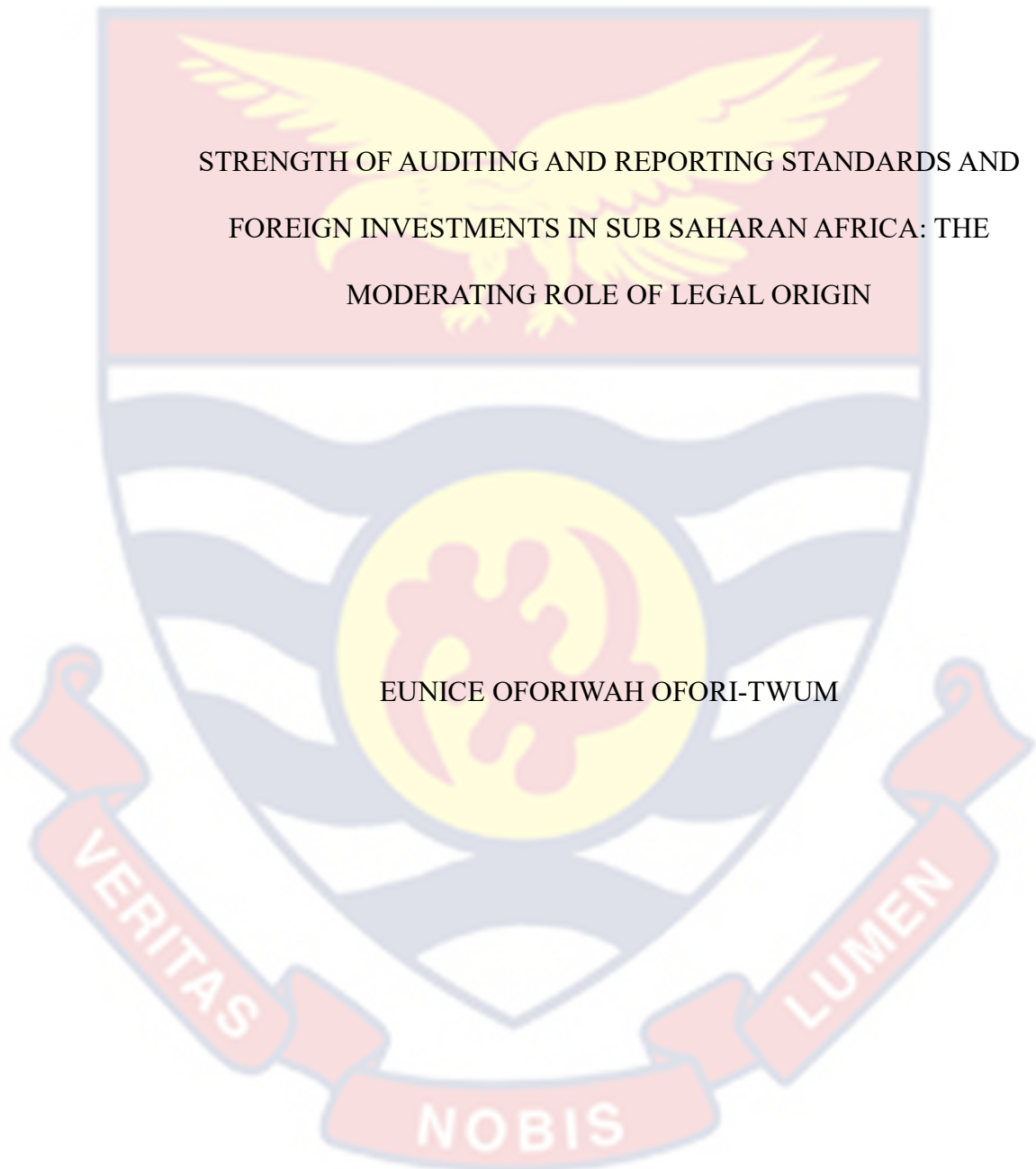UNIVERSITY OF CAPE COAST

STRENGTH OF AUDITING AND REPORTING STANDARDS AND

FOREIGN INVESTMENTS IN SUB SAHARAN AFRICA: THE

MODERATING ROLE OF LEGAL ORIGIN

EUNICE OFORIWAH OFORI-TWUM

2023

UNIVERSITY OF CAPE COAST

STRENGTH OF AUDITING AND REPORTING STANDARDS AND

FOREIGN INVESTMENTS IN SUB SAHARAN AFRICA: THE

MODERATING ROLE OF LEGAL ORIGIN

BY

EUNICE OFORIWAH OFORI-TWUM

Thesis submitted to the Department of Accounting 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 Commerce Degree in Accounting.

AUGUST 2023

DECLARATION

Candidate's Declaration

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

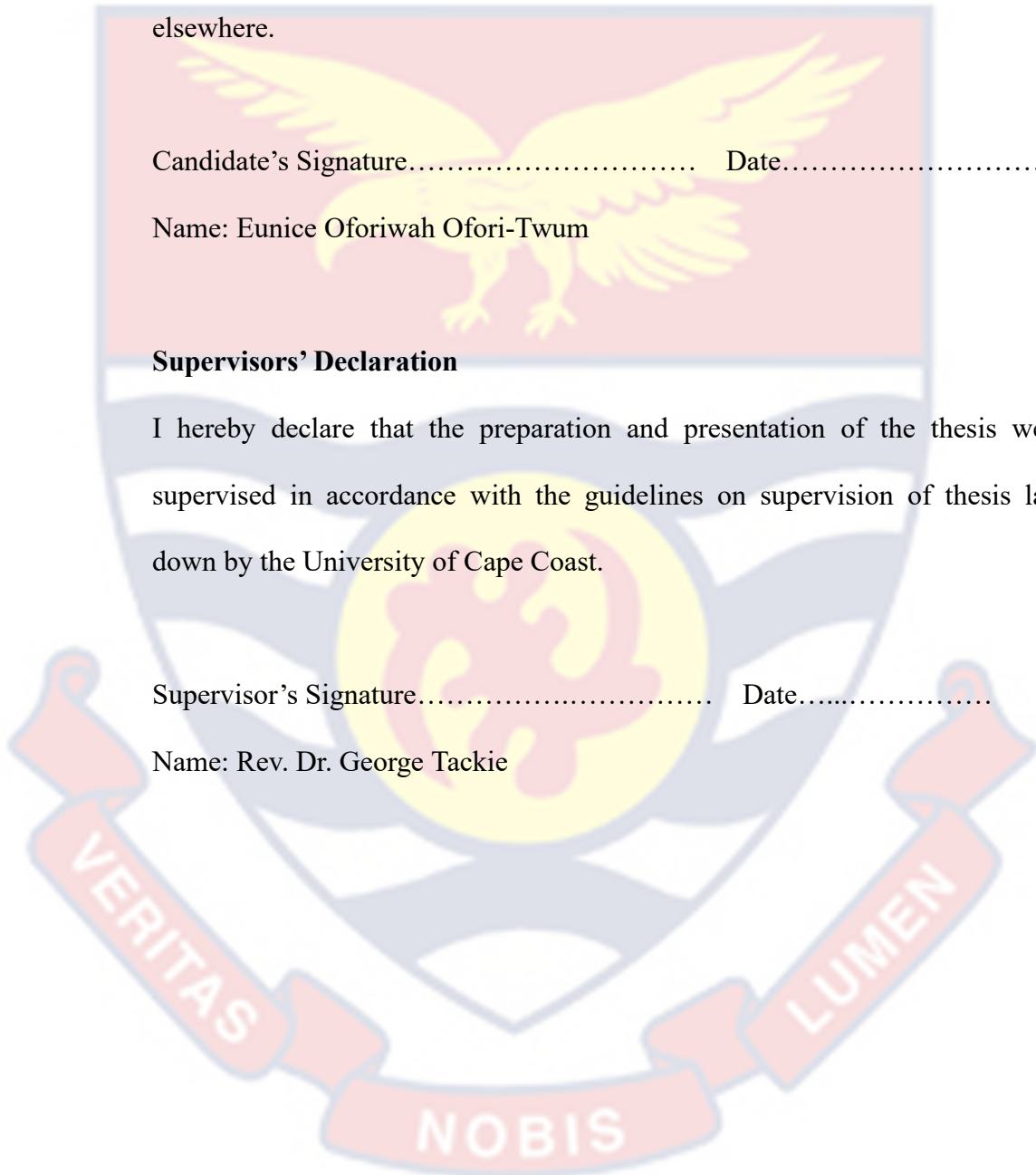Candidate's Signature………………………… Date…………………….....

Name: Eunice Oforiwah Ofori-Twum

Supervisors' Declaration

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

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

Name: Rev. Dr. George Tackie

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ABSTRACT

Investors have access to foreign diversification either through foreign direct investment or through foreign portfolio investment. Some Sub-Saharan African (SSA) countries have adopted the International Financial Reporting Standards (IFRS) for the preparation and presentation of their financial statements. This requires that their statements must be audited. Auditing has also been embraced by these countries, to give independent assurance that they are not misleading the general public. This consequently draws the attention of foreign investors to such countries. This study sought to examine the effect of the Strength of Auditing and Reporting Standards (SARS) on foreign investments and to also consider the moderating role of legal origin, on the relationship between SARS and foreign investments. The study adopted the positivism paradigm and employed the quantitative approach, together with the explanatory research design, involving 33 out of 48 SSA countries. The study used a dataset of 396, for a period spanning 12 years. Using the System Generalised Method of Moments, models were estimated and it was found that SARS has a positively significant relationship with both foreign direct investment and foreign portfolio investment. Legal origin of SSA plays a significant moderating role in the attraction of foreign investment to SSA countries. It is recommended that governments of SSA countries should develop their regulatory system to effectively support Auditing and Reporting Standards, so they can attract more foreign investments.

KEY WORDS

Foreign Direct Investment (FDI)

Foreign Investments

Foreign Portfolio Investment (FPI)

International Financial Reporting Standards (IFRS)

Legal Origin

Strength of Auditing and Reporting Standards (SARS)

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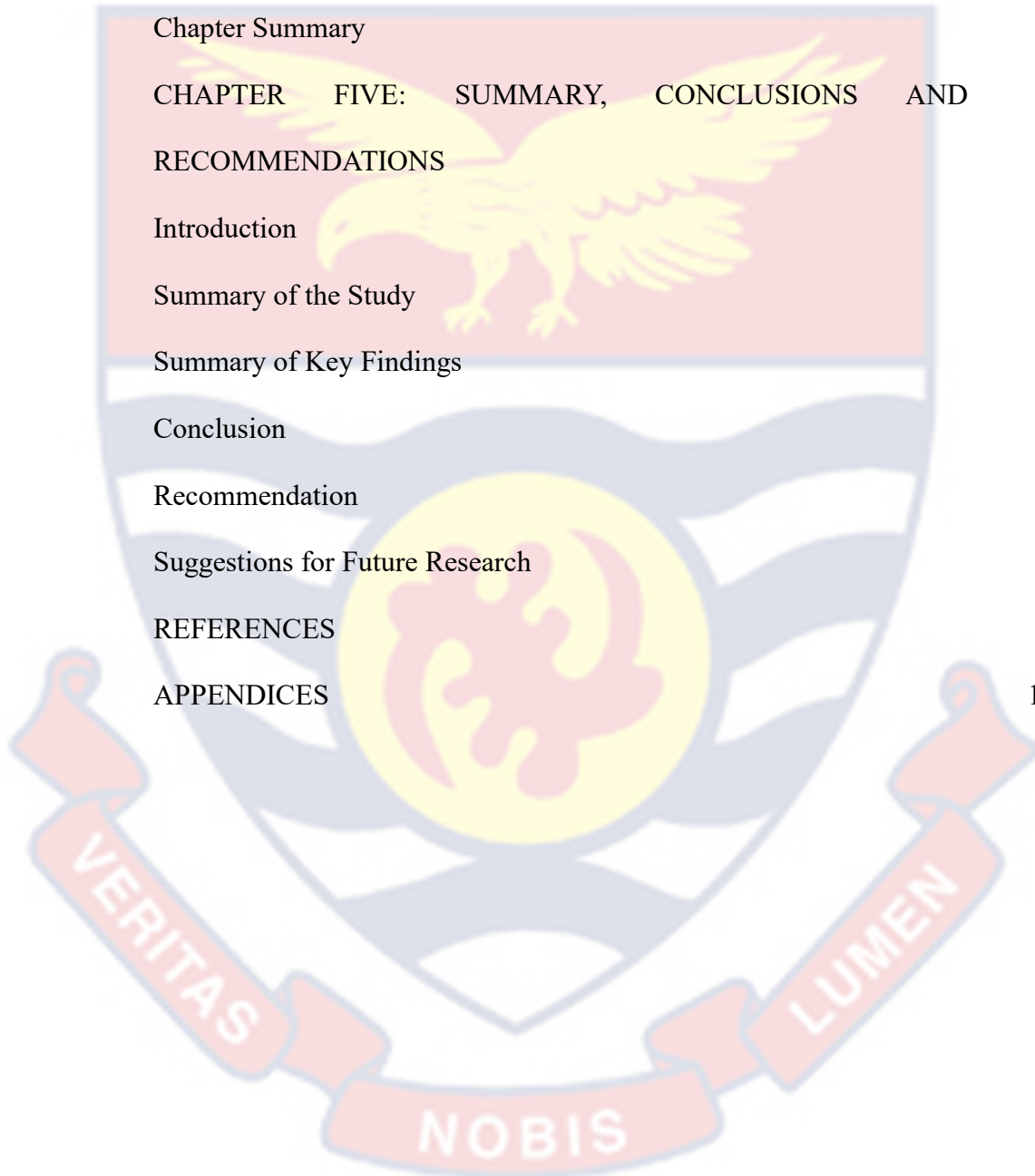
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DEDICATION

To my family

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LIST OF ACRONYMS

DCPSECTOR	Domestic Credit to Private Sector
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
GNAS	Ghana National Accounting Standards
GDP	Gross Domestic Product
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INFLA	Inflation
OFEXRATE	Official Exchange Rate
RINTRATE	Real Interest Rate
SARS	Strength of Auditing and Reporting Standards
SDGs	Sustainable Development Goals
TOPEN	Trade Openness
TNRRENT	Total Natural Resource Rent
WDI	World Development Indicators
WGI	World Governance Indicators

CHAPTER ONE

INTRODUCTION

Investors have access to foreign diversification either through foreign direct investment or through foreign portfolio investment (Desai & Dharmapala, 2009). However, accounting information may provide confidence to these investors. Regulations from the International Accounting Standards Board (IASB) require that countries that have adopted the accounting and reporting standards must have their financial statements examined. Some Sub-Saharan African (SSA) countries have embraced the International Financial Reporting Standards (henceforth, IFRS) and this requires that firms be audited. Due to that, auditing has also been embraced by these countries, to give independent assurance that firms are not misleading the general public.

The implementation of the audit and reporting standards has not been very effective (Kurauone *et al.,* 2021). Some researchers argue that common law countries have a regulatory framework which is more effective than civil law countries. Existing literature has discussed the effects of IFRS on foreign direct investment, as well as the effect of IFRS on foreign portfolio investment. As this study is different from extant literature, it examines whether the Strength of Auditing and Reporting Standards (henceforth, SARS), not just adoption, influences foreign investments. The study also considers the moderating role of legal origin, on the association between SARS and foreign investments.

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Background to the Study

Many countries across the globe have adopted IFRS for their financial reporting practices, in the last decade (Lungu, Caraiani, & Dascălu, 2017; Amiram, 2012). Though some countries have yet to adopt the IFRS, governments across the globe have centred on the benefits the similarity in financial statements brings to countries adopting the IFRS (Lungu et al., 2017). From international trade as a form of international business to foreign investments, investor confidence has been underpinned by quality accounting information (Amiram, 2012).

According to Wu, Li and Selover (2012), the engine behind the economic growth of most countries in this increasingly globalized economy is foreign investment and it has also been a major subject or study area in international business. Foreign investment occurs when people from one country invest in another country. It could be a firm investing in a foreign firm, an individual investing, or a country investing in another firm or country. Foreign investment can be done either through foreign direct investment or through foreign portfolio investment (Amiram, 2012).

Before an investor would invest in an economy, the investor might want to ascertain the financial standing of the economy that he would be investing in. The investor, which is the source country, may have the notion that the investment that would move to the host country is going to boost the economy of the host country and bring about economic growth and so the investor may want to make sure that he is also benefitting from the investment in the form of returns.

According to the Eclectic theory of FDI which was propounded by John F Dunning in the year 1976, an investor would want to ensure that he has an ownership advantage, location advantage and internationalization advantage before investing in a foreign economy. One of the location advantages an investor may look out for is the adoption of International Financial Reporting Standards (henceforth IFRS) by the country it wishes to invest in so that the investor will be able to ascertain easily, the financial standing of the economy the investor intends to invest in.

When there is a flow of capital from countries that have lower return rates to countries whose rate of return is higher, it is known as a foreign direct investment (Lizondo, 1993). "Foreign direct investment involves a long-term relationship, reflecting a lasting interest of a resident entity in one economy in an entity resident in an economy other than that of the investor" (Almfraji & Almsafir, 2014, p 207). Investors who engage in foreign direct investments (FDI) gain some sort of control over the firms they invest in.

Foreign portfolio investment (FPI) is the type of investment that occurs when investors purchase financial securities for a return on their investments (Wu, Li, & Selover, 2012). Wu *et al.,* also term foreign portfolio investment as foreign indirect investment. This is because, unlike foreign direct investment where the investor can have some sort of control or influence over the investee, portfolio investment gives no control to the investor. FPI investors prefer short-term equity investments to FDI investors since they enjoy lower risks of loss and lower costs of divestiture in the short run (Simbi, Arendse, & Khumalo, 2022).

Portfolio investment, according to World Development Indicators (2022), comprises equity equities and debt equities. Portfolio inflows of developing countries increased from US$6.2 billion in 1987 to US$46.9 billion in 1993 (UNDP, 2013). Inflows of Private investment to Sub-Saharan Africa also increased from 2011 (USD 6.8 b) till 2013 (USD 12.2b) and this was because global barriers to finances were removed to improve economic growth (International Monetary Fund 2013).

Since the inception of IFRS, countries across the globe have adopted IFRS to ensure that they have uniform standards which will help produce uniform financial statements and African countries have especially committed to the adoption of these reporting standards (Márquez-Ramos, 2008). Before the global south subscribed to the use of IFRS, African countries were using reporting standards which were in line with what their colonial masters used. Ghana, for instance, used the GNAS (Ghana National Accounting Standards).

African countries did not legitimately attract foreign investments since it was quite difficult to ascertain their financial standing (Calvo, Leiderman, & Reinhart, 1994). Some theorists believe that the only reason why IFRS was embraced by African countries was because they needed to be counted as part of the countries that meet the criteria for receiving foreign investments and subsequently receive foreign investments (Simbi et al., 2022). The chart below depicts how Foreign Direct Investment has flowed into Sub-Saharan African countries before and after the adoption of IFRS, spanning from 1997 to 2012

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Country : Sub-Saharan Africa
Source: World Development Indicators
Created on: 12/14/2023
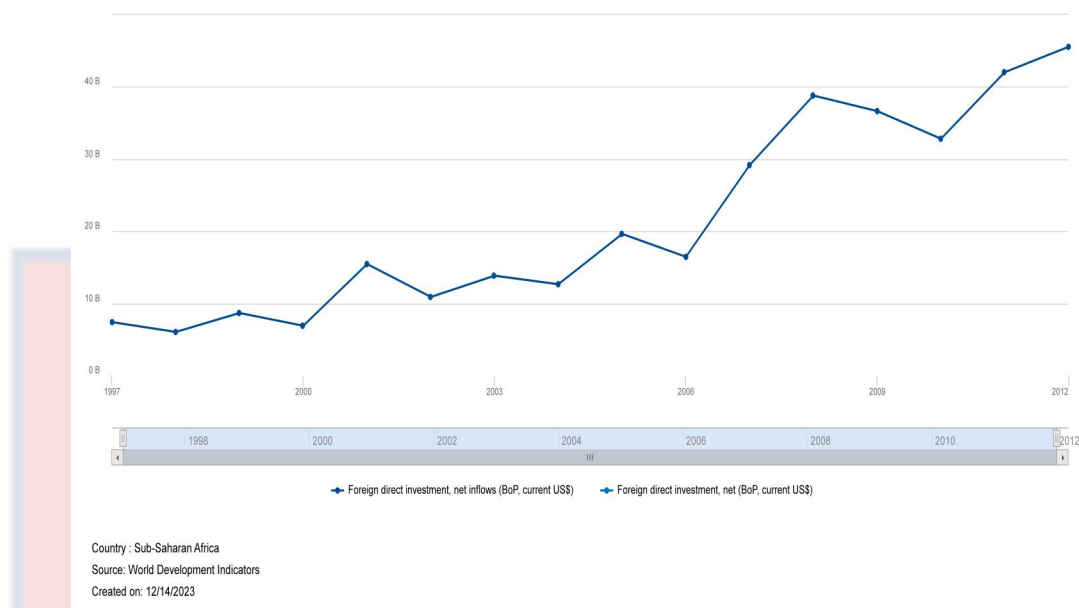
Figure 1: Trend on the Flow of Foreign Direct Investment in SSA

Source: World Development Indicators (2023)

Although research has not quite stated the date for the adoption of IFRS, research conducted believes that some Sub-Saharan African countries adopted IFRS in the year 2005, when all European Union countries were mandated to prepare their financial statements by IFRS, following a meeting that was held previously by the European Union (Márquez-Ramos, 2008). Their reason for adopting the IFRS, apart from the aim of standardizing accounting systems, was to legitimize foreign investment or make the accounting practices of SSA countries legitimate so they could receive foreign investment (Márquez-Ramos, 2008)

Figure 1 reveals the rise in foreign direct investment in SSA countries, especially from the year 2007, after many countries, of which some SSA countries may be included, decided to adopt IFRS. The FDI for SSA countries in the years 1997, 1999, 2002 and 2004, as expressed in US dollars are:

US$ 7,379,460,247.16785;   US$ 8,645,862,082.56539;
US$ 10,872,641,348.012 and US$ 12,633,440,520.9984. A massive increase
was seen in 2007, where FDI increased from US$ 16,436,899,446.1183 to
US$ 29,152,942,042.9767, with a difference of US$ 12,716,042,596.858,
which constitutes a 44% increase in foreign direct investment. The rise in
foreign direct investment seems to endorse what was said by Simbi et al.
(2022), that the countries needed to adopt IFRS to attract foreign investment
legally.

