



An Analysis of the Impact of Institutional Factors and Political Volatility on Foreign Direct Investments among ECOWAS Countries

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Abstract

West Africa with its mineral and natural resources wealth is considered to be 'a model for democracy in Sub-Saharan Africa'. In spite of this, the region still remains comparatively under-developmental. In response to this, Fifteen West African states have banded together to form the ECOWAS bloc. The core objectives of this union is upholding peace and encouraging conducive trade and development within this densely populated sub-region of Africa, however the region's share of FDI flow remains substantial to large scale growth. Many scholars argue that the primary reason why the region has made little headway in increasing the flow of FDI to the region, is found in the individual governance practices as well as the socio-political volatility in these countries. This study examined the relationship between selected governance indicators from the Worldwide Governance Indicator, such as corruption control, government efficiency, political volatility, regulation quality, rule of law and voice and accountability on foreign direct investment among ECOWAS member-states by the use of panel data and trend analysis. From the finding, it was determined that; there exist mixed relationships between FDI inflow and the selected indicators, where; political volatility had a negative insignificant relationship with FDI inflow and regulatory quality has had the most significant positive impact on FDI inflow. The researchers recommend that if ECOWAS states intend to not bear the brunt of global FDI decline, a number of pro-FDI policies should be implemented.

Key words; FDI, ECOWAS, political risk, governance, corruption, regulations and policy.

1.0 Introduction

From the start of the millennium, the global trend of foreign direct investment (FDI) continued to grow notably from \$550 billion in 2003 to \$1.4 trillion in 2006. However, following a 2015 peak, the trend has steadily contracted from \$2 trillion to just over \$1.54 trillion in 2019. Furthermore, FDI is expected to fall below \$1 trillion in coming years; as a result of market collapses brought about by the waves of the Covid-19 pandemic induced lockdowns. Consequently, economies of many middle and low income countries, which often rely on FDI as the principal form of capital investments, are expected to accrue smaller shares of this foreign capital in 2021 and 2022 (UNCTAD, 2020).

ECOWAS states, like most developing countries rarely possess the financial, human and technical capacities to operate at optimum productivity and induce industrialization (Dupasquier & Osakwe, 2005; Edun, Khikmatullo, et al, 2012, Levine; 2005). As a result, FDIs are considered an important source of capital funds (Stefanovic, 2008) and an engine for growth which enables developing economies to bridge the gap between the low domestic savings and the capital levels required to fund development (Oriakhi & Osemwengie, 2012). More so, when compared to portfolio investment and debt acquisition, profit seeking FDIs are considered a more reliable driver of economic growth, employment and technology transfer, as well as, management capacity building (Balam, 2019). Unlike alternative forms of financing, FDIs do not involve debt repayment/servicing and requires investor participation hence enabling the transfer of management expertise and technology (Asiedu, 2002; Tarzi, 2005)

FDIs has been defined as investment made so as to procure a lasting management interest (at least, 10 percent of voting stock) in an enterprise operating in another country other than that of the investor's country (Mwillima, 2003; Imoudu 2012).

Kallianiotis (2013) defines foreign direct investment (FDI) as the purchase of physical assets such as land, plants, and equipment in a foreign country, which will be managed by the parent company. He adds that in order for a Multinational Corporation to invest abroad, it must have a firm-specific and profitable and

sustainable competitive advantage that would allow it to compensate for the potential disadvantages of operating abroad. Such disadvantages include; foreign exchange risk, changing government policy and other unanticipated costs.

In the global market, open economies often compete by means of foreign and domestic policies to secure higher levels of foreign capital imports, this has been made more challenging by FDI fluctuations over the last decade. In 2015, global FDI inflow peaked at \$2 trillion, and subsequently dropped to \$1.9 trillion in 2016 and \$1.7 trillion in 2017 before stagnating close to \$1.5 trillion in 2018 and 2019. These patterns of change has been mirrored in the ECOWAS region, where FDI imports plunged from \$15.4 billion in 2013 to \$12.9 billion in 2018 and recently to \$9.9 billion in 2019. This occurring simultaneously as foreign investments in the Caribbean rose from \$1.4 billion to \$2.7 billion from 2018 to 2019, from \$148 billion to \$155 billion in South-eastern Asia and increased from \$147 billion to \$161 billion in Latin America (UNCTAD, 2020). Among ECOWAS economies, Nigeria and Ghana have historically accrued the bulk of FDI sent to the ECOWAS region, as at 2019 the two countries had received a combined \$137.06 billion of the \$191.46 billion (i.e. 71.5%) of FDI sent to the region since the 1970s. Such observations have motivated numerous researchers to question the determinants of global FDI.

