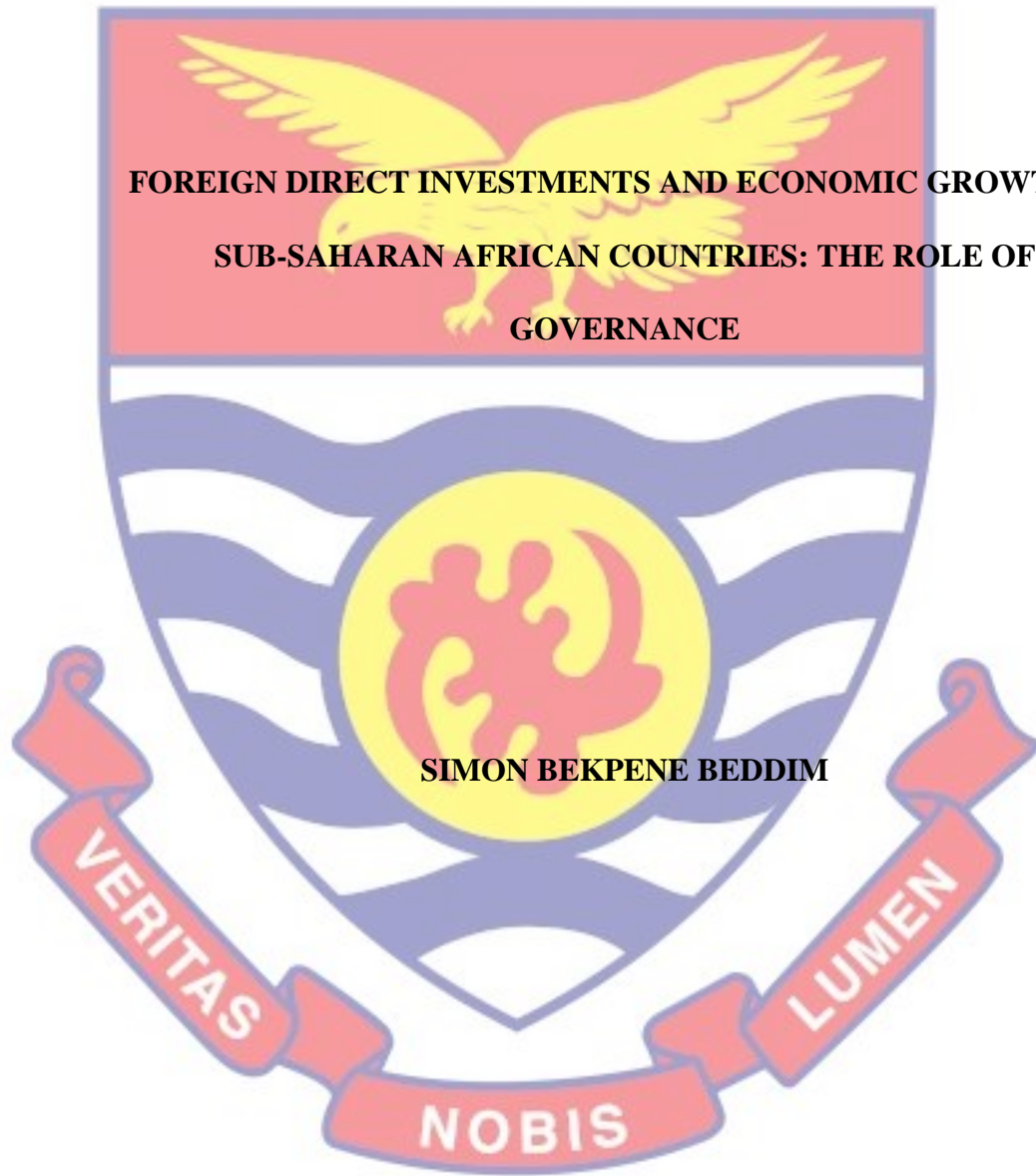


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FOREIGN DIRECT INVESTMENTS AND ECONOMIC GROWTH IN SUB-SAHARAN AFRICAN COUNTRIES: THE ROLE OF GOVERNANCE

BY

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Dissertation submitted to the Department of Finance of the School of Business,
College of Humanities and Legal Studies, University of Cape Coast, in partial
fulfilment of the requirements for the award of Master of Business Administration
degree in Finance

JANUARY, 2023

DECLARATION

Candidate's Declarations

I hereby declare that this dissertation is the result of my own original research and no part of it has been presented for another degree and in this University or elsewhere.

Candidate's Signature..... Date.....

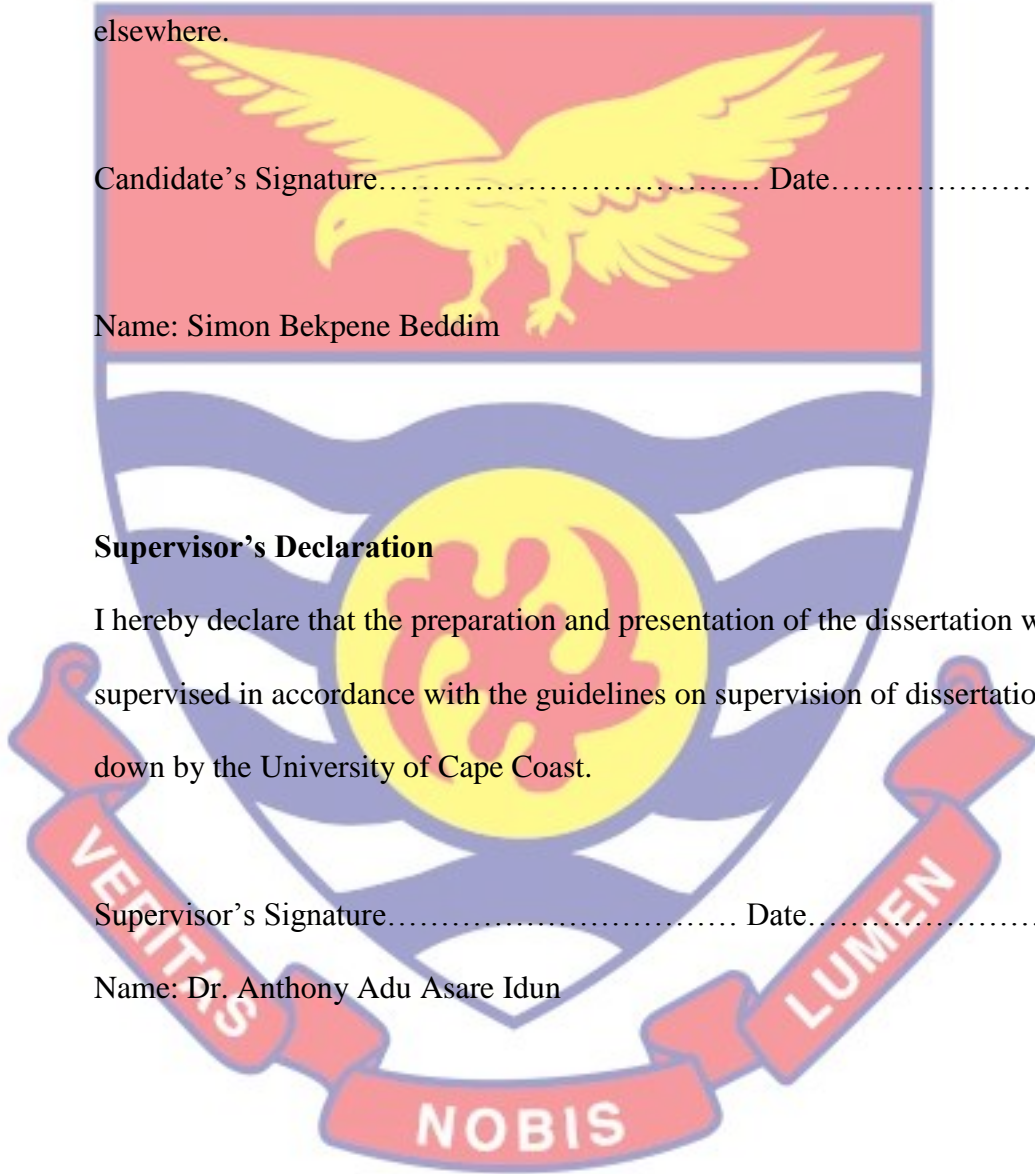
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Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation was supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature..... Date.....

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ABSTRACT

Sub-Saharan African countries have been noted to encounter challenges when it comes to attracting financial flows because of their underdeveloped financial markets and low savings rate which would help speed up the growth of the region.

Countries in the region have resorted to foreign direct investment inflows since extant works have argued that foreign direct investment inflows induce economic growth in the presence of institutions. As a result, the study examined the role of governance/institutions in enhancing the relationship between FDI and economic growth in SSA. The study employed the explanatory design and quantitative research approach and also collected data on 45 SSA countries out of 49 nations in the region. The study utilised the two-step System Generalised Method of Moments estimator to analyse the results. The findings showed that FDI has a significant inverse relationship with economic growth while institutional quality exhibited a positive connection with economic growth. Particularly, all the governance indicators had a significant positive influence on economic growth with the exception of rule of law which had an insignificant impact on growth. The findings further revealed that institutions moderate the relationship between FDI and growth in SSA. The study recommended that SSA countries with limited natural resources should focus on inflows from non-governmental agencies, international organisations or some donor countries other than FDI.

