UNIVERSITY OF CAPE COAST

FINANCIAL DEVELOPMENT, COUNTRY-LEVEL CORPORATE

GOVERNANCE, AND FOREIGN DIRECT INVESTMENT IN SUB-
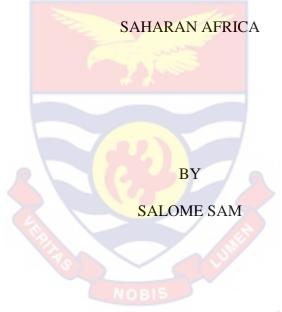
SAHARAN AFRICA

SALOME SAM

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SAHARAN AFRICA

BY

SALOME SAM

Dissertation submitted to the Department of Business Programmes of the College of Distance Education, University of Cape Coast in partial fulfilment of the   requirements for the award of Master of Business Administration degree in Finance

FEBRUARY 2025

DECLARATION

Candidate's Declaration

I hereby declare that this dissertation 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: Salome Sam

Supervisor's Declaration

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

Supervisor's Signature: ………………………   Date: ……………………

Name: Dr Samuel Kwaku Agyei

ABSTRACT

A well-functioning financial system and transparent corporate governance structures are crucial for attracting foreign direct investment (FDI). Investors are cautious about opaque governance practices at the firm and country levels due to the risks they pose to their investments in an environment with poor corporate oversight. In effect, corporate governance plays a critical role in the attitudes of investors towards making investments overseas. This study examined the complementary role of corporate governance in the relationship between financial development and FDI in sub-Saharan Africa (SSA). From 2010 to 2019, the study sample comprised a panel of 48 SSA economies with available data on the desired variables. Estimations were performed under the Systems Dynamic General Method of Moments (SD-GMM) approach. Findings from the study divulged significant positive effects of financial development and country-level governance on FDI. The study found that corporate governance significantly interacts with financial development to influence FDI in SSA. Specifically, rule of law, voice and accountability, political stability and absence of violence/terrorism, and regulatory quality significantly moderate the relationship between financial development and FDI among SSA economies. Policymakers are advised to conduct periodic evaluations of the financial institutions' stability to ensure they consistently deliver the anticipated benefits. To improve the overall benefits enjoyed by SSA economies from FDI inflows, attention needs to be paid to the approaches taken to control corruption as well as those in place to facilitate voice and accountability and governance quality.

KEYWORDS

Country-level corporate governance

Financial development

Foreign direct investment

General method of moments

sub-Saharan Africa

ACKNOWLEDGEMENTS

DEDICATION

To my family

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FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GMM	General Method of Moments
IMF	International Monetary Fund
MVA	Manufacturing Value Added
SSA	sub-Saharan Africa
UNCTAD	United Nations Conference on Trade and Development
WDI	World Development Indicators

CHAPTER ONE

INTRODUCTION

It cannot be denied that foreign direct investment (FDI), financial development and corporate governance contribute greatly to the development of every nation (Liang, Shah & Bifei, 2021; Cheng, Chien & Lee, 2021; Lacopetta & Peretto, 2021). Yet, a chunk of empirical assessments tests the relationship between financial development and foreign direct investment in isolation; that is, without considering corporate governance. This study suggests that it would be more appropriate to involve corporate governance in the relationship between financial development and FDI. As a result, the role of corporate governance in the relationship between financial development and FDI was investigated. This study contributes to the literature by examining the role of corporate governance in the relationship between financial development and FDI in SSA.

Background to the Study

For several decades, nations worldwide have utilised Foreign Direct Investment (FDI) to bolster their economies, and a wealth of literature highlights the crucial role FDI plays in bringing essential capital, technology, and management expertise to the financial development of nations. The literature has acknowledged FDI as a vital tool in promoting sustainable economic development, given the challenge every nation faces in pursuing the Sustainable Development Goals (SDGs) (Osei-Assibey et al., 2023). Researchers in recent times have reached a consensus in their assertion that FDI is the major pillar behind the development of giant economies globally (Liang et al., 2021; Joshua, Babatunde, & Sarkodie, 2021). According to

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Abdouli and Hammami (2020), FDI contributes to the growth of an economy in various ways, including but not limited to job provision, poverty reduction, and tax accumulation. Benefits like these have encouraged countries to formulate diverse means of attracting FDI, including sub-Saharan Africa (SSA).

Empirical evidence suggests that host nations should have the appropriate absorptive capacity to benefit from the positive spillovers of FDI (Arogundade, Biyase & Eita, 2021; Sirag, SidAhmed, & Ali, 2018). The International Monetary Fund (IMF) explains FDI as the investment that encompasses a long-standing correlation reflecting a lasting interest of a firm in another country other than that of the investor. In the definitions of the World Bank (2020), FDI encompasses "the net inflows of investment to acquire a lasting management interest in an enterprise, operating in an economy other than that of the investor and can be further developed as the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments in that economy."

FDI is normally seen as a combined package of capital stock and technology and can augment the existing stock of knowledge in the host economy through labour training, skill acquisition and diffusion, and the introduction of new managerial practices and organisational arrangements (De Mello, 1999; Joshua et al., 2021). Recent developments across several market blocs have seen contractions in the levels of FDI recorded by some economies whiles others realise hikes in FDI inflows. It is still questionable whether the economies recording hikes in FDI flows emanate from the level of financial development only or if there is an unconsidered factor (such as quality of

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institutions or governance) that complements financial development (Islam, Khan, Popp, Sroka, & Oláh, 2020).

Despite the myriad importance of FDI to various economies, its effectiveness in stimulating economic progress is significantly influenced by the region's financial development and corporate governance standards (Agbokah, 2020). Advanced financial systems ensure efficient capital allocation and risk management, maximising the benefits of FDI. Agyei et al. (2022) link robust corporate governance frameworks at the country level to increased FDI inflows by fostering investor confidence through improved regulatory environments and accountability mechanisms.

Appiah-Kubi et al. (2020) also argue that corporate governance practices in organisations help improve the information asymmetry between foreign investors and the host country. Hence, instituting good corporate governance ensures that information is well distributed and that resources are matched with potential investment to mitigate conflict between the two parties (Ben-Hassoun, Aloui, & Ben-Nasr, 2018). Wako (2021) emphasise the importance of these variables for the growth of Sub-Saharan Africa (SSA). They argue that this relationship highlights the need for SSA countries to enhance their financial systems and governance structures in order to effectively utilise the advantages of FDI and promote sustainable economic development.

Additionally, evidence suggests that these strategies, when adopted by SSA economies, yield good results. As noted in the United Nations Conference on Trade and Development (UNCTAD) (2018) report, SSA recorded an increase of 6% in 2018 FDI inflow. Also, in 2018, UNCTAD

indicated a $US40 billion FDI inflows in the sub-region. This increase of $US2 billion from the $US38 billion reported in 2017 raises concerns regarding the failure of Sub-Saharan African (SSA) economies to reap the anticipated benefits associated with heightened foreign direct investment (FDI), such as improved employment rates, elevated income levels in urban areas, and increased tax revenues. Existing literature corroborates this troubling trend, indicating that the expected positive outcomes of FDI are not being realised in these economies (Arogundade et al., 2021; Sirag et al., 2018).

The above condition influences additional African-based research on the relationship between financial development and FDI. For instance, the works of Gebrehiwot, Esfahani and Sayim (2016) Joshua, Babatunde and Sarkodie (2021), and Otchere, Soumaré and Yourougou (2016) were partly influenced by the hypothesis that the financial sector plays a significant role in encouraging foreign investment. The financial sector provides loans for foreign investors as well as storage facilities for their funds (Global competitiveness index, 2016-2017). Apart from loans, other transactions (such as savings and investment) are provided for foreign investors by the financial system. A well-developed financial system is required to protect investor rights through the provision of less uncertainty in the business environment, transparent operations, controlled levels of corruption, etc. (Kaidi, Mensi, & Ben Amor, 2019; Khan, et al., 2019).

From a theoretical lens, Dunning's eclectic theory argue that financial well-being and corporate governance are vital locational advantages for attracting foreign direct investment (FDI). Thus, a stable financial environment boosts investor confidence, while strong governance ensures

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transparency and accountability, creating a favourable investment climate that mitigates risks and enhances firm performance (Dunning, 1980; Agbokah, 2020). Drawing from this proposition, the present study holds that SSAs will have a higher chance of attracting diverse benefits of FDI when corporate governance practices are improved. Furthermore, investors are sceptical of opaque corporate governance structures both at the firm and macro levels owing to the attendant risk to their investments in an environment of poor corporate governance (Khan et al., 2019). In effect, corporate governance plays a critical role in the attitudes of investors towards making investments overseas.

Recent events indicate that a number of these economies have realised the relevance of corporate governance and the need to signal transparency and accountability both at the firm and country levels and have embarked on significant corporate governance reforms (Nakpodia, Adegbite, Amaeshi, & Owolabi, 2018). Thus, both financial development and corporate governance work together in attracting a higher FDI in an economy. When governance mechanisms are enhanced in a host economy, its absorptive capacity is resultantly improved (Jude & Levieuge, 2017; Sirag et al., 2018). It is worth noting that improved absorptive capacity is a satisfactory prerequisite for attracting FDI inflows (Islam et al., 2020). Hence, it could be reliably argued that improving the effectiveness of a host country's governance structures would improve its ability to develop its financial system through which the economy can attract high levels of FDI inflows.

Therefore, an empirical assessment of how country-level corporate governance could complement financial development in improving FDI

inflows is needed to substantiate the position of the eclectic paradigm. To this end, this study assessed the plausible role of corporate governance in boosting or shrinking the effect of financial development on FDI in sub-Saharan Africa.

Statement of the Problem

There seems to be a diminishing and disturbing trend of inflow from FDI in SSA in recent times and studies have committed efforts to examining this trend. The World Development indicator has further substantiated this claim as captured in Agbokah (2020). Meanwhile, it is hardly disputable that FDI has become an integral part of the sub-Saharan African (SSA) economies as it plays several significant roles across the subregion's vital sectors that contributes immensely to the growth of gross domestic product in SSA. According to UNCTAD (2018), the global economic recession severely affected weak economies such as SSA. This resulted from the decision of several foreign investors to pull out their investment from the region. Despite the constant fall in global FDI inflows in 2018, SSA recorded an increase of 6%. Notwithstanding, the economies of SSA are not experiencing the benefits (reduction in employment, income level of cities as well as tax payment) of FDI, as empirically established. This is very disturbing since the development of the sub-region as a whole majorly depends on FDI.

Previous studies have investigated the direct relationship between financial development and FDI in isolation (see, e.g., Bayar & Gavriletea 2018; Gabrehiwot et al., 2016; Joshua et al., 2021; Otchere et al., 2016). The background issues on this phenomenon substantiate the need to introduce another determinant, whose contribution towards FDI may be complementary to the fundamental role of financial development. Since eclectic theory by

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Dunning (1977; 2006) states that the internal factors such as financial development and corporate governance could work together to maximise FDI, the reduction or increase in FDI in an economy might require both financial development and corporate governance.