(Panagiotis et al. 2011; Dinda, 2012) explain that FDI decisions depend on a variety of characteristics of the host country, e.g. market size, potential and growth, the historical/cumulative flow of past FDI (or the FDI cluster), exchange rate, trade openness, labor costs, trade costs, investment costs, trade deficit, human capital, tax, inflation, budget deficit, domestic investment, external debt, government consumption energy use, etc. (Thompson, 2002; Imoudu, 2012; Grosse and Trevino, 1996). An economically conducive environment which combine the best of these characteristics is likely to be a magnet for foreign businesses, leading to FDI inflows (Kumar 2002).

Kallianiotis (2013) goes on to explain that multinational corporations (MNCs) may be influenced by socio-political events within a host country or by a change of the political relationship between the

host country and the country of origin of the firm. He explains that the probability of such events occurring and having a negative effect on foreign MNCs is called political risk or country risk.

Political risk is defined by (Hayakawa, Kimura & Lee; 2012) as the possibility that the yields from investment could suffer from low institutional quality and political instability in a country. Political risk refers to the risk that arises as a result of the potential actions of governments and other political forces within and across nations; this type of risk implies uncertainty about potential changes in government policies and the impact of such policies on the economic environment (Huang, Fei, Jing & Bohui, 2015). Multinational corporations consider the political risk of the host country as one of the primary factors in investment decision making. The quality of a host country's investment environment is very important in attracting Foreign Direct Investment (Erkekoglu, & Kilicarslan, 2016).

Among the elements that affect the political risk, extent of the military in governance, political parties, effectiveness of the government in national administration, government crises, policy inclination of the country (foreign, domestic & economic policies), social, demographical, ethnical and religious structure of the country, effectiveness of the labor unions, regulations related to the foreign capital, embargoes applied against the country and wars may be regarded as some examples (Acar, 2012). In addition, wars, uprisings, coup d'etat, terrorist activities, strikes, kidnappings, the case of externally induced financial constraints, externally imposed embargoes, seizures, extortion, domestication, arms conflicts, can also be added to these factors. (Erkekoglu, & Kilicarslan, 2016).

Asiedu (2002); condenses this into three broad forms of political risks that can discourage foreign investment. The first and most severe is policies regarding nationalization, the second is the risk of policy instability where the host country's FDI related policy gives rise to uncertain investment environments that can affect the profitability of investments. The third is related to war, terrorist activities and political violence as it can damage foreign assets and limit the productivity of the economy in the long run.

Overview of the ECOWAS sub-region

The Economic Committee of West African States (ECOWAS) was first established in 1975 at the treaty of Lagos with the primary objectives of;

- a. Elimination of all hindrances to permit goods, services, capital among all member nations and mobility of people within the region,
- b. Provision and maintenance of security and serenity among the member nations,
- c. The establishment of homogeneous guidelines in financial, cultural, social and monetary union formation and the abolition of non-tariff restriction among members with the goal of instituting a free trade zone (FTZ) and establishment of collective proportionate trade guideline among States (ECOWAS, 2020).

Following Mauritania's exit in December 2000, the bloc currently consists of 15 sovereign states. ECOWAS is split among Anglophone (Ghana, Liberia, Nigeria, Sierra Leone, and The Gambia), Francophone (Benin, Burkina Faso, Cote d'Ivoire, Guinea, Mali, Niger, Senegal, and Togo) and two Portuguese speaking states (Cabo Verde and Guinea Bissau) with an estimated population of over 420million in 2020, making it the most populated sub-region in Africa.

FDI has in the past being a major contributor to the establishment of the manufacturing, transport and telecommunication as well as finance and insurance sectors in some West African nations (Oseghale & Amenkhienan, 1987; Osabutey & Okoro 2015) as well as the energy and extractive sectors in the sub-region (Dinda, 2012), However, many ECOWAS countries have not benefitted much from the global inflow of FDI. (Zubair 2018). A major challenge that might have dissuaded investor confidence in some of these nations is political uncertainty (Alesina, et al, 1996; Alesina and Perotti 1996). Like other developing countries, ECOWAS states are perceived to be susceptible to radical political changes and violence as well as human right violations and policy inconsistency (Janeba, 2002; Jensen, 2008).