KEYWORDS

Economic Growth

Foreign Direct Investment

Governance

Institutional Quality

Sub-Saharan Africa

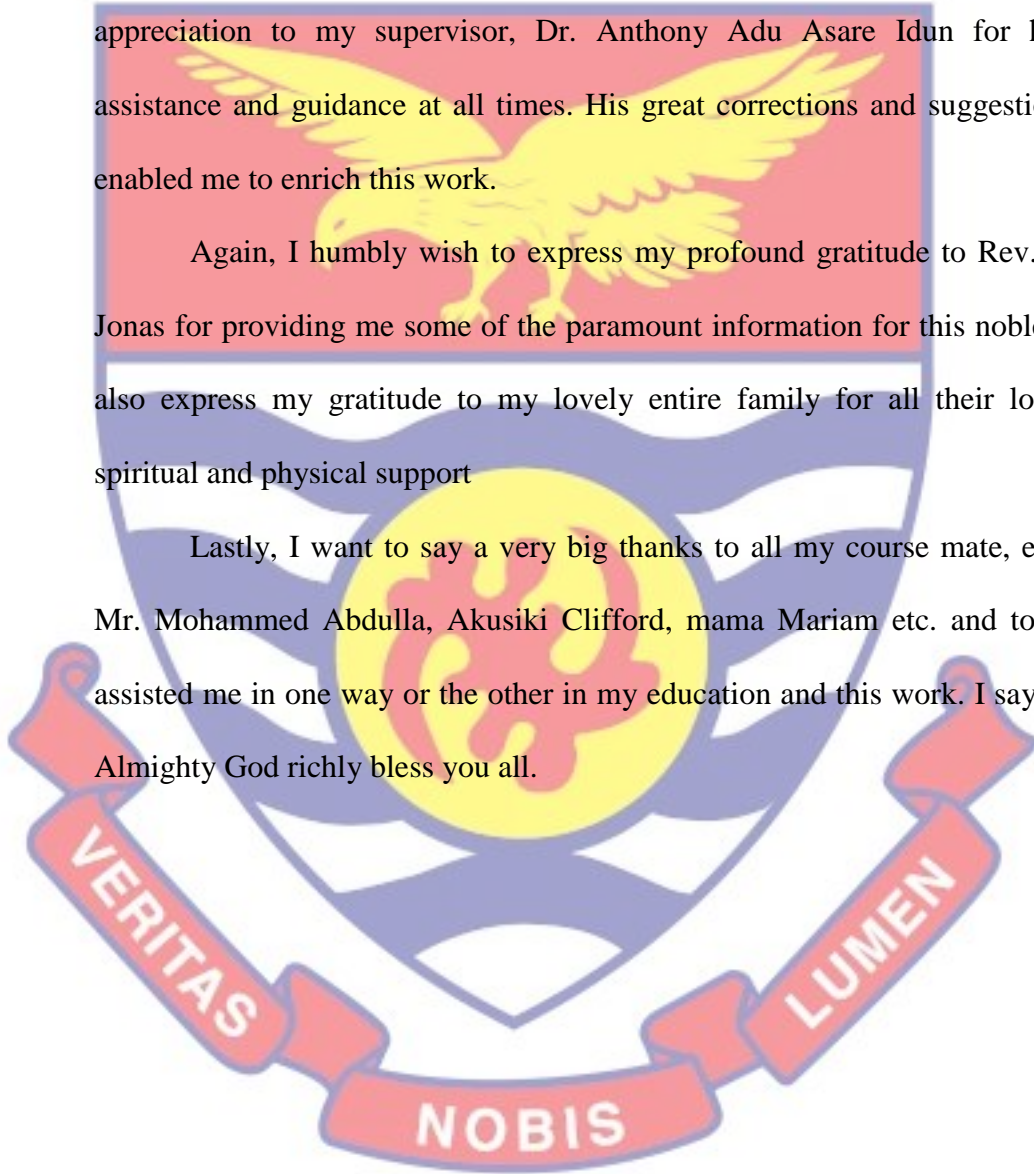


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DEDICATION

To my entire family



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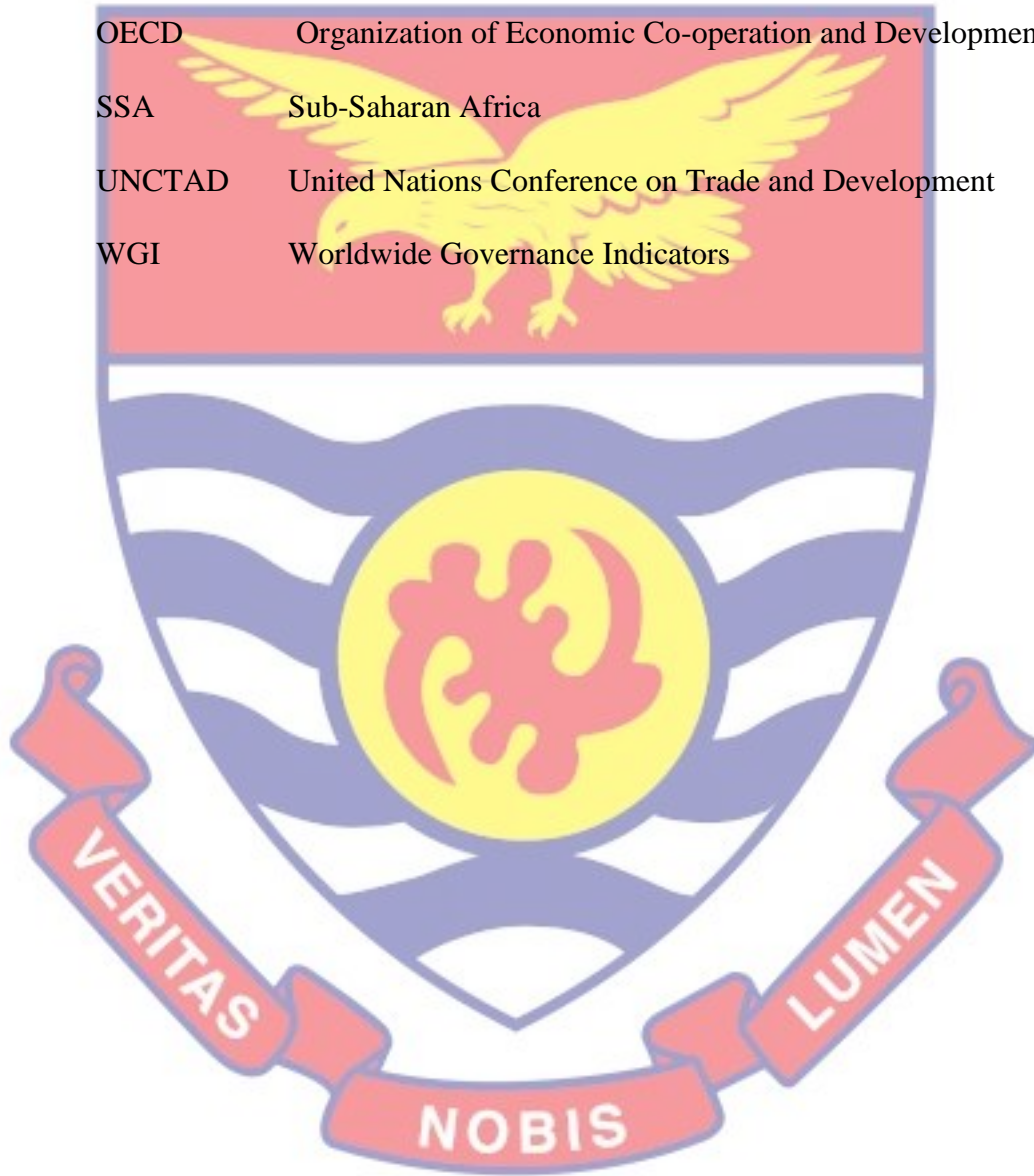
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LIST OF ACRONYMS

FDI	Foreign Direct Investment
GDP	Gross Domestic Product
MNC	Multinational Corporation
OECD	Organization of Economic Co-operation and Development
SSA	Sub-Saharan Africa
UNCTAD	United Nations Conference on Trade and Development
WGI	Worldwide Governance Indicators



CHAPTER ONE

INTRODUCTION

Sub-Saharan African countries as any other developing economy have been marked with lower economic growth rates (Mohamed, Liu & Nie, 2021). The region's economic growth has experienced fluctuating trends and the World Bank reveals that the region recorded an increase in growth from 2% in 2020 to 4% in 2021, of which this value has reduced in 2022 due to some uncertainties like the pandemic and the war between Russia and Ukraine (World Bank, 2022). The International Monetary Fund (IMF) in their Regional Economic Outlook for SSA for April 2022 also reported similar figures to suggest that the region's growth saw a marginal increase from 2020 to 2021. As compared to developed economies, SSA countries' growth is still low and continues to encounter difficulties in attracting financial flows due to weak financial markets and low savings rate (Mohamed et al., 2021; Elkomy, Ingham & Read, 2016). This problem has compelled them to seek for foreign direct investment (FDI) because it has been argued to be a key factor when it comes to upsurging the economic growth of developing nations, especially when it results in transfer of human capital and technology (Bouchoucha & Yahyaoui, 2019). This study therefore seeks to examine the role of FDI on economic growth in Africa, given the institutional settings.

Background to the Study

Foreign direct investment, according to Organization of Economic Co-operation and Development OECD (2012) is “an enterprise resident in one economy and in which an investor resident in another economy owns, either directly or indirectly, 10% or more of its voting power if it is incorporated or the equivalent for an unincorporated enterprise.” It can also be said to be an investment in real assets such as buildings, lands or existing plants in foreign nations either through joint ventures, acquisition or forming entirely new foreign subsidiaries (Madura, 2012). It can have a great impact on the host nations. SSA countries’ quest to acquire improved technology and expertise through FDI from multinational enterprises, requires them to aggressively contest in the worldwide competition for FDI (Jugurnath, Chuckun & Fauzel, 2016). Aside the fact that FDI enables firms to expand internationally, host nations prioritise it as a source of external finance than other forms of financing such as the foreign portfolio investment (Sarkodie & Strezov, 2019). This is due to the latent importance host countries derive from FDI inflows.

FDI boosts productivity gains in host nations by transferring their advanced technology, expertise, managerial capabilities and staff training (Osano & Koine, 2016). Particularly, Asongu and Odhiambo (2019) suggested that multinational corporations help emerging nations acquire new knowledge and as a result close the technical gap between underdeveloped and developed nations. FDI inflows into the SSA increased to \$40 billion in 2018 from \$38 billion in 2017 regardless of the decline in global FDI inflows (UNCTAD, 2018). Fagbemi

and Osinubi (2020) espoused that, since the theory of endogenous growth is predicated on the notion that foreign direct investment (FDI) has a multiplier impact on domestic enterprises, it can boost economic growth. Due to the shortage of liquidity that developing economies experience, FDI has replaced domestic investment through the process of capital accumulation (Attridge, te Velde & Andreasen, 2019).

According to Qazi, Sharif and Raza (2017), FDI is a method for increasing the host nation's physical and human capital, which may eventually lead to a rise in real GDP. Additionally, FDI creates technology spillovers, transfers expertise to the establishment of new businesses, and gives the host nations the chance to integrate into the global economy (Jawaid, Raza, Mustafa, & Karim, 2016; Mahembe & Odhiambo, 2016). This actually motivates developing nations' governments to implement more effective policies in order to gain more from FDI and this has made it more competitive on the global market (Osano & Koine, 2016; Ofori & Afful, 2019).

Other strand of literature argues that FDI inflows retard growth in the sense that foreign investors exploit natural resources of host nations and later repatriate all their profits to their countries, leaving the host nations with virtually nothing for developmental projects (Goh, Sam & McNown, 2017; Khobai et al., 2018). Foreign direct investment can also result in crowding out domestic investment and causing infant domestic firms exit from the market by dumping cheaper products into the market. Empirical works on the FDI-growth relationship produce mixed results of which others posit that the linkage is dependent on the

absorptive capacity (including human capital development, financial development, economic stability and liberal markets, trade openness, technology gap between the countries involved) and level of governance in the host country (Jude & Leveuge, 2016; Mira & Hammadache, 2017). The study focused on the latter, thus the influence of governance on the FDI-growth relationship. It is prudent to note that governance and institutional quality is used interchangeably in this work.

Good institutions according to Dobler (2011) are those that ensure efficient and effective allocation of factors of production like capital and labour, increase investment in higher-yielding activities, and reduce the uncertainty associated with the business environment. On the contrary, the weak institutional quality is accompanied with low investment levels, a slower growth of productivity and low per capita GDP, consequently leading a lower economic growth (Elkomy et al., 2016). Thus, institutions play a significant moderating role in the connection between FDI and economic growth. Indeed, a healthy governance environment can encourage synergies between FDI and local businesses and thus augment the benefits of productivity (Bouchoucha & Ali, 2019; Sabir, Rafique & Abbas, 2019). Economies which have the same level of FDI can achieve a very different level of economic growth depending on their governance quality.

On the other hand, a less developed governance framework can weaken the activities of production and prevent the exploitation of knowledge spillovers for domestic firms (Ayangbah & Sun, 2017). Imperatively, governments of

nations wanting to attract foreign direct investment ought to create a more conducive and favourable environment for multinational corporations by improving their economic policies and political institutions such as control of corruption, political stability, government effectiveness among others. The FDI-economic growth relationship raises important governance issues on the recipient economy (Adegboye, Osabohien, Olokoyo, Matthew & Adediran, 2020). Considering the capital-deficient nature of sub-Saharan African (SSA) economies overtime and the accruable benefits from external investor's activities, FDI is recognised as an essential factor in Africa's growth as well as development when there exists good governance framework (Ogundipe, Oye, Ogundipe & Osabohien, 2020). This study therefore seeks to investigate the moderating role institutional quality can play in the FDI-Growth nexus in Sub-Saharan Africa.

Statement of the Problem

Many economies have been described as under-developed over the last decades and as a result several developing nations like those in SSA are continuously devising strategies to boost their economic growth and development so as to improve the living conditions of their citizens (Bouchoucha & Benammou, 2018). In view of that, majority of these economies resort to foreign direct investment inflows as studies have argued that FDI inflows induce economic growth (Kalai & Zghidi, 2019). The FDI inflow in SSA is on the decline as a report published by United Nations Conference on Trade and Development in 2021 revealed that, FDI inflows in SSA declined by 10% as of 2019 and 12% between 2019 and 2020. This decline apparently would have an

adverse impact on economic growth since the economic growth of SSA countries is largely influenced by foreign direct investment (Rodríguez- Pose & Colsb, 2017).

As a result, majority of developing countries are unable to augment their economic growth and development due to their inability to receive sufficient FDI inflows because the inflow was disproportionately spread across the region since nations like Angola, Ghana, Nigeria and Mozambique receive the largest share (Neise, Sohns, Breul & Revilla -Diez, 2021). As postulated by Ezeoha and Cattaneo (2011) that, economies with weak institutional quality have higher probability of attracting low FDI inflows and as SSA nations have been considered to have weak governance indicators (Agbloyor et al., 2016; Agyemang, Gbettey, Gatsi, & Acquah, 2019), it is imperative to investigate the moderating role of governance on the FDI-growth linkage.

Theoretical studies consistently report a positive effect of FDI on the specific sub-Saharan African country's economy; however, empirical studies are still producing conflicting results. Therefore, the FDI-growth relationship is considered to be mixed at best (Godart, Görg & Hanley, 2020). Many recent studies have concluded that the FDI-growth relationship is contingent on other factors. These factors are related to the absorptive capacity of the specific Sub-Saharan African country and empirical studies have identified the following ones: level of economic development (Ndiweni & Bonga-Bonga, 2021), financial markets development (Asongu & Odhiambo, 2019), human capital (Azman-Saini, Baharumshah & Law, 2010), economic stability and liberal markets (Azman-

Saini et al., 2010), trade liberalization (Ndiweni & Bonga-Bonga, 2021), institutional structures and shared ownership of the FDI firm (Asongu & Odhiambo, 2019).

Notwithstanding, one vital factor, thus governance quality, has been slightly less explored in the literature (McCloud & Kumbhakar, 2012; Jude & Leveuge, 2015). While stronger institutions like good and efficient governance, the rule of law and control of corruption can speed up the process of technology spillover to domestic firms, weak institutions like presence of corruption, lack of rule of law and property rights could prevent domestic firms from reaping the benefits of the knowledge spillover from the FDI firms (Towah, 2019).

Therefore, this study tends to assess governance effect on the relationships between FDI and economic growth in sub-Saharan Africa. This study differs from other studies in the sense that the other studies focused much on the governance factor on developed and developing countries data of FDI flow and economic growth (Adegboye, Osabohien, Olokoyo & Matthew, 2020c. However, this study tends to assess homogeneously the developing countries with updated data on governance, FDI and economic growth from 2002 to 2020 for the Sub-Saharan Africa countries.

Purpose of the Study

The purpose of this study is to analyse the role of governance (institutional quality) on the effect of FDI on economic growth in sub-Saharan Africa over the period 2002-2020.

Research Objectives

The specific objectives of this study are;

1. To examine the relationship among FDI and economic growth in SSA.
2. To assess the relationship between institutional quality and economic growth in SSA.
3. To investigate the moderating role of institutions on the FDI – growth nexus.

Hypotheses of the Study

The hypotheses developed based on the objectives are;

H1_o: There is no significant relationship between Foreign direct investment and economic growth in SSA.