Furthermore, other studies have analysed the direct relationship between corporate governance and FDI (Fernández González, Arce Fariña, & Garza Gil, 2019; Li, Pervaiz, Asif Khan, Ur Rehman, & Oláh, 2019). Hence, analysing the role of country-level corporate governance on the financial development-FDI nexus is not trivial. Despite the peculiar reliance on FDI by SSA economies, the existing works focused on SSA have failed to provide empirical evidence on the complementary effect of governance on the relationship between financial development and FDI. Analysis of the individual effect of Kaufmann's (1999) six country-level governance indicators on FDI as well as their complementary roles on financial development's influence on FDI is non-existent in the literature, particularly for SSA economies.

Therefore, unlike the previous studies that examined these relationships in isolation, this study contributed to the literature by providing evidence on the complementary role of corporate governance in the relationship between financial development and FDI in SSA, a sub-region that is usually underrepresented in terms of the empirical literature.

Purpose of the Study

The study sought to examine the interactive role of corporate governance in the relationship between financial development and FDI in SSA.

Objectives of the Study

Specifically, the study sought to:

1. Examine the relationship between financial development and FDI in SSA.

2. Investigate the relationship between corporate governance and FDI in SSA.

3. Assess the interactive role of corporate governance in the relationship between financial development and FDI in SSA.

Research Hypotheses

Concerning the study objectives, the following null hypotheses were tested:

1. H_0: There is no statistically significant relationship between financial development and foreign direct investment in SSA.

   H_1: There is a significant relationship between financial development and foreign direct investment in SSA.

2. H_0: There is no statistically significant relationship between corporate governance and foreign direct investment in SSA.

   H_1: There is a significant relationship between corporate governance and foreign direct investment in SSA.

3. H_0: There is no interactive role of corporate governance in the relationship between FD and FDI in SSA

   H_1: There is an interactive role of corporate governance in the relationship between FD and FDI in SSA.

Significance of the Study

The fall in FDI may affect the purpose of countries to achieve high stable economic growth. Hence, this study analysed the interactive role of corporate governance in the relationship between financial development and FDI in SSA. This, in the view of the researcher, could be useful for the

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policymakers of SSA countries to provide suitable financial policies as well as good corporate governance that will help boost FDI inflow to sustain their growth and development.

The findings of this study will highlight the critical importance of robust corporate governance measures for enhancing economic stability and growth within and beyond the Sub-Saharan Africa region. Effective corporate governance is not only essential for fostering financial development but also plays a pivotal role in attracting substantial FDI flows. Therefore, the study's results will emphasise the need for regulators across SSA to prioritise and implement strong governance frameworks to bolster investor confidence and drive sustainable economic growth. The broader implications of these findings will also extend to informing policy and regulatory practices aimed at economic enhancement in the region.

The study would serve as a point of reference for further research as well as to provide information to future researchers who may be interested in studying FDI, financial development and country-level corporate governance in SSA.

Delimitation

This study examined the interactive role of country-level corporate governance in the relationship between financial development and FDI for the period 2010 to 2019. It would have been more appropriate to get a date that is up to at least 2021 but the World Development Indicators (WDI) database holds data up to 2019. Yet, the reliability of the study was not affected since a robust estimation technique was applied. In terms of variables, FDI was measured as net inflows; the governance indicators were delimited by

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Kaufmann's six indicators of corporate governance namely rule of law, voice and accountability, control of corruption, governance effectiveness, political stability and absence of violence/terrorism, and regulatory quality; the proxies for financial development were broad money, domestic credit to the private sector, and domestic credit to the private sector by banks.

Limitation of the Study

The World Development Indicators (WDI) database's limited data availability, which only extends to 2019, constrains the study. This temporal limitation may restrict the generalisability of the study's findings. Additionally, using a quantitative approach may add up to the limitations of this study. Adopting a mixed-methods approach, which includes qualitative data from key stakeholders, could provide deeper insights and make the analysis more complete.

Organisation of the Study

This study is arranged into five chapters. Chapter one, which is the introductory chapter, presents a background to the study, the statement of the problem, the purpose of the study, the hypotheses, significance, and delimitation of the study as well as the organisation of the study. Chapter two contains the review of relevant literature; both theoretical and empirical that underpin the relationship between financial development and FDI in SSA. Chapter three presents the methodological framework and techniques employed in conducting the study. Chapter four examines and discusses the results and main findings regarding the literature. Based on the findings, the final chapter presents the summary, conclusions and recommendations of the study.

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CHAPTER TWO

LITERATURE REVIEW

Introduction

The general purpose of this chapter was to present the review of related literature on the role of corporate governance structure in the nexus between financial development and FDI in SSA countries. The chapter deliberates on the theoretical literature covering the relationship between financial development and FDI as well as the complementary effect of corporate governance on the effect of financial development on FDI in SSA.

Theoretical Review

Eclectic theory

The Dunning's eclectic theory was developed by Dunning in 1977 to explain why foreign investors invest in certain economies (Abbas & El Mosallamy, 2016). The theory is premised on three reasons namely ownership, location, and internalisation (OLI) to explain the reasons why firms would want to position themselves in a multinational setting (Dunning, 1977). Ownership advantages explain why certain firms go abroad yet others do not. It explains that a successful multinational company has some firm-specific advantages which allow it to become successful in foreign economies. Location advantages also explain which country or set of countries a firm chooses. Internalisation advantages affect the way a company chooses to operate in another country.

Specifically, this study was explained by the firm-specific location advantages aspect of this theory. The host country is chosen when the firm can combine its own advantages with certain factors in the host country such as

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financial conditions and corporate governance (Dohse, Hassink, & Klaerding, 2012). An economy's extent of financial development is a key factor that influences the choice of a firm's location. Theoretically, financial development firmly influences the performance of a firm by providing credit, etc. to foreign investors (Fafchamps & Schündeln, 2013). Dunning's OLI eclectic theory has been expanded to incorporate the institutional theory. Dunning proposed the inclusion of institutions (which include corporate governance) as part of the locational advantages needed for a country to receive FDI.

Therefore, this study argued that all other things held constant, countries need both good financially-developed markets and good corporate governance structures to enable foreign investors to choose host countries for their businesses.

The Finance-Growth Nexus Theory

The Finance-Growth Nexus Theory was propounded by Joseph Schumpeter in 1912. This theory posits that a robust financial sector promotes the accumulation of capital and boosts economic output, hence playing a crucial role in attracting FDI (Schumpeter, 1912). Empirical data suggests that nations with strong financial systems are more likely to take advantage of FDI opportunities. This is because these systems lower the costs of transactions, improve market efficiency, and offer essential financial services to firms (Beck, Demirgüç-Kunt, & Levine, 2009).

Furthermore, the relationship between financial development and FDI is additionally reinforced by the influence of adequate infrastructure. This infrastructure has the potential to enhance the process of financial

intermediation and facilitate better access to financial services. As a result, it creates a more favourable environment for investment (Agyei et al., 2022). However, the impact of financial development on promoting economic growth and attracting FDI in SSA depends on other contextual factors, including as the quality of governance and regulatory frameworks. Thus, inadequate corporate governance systems can diminish the advantages of financial growth by amplifying the risks linked to investment, hence, discouraging foreign direct investment inflows.

Furthermore, the historical circumstances surrounding financial institutions in SSA, which are frequently influenced by the remnants of colonial rule, can impact their present ability to foster economic growth (La Porta et al., 1998). Therefore, although the Finance-Growth Nexus Theory offers a fundamental comprehension of the connection between financial growth and FDI, it is crucial to take into account the wider institutional and historical circumstances that influence these dynamics in SSA.

Thus, by implementing robust governance and regulatory frameworks in conjunction with financial development measures, the region can greatly improve its capacity to attract and derive benefits from FDI, ultimately resulting in long-term and sustainable economic growth. Therefore, it is strongly argued in this study that the Finance-Growth Nexus Theory underpins a study of financial development, corporate governance and FDI nexus, particularly in SSA.

Empirical Review

The review of empirical studies was based on the tested research hypotheses, which were determined from the research objectives.

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Financial development and FDI in SSA

The following are some works on the relationship between financial development and FDI. Odhiambo (2021) examined the causal relationship between financial development and FDI in SSA countries. Using a multivariate panel Granger-causality model, the study found that the causal relationship between financial development and FDI is dependent on the proxy for financial development. The authors also indicated that the relationship between financial development and FDI varies over time. Overall, the study found a causal flow from FDI to financial development to predominate, at least in the short run. The study, therefore, recommended that policies aimed at attracting FDI inflows should be prioritised in SSA countries in the short run, to foster the development of the financial sector in the region.

Nutassey (2018) examined the interacting role of governance in the relationship between financial development and FDI in SSA from 1997 to 2016. The study was backed by eclectic theory and new institutional economic theory. Through the generalised method of moments (GMM) technique, the study found a positive relationship between financial development and FDI in SSA. Desbordes and Wei (2017) studied the various effects that the source and destination countries' financial development have on FDI. The study results pointed out that both source and destination countries' financial markets have a positive effect on FDI. This means that the host country's financial development affects foreign investment positively.

Donaubauer, Neumayer and Nunnenkamp (2016) investigated whether financial development in host and source countries affects bilateral stocks of FDI. This is mainly appropriate for host countries that have remained on the

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sidelines in the global competition for FDI, such as many developing countries which also typically have underdeveloped financial markets. The authors investigated the effects of financial development in the source and host countries on FDI in the global world. They sampled 43 sources and 137 host countries over the period 2001 to 2012 and addressed endogeneity by performing instrumental variable estimations using financial development in countries that are geographically contiguous to host countries as an instrument. More so, the authors addressed potential reverse causality by further restricting the sample to observations where reverse causality became less relevant. They found that bilateral FDI rises with well-developed financial markets in both the host and the source country.

Moreover, Otchere et al. (2016) examined FDI and financial development in Africa. After working on the key purpose, the study tested the causality between FDI and financial development and revealed that there is bidirectional causality between financial development and FDI. This implies that financial development has a relationship with FDI in Africa. Iamsiraroj (2016) examined the relationships between FDI and growth using 124 country-level annual datasets covering the period 1971-2010. The author showed that the general benefits associated with FDI are directly correlated with economic growth and similarly, economic growth positively relates to FDI. Peculiar to the findings of Iamsiraroj, the openness of trade, economic freedom, and labour force were additional important factors that influenced FDI and, also, spur further income growth.

From the studies reviewed under this hypothesis, it was found find that empirical works have largely failed to include corporate governance. That is, the studies reviewed above have analysed the relationship between financial development and FDI in isolation. Whiles other studies have proven a strong relationship between corporate governance and FDI, the effect of the interaction between corporate governance and financial development on FDI is unknown in the context of SSA. Thus, this study bridges the gap in the literature by examining the complementary effect of financial development and corporate governance on FDI.

Desbordes and Wei (2017) employed a difference-in-differences methodology to examine the effects of external financing circumstances in source and destination countries on FDI in both normal and crises. The authors discovered that in normal times, the relative volume of FDI in financially-susceptible industries is strongly positively impacted by the financial growth of the source and destination nations. However, in financially developed source and destination countries, particularly if these nations faced a credit crisis, the authors disclosed that the proportional amount of FDI in financially weak industries decreased comparatively more during the 2008–2010 global financial crisis.