Among ECOWAS states, there have been fifteen major armed civil conflicts or uprisings since 1990, six of which are still ongoing in Nigeria (4) and Mali (2). In Liberia, Sierra Leone, Guinea Bissau and Côte d'Ivoire, democratization processes have been expanding against the circumstances of civil

wars, which have had a devastating effect on all aspects of people's lives as well as economic activities in certain areas. The Senegalese rebellions of the 1980s have left the central government struggling to sustain internal security. While the entire Sahel belt, from Mauritania to Niger and even down to Nigeria, remains a 'circle of fire' around the sub-region; the continued existence of armed Jihadist groups, as well as widespread social unrest in the region poses a permanent threat to the stability of all Sahel countries. In Mali, frustrations by the government's corruption and inability to defeat jihadist insurgencies in the country's territories have been cited as the motivation for a recent military junta which toppled the democratically elected government in the country (Siegle & Eizenga, 2020)

Uzoechina (2014) characterized the region's socio-political and insecurity breakdowns into three large waves on scales large enough to prompt bilateral and collective responses by its co-member states; the first wave started with the outbreak of civil wars and internal armed conflicts in Liberia (1989), Sierra Leone (1997), Guinea-Bissau (1998) and Côte d'Ivoire (2002). Most of these conflicts represented competition for control of the state apparatus between armed opposition groups and the state, or competition for a higher stake within the state between different armed groups. The second wave of social unrest was a direct result of the internal armed conflicts, and may be linked to the failure of disarmament, demobilization, rehabilitation and reintegration procedures and poorly conceived and implemented security sector reform processes in some states. The third wave of insecurity is manifested in further weakening of security governance structures and institutions and the inability of state security agencies to extend their control over large swathes of territory far removed from the centers of government. The forms of insecurity which characterize the third wave include terrorism, maritime piracy, drug trafficking, arms trans-shipment via loosely controlled airports and seaports, money laundering and cybercrime. This extends across the Sahelian strip, including northern and central Mali, the Gulf of Guinea, the coastal areas of Guinea-Bissau and the northeastern and Niger Delta areas of Nigeria.

In response to these notable security concerns and the diminishingly-inconsistent flow of FDI among ECOWAS member states, this study aims at distinguishing how the sub-regions perceived

vulnerability to rampant corrupt practices and armed conflicts as well as the effects of institutional and governance factors and regulatory inconsistencies have affected the flow of FDI in the region. It endeavors at revealing which governance variable are more prominent to FDI inflow in the sub-region and if the lack or presence of any of these governance has contributed to the flux of FDI inflow among ECOWAS states.

Objectives of study

- To determine the relationship between FDI and the selected governance and political indicators
- To establish which governance and political factors are most significant to FDI inflow among ECOWAS states
- To ascertain the effects of various components of governance on inward FDI flows among ECOWAS states

2.0 Literature Review

Numerous scholars have attempted to determine foreign direct investment sensitivity to forms of risk in sub-Saharan Africa and other developing regions, however some of such works have focused on political and financial risk, sometimes neglecting other institution elements of the regions in question.

(Meyer & Habanabakize, 2018) found that in both short and long run, political risk and economic growth affect the level of foreign direct investment. The political risk rating was found to have a higher impact on FDI flow if compared to GDP. The lower the political risk level (resulting in a highly rated index), the higher the level of FDI inflows. Using the Granger causality approach, empirical results indicated a bi-directional causal relationship between FDI and economic growth, while it was found that political risk causes changes in FDI. In other words, individually, political risk and gross domestic product cause changes in FDI.

(Zubair, 2018) studied the relationship between human capital, institutions quality and infrastructure on FDI inflows and economic growth of some ECOWAS countries for the period 1990-2015. Using; GDP, human capital and political terror scale as key variables. Panel data analysis was employed to analyze the relationship between FDI inflows and economic growth. Fully Modified Ordinary Least Square, Pool Mean Group and Dynamic Fixed Effect methods were employed in the estimation process. The results revealed a positive significance effect of human capital to FDI and economic growth. Corruption appeared to have a negative effect on FDI inflows. The interaction effect appears to suppress the impact of FDI inflows on economic growth. On the other hand, infrastructure shows a positive relationship with FDI inflows. Therefore, it is suggested that policies must be devised to improve the quality of institutions, upgrade the standard of infrastructures and enhance the quality of human capital in order to attract more FDI inflows and economic growth of ECOWAS countries.

(Oriakhi & Osemwengie 2012) investigated the impact of National security on foreign direct investment in Nigeria covering the period of 1980 to 2009 employing Least Squares technique. Defense and Security Vote (DSV) was used as a proxy for National security. The findings reveal a negative link between FDI and National security and recommended that strong policy stance be taken to address the state of insecurity in Nigeria (and other developing countries) so as to attract more foreign direct investment essential for economic growth and development.

By means of the 12 category Political Risk Index compiled by the International Country Risk Guide (Baek & Qian, 2012) examined whether and in what manner political risk affects FDI and compared effects in developing and developed economies, they found that: First, political risk is a significant determinant of FDI in both industrialized and developing nations. Second, not all aspects of political risk affect FDI stocks in industrialized and developing countries in the same way.