The International Accounting Standards Board, which has the
obligation of formulating all accounting standards requires that firms that
adopt the International Financial Reporting Standards must be audited by
auditors, for the auditors to give an opinion on whether the financial
statements do not compose of material misstatements and errors. This has led
to the Global South's engagement in audits (Khlif & Achek, 2016). Hence
financial reports of firms whose countries have adopted IFRS may have
auditors' opinion as part of the report, usually before the financial statements.

The International Financial Reporting Standards and the Auditing
Standards which is known as ISA (International Standards on Auditing) seem
to rely heavily on the legal origin of the country which has adopted it. Studies
have found that the strength of governance structures in an economy affects
the effectiveness of accounting and auditing standards in that economy (Nobes,
2010; Adela et al., 2022). This is because countries with common law origin
usually have a more protective framework than civil law economies

The reason for the adoption of IFRS is to allow for more comparability
and to increase the overall quality of financial statements so that foreign

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investments will eventually increase (Louis & Urcan, 2014). Brown, Preiato and Tarca (2014) argue that the embracement of IFRS by several countries should not give the impression that the countries will use or give the same interpretation of the IFRSs. Uniform standards cannot produce uniform financial reporting unless some institutional infrastructure come into play (Akisik, 2020). Consequently, action must be taken if countries want uniform standards to produce uniform reports.

One of the key frameworks that ensure uniformity of standards to produce uniform financial statements is audit (Brown et al., 2014). Scholars (for instance, Khlif & Achek, 2016; Zengin et al., 2016) concluded that auditing is key in the business setting because it guards the behaviour of firms and reduces uncertainty for investors who would want to invest. However, audit and IFRS may not be able to operate independently of institutional infrastructure of which legal origin is an example (Adela, et al., 2022).

The efficacy of accounting regulations can depend on legal origin and that is because studies have found that countries with common law legal origin have a more protective framework than countries with civil law legal origin. Zengin et al., (2016) posit that when there is strong institutional collectivism, there is a positive effect of the perceived strength of audit and reporting standards on the ethical behaviour of firms. Thus, legal origin could moderate the effect of Strength of Auditing and Reporting Standards on foreign investments.

Also, foreign investments come with lots of benefits both to the global economy and the African economy, at large. Aust, Morais and Pinto (2020) found that foreign investments, especially foreign direct investment, not only

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help the global economy to achieve sustainable development goals (henceforth SDGs) but also help African countries to attain the SDGs. They saw an increase in the trends of SDGs 1, 7, 9, 14 and 16 which are; No poverty; Affordable and clean energy; Industry, innovation, and infrastructure; Life below water and peace, Justice and strong institutions. Since strong compliance with audit and reporting standards may increase foreign investments which poses lots of benefits to the globe, it is paramount to look at how SARS could influence foreign investments and the moderating role legal origin plays in the relationship between SARS and foreign investments

Statement of the Problem

Data from the World Economic Organization (WEO) shows the trend of investments, Foreign Direct Investments and Foreign Portfolio Investment from 2005 when IFRS was adopted, to 2022. A careful analysis of the data depicts the rise and fall in foreign investments received by SSA countries. An example is what happened in 2008 and 2009. In 2008, the aggregate investment in SSA countries was US$ 21.615 billion, FDI was US$ -38.701 billion, and FPI was US$ 24.315. Things took a turn in 2009 when the aggregate investment increased to US$ 22.538 billion (6.5% increase); FDI increased to US$ -32.501 billion (19.1% increase); and FPI reduced to US$ -8.037 billion (202% decrease). Figure 2 below shows the trend in foreign investments (category 1), FDI (category 2) and FPI (category 3).
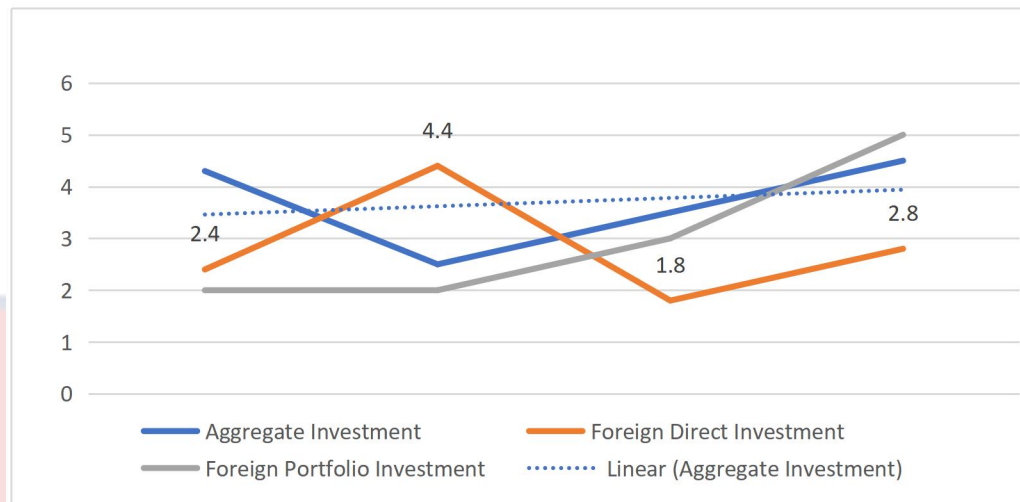
Figure 2: Trends in Foreign Investment, Foreign Direct Investment and Foreign Portfolio Investment in SSA

Source: World Economic Organization (2022)

Fluctuations of such nature draw our attention to the governance institutions of these countries. If IFRS has been adopted by these countries and their financial statements are audited, does it mean that it is not being done effectively? A question arises, therefore, on the effectiveness of the auditing and reporting standards in SSA countries when the figures are analysed. In 2013, 2014 and 2015 however, the foreign investments that flowed to SSA countries were US$ 40.6 billion, US$ 44.2 billion and US$ 44.4 billion. It can be seen clearly that as SSA countries continue to comply with audit and reporting standards, they attract more foreign investments. Adela et al. (2022) found that the level of compliance with audit and reporting standards among African countries keeps increasing. It can therefore be deduced that a relationship exists between the Strength of Auditing and Reporting Standards and Foreign Investments

A review of the current literature reveals that studies have assessed the relationship between International Financial Reporting Standards and Foreign

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Investments (Márquez-Ramos, 2008; Louis & Urcan, 2014; Simbi et al., 2022; Golubeva, 2020). Some other studies have focused on how audit committee and internal audit affects investor trust and foreign investments (Alzeban, 2020; Han & Yan 2022). Márquez-Ramos (2008) provided empirical evidence on the effects of IFRS on trade and foreign direct investments. However, these studies on the effect of IFRS and Auditing on Foreign Investments do not focus on actual compliance but on adoption. The adoption of International Financial Reporting Standards and International Accounting Standards may not yield the required outcome unless there is a high level of compliance (Adela, et al., 2022). By focusing on this lacuna, the study examines how the strength of auditing and reporting standards affects foreign investments.

The seminal paper on law and finance by Porta *et al.,* (1998) has aided our understanding of the relevance of accounting tradition in attracting investment. Research has shown that Anglo-Saxon SSA economies have strong accounting regulations as opposed to Francophone SSA economies and so investors are more drawn to Anglo-Saxon economies than Francophone SSA economies since they want to protect their principal investment and enjoy "investor protection rights".

To the extent that accounting tradition influences the protective framework for investors, it can also influence the efficacy of the Strength of Auditing and Reporting Standards in attracting foreign investments. However, studies on IFRS, IAS and foreign investments have not assessed the moderating role of accounting tradition, as measured by legal origin, on the relationship. To assess the moderating role of legal origin in the relationship

between the Strength of Auditing and Reporting Standards and foreign investments, the study fills another gap

Purpose of the Study

The study aimed to examine the effect of the Strength of Auditing and Reporting Standards on foreign investments, and the moderating role of legal origin in the relationship between SARS and foreign investments, in Sub-Saharan Africa.

Research Objectives

Specifically, the study sought to:

1. examine the effect of Strength of Auditing and Reporting Standards on Foreign Portfolio Investment in Sub Saharan Africa.

2. determine the effect of Strength of Auditing and Reporting Standards on Foreign Direct Investment in Sub Saharan Africa.

3. assess the moderating effect of legal origin in the relationship between Strength of Auditing and Reporting Standards and Foreign Investments in Sub Saharan Africa.

Research Hypotheses

The following hypotheses were examined:

1. H_0: There is no significant relationship between SARS and FPI

   H_A: There is a significant relationship between SARS and FPI

2. H_0: There is a negative relationship between SARS and FDI

   H_A: There is a positive relationship between SARS and FDI

3. H_0: There is no moderating effect of legal origin on the relationship between SARS and foreign investments

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H_A : Legal origin moderates the relationship between SARS and foreign investments

Significance of the Study

Literature has not stressed how the institutional settings affect audit and reporting standards, which consequently affects the level of foreign investment a country can attract. This study gives the first empirical research on how the strength of auditing and reporting standards can affect foreign investment in SSA countries, without ignoring the regulatory systems of SSA countries. The study adds to the existing literature by bridging the gap which exists between SARS and foreign investments. It sheds more light on the importance of SARS and serves as a possible guide and basis for countries that may want to strengthen their institutional structures, particularly the SSA countries.

Delimitations

The study focused on Sub-Saharan Africa. As per data from World Development Indicators (WDI), Sub-Saharan Africa is made up of forty-eight countries (Population Total - Sub-Saharan Africa | Data). The study therefore delimited to forty-eight Sub-Saharan African countries but used thirty-three countries in this study due to the unavailability of data for the other SSA economies. This study used FPI and FDI as measures of foreign investments and used the data available on SARS effectiveness, as well as a dummy variable for legal origin since they best represent the variables in the study

Limitations

The researcher encountered many limitations which include but are not limited to time constraints as well as financial constraints since the researcher

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is a student. The researcher was not able to travel to the Sub-Saharan African countries to solicit information within the period she used to conduct the study since it was a short period. Due to the limitations faced by the researcher, the study only made use of data provided on the internet by international organizations like WDI (World Development Indicators), and WGI (Worldwide Governance Indicators). The research relied on secondary data hence the study is limited by the coverage and formulation of dataset indices. Errors in the dataset will be impossible to detect.

Definition of Terms

Foreign Direct Investment (FDI): FDI is defined as; "a long-term investment in a country other than that of the investors, which will give some control to those investors".

Foreign Portfolio Investment (FPI): Portfolio investment is defined as any investment received by a country through a medium and is not a direct investment.

Legal origin: legal origin refers to the system upon which the regulatory framework of an economy is built legally.

Strength of Auditing and Reporting Standards (SARS): SARS depict the level of impact the auditing and reporting standards of an economy has in that economy.

Organization of the Study

This study is divided into five sections(chapters). The first chapter discusses the introduction, which includes the background of the study, statement of the problem, research objectives and questions, delimitation, limitations and the significance of the study. The second section expounds on

literature review, related to the study. Theoretical, conceptual and empirical literature are reviewed and a conceptual framework provided. Chapter three captures the methodology of the study. It reveals and lengthily discusses the mathematical models used in the study for analysing the data. It looks at the data origin and variable descriptions as well as their justification. Chapter four captures the findings of the study and the last chapter presents the summary, conclusion, and recommendation for the study.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter focuses on reviewing the literature in the area of study. It provides a review of existing literature on "Foreign Direct Investment, Foreign Portfolio Investment, International Financial Reporting Standards, the Strength of Auditing and Reporting Standards", as well as legal origin. It looks at theories that support the study and explains the concepts used in the study. It discusses other matters about the literature as well. The literature review includes a theoretical review, conceptual review, empirical review and conceptual framework.

Theoretical Review

Theories are not laws, nor are they theorems: there are differences and they all have their meanings (Donleavy, 2016). Theories are based on logical reasoning. They are also not ad hoc in nature. What then are theories? According to Lenski (1988), the Webster's Third New International Dictionary defines theory in this sense as "the unified set of principles that are hypothetical, conceptual, and pragmatic in nature, which form the general frame of reference for a field of inquiry."

The eclectic theory of foreign direct investment

The Eclectic Theory was developed by John H. Dunning (1981). He used the ownership, location and internationalization (OLI) framework, also known as the eclectic paradigm, to form this theory. Dunning (1981), who is the author of this theory and De Mooij and Ederveen (2003) posit that before investors invest directly in a firm, there are three particular sets of advantages

rather than some other mechanisms which the host firm can use in meeting the needs of both foreign and local customers. These are the ownership advantage, location advantage and internationalization advantage. The theory assumes that firms would refrain from FDI if they could get the product they want internally and at lower prices

FDI brings together traditional ownership advantages, location advantages, and internationalization advantages. Ownership advantage is also seen as a competitive advantage that comes with FDI (Dunning, 1981) and is defined as, the proprietorship of an explicitly valuable resource that is difficult to replicate (CFI Team, 2022). The company has a location advantage when the geographic location of the host country is beneficial to the firm, reducing taxes and other tariffs.

Before a firm can know whether they have an internationalization advantage, the firm would have to make a make or buy decision. If the firm realizes that buying is more expensive, then the company would have to make and not buy. The opposite applies if the firm realizes that making the product will be cost-effective. Thus, the international advantage is when the firm can get the product it wants at a lower price from a foreign country.

According to the eclectic theory of FDI, if a company does its assessment on the ownership advantage and is not satisfied with the result, the company should remain domestic and not go international. In the same way, a company without the advantage of location should only export and the company without the internationalization advantage should rather go for another strategy.

The theory does not encourage expansion into foreign countries if the three advantages are not present and advises the use of a different entry strategy into the foreign country, in such a situation. In such a case, it encourages licensing for instance. According to Dunning, an individual or an organization in one country which will be referred to as the source country, must seek out and identify some benefits and advantages in another country, known as the host country, before an issue of foreign investment can arise. When the institution in the source country finds what is being sought, the person or the firm can then invest in the host country, to enjoy those benefits. Some benefits that might be sought include inexpensive labour (Nakouwo, 2019).

Investors who invest in developing countries invest in emerging markets and take advantage of the fact that the markets are emerging, to reduce their costs of production and other costs that would've been incurred, if they had invested in their local markets (Nakouwo, 2019). Investors can make more profit if they can internalize the advantages of location, ownership and internationalization. The eclectic theory propounded by Dunning is fundamental when discussing Foreign direct investment since it throws light on the advantages investors obtain from investing in firms and countries that they have all three advantages in.

When economies comply with auditing and reporting practices, it serves as an advantage to them. This is because investors would want their interests to be protected and investors are well aware that their rights would be protected if the country complies with auditing and reporting standards. This would therefore draw most investors to the country complying with the

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auditing and reporting standards and therefore influence the number of foreign investments that flow to those countries. In this regard, the SARS and legal origin of an economy can present advantages to foreign investors and subsequently increase foreign investment inflows

New institutional economics theory

Extant literature suggests that the New Institutional Economics theory comes in two forms (Richman 2019; Canitez, 2019; Ménard, 2018). The first approach to the study of institutions, associated with Ronald Coase and Douglas North, concentrates on the institutional environment and the regulations that draw out the framework and mechanisms which guide interactions at the aggregate level (Agyei, Obuobi, Isshaq, & Abeka, 2022). "Douglas North sees institutions as constraints set in place by humans to guard political, social and economic interactions" (Richman, 2019, p 9)

The second approach, attributed to Oliver Williamson (2000) and to some extent Ostrom (2005), focuses more on "micro-level behaviour and transaction cost economics (TCE) in the selection of governance types" (Spithoven, 2019, p 441). "The basic insight of TCE is to recognize that we live in a world of positive transaction costs so exchange agreements must be governed; that assorted governance mechanisms are available to support exchange, but the mechanisms vary in the degree to which they can minimize transaction costs; and in a market economy that prizes efficiency, transaction-cost economizing governance mechanisms will arise in conjunction with particular transactions." (Richman, 2019, p 9)

The aspect of New Institutional Economics theory which relates to governance recognizes that, in a world where activities are undertaken to

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improve relationships, there is a need for those activities, contracts and exchange agreements to be governed. Although the approaches to the New Institutional Economics theory vary, they are all important to explain how the economic activities of a nation are shaped by governance and institutional structure.

Institutions are humanly devised constraints that govern human behaviour and human activities (Richman, 2019) . The New institutional economic theory believes that people must engage in activities to improve relationships and those activities must be governed. One of the institutions that have been put in place is legal origin and that is because countries with common law legal origin have a more protective framework as opposed to countries with civil law legal origin. Investors may want to know the legal origin of an economy before investing in that country for their rights to be protected. This is because countries with common law legal origin that are applying auditing and reporting standards are more likely to have a higher compliance level to the auditing and reporting standards as opposed to countries with civil law legal origin. Thus, investors may want to invest in common law countries that are complying with SARS as opposed to civil law countries complying with SARS.

The presence of a strong institutional setting might have a weighty role to play in protecting the property rights of property owners and might also increase the rate at which contracts are enforced legally in an economy, leading to a rise in the investment attracted by the country since investors know their rights would be protected (Ménard & Shirley, 2005). It is not far-fetched to suggest that foreign portfolio and direct investors would be attracted

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to countries with efficient, robust and well-functioning auditing and reporting standards, as well as a more protective legal origin.

Conceptual Review

Foreign direct investments

Foreign investments attracted by countries usually come in two forms; they come as direct or indirect investments. With indirect foreign investment, foreign investors adopt the use of mediums like capital markets to inject capital into an economy. Direct foreign investors however invest directly into the system of a country other than their home country, giving them direct control of the managerial and financial operations of the institution in which they have invested (Almfraji & Almsafir, 2014) and this mostly has a long-lasting effect. The investment from foreign investors that gives them the right to influence the operation of an institution is known as Foreign Direct Investment.

FDI has the likelihood of providing long-lasting benefits to economies that are host nations. The International Monetary Fund (IMF) defines FDI as the inflow of capital from a foreign investor to a foreign host country, where the capital is for a long term with long-lasting interest, giving the foreign investor some influence over the operations of the host country. Foreign Direct Investment has many merits attached to it for the host country. Scholars believe the merits a host country obtains from foreign investment help boost economic growth (Moosa, 2002). The benefits include, but are not limited to capital increase, increased access to a wider market across borders, transfer of managerial abilities, development of technological and innovative skills, as well as creation of jobs (Moosa, 2002; Dunning, 1983).

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Foreign portfolio investment

Any amount of money that moves from one country to another through a debt or equity instrument (known as security) is known as portfolio investment if it excludes monies used directly for investment or monies that have been reserved for a purpose (World Bank, 1993). According to the World Bank, portfolio flows consist of bonds, equity and money market instruments such as certificates of deposits and commercial papers, among others. Portfolio flow is also seen as a cross-border transaction of financial assets that occurs through a market that deals in financial assets (UNCTAD, 1999). Foreign Portfolio investment is therefore the movement of capital to a host by investing in financial assets like stocks and credit forms like pledges (Atobrah, 2015).

Portfolio investment is said to have a natural volatility. Investors who normally invest in portfolio investments want to reap huge benefits on their principal amount for a given level of risk. Although the volatility component of foreign portfolio investment may allow foreign investors to make huge profits, issues of economic importance may arise in extreme economic situations which may not favour both investor and host country (Agarwal, 1997). Similarly, Agarwal states that FPI ideally has a shorter period as compared to FDI and that is another factor why FPI tends to be volatile.