From a panel threshold paradigm, which was a nonlinear approach to analysing the relationship between financial development and FDI, Liu, Islam, Khan, Hossain and Pervaiz (2020) also confirmed the positive nexus between financial development and FDI. Their conclusions on this relationship were no different from the empirical analysis of Mahmood, Alkhateeb and Furqan (2020).

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Corporate governance and FDI in SSA

To justify the inclusion of corporate governance in the relationship between financial development and FDI, the following empirical works were reviewed. Basson (2015) assessed the relationship between macro-level governance performances of the SSA region and sought to investigate whether it is a contributing factor that influences FDI inflows. The author employed panel data under a fixed effect estimator for a sample of 45 SSA economies from 2002 to 2011. The results established that macro-level corporate governance has a positive effect and is statistically significant in boosting FDI inflows. It provides encouragement to host economies to develop policies which can leverage and promote investment in the SSA region dealing with serious social challenges and sustainable economic growth.

In the Nigerian context, Esew and Yaroson (2014) investigated the relationship between institutional quality and FDI. The purpose of the study was to determine the effect of institutional quality on FDI flows into Nigeria using datasets from 1980-2011. The study used a vector error correcting model (VECM) to analyse the link between institutional quality and FDI. The finding from the empirical analysis showed that political stability and corruption are the key factors that influence FDI inflows to Nigeria. Other significant factors included human capital and trade openness.

Conversely, Wang, Alba and Park (2012) argued that better corporate governance structures could reduce the scope for increasing shareholder value and, thus, discourage merger and acquisition of FDI inflows. They further contend that sound governance may also discourage non-merger and acquisition FDI inflows in light of the complementary relationship between

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merger and acquisition and non-merger and acquisition FDI inflows. They employed firm-level evidence to empirically examine the effect of corporate governance structures of the US on Japanese merger and acquisition and non-merger and acquisition of FDI. Indicatively, they showed that two landmark US corporate governance regulations help to explain the sharp drop in both Japanese merger and acquisition and non-merger and acquisition FDI into the US during the 1990s. Their findings suggested that corporate governance affects both merger and acquisition and non-merger and acquisition FDI.

Utilizing institutional quality as a moderator, Islam et al. (2020) investigated the relationship between FDI, taking into account the significance of FDI inflows for the sustained economic growth of a host nation. Their sample covered 79 nations from the Belt and Road Initiative group. The empirical results from traditional regression and the GMM approach demonstrated that FDI is considerably attracted to BRI host countries with strong financial growth. The authors emphasised that the found relationship was strongly moderated by institutional quality. They emphasised that in comparison to financial institutions, financial markets are less alluring to FDI. The conclusions from Islam et al.'s (2020) study corroborated those of Aibai, Huang, Luo and Peng (2019).

Research gaps filled by the study

From the empirical literature review, it is important to reiterate that most research has examined the direct link between either financial development and FDI or corporate governance and FDI. Thus, analysing how corporate governance at the national level affects the relationship between financial development and FDI is needed to ascertain how the two variables

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(corporate governance and financial development) interact to influence FDI. Despite the odd dependence SSA economies have on FDI, no empirical analysis on the supportive role of governance in the link between financial development and FDI has been presented in the empirical literature. The research, particularly for SSA economies, does not analyse the individual impact of the six country-level governance indicators on FDI as well as their complementary roles on the effects of financial development on FDI.

Intuitions from the empirical review revealed that for SSA to fully benefit from foreign direct investment, economies in the sub-region must be vibrant in both the financial market and corporate governance. This study extended the literature by investigating the effects of corporate governance factors on FDI inflows in SSA. Specifically, it assessed the respective impacts of corporate governance dimensions (rule of law, voice and accountability, control of corruption, governance effectiveness, political stability and absence of violence/terrorism, and regulatory quality) on FDI as well as the effect of the respective interactions between the six governance dimensions and financial development on FDI among SSA economies.

Conceptual Framework

From the study objectives and the empirical literature reviewed, the study conceptualised the hypothesised relationships in Figure 1. The effect of financial development on FDI, those of corporate governance measures on FDI, and the complementary role of governance are depicted by the framework. The conceptual framework explains that broad money, domestic credit to the private sector, and domestic credit to the private sector by banks come together to form financial development in SSA economies. The

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relationship between either proxy of financial development and FDI, which is represented as the net inflows of direct investments from overseas investors, measured the relationship between financial development and FDI. This represented the study's first research hypothesis (H_1).

Also, the six indicators of country-level governance (i.e., rule of law, voice and accountability, control of corruption, governance effectiveness, political stability and absence of violence/terrorism, and regulatory quality) are individual measures or proxies of corporate governance. These governance indicators are paired with FDI to measure the relationship between country-level governance and FDI in SSA. This represented the second research hypothesis (H_2) tested in this research. The third hypothesis (H_3) was represented by the relationship between the interaction variable (between financial development and each of the six governance indicators) and FDI. Based on the empirical literature, in each relationship tested, the factors or variables controlled for were economic growth, trade openness, industrialisation, and ICT infrastructure.

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┌─────────────────────────────┐                    ┌────────────────────────────┐
│  **Financial Development**  │ ─ ─ H₁ ──────→     │ **Foreign direct investment** │
│  • Broad money              │                    │      (net inflows)         │
│  • Domestic  credit   to    │                    └────────────────────────────┘
│    private sector           │     H₃  H₂
│  • Domestic  credit   to    │
│    private sector by banks  │
└─────────────────────────────┘

┌─────────────────────────────┐
│  **Corporate Governance**   │
│  • Rule of law              │
│  • Voice and accountability │
│  • Control of corruption    │
│  • Governance               │
│    effectiveness            │
│  • Political stability and  │
│    absence of               │
│    violence/terrorism       │
└─────────────────────────────┘

          ┌─────────────────────────────┐
          │  **Control Variables**      │
          │                             │
          │  • GDP growth per capita    │
          │  • Trade openness           │
          │  • Industrialisation        │
          │  • ICT infrastructure       │
          └─────────────────────────────┘
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Figure 1: Conceptual Framework

Source: Author's Construct (2024)

Based on the conceptual framework, the relationship among the variables of financial development (broad money, domestic credit to the private sector, domestic credit to the private sector by banks), country-level corporate governance (rule of law, voice and accountability, control of corruption, governance effectiveness, political stability and absence of

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violence or terrorism, regulatory quality), and FDI (net inflows) is complex and multifaceted. The framework reveals that the quality of governance influences financial development, especially broad money and domestic credit to the private sector, as improved governance indicators like the rule of law and voice and accountability can boost financial stability and stimulate investment. Additionally, countries with strong governance and financial systems often attract FDI inflows, offering a secure and conducive environment for investment. Conversely, poor governance and financial instability can deter FDI and hinder economic growth. This interplay underscores the importance of robust governance and sound financial policies in fostering economic development and attracting foreign investment.

Chapter Summary

From the above, the Dunning's Eclectic Theory and the Finance-Growth Nexus Theory were reviewed to support the study. These theories provided the theoretical underpinning of the study variables, thereby informing the development of this conceptual framework. Specifically, they provided a justification for the examination of the role of corporate governance relationship in financial development and FDI nexus in SSA. Also, empirical studies were reviewed on the relationship between financial development and FDI as well as corporate governance and FDI.

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CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter presents the research procedures and techniques that were employed in the study. The research design, research approach, specification of the model(s), definition and measurement of model(s) variables, sources of the datasets, estimation techniques, and tools for data analysis.

Research Design

This study employed both explanatory research design. Explanatory research was used since the study looks at how one or more variables predict the other. An explanatory research design was deployed in this study because the purpose of the study was to examine the role of corporate governance in the relationship between financial development and FDI. Additionally, the research objectives necessitated the test of hypotheses, which read "there is no significant relationship between financial development and FDI," "there is no significant relationship between corporate governance and FDI," and "there is no significant interacting effect of corporate governance on the relationship between financial development and FDI." Hence, the application of the explanatory research design was appropriate.

Research Approach

There are two main methods in research; quantitative and qualitative. In some cases, mixed methods are added. Quantitative methods lend themselves to objective and numeric analysis as well as generalisation of research findings (Crowther & Lancaster, 2008). Hence, the quantitative method was appropriate for this study since it developed empirical models and

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conducted an objective analysis of each research objective. The implementation of the quantitative approach provided results that were precise, definitive and standardised (Sukamolson, 2005).

Model Specification

There are two widely used models, namely, time series and panel. These models are developed based on the properties of the data collected (time series and cross-sectional). This study considered SSA countries over a period and, hence, a panel model was developed. According to Adam and Owusu (2017), panel data combine the features of cross-sectional data and time-series data. In other words, when a set of data used for a study considers more than one cross-section over a period of time, then a panel estimator is deemed appropriate for that study. This study reflects multiple units (SSA countries) and time series data from 2010 to 2019. As a result, a panel model was employed.

Following Desbordes and Wei (2017), the basic dynamic panel model relating to FDI and other explanatory variables is stated as:

$$FDI = f(FD, Gov, GDPGPC, Inflation, TO, MVA, MobSub, \varepsilon), \qquad (1)$$

where FDI is foreign direct investment, FD is financial development, Gov is corporate governance, GDPGCG is gross domestic product growth per capita, TO is trade openness, MVA is manufacturing value-added, and MobSub is mobile subscription.

According to Baltagi et al. (2009), past levels of FDI have a relationship with their current levels and presuppose that lagged values of the dependent variable must be included in the explanatory variables to avoid miss

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specification. Therefore, the dynamic GMM panel model deduced from Equation (1) is modelled as:

$$FDI_{it} = \alpha_{it} + \delta FDI_{it-1} + B_1\,FD_{it} + B_2 CG_{it} \times FMD_{it} + B_3 Gov_{it} + \qquad (2)$$

$$B_4\,GDPCG_{it} + B_5 INFL_{it} + B_6 TO_{it} + u_i + \varepsilon_{it}$$

where i refers to the country; t refers to the time period from (2010 to 2019); FDI is the dependent variable, FDI_{it-1} is the first lag of FDI; u unobserved country-specific effect and ε is the error term assumed to be serially uncorrelated.

The general form of the system GMM estimation used in specifying Equations (3) and (4) is given as:

$$lnFDI_{it} = \gamma_0 + \gamma_1 lnFDI_{it-\tau} + \sum_{h=1}^{n} \gamma_h\,W_{h,it-\tau} + \theta_i + \mu_i + \varepsilon_{it} \qquad (3)$$

$$lnFDI_{it} - lnFDI_{it-\tau}$$

$$= \gamma_1(lnFDI_{it-\tau} - lnFDI_{it-2\tau}) + \sum_{h=1}^{n} \gamma_h\,(W_{h,it-\tau} \qquad (4)$$

$$- W_{h,it-2\tau}) + (\mu_t - \mu_{t-\tau}) + \varepsilon_{it-\tau}$$

where $lnFDI_{it}$ represents the natural logarithm form of FDI for country i at time t; γ_0 is a constant; W represents a vector of control variables (inflation, trade openness (TO), and ICT infrastructure (mobile cellular subscriptions per 100 people)); τ signifies the coefficient of autoregression (which is equal to 1 for the specification); μ_t signifies the time-specific constant; θ_i represents the country-specific effect; and ε_{it} is the disturbance term.