H1_a: There is a significant relationship between Foreign direct investment and economic growth in SSA.

H2_o: There is no significant relationship among institutional quality and economic growth in SSA.

H2_a: There is significant relationship among institutional quality and economic growth in SSA.

H3_o: Institutional quality does not moderate the relationship between FDI and economic growth in SSA.

H3_a: Institutional quality moderates the relationship between FDI and economic growth in SSA.

Significance of the Study

The findings of this study are expected to be beneficial to numerous stakeholders such as government officials, regulators, policymakers and scholars as well. The results would enable government officials and policymakers to design an appropriate framework that would offer favourable atmosphere for foreign investors to invest in their countries to boost up economic growth. Moreover, it would help these policymakers to strengthen the governance indicators that specifically attract FDI and influence growth. Furthermore, the results of this study would add to the existing literature and serve as a reference point for future researchers and scholars.

Delimitation of the Study

In order to investigate the moderating impact of institutional quality on FDI-growth relationship in Sub-Saharan Africa, this study focused on 46 SSA countries. The study used the annual real GDP per capita to measure economic growth and FDI was measured with net inflows as a percentage of GDP. Data on all these variables are obtained from the World Bank database. The study also measured institutional quality by simply finding the simple average of the governance dimensions by Kaufmann, Kraay and Mastruzzi (2011). These indicators are as follows; the rule of law, control of corruption, political stability and absence of violence, regulatory quality, voice and accountability and government effectiveness. This study is based on the yearly balanced panel data from the year 2002-2020. The list of countries employed in the study is provided in the appendix.

Limitation of the Study

The study's key limitation is the unavailability of data on some of the countries in SSA which resulted in the inability to capture all the 49 SSA countries. Regardless of this, the results of this study would still be representative since more than half of the nations in the region were used. Again, these nations have similar characteristics so the results are applicable to all of them. The use of the quantitative approach did not allow the researcher have in-depth information about the governance indicators in the region.

Organization of the Study

The study is organized into five chapters. Chapter One reviews the background to the study, research problem of the study, the research objectives and hypothesis guiding the study are stated as well. The chapter further, indicates the scope and the significance of the study. Chapter Two reviews the theoretical, and empirical literature relating to the topic of investigation and Chapter Three reviews the research methods. For the Chapter Four, the results and discussion in the context of theories and empirics are contextualized to bring out the similarities and differences in findings. Finally, Chapter Five ensures the presentation of the summary, conclusions and recommendations based on the study's findings.

CHAPTER TWO

LITERATURE REVIEW

Introduction

The study tends to analyse the role of governance (institutional quality) on the effect of FDI on economic growth in sub-Saharan Africa. This chapter reviews related theoretical and empirical literature on governance, FDI and economic growth as in the extant literature globally and locally. The review begins with selected theories that the researcher adopts for the study and literature ends with the empirical reviews.

Theoretical Review

The researcher used both neoclassical microeconomic theory and new growth theories to explore the effect of FDI on economic growth while the new institutional economics theory was used to investigate governance effects on the FDI and economic growth linkage in Sub-Saharan Africa countries.

The Neoclassical Microeconomic Theory

The Neoclassical models of growth which is also known as the Solow-Swan model contend that foreign direct investment (FDI) increases a nation's economic growth through capital accumulation and that long-term economic growth is reliant on employment opportunities and technological advancements (Solow, 1956, Swan, 1956). This indicates that ongoing technological advancements are a necessary condition for ongoing investment to have a favourable impact on a nation's economic progress (Solow, 1956, Swan, 1956). The theory contends that FDI have impact on a county's growth as a result of

technology spillover effect from multinational companies (Rudy, 2012). However, these models imply that FDI has a similar effect on a country's economic growth as domestic investment. The theory further argues that, changes in interest rates among economies are often what cause investment flows. From the perspective of this neo-classical theory, capital is considered a commodity and that its price determines its demand, supply, and allocation (Mankiw, 2015). Therefore, it is assumed under the neoclassical theory and perfect competition that capital would flow freely from low-return countries to those with relatively high return rates.

The drawback of this neoclassical theory is its failure to understand the responsibility of MNCs in the inflow of investment. Since neoclassical theory is limited in providing an understanding of the means and location of the companies resolve to procure the resources required to finance their overall strategy, experts also argue about the silence on capital intention. It could be for managerial influence or the capacity of production. Recently, their responsibility is, therefore, only appropriate for justifying portfolio investments rather than FDI. Neoclassical theory, which was utilized in this context, examined FDI from the standpoint of the necessity to adopt the cost of transactions to raise profit, and it defines the improvement in foreign investment performance.

The New Growth Theory

Further, this study relies on the new growth theory to clarify the link between foreign direct investment and economic growth. The endogenous growth paradigm, as it is commonly known, contends that foreign direct investment (FDI)

has a greater impact on a nation's economic growth than local investment as it was opposed by the neoclassical theory (Romer, 1986, Lucas, 1988). As a result, FDI has the potential to positively impact the host economy both directly and indirectly. The new growth theory featured mainly the subject of progression in technology as a product of the rate of investment, as well as the degree of capital stock and human capital (Neeliah & Seetanah, 2016). Both the transfer of new technology and new capital flows, which promote capital accumulation in the host nation, are how FDI directly affects economic growth. Moran (2003) makes the case that FDI into resource-rich nations will likely have a major beneficial effect on the balance of payments in this regard.

In the same vein, De Mello (1999) opine that the introduction of new technology into the manufacturing process has indirect effects in the form of enhancements in management and human capital. Although FDI increases total investment in the host economy, Borensztein, De Gregorio and Lee, (1998) contend that the impact of technology transfer appears to have a higher impact on economic growth. The theory brought back the prior traditional thought of the effect of an increase in returns, in the framework of both practical and theoretical concepts (Dang & Pheng, 2015). Furthermore, there was more development on the model of increase in returns, with assumptions of diminishing returns, with the aid of a thoroughly evaluated standard presentation. As a result, a significant rise in FDI has become more and more incorporated into the economy over the past decade (Adegboye et al., 2020).

Although, neoclassical microeconomic theory and new growth theory have not been able to fully explain why FDI investors must invest in one country rather than another and, generally, the marginalization of the African continent. However, these theories allowed the researcher a greater comprehension of the connection between FDI and economic growth.

The New Institutional Economics (NIE) Theory

The NIE theory comes in two approaches as documented by Canitez (2019). The study focused on the second approach which reveals that in selecting any type of governance, emphasis must be laid on transaction cost economics and micro-level behaviour (Williamson, 2000; Ostron, 2005). We live in a jurisdiction where there is no free lunch, as every transaction comes with a cost, so there is the need to have good governance frameworks that would govern every transactional agreement. Richman (2019) espoused that, the degree to which these frameworks reduce transaction costs varies, as some governance systems are designed to handle specific transactions better than others.

Adding to the above, Gatsi and Kyeraa (2016) posit that, institutional settings are crucial to economic performance since institutions affect how much a transaction cost. Additionally, it was argued that a nation's institutions, such as its political, legal, and social systems, impact how well its economy performs. This implies that quality institutions help economic agents like foreign direct investors to reduce transaction costs, by improving the security of property rights and the enforcement of contracts (Ghandi & Johnson, 2020). This is because when

property rights are secured, investment rises leading to increment in the economic growth of nations (Ménard & Shirley, 2005).

Conceptual Review

Foreign Direct Investment

The International Monetary Fund (IMF, 1993) defined FDI as a type of foreign investment that represents the goal of a resident entity in one country acquiring a long-term interest in a resident firm in another economy. Moreover, foreign direct investment according to OECD (2009, p.17) “is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor, of which the lasting interest involves at least 10% of the voting power of the foreign direct investment enterprise”. The percentage of the voting right enables one to differentiate between FDI and other capital flows, as any capital flow that is lesser than the 10% of the voting right is considered portfolio investment (Fahad & Ahmed, 2016).

Fu (2000) and Kiggundu (2002)’s classification of FDI revealed that only capital flows undertaken by private firms may be classified as FDI, hence any capital flows in the form of loans from international organizations are not considered to be FDI. Foreign direct investment is also a type of international investment in which the investor has a considerable say in how a company is run outside of their home country (Solomom, 2011).

Multinational corporations (MNC) have diverse motives for undertaking FDI in developing countries. These motives have been broadly categorized as aggressive and defensive (Dunning, 1993). According to the author, the aggressive motive is where the foreign investor intends to make an investment in the host country in order to safeguard its strategic alternatives while the defensive motive is ensued when the investing company wishes to safeguard against potential competition from other businesses. Under these broad classifications, we have the resource-seeking FDI; which is where the foreign investor engages in FDI in a particular nation with the aim of benefiting from the natural resources like natural gas, crude oil, agricultural produce and human resources including cheap labour that nation has to offer.

Another form of FDI is the market-seeking FDI where MNCs choose to invest in countries other than their home countries if they perceive a significant demand of their products in such countries so as to serve larger market. Strategic asset-seeking FDI is a form of FDI in which a company engages in FDI to preserve its intangible assets from rivals or to maintain its hegemony over a certain production. Last but not least is the efficiency-seeking FDI which arises when a firm tries to invest abroad so as to improve its production efficiency (Dunning, 2000).

Governance/ Institutional Quality

From the work of Richman (2019), institutional quality was described as “formal rules such as property rights, government policies, constitutions, laws and regulations, and informal constraints such as habits, unwritten taboos, customs,

traditions and codes of conduct”. North (1990) who defined institutions as rules of the game, believes that the purpose of the rules and restrictions is to bring order and reduce uncertainty in transacting business. The author further stated that, institutions create a society's incentive structure, hence political and economic institutions are the fundamental factors influencing economic performance.

In view of this, Acemoglu, Johnson, Robinson and Thaichareon (2003) assert that countries are considered to have better institutions if they are democratic, exhibit relative equality, have few dramatic social cleavages, and have a range of checks and balances on political activity. The governance or institutional indicators according to Kaufmann et al, (2011) comprise government effectiveness, control of corruption, rule of law, regulatory quality, voice and accountability and political stability and absence of violence. Sound institutions create avenue for foreign investors to enter the domestic market to help boost the operations of industries.

Economic Growth

Economic growth as is been measured with the gross domestic product or gross national product refers to the rise in the ability of a country to produce goods and services in a current year as compared to previous period. It can be in its nominal or real form (Barro & Sala-i-Martin, 2003). Other authors have documented that economic growth basically means the increase in the amount of goods and services produced per head of the population over a stipulated time (Van den Berg, 2016). From the definitions above, it is realised that emphasis was laid on goods and services, however, an article from Our World in Data website

argued that in computing the economic growth of every country, focus should be on the production of economic goods and services. In this regard, economic growth was defined as the increase in the quantity and quality of the economic goods and services (thus, goods and services that can be produced and are scarce relative to their demand) that society produces.

Channels through which governance affects the FDI-Growth Relationship

The role of FDI in economic growth of the specific sub-Saharan African country is threefold. The first and most significant effect of FDI on the specific sub-Saharan African country economic growth is the knowledge spillover. The spillover happens through domestic firms imitating the technology demonstrated by the multinational enterprise (MNE), competition, skilled labor mobility and backward and forward linkages as found by Crespo and Fontoura (2007). In another study of the FDI spillovers, Hamida (2013) concluded that knowledge spillovers are generated through MNE skilled labor moving to the domestic firms. Good institutions like the rule of law, lack of corruption, efficient government and good regulations can create synchronization between the domestic and foreign firms by providing them with competitive playfield and encourage them for healthy competition.

Bad institutions, on the other hand, lead to increasing transaction costs and higher risks which will further lead to a lowering of investments and long-term commitment of the foreign firms towards the country (Hayat, 2017). At the same time, many studies have shown that governance heterogeneity and differences in government efficiency and political freedom are responsible for differences in

capital accumulation and labor productivity (Ferrara, & Nisticò, 2019). Therefore, for the host countries to benefit from FDI inflows and experience positive spillovers the quality of its institutions is considered to be vital and essential to maintain. According to Meyer and Sinani (2009), quality governance framework motivates and enables domestic firms to react to the foreign firms entering the country which creates the spillover effect of FDI. Jude and Levieuge (2015) conclude that sound quality institutions are associated both with better economic performance and the ability to attract FDI with high spillovers potential into the country. The study also found that bad governance quality is very much likely to attract resource extracting FDI which have just a limited potential for spillover and growth.

Better governance quality like the rule of law and efficient governance also provide confidence to the investor, and it might affect the mode of FDI entry into the country, making Greenfield entry more likely than merger and acquisitions, which would be the FDI mode of choice in a riskier environment. Wang and Sunny Wong (2009) suggested that Greenfields are associated with larger growth-enhancing potential. Therefore, by encouraging Greenfield investments instead of mergers and acquisitions, better governance quality enables greater FDI spillovers.

The second channel through which governance quality affects economic growth in specific sub-Saharan African country is by enhancing competition in the country. Osano and Koine (2016) explored the role of FDI in enhancing competition in the specific sub-Saharan African country and argued that foreign

investments are expected to increase competition which will lead to efficiency and innovations in the industry as a whole. In response, the leading domestic firms adopt innovations and ensure efficiency to meet the challenge of intensified competition. Brahim and Rachdi (2014) argue that governance quality creates incentives and influences competition in the market and knowledge spillovers. Quality governance framework incentivizes investments into innovations and enables firms to meet the challenges of increased competition (Hayat, 2017).