Legal origin

The source of a country's legal system is of much importance, not only in the activities of the country as a whole, but also in corporate governance, specifically with the protection of shareholder's rights (Bokpin Mensah, & Asamoah, 2016). The legal origin is evident in many systems: be it domestic,

bilateral or multilateral systems. (Hsu, 2015). It is what informs the actions of most countries if not all.

Legal origin is seen either as thick or thin (Hsu, 2015). Thin legal origin, according to Hsu, allows for a formal observation of rules and laws with no social justice for inobservance. The system does not necessarily punish businesses that go contrary to what the law states, although these businesses are required to abide by the laws provided. The thick legal origin, however, although allows for formal observance of laws and rules, provides a penalty for inobservance. Thus, the legal origin of a country determines the kind of institution it has; whether it will have strong institutions (thick legal origin) or weak institutions (weak legal origin) (Bokpin et al., 2016).

SSA countries have their legal systems being influenced greatly by their colonial masters (Bokpin et al., 2016; Adela et al., 2022). Bokpin et al. explained that SSA countries that apply common law are mostly countries that were colonised by Britain while the countries applying civil law were colonized by Francophone countries like France and Belgium. Adela et al., posit that SSA countries that apply the common law seem to have a stronger legal origin as compared to SSA countries that apply the civil law (Adela et al., 2022).

Empirical Review

This section explores literature that exists on IFRS and foreign investments; SARS and FDI, as well as SARS and FPI. The study looks at what scholars have said so far, concerning SARS and legal origin

IFRS and foreign investments

Some researchers believe that the International Financial Reporting Standards, though have been adopted by most countries, were developed mainly to suit developed countries. According to Simbi and Khumalo (2022), recent studies have revealed that the implementation of IFRS has minimal or negative effects on developing countries. They stated that, since the accounting systems were developed to suit the countries in the global north (which are mostly developed), they cannot be expected to function the same way in the African countries in the global south, where most countries are still developing.

International Financial Reporting Standards are said to have added positively to the economic development of emerging capital markets. Scholars agree that the use of global accounting standards has influenced the economy of countries that have accepted these global standards (Lungu, Caraiani, & Dascălu, 2017). Lungu and his colleagues admit that IFRS has helped to reduce information asymmetry since the International Financial Reporting Standards have increased transparency. Adoption of the International Financial Reporting Standard has indeed been a transforming event in the global financial markets (Brown, Preiato, & Tarca, 2014)

It is interesting to have some researchers see IFRS as very beneficial to the global world, while some other researchers have reservations about international standards (Akisik, 2020). Countries operate differently and so they cannot see IFRS in the same light. Dayanandan et al., (2016) believe the empirical evidence about the benefits of IFRS is often contending and debatable. Researchers believe however that although countries have benefited

from IFRS when it comes to accounting systems, they believe some countries, especially the developing ones, have not benefited in the economic sense (Golubeva, 2020).
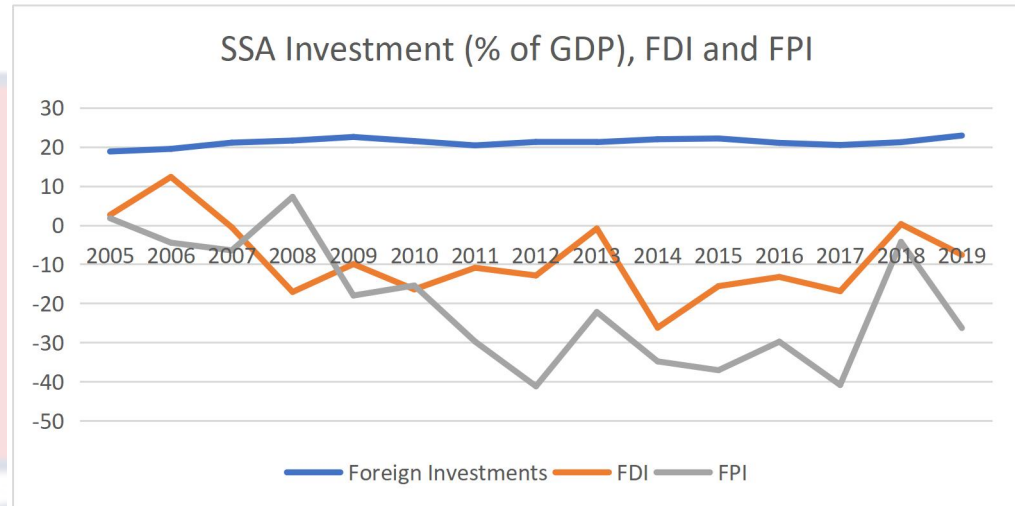
Figure 3: Trend in SSA Investment as a percentage of GDP

Source: World Economic Organization (2023)

An analysis of Figure 3 shows a stable investment as a percentage of the GDP of Sub-Saharan African countries. The FDI and FPI however, have been fluctuating, even with the adoption of IFRS. It may consequently be safe to assume that the adoption of IFRS by SSA countries did have a positive impact on investment in general and maybe had some level of influence on foreign investment, which also forms part of the total investment a firm can receive

Strength of auditing and reporting standards and foreign direct investment

The adoption of IFRS has increased the amount of money received by SSA countries and has consequently resulted in the economies of these countries growing.

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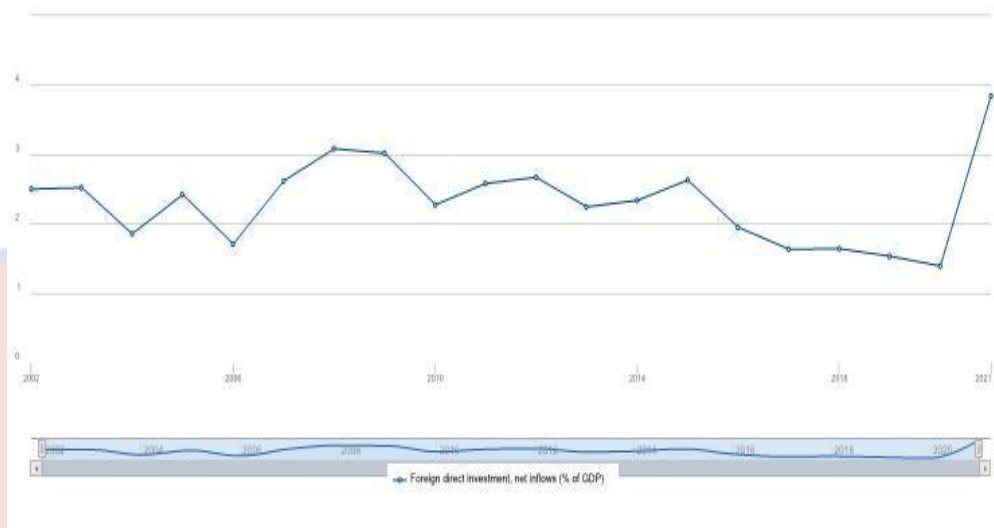
Figure 4: Trend on Foreign Direct Investment: Inward and Outward Flows

Source: World Development Indicators (2023)
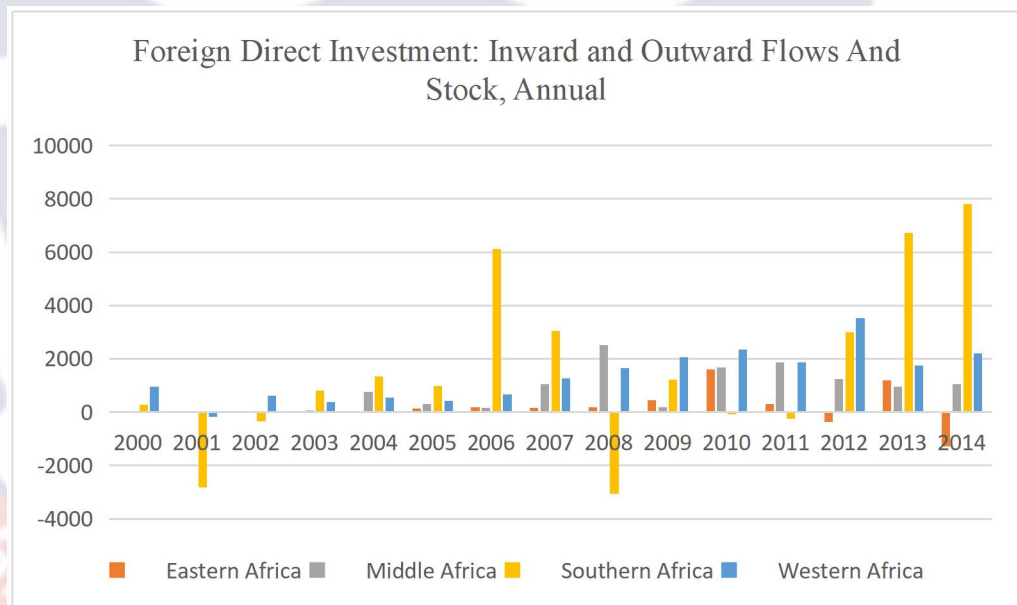
Figure 5: Chart on Foreign Direct Investment: Inward and Outward Flows

Source: United Nations Conference on Trade and Development (2023)

Figure 4 shows a trend in the FDI received by SSA countries whilst Figure 5 gives a chart of how much has been received by all the four divisions that come together to make up the SSA. The period between 2000 to 2005

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showed no significant amount of FDI in SSA countries whilst the periods following 2005 showed a tremendous increase in FDI.

Although the amount of FDI that flows to African countries, particularly SSA countries has increased, as shown in the figure above, Kotey (2017) is of the view that the amount of FDI that flows to SSA countries is not at par with the returns investors make. To him, there is a paradox of high returns and low foreign investment in Africa and something must be done about it.

In Figure 5, some periods between 2006 and 2014 had some SSA countries in the negative concerning net FDI. This raises so many questions as to what went wrong in putting IFRS to practice in SSA economies, particularly, the countries that experienced negative net FDI inflows. Adela et al., (2022) posit that weak institutions govern most African countries and that may be the reason why most countries do not benefit from Foreign Direct Investment. Consequently, SSA countries, although have adopted and are practising auditing and reporting standards, may not have been effectively practising and this may have caused a reduction in the amount of FDI they have been receiving over the years.

Lungu et al., (2017) conducted an empirical study which confirmed how the adoption of IFRS increases FDI. This means that if SSA countries have strong institutions, and they adopt IFRS, they will be able to attract more FDI. Almfraji and Almsafir (2014) saw the potential in FDI and advised countries to pay close attention to FDI and regulate it since it can contribute directly to the economic growth of countries.

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Strength of auditing and reporting standards and foreign portfolio investment

According to Oyerinde (2019), FPI attracted by SSA countries has been dwindling over the last two decades. This supports the assertion that investors prefer direct investment as opposed to indirect or portfolio investment when investing in countries with a thin legal origin country (weak rule-based country)
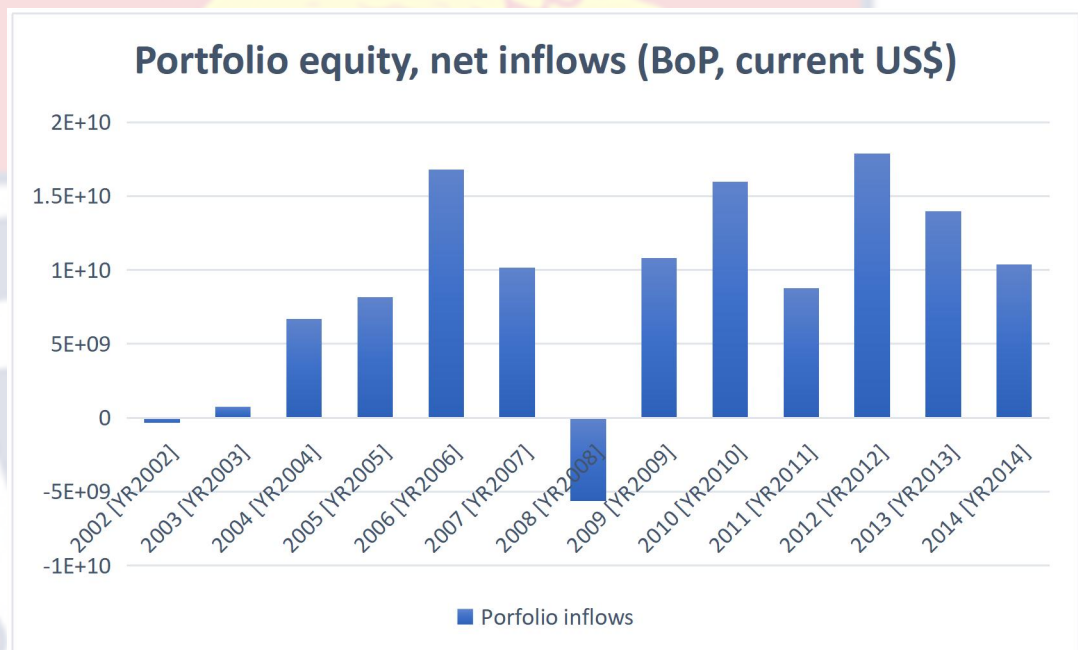
Figure 6: Chart on Portfolio Equity, Net Inflows

Source: World Development Indicators (2023)

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Country : Sub-Saharan Africa
Source: World Development Indicators
Created on: 05/01/2023
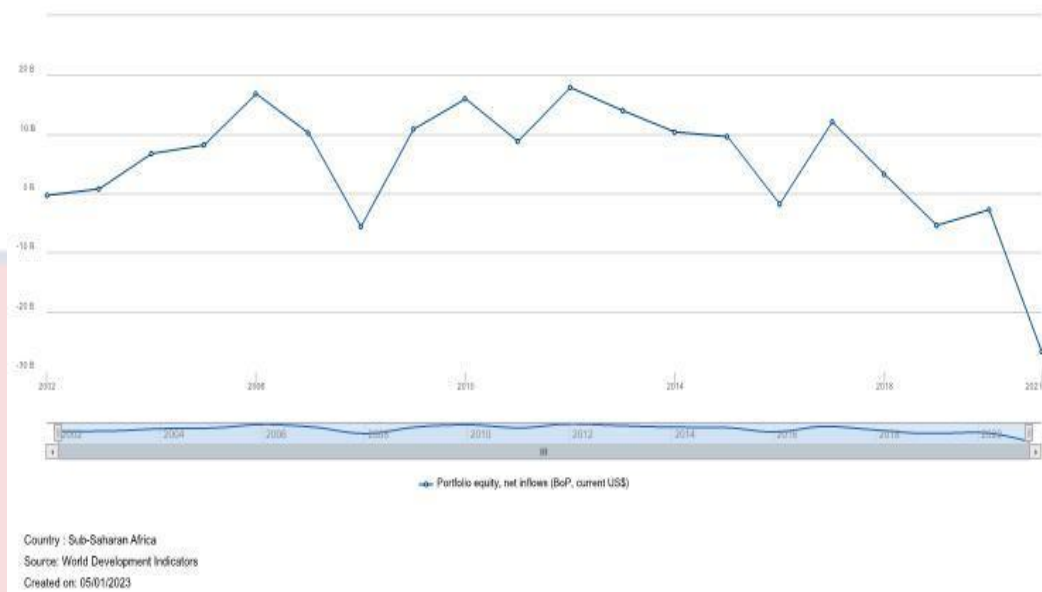
Figure 7: Trend on Portfolio Equity, Net Inflows

Source: World Development Indicators (2023)

Figures 6 and 7 depict a graphical representation of portfolio inflows in SSA. In the year 2003, the amount of FPI received by SSA countries was US$ 745,740,962.970756 and this was a period where scholars revealed that IFRS had not yet been adopted by most SSA countries. Post IFRS adoption, FPI increased to US$ 16,811,391,144.8997. SSA countries however have experienced ups and downs in FPI and have not been able to maintain stable FPI over the years. Scholars like Agarwal, (1997) believe that FPI has a positive impact on an economy so if an economy has adopted IFRS and is still facing challenges in attracting FPI, institutional systems must be checked.

Effective adoption of IFRS, coupled with institutional support will greatly improve FPI in SSA (Oyerinde, 2019). According to Wu, et al., (2012), Albuquerque (2003) argued that indirect investment is vulnerable to expropriation in developing countries, due to the poor enforcement of financial contracts and this has led to FPI being extremely volatile in SSA

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countries (Bhaskaran, Sundararajan, & Kohli, 2005). Thus, if SSA countries can give maximum institutional support to the adoption of IFRS, the attraction of FPI will not be difficult.

Strength of auditing and reporting standards and legal origin

A country that does not have a strong institutional system may not succeed in the effective application of auditing and reporting standards since the country may not be able to ask businesses to strictly abide by the auditing and reporting standards. As cited by Adela et al (2022), Richardson (2009) showed how SARS is indirectly influenced by a set of regulatory bodies and other organisations that have the right to appoint (or approve the appointment of) members of the standard-setting committee. This explains why it is important for the systems to be working.

Businesses in countries with stronger institutional systems tend to pay huge sums of money as fees for quality audits in order not to attract punishment (Nobes, 2010). African countries in general have low levels of institutional quality (Adela et al., 2022) and that seems to affect the strength of auditing and reporting standards in Africa. Bokpin et al. (2016) posit that when the institutions are working, there is no way issues like corruption and money laundering will arise since SARS will be strong enough to detect fraudulent activities.

Legal origin and foreign investments

Globerman and Shapiro (2002) found that legal origin and regulatory environment are economically important for the attraction of foreign investment. Researchers also believe that the governing style of countries affects the amount of foreign investment they attract; hence countries with

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democratic governing systems attract more foreign investments while countries that practice autocracy get fewer foreign investors going their way. (Jensen, 2003; Asiedu & Lien, 2011)

Foreign investments are crucial in the reduction of poverty across the globe, according to the United Nations Millennium Declaration Goal (UNMDG) document that was adopted in 2000 by member countries. Bokpin et al. (2016) found that countries can benefit fully from foreign investment, specifically foreign direct investments if they reduce the attachments and alliances to countries which are their sources of legal origin. From Hsu (2015), governance and laws made at both national and international levels saw international trade and treaties of investment being a major contributing factor to it, with these treaties emanating from the influence of the notion of legal origin. According to Hsu (2015), legal commitments have promoted the legal origin and good governance in countries affected by those agreements. He stands on this assertion to conclude and advise countries, especially the ASEAN countries, to improve upon their institutional systems, to attract more foreign investments.

Foreign investments and trade openness

According to Hong and Sullivan (2013), the market-seeking motivation factor for FDI allows for the opening of new markets in a host country by a source country and this causes restrictions to be put on trade. The relationship between trade openness and foreign investments is seen as part of the important issues in trade policy. Trade openness looks at how restricted or open an economy's market is to trade, both locally and internationally (Asiedu,

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2002). Trade can either affect an economy positively or negatively in the attraction of foreign investments (Hong & Sullivan, 2013)

Foreign investments and inflation

Although the literature on inflation in the early 1960s did not suggest a relationship between economic growth and inflation, recent empirical studies have detected a long-run linear relationship between inflation and economic growth (Omankhanlen, 2011). An increase in productivity leads to economic growth (Almfraji & Almsafir, 2014). The foreign investment that is attracted by economies may be used by governments to improve the economic efficiency of the economy and according to Almfraji and Almsafir (2014), foreign investments contribute to the economic growth of an economy through capital accumulation. However, the inflation of an economy may affect the foreign investment the economy receives. Romer (1990) affirms this by stating that since inflation is positively affected by its volatility, high inflation rates can increase uncertainty and gradually discourage investments (Omankhanlen, 2011).

Foreign investments and exchange rates

Real exchange rate dynamics which are a result of inflation and nominal exchange rate change attract additional dimensions to the picture (Omankhanlen, 2011) . Foreign investments flow from foreign countries known as source countries to host countries, and the investment received increases capital accumulation which boosts growth, as stated earlier. According to Goldberg (2009), the foreign investments attracted by economies are influenced by the exchange rates since it'll determine the amount the host country will be receiving.

Foreign investments and interest rates

From Odhiambo (2003), the interest rate charged by an economy influences the level of investments attracted by that economy and that is because investors may want to make higher returns on their principal investments, whether it was a direct investment or a portfolio investment. According to De Mello and Tybout (1986), interest rates can increase savings which will help finance investments and Nyagetera (1997) posit that although interest rates may increase loan rates, an increase in deposit rates may lead to investment efficiency (Odhiambo, 2003).

Foreign investments and domestic credit to private sector

Domestic credit to private sector measures the financial development of an economy, according to Adu, Marbuah and Mensah (2013). They believe that the financial development of an economy is a major factor that determines the economic growth of that economy. According to Acheampong, Frimpong and Arhin (2023), foreign capital inflows form part of the "funds that fill the existing gap between domestic saving and domestic credit and hence assist saving to meet the required corresponding credit for financing domestic private investment". Thus, the growth of an economy cannot be discussed without looking at the economic resources that flowed from foreign economies.

