burkina Faso.

**Graph 1:** Evolution of FDI in Burkina from 1970 - 2018.



**Source:** Author's calculations based on World Bank data.

The first period is characterized by a stagnation of FDI flows at a significantly insignificant level. On graph 1, this situation is illustrated by a curve that tends to merge with the x-axis, thus indicating a marginal inflow of FDI into Burkina Faso during this period. This period runs from 1970 to 1991. From 1960 to the early 1990s, Burkina Faso adopted an economic model based on the development of public enterprises in many business activities, leaving relatively limited possibilities for private sector intervention. During the period 1960-1990, the country experienced a period of relatively continuous but erratic growth, characterized by internal and external imbalances and some episodes of recession. During this period the country struggled to convince and attract foreign investors (UNCTAD, 2009).

From 1991, the curve begins a fluctuating growth that continues until 2018. Nevertheless, a considerable decline in FDI inflows to Burkina Faso is noted in 2017. It can be assumed that this decline is caused by the security crisis that has affected Burkina Faso since 2015. However, in 2018, inward FDI flows resume their upward trend to reach 268 million dollars. The second phase in the evolution of FDI flows, which began in 1991, corresponds to the period when Burkina Faso embarked on a process of structural adjustment. This process sought and resulted in an increased role for the private sector in the Burkinabe economy, including through a privatization program. 50 percent devaluation of the CFA franc in 1994 improved the competitiveness of the economy and led to an adjustment of relative prices (UNCTAD, 2009). All these combined efforts have helped to attract private enterprises to Burkina Faso. This general upward trend in flows is set to continue until 2018, even if the security crisis that the country is experiencing is a real break.

- **Independent Variable: Terrorism in Burkina Faso**

Since 2015, Burkina Faso is affected by a series of terrorist attacks that have put the country in an unprecedented security crisis.

Of the 118 terrorist attacks listed by the Global Terrorism Database (GTD) for the period 2015 - 2018, 54% of the attacks took place in the Sahel Region and 21% occurred in the east. These are the two regions most affected by the attacks as shown in Table 1 below.

**Table 1:** Regional distribution of terrorist attacks in Burkina Faso from 2015 to 2018.

Region	Numbers of attacks	%
<b>Sahel</b>	64	54%
<b>East</b>	25	21%
<b>Center</b>	10	8%
<b>Mouhoun</b>	9	8%
<b>Center-North</b>	5	4%
<b>Southwest</b>	2	2%
<b>Unknown</b>	1	1%
<b>Cascades</b>	1	1%
<b>Center-East</b>	1	1%
<b>Haut-Bassins</b>	64	54%
<b>Total</b>	<b>118</b>	<b>100%</b>

**Source:** Author's calculations based on GTD data.

Concerning the target of terrorist groups, analysis of GTD data shows that the Burkinabe military and police are the primary targets of terrorist attacks, with 43% of recurrence. Business facilities (Business) only come in fourth place. Generally speaking, it should be noted that public and government services are the most targeted, as well as civilian citizens, as shown in Table 2.

**Table 2:** Target of terrorist attacks in Burkina Faso from 2015 to 2018.

Target Type	Number of attacks	%
<b>Police &amp; Military</b>	65	43%
<b>Private Citizens &amp; Property</b>	26	17%
<b>Government (General)</b>	24	16%
<b>Business</b>	16	11%
<b>Educational Institution</b>	13	9%
<b>Religious Figures/Institutions</b>	3	2%
<b>Government (Diplomatic)</b>	2	1%
<b>Journalists &amp; Media</b>	1	1%
<b>Other</b>	1	1%
<b>Terrorists/Non-State Militia</b>	1	1%
<b>Total</b>	<b>152</b>	<b>100%</b>

**Source:** Author's calculations based on GTD data.

*Note:* The Global Terrorism Database (GTD), an open-source database containing details on terrorist attacks around the world since 1970. It should therefore be noted that the data is not complete and may therefore lack accuracy in some places.

- **Research Data**

For this study, which seeks to explore the impact of terrorism on FDI in Burkina Faso, the period 2015 - 2018 was selected. The data for the study are as follows:

**Table 3: Terrorist attacks and FDI in Burkina Faso from 2015 to 2018**

Year	FDI in millions of dollars	Terrorism		
		Number of Attacks	Deaths	Injuries
2015	231,9	6	16	132
2016	390,6	10	62	40
2017	2,5	32	53	45
2018	268,4	70	116	131

Source: Author's calculations.