The third main channel through which governance quality affects the FDI-growth relationship in the specific sub-Saharan African country is through the capital accumulation. While studies like Hobbs, Pappas and AboElsoud (2021) have shown that FDI has a crowding out effect in the short run, others have argued that better governance quality would encourage foreign investors to invest into industries with the lesser density of domestic firms. This will encourage greater capital accumulation in the sector, and the potential benefits for the domestic economy are expected to be high. Sound institutions lead to a surge in demand in industries propelled by the presence of foreign firms. Contrary to that, studies have shown that low governance quality shifts exports from manufacturing goods to non-manufacturing goods which in turn lower domestic economic performance (Emara & Chiu, 2016).

In line with all the above arguments and theoretical reviews, this study expects the FDI-growth relationship to be conditional on the quality of institutions in the specific sub-Saharan African country. Better governance quality is expected

to contribute to the FDI-induced growth through spillovers enhancement, furthering competition and through capital accumulation.

Empirical Review

This sub-section reviews the extant works that have been carried out on the said topic based on the objectives of the study.

Foreign Direct Investment and Economic Growth

Despite the considerable high volume of research studies on FDI–growth nexus on developing economies, there is still an abundance of contradictory evidence in the literature on the economic growth impact of FDI. This literature connects economic growth and FDI, where FDI has shown to improve recipient economies' economic growth. FDI tends to increase capital accumulation in the receiving country, boosts local businesses' productivity by contracting and exposing them to healthy competition, technological transition, and human capital increase, thereby increasing exportation of goods. FDI is a significant investment inflow that can complement domestic investment, generate more new job opportunities, improve technology transfer, and economic growth (Adegboye et al., 2020c). The rate at which FDI can boost the economy's growth, however, depends mainly on the host economy's social and also economic environment (Adegboye, Adesina, Ojeka, Akinjare, & Olokoyo, 2020a).

In the same vein, there is evidence in some empirical studies that FDI boosts economic growth (Adegboye et al., 2020a; Hobbs et al., 2021). Dike's (2018) study submits that FDI is a crucial variable in explaining economic growth for China. Similarly, Sawalha, Elian and Suliman (2016) found that foreign capital

inflow had a direct effect on growth economically. However, they report that there is an income limit beyond which foreign capital inflow has a direct impact on economic growth.

Falki (2009) considers that foreign investment inflow can directly impact the growth of an economy by increasing capital formation domestically, promoting domestic savings, and enabling the transfer of technology in the host developing economies. In more recent studies, Osabohien, Awolola, Matthew, Itua and Elomien (2020), using the fully modified ordinary least squares (FMOLS) posited that FDI positively impacts on employment level and economic growth. For developing economies, in research of 73 least developed economies, Mamba, Gninigue and Ali (2020) found that foreign investment affects economic or industrial development with little or no impact. The same applies to a sample of 41 developing countries; Osano and Koine (2016) estimates that foreign capital inflow has an insignificant effect on medium-term economic growth per capita. Ojewumi and Akinlo (2017) reveal that FDI could adversely affect a recipient economy's growth prospects. Large reverse flows such as profit remittances especially transferred resources through transfer prices and dividends or where the host country receives significant or other concessions from transnational corporations.

From the thorough review, it is realised that the relationship among the variables is inconclusive and as such the FDI-growth nexus in SSA need more attention. The current study differs from previous works in the sense that it utilises the generalized method of moments which seems to account for

endogeneity issues that static models that were used in previous works could not solve.

Governance/ Institutional Quality and Economic Growth

Governance indicators have been revealed to have great impact the growth of economy in the sense that, an economy that has good institutional quality has the higher possibility of growing because it creates a favourable environment for economic activities. Numerous researchers have found different results on the relationship between institutions and growth, probably due to the differing methods used. Among these are as follows; Mengistu and Adhikary (2011) studied the relationship between good governance, FDI and economic growth in 15 Asian countries over the period 1996 to 2008 with the application of the random effect of generalized least squares, estimation models. The empirical results show that FDI and governance indicators such as government effectiveness, political stability and absence of violence are determining factors of economic growth. According to Abuzayed and Al-Fayoumi (2016), the institutional quality in MENA nations affects economic growth. In the same vein, in 140 economies, Afonso and Jalles (2016) found a positive correlation between institutional quality and economic growth.

Olayungbo and Adediran (2017) conducted a study on the relationship between institutional quality and economic growth in Nigeria and came to the conclusion that while institutional quality fosters economic growth in the short term, it inhibits it over the long term. The paper goes on to say that anticorruption regulations should be implemented in order to maintain economic growth.

Berhane (2018) examined the relationship between institutional quality and economic growth using data from 40 African nations. The study revealed a strong correlation between the variables, indicating that institutional quality positively influences economic growth. Osabohien et al. (2020) used the fixed and random effects regression analysis, and showed that challenges of governance have negatively affected the inflow of FDI and economic growth in Nigeria.

On the governance and growth relationship, it was realised from the literature that, most of the works singled out a particular SSA country and carried the research on which does not unveil the true state of the region.

Moderating influence of institutions on FDI-Growth nexus

Mengistu and Adhikary (2011), analyzed the impact of the indicators of good governance on FDI inflows in 15 Asian countries for the period 1996- 2007. The authors used a panel data model with fixed effects and reported that the six governance indicators are the main drivers of FDI. The researchers concluded that enhancing the governance environment is able to attract more FDI. Similarly, in a meta-analysis on the relationship between governance and FDI inflows, Yerrabati and Hawkes (2016) found that countries with low levels of corruption and high-quality regulation attract more FDI than other nations. Hayat (2017) employed the GMM estimation technique and revealed that FDI inflows stimulate economic growth more effectively in nations with higher institutional quality than they do in nations with lower institutional quality.

In their study of the relationship between institutional quality and economic growth in 29 emerging nations, Nguyen, Schinckus, Su and Chong

(2018) found a positive correlation between the variables. They added that institutional quality prevents FDI from having a favorable impact on economic growth. A study conducted by Bouchoucha and Benammou (2018) in 41 African economies unveiled that FDI is positively influenced by government effectiveness, control of corruption, voice and accountability and regulatory quality, which suggest that the ability of African countries to attract FDI to enhance growth depends on these governance frameworks. In fact, the degree to which the rights of the populace are respected, how robust and just the legal system is, and how stable the government is directly affect FDI inflows into host nations. Raza, Shah and Arif (2019) employed fixed effect and GMM methods to assess the influence of institutions on the FDI-growth relationship in the Organization for Economic Co-operation and Development economies. The findings revealed that the interaction term between FDI and all the institutional indicators exhibited a positive influence on economic growth, signifying that in the presence of better governance, FDI augments growth.

Gaps in Literature

Governance quality has also been attributed as one of the leading factors that attract foreign direct investment in developing economies in recent years. While some researchers have paid careful attention to role good economic institutions plays in the host countries, others have attempted to appraise the impact of political institutions and stability on FDI inflow. However, there have been mixed and inconclusive results on the said topic (Iamsiraroj, 2016; Ojewumi & Akinlo, 2017; Ahmad, Draz & Yang, 2018; Omaku, 2019). With particular

reference to Sub-Saharan Africa, there is still limited empirical evidence on the importance of governance in determining FDI-growth nexus in the region. Moreover, most of the available literature either employs pooled regression strategy (Osabohien et al., 2020) in their analysis which fails to capture the peculiarities of the individual country's governance quality or the time frame involved is inappropriate or they fail totally to control for governance quality. In light of the foregoing, in turn to fill the country specific gap that has been created in the literature on Sub-Saharan Africa and the unaccounted variables of relevance in most studies reviewed above, the current study examines the role of governance in moderating the relationship among FDI and growth in SSA by using the generalized method of moments which seems to account for endogeneity issues that static models could not solve.

Conceptual Framework

The study illustrated the relationship among the variables of interest with a conceptual framework which was based on the literature reviewed.



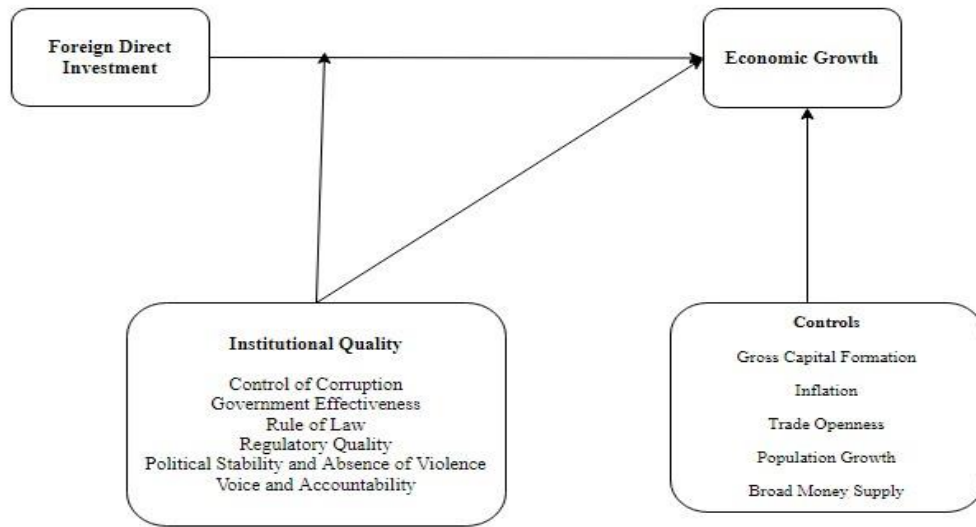


Figure 1: Conceptual Framework

Source: Author's Construct (2022)

The figure above shows that, the researcher expects foreign direct investment and institutions to have an effect on economic growth while institutional indicators are also expected to moderate the relationship between FDI and growth.

Chapter Summary

The chapter presented on the theoretical underpinnings of the study as well as thorough explanation of the concepts applied in the work. Moreover, a review of extant works was conducted and framework the specifies the direction of the relationship was displayed.

CHAPTER THREE

RESEARCH METHODS

Introduction

The purpose of the study is to investigate the role of governance (institutional quality) on the effect of FDI on economic growth in sub-Saharan Africa. This chapter reviews the research methodology for guiding the appropriations of the research questions of the study. The research approach and design adopted for the study is presented in this chapter. The research population and sample of dataset for the study has been elucidated as well. Further, the chapter presents the data processing and analysis processes of interest for the topic under investigation.

Research Design

Cooper and Schindler (2014) describe research design as a framework that specifies the procedures and methods for collecting information and also defines the links between the variables. A research design is good when it is adaptable, flexible, efficient and cost-effective. A research design can either be descriptive, exploratory and explanatory. The study adopted the explanatory research design to assess the relationship between FDI and economic growth and also investigate the moderating role of governance on the FDI-economic growth in SSA. This design was adopted because Saunders, Lewis and Thornhill (2012) assert that explanatory design explains the cause and effect of single or multiple variables, that is, it shows how one variable influences the other. The design was

appropriate to the study because it lays emphasis on analyzing a phenomenon to elucidate the sequence of relationships amidst variables.

Research Approach

The main research approaches known to researchers are the Quantitative, Qualitative, and Mixed-Methods approach. The prudent use of any of these approaches is largely dependent on the nature of the study, as well as the philosophy of the researcher. Quantitative approach talks about the investigation of phenomenon which can be measured or observed (Cooper & Schindler, 2014). According to Creswell (2009), quantitative research seeks to determine the extent of a problem or the existence of a relationship between aspects of a phenomenon by quantifying the variation. Quantitative research often seeks to test to support or disprove a proposed relationship between two or more aspects of the phenomenon. Results from quantitative research are presented using statistics and inferences made to the population. The quantitative research approach is adopted for the study of this nature that investigates the role of governance indicators (institutional quality) on FDI- growth nexus in sub-Saharan African countries at large.

Data Sources and Description

In order to assess the role of institutional quality on the relationship among FDI and economic growth in SSA, the population of the study consist of all the 54 African countries. The study focused on 45 SSA countries out of 49 countries in SSA. The sample of dataset consists of data from 2002-2020 making up of 19

years of accumulated data from World Development Indicators and Worldwide Governance Indicators website on sub-Saharan African countries.

The nature of the study necessitates the use of secondary data and as such annual frequencies data ranging from 2002 to 2020. The data were obtained from World Development Indicators except for governance indicators that were collected from Worldwide Governance Indicators (WGI) website. These sources have been largely relied on by extant works because of their credibility (Agbloyor, Gyeke-Dako, Kuipo & Abor, 2016; Bouchoucha & Yahyaoui, 2019). The motivation for the sample period is due to the availability of data on all SSA countries.

Model Specification

Upon the series of review conducted, the study employed a model similar to earlier works on this subject matter (Adjasi, Abor, Osei, & Nyavor-Foli, 2012; Agbloyor et al., 2016). The model specified for this study is stated below;

$$LGDP_{it} = \alpha_0 LGDP_{it-1} + B_1 FDI_{it} + B_2 INST + \sum_{h=3}^7 \beta_h X_{it} + \mu_i + \varepsilon_{it} \quad \dots \quad (1)$$

$$LGDP_{it} = \alpha_0 LGDP_{it-1} + B_1 FDI_{it} + B_2 INST + B_3 FDI * INST + \sum_{h=4}^8 \beta_h X_{it} + \mu_i + \varepsilon_{it} \quad \dots \quad (2)$$

Where $LGDP_{it}$ log of real GDP per capita in countries i at time t , $LGDP_{it-1}$ is the lagged variable of LGDP; FDI_{it} denotes to foreign direct investment as a percentage of GDP; $INST$ denotes the institutional indicators; X the set of control variables such as: gross capital formation as a percentage of GDP, inflation that is approximated by the percentage change in the consumer

price index, trade openness that is measured by the sum of export and import which are relative to GDP, population growth and broad money supply as a share percentage of GDP; β is the parameters to be estimated, μ_i represents the individual effects and t denotes the time.