Using similar data sources and analytical metric (Hayakawa, et al, 2012; Haksoon, 2010) empirically investigated the effects of various components of political and financial risk on inward FDI, (Hayakawa, et al, 2012) also examined the relationship between inward FDI and not only the level of

these risks but also their changes over time. Noteworthy findings include; political factors are important in explaining FDI flows and that among the political and financial risks, only the political risk is associated with the FDI inflow. Specifically, the change in the level of political risk affects FDI inflows, while the initial level of political risk does not. The other is that, particularly in the case of developing countries, payment delays, contract expropriation, and corruption are negatively associated with the FDI inflow.

A research by (Balan, 2019), using annual dataset from the period 1984 to 2014, studied the political and financial determinants of FDI inflows to the Middle East and North Africa and Turkey (MENAT countries) and revealed that a positive investment profile, profits repatriation and payment delays, lower religious tensions and lower risk points of current account are associated with higher volumes of FDI flows into the MENAT countries.

Busse and Hefeker (2005) examined the linkages between political risk, institutions and FDI inflows into 83 developing countries for the period 1984-2013. The results showed that government stability, the absence of internal conflict and ethnic tensions, basic democratic rights, ensuring law and order and investment profile are closely associated with FDI.

Khan and Akbar (2013) found that most of the political risk indicators by the International Country Risk Guide (ICGR) have a generally negative relationship with FDI for the world as a whole and also, the high-income countries but the relationship was the strongest for the upper middle-income countries

Empirical studies of Asiedu (2002) find an insignificant association between political risk FDI inflow, the researcher sites regional locational advantages/effects as a more relevant factor to FDI, a result similar to Wheeler and Moody (1992) which reveals that political risk, corruption and democracy are insignificantly related to FDI inflow, noting trade openness to be a more vital driver for FDI inflows.

A study by Erkekoglu and Kilicarslan (2016) using the Worldwide Governance Index that covers the years 2002-2012 and data from 91 countries, found that an increase in “political stability and absence of violence” and “management effectiveness” has reduced the foreign direct investment. Moreover, a rise in the variables of the “exportation of goods and services”, “population”, “GDP growth”, “regulatory quality” has increased the foreign direct investment.

3.0 Data Description and Variables Selection

This study is based on a quantitative research methodology. Annual time series data for the time period from 2002 to 2019 were used. The data was collected from different sources; data for the FDI flows and stocks in ECOWAS countries were collected from the United Nations Conference on Trade and Development (UNCTAD). Data on the GDP growth percentage for ECOWAS states was collected from the World Development Index, a World Bank dataset, likewise, Governance and political characteristics were acquired from the Worldwide Government Indicators dataset also published by the World Bank. This dataset includes 6 differing variables covering; political stability, control of corruption, government efficiency, voice and democratic accountability, rule of law and regulatory quality. Since this research attempts to examine how political stability, government efficiency, level of democracy and other bureaucratic (or the lack thereof) impacts FDI flows, hence the equation used in the study is as follows;

$$FDI_{flow(it)} = b_0\mu_{(it)} + b_1GDP_{gr(it)} + b_2FDI_{stock(it)} + b_3CC_{(it)} + b_4GE_{(it)} + b_5PV_{(it)} + b_6RQ_{(it)} + b_7RL_{(it)} + b_8VA_{(it)} + \mu_{(it)} \quad \dots \quad \dots \quad \dots \quad \dots \quad equation (1)$$

b_1 and $b_2 > 0$; b_3 ; b_4 ; b_5 ; b_6 ; b_7 and $b_8 > 0$

μ = stochastic variables.

As seen in the *equation (1)*, six political variables have been used in the study. They are; (CC); Control Of Corruption, (GE); Government Efficiency, (PV) Political Stability and Absence of Violence, (RQ); regulatory quality, (RL); Rule of law, and (VA); Voice & Accountability. Additionally, 2 control variables have been used for the analysis. Control variables were taken from World Development

Indicators (WDI) and UNCTAD FDI database. These variables were determined according to literature and accessibility of the data.

3.1 Definition of variables

- FDI flow (**FDI_{flow}**) embodies the annual (non-cumulative) inward FDI flow for each ECOWAS member state during the study duration. It serves as the dependent variable
- FDI stock (**FDI_{stock}**) represents the stock annual cumulative inward FDI flow of FDI for the study period minus the FDI for current year (or using previous year estimates). It is a control variable meant to measure the FDI clusters in ECOWAS states
- Gross Domestic Product growth rate (**GDP_{gr}**) Annual percentage growth rate of GDP at market prices based on constant local currency was used as a control variable. This is a control variable meant to measure market size growth. The study expected a positive and significant relationship between this variable and the dependent variable.
- Political Stability and Absence of Violence/Terrorism (**PV**) embodies perceptions of the possibility of political unrest and/or socio-politically motivated violence, including terrorism.
- The Control of Corruption (**CC**) indicator measures the extent to which civic power is exercised for private gain, including both minor and grand forms of corruption, as well as "seizure" of the state by elites and private interests.
- Voice and Accountability (**VA**) represents the degree to which a country's populaces are allowed their fundamental rights and the level of people's (parties, social groups) exclusion from political participation in selecting their government.
- Rule of Law (**RL**) captures the level to which individuals have confidence in, and willfully abide by the regulations governing the society, it also measures the quality of contract implementation, property rights, the law enforcement agencies, and the legal system, as well as the likelihood of criminal activity and violence.