## 4. Results and discussion

### 4.1. Regression results for model 1

The study employed Ordinary Least Squares (OLS) to estimate the extent and coefficient of the link between terrorism and foreign direct investment flows. To determine the effect of terrorist activities on foreign direct investment, linear regression analysis was conducted, the results of which are presented below.

**Table 4: Model 1 Summary**

F	Prob>F	R Squared	Adj. R Squared	Root MSE
0.21	0.6891	0.0966	-0.3550	2.7613

Source: Author's calculations.

The R-squared in Table 4 shows that the independent variable (terrorist attack) explains only 9.66 percent of the FDI variation. The 90.34% is therefore explained by other factors that need to be determined. The results suggest that terrorism does not significantly affect FDI in Burkina Faso over the period 2015 - 2018.

**Table 5: Regression results for model 1**

Source	SS	df	MS
Model	1.63129904	1	1.63129904
Residual	15.2498854	2	7.62494268
Total	16.8811844	3	5.62706147

FDI	Coefficients	Std. Errors	t	p-value
Terrorism	- 0.6628581	1.433085	- 0.46	0.689
Constant	20.26025	4.450263	4.55	0.045

Source: Author's calculations

The regression results show that the p-value of the F-statistics is greater than 0.01, 0.05, and 0.1. It is actually 0.689. This implies that the independent variable (terrorism) does not explain the variation in the dependent variable (FDI).

This analysis shows that the terrorist attacks experienced by Burkina Faso since 2015 do not have a significant influence on inward FDI in the country. The results of this analysis are inconsistent with the findings of other authors such as Shabhbaz et al. (2012), Kechagia et al. (2017), Morisson et al. (2019), Onanuaga et al. (2019) and Polyxeni and Theodore (2020). These authors established in their research that there is a significant negative link between terrorism and inward FDI flows into a country. However, the results of this paper are in accordance with the findings of Radic et al. (2019), who have found in their work that the adverse relationship between terrorism and FDI is a debatable matter.

#### 4.2. Regression results for model 2

The second model aims to test the effect of terrorism on FDI by taking into account the lag. This model assumes that the effect of terrorist attacks on FDI inflows into a country is not necessarily immediate.

**Table 6: Model 2 summary**

<b>F</b>	<b>Prob&gt;F</b>	<b>R Squared</b>	<b>Adj. R Squared</b>	<b>Root MSE</b>
0.18	0.7138	0.0819	-0.3771	2.7672

*Source: Author's calculations.*

The R-squared in Table 6 shows that the independent variable (terrorist attack) explains only 8.19 percent of the FDI variation, or almost 1.47% less than in model 1. The 91.81% is therefore explained by other factors that need to be determined. The results of model 2 suggest that terrorism does not significantly affect FDI in Burkina Faso.

**Table 7: Regression results for model 2**

<b>Source</b>	<b>SS</b>	<b>df</b>	<b>MS</b>		
<b>Model</b>	1.36672902	1	1.36672902		
<b>Residual</b>	15.3144035	2	7.65720173		
<b>Total</b>	16.6811325	3	5.5603775		
<b>FDI</b>	<b>Coefficients</b>	<b>Std. Errors</b>	<b>t</b>	<b>p-value</b>	
<b>Terrorism</b>	0.6067294	1.436114	0.42	0.714	
<b>Constant</b>	16.48499	4.459667	3.70	0.066	

*Source: Author's calculations.*

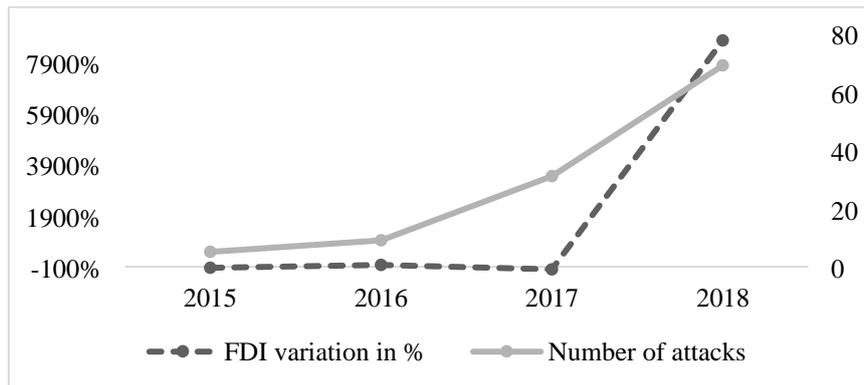
The regression results show that the p-value of the F-statistics is greater than 0.01, 0.05, and 0.1. It is actually 0.714. This implies that the independent variable (terrorism) does not explain the variation in the dependent variable (FDI).