This study starts by studying the effect of foreign direct investment and institutional quality on economic growth as indicated in equation 1. Then, in order to evaluate the moderating impact of institutions on the effect of FDI on economic growth, it adds the interaction term between these indicators and the FDI ($FDI * INST$). With the governance or institutional indicators, each of the six indicators of governance or institutional indicators (political stability and the absence of violence, regulatory quality, rule of law, voice and accountability, control of corruption and government effectiveness) developed by Kaufmann et al. (2011) as well as the composite indicator which is simple average of all the six indicators enter a model at a time. It is important to mention that the researcher did not introduce all indicators in the same model because of the high correlation between these six dimensions and also to prevent overlapping results. Based on the literature, it is expected that the variables have these signs as shown in Table 1.

Table 1 : Apriori Expectations of Variables

Variables	Description	Expected Sign
FDI	Foreign Direct Investment	+
INST	Each governance or institutional indicators	+
$FDI * INST$	Interaction term	+

Source: Field data (2023)

Data Processing and Analysis

The main objective of this study is to analyze the role of governance on moderating the effect of FDI on economic growth for sub-Saharan African countries using annual data over the period of 2002–2020. The nature of the study is a panel study and as such it requires a panel estimation technique. The data used was processed using Stata version 15.0. Relative to the technique, the study employed the generalized method of moments (GMM) estimator, specifically the two-step system GMM. There are several panel techniques that could be used to analyse the data but the researcher settled on GMM because of its advantages over other panel estimators like dynamic ordinary least square and fixed effect estimators. GMM technique is appropriate when the cross-sectional series is more than the time series (Idun, Aboagye & Bokpin, 2020). Pertaining to this study the cross-sectional series (countries) is 45 and the time series (years) is 19 time periods.

The GMM estimator solves the problem of endogeneity that might result from possible reverse causality that exist between our main variables. For instance, FDI can determine the growth of economy and also the fact that an economy can attract enough FDI when investors perceive that the economy is growing. It also deals with the issues of omitted variables and simultaneity bias (Byaro & Mpeta, 2021; Awadhi, James & Byaro, 2022). The GMM technique was originated by Holtz-Eakin and Rosen (1990) and extended by Arellano and Bond (1991), Arellano and Bover (1995) and Blundell and Bond (1998). The study's preference of the system GMM over the difference GMM stems from the

fact that the latter does not deal with the issue of time persistency of some explanatory variables and also eradicates the country-specific effects (Osei-Assibey, Domfeh & Danquah, 2018). The two-step system GMM estimator produces results that are reliable and valid than the one-step system GMM (Kinyondo, Pelizzo & Byaro, 2021).

Diagnostic Tests

To ensure the effectiveness and robustness of the GMM estimator, two diagnostic tests were carried out; Sargan test and first-order AR (1) and second-order AR (2) autocorrelation test. The Sargan test check the possible over-identification problem while the latter tests check the presence of serial correlation in the first order and second order. To indicate the validity of these test, the null hypotheses of Sargan and AR (2) autocorrelation tests should not be rejected while that of AR (1) autocorrelation test should be rejected.

Measurement of Variables

To test the magnitude of the impact of the six governance indicators on the foreign direct investment – growth nexus, the researcher used some variables that are presented in detail as follows: The dependent variable in our model is economic growth and it is measured as gross domestic product (GDP) per capita, while the main regressor, FDI was measured as net inflows percentage of GDP. The study also measured governance or institutional quality using the simple average of the six governance dimensions by developed by Kaufmann et al. (2011). This study used the percentile rank of these indicators with 0 corresponding to lowest rank and 100 to highest rank. Kraipornsak (2018)

contended that the percentile rank is simple to identify as compared to the Z-Score, and as such the percentile rank was used in this study.

The six governance indicators are control of corruption (COCr), the rule of law (RLr), political stability and the absence of violence (PSr), voice and accountability (Var), regulatory quality (RQr) and government effectiveness (Ger). The study also made use of some macroeconomic indicators as control variables. These are inflation rate, population growth, trade openness, gross capital formation and broad money supply.

Table 2: Variable Description and Source

Variable	Measurement	Source
GDP per capita	Gross domestic product divided by country's population	WDI
FDI	Net inflows (% of GDP)	WDI
Institutional Structures	The dimensions of governance quality (voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption)	WGI
Trade Openness	Total export and import of goods and services as % of GDP	WDI
Inflation	Annual consumer prices index	WDI
Gross Capital Formation	Outlays on additions to the fixed assets of the economy plus net changes in the level of inventories	WDI
Broad Money Supply	Broad money (% of GDP)	WDI

Source: Field data (2023)

Chapter Summary

The chapter presented the research methods employed in the study. The approach and design adopted were stipulated in the chapter. The chapter also presented the estimation technique adopted to analyse the data as well as a brief description of the variables used.



CHAPTER FOUR

RESULTS AND DISCUSSIONS

The study tends to analyse the role of governance (institutional quality) on the effect of FDI on economic growth in sub-Saharan Africa. This chapter focuses on the analysis, presentation and discussion of the results of the study. the chapter begins with the presentation of the descriptive statistics, followed by the correlation analysis before presenting the GMM results. The results were then discussed before concluding with a summary.

Descriptive Statistics

Descriptive statistics give a summary of the variables employed in the study and also inform the researcher about the distribution of the data.

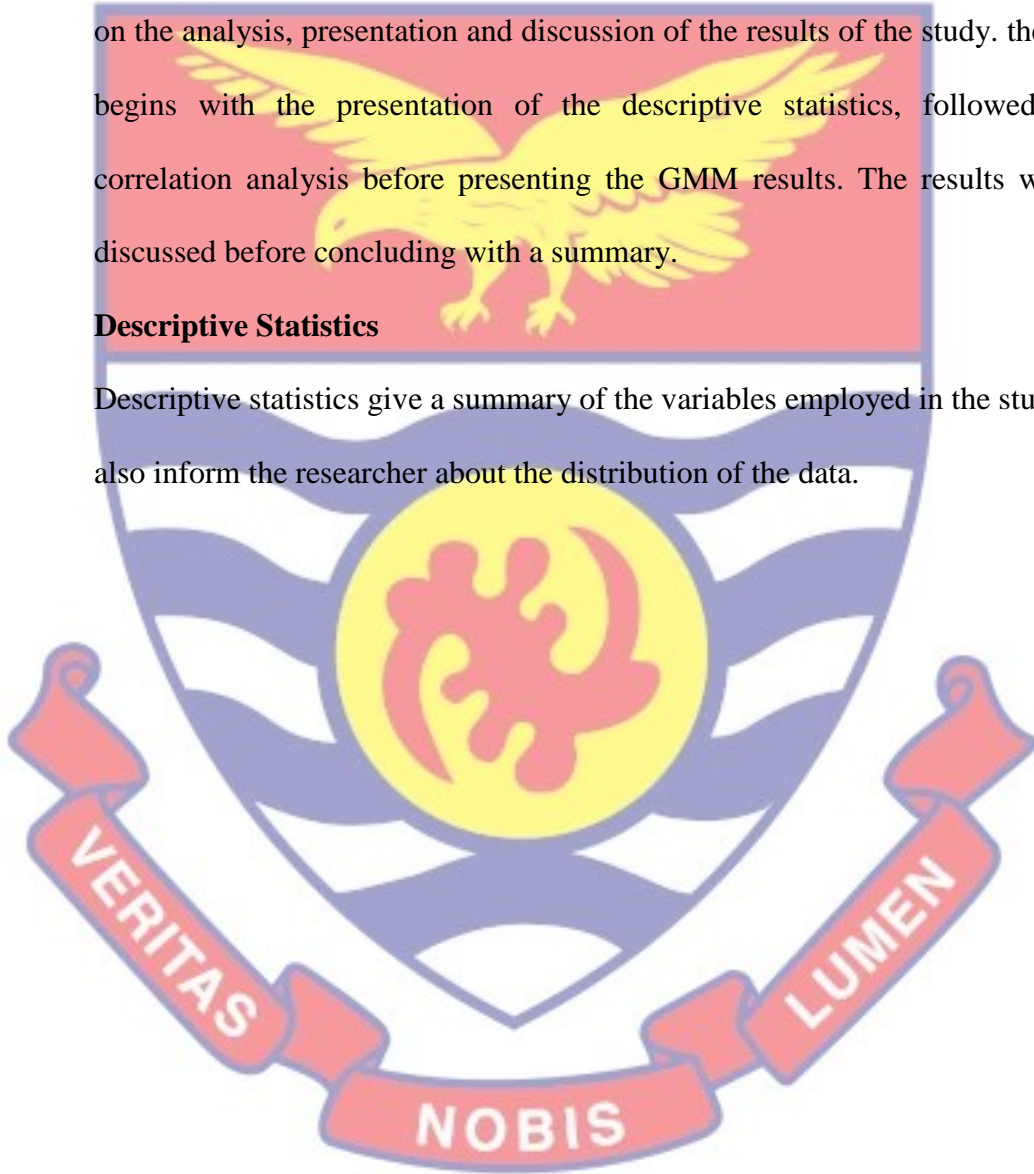


Table 3: Summary Statistics

	N	Mean	Median	Std. Dev.	Min	max
FDI	865	4.766	2.735	8.345	-11.199	103.337
GDPPC	865	2198.038	914.951	3193.903	111.927	22942.61
INST	874	30.708	28.454	18.641	3.389	77.4
COCr	874	31.515	27.054	22.242	0	86.058
Ger	874	27.133	22.596	20.314	.948	81.731
PSr	874	33.909	32.857	22.45	.476	93.75
RQr	874	29.083	26.486	18.518	.474	84.135
RLr	874	29.834	28.365	20.407	.474	83.663
Var	874	32.771	31.428	19.832	0	79.227
GCF	781	22.944	21.681	10.037	0	79.401
INF	815	8.235	5.264	23.359	-8.975	557.202
POPG	865	2.465	2.655	.924	-2.629	4.72
TRADE	789	69.801	60.847	34.636	.785	225.023
BM	832	32.553	24.613	25.377	2.917	176.789

COCr represents control of corruption, Ger represents government effectiveness, PSr represents political stability and absence of violence, RQr represents regulatory quality, RLr represents the rule of law, Var represents voice and accountability and INST2 represents the composite institutions indicator. FDI denotes foreign direct investment, GDPPC denotes gross domestic product per capita, GCF is gross capital formation, INF is inflation, POPG is population growth, TRADE denotes trade openness and BM denotes broad money supply

Source: Field data (2023)

Table 3 presents the descriptive statistics. The results revealed that the average FDI over the period under review is 4.766% of GDP. The average GDP per capita is \$2198.038 with a standard deviation of \$3193.903. This indicates that per capita income on the average has increased as compared to the one reported by Agbloyor et al. (2016).

The mean of the aggregate institutional indicator is 30.708% which indicates that institutions in SSA are weak. Specifically, control of corruption had a mean of 31.515% while government effectiveness had an average of 27.133%. This implies that the effectiveness level of government in SSA in terms of formulating and implementing policies as well as offering quality services to the people is very low. Political stability and absence of violence which recorded the highest mean of 33.909% also means that though majority of countries in the region allow their citizen to elect their governments democratically, their political environment seems not stable. The rest of the institutional indicators recorded lower averages suggesting low level of institutional quality.

Regarding the control variables in Table 3, gross capital formation recorded a mean of 22.944 with a standard deviation of 10.037. The rate of inflation recorded a mean of 8.235% indicating that inflation is on a decreasing level in the region while average population growth is 2.465% within a minimum and maximum values of -2.629 and 4.72 respectively. Meanwhile, trade openness had an average of 69.801% of GDP implying that SSA countries are highly open to international trade and broad money supply had a mean of 32.553.

Pairwise Correlation Results

Table 4 displays the pairwise correlation among the variables.

