Abstract

The poor performance of most developing countries in inward FDI flows is largely attributed to the scope of government intervention in the economy, weak systems of governance and slow progress integrating into the global economy. Given that there have been low FDI inflows to most developing countries over the past years, it is important to examine what role transparency could play in attracting FDI in East African countries especially Kenya, Uganda and Tanzania. This study seeks to examine the role of public and private sector transparency in explaining inward FDI flows to developing countries. This study intends to examine two types of transparency: public sector transparency and private sector transparency. This was a correlation design where secondary data was collected from various sources for the period 2003 – 2011. The dependent variable was FDI inflows and the independent variables were public transparency and private transparency. A number of macroeconomic variables were also modeled as control variables. The analysis was run with SPSS software using descriptive analysis, correlation analysis, and multiple regression analysis. The study found that private sector transparency had a positive and significant impact on FDI inflows, $p < 0.01$. The study further revealed that public sector transparency has a positive and significant impact on FDI inflows in developing countries, $p < 0.05$. The study concludes that both public and private transparency have a positive and significant impacts on FDI inflows in East Africa. The study also concludes that private transparency has a higher impact on FDI inflows than government transparency in East Africa. The study recommends that developing countries should take advantage of FDI in cross border mergers and acquisitions by providing adequate disclosure of company financial information. Such information improves the ability of investors to evaluate company performance accurately. Host governments can facilitate private sector transparency by providing the requisite legal structure and standardized rules for financial reporting. Either working independently or through regional organizations, an effort should be made to bring financial reporting more into harmony with international practices and make such information an intrinsic part of investment decision-making.