The strict exogeneity of the time-invariant variables is supported by the results from Sargan overidentification and the Hansen J tests (Agyei et al., 2021; Agyei & Idan, 2022; Adeoye, Nwokolo, & Igboanugo 2020; Boateng,

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Asongu, Akamavi, & Tchamyou, 2018; Hasan, Wahid, Amin, & Hossain, 2021).

Justification and Measurement of Variables

For the objectives of this study, the following measurements were used for the variables examined. These variables were considered based on literature and theories.

Dependent variable

Foreign direct investment [FDI (%GDP)]

It is explained as the net inflows of investment to acquire a lasting management interest ($\geq$10% of voting stock) in an enterprise operating in an economy other than that of the investor. Hence, FDI represents the flow of capital into a country. Following Adam and Tweneboah (2009) FDI will be measured as the log of FDI.

Independent variables

Financial development (FD)

Domestic credit to the private sector is denoted as financial resources given to the private sector by financial organisations. This includes credit, purchases of bond, credit buying and others, which requires repayment (World Bank, 2016). Otchere et al. (2016) and Desbordes and Wei (2017) advance that financial development influences FDI positively. That is, for a company to decide to locate its business in another country, that country must have a good financial condition in their banking industry. Thus, this study expected positive relations between all dimensions of FD and FDI.

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Interacting variable

Country-level corporate governance indicator

The study employed Kaufmann's six dimensions of country-level governance which comprise rule of law, voice and accountability, control of corruption, governance effectiveness, political stability and absence of violence/terrorism, and regulatory quality. Corporate governance was introduced as an interacting variable because from theoretical and empirical points, corporate governance would strengthen the relationship between financial development and FDI. This is because, corporate governance has a positive relationship with FDI (Basson, 2015; Esew & Yaroson, 2014). Thus, the presence of good corporate governance improves the inflow of FDI.

Control variables

Gross domestic product growth per capita (GDPGPC)

Gross Domestic Product (GDP) is explained as the value of all market and some nonmarket goods and services produced within a given country. The annual percentage growth rate of GDP per capita is based on constant local currency (World Bank, 2019). It is used to measure a country's economic output. Demirhan and Masca (2008), conducted a study on the determinants of FDI flows to developing countries through a cross-sectional analysis and found a significant positive relationship between GDP per capita and FDI. When Mottaleb and Kalirajan (2010) examined the determinants of FDI in developing countries, they found that countries with higher GDP growth rates attract more FDI.

Inflation

Studies define inflation as a continuous rise in the general price level (Cantah, Wiafe, & Adams, 2013). It is measured by the consumer price index which reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly (World Bank, 2017). Many studies have highlighted a negative relationship between inflation and FDI (Wani, Haq & Rehman, 2017; Demirhan & Masca, 2008). Therefore, this study expected a negative relationship between inflation and FDI.

Trade Openness (TO)

According to the empirical results of Elheddad (2016), trade openness is one of the main factors that encourage FDI. Trade openness is proxied by trade as a percentage of GDP, which is explained by the World Bank (2017) as the sum of exports and imports of goods and services. This study expected a positive relationship between trade openness and FDI.

Sources of Data

This study was considered secondary because of the variables of interest: FDI, financial development, corporate governance and the control variables. These variables are labelled secondary because they are already in existence. All the variables used in the models were based on the review of existing literature on the topic, economic theory, and whether they fit well in the models in statistical terms. The study used annual series data from 2010 to 2019. The choice of this period was informed by the availability of data and the prevailing economic circumstances in the sub-region. Data for the study were obtained from World Bank's WDI (2020).

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A summary of the study variables, sources, and expected outcomes is detailed in Table 1.

Table 1: Variable Definition, Sources, and Expected Directions

Variable	Full name, definition, and measurement	Data source	Expected sign
FDI_{it}	Foreign direct investment, net inflows (BoP, current US\$) for country i at time t.	WDI (2020)	
FD_{it}	Composite financial development, measured as the aggregate of broad money, domestic credit to the private sector, and domestic credit to the private sector by banks.	WDI (2020)	+
BM_{it}	The first sub-proxy of financial development, measured as the share of broad money to GDP for country i at time t.	WDI (2020)	+
DCP_{it}	The second sub-proxy of financial development – is measured as the domestic credit to the private sector (% of GDP) for country i at period t.	WDI (2020)	+
DCB_{it}	The third sub-proxy of financial development is measured as the domestic credit to the private sector by banks (% of GDP) for country i at period t.	WDI (2020)	+
Gov_{it}	Composite corporate governance measure comprising the sum of Kaufmann's six indicators of corporate governance.	WDI (2020)	+
ROL_{it}	Rule of law – the first dimension of Kaufmann's six indicators of corporate governance for country i at period t.	WDI (2020)	+
VAC_{it}	Voice and accountability – the second dimension of Kaufmann's six indicators of corporate governance for country i at period t.	WDI (2020)	+
COC_{it}	Control of corruption – the third dimension of Kaufmann's six indicators of corporate governance for country i at period t.	WDI (2020)	+
$GovEff_{it}$	Governance effectiveness – the fourth dimension of Kaufmann's six indicators of corporate governance for country i at period t.	WDI (2020)	+
$PSAV_{it}$	Political stability and absence of violence/terrorism – the fifth dimension of Kaufmann's six indicators of corporate governance for country i at period t.	WDI (2020)	+
$RegQty_{it}$	Regulatory quality – the sixth dimension of Kaufmann's six indicators of corporate governance for country i at period t.	WDI (2020)	+
$GDPGPC_{it}$	Proxy of economic development, measured as the GPD growth per capita for country i at time t.	WDI (2020)	+
$Inflation_{it}$	Inflation rate – measured as the consumer price index (annual %) for country i at period t.	WDI (2020)	–
TO_{it}	Trade openness, measured as the sum of imports and exports as a % of GDP for country i at period t.	WDI (2020)	+
MVA_{it}	Proxy for industrialisation, measured as the natural logarithm transformation of manufacturing, value added (current US\$) for country i at time t.	WDI (2020)	+
$MobSub_{it}$	ICT infrastructure, measured as the mobile cellular subscriptions per 100 people for country i at period t.	WDI (2020)	+/-

Source: Field Survey (2022)

Estimation Technique (Systems Dynamic General Method of Moments (SD-GMM))

This study assessed the interacting influence of corporate governance on the relationship between financial development and FDI with data spanning from 2010 to 2019. The estimation technique employed was the systems dynamic general method of moments (SD-GMM). The SD-GMM estimator was popularised by Arellano and Bond (1991) and Blundell and Bond (1998) and was the most efficient to be employed in this study for two main reasons. First, SD-GMM exercises direct control over endogeneity problems caused by the independent variables. Second, the basic condition for its usage was met. Thus, the time steps were less than the number of cross-sectional units (Roodman, 2006). The period considered in this study is 10 which is less than the 49 countries that have been included.

To ensure whether the estimation is consistent, the study applied the Arellano and Bond test of second-order serial correlation with the disturbance term (Arellano & Bond, 1991). This estimation was made possible by adopting the lags of the independent variables as instrumental variables. The SD-GMM approach has gained recent applications in the literature (see, e.g., Agyei et al., 2021; Agyei & Idan, 2022; Boateng et al., 2018; Hasan et al., 2021; Islam et al., 2020) due to the merits it possesses.

Data Processing and Analysis

All estimations were done using Stata (Version 15). From Stata, several diagnostics can be checked before validating the estimated results. The SD-GMM-based estimators do not impose a lot of assumptions on the error term. Two popular tests are proposed after the SD-GMM estimation (Blundell

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& Bond, 1998). The first is the Arellano and Bond test of autocorrelation (AR-test) (Roodman, 2009). The AR-test reports the test statistics for the first and second difference autocorrelation in default mode but the lag levels can be adjusted. It has a null hypothesis of no autocorrelation in the first difference error which requires that the study fails to reject the null hypothesis. That is, the bigger the probability value of the AR-test, the lesser the problem of autocorrelation in the model. Rectification of the autocorrelation problem is the two-step estimation. In a two-step estimation, the standard covariance matrix is robust to individual specific autocorrelation and heteroskedasticity, but the standard errors are downward biased (Baltagi, 2008). Windmeijer's (2005) procedure can be used to get the finite-sample corrected two-step covariance matrix.

The second test is the Sargan/Hansen test of valid over-identifying restrictions. It has a null hypothesis of correct over-identifying restrictions, which requires that this study fail to reject the null just as in the case of the AR-test. For one-step, non-robust estimation reports the Sargan test, which is the minimised value of the one-step GMM criterion function. The Sargan test is not robust to heteroskedasticity or autocorrelation. Hence, for one-step, robust estimation and all two-step estimation also report the Hansen test, which is the minimised value of the two-step GMM criterion function and is robust to heteroskedasticity or autocorrelation.

Chapter Summary

This chapter presented the research methods involved in undertaking this study. This study was purely quantitative in its approach. It also employed the explanatory research design because the independent variables predicted

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the dependent variable. Again, the study comprises thirty (49) SSA countries based on data availability. In addition, the basis for the empirical models developed in the study was outlined in this chapter. Furthermore, notes on the estimation technique, the SD-GMM, which was employed to achieve the objectives of the study were provided. The tool used to run the analysis was Version 15 of Stata. The main results are covered in the next chapter.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The main results from data processing and estimations are presented in this chapter. The statistical properties of the sampled data are presented followed by the empirical results on (a) the effects of financial development and corporate governance on FDI and (b) the moderating effect of corporate governance on the relationship between financial development and FDI.

Descriptive Statistics

The sample period falls between 2010 and 2019, which was due to the availability of data from the database of the World Development Indicators (WDI). The list of countries involved in the sample included SSA countries with available data and are reported on by the WDI. As of 2020, the list of SSA countries on which the WDI report data contained 48 countries namely Angola, Burundi, Benin, Burkina Faso, Botswana, Central African Republic, Chad, Côte d'Ivoire, Cameroon, Congo, Democratic Republic, Congo, Republic, Comoros, Cabo Verde, Eritrea, Eswatini, Ethiopia, Gabon, Ghana, Guinea, Gambia, Guinea-Bissau, Equatorial Guinea, Kenya, Liberia, Lesotho, Madagascar, Mali, Mozambique, Mauritania, Mauritius, Malawi, Namibia, Niger, Nigeria, Rwanda, Sudan, Senegal, Sierra Leone, Somalia, South Sudan, São Tomé and Principe, Seychelles, Togo, Tanzania, Uganda, South Africa, Zambia, and Zimbabwe.