Table 4: Pairwise Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(1) GDPPC	1.000													
(2) FDI	0.053	1.000												
(3) INST2	0.344*	0.027	1.000											
(4) COC	0.273*	0.038	0.906*	1.000										
(5) GE	0.355*	-0.021	0.923*	0.857*	1.000									
(6) PS	0.439*	0.091*	0.817*	0.681*	0.641*	1.000								
(7) RQ	0.266*	-0.054	0.887*	0.747*	0.876*	0.580*	1.000							
(8) RL	0.324*	-0.005	0.963*	0.884*	0.912*	0.733*	0.868*	1.000						
(9) VA	0.151*	0.054	0.867*	0.725*	0.731*	0.625*	0.759*	0.797*	1.000					
(10) GCF	0.208*	0.483*	0.206*	0.194*	0.179*	0.197*	0.150*	0.221*	0.159*	1.000				
(11) INF	-0.062	0.009	-	-	-	-	-	-	-	-0.048	1.000			
(12) POPG	-	0.062	-	-	-	-	-	-	-	0.107*	-0.030	1.000		
(13) TRADE	0.179*	0.410*	0.410*	0.490*	0.433*	0.271*	0.297*	0.387*	0.344*	0.387*	-0.030	-	1.000	
(14) BM	0.561*	0.414*	0.341*	0.343*	0.289*	0.468*	0.179*	0.288*	0.207*	0.387*	-0.030	0.356*	-	1.000
	0.339*	0.012	0.460*	0.530*	0.491*	0.377*	0.279*	0.468*	0.335*	0.075*	-0.069	0.469*	0.333*	1.000

* $p < 0.05$,

COC represents control of corruption, GE represents government effectiveness, PS represents political stability and absence of violence, RQ represents regulatory quality, RL represents the rule of law, VA represents voice and accountability and INST represents the composite institutions indicator. FDI denotes foreign direct investment, GDPPC denotes gross domestic product per capita, GCF is gross capital formation, INF is inflation, POPG is population growth, TRADE denotes trade openness and BM denotes broad money supply

Source: Field data (2023)

From the table, it is observed that GDP per capita which is the dependent variable exhibited weak and positive association with the independent variables with the exception of inflation and population growth that have negative association while trade openness had a moderate association with GDP per capita.

FDI which is the main explanatory variable had an insignificant association with economic growth. FDI also had an insignificant association with both the composite and individual institutional indicators with the exception of political stability.

The individual institutions indicators have a very strong correlation with the aggregate indicator which is an indication that these institutional indicators perfectly measure the aggregate institutions. More so, the correlation among the individual institution indicators suggests that there exist a positive strong association among them, spanning from 0.580 to 0.921. This high correlation poses threat to multicollinearity problems, however, since these indicators are treated individually in separate models, this problem could be avoided. The correlation between the other independent variables do not pose threat to multicollinearity problems because they do not have high correlation among them.

Regression Results

In an attempt to meet the objectives of this study, the regression results have been presented in two tables, thus, Table 5 and Table 6. Table 5 displays the results of objective one and two which discuss the influence of foreign direct investment and institutional quality on economic growth respectively. The latter

table presents the results of the moderating effect of institutional quality on the relationship between FDI and economic growth. In each table, there are seven regression models of which model 1 in Table 5 depicts the results of the first and second objectives. Moreover, the table presents the influence of each individual institutional factors on economic growth. The institutional indicators are control of corruption (COCr), government effectiveness (Ger), political stability and absence of violence (PSr), regulatory quality (RQr), rule of law (RLr) and voice and accountability (Var).



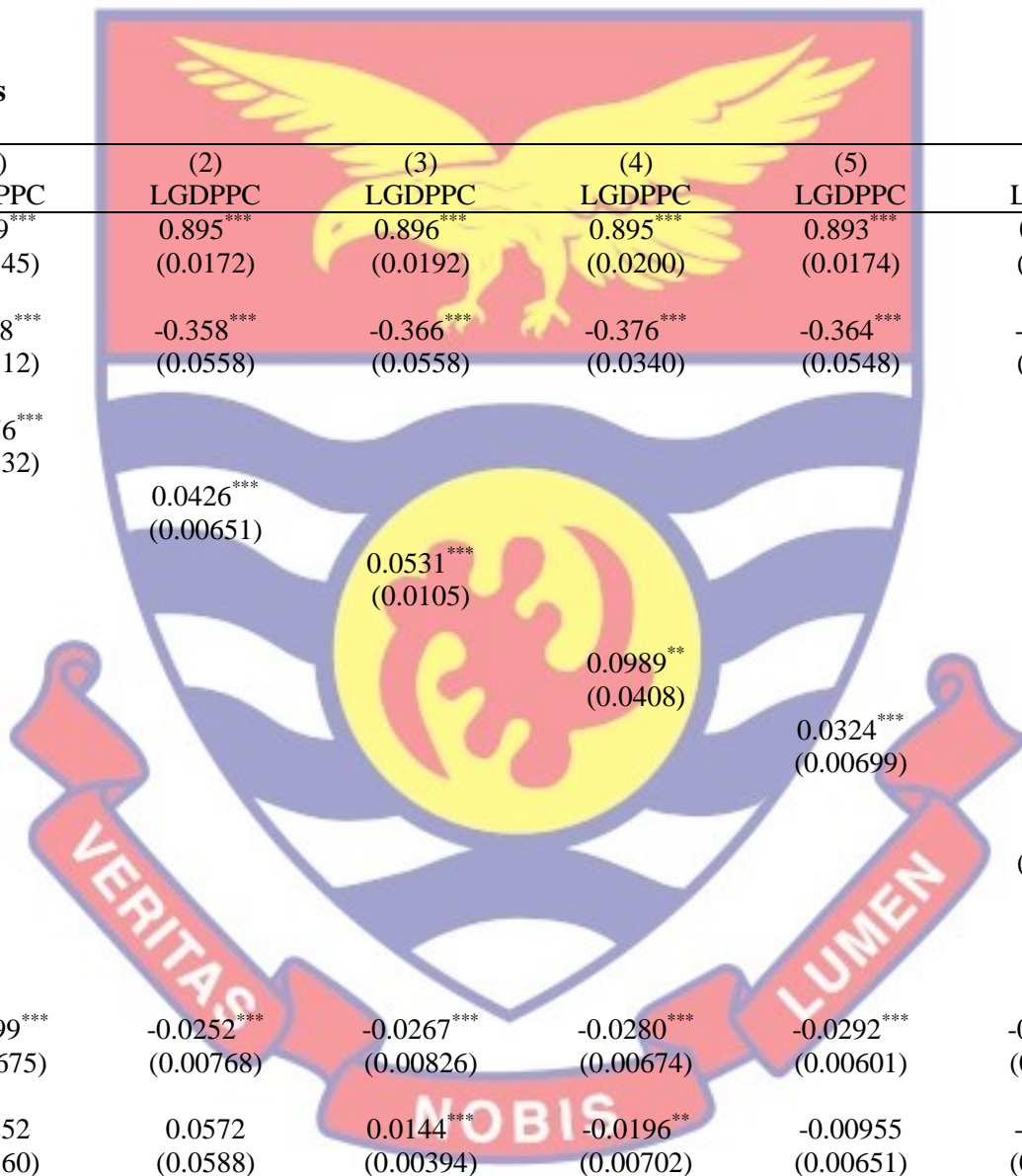
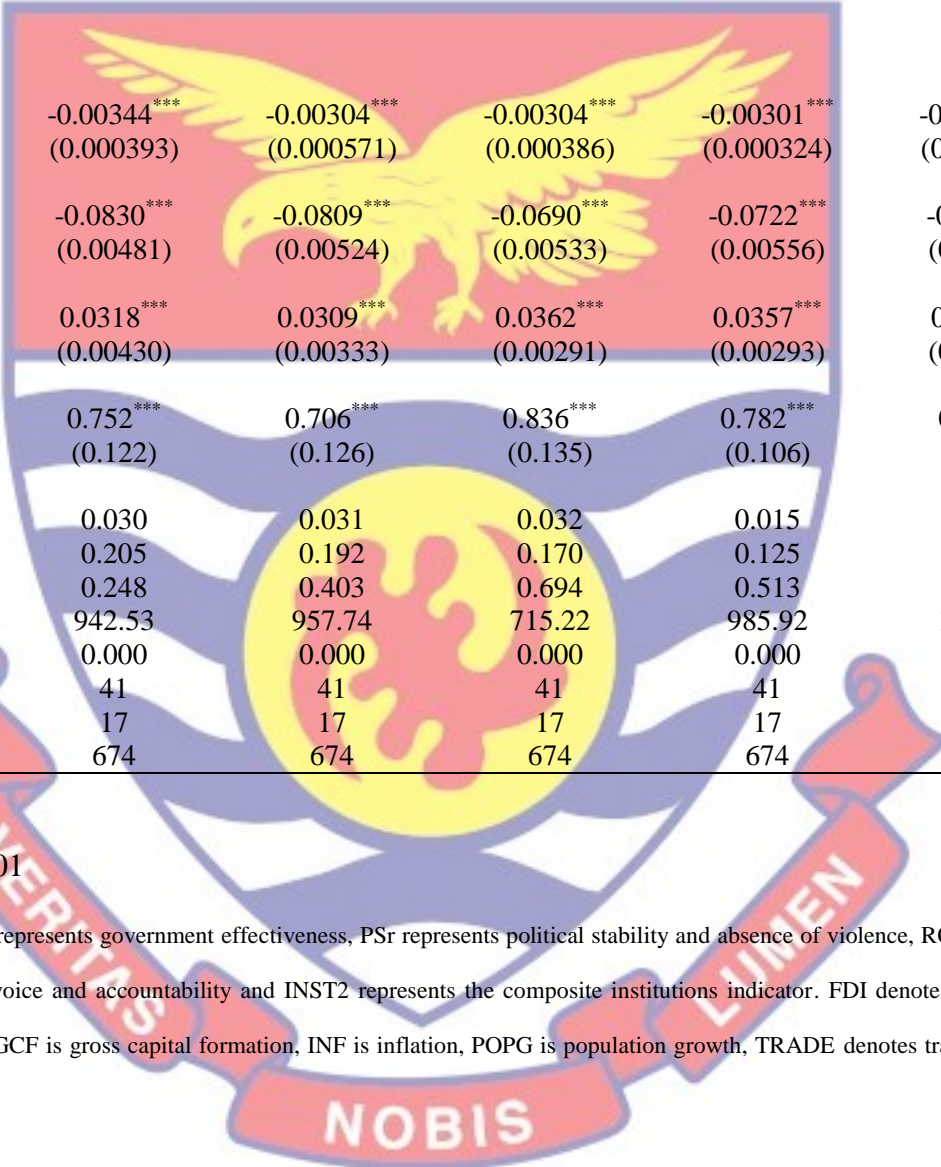


Table 5: Baseline Models

	(1) LGDPPC	(2) LGDPPC	(3) LGDPPC	(4) LGDPPC	(5) LGDPPC	(6) LGDPPC	(7) LGDPPC
L.LGDPPC	0.899*** (0.0145)	0.895*** (0.0172)	0.896*** (0.0192)	0.895*** (0.0200)	0.893*** (0.0174)	0.893*** (0.0211)	0.893*** (0.0166)
FDI	-0.328*** (0.0512)	-0.358*** (0.0558)	-0.366*** (0.0558)	-0.376*** (0.0340)	-0.364*** (0.0548)	-0.379*** (0.0556)	-0.358*** (0.0441)
INST2	0.0476*** (0.0132)						
COCr		0.0426*** (0.00651)					
Ger			0.0531*** (0.0105)				
PSr				0.0989** (0.0408)			
RQr					0.0324*** (0.00699)		
RLr						0.0147 (0.0125)	
Var							0.0380*** (0.00761)
GCF	-0.0299*** (0.00675)	-0.0252*** (0.00768)	-0.0267*** (0.00826)	-0.0280*** (0.00674)	-0.0292*** (0.00601)	-0.0297*** (0.00860)	-0.0297*** (0.00636)
POPG	0.0252 (0.0560)	0.0572 (0.0588)	0.0144*** (0.00394)	-0.0196** (0.00702)	-0.00955 (0.00651)	-0.00230 (0.00691)	-0.00718 (0.00628)



INF	-0.00314*** (0.000519)	-0.00344*** (0.000393)	-0.00304*** (0.000571)	-0.00304*** (0.000386)	-0.00301*** (0.000324)	-0.00351*** (0.000308)	-0.00346*** (0.000375)
BM	-0.0799*** (0.00380)	-0.0830*** (0.00481)	-0.0809*** (0.00524)	-0.0690*** (0.00533)	-0.0722*** (0.00556)	-0.0743*** (0.00589)	-0.0793*** (0.00697)
TRADE	0.0295*** (0.00451)	0.0318*** (0.00430)	0.0309*** (0.00333)	0.0362*** (0.00291)	0.0357*** (0.00293)	0.0339*** (0.00414)	0.0340*** (0.00323)
_cons	0.734*** (0.111)	0.752*** (0.122)	0.706*** (0.126)	0.836*** (0.135)	0.782*** (0.106)	0.847*** (0.168)	0.791*** (0.126)
<i>Diagnostics</i>							
AR(1)	0.024	0.030	0.031	0.032	0.015	0.027	0.031
AR(2)	0.141	0.205	0.192	0.170	0.125	0.133	0.172
Sargan	0.907	0.248	0.403	0.694	0.513	0.642	0.294
F	1238.74	942.53	957.74	715.22	985.92	1138.71	4426.03
Prob F	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Groups	41	41	41	41	41	41	41
Instruments	17	17	17	17	17	17	17
N	674	674	674	674	674	674	674

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

COCr represents control of corruption, Ger represents government effectiveness, PSr represents political stability and absence of violence, RQr represents regulatory quality, RLr represents the rule of law, Var represents voice and accountability and INST2 represents the composite institutions indicator. FDI denotes foreign direct investment, GDPPC denotes gross domestic product per capita, GCF is gross capital formation, INF is inflation, POPG is population growth, TRADE denotes trade openness and BM denotes broad money supply

Source: Field data (2023)

The results from Table 5 and 6 revealed that the lag of the dependent variable (L. LGDPPC) has a positive and significant influence on economic growth at 1% significant level across all the seven models. This indicates that the current state of the region's economic growth largely depends on the previous period's economic growth. This previous year's economic growth is actually a wealth accumulation as well as the substantial improvement in the economic infrastructure which results in higher savings rates, consumer purchasing power and productivity that can support current year's investments. Similar to this finding, Haj, Hamdaoui and Maktouf (2018) and Bouchoucha, and Yahyaoui (2019) concluded that current economic growth of SSA countries depends on previous economic growth.