Foreign investments and total natural resource rent

From Makonda and Ngakala (2021), natural resource endowment affects the foreign investments an economy may attract. In line with the words of Aleksynska and Havrylchyk (2013), an economy that is endowed with natural resources can still attract a lot of foreign investments, even if it has low institutional quality (Bokpin et al., 2016). Poelhekke and Van der Ploeg (2010)

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are of the view that natural resource-rich countries are more likely to attract more investments than countries that are not heavily endowed with natural resources (Bokpin et al., 2016)

Foreign investments and gross domestic product

Gross Domestic Product, also known as GDP is another indicator which helps to know the economic growth of an economy, according to the World Development Indicators. According to Rahaman and Chakraborty (2015), foreign investments can enhance the growth of an economy if those economies can utilize the resources well, to their benefit. They found out that the presence of economic growth tends to attract more foreign investments into economies and at the same time, cited some studies that argue that the introduction of foreign investments into an economy can naturally boost the economy's GDP and increase economic growth.

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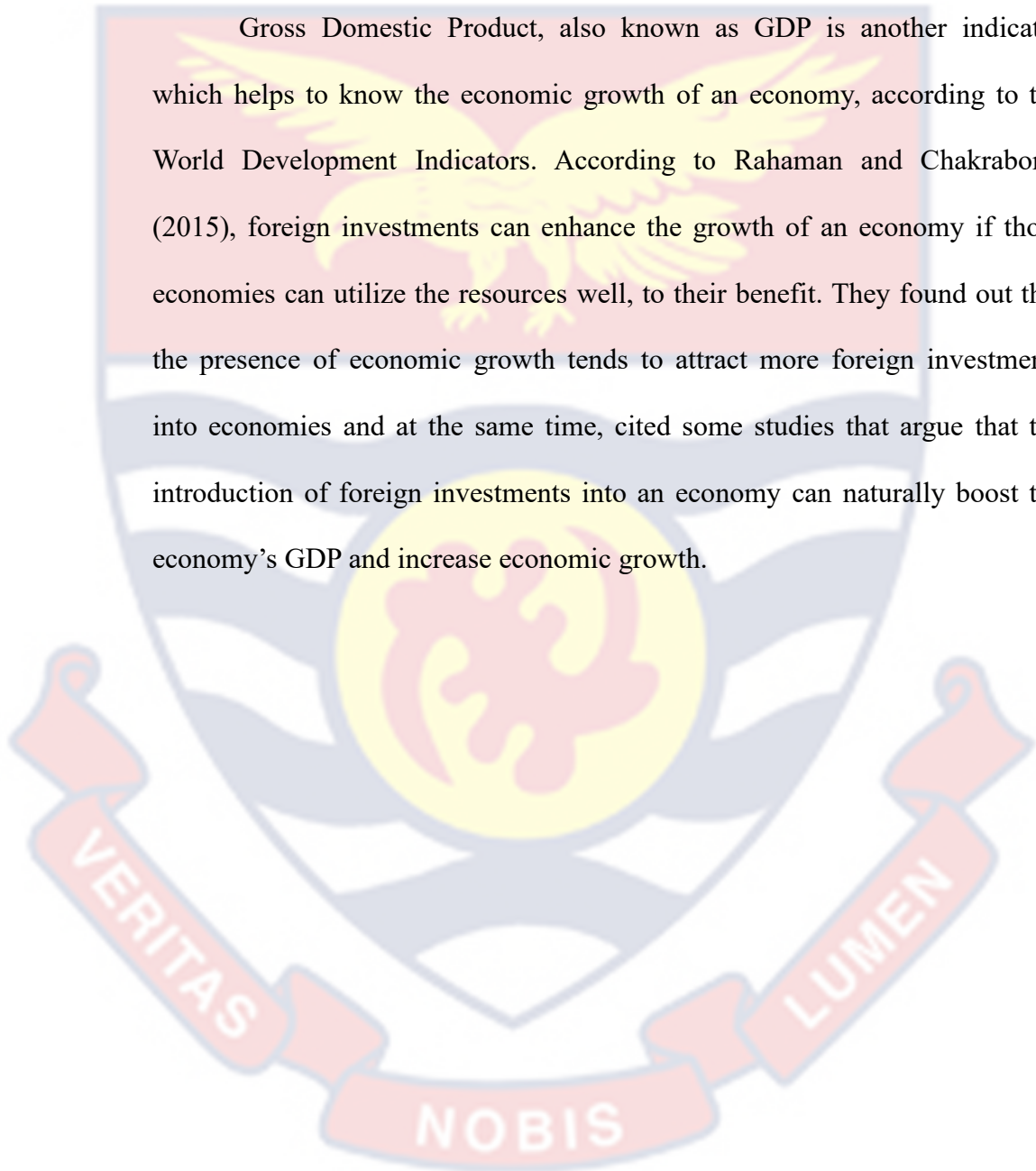
Conceptual Framework
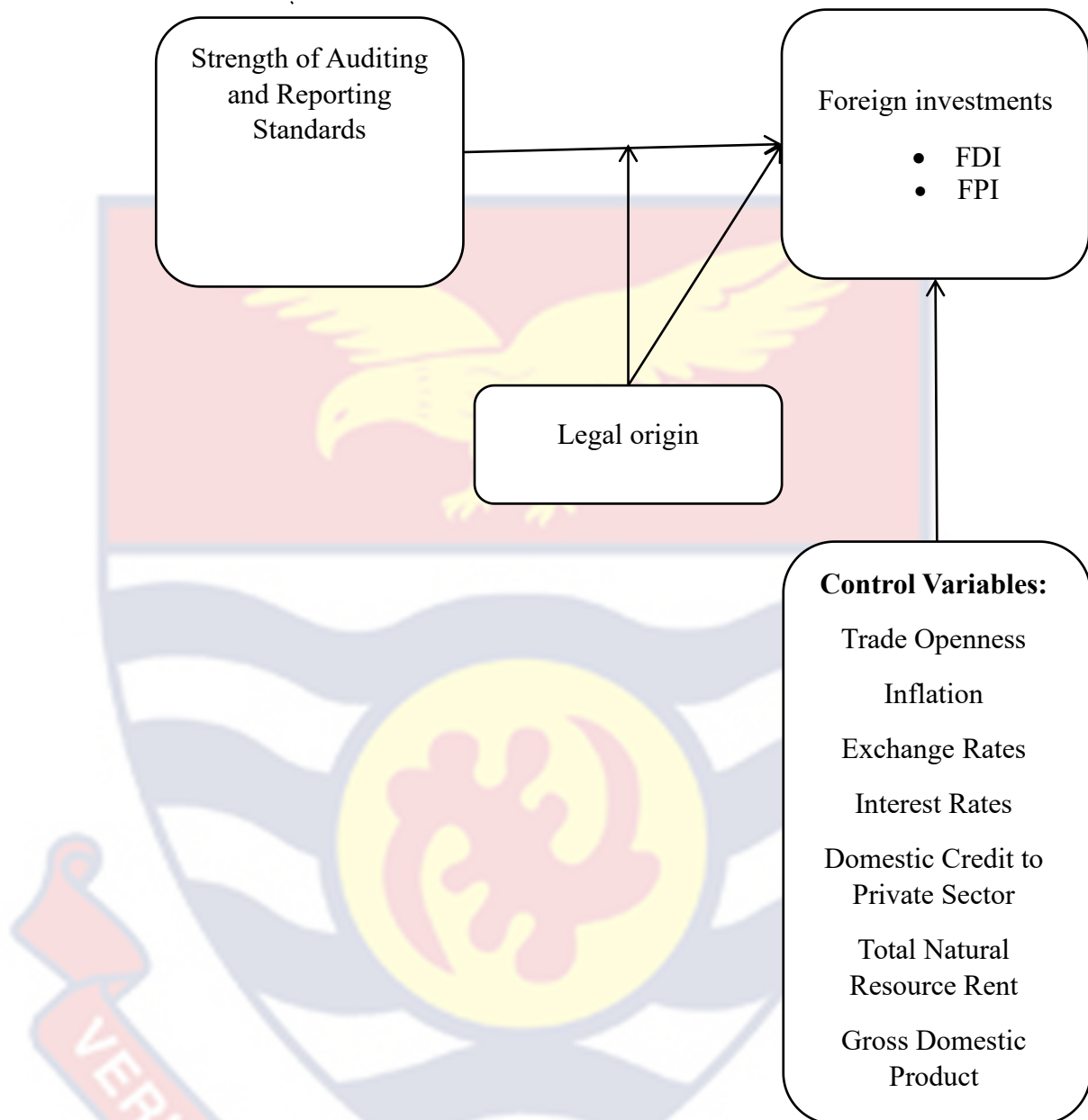
Figure 8: Conceptual framework

Source: Author's construct (2023)

The framework captures in summary, what encompasses the study in a pictorial format. It talks about how the Strength of Audit and Reporting Standards can affect foreign investments in Sub-Saharan Africa. It shows how legal origin moderates the relationship between the dependent and independent variable and shows the variables that are controlled in the study.

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Chapter Summary

The beginning of the chapter reviewed the theoretical underpinnings of the study, SARS and foreign investments; the moderating role of legal origin. The Eclectic Theory of FDI and the New Institutional Economics Theory were reviewed. Foreign investment has two sides and these two sides are supported by different theories, creating the need to look at several theories in the study. Conceptual review, empirical review as well as a conceptual framework to support the study and show a pictorial view of this study were discussed and revealed in the study, and an explanation as to why the study must be conducted was given.
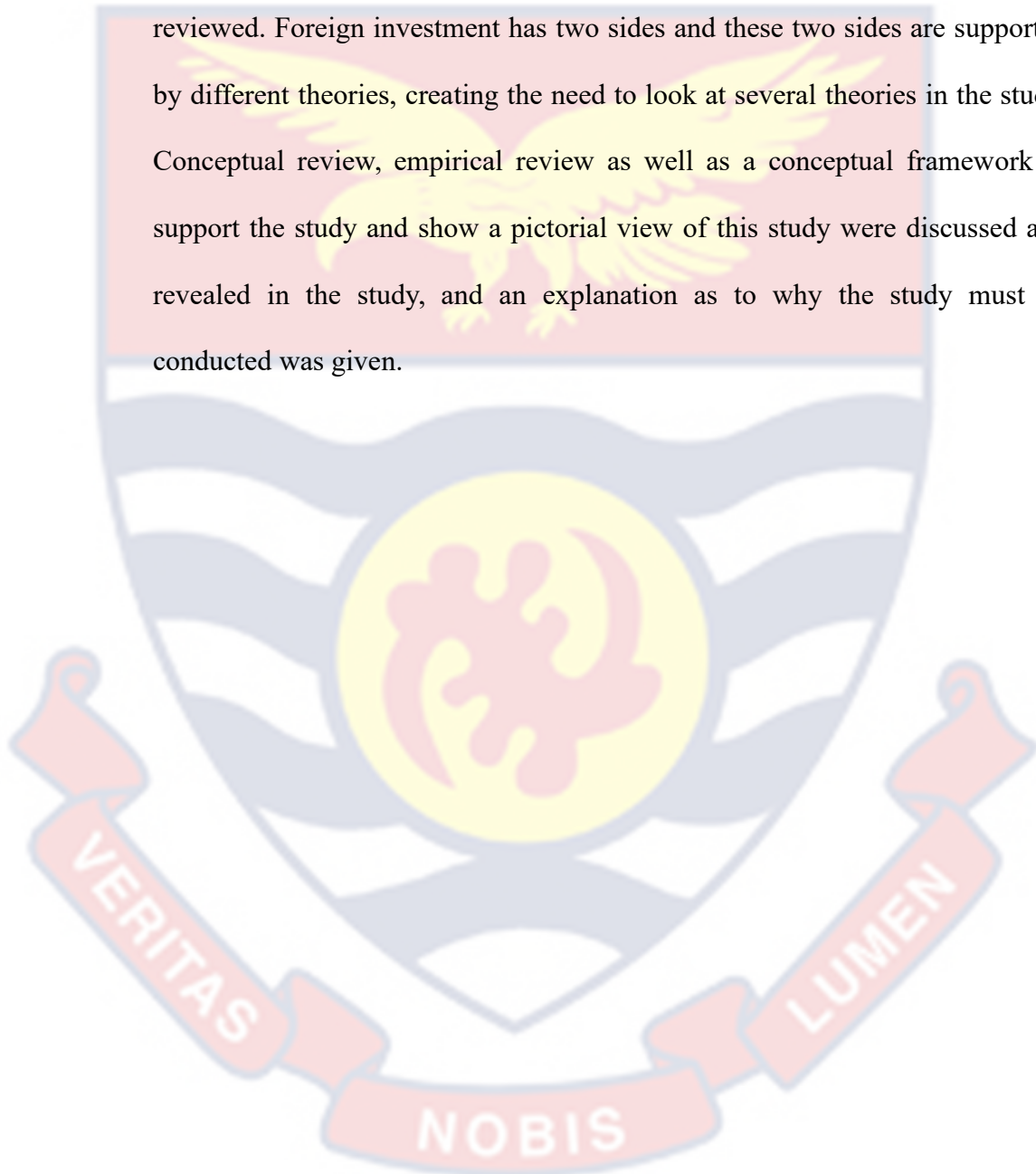
CHAPTER THREE

RESEARCH METHODS

Introduction

This Chapter discusses the research methods used in the collection, analysis and presentation of the data and results of the study. It also shows how the research is conducted. Included in this chapter are the research approach and research design, data screening procedure, sources and description of data, and justification and measurement of variables.

Research Paradigm

The research paradigm discusses the nature of reality, which is an important aspect of every research investigation process (Bell, Bryman, & Harley, 2022). It assists in understanding the perspectives and viewpoints around which a research study is to be planned and carried out (Krauss, 2005). According to Bell et al. (2022), a research paradigm is identified as a group of inferences and ideas that reveal how a researcher perceives the world, which then informs the thinking and behaviour patterns of the researcher (Bell et al., 2022). In other words, a paradigm can further be described as an underlying worldview or belief system that dictates to the researcher (Guba & Lincoln, 1994, p. 105).

Besides the various study methods used in investigations, a phenomenon can be explained by the researchers' conceptions and opinions about the world (Wahyuni, 2012). In other words, although there are approaches that help to understand certain phenomena, how a researcher views the world can also help in understanding the phenomena. Creswell (2014) asserts that the research paradigm provides a framework that drives the

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research process, including developing research objectives and questions, and the methods employed. As such, the research paradigm alters the research process and the overall research strategy, the design of the study, and the methodology that will be employed (Creswell, 2007; Bell et al., 2022).

Within social sciences research, several paradigms have emerged including positivism, interpretivism, pragmatism and critical realism (Bell et al., 2022; Goldkuhl, 2012; Klein & Myers, 1999; Myers, 2019; Orlikowski & Baroudi, 1991). Similarly, Creswell (2007) examined these four major paradigms identified. Conversely, the paradigms that dominate in business-related studies, more precisely Accounting include the Positivism and Interpretivism paradigms (Goldkuhl, 2012; Grafton et al., 2011; Kakkuri-Knuuttila et al., 2008; Krauss, 2005).

This study identifies with the positivist paradigm, which is associated with the belief that reality is single as opposed to multiple realities of Interpretivism. Also, it acknowledges the usage of quantitative design techniques to investigate any association. This study seeks to examine the impact of SARS on foreign investments by testing hypotheses and associations, hence this study is underpinned by the positivist paradigm

Research Philosophy

According to Saunders et al. (2019), the research philosophy reveals the holistic approach used by researchers to create knowledge based on a structured system of beliefs and assumptions. Ponterotto (2005) described research philosophy as "the theoretical foundations behind the pursuit of knowledge". The philosophical underpinnings of any research investigation aid in differentiating between the prevailing paradigms (Guba & Lincoln,

1994). That is to say that research paradigms are supported by philosophical underpinnings, which affect the research process and approach. Specifically, how research questions or objectives are understood, how data is gathered, the methods to be employed, and how hypothesized associations are examined (Saunders et al., 2019).

Ontology expands on assertions about organizational and social realities that may confront a researcher throughout the study (Killam, 2013). Philosophically, ontology is understood as the nature of human beliefs concerning reality (Saunders et al., 2019). Thus, ontology raises questions about the researcher's conception regarding reality and what is deemed as fact and true.

Researchers using ontology may possess assertions about reality (which may be implied), how it works, and what they can know and learn from it (Creswell, 2014). There are primarily two ontological stances: subjectivism and objectivism. Subjectivism involves the understanding of how people attach meanings to social activities that they encounter, whilst objectivism discusses that social factors and social entities exist independently of each other

Objective ontology is adopted in this study since the researcher is convinced that reality is objective. In other words, the researcher consents that knowledge sometimes doesn't change. Also, based on epistemological underpinning, the researcher believes that knowledge is gained and acquired objectively and as such, stays apart from the research to avoid bias. Hence objective ontology is adopted since the researcher believes that the knowledge

that exists on foreign investments and International Financial Reporting Standards, for instance, remains the same.

Research Approach

A research approach can be inferred from the research problem, research objectives, and how the researcher perceives the world (Cresswell & Cresswell, 2018). In other words, the research approach is a strategy and a set of processes that span from establishing the research hypothesis to specific techniques employed to gather, analyze and interpret data (Cresswell, 2014; Saunders et al., 2019). It describes the outline of how the entire study will be carried out. Moreover, mixed-method, qualitative and quantitative approaches have been identified as the main research approaches used by scholars, depending on the nature and source of data that they gather (Cresswell, 2014).

According to Denzin and Lincoln (2005), researchers inclined to qualitative research engage in an inquiry before producing interpretations and conclusions dependent on the context that people provide. This approach seeks to comprehend situations for what and how they are. Alternatively, the quantitative approach seeks to validate theories by confirming or disproving the hypothesis based on the established relationships among study variables (Cresswell, 2014). The mixed-method approach, however, is of the view that both qualitative and quantitative approaches can be employed to understudy a phenomenon. The quantitative approach is employed in this study, as the study uses hypotheses to try and establish relationships among variables.

Research Design

This talks about the outline that is used to achieve research objectives (Saunders *et al*., 2019). In achieving the proposed research of SARS and

foreign investments: the role of legal origin, the explanatory research design was adopted. Although quantitative research approach allows for an appropriate and orderly analysis of numerical data, analysis of the results obtained must be performed with the help of the research design, to understand the figures. For instance, the causal relationship this study seeks to establish can be explained with the explanatory research design since this design emphasizes studying relationships between variables The study uses explanatory research design which emphasizes the relationship between variables.

Study Area

Countries found in the Sub-Saharan part of Africa are considered as the population for this study and the definition for Sub-Saharan Africa is adopted from the UN. According to the definition of the UN for Sub-Saharan Africa, Sub-Saharan Africa is made up of African countries that are found below the Sahara Desert. Africa is divided into four sections; eastern, western, northern and southern. Sub-Saharan Africa (SSA) consists of countries from all four sections of Africa and these include countries found in the eastern parts of Africa like "Eritrea, Somalia, and North and South Sudan; countries in the western parts like Ghana, Liberia, Sierra Leone, Côte D'Ivoire, Mauritania, and Mali; countries in the central parts like Congo, Gabon, Central Africa Republic, Rwanda, Burundi; and the southern parts like south Africa, Namibia, Botswana and Mozambique. Islands on the borders of the continent and below the desert are also classified as part of Sub-Saharan Africa and Madagascar is one of them" (Abeka, 2018, p 92).

Data Screening Procedure

The study used a "large number of countries and multiple years to give a higher degree of freedom" (Adela et al., 2022). When a study uses data with a high degree of freedom, the believability of the study's findings is increased as the findings will be trustworthy. Also, collinearity among independent variables is reduced. As cited by Brooks (2008) and Baltagi and Kao (2001), panel datasets allow for complex computations to be done seamlessly, observe many variations over time, control individual heterogeneity and minimize biases. Panel data therefore permits for the influencing of variables that are difficult to study such as "cultural and environmental factors, differences in acceptable practice peculiar to certain locations, or other variables that are dynamic only with time and no other variables; for example, national laws and regulations and international agreements" (Jensen, 2003, p. 601), making it a better option compared to other types of data.

Data on SARS and foreign investments was derived from the Global Competitiveness Index Dataset. Thirty-three out of forty-eight SSA countries were employed for this study and it consisted of 396 datasets for a period of 12 years, from 2007 to 2019. The fifteen countries exempted did not have the data being used for the study and thus could not be included.

Model Specification and Estimation Technique

Systems GMM model was used to estimate models and analyze panel data to investigate the impact of SARS on foreign investment in Sub-Saharan Africa, with legal origin moderating the relationship. According to Agyei et al., (2022), the System General Methods of Moments (GMM) was introduced by Holtz-Eakin and Rosen (1990) and further developed by Arellano and Bond in

1991. "The fundamental identification condition for this model is the strict exogeneity of some of the explanatory variables" (Arellano & Bond, 1991). Put differently, one of the ways many reasons for the use of the System GMM are to solve issues of exogeneity among variables.