Table 2 presents the statistical properties of the data, detailing the number of observations, average (mean) values, the lowest (minimum) and

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highest (maximum) observations, and the standard deviation of the mean values over the sample period 2010 to 2019.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FDI	449	8.02e+08	1.57e+09	-7.40e+09	1.00e+10
FD	458	76.83996	57.37942	12.0213	318.908
BM	455	34.88231	23.70984	9.02046	176.789
DCP	445	22.23963	22.35154	.497601	128.85
DCB	458	20.57776	17.02659	.497602	106.26
Gov	470	-.6547714	.6090757	-2.124164	.8538801
ROL	469	-.6860507	.6109486	-1.97004	.9749181
VAC	469	-.5684775	.751849	-2.226054	.9791626
COC	470	-.6434101	.6470474	-1.815811	1.027206
GovEff	469	-.7877342	.6397829	-2.475142	1.056674
PSAV	469	-.5509889	.853533	-2.699193	1.111055
RegQty	469	-.6902518	.6008415	-2.275069	1.12727
GDPGPC	438	1.737594	4.238665	-36.5568	18.066
Inflation	459	8.395314	24.40442	-4.29487	380
TO	434	.0629443	.0546393	.000489	.371427
MVA	431	3.86e+09	9.39e+09	1.70e+07	5.90e+10
MobSub	467	74.87085	37.60328	5.84384	198.152

Notes: FDI is foreign direct investment; FD is financial development; BM is broad money; DCP is domestic credit to the private sector, DCB is domestic credit to the private sector by banks; Gov is corporate governance; ROL is rule of law; VAC is voice and accountability; COC is control of corruption; GovEff is governance effectiveness; PSAV is political stability and absence of violence/terrorism; RegQty is regulatory quality; GDPGPC is GDP growth per capita; TO is trade openness; MVA is manufacturing value-added; MobSub is mobile subscription.
Source: Field Survey (2024)

From Table 2, the mean FDI net inflow of US$802 million was recorded over the sample period with a high standard deviation (US$1.57 trillion). Concerning the various proxies of financial development, the ratio of broad money to GDP averaged 34.88. The proportion of GDP representing

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domestic credit to the private sector averaged 22.24 whiles that of domestic credit to the private sector by banks averaged 20.58 with moderate standard deviations. These individual indicators resulted in a mean of 76.84 as the composite financial development proxy. All corporate governance indicators measured negative means over the sample period (2010-2019).

GDP growth per capita (GDPGPC) recorded an average of 1.74% which could standardly deviate around 4.24%. Some economies recorded negative growth in GDP per capita, suggesting that despite the highest positive growth rate of 18.07%, economic growth among SSA countries was hardly sustained for some countries over the period 2010-2019. Inflation rates among the sampled African countries averaged 8.4% with minimum and maximum values approximating -4.3% and 380%, respectively. The openness of trade (TO) measured around an average of 0.06, confirming that African countries are less open to international markets (Aderomou & Sall, 2019).

Among the sampled African countries, the average value-added from the manufacturing sector (MAV) from 2010 to 2019 was recorded at around US$3.86 billion. The huge disparity between the industrialisation levels of African economies is depicted by the high deviation from the average in terms of MAV. ICT infrastructure, proxied with mobile cellular subscriptions (MobSub) (per 100 people), averaged approximately 75 over the sample period 2010-2019. This evidence a satisfactory and promising level of ICT infrastructure among African countries. Khan, Peng and Li (2019) contend that infrastructure is a significant predictor of economic and financial development among countries.

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Pairwise Correlations

As part of the statistical properties of the dataset, the correlation statistics are presented in Table 3. This was needed to examine the extent and significance of the unconditional correlations between the explanatory variables. Besides, the degree of multicollinearity among the studied variables, if any, could be assessed through correlation statistics.

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Table 3: Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1) FDI	1.000																
(2) FD	0.071	1.000															
(3) BM	-0.034	0.879*	1.000														
(4) DCP	0.177*	0.930*	0.664*	1.000													
(5) DCB	0.040	0.938*	0.724*	0.921*	1.000												
(6) Gov	0.039	0.633*	0.481*	0.615*	0.694*	1.000											
(7) ROL	0.059	0.619*	0.465*	0.599*	0.683*	0.963*	1.000										
(8) VAC	0.107*	0.560*	0.388*	0.570*	0.624*	0.864*	0.787*	1.000									
(9) COC	0.005	0.583*	0.501*	0.527*	0.606*	0.912*	0.888*	0.731*	1.000								
(10) GovEff	0.102*	0.661*	0.493*	0.657*	0.718*	0.933*	0.933*	0.727*	0.854*	1.000							
(11) PSAV	-0.119*	0.463*	0.413*	0.407*	0.492*	0.812*	0.715*	0.612*	0.692*	0.664*	1.000						
(12) RegQty	0.093	0.553*	0.326*	0.593*	0.658*	0.899*	0.893*	0.776*	0.764*	0.893*	0.578*	1.000					
(13) GDPGPC	0.084	0.049	0.084	0.009	0.055	0.158*	0.166*	0.153*	0.204*	0.188*	0.026	0.142*	1.000				
(14) Inflation	0.019	-0.102*	-0.028	-0.121*	-0.147*	-0.241*	-0.205*	-0.192*	-0.190*	-0.244*	-0.222*	-0.250*	-0.134*	1.000			
(15) TO	0.010	-0.217*	-0.133*	-0.256*	-0.251*	-0.265*	-0.319*	-0.162*	-0.239*	-0.327*	-0.160*	-0.261*	0.036	-0.045	1.000		
(16) MVA	0.505*	0.288*	0.106*	0.475*	0.208*	0.052	0.061	0.161*	-0.020	0.148*	-0.162*	0.162*	-0.061	0.037	-0.299*	1.000	
(17) MobSub	0.129*	0.437*	0.279*	0.468*	0.480*	0.634*	0.611*	0.543*	0.564*	0.640*	0.492*	0.589*	0.013	-0.149*	-0.345*	0.203*	1.000

Notes: * signifies $p < 0.05$. FDI is foreign direct investment; FD is financial development; BM is broad money; DCP is domestic credit to the private sector, DCB is domestic credit to the private sector by banks; Gov is corporate governance; ROL is rule of law; VAC is voice and accountability; COC is control of corruption; GovEff is governance effectiveness; PSAV is political stability and absence of violence/terrorism; RegQty is regulatory quality; GDPGPC is GDP growth per capita; TO is trade openness; MVA is manufacturing value-added; MobSub is mobile subscription.

Source: Field Survey (2024)

The pairwise correlations between the explanatory variables are in low to moderate magnitudes with high statistical significance. This largely suggests that the estimation models could be specified without any issue of multicollinearity. With a rule of thumb of 0.7 (Agyei et al., 2021), the issue of multicollinearity could be dismissed in this case. Thus, the inclusion of these regressors in the various specified models is appropriate.

Main Results of the Study Objectives

The main results under the system SD-GMM paradigm were presented in this section in two parts. First, the respective effects of financial development and corporate governance on FDI were examined followed by an analysis of how corporate governance complements the relationship between financial development and FDI (FDI). In terms of diagnostics, it is important to note that from the AR (1) and AR (2) tests, the study fails to reject the null hypothesis ($p < 0.05$) in each case, suggesting that autocorrelation and overidentification restrictions were not a problem for any of the specified models.

Furthermore, the hypotheses on the Hansen and Sargan tests were rejected at the 1% level of significance in most of the models and 5% for a few models. Instrument proliferation was not a problem since, for all models, the number of instruments employed was outweighed by the number of cross-sections (countries). All models were fit at a 1% level of significance as evidenced by the Fisher statistics whilst the diagnostics on the GMM instruments and their strict exogeneity were met in all models.

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Effect of financial development on foreign direct investment

Table 4 presents the regression results for the relationship between financial development and FDI among SSA economies. The results are presented for the aggregate measure of financial development (i.e., FD in model 1) as well as the various proxies (broad money (BM) (model 2), domestic credit to private sector (DCP) (model 3), and domestic credit to private sector by banks (DCB) (model 4)). Essentially, the lag-dependent variable L.lnFDI was found a significant predictor ($\beta < 1.00$; $p < 0.01$) of FDI in all models. Intuitively, the a priori hypothesis about the significance of the previous year's levels of FDI in predicting their current levels was maintained by the study.

From model 1, the broad proxy of financial development has a positive significant effect on FDI ($\beta = 0.796$; $p < 0.05$). In respect of the individual proxy of financial development, BM ($\beta = 0.0558$; $p < 0.01$), DCP ($\beta = 0.0338$; $p < 0.05$), and DCB ($\beta = 0.0839$; $p < 0.01$) all had a significant positive effect on FDI. These regression results indicated that financial development, regardless of the proxy (being broad money (BM), domestic credit to private sector (DCP), and domestic credit to private sector by banks (DCB)), positively predict the level of FDI among SSA economies.

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Table 4: Financial Development and FDI in SSA

Variables	(1) lnFDI	(2) lnFDI	(3) lnFDI	(4) lnFDI
L.lnFDI	0.366***	0.353***	0.475***	0.388***
	(0.0457)	(0.0569)	(0.0631)	(0.0617)
lnFD	0.796**			
	(0.371)			
BM		0.0558***		
		(0.0144)		
DCP			0.0338**	
			(0.0145)	
DCB				0.0839***
				(0.0215)
GDPGPC	0.0426***	0.0529***	0.0391***	0.0289***
	(0.0100)	(0.0167)	(0.00967)	(0.00965)
Inflation	-0.000640	0.000857	-0.000195	-0.00331
	(0.00112)	(0.00108)	(0.00411)	(0.00380)
TO	1.698	9.791**	11.85***	13.95***
	(2.829)	(4.483)	(3.432)	(3.758)
lnMVA	1.026***	1.556***	0.980***	1.312***
	(0.128)	(0.256)	(0.188)	(0.194)
MobSub	-0.0218***	-0.0301***	-0.0109***	-0.0171***
	(0.00378)	(0.00475)	(0.00334)	(0.00369)
Constant	-10.65***	-20.15***	-10.84**	-16.75***
	(3.385)	(5.966)	(4.122)	(4.127)
AR(1) [p-value]	0.005	0.012	0.013	0.014
AR(2) [p-value]	0.006	0.019	0.012	0.012
Sargan	0.068	0.118	0.838	0.970
Hansen	0.481	0.572	0.340	0.473
DHT for Instruments (a)GMM Instruments				
H excluding group	0.165	0.803	0.217	0.298
Diff(null, H=exogenous)	0.766	0.351	0.480	0.573
(b) IV(years, eq(diff))				
H excluding group	0.439	0.562	0.375	0.632
Diff(null, H=exogenous)	0.571	0.360	0.197	0.071
Fisher	13221.28***	14260.43***	7789.80***	7781.14***
Instruments	30	26	26	26
Observations	310	308	305	310
Number of Countries	39	39	39	39

Notes: L.lnFDI is the lag-dependent variable of foreign direct investment; FD is financial development; BM is broad money; DCP is domestic credit to the private sector, DCB is domestic credit to the private sector by banks; GDPGPC is GDP growth per capita; TO is trade openness; MVA is manufacturing value-added; MobSub is mobile subscription.
Source: Field Survey (2024)

Effect of corporate governance on foreign direct investment

Tables 5 and 6 present the regression results for the basic relationship between corporate governance and FDI among SSA economies. The results are presented for each of Kaufmann's six dimensions of country-level corporate governance (i.e., rule of law (model 5), voice and accountability (model 6), control of corruption (model 7), governance effectiveness (model 8), political stability and absence of violence/terrorism (model 9), and regulatory quality (model 10)) as separate proxies of corporate governance at the country level. For clarity, these results are separated into Tables 5 and 6 to contain models 5-7 and models 8-10, respectively. It is worth noting that the lag-dependent variable L.lnFDI was found a significant predictor ($\beta < 1.00$; $p < 0.01$) of FDI in all models. Intuitively, the a priori hypothesis about the significance of the previous year's levels of FDI in predicting their current levels was maintained by the study in models 5-10.