Foreign Direct Investment and Economic Growth

In analysing the relationship between FDI and economic growth, column 1 in Table 4 presents the results. A thorough examination of the table reveals that at 1% significance level, foreign direct investment negatively and significantly affects economic growth. A coefficient of -0.328 suggest that a percentage increase in FDI results in 0.328% decrease in economic growth in SSA. The explanation to this adverse effect could to some extent be ascribed to the fact the FDI inflows are not utilised for productive purposes thereby resulting in low productivity of domestic firms. This could also result in unproductive competition among industries and poor adoptive capacities (Kulu, Mensah & Sena, 2021). Additionally, FDI inflows could be detrimental to the economic growth of SSA countries because these foreign investors may tend to dump foreign goods in to

the local markets thereby collapsing domestic infant industries. Also, in the absence of better institutions FDI may have negative influence on growth in the sense that foreign investors would repatriate all profits made to their countries when there is for instance political instability. Other possible reasons that could be given to this negative relationship is that these multinational enterprises may harm the environment by overly exploiting the natural resources of the host nations and also introduce technologies that are out of date and inappropriate which could work against the interest of the domestic countries.

Furthermore, it could be that inflows utilised for growth and development purposes might come from non-governmental agencies, international organisations or some donor countries other than FDI, especially in nations that lack natural resources. However, nations with natural resources that attract FDI may also see their growth retarding in cases where such inflows are embezzled by government officials. This result is in line with the findings of Brenner (2014), Rahman (2015), Asamoah, Mensah and Bondzie (2019) and Omaku (2019) that FDI has negative relationship with economic growth. On the contrary, extant works have recorded positive relationship (Iamsiraroj, 2016; Ahmad et al., 2018; Raza & Karim, 2018; Raza et al., 2019; Rao, Sethi, Dash & Bhujabal, 2020) while others recorded no evidence of association among them (Agbloyor et al., 2016; Carbonell & Werner, 2018).

Institutional Quality and Economic Growth

The second objective of this study examines the relationship between governance indicators (institutional quality) and economic growth. In this sub-

section, the composite effect is discussed first while the individual institutional indicators' effects are discussed subsequently. In Table 5, it could be observed from column 1 that over the study period, institutions exhibit a positive and significant relationship with economic growth with a coefficient of 0.0476 at 1% significance level. Literally, this implies that an improvement in the region's institutions by one percentage would result in 0.0476 percentage increase in the growth of the economy. The findings suggest that the more organized or better the region's institutional quality is, the higher the likelihood of improving its economic growth. The reason being that an improved institutional quality would create a conducive atmosphere to conduct businesses, thereby allowing investments to be channeled into productive ventures.

Thus, countries whose governments are effective in developing and carrying out policies as well as providing excellent services to the populace, frown on corruption, politically stable and have strong accountability are likely to have improved economic growth. This is because, such environment creates more opportunities for investors to invest in such nations and as such might offer the host nation both implicit and unobtrusive benefits required to boost growth and development. The finding is consistent with the works of Kulu et al. (2021) who documented that better institutional quality augments economic growth in Ghana. Similar works like Afonso and Jalles (2016) and Yakubu (2020) also concluded that good institutional quality is growth-augmenting.

With regards to the specific institutional indicators, it was found from Table 4 column 2 that control of corruption exhibited a significant positive

relationship with economic growth. This implies that the more a country raises its level of transparency measures in its regulations and policies, the more it improves its growth as corruption retards growth (Mauro, 1995). As such, countries that are transparent in terms of detecting and prosecuting corrupt persons are able to attract investments from international funds for developmental projects. Moreover, economies that are able to control the level of corruption by way of improving their integrity and bureaucratic efficacy are in a better position of ameliorating their economic growth because resources would be allocated efficiently to the right people for productive activities. In accordance with earlier studies, Osei-Assibey and Adu (2016) opined that control of corruption has a positive effect on portfolio inflows thereby leading to improved economic growth in SSA countries. Fagbemi and Bello (2019) also espoused healthy institution in terms of control of corruption has salutary influence on SSA countries since it aids in promoting economic growth.

From Table 5 column 3 and 5, it could be observed that the effectiveness of government and regulatory quality have significant positive relationship with economic growth in SSA at 1% significance level. These two indicators go hand in hand with each other and it is not surprising that they all have positive influence on economic growth since government effectiveness largely depends on regulatory and bureaucratic quality (Mu, Phelps & Stotsky, 2013). When government is effective enough in formulating and implementing sound regulations and policies that would allow and enhance development in the public and private sector as well as instigating appropriate price controls and bank

supervision measures, more idle funds can be pushed into the economy for investment purposes (Boadi & Amegbe, 2017). This therefore suggests that if there are favourable regulatory requirements in any country in terms of starting up new businesses, several people either indigens or foreign investors can be motivated to do so, consequently enhancing growth in the country.

On the other perspective, an economy characterised by good policies that promote favourable competition among industries, effective delivery of quality public goods and services and transparent and open regulatory instructions is able to attract investors that tends to increase the level of employment in the country. The delivery of public goods such as security and other amenities enables people to work effectively without any fear and panic. This finding is tandem with the findings of Saidi, Ochi and Ghadri (2013) who affirms that regulatory quality positively affects FDI and consequently growth. Contrary to this, Semenas (2020) argued that government effectiveness has a significant influence on FDI which in turns retard growth.

Furthermore, an examination of Table 5 column 4 reveals that political stability and absence of violence has a significant positive impact on economic growth. The positive coefficient means that, at 5% significance level, a percentage rise in an economy's attempt in improving political stability and ensuring that violence as a result of politics is reduced would result in 0.0989% increase in the country's economic growth. This governance indicator actually recorded the highest coefficient among the other indicators, which suggests how important it is to the enhancement of growth. The implication is that if there exist politically

driven acts of terror, there is the possibility of such acts posing a threat to the stability of businesses and may deter investment from domestic and multinational enterprises. This implies that if economies in SSA desire to enhance growth, they should devise strategies that would help prevent terrorism even though most of the SSA nations practice democracy system of government so as to make their business environment welcoming enough. Valeriani and Peluso (2011) agrees to this finding that political stability exert significant influence on growth. Aisen and Veiga (2013) and Gakpa (2020) concluded that of political instability slows the pace of productivity growth, which inhibits economic growth.

Surprisingly, rule of law which demonstrates how various actors of the economy respect and uphold social norms was revealed to have an insignificant influence on economic growth. This indicates that whether people have respect police, confidence in the judiciary or there is good quality in enforcing property rights and contracts does not affect the growth of the economy. One possible reason that can be given to the insignificant relationship is that as inadequate property rights protection creates avenue for corruption (Butkiewicz & Yanikkaya, 2006), investors may not prioritise it since corruption sometimes helps to swerve excessive regulation and bureaucracy in government. Ofori and Asongu (2021) disagrees with this finding and argued that Rule of law has a tremendous impact on SSA's inclusive growth. The authors concluded that for SSA countries to have an improvement in the porosity growth trajectories, there is the need for government to operate on systems that are politically free and transparent to guarantee the security of the public purse and the protection of the

common person from arbitrary regulations.

Voice and accountability which is the last governance indicator has positive significant impact on economic growth. This suggests that countries that aim at enhancing freedom of speech and expression and participation, are better off in increasing their economic growth. Particularly, with the emergence of communication technology where people can voice out their grievances without any fear, employees may somewhat be satisfied and increase productivity when their needs are attended to. In the same vein, the result could be attributed to the fact that there is freedom of the press where the media can bring to the public the actions of public officials without being threatened or intimidated. This lessens the level of corruption and encourages political accountability (Kwabi, Boateng, Fosu, Zhu & Chijoke- Mgbame, 2021).

Moderating Institutional Quality with FDI

To address the final objective which seeks to examine the moderating influence on the relationship between FDI and economic growth, the composite institutional quality as well as the individual ones were interacted with FDI. The interaction variable was then regressed on economic growth to confirm the presence of moderating effect in the model based on the significance level of the coefficient.

Table 6: Moderation Results

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	LGDPPC	LGDPPC	LGDPPC	LGDPPC	LGDPPC	LGDPPC	LGDPPC
L.LGDPPC	0.894*** (0.0157)	0.911*** (0.0184)	0.896*** (0.0185)	0.898*** (0.0173)	0.902*** (0.0208)	0.897*** (0.0218)	0.901*** (0.0179)
FDI	-0.0225*** (0.00477)	-0.0205*** (0.00452)	-0.0231*** (0.00590)	-0.0235** (0.00873)	-0.0308*** (0.00678)	-0.00243*** (0.000606)	-0.00174 (0.00106)
INST2	0.00520*** (0.00141)						
COCr		0.0400*** (0.00763)					
Ger			0.0572*** (0.00965)				
PSr				0.103** (0.0366)			
RQr					0.0300*** (0.00819)		
RLr						0.0142 (0.0142)	
Var							0.0418*** (0.00708)
Interaction	-0.0766** (0.0332)	-0.0906*** (0.0209)	-0.0822*** (0.0197)	-0.0665 (0.0449)	-0.0624 (0.0472)	-0.0704** (0.0274)	-0.0115** (0.00561)
GCF	-0.0292*** (0.00671)	-0.0286*** (0.00651)	-0.0299*** (0.00666)	-0.0311*** (0.00606)	-0.0279*** (0.00775)	-0.0301*** (0.00804)	-0.0317*** (0.00687)
POPG	0.0581 (0.0729)	0.0694 (0.0546)	0.0158*** (0.00436)	-0.0138 (0.0103)	-0.00525 (0.00701)	-0.00598 (0.00545)	-0.00426 (0.00787)

INF	-0.0332 ^{***} (0.00551)	-0.0354 ^{***} (0.00384)	-0.0328 ^{***} (0.00617)	-0.0324 ^{***} (0.00363)	-0.0308 ^{***} (0.00378)	-0.0351 ^{***} (0.00379)	-0.0352 ^{***} (0.00409)
BM	-0.0788 ^{***} (0.00431)	-0.0851 ^{***} (0.00602)	-0.0794 ^{***} (0.00533)	-0.0716 ^{***} (0.00419)	-0.0734 ^{***} (0.00632)	-0.0787 ^{***} (0.00625)	-0.0836 ^{***} (0.00627)
TRADE	0.0286 ^{***} (0.00461)	0.0309 ^{***} (0.00398)	0.0307 ^{***} (0.00324)	0.0353 ^{***} (0.00332)	0.0364 ^{***} (0.00246)	0.0337 ^{***} (0.00357)	0.0344 ^{***} (0.00367)
_cons	0.754 ^{***} (0.113)	0.654 ^{***} (0.129)	0.703 ^{***} (0.127)	0.825 ^{***} (0.114)	0.703 ^{***} (0.141)	0.837 ^{***} (0.179)	0.723 ^{***} (0.133)
Diagnostics							
AR1	0.024	0.033	0.024	0.033	0.020	0.027	0.009
AR2	0.249	0.133	0.289	0.846	0.267	0.151	0.070
Sargan	0.426	0.511	0.710	0.300	0.338	0.612	0.602
F	2386.72	779.53	2162.93	894.80	635.20	1170.16	1842.71
Prob F	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Groups	41	41	41	41	41	41	41
Instru.	19	19	19	19	19	19	19
N	674	674	674	674	674	674	674

Standard errors in parentheses; * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

COCr represents control of corruption, Ger represents government effectiveness, PSr represents political stability and absence of violence, RQr represents regulatory quality, RLr represents the rule of law, Var represents voice and accountability and INST2 represents the composite institutions indicator. FDI denotes foreign direct investment, GDPPC denotes gross domestic product per capita, GCF is gross capital formation, INF is inflation, POPG is population growth, TRADE denotes trade openness and BM denotes broad money supply

Source: Field data (2023)

The results from Table 6 unveil that FDI still has negative effect on economic growth across all the models albeit the presence of the interaction. A thorough observation of the results further discover that, though FDI deter growth, the negative impact has reduced significantly. Apparently, there have been an improvement in the coefficients as compared to the ones in Table 5. In agreement with the results in Table 5, these coefficients were all significant except that of model 7. The improvement in this link could be attributed to the fact that there exists thriving institutional environment that provides a suitable mechanism for achieving the actual FDI spillover potential through a policy framework that guides the way toward cost-effective measures in SSA. Moreover, it could be that the healthy environment fosters collaborations between FDI and local companies, thereby enhancing the productivity gains than when there exist poor institutions.

The presence of rule of law, an effective government, a lack of corruption and quality regulations, may synchronize domestic and international businesses by giving them a favourable condition and encouraging healthy competition (Hayat, 2016). Researchers opine that majority of developing countries that attract FDI are those that are endowed with natural resources and as such economies that have inadequate natural resources to be exploited by foreign investors attract FDI through better institutional quality (Asiedu & Lien, 2011). The policy implication is that fundamental investment policies should be implemented throughout African nations to encourage the private sector to coordinate with public initiatives and resources aimed at enhancing regional competitiveness by shifting the region's economies away from a protracted commodity-based economy.