- Regulatory Quality (**RQ**) captures the capability of the government to articulate and implement thorough policies that enable private sector growth. Percentile rank designates the country's rank among all countries covered by the aggregate indicator.
- Government Effectiveness (**GE**) mirrors perceptions of the value of public services, the quality of the civil service and the degree of its independence from political figures and whims, the quality of policy formulation, framing and implementation, and the credibility of the government's obligation to such policies.

The 0 to 100 percentage rank indicates the countries' position, where 0 indicates the lowest rank and 100 indicates the highest possible rank. Based on the political and governance rating, this study expected a positive relationship between FDI and political attributes such as government efficiency, regulatory quality, control of corruption, voice and accountability and rule of law, however a negative relationship is expected between the dependent variable and political violence. As the study aimed to assess whether political risk among ECOWAS states has an impact on the countries' FDI inflows and economic growth, it is important to examine both the long run and short run relationships between the variables.

4.0 Empirical Analysis

4.1 Data Description

Table 1. Description of variables

	FDI _{FLOW}	FDI _{STOCK}	GDP _{GR}	CC	GE	PV	RQ	RL	VA
Mean	687.952	6249.441	4.6148	31.4187	25.10460	32.7709	30.27845	30.02777	38.5388
Median	178.543	1450.958	4.9688	28.0887	21.47740	34.534	30.28846	29.83276	37.5587
Maximum	8649.53	95318.48	26.4173	80.2885	65.04855	83.0097	56.39811	74.51923	79.803
Minimum	-183.388	1.323000	-30.1451	0.50505	2.884615	0.9709	2.463054	0.495050	8.867
Std. Dev.	1455.75	15100.69	4.41353	19.1189	16.44257	20.275	13.74128	18.19841	17.2686
Skewness	3.42902	3.908964	-1.93667	0.8107	0.648966	0.2988	0.059033	0.386463	0.3566
Kurtosis	15.2934	18.87595	22.4803	3.06606	2.366807	2.3617	1.886683	2.188232	2.4241
Jargue-Bera	2229.31	3523.116	4437.95	29.6248	23.46255	8.6016	14.10091	14.13429	9.4517

Prob.	0.00000	0.00000	0.00000	0.00000	0.000008	0.0136	0.000867	0.000853	0.00886
Sum	185746.9	1687349.	1245.98	8483.05	6778.243	8848.13	8175.181	8107.499	10405.48
Sum Sq. D.	5.70E+08	6.13E+10	5239.92	98328.5	72726.36	110581.9	50793.35	89088.01	80216.71
Observations	270	270	270	270	270	270	270	270	270

Source: researchers' collation using Eviews 10

The table above illustrates that this study utilizes 270 observations in each variable, cumulating to 2430 distinct observational entries. Observe that the maximum FDI_{flow} value over the period is 8649.53, and the minimum FDI_{flow} value is 183.388. This analysis illustrates that the maximum values for variables CC, GE, PV, RQ RL and VA are 80.2885, 65.04855, 83.0097, 56.39811, 74.51923, 79.803 respectively, while the minimum values are; 0.50505, 2.884615, 0.9709, 2.463054, 0.495050, 8.867, this illustrates the dynamism of the variables within the region over the study period.

4.2 Unit Root

Akpanta (2013) explains that unit root is a pre-test which is used to examine whether a data collection is stationary or not, in order to avoid running a spurious regression and ensures validity of the test statistics. Unit root tests on panel analysis can be conducted through several techniques such as a) ADF-Fisher, b) PP-Fisher and c) Lin-Pesaran test statistics etc. Akpanta (2013) posits that there is no empirical evidence of superiority of one unit root test technique to the others; rather they complement each other. The table below displays the summary of the analysis

Table 2: Unit root summary.