Methods like the Ordinary Least Square (OLS) method does not necessarily expect the endogeneity of explanatory variables and assume exogeneity of those variables. However, the Systems General Method of Moments is able to measure errors in regressors and simultaneity of variables that are explanatory in nature (Arellano & Bond, 1991). When the dependent variable is lagged, System GMM is able to surmount it and other conditions such as autocorrelation in an error term. The model includes the lag of the dependent variable, that is FPI and FDI as a regressor, to cater for the adjustment process of foreign investments. Intuitively, increases in foreign investments in a period will send positive signals to investors and therefore increase foreign investments in the next period.

Other reasons for choosing System GMM as captured by Edison, Levine, Ricci and Sløk, (2002) include the following:

1. System GMM makes provision to influence variables that may be overly exogenous due to simultaneity in the model, thereby controlling for endogeneity and eliminating outliers.

2. The model is able to explore the time series and cross-sectional features of a data set, increasing the degree of freedom.

The dataset being used in this study is a panel dataset, which entails both cross-sectional data and time series data hence System GMM will be an ideal

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estimator for this study. The baseline model for the Systems GMM is as follows:

$$FI_{it} = y_0 + y_1 FI_{it-r} + \sum_{h=1}^{n} y_h X_{h,it-r} + \theta_i + \mu_t + \varepsilon_{it} \quad (1)$$

The first difference of the baseline model is as follows:

$$FI_{it} - FI_{it-r} = y_1(FI_{it} - FI_{it-2r}) + \sum_{h=1}^{n} y_h (X_{h,it-r} - X_{h,it-2r}) + (\mu_t - \mu_{t-r}) + \varepsilon_{it-r} \quad (2)$$

Where FI = Foreign Investments (Dependent Variable).

y_0 = Constant

X= Vector of control variables (Trade Openness, Inflation, Exchange Rate, Interest Rate, Domestic Credit to Private Sector, Total Natural Resource Rents and Gross Domestic Product)

θ = Country specific effect

μ = Time specific factors

$\varepsilon = Error\ Term$.

The i represents country while t represents time.

From the baseline model for system GMM, a regression model is derived for this study. The regression model is as follows:

$$FI_{it} = \alpha + \beta_1 FI_{i,t-1} + \beta_2 SARS_{it} + \beta_3 LO_{it} + \beta_4 X_{it} + \varepsilon_{it} \quad (3)$$

Where FI = Foreign Investments (Dependent Variable).

SARS = Strength of Auditing and Reporting Standards.

LO= Legal Origin - moderating variable.

X = Vector of control variables (Trade Openness, Inflation, Exchange Rate, Interest Rate, Domestic Credit to Private Sector, Total Natural Resource Rents and Gross Domestic Product)

$\alpha = Constant$

$\beta_1 = Coefficient\ of\ the\ lag\ of\ the\ dependent\ Variable.$

$\beta_2 = Coefficient\ of\ the\ Independent\ Variable.$

$\beta_3 = Coefficient\ of\ the\ Moderating\ Variable.$

$\beta_4 = Coefficient\ of\ the\ Vector\ of\ Control\ Variable.$

$\varepsilon = Error\ Term.$

Two models are obtained from the above model to test for hypothesis one and two. The first model to be obtained from hypothesis one is as follows:

Model one:

$$FPI_{it} = \alpha + \lambda_1 FPI_{i,t-1} + \lambda_2 SARS_{it} + \lambda_3 LO_{it} + \lambda_4 X_{it} + \varepsilon_{it} \qquad (4)$$

Where FPI = Foreign Portfolio Investment (Dependent Variable).

SARS = Strength of Auditing and Reporting Standards.

LO= Legal Origin - moderating variable.

X = Vector of control variables (Trade Openness, Inflation, Exchange Rate, Interest Rate, Domestic Credit to Private Sector, Total Natural Resource Rents and Gross Domestic Product)

$\alpha = Constant$

$\lambda_1 = Coefficient\ of\ the\ lag\ of\ the\ dependent\ Variable.$

$\lambda_2 = Coefficient\ of\ the\ Independent\ Variable.$

$\lambda_3 = Coefficient\ of\ the\ Moderating\ Variable.$

$\lambda_4 = Coefficient\ of\ the\ Vector\ of\ Control\ Variable.$

$\varepsilon = Error\ Term.$

The second model used for testing the second hypothesis is as follows:

Model two:

$$FDI_{it} = \alpha + \beta_1 FDI_{i,t-1} + \beta_2 SARS_{it} + \beta_3 LO_{it} + \beta_4 X_{it} + \varepsilon_{it} \qquad (5)$$

Where FDI = Foreign Direct Investments (Dependent Variable).

SARS = Strength of Auditing and Reporting Standards.

LO= Legal Origin - moderating variable.

X = Vector of control variables (Trade Openness, Inflation, Exchange Rate, Interest Rate, Domestic Credit to Private Sector, Total Natural Resource Rents and Gross Domestic Product)

$\alpha = Constant$

$\beta_1 = Coefficient\ of\ the\ lag\ of\ the\ dependent\ Variable.$

$\beta_2 = Coefficient\ of\ the\ Independent\ Variable.$

$\beta_3 = Coefficient\ of\ the\ Moderating\ Variable.$

$\beta_4 = Coefficient\ of\ the\ Vector\ of\ Control\ Variable.$

$\varepsilon = Error\ Term.$

In testing for the moderating effect of legal origin on the relationship between SARS and foreign investment, another model is derived:

Model three:

$$FI_{it} = \alpha + \gamma_1 FI_{i,t-1} + \gamma_2 SARS_{it} + \gamma_3 LO_{it} + \gamma_4(SARS * LO_{it}) + \gamma_5 X_{it} + \varepsilon_{it}$$

(6)

$SARS * LO_{it}$ represents the moderating effect of legal origin on the relationship between SARS and foreign investment, α represents the constant and γ represents the coefficients. All other variables, however, remain the same.

The dependent variable is foreign investment and is measured by FDI and FPI. The Strength of Auditing and Reporting Standards is the independent variable and legal origin is the variable moderating the relationship between SARS and foreign investment. i represent the country index while t represents the time index.

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Control variables used in this study include trade openness, inflation, total natural resource rent, official exchange rates, real interest rates, domestic credit to the private sector and GDP. These are variables that will not be used in this study but can affect the variables in the study. The System Generalized Method of Moments Model is adopted as the model estimator to be used in analysing the data. To assess the adequacy of GMM results, the study employs the Hansen tests and the Arellano and Bond serial correlation tests.

A Priori Expected Signs

The table below shows the expected signs of the independent variable and moderator, based on the literature discussed above in chapter 2 of the study.

Table 1: A priori expected signs of the independent variables

Variable	Model 1	Model 2	Model 3
SARS	+	+	+
LO	+	+	+
LO *SARS	+	+	+

Source: Field Survey (2023)

Definition of Variables

This section will look at the variables to be used in the study in their various classifications and the meaning of those variables. The section will look at the three classifications: independent variable, dependent and other variables

Independent variable

An independent variable in a study is the variable that is not easily influenced by other variables in the study. In this study, the independent variable is Strength of auditing and reporting standards.

Strength of auditing and reporting standards (SARS)

Strength of Auditing and Reporting Standards, popularly known as SARS is defined as the degree or extent to which auditing and reporting standards have gained grounds in one's own country. How strong the auditing and reporting standard is in one's country determines the effectiveness of those auditing and reporting standards and tends to reveal a lot about the governance system of a nation. It is measured by asking the question: "how strong are auditing and reporting standards in your country?" and a 7-point Likert scale is used to obtain answers from respondents, with the least figure 1, representing extremely weak, and the highest figure 7, representing extremely strong.

Dependent Variable

Dependent variables are variables that are influenced in a study. Foreign investments are used as the dependent variable for this study

Foreign investments

Foreign investments refer to the movement of capital or resources from an economy to another economy, where the economy from which the capital flows obtain an ownership stake in the other economy which receives the capital. Foreign investment is done either directly or by the use of an instrument. Direct investment refers to the flow of capital from a country to another country without the use of mediums and is measured by obtaining the

total net inflows received by a country from foreigners who have ownership stake in the country and can influence the decisions of the country.

Foreign portfolio investment is quite the opposite of direct investment and is defined as obtaining an interest in a foreign country through mediums. This type of foreign investment gives no control to the investor so the investor cannot influence the investee. It is measured by finding the total inflows received by a country from foreigners through securities like bonds. Foreign direct investment and foreign portfolio investment serve as the measurement for foreign investments and the net inflows of these two investments are collected, examined and used in the conduction of this study.

Other Variables

Other variables refer to any other variable that are used while conducting this study. This includes the moderating variable and control variables.

Moderating variable- legal origin

Legal origin seeks to explain where the laws of countries originated from. It looks at countries mainly using either common law or civil law as a basis for their operations. Countries with a common law base were colonized by Anglo-Saxon countries while countries with civil law bases were colonized by Francophone countries. SSA countries are known to have been colonized by both Anglo-Saxon and Francophone countries, thus SSA countries that were colonized by Anglo-Saxon countries have the common law base, and the other group, the civil law base. Data on legal origin is obtained from the University of Ottawa and a dummy variable is used in apportioning it. This means using two figures, 0 and 1, to indicate whether the Sub-Saharan African

country involved has a civil law base or a common law base, since that can influence the outcome of this study.

Control variables

Control variables used include: trade openness, inflation, total natural resource rent, official exchange rates, real interest rates, domestic credit to private sector and GDP. According to World Development Indicators, trade openness refers to how open a country is to trade. Some countries do not allow for other countries to trade easily on their market. How often a company engages in imports and exports depicts how open that country is to trade. Trade openness is measured as the "sum of imports and exports of products, measured as a percentage of GDP" (World Development Indicators, 2023). Trade openness helps countries to build a good cordial relationship which allows for firms to borrow from other countries and consequently invest in the countries. Statistics show that a country that is more open in terms of trade, attracts more foreign investment.

Inflation has to do with the rise in general price levels. High inflation deters investors from investing since they would not want to lose their principal investment. When inflation is low, the economy is more stable and foreigners are assured of not losing their principal, but also making profit. Inflation gives the changes in the amount a consumer spends on acquiring a basket of products annually in percentages and this may either be constant or changed intermittently (World Development Indicators, 2023).

Total natural resource rent is defined as the amount a country receives for producing raw materials which also form part of natural resources. This brings about financial development which also is a booster or attracting

foreign investment. Natural resource rent is measured by combining the total amounts received from all natural resources sold, for instance coal. Countries endowed with natural resources have a higher probability of drawing more foreign investment than countries with little or no foreign investments.

Most countries have their own customized currency. Inflation and economic development for instance, has drawn attention to the weakness of some of such currencies, causing the value of those currencies to reduce. To summarize, some currencies are of more value than other currencies thus cannot be ranked at the same level. Exchange rates are needed to know the equivalent of say, $1 in the Ghanaian cedi. Since investors would want to sow less but reap more, investors are more likely to take the bait when faced with such issues. Official Interest rate is calculated as an "annual average based on monthly averages (local currency units relative to the U.S. dollar, which is the standard currency or the accepted currency for international transactions)" (World Development Indicators, 2023).

The higher the rate of return on an investment is, the more investment it will attract. The reverse is also true. Real interest rate, which is mostly in percentages, gives the investor a brief idea of the interest he will receive upon investing a certain amount and investors always go for the ones with higher rates. It refers to the rate of interest at which a country will lend money to another institution, be it country or firm, adjusted for inflation as measured by the GDP deflator. Since it is country specific, there is no standard way of generating it: the laws of the country in question may influence the rate

Domestic credit to private investors is also another variable that can affect the level of foreign investments a country attracts. When the private

sector receives resources such as loans and credit debts which are financial in nature from institutions with the aim of repaying the amount received in the future, it is known as Domestic credit to private sector (World Development Indicators, 2023) . Domestic credit to private sector is when financial institutions provide assets to the private sector of a country. This brings about economic growth, which will draw investors to the country. It is measured as a percentage of a country's GDP.

The last but not least variable which can greatly influence the level of foreign investments a country can receive is the gross domestic product (GDP) of that country. World Development Indicators (2023) gave the definition of GDP at purchaser's price as "the gross sum of value added by producers residing in an economy plus any product taxes and minus any subsidies not included in the value of the products". Depreciation is not deducted before the calculation of GDP is made.

$C + I + G + (X - M)$ explains what the total consumption of a country is made up of, which is summarized in the definition provided above. An increment in the GDP of a country will mean the country is faring well. Investors would want to seize such opportunities to not just invest in the countries, but to also have a share in the victories of the country whose GDP is increasing and enjoy a part of its national cake, by making some returns on the investment made.

Measurement of Variables

A summary of the variables discussed above, which are to be used in the study, are summarized in the table below:

Table 2: Description of Variables and Sources of Data

Variable	Definition	Measurement	Data Source
SARS	How strong are auditing and reporting standards in your country?	[1 =extremely weak; 7 =extremely strong]	World Bank's GovData360 dataset on the World Economic Forum Global Competitiveness Index <u>Strength of auditing and reporting standards, 1-7 (best) - GovData360 (worldbank.org)</u>
FDI	Inflow of capital to an economy that gives the foreign investor some sort of control over the affairs of the host economy	Foreign direct investment, net inflows (BoP, current US$)	World Development Indicators
FPI	Foreign investment other than monies used for direct investment and monies set aside for a specific purpose	Portfolio equity, net inflows (BoP, current US$)	International Financial Statistics Datasets <u>Coordinated Portfolio Investment Survey - by Economy - IMF Data</u>

Legal origin	Whether the legal system of operation for a country is common law or civil law.	Dummy variable where 0 represents countries with civil law origin or background and 1 stands for countries with common law background	The Faculty of law of the University of Ottawa. University of Ottawa (uottawa.ca)
Trade Openness	How open a country is to trade	sum of imports and exports of products, measured a percentage of GDP.	World Development Indicators
Inflation	The rise in general price levels	measured by the consumer price index	World Development Indicators

Total Natural Resource Rent	The amount a country receives for producing raw materials which also form part of natural resource	measured by combining the total amounts receives from all natural resources sold	World Development Indicators
Exchange Rates	The rate at which the equivalent of a currency is known in another currency	calculated as an annual average based on monthly averages	World Development Indicators
Real Interest Rates	The lending interest rate of a country	laws of the country in question may influence the rate	World Development Indicators
Domestic Credit to Private	When private sector receives resources such as loans and credit debts which are financial nature from institutions with the aim of	It is measured as a percentage of a country's GDP	World Development Indicators

Sector	repaying the amount receives in the future		
GDP	The sum of gross value added by producers residing in the economy plus any product taxes and minus any subsidies not included in the value of the products	It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.	World Development Indicators

Source: Field Survey (2023)

Chapter Summary

The chapter discussed the research methods by first discussing the research paradigm, philosophy, design and approach. The research adopted the positivist paradigm and used quantitative approach, as well as explanatory design for this study, in order not to influence the results of the findings, and to successfully bring out the cause-and-effect relationship between the main variables used for the study. The study made use of secondary data from WDI, WGI, IMF, UNCTAD and OEC, among others. A model was built to help test the relationship between variables. Variables in the study were explained and how variables were to be measured were also stated.
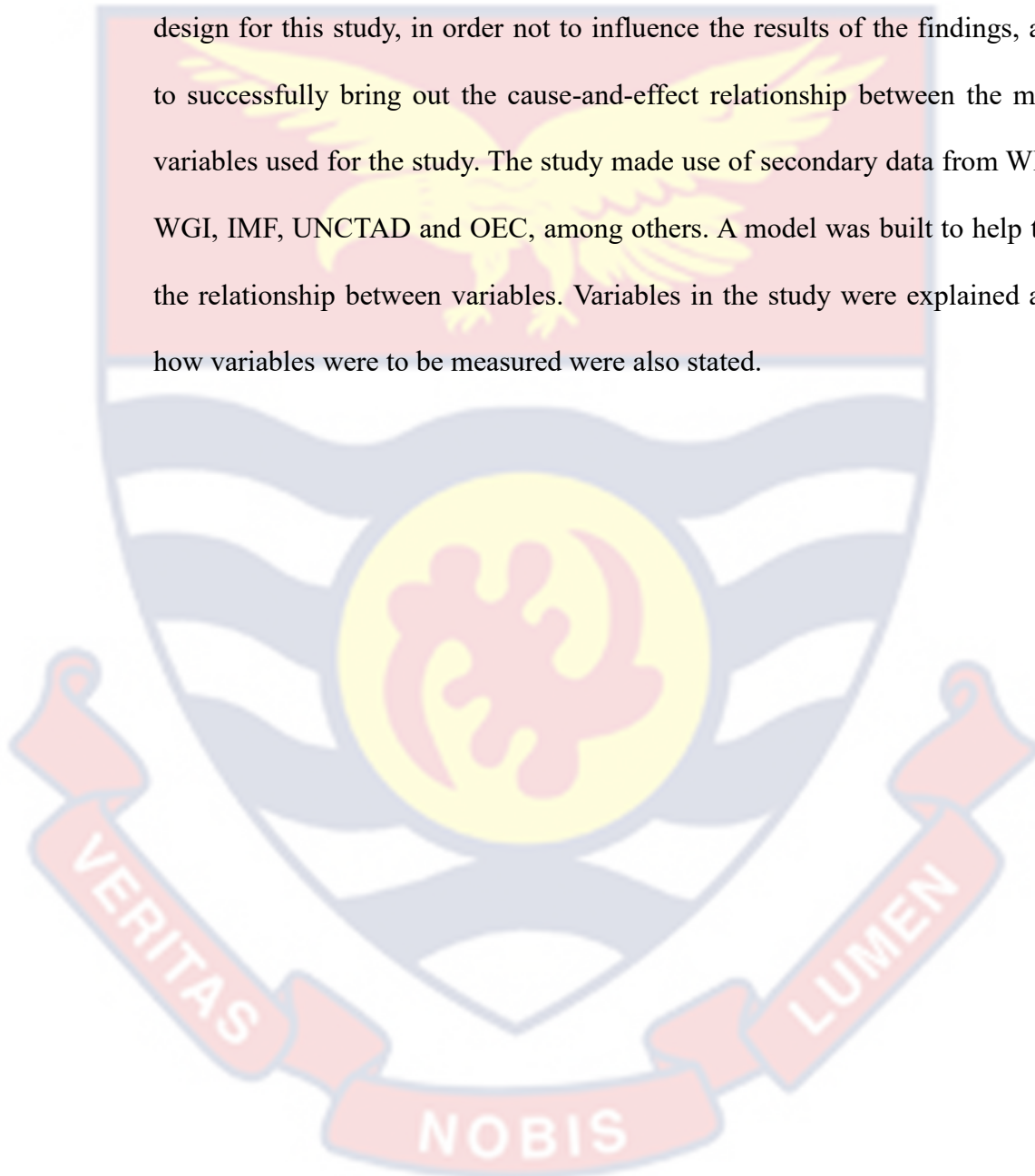
CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents and discusses the empirical analysis conducted in this study. It first presents the descriptive statistics on all the variables used in the study, to give an overview of the strength of auditing and reporting standards and foreign investment in Sub Saharan Africa. It continues to reveal the correlational matrix, which has a goal to avoid multicollinearity issues in the empirical specification to be discussed. The chapter then discusses the analysis of models specified in the earlier chapter to end the discussion on the empirical analysis.

Descriptive Statistics

Descriptive statistics is presented on a sample of thirty-three Sub Saharan African countries, out of a total of forty-eight Sub Saharan African Countries. Observations used for the study, the mean, which represents the average, the standard deviation, which measures the volatility of variables, as well as the minimum and maximum values for variables presented in the study are revealed in the descriptive statistic table below. List of countries used in the study is shown in the appendix A below.

Table 3: Descriptive Statistics of Regress and Regressors

Variable	Obs	Mean	Std. Dev.	Min	Max
FDI	429	5.155	9.774	-10.954	103.337
FPI	293	11453.91	36782.14	.1	181173.44
SARS	363	4.208	.824	2.134	6.727
LO	429	.576	.495	0	1
TOPEN	399	72.597	36.539	20.723	225.023
INFLA	422	7.706	13.644	-3.233	255.305
TNRRENT	429	10.004	8.63	.001	55.875
OFEXRATE	418	16084706	3.288e+08	.933	6.723e+09
RINTRATE	361	8.279	11.681	-64.381	52.437
DCPSECTOR	385	24.593	25.752	2.647	142.422
GDP	429	4.166e+10	9.051e+10	1.045e+09	5.094e+11

Source: Field Survey (2023)

FDI and FPI represents measures of foreign investment. SARS represents the Strength of Auditing and Reporting Standards, measured by how effective Auditing and Reporting Standards are in one's country, on a scale of 1-7. LO represents Legal Origin, which shows whether an economy has common law background or civil law background. Control variables are TOPEN, which represent Trade Openness; INFLA which represents Inflation; TNRRENT, which represents Total Natural Resource Rent; RINTRATE which represents Real Interest Rate and DCPSECTOR which represents Domestic Credit to Private Sector, are all measured as a percentage of GDP. OFEXRATE which represents Official Exchange Rates and GDP, also form part of the control variables.

