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Foreign Direct Investment, Financial Inclusion and Economic Performance: The Role of Digital Transformation.

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Abstract

Digital transformation, financial inclusion and foreign direct investment have consistently been viewed as panaceas for African economic development. Evidence on the dynamics of these three transformative drivers in African economies is scanty. This study uses panel data for African countries from 2008–2023 to examine the FDI–financial inclusion–economic performance nexus, and whether digital transformation moderates such relationship. Using vectors of pretest, fixed- and random-effects panel estimators robust to cross-sectional dependence with Driscoll–Kraay standard errors, mean-centred interaction models, System GMM and Dumitrescu–Hurlin panel causality estimations, this study finds that FDI is only conditionally related to economic performance but financial inclusion and digital transformation are unconditional drivers of economic performance in Africa. Digital transformation substitutes for financial inclusion's impact on growth through broadband infrastructure but internet usage does not moderate financial inclusion and growth. Dumitrescu–Hurlin causality tests show bidirectional causality between economic performance, financial inclusion and digital transformation, while unidirectional causality from economic performance to FDI suggest market- seeking investment. This paper extends endogenous growth theory by formalising a system incorporating FDI–financial inclusion–economic growth while providing investment policy direction supportive of financial infrastructure and digital transformation over traditional FDI attraction initiatives.

Keywords: Financial Inclusion, Digital Transformation, Economic Performance, Foreign Direct Investment, Panel Data.