From model 5-7 in Table 5, ROL ($\beta = 1.917$; $p < 0.01$), VAC ($\beta = 1.556$; $p < 0.01$), and COC ($\beta = 1.916$; $p < 0.01$) all had a significant positive effect on FDI. Similarly, from models 8-10 in Table 6, GovEff ($\beta = 1.695$; $p < 0.01$), PSAV ($\beta = 0.595$; $p < 0.05$), and RegQty ($\beta = 1.560$; $p < 0.01$) also had significant positive effects on FDI. These regression results indicated that country-level corporate governance, regardless of the proxy (being rule of law (ROL), voice and accountability (VAC), control of corruption (COC), governance effectiveness (GovEff), political stability and absence of violence/terrorism (PSAV), and regulatory quality (RegQty)), positively predict the level of FDI among SSA economies.

Table 5: Country-Level Corporate Governance and FDI in SSA

Variables	(5) lnFDI	(6) lnFDI	(7) lnFDI
L.lnFDI	0.327***	0.373***	0.323***
	(0.0596)	(0.0505)	(0.0501)
ROL	1.917***		
	(0.305)		
VAC		1.556***	
		(0.274)	
COC			1.916***
			(0.320)
GDPGPC	0.0234*	0.0224*	0.0317**
	(0.0119)	(0.0118)	(0.0120)
Inflation	0.00206	0.000901	0.00127
	(0.00142)	(0.00179)	(0.00131)
TO	15.86***	12.79***	15.41***
	(3.545)	(4.401)	(2.640)
lnMVA	1.573***	1.575***	1.402***
	(0.278)	(0.401)	(0.236)
MobSub	-0.0238***	-0.0272***	-0.0186***
	(0.00264)	(0.00355)	(0.00251)
Constant	-17.94***	-18.86**	-14.49***
	(6.075)	(8.322)	(5.309)
AR(1) [p-value]	0.007	0.005	0.008
AR(2) [p-value]	0.010	0.007	0.014
Sargan	0.133	0.769	0.453
Hansen	0.297	0.627	0.443
DHT for Instruments			
(a)GMM Instruments for levels			
H excluding group	0.835	0.911	0.599
Diff(null, H=exogenous)	0.108	0.317	0.322
(b) IV(years, eq(diff))			
H excluding group	0.281	0.708	0.618
Diff(null, H=exogenous)	0.387	0.134	0.051
Fisher	51417.97***	25339.52***	38253.81***
Instruments	30	30	30
Observations	311	311	311
Number of countries	39	39	39

Notes: L.lnFDI is the lag-dependent variable of foreign direct investment; ROL is rule of law; VAC is voice and accountability; COC is control of corruption; GDPGPC is GDP growth per capita; TO is trade openness; MVA is manufacturing value-added; MobSub is mobile subscription.
Source: Field Survey (2024)

Table 6: Country-Level Corporate Governance and FDI in SSA

Variables	(8) lnFDI	(9) lnFDI	(10) lnFDI
L.lnFDI	0.345***	0.395***	0.223***
	(0.0523)	(0.0419)	(0.0614)
GovEff	1.695***		
	(0.348)		
PSAV		0.595**	
		(0.238)	
RegQty			1.560***
			(0.313)
GDPGPC	0.0289**	0.0311***	0.0155
	(0.0118)	(0.00991)	(0.0141)
Inflation	-0.000386	-0.00214	0.00139
	(0.00101)	(0.00147)	(0.00166)
TO	8.014**	8.800**	13.06***
	(3.713)	(3.365)	(3.382)
lnMVA	1.304***	1.463***	1.463***
	(0.276)	(0.262)	(0.288)
MobSub	-0.0187***	-0.0161***	-0.0172***
	(0.00256)	(0.00263)	(0.00228)
Constant	-12.32*	-17.92***	-13.87**
	(6.152)	(5.608)	(6.169)
AR(1) [p-value]	0.007	0.006	0.011
AR(2) [p-value]	0.006	0.009	0.013
Sargan	0.030	0.004	0.151
Hansen	0.587	0.355	0.767
DHT for Instruments			
(a)GMM Instruments for levels			
H excluding group	0.818	0.554	0.822
Diff(null, H=exogenous)	0.343	0.255	0.561
(b) IV(years, eq(diff))			
H excluding group	0. 651	0.312	0.782
Diff(null, H=exogenous)	0.160	0.618	0.283
Fisher	75777.69***	9221.24***	39169.59***
Instruments	30	30	30
Observations	311	311	311
Number of countries	39	39	39

Notes: L.lnFDI is the lag-dependent variable of foreign direct investment; GovEff is governance effectiveness; PSAV is political stability and absence of violence or terrorism; RegQty is regulatory quality; GDPGPC is GDP growth per capita; TO is trade openness; MVA is manufacturing value-added; MobSub is mobile subscription.
Source: Field Survey (2024)

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To substantiate the significant positive effects of financial development and corporate governance on financial development, the study maintained the two main independent variables in the same model. Since Kaufmann proposes six dimensions of governance, these are maintained in separate models in addition to the broad proxy of financial development. The results are reported in Tables 7 and 8. From Table 7, model 11 represents the effects of financial development and rule of law on FDI; model 12 represents the effects of financial development and voice and accountability on FDI, and model 13 represents the effects of financial development and control of corruption on FDI. From Table 8, model 14 represents the effects of financial development and governance effectiveness on FDI; model 15 represents the effects of financial development and political stability and absence of violence/terrorism on FDI, and model 16 represents the effects of financial development and regulatory quality on FDI.

It is important to note that whiles the relationship between financial development and FDI was positive but lacked statistical significance in models 11-13 and 16, the results on the relationship between corporate governance and FDI confirmed the initial ones when the independent variables were held in separate models. From model 11-13 in Table 7, ROL ($\beta = 0.929$; $p < 0.01$), VAC ($\beta = 0.716$; $p < 0.05$), and COC ($\beta = 1.379$; $p < 0.01$) all had a significant positive effect on FDI. Similarly, from models 14 and 16 in Table 8, GovEff ($\beta = 0.997$; $p < 0.01$) and RegQty ($\beta = 0.818$; $p < 0.01$) also had significant positive effects on FDI. The positive effect of PSAV ($\beta = 0.172$; $p > 0.1$) on FDI was the only model that lacked statistical significance. That notwithstanding, these results largely indicated that both financial

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development and country-level corporate governance positively predict the

level of FDI among SSA economies.

Table 7: Effects of Financial Development and Corporate Governance on FDI

Variables	(11) lnFDI	(12) lnFDI	(13) lnFDI
L.lnFDI	0.302***	0.287***	0.267***
	(0.0427)	(0.0470)	(0.0376)
lnFD	0.509	0.265	0.163
	(0.365)	(0.517)	(0.343)
ROL	0.929***		
	(0.237)		
VAC		0.716**	
		(0.313)	
COC			1.379***
			(0.242)
GDPGPC	0.0276***	0.0182*	0.0241**
	(0.00969)	(0.00900)	(0.0101)
Inflation	-0.000665	-0.00111	0.000126
	(0.00103)	(0.00122)	(0.00137)
TO	3.936	5.994**	4.243*
	(2.846)	(2.888)	(2.300)
lnMVA	1.344***	1.125***	1.153***
	(0.149)	(0.184)	(0.206)
MobSub	-0.0249***	-0.0207***	-0.0226***
	(0.00269)	(0.00370)	(0.00249)
Constant	-14.13***	-8.983*	-7.995*
	(3.070)	(5.276)	(4.254)
AR(1) [p-value]	0.004	0.007	0.003
AR(2) [p-value]	0.006	0.006	0.007
Sargan	0.023	0.065	0.047
Hansen	0.388	0.260	0.522
DHT for Instruments			
(a)GMM Instruments for levels			
H excluding group	0.319	0.284	0.154
Diff(null, H=exogenous)	0.455	0.306	0.824
(b) IV(years, eq(diff))			
H excluding group	0.355	0.221	0.469
Diff(null, H=exogenous)	0.522	0.657	0.766
Fisher	33781.58***	94327.85***	39466.35***
Instruments	34	30	34
Observations	304	304	304
Number of countries	38	38	38

Notes: L.lnFDI is the lag-dependent variable of foreign direct investment; ROL is rule of law; VAC is voice and accountability; COC is control of corruption; GDPGPC is GDP growth per capita; TO is trade openness; MVA is manufacturing value-added; MobSub is mobile subscription.
Source: Field Survey (2024)

Table 8: Effects of Financial Development and Corporate Governance on FDI

Variables	(14) lnFDI	(15) lnFDI	(16) lnFDI
L.lnFDI	0.359***	0.427***	0.279***
	(0.0443)	(0.0473)	(0.0549)
lnFD	0.599**	0.675**	0.364
	(0.281)	(0.251)	(0.320)
GovEff	0.997***		
	(0.341)		
PSAV		0.172	
		(0.254)	
RegQty			0.818***
			(0.230)
GDPGPC	0.0372***	0.0501***	0.0247**
	(0.00967)	(0.00995)	(0.0109)
Inflation	0.00122	-0.000355	-0.000601
	(0.000913)	(0.000881)	(0.00111)
TO	5.118**	5.595**	6.317**
	(2.358)	(2.298)	(2.633)
lnMVA	0.997***	1.157***	1.295***
	(0.133)	(0.205)	(0.205)
MobSub	-0.0233***	-0.0212***	-0.0200***
	(0.00257)	(0.00297)	(0.00230)
Constant	-8.574**	-14.47***	-12.64**
	(3.282)	(4.001)	(4.832)
AR(1) [p-value]	0.008	0.008	0.009
AR(2) [p-value]	0.008	0.012	0.008
Sargan	0.011	0.018	0.078
Hansen	0.480	0.353	0.496
DHT for Instruments			
(a)GMM Instruments for levels			
H excluding group	0.251	0.412	0.287
Diff(null, H=exogenous)	0.650	0.338	0.630
(b) IV(years, eq(diff))			
H excluding group	0.423	0.307	0.483
Diff(null, H=exogenous)	0.935	0.754	0.375
Fisher	73814.26***	20154.65***	69304.90***
Instruments	34	34	34
Observations	304	304	304
Number of countries	38	38	38

Notes: L.lnFDI is the lag-dependent variable of foreign direct investment; GovEff is governance effectiveness; PSAV is political stability and absence of violence/ terrorism; RegQty is regulatory quality; GDPGPC is GDP growth per capita; TO is trade openness; MVA is manufacturing value-added; MobSub is mobile subscription. Source: Field Survey (2024)

Control variables and FDI

Before the results on the complementary effect of country-level governance on the relationship between financial development and FDI among SSA economies were presented, the results effect of the control variables (i.e., economic development (GDPGPC), inflation, trade openness (TO), industrialisation (MAV), and ICT infrastructure (MobSub)) on FDI were highlighted.