From the descriptive statistics, average Foreign Direct Investment was as low as 5.155%, within the ranges of -10.954% and 103.337%. This shows that although much effort has been put in by SSA countries to attract investment, the direct investment attracted by these SSA countries is not

encouraging. Average Foreign Portfolio Investment is 11453.91%, within the ranges of 0.1% and 181173.44%, which signifies that investors are moderately attracted by the efforts of SSA countries.

From the sample of thirty-three SSA countries, SARS had an average of 4.208% within the limits of 2.134% and 6.727%. This statistic reveals how moderate the Strength of Audit and Reporting Standards are in Sub-Saharan African countries. Impliedly, SSA countries attract average investment not because they have strong SARS or low SARS, but because they have moderate or medium SARS. Thus, if they are able to improve SARS in their respective countries, they may be able to increase the foreign investments attracted into the countries.

Trade openness, inflation, total natural resource rent, official exchange rates, real interest rates, domestic credit to the private sector as well as GDP all serve as control variables. That means these variables can affect foreign investment in one way or the other, but are being held constant for the purpose of this study. Trade openness, which measures how open SSA countries are to trade, had an average of 72.597%, within the limits of 20.723% and 225.023%. Domestic credit to private sector, which is a measure of the financial development of the countries, had an average of 24.593%, within the limits of 2.647 and 142.422%, and it depicts the weakness in the financial development of some SSA countries.

SSA countries experience inflation which is on the average of 7.706% within the limits of -3.233% and 255.305%. Inflation, which is the rise in general price levels or the increase in the price level of products after a period of time (Oner, 2010), contributes to domestic growth by reducing the cost

incurred in production by the supplier and by transferring some of the cost to the consumer. Having an average inflation of 7.706% seems good for SSA countries, to increase the domestic growth of the countries.

Total Natural Resource Rent had an average of 10.004% within the limits of 0.001% and 55.875%. Avom, Ntsame Ovono, and Ongo Nkoa (2022), explained that SSA countries are quite endowed with natural resources and the countries depend on its rent since 65% of the total exports of SSA countries are from natural resources. However, a second look at the statistics provided above shows that although SSA countries are enriched in natural resources and sell lots of natural resources, the rent received from these resources is nothing to write home about and attention must be paid to increase the rent received.

Real interest rate, which signifies the rate which will determine the interest investors will receive, had an average of 8.279% within the boundaries of -64.381% and 52.437%. This reveals that although investors might not make a loss when they invest in SSA countries, the interest rates provided by SSA countries are not very high to attract lots of investors. Exchange rate signifies the rate at which a foreign currency will be converted to the currency of the investee country. GDP, which stands for Gross Domestic Product, also serves as a metric of the economic growth of SSA countries.

Correlation Analysis

Table 4: Correlation matrix

Variables	(1)		(3)		(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) FDI	1.000											
(2) L.FDI	0.718***	1.000										
(3) lnFPI	-0.186***	-0.163***	1.000									
(4) L.lnFPI	-0.189***	-0.179***	0.967***	1.000								
(5) SARS	-0.051	-0.006	0.419***	0.416***	1.000							
(6) LO	0.064	0.065	0.101*	0.101*	0.565***	1.000						

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(7) TOPEN	0.445***	0.430***	0.167***	0.167***	0.054	0.111*	1.000				
(8) INFLA	0.001	0.006	-0.285***	-0.261***	0.037	0.081*	-0.026	1.000			
(9) TNRRENT	0.138***	0.163***	-0.251***	-0.271***	-0.425***	-0.382***	-0.060	0.105	1.000		
(10) lnOFEXRATE	-0.111*	-0.111*	-0.431***	-0.448***	-0.312***	-0.293***	-0.402***	-0.064	0.125**	1.000	
(11) RINTRATE	0.057	0.078	-0.314***	-0.337***	-0.108*	-0.098*	-0.058	-0.349***	0.019	0.232**	1.000

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(12)	-0.079	-0.081	0.594**	0.590**	0.592**	0.151**	0.160**	-0.115**	-	-	-	1.00
DCPSECTOR			*	*	*	*	*		0.222**	0.414**	0.129	0
									*	*	*	

Source: Field Survey (2023)

Note: FDI refers to Foreign Direct Investment as a percentage of GDP, lnFPI refers to log of Foreign Portfolio Investment, L.FDI refers to Lag of Foreign Direct Investment as a percentage of GDP, L.lnFPI refers to Lag of the log of Foreign Portfolio Investment, SARS refers to Strength of Auditing and Reporting Standards. LO represents Legal Origin, TOPEN refers to Trade Openness as a percentage of GDP, INFLA refers to Inflation rate as a percentage of GDP, TNRRENT signifies Total Natural Resource Rent, lnOFEXRATE refers to the log of Official Exchange rates, used in the conversion of foreign currencies, RINTRATE refers to Real Interest Rate as a percentage of GDP, DCPSECTOR refers to Domestic Credit to Private Sector as a percentage of GDP the last, which is lnGDP represents the log of Gross Domestic Product.
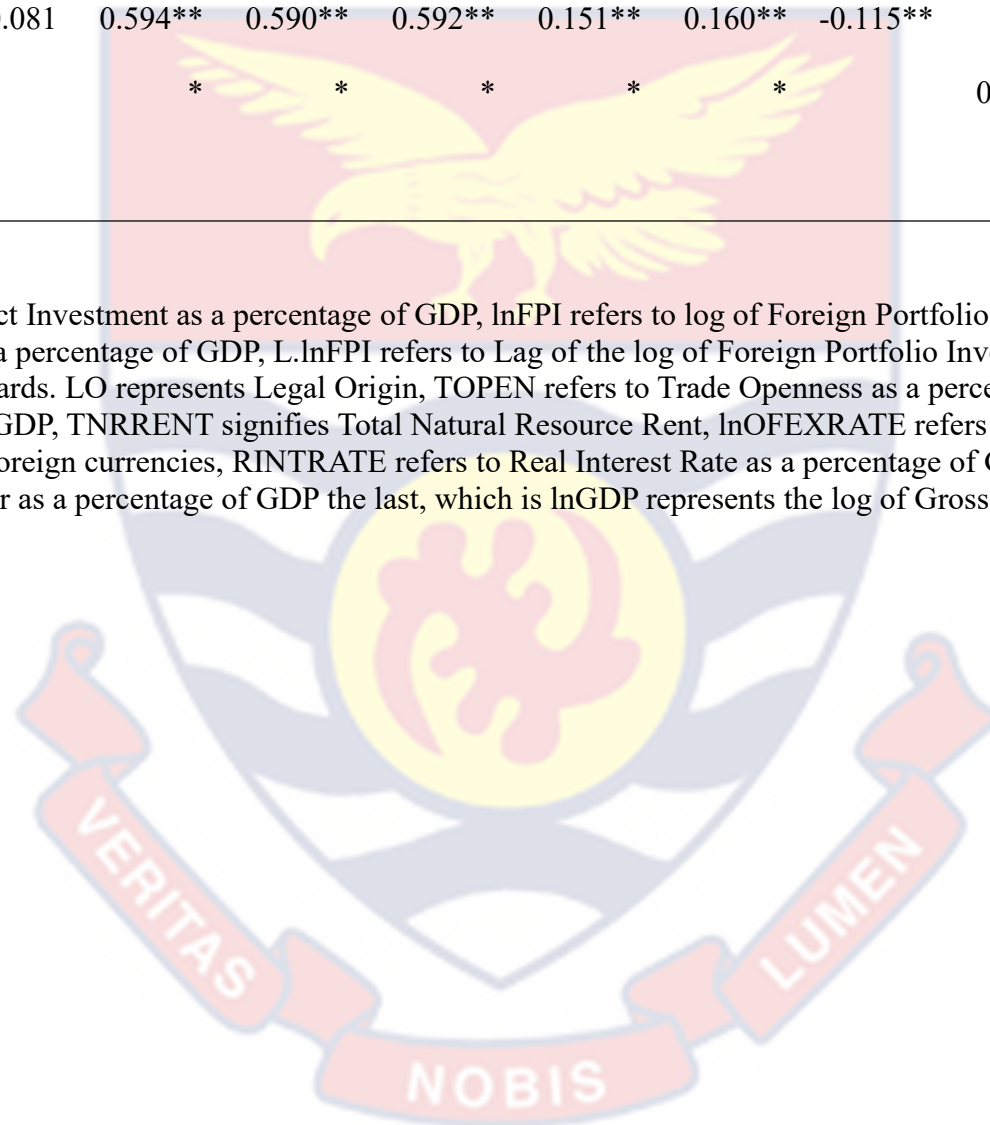
Presented in Table 4, is the pairwise correlation matrix for the variables being used in the study. The correlation coefficients show that the complementary association between the variables are not high, thus the variables are independent of each other and do not affect each other. This also reveals that multicollinearity does not exist between variables which are being used in the study since the variables do not have a correlation coefficient beyond 0.80 (Kennedy, 2003)

Multicollinearity seeks to establish that there is high interdependence between variables that are being used in a study (Gogtay & Thatte, 2017). To confirm the issue of multicollinearity, the Variance Inflation Factor is measured for the variables.

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Table 5: Variance Inflation Factor

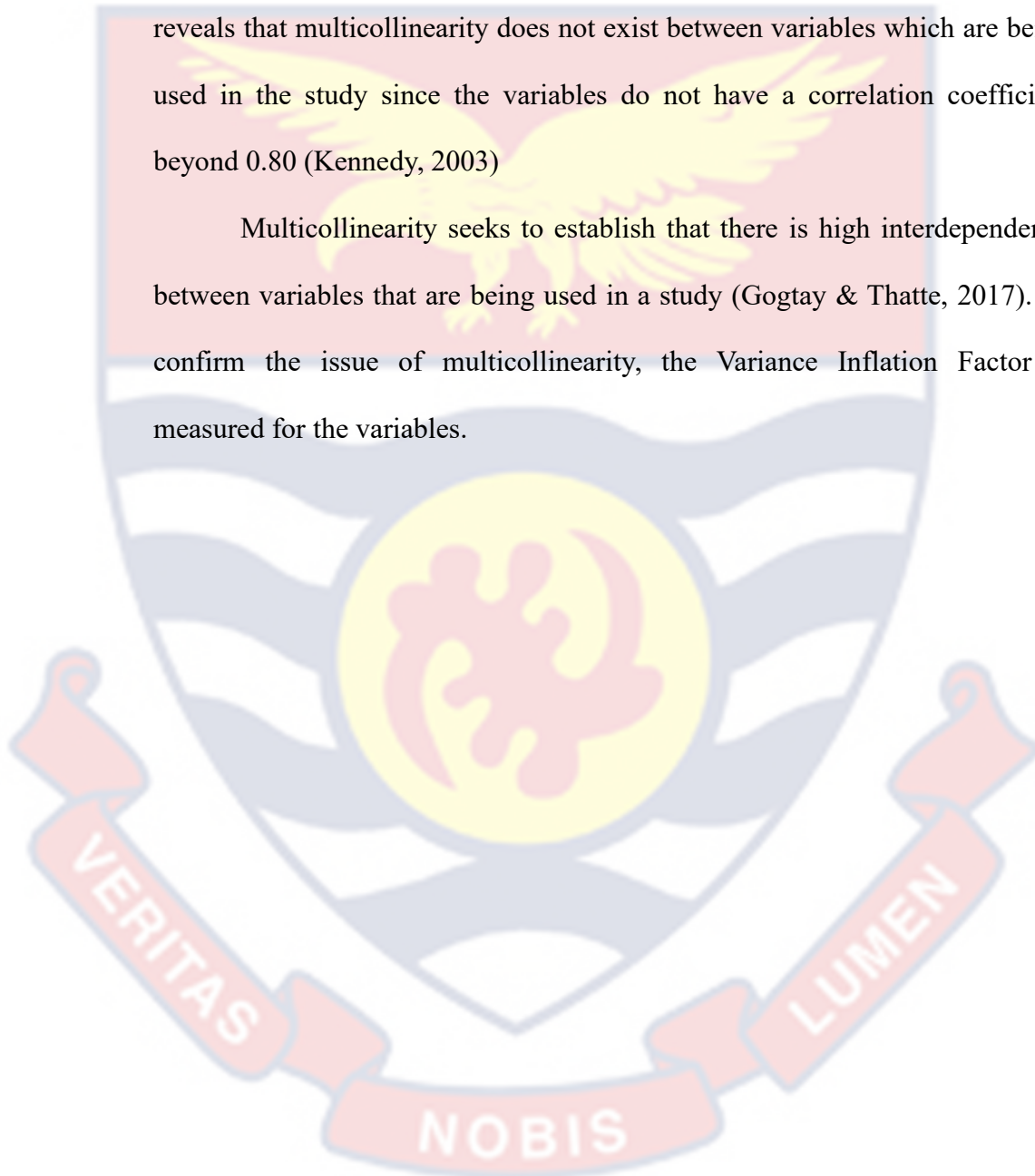|	FPI			FDI	
	VIF	1/VIF		VIF	1/VIF
SARS	4.175	.24	SARS	4.148	.241
TOPEN	3.771	.265	TOPEN	3.486	.287
lnOFEXRATE	3.158	.317	DCPSECTOR	3.248	.308
DCPSECTOR	2.857	.35	lnOFEXRATE	3.148	.318
lnGDP	2.54	.394	lnGDP	2.945	.34
LO	2.28	.439	lnFPI	2.533	.395
TNRRENT	1.721	.581	LO	2.219	.451
FDI	1.525	.656	TNRRENT	1.678	.596
INFLA	1.519	.658	INFLA	1.586	.631
RINTRATE	1.285	.778	RINTRATE	1.327	.753
Mean VIF	2.483	.	Mean VIF	2.632	.

Source: Field Survey (2023)

FDI refers to Foreign Direct Investment as a percentage of GDP, lnFPI refers to log of Foreign Portfolio Investment, SARS refers to Strength of Auditing and Reporting Standards. LO represents Legal Origin, TOPEN refers to Trade Openness as a percentage of GDP, INFLA refers to Inflation rate as a percentage of GDP, TNRRENT signifies Total Natural Resource Rent, lnOFEXRATE refers to the log of Official Exchange rates, used in the conversion of foreign currencies, RINTRATE refers to Real Interest Rate as a percentage of GDP, DCPSECTOR refers to Domestic Credit to Private Sector as a percentage of GDP the last, which is lnGDP represents the log of Gross Domestic Product.

The Variance Inflation Factor is within the range of 2.4 and 2.6 which

is less than 3. Some researchers believe that once the VIF is greater than 10,

multicollinearity exists, while others also believe that the VIF should not be above 5 (Neter, Wasserman, & Kutner, 1983; Midi & Bagheri, 2010). Based on what Neter *et. al.,* (1983) and Midi and Bagheri (2010) have said, we can conclude on the issue of multicollinearity by affirming that indeed, multicollinearity does not exist between the variables which are being used in the study: Strength of Auditing and Reporting Standards (SARS) and Foreign Investment in Sub-Saharan Africa, the moderating role of Legal Origin.

All variables being used in the study are found as a percentage of GDP, with the exception of the variables: FPI, OFEXRATE and GDP. In view of that the mentioned variables have been logged to have accuracy and consistency in and findings, so there will be no outliers.

Regression Results on the Relationship among Strength of Auditing and Reporting Standards, Foreign Investment and Legal Origin

In this section, the results of the goals of the study are disclosed and explained. The regression results after the analysis of data from thirty- three SSA countries are presented in Tables 6, 7 and 8. Table 6 and 7 presents the results on the relationship between SARS and FPI, as well as the relationship between SARS and FDI. Table 8 then presents the regression results on the moderating role of legal origin which is played on the relationship between SARS and foreign investment, which is both FPI and FDI.

Objective 1: Regression Results on the Relationship between SARS and Foreign Portfolio Investment

Table 6 shows the direct effect of SARS on Foreign Portfolio Investment and it is presented below

Table 6: Effect of Strength of Auditing and Reporting Standards on Foreign Portfolio Investment in Sub-Saharan Africa

| | (1) |
	lnFPI
L.lnFPI	0.891***
	(0.216)
SARS	0.286*
	(0.160)
LO	2.447*
	(1.180)
TOPEN	-0.0101*
	(0.00505)
INFLA.	-0.165***
	(0.0425)
TNRRENT	0.0689**
	(0.0325)
lnOFEXRATE	-0.642**
	(0.239)
RINTRATE	-0.0220
	(0.0220)
DCPSECTOR	-0.0700***
	(0.0122)
lnGDP	0.506
	(0.405)
Constant	-6.993

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	(8.604)
Observations	183
No. of instruments	18
AR1 (p-value)	0.0415
AR2 (p-value)	0.275
Hansen-J (p-value)	0.836

Source: Field Survey (2023)

lnFPI refers to log of Foreign Portfolio Investment, SARS refers to Strength of Auditing and Reporting Standards. LO represents Legal Origin, TOPEN refers to Trade Openness as a percentage of GDP, INFLA refers to Inflation rate as a percentage of GDP, TNRRENT signifies Total Natural Resource Rent, lnOFEXRATE refers to the log of Official Exchange rates, used in the conversion of foreign currencies, RINTRATE refers to Real Interest Rate as a percentage of GDP, DCPSECTOR refers to Domestic Credit to Private Sector as a percentage of GDP the last, which is lnGDP represents the log of Gross Domestic Product.

The results in table 6 depict that at 10% significance level, SARS has a positive effect on foreign portfolio investment attracted by SSA economies. The coefficient of 0.286 means that a percentage increase in SARS will lead to a 0.286% increase in Foreign Portfolio Investment attracted by SSA economies. This result shows that there is indeed a significant relationship between SARS and FPI and therefore rejects the null hypothesis of the first objective which states that there is no significant relationship between SARS and FPI.

This also means that when an SSA country spends resources building an institutional structure which will support a strong Auditing and Reporting Standards System, that SSA country will surely reap the benefit of attracting more Foreign Portfolio Investment and more funds will be obtained through securities, which will lead to an economic boom and subsequently, increase in

the economic growth or development of the country. Although no research has been conducted on SARS and FPI, research has been conducted on IFRS and FPI by scholars like Oyerinde (2019) and Agarwal (1997).

The results are in line with the findings of Omotoso, Schutte and Oberholzer (2022), which states that IFRS increases FPI attracted by African countries since it has a positive and significant relationship with FPI. The results are also in line with the results of Oyerinde (2019), which also states that the effects of institutional structures appear to be more significant in countries that have adopted IFRS. This goes to explain that audit and reporting standards can only take deep root and be strong in countries whose systems are working. Thus, if the systems are working, there will be a strong SARS and FPI will be increased in such a country.

The findings of the study also reveal that FPI have a significantly positive relationship with legal origin. This shows that Anglo-Saxon economies might have a stronger regulatory system, which helps them to implement the IFRS they have adopted as well as the Audit and Reporting Standards. Dayanandan *et al.,* (2016) explained that common law countries do have strong investor protection and so the legal origin of the country can affect the kind of treatment its investors receive. This therefore makes it easy to gain a strong SARS which attracts foreign portfolio investors.

Trade openness, which is a control variable in the study, had a negative yet significant relationship with FPI, which means an increase in one will lead to a decrease in the other. In other words, a percentage increase in trade openness will lead to a 0.0101% decrease in foreign portfolio investment, at 10% significance level. Trade openness means a country does not have lots of

restrictions on trade so the citizens have easy access to the international markets, while internationals also have easy access to the country's market.

This is in tandem with the results of Makoni, (2020) which states that capital openness (which is the name given when restrictions on trade in assets which are financial, such as bonds are removed) has a negative relationship with FPI. The negative coefficient or the negative relationship is believed to be as a result of the limitations placed on the outflow of money by governments of SSA countries, to not suffer any economic recession. Makoni stated in her article also that Fratzscher (2012) and Garg and Dua (2014) did not find a relationship between capital openness and FPI inflows.

The findings of the study for the first objective are also in line with the results of Agarwal (1997) who found that the "degree of openness of an economy" and a negative current account balance as percentage of GDP have an inverse relationship with the "flow of Foreign Portfolio Investment". Agarwal explained that the reason for the negative relationship is due to the high level of international trade, not encouraging more portfolio investment flows. Simbi et al., (2022) had a similar result for their first model, where trade openness and Foreign Portfolio Investment had a negative, yet significant relationship. They however dropped trade openness and stock market capitalisation when they were testing for their second model since they felt the variables were endogenous when the variables interacted with IFRS adoption.

Inflation also had a negative yet significant relationship with Foreign Portfolio Investment by showing a coefficient of -0.165. This signifies that a percentage change in inflation will lead to a -0.165% change in Foreign

Portfolio Investment. Although inflation is sometimes good, there is a negative side to inflation and too much rise or increase in inflation may deter foreigners from investing in an economy. Agarwal (1997) again tested for the relationship between inflation and FPI, and found a negative relationship. He however had a positive trend with inflation for the period he tested.