Variables	ADF-Fisher		PP- Fisher		Lin-Pesaran	
	Stat	Probability	Stat	Probability	Stat.	Probability
FDI_{flow}	48.1173	0.0193	47.8238	0.206	-1.6403	0.0505
GDP_{gr}	123.440	0.0000	121.628	0.0000	-8.09906	0.0000
FDI_{stock}	9.73667	0.9998	6.88439	1.0000	6.05238	1.0000
CC	51.29664	0.0091	46.6312	0.0270	-2.64562	0.0044
GE	52.1664	0.0073	55.2960	0.0033	-1.794	0.437
PV	51.6412	0.0083	50.614	0.0107	-1.60901	0.0538
RQ	37.3103	0.1083	35.1368	0.2377	-.92117	0.1785
RL	46.6925	0.0267	47.9477	0.0201	-2.02858	0.0255
VA	55.6974	0.0030	31.2203	0.4046	-2.37341	0.0088

Source: Researchers' collation using Eview 10

4.3 Panel Data Analysis

Equation (1) was estimated using pooled ordinary least square, random effect, fixed effects model. The results from this analysis are summarized in Table 3 below. The regression results show a number of varying results, however note that Regulatory Quality (RQ) has a significantly positive relationship and Political Stability and Absence of Violence (PV) has a significantly negative relationship with the

dependent variable. Conversely, probability values for (PV) exceed the 0.5% significance while those for (RQ) do not exceed the 0.5% significance value.

Table 3 Panel Data Variable Analysis.

Variables	Pooled-ordinary-least-square		Random effect model		Fixed effects model		Sig-value
	Coefficient	Probability	Coefficient	Probability	Coefficient	Probability	
Gdp_{gr}	30.99085	0.0074	28.78887	0.0014	8.540914	0.3731	0.05
Fdi_{stock}	0.074712	0.0000	0.069776	0.0000	0.011112	0.0703	0.05
CC	-8.810626	0.1919	-6.673656	0.2273	13.89513	0.0829	0.05
GE	8.772422	0.2898	6.961341	0.3063	-37.71271	0.0009	0.05
PV	-6.356877	0.1223	-5.240905	0.1197	-6.432075	0.1796	0.05
RQ	27.63404	0.0022	28.92339	0.0001	54.88853	0.0000	0.05
RL	-13.81032	0.1517	-15.11270	0.0535	10.10390	0.3622	0.05
VA	4.303342	0.4404	2.596076	0.5789	-8.331446	0.3197	0.05

Source: Researchers' compilation with Eview 10

4.3.1 Hausman Test

The study employed the Hausman Test to verify which of the estimations methods would be most appropriate for the study. The results are presented in Table 4 below;

Chi-square statistics	Chi square d.f	Probability value (P.V)	Sig. value (%)
151.407646	8	0.0000	0.05

Table 4 Hausman test. (Source: Researchers' compilation with Eviews 11)

From the Hausman test above; probability value does not exceed 0.05 significant value, therefore we conclude that the fixed effects model would be the most appropriate model for this analysis, we can therefore interpret the results of the fixed effects model regression analysis.