Additionally, with the introduction of the interaction term in the models, the institutional indicators still maintained their positive influence on economic growth which support the second objective that when institutions are sound it enhances growth. More so, it could be explained that despite the severe economic situation in the region (Fagbemi & Bello, 2019), a conducive environment for better institutional quality may be able to lessen the region's poor economic performance. In relation to the moderating effect of institutions and FDI, it is realised that there is a significant moderating influence of institutional quality on the relationship between FDI and economic growth in all the models except model 4 and 5. All the interaction coefficients had a negative effect on growth signifying that lack of institutional coordination and poor governance policies result in low investment from foreigners which also lead to reduction in exports and employment rate in SSA.

In addition, the direction of the interaction variables somewhat means that if there are weaker institutional reforms (like political instability, government ineffectiveness, no rule of law, corruption and people cannot openly express their opinion) in SSA as evidenced in the descriptive statistics, foreign investors may not be attracted into the region, and even if they do, they would come and liaise with the corrupt officials in the host nations and repatriate their proceeds to their countries which deter growth in the domestic countries. Since financial markets in SSA countries are underdeveloped, weaker institutional quality would create more room for adverse effect foreign inflows have on the economy. In furtherance to this, poor institutions result in increased transaction costs and risks, which in turn

cause foreign businesses to make shorter-term investments and less long-term commitments in a domestic country.

Jude and Levieuge (2015) supported this assertion and concluded that bad institutional quality is very likely to garner foreign direct investments that focus on resource extraction and have only modest potential for growth. Subject to the direction of the interaction variable, it could be deduced that it will be bad for the region's economy if there is a flow of foreign direct investment without the required economic institutions to convert the inflows into investments that would spur growth. In contrast to this finding, Subasat and Bellos (2013) surmised that weak governance system encourages more multinational enterprises to choose emerging economies like SSA countries, which then spur growth in the corresponding recipient economies. Other researchers such as Adeleke (2014), Ajide, Adeniyi and Raheem (2014), Hayat (2017) and Fagbemi and Bello (2019) contradicts the findings of this work that institutional quality augments the negative effect of FDI on economic growth.

Control Variables

In addition to the main explanatory variables of interest to this study, the study also examined the influence of some macroeconomic indicators on economic growth. These are gross capital formation, inflation, population growth, trade openness and broad money supply. Gross capital formation depicted a significant negative relationship with economic growth across all the models in both Table 5 and 6. This suggest that the physical capital accumulated by SSA countries either through interest rates or FDI are not being used efficiently for

productivity, hence retarding growth. This is consistent with the findings of Muhammad and Khan (2019) and Topcu, Altinoz and Aslan (2020) and contrast with Erum and Hussain (2019), Awodumi and Adewuyi (2020) and Rahman and Velayutham (2020).

Population growth as the second control variable was found to both positive and negative relationship with economic growth based on the results in Table 5 and 6. Out of these relationships, it could be seen that population growth significantly affects economic growth in model 3 (positive) and 4 (negative) in Table 5 and model 3 (positive) in Table 6. The positive relationship means that when the population increases especially those in the workforce, more output would be produced which would lead to higher growth. Also increase in the size and rate of the population creates large markets for products. In line with this, Agbloyor, Abor, Adjasi, and Yawson (2014), Adams and Opoku (2015) as well as Asongu and Odhiambo (2020) postulated that population growth has direct influence on economic growth in SSA. Sirag et al. (2018) also support that population growth could have a significant negative effect on economic growth.

Inflation on the other hand had an inverse and significant relationship with economic growth which agrees with the propositions of earlier researchers like Kelsey and le Roux (2018), Azam and Khan (2020) and Tien (2021). This suggests that, as inflation rises, it increases the level of uncertainty in the economy which compels investors particularly foreigners to reduce their investments. However, Omake (2019) assert that inflation is not always detrimental to growth.

Broad money supply from the results also exhibited a negative effect on economic growth, indicating that as more money enter into the system, economic growth deteriorates. More money in circulation causes inflation which hinders growth to a larger extent. Kunwar (2020) found similar results. Other researchers argue that money supply has positive influence on economic growth in the sense that it leads to economic expansion which results in increased output and employment (Chude & Chude, 2016; Omodero, 2019).

Lastly, trade openness which talks about the rate at which countries allow international trade exhibited a direct and significant effect on economic growth. This implies that since SSA countries are open, it enables them to freely move factors of production from other nations and also attract foreign investors to come in with their expertise thereby increasing productivity. The narrative in the literature is not different from this assertion as numerous works have confirmed this nexus (Malefane, 2020; Raghutla, 2020; Kong, Peng, Ni, Jiang & Wang, 2021)

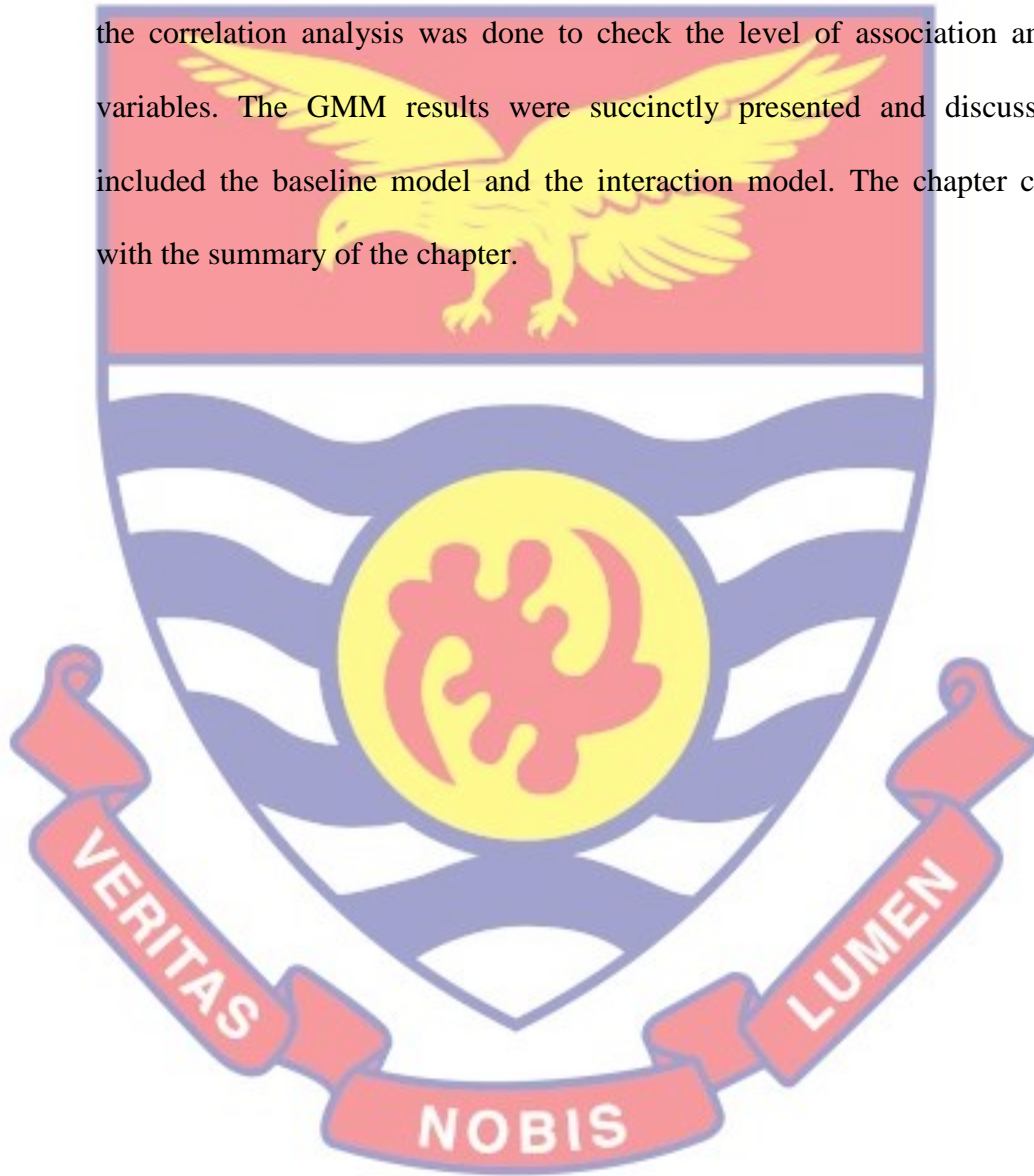
Model Diagnostics

The technique used in this study necessitates the testing of some diagnostics. The Sargan test of overidentifying restrictions which test the possible over-identification problem and the Arellano – Bond test for serial correlation were conducted. It is expected that the null hypotheses of these test should not be rejected with the exception of AR (1) test) which indicates the existence of serial correlation in the first order. The results from all the models show that the null hypotheses of these test (Sargan and AR (2)) should not be rejected since their p-

values are all greater than 0.05 indicating the validity of the models.

Chapter Summary

The chapter began with description of the variables used where mean, standard deviation, minimum and maximum values were reported. Subsequently, the correlation analysis was done to check the level of association among the variables. The GMM results were succinctly presented and discussed. This included the baseline model and the interaction model. The chapter concluded with the summary of the chapter.



CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter is in three folds; the summary section which brings to light the summary of the study and key findings of the study, conclusions that are drawn based on the results and recommendations. The chapter is completed by provided some suggestions for further studies.

The study sought to investigate the role of governance or institutional quality on the relationship between foreign direct investment and economic growth in SSA. Owings to this, three specific objectives were specified;

1. To examine the relationship among FDI and economic growth in SSA.
2. To assess the relationship between institutional quality and economic growth in SSA.
3. To investigate the moderating role of institutions on the FDI – growth nexus.

The researcher relied on the neoclassical microeconomic theory and new growth theory for the theoretical justifications. Moreover, empirical literature was also conducted to support the specified objectives. The quantitative research approach and explanatory design were employed. Generalized method of moments estimation technique, specifically the two-step system GMM was used to analyse the secondary data sourced from credible sources like the World Development Indicators and Worldwide Governance Indicators website. The data used for the study spanned from 2002 to 2018.

Summary of Findings

Relative to the analysis of the data, the study unveiled some insightful results. Based on the first objective and for that matter its corresponding hypothesis, the study found that there exists a significant negative relationship among FDI and economic growth which could be explained by inefficient utilization of FDI inflows for productive activities in the host countries and also the repatriation of all profits by foreign investors to their countries as a result of weak institutional qualities in SSA. This led to the rejection of the first hypothesis that FDI has no significant relationship with growth.

Regarding the second objective, it was revealed that the composite institutional indicator had a significant positive relationship with economic growth. This signifies that SSA countries that have better institutions provide investors with an environment that is conducive enough for their investments to be fruitful, hence augmenting economic growth. Specifically, control of corruption, government effectiveness, regulatory quality, political stability and absence of violence and voice and accountability had significant positive relationship with economic growth, while rule of law had an insignificant positive relationship with economic growth.

Regarding the moderating effect of institutions, it was discovered that there is a significant moderating influence of institutional quality on the relationship between FDI and economic growth. This leads to the rejection of the final hypothesis of the study. All the interaction coefficients had a negative effect on growth suggesting that lack of institutional coordination and poor governance

policies result in low investment from foreigners which also lead to reduction in exports and employment rate in SSA.

Conclusion

Premised on the findings of the study, the study concluded that FDI inflows are not vital to the growth of the economy as it brings more harm than good to SSA countries. This suggests that as foreign investors enter a domestic country, they tend to overly exploit the natural resources of the host nations which cause harm to the environment.

Moreover, healthy and sound institutional qualities and effective governance are necessary for the growth of SSA economies as they create opportunities for investors to operate freely. For instance, countries that are transparent in terms of detecting and prosecuting corrupt persons are able to attract investments from international funds for developmental projects.

The study finally concludes that since governance dimensions or institutional qualities in SSA are not strong enough, it makes FDI inflows have inimical impact on the economy as evidenced in the negative interaction variable in the models.

Recommendations

The study made the following recommendations based on the findings and conclusion of the study.

It is recommended that SSA countries with limited natural resources should focus on inflows from non-governmental agencies, international organisations or some donor countries other than FDI.

The governments and policy makers in SSA economies should initiate policies that would strengthen institutions that would integrate the freedoms, opinions and wills of people in decision making and also be willing to prosecute culprits, if such countries aspire to grow faster.

SSA countries should establish and implement policies that would promote strong institutional quality in order to reduce the negative impact of FDI on the growth of the economies since such policies would serve as checks and measures to curtail some harmful activities of foreign investors.

Suggestions for Further Studies

Further studies should compare the importance of institutions on the FDI-growth nexus in developed and emerging economies. Even in the African context, further researches can be done by using all the countries in the continent. Upcoming researchers can also assess the influence of FDI on the performance of various industries in the region.



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APPENDIX

Countries used in the study



Angola	Liberia
Benin	Madagascar
Burkina Faso	Malawi
Burundi	Mali
Cabo Verde	Mauritania
Cameroon	Mauritius
Central African Republic	Mozambique
Chad	Namibia
Comoros	Niger
Congo, Dem. Rep.	Nigeria
Congo, Rep.	Rwanda
Cote d'Ivoire	Sao Tome and Principe
Equatorial Guinea	Senegal
Eritrea	Seychelles
Eswatini	Sierra Leone
Ethiopia	South Africa
Gabon	Sudan
Gambia, The	Tanzania
Ghana	Togo
Guinea	Uganda
Guinea-Bissau	Zambia
Kenya	Zimbabwe
Lesotho	