Through models 1-16, the results generally indicated a significant positive effect of economic growth, proxied by GDPGPC on FDI. A mixed, but largely negative relationship between inflation and FDI was revealed. Trade openness (TO) and industrialisation (MVA) were found to significantly positively impact FDI among SSA economies. Meanwhile, ICT infrastructure had a significant negative effect on FDI.

Financial development, country-level corporate governance, and FDI

The regression results on the complementary role of country-level corporate governance on the relationship between financial development and FDI are reported in this section. The basic analysis of the effects of financial development and corporate governance on FDI suggested a significant positive influence of both financial development and corporate governance on FDI. The findings from such a preliminary analysis facilitate the assessment of the interactive role of corporate governance in the relationship between financial development and FDI among SSA economies.

The results are reported in Tables 9 and 10. From Table 9, model 17 represents the interactive effect of rule of law and financial development on FDI; model 18 represents the interactive effect of voice and accountability and

financial development on FDI, and model 19 represents the interactive effect of control of corruption and financial development on FDI. From Table 10, model 20 represents the interactive effect of governance effectiveness and financial development on FDI; model 21 represents the interactive effect of political stability and absence of violence/terrorism and financial development on FDI, and model 22 represents the interactive effect of regulatory quality and financial development on FDI.

It is worth noting that all the necessary diagnostic tests were duly passed, suggesting that all the models were rightly specified. The interaction variable in each model was defined as the product between the various pairs of continuous variables for the six governance indicators (i.e., rule of law, voice and accountability, control of corruption, governance effectiveness, political stability and absence of violence/terrorism, and regulatory quality) and the broad proxy of financial development, which comprised broad money, domestic credit to the private sector, and domestic credit to the private sector by banks. These are what is contained in models 17-19 (i.e., $lnFD \times ROL$, $lnFD \times VAC$, and $lnFD \times COC$) in Table 9 and models 20-22 (i.e., $lnFD \times GovEff$, $lnFD \times PSAV$, and $lnFD \times RegQty$) in Table 10.

It is worth noting that given the prior relationships revealed in models 1-16, the focus is now shifted to the various interaction variables, which are presented in bold fonts in Tables 9 and 10. Notwithstanding, the diagnostics in terms of autocorrelation, Sargan, and Hansen J-tests, and the number of instruments against the number of observations and cross-sections cannot be compromised. This is to ensure that the various models are not constrained by

endogeneity and instrument proliferation (Agyei et al., 2021). All of these diagnostics were met, as shown in Tables 9 and 10.

The results indicate significant relationships between the interaction variables and FDI in SSA. From Table 9, the interaction between ROL and financial development yields a significant positive effect on FDI ($\beta = 0.904$; $p < 0.1$); the interaction between VAC and financial development yields a significant positive effect on FDI ($\beta = 1.106$; $p < 0.01$); the interaction between COC and financial development results in a positive but non-significant effect on FDI ($\beta = 0.955$; $p > 0.1$). Similarly, from Table 10, the interaction between GovEff and financial development results in a non-significant positive effect on FDI ($\beta = 1.038$; $p > 0.1$); the interaction between PSAV and financial development yields a significant positive effect on FDI ($\beta = 0.847$; $p < 0.05$); the interaction between RegQty and financial development yields a non-significant positive effect on FDI ($\beta = 1.135$; $p > 0.1$).

Although the significance levels of the interactive effects differ based on the proxy, the results largely indicated that the interaction between country-level corporate governance and financial development positively predicts the level of FDI among SSA economies. Generally, the findings suggested that of the six governance indicators, political stability and absence of violence/ terrorism, voice and accountability, and (partially) rule of law significantly positively interact with financial development to boost FDI in SSA.

Table 9: Financial Development, Corporate Governance, and FDI in SSA

Variables	(17) lnFDI	(18) lnFDI	(19) lnFDI
L.lnFDI	0.241***	0.205***	0.265***
	(0.0585)	(0.0545)	(0.0706)
lnFD	-0.0266	-0.481	-0.0202
	(0.533)	(0.436)	(0.468)
ROL	-2.905		
	(2.169)		
lnFD×ROL	**0.904***		
	(0.496)		
VAC		-3.867*	
		(2.065)	
lnFD×VAC		**1.106****	
		(0.470)	
COC			-3.051
			(2.874)
lnFD×COC			**0.955**
			(0.663)
GDPGPC	0.0227**	0.0144*	0.0325***
	(0.00892)	(0.00800)	(0.0105)
Inflation	-0.00364***	-0.00502***	-0.00279
	(0.00119)	(0.00153)	(0.00236)
TO	6.713***	8.746***	12.23***
	(2.373)	(2.534)	(3.777)
lnMVA	1.054***	0.836***	0.958***
	(0.113)	(0.125)	(0.179)
MobSub	-0.0137***	-0.0105***	-0.0101**
	(0.00324)	(0.00285)	(0.00423)
Constant	-6.031	0.494	-5.126
	(4.392)	(3.594)	(3.937)
AR(1) [p-value]	0.010	0.013	0.016
AR(2) [p-value]	0.005	0.008	0.014
Sargan	0.012	0.053	0.380
Hansen	0.501	0.741	0.241
DHT for Instruments			
(a)GMM Instruments for levels			
H excluding group	0.235	0.500	0.375
Diff(null, H=exogenous)	0.682	0.754	0.226
(b) IV(years, eq(diff))			
H excluding group	0.445	0.690	0.275
Diff(null, H=exogenous)	0.817	0.920	0.173
Fisher	67108.81***	214631***	11880.48***
Instruments	34	34	30
Observations	304	304	304
Number of countries	38	38	38

Notes: L.lnFDI is the lag-dependent variable of foreign direct investment; ROL is rule of law; VAC is voice and accountability; COC is control of corruption; GDPGPC is GDP growth per capita; TO is trade openness; MVA is manufacturing value-added; MobSub is mobile subscription. Interaction variables (between governance indicators and financial development) are in bold fonts.
Source: Field Survey (2024)

Table 10: Financial Development, Corporate Governance, and FDI in SSA

Variables	(20) lnFDI	(21) lnFDI	(22) lnFDI
L.lnFDI	0.360***	0.420***	0.312***
	(0.0660)	(0.0333)	(0.0627)
lnFD	-0.456	1.363***	1.255
	(0.700)	(0.373)	(0.966)
GovEff	-3.391		
	(3.872)		
lnFD×GovEff	**1.038**		
	(0.883)		
PSAV		-3.323***	
		(1.222)	
lnFD×PSAV		**0.847*****	
		(0.299)	
RegQty			-3.935
			(5.372)
lnFD×RegQty			**1.135**
			(1.238)
GDPGPC	0.0312**	0.0488***	0.0218
	(0.0123)	(0.00779)	(0.0144)
Inflation	-0.00493*	0.00174	-0.000798
	(0.00274)	(0.00126)	(0.00332)
TO	15.16***	4.222**	12.69***
	(3.665)	(1.754)	(4.622)
lnMVA	1.165***	0.910***	1.428***
	(0.262)	(0.199)	(0.290)
MobSub	-0.00930**	-0.0197***	-0.0222***
	(0.00402)	(0.00277)	(0.00326)
Constant	-9.774	-12.34***	-20.49***
	(6.129)	(3.978)	(7.328)
AR(1) [p-value]	0.005	0.009	0.011
AR(2) [p-value]	0.005	0.016	0.011
Sargan	0.411	0.018	0.112
Hansen	0.527	0.665	0.593
DHT for Instruments			
(a)GMM Instruments for levels			
H excluding group	0.599	0.363	0.768
Diff(null, H=exogenous)	0.425	0.759	0.406
(b) IV(years, eq(diff))			
H excluding group	0.593	0.626	0.620
Diff(null, H=exogenous)	0.162	0.596	0.242
Fisher	14388.26***	37465.55***	11820.90***
Instruments	30	34	30
Observations	304	304	304
Number of countries	38	38	38

Notes: L.lnFDI is the lag-dependent variable of foreign direct investment; GovEff is governance effectiveness; PSAV is political stability and absence of violence/ terrorism; RegQty is regulatory quality; GDPGPC is GDP growth per capita; TO is trade openness; MVA is manufacturing value-added; MobSub is mobile subscription. Interaction variables (between governance indicators and financial development) are in bold fonts.

Source: Field Survey (2024)

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Discussion

The study's findings are discussed in this section. The discussion of the findings is presented for each objective as follows.

Effect of financial development on foreign direct investment

Findings from the study divulged a positive relationship between financial development and FDI. This observation was consistent for both the broad proxy and sub-proxies of financial development. Indicatively, broad money was found to positively predict FDI inflows in SSA. Similarly, both improvements in domestic credit to the private sector and domestic credit to the private sector by banks significantly drive FDI flows in SSA. It is important to note that the observed relationships, in terms of significance and direction, are consistent with the a priori expectations held by the study. Hence, the null hypothesis that "there is no significant relationship between financial development and FDI in SSA" was rejected.

The intuition of the significant positive relationship between financial development and FDI is that through financial development, financial goods and services are provided and/or rendered to the citizens of a country in sufficient quantities, as theorised by Shaw (1973). A developed financial structure symbolises trust to international investors and thereby, increases the inflow of FDI to host countries (Islam et al., 2020; Liu et al., 2020). Among the benefits of a soundly-developed financial sector is the efficiency in allocating resources, the provision of the necessary information to users, and cost-efficient operations, as Ma, Liu, Ren and Jiang (2019) noted. Through such benefits, the flow of foreign funds for investments in a host country is amplified. Thus, a sure benefit that is accrued to host economies who develop

their financial system is the increased flow of FDI (Desbordes & Wei, 2017; Islam et al., 2020).

The finding that financial development positively correlates with FDI inflows aligns with existing literature. Desbordes and Wei (2017) demonstrate that robust financial systems attract more FDI by lowering transaction costs and improving capital allocation. Iamsiraroj (2016) confirms that financial market maturity facilitates foreign investment. Islam et al. (2020) highlight that financial development enhances investor confidence and reduces investment risks. Similarly, Ma, Liu, Ren, and Jiang (2019) emphasise that efficient financial markets support FDI by providing better financial services. Liu et al. (2020) and Mahmood et al. (2020) also affirm that developed financial systems significantly enhance a country's ability to attract FDI.