4.3.2 Discussion of Results from Panel Data Analysis

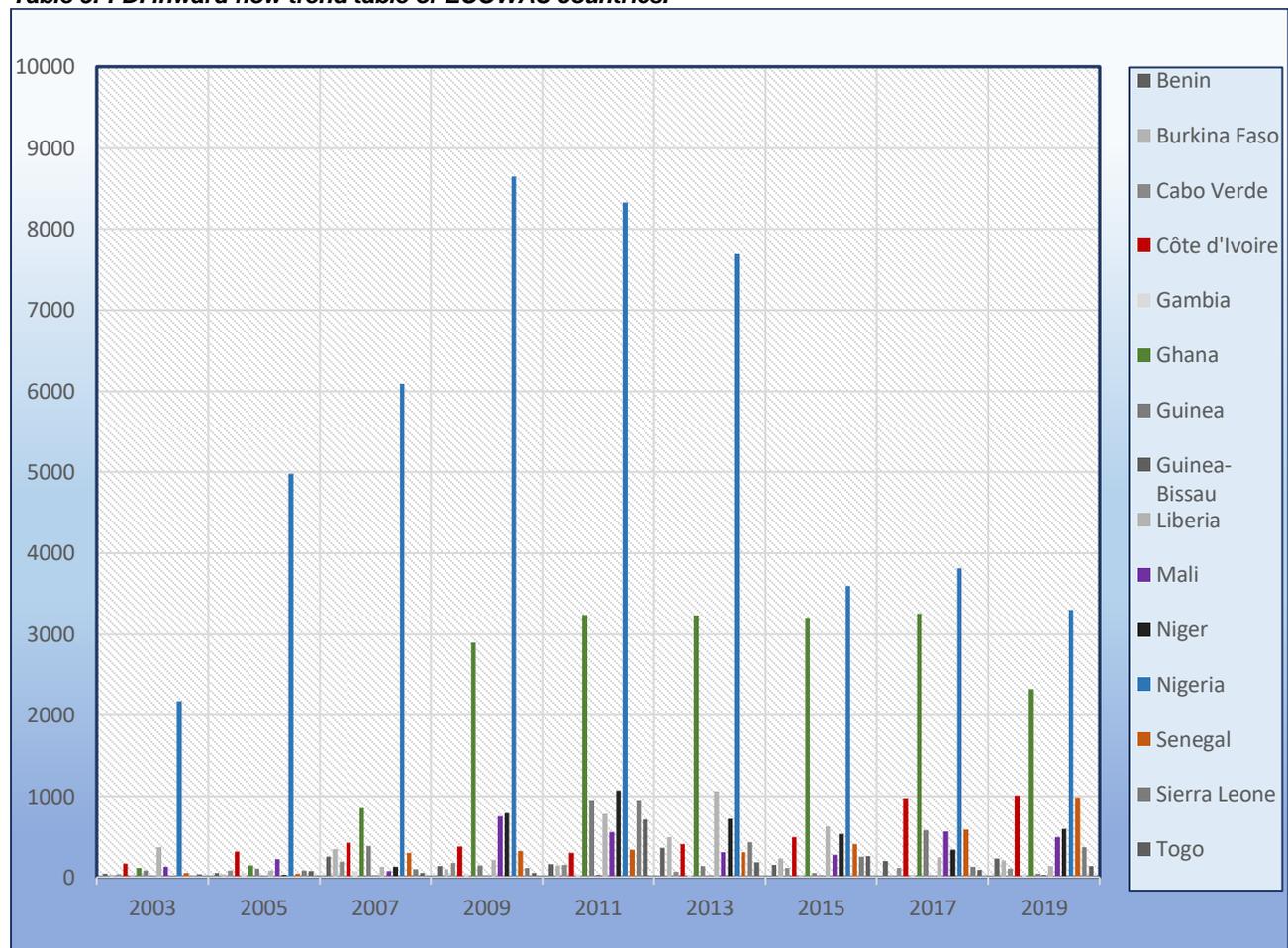
From the coefficient of the fixed effect model, observe that in accordance with theoretical expectations; political stability and violence (PV) has a negative relationship with FDI_{flow} inflow, however also observe that government efficiency (GE) and voice and accountability (VA) similarly have negative relationship the dependent variable. Asides these, all other variables conform to expectations.

From the probability value of the fixed effect model, observe that Regulation quality (RQ) and Government efficiency (GE) among the indicators do not exceed the 0.05 significant value and hence are significant to the dependent/endogenous variable (FDI_{flow}).

4.3 Trend Analysis

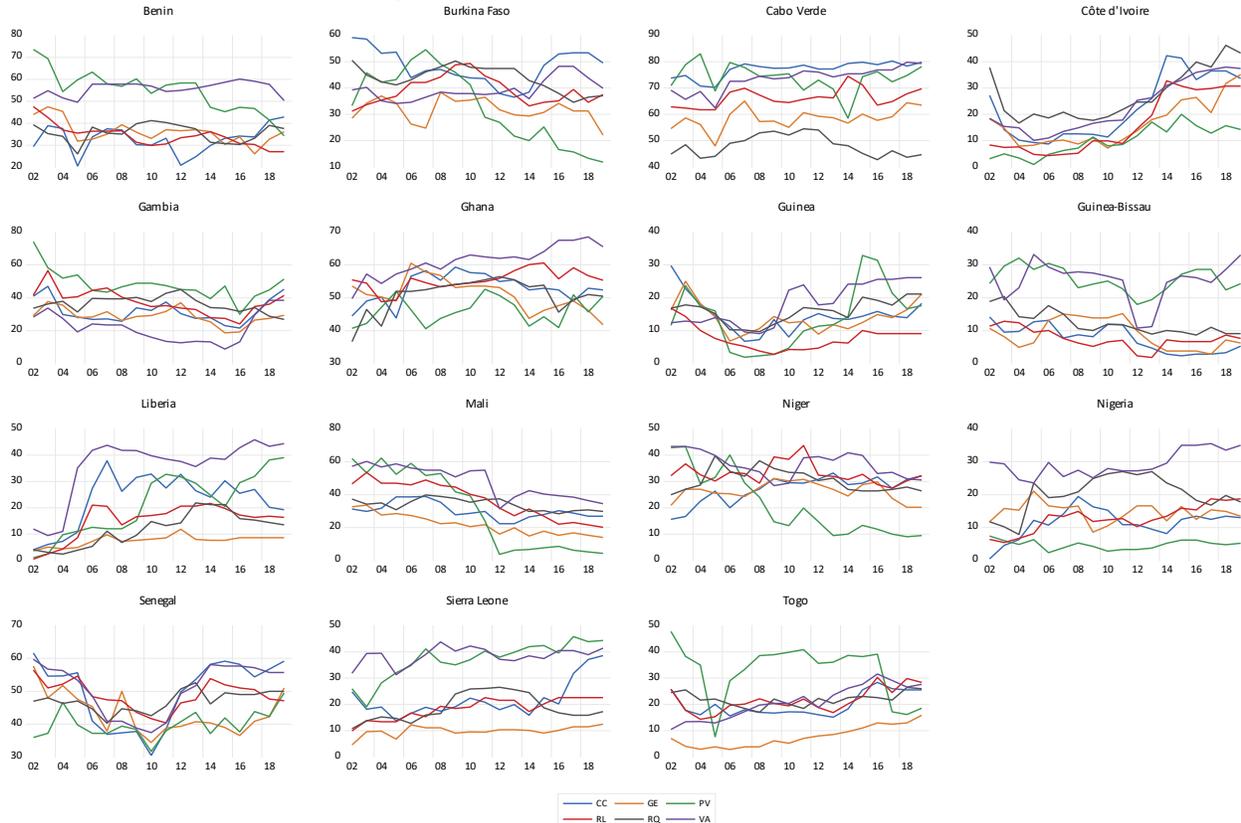
This study adopts trend analysis in order to ascertain the patterns of the independent variables.