The results of model 2 therefore are consistent with the results of model 1. Although considering the lag, the effect of terrorism on inward FDI in Burkina Faso is not significant.

#### 4.3. Discussion

The regression results (Model 1 and Model 2) in this study are consistent with the FDI data produced by UNCTAD. In fact, one can note that Burkina Faso has always been on the margins in terms of FDI attractiveness. Despite the attacks on the country, FDI flows received over the period 2015 - 2018 remain among the highest received by the country, except in 2017 when the level was low. However, this decline in 2017 is in total agreement with the overall decline in FDI flows over this period. Indeed, according to UNCTAD (2018), worldwide FDI flows decreased by 23% 2017. Graph 2, nevertheless, shows that despite an increase in terrorist attacks in 2018, FDI reached 268 million dollars, even exceeding the 2015 level. Same for the year 2016 where despite an increase in attacks, the level of FDI had increased by 69% compared to 2015 when there were few attacks.

**Graph 2:** Change in FDI inflows vs. Number of terrorist attacks from 2015 – 2018.



**Source:** Author's calculations.

This relative stability of FDI levels despite the security situation is due to the fact that it is the mining sector that attracts most foreign investment to Burkina Faso. Also, the prospecting of additional mining sites is intensifying. (See: <https://www.btrade.ma/fr/observer-les-pays/burkina-faso/investir2?>). Several actions are being undertaken by the government to attract investors through the National Plan for Economic and Social Development (Plan National de Développement économique et Social - PNDES), like the mining code amendment. The PNDES is a program implemented by the government of Burkina Faso covering the period 2016 - 2020. This plan is centered on a commitment to a fresh dynamic of solid, sustainable and inclusive economic growth through a structural transformation of the economy.

In addition, most of the attacks on the country occur in regions where there are very few foreign companies (Sahel and East). Although some foreign structures have been targeted, the data (see table 2) show that the main target of terrorists remains the military and government institutions. Further analysis of the GTD data also reveals that in terms of nationality, the most affected remain Burkinabe at 92% and 8% for all other nationalities. This suggests that foreigners are largely unaffected by the terrorist attacks, which may explain the relative confidence of foreign investors in the Burkinabe economy.

## 5. Summary and conclusions:

The results of this paper emphasize that the terrorist attacks on Burkina Faso have not significantly impacted inward FDI in the country over the period 2015 - 2018. In contrast to the results of other studies, it was found that the variation in FDI inflows recorded by Burkina Faso was not necessarily explained by terrorism. Our alternative hypothesis is then rejected.

This study nevertheless has some limitations that must be taken into account when reading the results. On the one hand, it covered a very limited period of 4 years (2015 - 2018), which may constitute a real limit to the reliability of the results. On the other hand, the data on terrorism remains incomplete since in the analysis of the GTD data some events were not reported, and data collection is limited to the year 2018. This is due to the fact that no official government source maintains a database. And newspaper articles reporting the events are often contradictory. Thus, it is very difficult to have reliable and complete data on terrorism in Burkina Faso currently.

To overcome these limitations, qualitative and quantitative surveys should be carried out among the various potential foreign investors and those present in Burkina Faso to get their perception and feelings on the security situation in Burkina Faso. Also, it would be interesting to take quarterly data into account in a future study in order to better study the subject. Unfortunately, the unavailability of data makes this type of study difficult. Taking into account the media echo of terrorist attacks would be an interesting variable to consider in future

research. The quantification of this variable is a real challenge that deserves the interest of the scientific community.

While the findings of this study show that terrorism does not affect inward FDI in Burkina Faso, it remains undeniable that an unstable security situation is highly detrimental to a territory's economy. Consequently, it is necessary for Burkina Faso to have an effective national defense strategy. In a united front, Burkina Faso will need to work closely with neighboring countries to find a radical solution. The lack of complete data on attacks remains a problem as no decision can be good if it is based on incomplete information. That is another issue that Burkina Faso's decision-makers should address.

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