Official exchange rates and Real interest rates had negative relationships with Foreign Portfolio Investment, with the former being significant and the latter, insignificant. Exchange rates had a significant negative relationship with a coefficient of -0.642% with FPI. This is in line with the results of Makoni (2020), who found that there is a negative but statistically significant relationship between exchange rates and FPI. The results are also in line with the findings of Garg and Dua (2014) and Rashid and Khalid (2017). These scholars all concluded that a higher exchange rate and high currency risk shuns investors from investing in a country since they would rather prefer the currency of the host countries to appreciate so they do not lose their principal investment and thus make some profits.

Real interest rate had a coefficient of -0.0220, which means a percentage increase in real interest can lead to a -0.0220% decrease in FPI. When the interest rate being applied to the portfolio is high, it gives foreign investors the impression that the portfolio or the security they wish to invest in is a high-risk security or asset and so they might not want to invest in the host country, so they do not make losses. Gumus, Duru, & Gungor (2013) however, found that real interest rates did not have an impact on Foreign Portfolio Investment in the short run.

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Total Natural Resource Rent and FPI have a positive and statistically significant relationship, with a coefficient of 0.0689, at 5% significance level. This means that a percentage increase in Total Natural Resource Rent will lead to a 0.0689% increase in FPI attracted by SSA countries. This also means that if SSA countries which are believed to be resource-rich countries are able to capitalize on their God- given resource and maximize wealth; foreign investors would buy securities as a way of investing in the country, in order to benefit from the profit of the country.

Domestic Credit to Private Sector and GDP are the last variables that were tested for the first objective and model. Domestic Credit to Private Sector had a negative yet statistically significant relationship with FPI, with a negative coefficient of -0.0700, at 1% significance level. A percentage change in DCPSECTOR, will therefore lead to a -0.0700% change in FPI. GDP however had a positive relationship with FPI, although the relationship was insignificant. As per statistics given, one percent change in GDP may lead to a 0.506% change in FPI.

DCPSECTOR is a variable that measures the financial development level of a country and the results depict that since SSA countries are not really developed and are classified under developing and least developed countries category, foreign investors find it hard to invest in them. If they are able to boost their development, they will be able to attract more investors. A high GDP portrays not just a stable economy, but also high economic growth rate, which investors would all love to invest in. Errunza (2001) in his submission, stated that developing countries should make an effort to create a system and

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an environment that will help them to grow economically. The results are in line with that of Makoni (2020).

Lag of FPI represents the FPI for the previous year. Lag of FPI was positive and this is supported by the proposition that foreign investors usually examine the past trends of FPI in the countries they want to invest in, before committing to the investment, since they would not want to lose the principal but make profits. This is also in line with studies conducted on FPI by Agarwal (1997), Makoni (2020) and Rashid & Khalid (2017).

Mileva (2007) and Roodman (2009) stated that as a rule of thumb, AR(1) should be significant at 5% level and rejected. In that same way, AR(2) must be insignificant to show that there is no serial correlation. It must be insignificant to show the absence of autocorrelation and must therefore not be rejected. Hansen-J should also have a higher p-value and be insignificant to show that the results are valid. The results obtained for this model, AR(1) is 0.0415, which is less than 0.05. AR(2) is 0.275 and Hansen-J (p-value) is 0.836. As per the rules of thumb, we reject the null hypothesis of AR(1), and fail to reject the null hypothesis of AR(2). Based on the p-value for Hansen-J, it can be concluded that the results obtained for the first objective of this study are valid.

Objective 2: Regression Results on the Relationship between SARS and Foreign Direct Investment

The next results to be discussed are the results for objective 2 and it is found in table 7, which shows the direct effect of SARS on Foreign Direct Investment.

Table 7: Effect of Strength of Auditing and Reporting Standards on Foreign Direct Investment in Sub-Saharan Africa

	(1)
	FDI
L.FDI	0.448***
	(0.0706)
SARS	1.345**
	(0.482)
LO	-1.595**
	(0.666)
TOPEN	0.0719***
	(0.0180)
INFLA.	0.0600*
	(0.0303)
TNRRENT	0.101**
	(0.0373)
lnOFEXRATE	0.0119
	(0.340)
RINTRATE	0.125***
	(0.0215)
DCPSECTOR	-0.0290
	(0.0290)
lnGDP	0.296
	(0.649)
Constant	-16.16

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	(14.59)
Observations	243
No. of instruments	30
AR1 (p-value)	0.00535
AR2 (p-value)	0.347
Hansen-J (p-value)	0.757

Source: Field Survey (2023)

FDI refers to Foreign Direct Investment, SARS refers to Strength of Auditing and Reporting Standards. LO represents Legal Origin, TOPEN refers to Trade Openness as a percentage of GDP, INFLA refers to Inflation rate as a percentage of GDP, TNRRENT signifies Total Natural Resource Rent, lnOFEXRATE refers to the log of Official Exchange rates, used in the conversion of foreign currencies, RINTRATE refers to Real Interest Rate as a percentage of GDP, DCPSECTOR refers to Domestic Credit to Private Sector as a percentage of GDP the last, which is lnGDP represents the log of Gross Domestic Product.

The result in table 7 depicts that at a 5% significance level, SARS has a positive effect on foreign direct investment attracted by SSA economies. The coefficient of 1.345 means that a percentage increase in SARS will lead to a 1.345% increase in Foreign Direct Investment attracted by SSA economies. This result shows that there is indeed a positive significant relationship between SARS and FDI and therefore rejects the null hypothesis of the second objective which states that there is a negative relationship between SARS and FDI.

The results above also means that countries that have managed to build strong audit and reporting standards have little or no problem attracting investors to directly invest in the country since the foreign investors are investing directly, they commit lots of resources to the country, try to influence the country's economy positively and even give economic advice to the host

country. The foreign direct investors may do all this to see the host countries reach an economic boom, so they can benefit from the investment they have made. Usually, foreign direct investors are able to influence the activities of the host country since they have some sort of "control" over the host country.

Again, there is not much literature on SARS and FDI as it has not really been studied: This study presents the first empirical analysis on SARS and FDI. However, scholars like Lungu *et al.,* (2017) and Sabir, Rafique and Abbas (2019) have researched on the impact IFRS has on FDI and found that when countries have strong institutional structures which support IFRS, the countries are able to attract more FDI. The results are also in consistency with the findings of Gordon *et al.,* (2012), who also found a positive relationship between IFRS and FDI. We can therefore conclude that if SSA countries focus on building and maintaining good institutional (governmental) structures, foreign investors might invest directly in the countries, to help boost economic growth of SSA countries, while reaping their own benefits.

The study once again tested for the impact of the legal origin of the SSA countries on FDI and found that legal origin has a negative but statistically significant relationship with FDI, with a negative coefficient of -1.595, at 5% significance level. Usually, foreign investors may be more concerned with foreign portfolio investment since they do not exert direct influence on such forms of investment. Therefore, the protective frameworks like common law legal origin may improve foreign portfolio investment, at the expense of foreign direct investment.

Lag of FDI represents the previous year's FDI. Lag of FDI was positive and this is supported by the proposition that foreign investors usually examine

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the past trends of FDI in the countries they want to invest in, before committing to the investment, since they would not want to lose the principal but make profits. This result is in line with the result obtained by Lungu *et al.,* (2017) and Sabir *et al.,* (2019) in their studies.

The effect of trade openness on FDI was examined and it was found that at 1% significance level, trade openness has a positively significant relationship with FDI, with a positive coefficient of 0.0719. This means that a one percent increase in trade openness will lead to a 0.0719 % increase in the Foreign Direct Investment attracted by the SSA country. This is in line with Sabir *et al.* (2019) who stated in their study that the more open economies are, the more direct foreign capital SSA economies are able to attract. Asiedu (2002) also had similar results and stated that even though TOPEN has a positive relation with FDI, SSA countries are less responsive to changes in openness, thus SSA countries might not attract much FDI as compared to non-SSA countries. This, he explained, as the reason why although TOPEN has a positive significant relationship with FDI, the coefficient is quite small (0.0719).

The study also tested for the relationship between inflation and FDI and found that at 10% level of significance, inflation has a positive relationship with FDI, with a coefficient of 0.0600. The positive coefficient mean that inflation affects FDI positively such that an increase in inflation will lead to a 0.0600 increase in FDI. This result is in line with the results of Akisik (2020), whose results showed a positive and significant relationship between inflation and FDI. The result is however in contradiction with the findings of Akpomi and Nnadi (2017), Bennett (2005) and Sabir *et al.* (2019). These

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scholars found that inflation has a negative relationship on FDI since inflation causes price of products to increase and if not managed well, causes developing countries for which most SSA countries are classified under, to go into debt. Interestingly, Omankhanlen (2011) claimed to have found no effect of inflation on FDI and stated that there was no major effect of inflation on FDI

Real Interest Rate however, had a positive and significant relationship with FDI, with a coefficient of 0.125, at 1% significance level. This means that a percentage increase in the lending interest rate of a country will lead to a 0.125% increase in the FDI attracted by SSA countries. This result does not correspond to the findings of Musyoka and Ocharo (2018), who purported that although real interest rates have a significant relationship with FDI, it has a negative coefficient. Contrary to their findings and in line with the findings of this study is the result of Akisik (2020) who found that real interest rate has a positively significant relationship with FDI. He supported his result with the findings of scholars like Ahlquist, (2006).

Once again, model two examined the impact of Total Natural Resource Rent on FDI and found that at 5% significance level, TNRRENT is positively and significantly related to FDI, with a coefficient of 0.101; thus, an increase in TNRRENT by 1% will cause FDI to increase by 0.101%. Most foreign investors, if not all, would always prefer the countries they are investing in to have some form of income: they prefer that the countries are making some profit, so they can benefit through their investment. Thus, a country that is obtaining income through the sale of its natural resources, would be quite attractive to the foreign investor. Asiedu and Lien (2011) found a negative yet

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significant relationship between TNRRENT and FDI, which is contrary to the results of this study since the results of this study had a positive and not a negative coefficient. The result of this study is however in line with the findings of Jensen (2003) who had a positively significant relationship between TNRRENT and FDI at 1% significance level.

The relationship between Official Exchange Rate and FDI was examined and the results showed that exchange rate has a positive relationship with FDI although it wasn't significant. It however shows that a percentage increase in exchange rate may lead to a 0.0119% increase in FDI. The exchange rate will determine the amount the host country will receive as FDI if the foreign investors' principal is converted to the local currency of the host country. This result is in line with the result of Omankhanlen (2011). His results showed OFEXRATE to have a positively significant relationship with FDI. The results are also in line with the results of Nejad, Md Salleh, Ahmad, and Rahim (2018). Nejad et al., (2018) did not have a significant relationship between OFEXRATE and FDI but had a positive coefficient. They stated that in the long run, exchange rates may affect FDI.

Domestic Credit to Private Sector, which is a measure of financial development has a negative relationship with FDI, with a coefficient of - 0.0290. This means a percentage change in DCPSECTOR may lead to a 0.0290% change in FDI. GDP however had a positive relationship with FDI, with a coefficient of 0.296, such that a percentage increase in GDP may lead to a 0.296% increase in FDI. The results were similar to the results of Nejad *et al.* (2018). He also stated that when a country is able to attract more FDI, the economic growth of the country is boosted, leading to the increase in GDP and

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the financial development of the country. Akpomi and Nnadi (2017) had a positively significant relationship between GDP and FDI at 1% significance level.

Mileva (2007) and Roodman (2009) stated that as a rule of thumb, AR(1) should be significant at 5% level and the null hypothesis of AR(1), rejected. AR(1) is 0.00535, which is less than 0.05. Therefore, the null hypothesis of AR(1) is duly rejected. AR(2) also, as per the rule of thumb proposed by Arellano and Roodman, must be insignificant to show that there is no serial correlation. It must be insignificant to show the absence of autocorrelation and must therefore not be rejected. Since AR(2) is 0.347, we fail to reject the null hypothesis of AR(2). Lastly, according to Arellano, Hansen-J should have a higher p-value and be insignificant to show that the results are valid. Hansen-J (p-value) is 0. 757, which is in line with the rule of thumb thus we fail to reject the null hypothesis of Hansen-J and accurately state that the results obtained for the second objective of the study are valid.

Objective 3: Regression Results on the Moderating Effect of Legal Origin on the Relationship between SARS and Foreign Investments

The last results for this study (objective 3), which show the moderating effect of legal origin on the relationship between SARS and foreign investment is discussed here. Table 8 below shows the result for the third objective by capturing both FDI and FPI, which make up foreign investment.

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Table 8: The Moderating Effect of Legal Origin on the Relationship Between SARS and Foreign Investment.

	(1)	(2)
	lnFPI	FDI
L. FI	0.461***	0.414***
	(0.137)	(0.0459)
LOSARS	-3.011**	-4.630***
	(1.109)	(1.614)
SARS	2.441**	3.902***
	(0.885)	(1.041)
LO	11.82***	15.25**
	(4.107)	(5.755)
TOPEN	0.0259	0.0722***
	(0.0161)	(0.0142)
INFLA.	-0.0965**	0.0665**
	(0.0393)	(0.0285)
TNRRENT	-0.0367*	0.132***
	(0.0206)	(0.0324)
lnOFEXRATE	-0.238	-0.247
	(0.223)	(0.312)
RINTRATE	-0.118	0.0940***
	(0.0758)	(0.0279)
DCPSECTOR	0.0131	0.00484
	(0.0171)	(0.0412)
lnGDP	1.683***	0.519

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	(0.505)	(0.626)
Constant	-44.82***	-29.02**
	(14.98)	(11.40)
Observations	183	243
No. of instruments	24	30
AR1 (p-value)	0.0703	0.000980
AR2 (p-value)	0.0718	0.410
Hansen-J (p-value)	0.513	0.547

Source: Field Survey (2023)

FDI refers to Foreign Direct Investment, lnFPI refers to the log of FPI, LOSARS is the moderating variable which shows the interaction between SARS and Legal Origin, SARS refers to Strength of Auditing and Reporting Standards. LO represents Legal Origin, TOPEN refers to Trade Openness as a percentage of GDP, INFLA refers to Inflation rate as a percentage of GDP, TNRRENT signifies Total Natural Resource Rent, lnOFEXRATE refers to the log of Official Exchange rates, used in the conversion of foreign currencies, RINTRATE refers to Real Interest Rate as a percentage of GDP, DCPSECTOR refers to Domestic Credit to Private Sector as a percentage of GDP the last, which is lnGDP represents the log of Gross Domestic Product.

From table 8, LOSARS which is the interaction term that is moderating the relationship between SARS and foreign investment has a negatively significant relationship both on FPI and FDI, which are the proxies for foreign investment. Per the results, LOSARS has a coefficient of -3.011 at 5% significance level and -4.630 at 1% significance level for FPI and FDI respectively. The results therefore indicates that common law legal origin weakens the relation between strength of auditing and reporting standards and foreign investments. A possible reason is that a more protective accounting framework may negatively influence the functioning of economic activities by foreign investors and thus they may shy away from economies that have common law origin. In line with the argument of Left (1964) and Huntington

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(2006), a more protective accounting framework could reduce corruption and create unnecessary delays in foreign investors' transactions. Thus, foreign investors may prefer to invest in civil law regimes that may have a less protective accounting framework

The introduction of an interaction term changed most of the coefficients of variables being used in the study. The coefficient of Foreign Portfolio Investment which was 0.891 at 1% significance level has reduced to 0.461, still at 1% significance level. The coefficient of Foreign Direct Investment is 0.414 at 1% significance level, as compared to 0.448, also at 1% significance level. The reduction in the coefficients may mean that fraudsters who pose as investors would not be caught by countries when their systems are working, thus giving the host countries genuine foreign investment, with no fraud, although this might reduce the total amount they obtain as a country. The positively significant coefficients reiterate what was earlier stated that investors may study past trends of foreign investments before investing in any SSA country. This is supported by Makoni (2020); Rashid and Khalid (2017) and Sabir *et al.* (2019).

SARS and Legal Origin both had positively significant values when an interaction term was introduced. With a significance level of 5%, SARS of FPI under this model had a coefficient difference of 2.155 from the coefficient of SARS in model 1, which had a coefficient of 0.286 at 10% significance level. The coefficient of SARS of FDI is 3.902 at 1% significance level as opposed to a coefficient of 1.345 at 5% significance level. The Coefficient of Legal Origin for model 1 for FPI was 2.447 at 10% significance level and it increased to 11.82, at 1% significance level. Legal origin for model two had a

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coefficient of -1.595 at 5% significance level but changed to a positive coefficient of 15.25, at 5% significance level. This establishes the assertion in existing literature by scholars like Asongu (2014) that legal origin matters in the attraction of foreign investment.

Trade openness for foreign direct investment has been positive both in model two and three, for FDI, with an increase in the coefficient by 0.0003 for model three. For FPI, the coefficient of trade openness in model one had a negative coefficient. However, trade openness had a positive coefficient of 0.0259, after the introduction of the interaction term, LOSARS. This means that countries with stronger institutional structures (the common law countries, as cited by existing literature) may allow for international trade under strict authority and observance, probably leading to an increase in the foreign investment (Márquez-Ramos, 2008).

Inflation for model three for FPI and FDI were -0.0965 and 0.0665 at 5% significance levels. Although coefficients in model three varied from coefficients in model one and two, the effect of the variable on foreign investment remained the same, once again supporting the assertions of Agarwal (1997) and Bennett (2005). TNRRENT however did not only have a different coefficient, but a negatively significant effect on FPI. TNRRENT for FDI remained positive but with a higher coefficient of 0.132, at a significance level of one percent.

The model examined the effect of exchange rate on foreign investments and found an insignificant relationship. This means that exchange rate is not necessarily important in the attraction of foreign investment although it could have an effect. However, it may affect the foreign investment

attracted by SSA countries in the long run. The effect of exchange rate on FDI changed from a positive effect to a negative effect with the coefficients varying from 0.0119 to -0.247. This means that if the legal origin of SSA countries is to affect the foreign investment attracted by the SSA countries, a percentage change in foreign exchange may lead to a -0.247% change in FDI, while a percentage change in foreign exchange may lead to a -0.238% change in FPI. The results are in line with the results of Omankhanlen (2011).

The effect of real interest rate on foreign investment did not change although the coefficients varied. The push and pull factor theory as propounded by Calvo and Reinhart, (1998) states the reason why investors would invest in foreign countries or yield to push factors is because of slow economic growth and low-interest rate of developed countries. This means that when countries have higher rate of interest on their securities, foreigners tend to invest in those securities so that they can reap more benefits. The introduction of legal origin in model three increased the impact of interest rate on foreign investment. Foreign investors would therefore invest in a country especially when they know their rights would be protected.

Domestic credit to private sector refers to the amount that is given by the government to the private sector of the economy, to encourage privatization in the economy. The results also examined the impact of DCPSECTOR on foreign investment and found that the financial development of a country may or may not affect the foreign investment attracted by that country. The coefficient of DCPSECTOR is 0.0131 and 0.00484 respectively. This shows that a percentage change in the domestic credit given to the private

sector of the economy may lead to a 0.0131% change in FPI, and a 0.00484% change in FDI.

The last variable that was examined for model three was GDP. Although GDP was not significant in the first model and second model, the result showed in model 3 that GDP has a significant relationship on FPI after the introduction of the interaction LOSARS, while it only has a significant but not statistically significant relationship on FDI. The results showed a positively significant relationship on FPI, with a correlation coefficient of 1.683 and a positive but insignificant association with FDI, with a coefficient of 0.519. Thus, legal origin contributes to the economic growth of countries and that leads to the attraction of more foreign investment to the SSA country.

In line with the rule of thumb stated by Mileva (2007) and (Roodman, 2009) AR(1) should be significant at 5% level and rejected. In that same way, AR(2) must be insignificant to show that there is no serial correlation. It must be insignificant to show the absence of autocorrelation and must therefore not be rejected. Hansen-J should also have a higher p-value and be insignificant to show that the results are valid. The results obtained for this model, AR(1) is 0.0703 and 0.000980, with the latter being less than 0.05. AR(2) is 0.0718 and 0.410 and Hansen-J (p-value) is 0.513 and 0.547. As per the rules of thumb, we reject the null hypothesis of AR(1), and fail to reject the null hypothesis of AR(2). Based on the p-value for Hansen-J, it can be concluded that the results obtained for the first objective of this study are valid.