Table 5: FDI inward flow trend table of ECOWAS countries.



Source UNCTAD dataset 2020

Table 6. ECOWAS countries' trend in governance indicators.



Source; WGI World Bank dataset.

The following trend observations can be deduced from Table 5 & Table 6 above; in 2015, Nigeria’s FDI inflow plummeted considerably, observing from Table 4 below, regulatory quality (RQ) also recorded a negative movements within the period of 2015. This finding thus supports the results of the panel data analysis citing significant sensitivity between FDI and regulatory quality (RQ). Similarly in Ghana, we can observe that FDI inflow in Ghana remained largely unchanged from 2011 till 2017. In 2018 and 2019, the country experienced a major decline, noting from Table 6, regulatory quality (RQ) reached its lowest point in 2018 and recovered quickly soon after.

From Table 6; Cote d’Ivoire’s generally improving governance quality is recorded along with a positive (although slight) change in the country’s FDI inward inflow, noting from the table above, the country in 2019 became the sub-region’s fourth highest FDI destination after Senegal, which in a similar manner, has, since 2010 seen improvement in governance and institutions rankings and thus FDI inflow. Note also that Cote d’Ivoire and Senegal currently have the sub-regions highest regulatory quality (RQ) ranks.

We can also observe that the voice and accountability index has generally improved, however this has shown to have little to no effect on FDI growth. Notable improvements in Togo's degree of voice and accountability index is shown to have little effects on the FDI inflow from the period of 2005 to 2016 as the country, this is however not an isolated event. In Sierra Leone and Liberia, improvements in Voice & Accountability as well as Political violence are not paralleled with significant increases in FDI inflows, correspondingly in Nigeria, significant increases in VA rankings occurs while the country experiences decreases in FDI imports. We thus adopt the position that profit-seeking FDIs are not immediately concerned in the level of fundamental rights and the level of people's (parties, social groups) exclusion from political participation in ECOWAS countries.

5.0 Conclusion

In this paper, empirical analysis was carried out to ascertain the effects of various components of governance on inward FDI flows among ECOWAS states, our findings from fixed effects regression analysis include; regulation quality has significant impacts on FDI inflow in the sub-region, a trend analysis further emphasized the sensitivity of FDI inflow to changes in regulatory quality among ECOWAS states. The statistical analysis further suggests that the variables; political violence and government efficiency have weak negative relationship and strong negative influences on FDI inflows, while voice & accountability as well as a countries' control of corruption are not significantly impactful to FDI inflows. The size of an economy, its growth potential and the historical flow of FDI also largely determine the flow of FDI in West Africa.

5.1 Recommendation

Based on the findings and conclusions of the study, the following recommendations were made;

- Government of ECOWAS states should reinforce ECOWAS objectives of 1975 in order to enlarge the potential market size

- Governments across the ECOWAS region should attempt to properly implement strategies which appeal to the interests of profit seeking foreign investors and restrain from being ambivalent in motive.
- ECOWAS state members should channel more resources to eliminate unappealing social and economic inadequacies in order to fully compete for stable foreign investment
- Compromise must be made by all tiers of government pertaining to the effort of policy in the countries; the governments must refrain from policies which are inconsistent with its goal of attracting FDIs and must assure foreign firms that future policies will not – at their expense of foreign firms - indulge domestic firms.

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