However, Tran and Huynh (2022) presented a contradictory finding, indicating that while FDI enhances financial development in Asia, Europe, and Latin America, it has a negative effect in Africa due to weak financial structures. Similarly, Henri, Luc, and Larissa (2019) found that FDI positively and significantly influences financial development in the long term, but its short-term effect is not significant.

Effect of corporate governance on foreign direct investment

The study's second phase of the empirical analysis focused on the effect of corporate governance mechanisms on FDI among SSA economies. Findings from the analysis divulged that all six governance indicators (i.e., rule of law, voice and accountability, control of corruption, governance effectiveness, political stability and absence of violence/terrorism, and regulatory quality) were significant positive predictors of FDI. This confirmed

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the a priori expectation of a positive nexus. Thus, improved governance structures in SSA could augment the level of FDI inflows. As a result, this study rejected the null hypothesis that "there is no significant relationship between corporate governance and FDI in SSA."

Drawing insights from the position of Trevino, Thomas and Cullen (2008) on the quality of institutions and governance in facilitating FDI, the intuition of the study's finding on the positive nexus between country-level governance and FDI is that the effective development of a host country's financial system is hinged on the upheld social norms, the operation of rule of law, accountability, management of corruption, effective governance, stable political environment, and quality regulatory mechanisms.

For instance, when a host economy strictly implements its contractual laws, enforces accountability, ensures a stable political environment, strictly manages corruption, and also enforces investor rights protection, the financial system of such an economy is expected to be as sound as possible (Islam et al., 2020). The reason is that economic activities in such a host country are reflective of the rules, norms, and other governance mechanisms. By so doing, the sub-regulations in the financial sector of the host economy takes into consideration the broader set of rules and procedures enshrined by the overall economy. From this direction, corporate governance facilitates the effective development of the financial sector of economies which, in turn, attracts higher inflows of FDI. The result lends empirical support to the works of Fernández González et al. (2019), Islam et al. (2020), and Li et al. (2019).

Fernández González et al. (2019) discovered that host countries with robust corporate governance frameworks tend to attract higher levels of

foreign direct investment (FDI). This is because such frameworks enhance investor confidence and mitigate the risks associated with inadequate governance. In a similar vein, Islam et al. (2020) established a favourable correlation between FDI inflows and efficient corporate governance systems, such as transparency and accountability procedures. Moreover, Li et al. (2019) show that nations with strong corporate governance systems are more capable of capitalising on the advantages of foreign direct investment (FDI), as these institutions guarantee the effective safeguarding of investor interests. These studies collectively present strong evidence that corporate governance is a crucial factor that affects the investment choices of multinational firms.

Financial development, country-level corporate governance, and FDI

Having established the positive and significant influence of both financial development and corporate governance on FDI, the third section of the empirical results touched on the moderating role of governance on the relationship between financial development and FDI in SSA. The found relationship was consistent with the expectation that corporate governance significantly interacts with financial development to influence FDI in SSA. Consequently, the null hypothesis that "there is no interactive role of corporate governance in the relationship between FD and FDI in SSA" was rejected.

The result could be justified as follows. Reliability and transparency of financial transactions as well as enforcement of contractual terms are tightly associated with a well-developed financial sector of economies. However, it must be noted that these are unachievable except when there are appropriate mechanisms for effective corporate governance (Islam et al., 2020). Effective corporate governance practices boost investor confidence by putting forth

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operable social norms, accountability, rule of law, stable political environment, quality regulatory mechanisms, curtailed corrupt practices, protection of investor rights, and minimal uncertainty in the business setting (Kaidi et al., 2019; Khan et al., 2019).

Thus, financial development indicators such as broad money, domestic credit to the private sector, and domestic credit to the private sector by banks influence corporate governance indicators (rule of law, voice and accountability, control of corruption, governance effectiveness, political stability and absence of violence/terrorism, regulatory quality) by improving access to capital and enhancing the efficiency of financial systems, ultimately promoting economic growth and FDI. Therefore, effective corporate governance reduces information asymmetry, transaction costs, and adverse selection problems, thereby improving the overall business environment and attracting FDI which is essential in mediating the relationship between financial development and FDI, creating a conducive environment for sustainable economic growth.

Furthermore, for the host economy, enhanced governance mechanisms result in an improved absorptive capacity (Islam et al., 2020; Jude & Levieuge, 2017; Sirag et al., 2018), which is a satisfactory prerequisite for attracting FDI inflows (Islam et al., 2020). Conversely, ineffective and poor governance structures in economies will shrink the inflow of FDI because they are accompanied by costly investment and high and uncertainty surrounding the business environment, all of which emanate from absence of investor rights protection, political instability, lack of accountability, etc. In the wake of these challenges, FDI inflows are highly volatile.

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Chapter Summary

The main results from data processing and estimations were presented in this chapter. The statistical properties of the sampled data were presented followed by the empirical results on (a) the effects of financial development and corporate governance on FDI and (b) the moderating effect of corporate governance on the relationship between financial development and FDI. The theoretical and empirical supports for the study's findings were provided in the discussion. The next chapter concludes the study.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

The chapter entails summarised discoveries, conclusions and recommendations derived in the course of this research. The findings encapsulate or highlight the key issues that were discovered during this research. The chapter also comprises some recommendations that could help SSA economies improve the levels of FDI they attract.

Summary

It cannot be denied that FDI, financial development and corporate governance contribute greatly to the development of every nation (Liang et al., 2021; Cheng et al., 2021). Yet, a chunk of empirical assessments tests the relationship between financial development and FDI in isolation; that is, without considering corporate governance. From the eclectic theory, Dunning (1980) explains that both financial wellbeing and corporate governance are a locational advantage that encourages the inflow of FDI.

Investors are sceptical of opaque corporate governance structures both at the firm and macro levels owing to the attendant risk to their investments in an environment of poor corporate governance (Khan et al., 2019). In effect, corporate governance plays a critical role in the attitudes of investors towards making investments overseas. The background issues on this phenomenon substantiate the need to introduce another determinant, whose contribution towards FDI may be complementary to the fundamental role of financial development.

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Against this setting, this study contributed to the literature by providing empirical evidence on the complementary role of corporate governance in the relationship between financial development and FDI in SSA, a sub-region that is usually underrepresented in terms of the empirical literature. From the year 2010 to 2019, the study sample comprised 49 SSA economies with available data on the desired variables. Estimations were performed under the system dynamic GMM approach using Version 15 of Stata after data processing. The findings from the study serve as pieces of evidence that are useful for the policymakers of SSA countries in formulating suitable financial policies as well as good corporate governance that will help boost FDI inflow to sustain their growth and development.

Findings

The data used in the study were processed and analysed under the systems GMM framework. The following key findings were reported based on the objectives stated for the study. In line with the first research objective, the study found that financial development positively predicts FDI inflows in SSA regardless of the proxy. Indicatively, broad money, domestic credit to the private sector, and domestic credit to the private sector by banks significantly drive FDI flows in SSA. Hence, the null hypothesis that "there is no significant relationship between financial development and FDI in SSA" was rejected.

From the second research objective, this study found that all six country-level governance indicators (i.e., rule of law, voice and accountability, control of corruption, governance effectiveness, political stability and absence of violence/terrorism, and regulatory quality) were significantly positive

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predictors of FDI. Therefore, this study rejected the null hypothesis that "there is no significant relationship between corporate governance and FDI in SSA."

Concerning the third research objective, this study found that corporate governance indicators (rule of law, voice and accountability, political stability and absence of violence/terrorism, and regulatory quality) significantly interact with financial development to influence FDI in SSA. Consequently, the null hypothesis that "there is no interactive role of corporate governance in the relationship between FD and FDI in SSA" was rejected.

Conclusions

The complementary role of country-level corporate governance on the relationship between financial development and FDI among SSA economies was investigated within a panel framework. Following the key findings of the study, the following conclusions were drawn.

First, this study concluded that developing the financial structure in SSA economies would deepen international investors' trust. Through this, SSA economies could realise an increased inflow of FDI because international investors prefer economies whose financial sector efficiently allocates resources, provides useful information, and undertake cost-efficient operations.

Second, the study concluded that the effective development of a host country's financial system is hinged on the upheld social norms, the operation of rule of law, accountability, management of corruption, effective governance, stable political environment, and quality regulatory mechanisms. From among the major governance indicators, this study divulged that the complementary roles of rule of law, political stability and absence of

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violence/terrorism, and regulatory quality are more powerful to significantly boost FDI among SSA economies. The study concluded that weak mechanisms of voice and accountability, control of corruption, and governance effectiveness partly explain why SSA economies may fail to grow their economies and benefit from FDI inflows.

Third, the study concluded that although reliability and transparency of financial transactions and enforcement of contractual terms are tightly associated with the financial sector of economies, appropriate mechanisms for effective country-level corporate governance (such as accountability, rule of law, stable political environment, quality regulatory mechanisms, curtailed corrupt practices, protection of investor rights, and minimal uncertainty in the business setting) are a major prerequisite to boosting the absorptive capacity of SSA economies.

Recommendations

The following recommendations were deemed relevant following the key findings that emerged based on the research objectives.

Given the finding that financial development positively predicts FDI inflows in SSA across various proxies, it is recommended that policymakers in SSA prioritise strengthening financial systems. Enhancing the broad money supply, increasing domestic credit to the private sector, and bolstering bank credit provision are all critical measures. These efforts will not only attract more FDI but also ensure sustainable economic growth. Therefore, targeted reforms aimed at improving financial infrastructure and deepening financial markets should be implemented to capitalise on the positive relationship between financial development and FDI inflows.

Based on the finding that all six country-level governance indicators (rule of law, voice and accountability, control of corruption, governance effectiveness, political stability and absence of violence and terrorism, and regulatory quality) significantly predict FDI, it is recommended that Sub-Saharan African countries prioritise enhancing these governance measures. Policymakers should implement and enforce robust governance frameworks to attract and retain FDI, which in turn can stimulate economic growth and development. Strengthening governance structures will not only improve the investment climate but also foster sustainable development in the region.

Lastly, based on the finding that corporate governance indicators significantly interact with financial development to influence FDI in Sub-Saharan Africa (SSA), it is recommended that policymakers in the region prioritise strengthening governance frameworks. This includes enhancing the rule of law, improving voice and accountability, ensuring political stability, and upgrading regulatory quality. Such measures will not only bolster financial development but also attract more FDI, driving sustainable economic growth. These efforts are essential to creating a conducive environment for investment, thereby addressing the critical interplay between corporate governance, financial development, and FDI in SSA.

Suggestions for Future Research

This study examined the interactive role of country-level corporate governance in the relationship between financial development and FDI covering SSA economies over the period 2010 to 2019. It would have been more appropriate to get a date that is up to at least 2021 but the World Development Indicators (WDI) database holds data up to 2019 with missing

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data points for some SSA countries. Therefore, it would be appropriate that as data becomes available, future works extend the sample to test the robustness of the existing conclusions.

Furthermore, future works could employ additional proxies of financial development and institutional quality to further confirm the findings and conclusions from this research. Other essential factors may be included to ascertain the extent to which the findings from this study may be corroborated.

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