Chapter Summary

The chapter discussed the results of the findings on the study. An empirical analysis was conducted based on research hypotheses and data

provided. The chapters expressed the descriptive analysis of the empirical findings, as well as the pairwise correlation. The Variance Inflation Factor for the analysis, which was below 5, was also presented to confirm the absence of multicollinearity. The chapter then discussed the results obtained from the regression analysis that was conducted and ended with the discussion on the validity of the results obtained from the use of the System GMM. The next chapter will therefore conclude on the study, with the challenges, limitations and recommendation of the researcher.
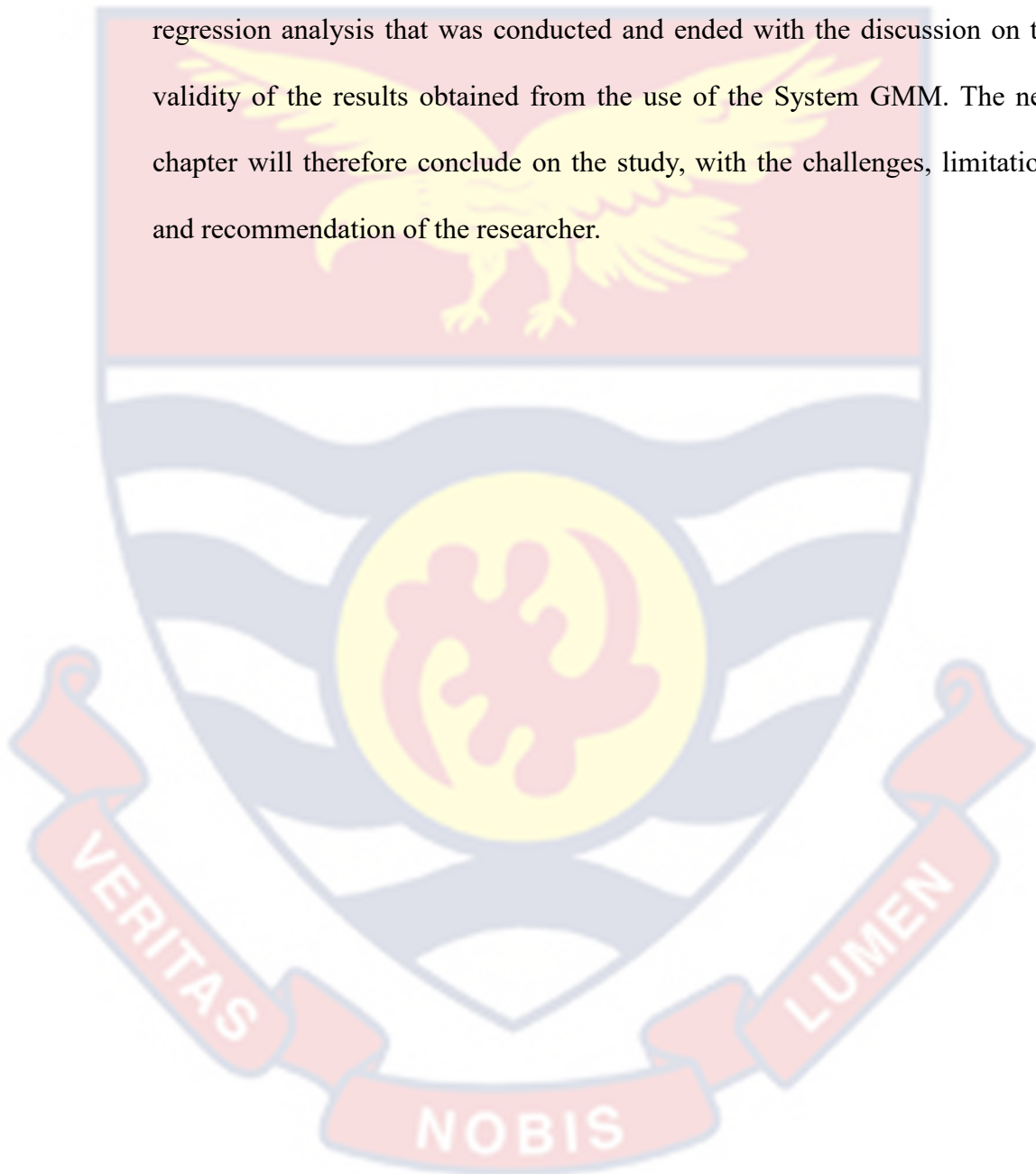
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter represents the last chapter for the study. A summary of the study is presented in this chapter, briefing the reader on the background, statement of problem purpose of study as well as the limitations and delimitations of the study. The scope of the study and its significance is not left out. The theories that underpinned the study, as well as the findings of the study, are revealed in brief. The chapter ends with the concluding remarks of the researcher on the study. Challenges faced whilst conducting the research and any recommendations available are also captured in this section of the study.

Summary of the Study

Foreign investment happens to be one of the numerous forms of income which governments use to develop their economies. The attraction of foreign investment by SSA economies necessitated the adoption of International Financial Reporting Standards, for these economies to have legitimate access to foreign investment (Simbi *et al,* 2022). SSA economies had to stop using their own reporting standards and adopt the International Financial Reporting Standards so that their financial standing can be ascertained by the prospective foreign investors (Calvo *et al.*, 1996). Globalization and uniform or standard financial reporting, also led to the adoption of IFRS by the global world, SSA inclusive.

For the countries to be able to provide uniform standards, systems and structures must be put in place (Akisik, 2020). This is due to the proposition

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that people behave differently and might have to be supervised to carry out instructions in a particular way. To know if the financial statements of economies are being prepared in accordance with the reporting standards given, Akisik explained that Audit must be conducted regularly; thus, audit serves as a form of institutional structure that monitors and ensures the effective implementation of IFRS by these economies.

Although audits have to be performed to ensure that countries are in conformance with the requirement of IFRS, these countries must ensure that they have a strong regulatory framework and their institutions are working. If the countries do not have strong regulatory framework which will ensure that possible sanctions are implemented when there is a violation of the auditing and accounting practices, there is a high possibility that firms in the economy might not act in accordance with what IASB requires of them, but will prepare their accounts in a way that will rather suit them and possibly hide some crucial information from the public, especially if it can put them out of business. Due to this, the institutions in economies must work.

It is widely known however that most SSA economies were colonized and thus adopted the regulatory framework from their colonial masters. SSA economies obtained their legal origin from their colonial masters so if the colonial master of an SSA economy had weak structures, it went a long way to affect the SSA economy. Literature depicts that Anglo-Saxon economies have stronger institutional structures; thus, they are able to attract more foreign investment than the francophone economies, since they are able to implement the IFRSs and have laws that protect the rights of their investors.

Although IFRS and foreign investment had been looked at, how the strength of audit and reporting standards in a country affects the foreign investment attracted by countries had not been discussed. Also, the effect of the legal origin of economies on the attraction of foreign investment had also not been analysed. Hence this study, touched on those areas, to throw more light on it. The study considered SSA countries since most SSA countries are classified under developing countries and rely heavily on the foreign investments they attract.

Literature review of this study provided two theories that supported the key variables used in the study, with the first theory, extensively discussing issues of foreign investment and the last theory, discussing issues on institutions and SARS. The literature review also provided evidence on the relationship between IFRS and foreign investment, making sure to expand the topic to capture the components of foreign investment, which are foreign portfolio investment and foreign direct investment. The relationship between SARS and both components of foreign investment was discussed. The relationship between SARS and legal origin was also discussed and a conceptual framework for the study, showing a diagram of the work, captured.

The study was conducted, using the positivism research paradigm and adopted the quantitative research approach, while using the philosophy of the ontologist. The study employed the explanatory research design and used this to formulate the models in the study. Although the population for the study was 48 countries, the study only included 33 SSA economies out of the 48 after the data screening procedure, due to data unavailability. Models were estimated for the study and the first model sought to establish an affiliation

between SARS and FPI. The second model was to establish the relationship between SARS and FDI, while the last model estimated, was to ascertain the moderating effect of legal origin on the relationship between SARS and foreign investment. Also, Systems General Method of Moment estimation technique was used to the estimation of the models.

Summary of Key Findings

After the conduction of the study and after running the analysis, intriguing and significant results were obtained from the study. The first objective of the study examined the effect of Strength of Auditing and Reporting Standards on Foreign Portfolio Investment. The second objective was to determine the effect of Strength of Auditing and Reporting Standards on Foreign Direct Investment. The last objective also examined the moderating effect of legal origin on the relationship between Strength of Auditing and Reporting Standards on Foreign Investment. A summary of the findings on the objectives of the study are stated in the table 9 below:

Table 9: Summary of Results on the Hypothesis

Hypothesis	Decision
H_0: There is no significant relationship between SARS and FPI	Rejected
H_0: There is no significant relationship between SARS and FDI	Rejected
H_0 : There is no moderating effect of legal origin on the relationship between SARS and foreign investments	Rejected

Source: Field Survey (2023)

Based on the first objective, undeniable evidence is found that Strength of Auditing and Reporting Standards had a positive and significant effect on Foreign Portfolio Investment in SSA economies. A positively significant effect

of Strength of Auditing and Reporting Standards on foreign investment is found based on the second objective. This implies that an SSA economy has the ability to attract more foreign investment, that is both FDI and FPI, provided SARS is strong in that country. However, if SARS is weak in the SSA country, the country will not be able to attract much foreign investment. It also implies that foreign investors consider the strength of the auditing and reporting standards of SSA economies before deciding to invest in them.

The results from the third objective indicated that indeed legal origin affects the strength of the auditing and reporting practices of an SSA economy, which will in turn increase the foreign investment attracted by the SSA economy. After the introduction of the interaction term, results indicated that legal origin significantly moderated the affiliation Strength of Auditing and Reporting Standards has with foreign investment at a significance level of 5% for Foreign Portfolio Investment and 1% for Foreign Direct Investment.

The negative sign attached to the coefficients means that foreign investors may prefer to invest in countries with civil law background than countries with common law background. This is because the strong investor protection laws that protects the rights of investors in countries with common law background may create unnecessary delays in the transactions of the foreign investor. Thus, the foreign investor may easily move to a civil law country to invest.

Conclusion

The study looked at the impact of Strength of Auditing and Reporting Standards on foreign investment, with legal origin moderating the relationship. The study adopted the quantitative approach, using secondary data for a period

of 12 years, from 2007 to 2019. System GMM was used in analysing the data. The results obtained from the analysis of the data used indicate that a country with a strong audit and reporting standards systems, can attract more foreign investments since the first and second hypothesis showed that SARS had a positively significant relationship with foreign investments, both direct and portfolio investments. It can also be concluded based on the last specific objective that indeed legal origin influences SARS to increase foreign investments in SSA economies.

Recommendation

This study recommends that governments of SSA economies should make maximum effort to increase or build structures that will help strengthen the audit and reporting practices of the country, and ensure that the audit and reporting standards are being observed strictly, with sanctions for those who fail to follow the principles. Put otherwise, governments of SSA economies should continue to improve the strength of auditing and reporting standards in their respective economies since SARS has a positive influence on foreign investments.

Investors may pay attention to the legal origin of the economies they choose to invest in since it influences the relationship between SARS and foreign investments. SSA countries should also note that irrespective of their legal origin, if maximum effort is made to attract foreign investment, huge amounts of foreign investments can easily be attracted.

Suggestions for Future Research

First and foremost, this study examined the effect of Strength of Auditing and Reporting Standards on Foreign Investment in Sub-Saharan

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Africa: the role of legal origin. Since this study was limited to Sub-Saharan Africa, other studies can concentrate on other parts of Africa or Europe. This will help give a broader view and a more generalized perspective on how Strength of Auditing and Reporting Standards increase foreign investment, globally. When this is fully established, the interest of governments in developing their systems to attract more foreign investments would spike.

Also, legal origin was used to moderate the relationship between Strength of Auditing and Reporting Standards and Foreign Investments. Further studies can try to moderate the relationship between Strength of Auditing and Reporting Standards and Foreign Investments with culture, and know how culture influences the foreign investment attracted by SSA countries. Culture is dynamic and differs from one country to another. Further research can be conducted to see if the culture of countries in Sub-Saharan Africa affects the type of foreign investors attracted and the number of foreign investments obtained.

Lastly, the data used for this study was for 12 years from 2007 to 2019. Further research should try and get data on the current ranking of SARS and other variables. This could be used to conduct the study, to give a more current opinion on whether SARS affect foreign investments in the modern era that we now live in. The period may cover up to 2022 or the years for which data will be available.

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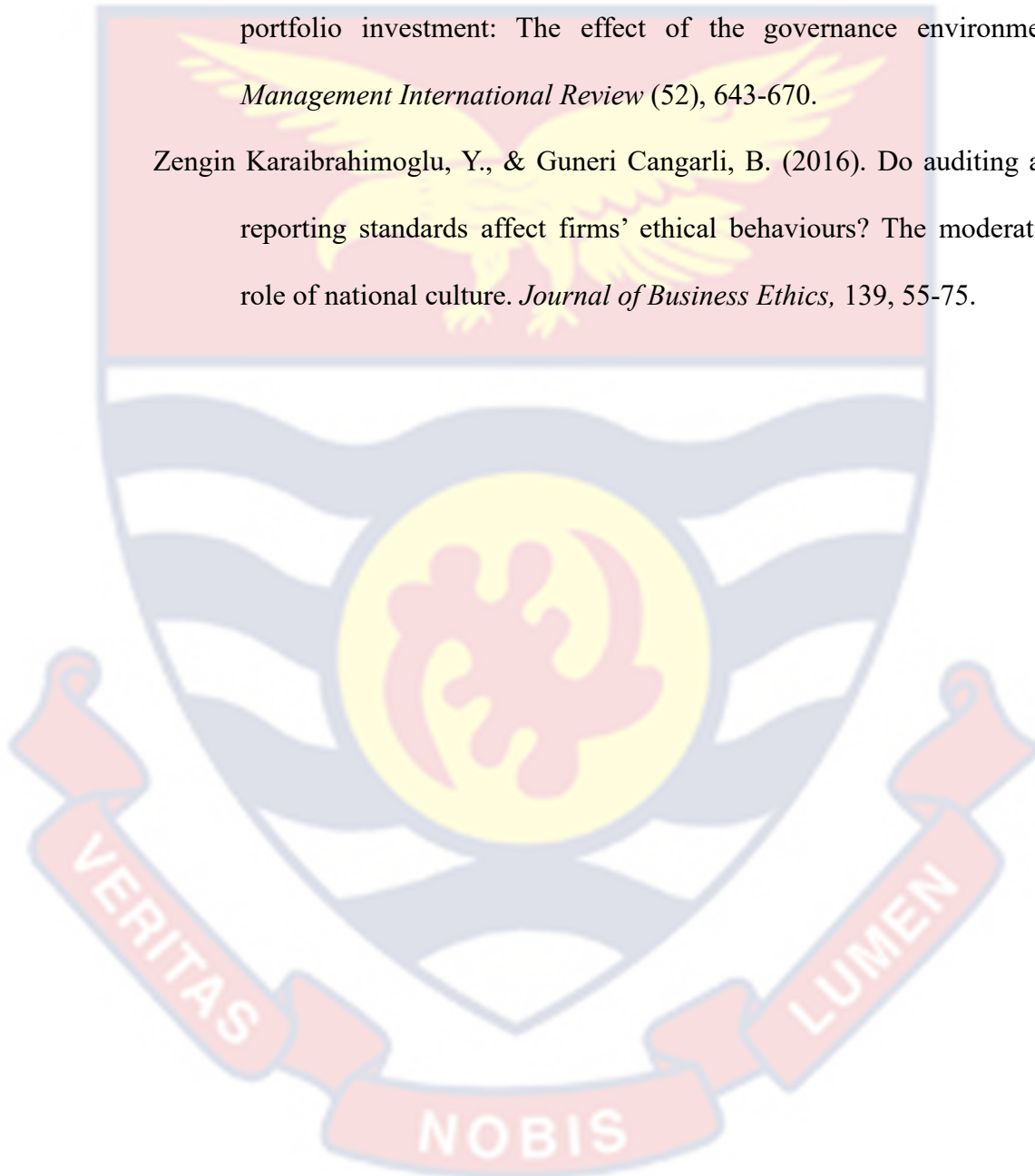
APPENDICES

APPENDIX A

A List of Sample of 33 SSA Economies

Angola	Madagascar
Benin	Malawi
Botswana	Mali
Burkina Faso	Mauritania
Burundi	Mauritius
Cabo Verde	Mozambique
Cameroon	Nigeria
Democratic Republic of Congo	Rwanda
Côte D'ivoire	Senegal
Eswatini	Seychelles
Ethiopia	Sierra Leone
Gambia	South Africa
Ghana	Tanzania
Guinea	Uganda
Kenya	Zambia
Lesotho	Zimbabwe
Liberia	

APPENDIX B

Effect of Strength of Auditing and Reporting Standards on Foreign Portfolio Investment in Sub-Saharan Africa

	(1) lnFPI
L.lnFPI	0.891***
	(0.216)
SARS	0.286*
	(0.160)
LO	2.447*
	(1.180)
TOPEN	-0.0101*
	(0.00505)
INFLA.	-0.165***
	(0.0425)
TNRRENT	0.0689**
	(0.0325)
lnOFEXRATE	-0.642**
	(0.239)
RINTRATE	-0.0220
	(0.0220)
DCPSECTOR	-0.0700***
	(0.0122)
lnGDP	0.506
	(0.405)
Constant	-6.993
	(8.604)
Observations	183
No. of instruments	18
AR1 (p-value)	0.0415
AR2 (p-value)	0.275
Hansen-J (p-value)	0.836

Source: Field Survey (2023)

lnFPI refers to log of Foreign Portfolio Investment, SARS refers to Strength of Auditing and Reporting Standards. LO represents Legal Origin, TOPEN refers to Trade Openness as a percentage of GDP, INFLA refers to Inflation rate as a percentage of GDP, TNRRENT signifies Total Natural Resource Rent, lnOFEXRATE refers to the log of Official Exchange rates, used in the conversion of foreign currencies, RINTRATE refers to Real Interest Rate as a percentage of GDP, DCPSECTOR refers to Domestic Credit to Private Sector as a percentage of GDP the last, which is lnGDP represents the log of Gross Domestic Product.

APPENDIX C

Effect of Strength of Auditing and Reporting Standards on Foreign Direct Investment in Sub-Saharan Africa

	(1) FDI
L.FDI	0.448***
	(0.0706)
SARS	1.345**
	(0.482)
LO	-1.595**
	(0.666)
TOPEN	0.0719***
	(0.0180)
INFLA.	0.0600*
	(0.0303)
TNRRENT	0.101**
	(0.0373)
lnOFEXRATE	0.0119
	(0.340)
RINTRATE	0.125***
	(0.0215)
DCPSECTOR	-0.0290
	(0.0290)
lnGDP	0.296
	(0.649)
Constant	-16.16
	(14.59)
Observations	243
No. of instruments	30
AR1 (p-value)	0.00535
AR2 (p-value)	0.347
Hansen-J (p-value)	0.757

Source: Field Survey (2023)

FDI refers to Foreign Direct Investment, SARS refers to Strength of Auditing and Reporting Standards. LO represents Legal Origin, TOPEN refers to Trade Openness as a percentage of GDP, INFLA refers to Inflation rate as a percentage of GDP, TNRRENT signifies Total Natural Resource Rent, lnOFEXRATE refers to the log of Official Exchange rates, used in the conversion of foreign currencies, RINTRATE refers to Real Interest Rate as a percentage of GDP, DCPSECTOR refers to Domestic Credit to Private Sector as a percentage of GDP the last, which is lnGDP represents the log of Gross Domestic Product.

APPENDIX D

The Moderating Effect of Legal Origin on the Relationship Between SARS and Foreign Investment.

	(1) lnFPI	(2) FDI
L. FI	0.461***	0.414***
	(0.137)	(0.0459)
LOSARS	-3.011**	-4.630***
	(1.109)	(1.614)
SARS	2.441**	3.902***
	(0.885)	(1.041)
LO	11.82***	15.25**
	(4.107)	(5.755)
TOPEN	0.0259	0.0722***
	(0.0161)	(0.0142)
INFLA.	-0.0965**	0.0665**
	(0.0393)	(0.0285)
TNRRENT	-0.0367*	0.132***
	(0.0206)	(0.0324)
lnOFEXRATE	-0.238	-0.247
	(0.223)	(0.312)
RINTRATE	-0.118	0.0940***
	(0.0758)	(0.0279)
DCPSECTOR	0.0131	0.00484
	(0.0171)	(0.0412)
lnGDP	1.683***	0.519
	(0.505)	(0.626)
Constant	-44.82***	-29.02**
	(14.98)	(11.40)
Observations	183	243
No. of instruments	24	30
AR1 (p-value)	0.0703	0.000980
AR2 (p-value)	0.0718	0.410
Hansen-J (p-value)	0.513	0.547

Source: Field Survey (2023)

FDI refers to Foreign Direct Investment, lnFPI refers to the log of FPI, LOSARS is the moderating variable which shows the interaction between SARS and Legal Origin, SARS refers to Strength of Auditing and Reporting Standards. LO represents Legal Origin, TOPEN refers to Trade Openness as a percentage of GDP, INFLA refers to Inflation rate as a percentage of GDP, TNRRENT signifies Total Natural Resource Rent, lnOFEXRATE refers to the log of Official Exchange rates, used in the conversion of foreign currencies, RINTRATE refers to Real Interest Rate as a percentage of GDP, DCPSECTOR refers to Domestic Credit to Private Sector as a percentage of GDP the last, which is lnGDP represents the log of Gross Domestic Product.