UNIVERSITY OF CAPE COAST

INSTITUTIONAL STRUCTURES AND FOREIGN DIRECT INVESTMENT INFLOWS TO OIL PRODUCING COUNTRIES: EVIDENCE FROM AFRICA

PETER NELSON ARMAH

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INSTITUTIONAL STRUCTURES AND FOREIGN DIRECT INVESTMENT INFLOWS TO OIL PRODUCING COUNTRIES: EVIDENCE FROM AFRICA

BY

PETER NELSON ARMAH

Dissertation submitted to the Institute of Oil and Gas Studies of the Faculty of Social Sciences, College of Humanities and Legal Studies, University of Cape Coast, in partial fulfillment of the requirements for the award of Master of Business Administration degree in Oil and Gas Management

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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: Peter Nelson Armah

Supervisor's Declaration

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

Supervisor's Signature: …… Date: ……

Name: Dr. Otuo Serebour Agyemang

ABSTRACT

In recent times, there has been a decline of investment in oil producing countries worldwide (OPEC, 2017). Due to the fact that direct investment in oil production activities in most African countries is dominated by foreign entities, there are doubts as to the future of foreign direct investment in oil producing countries in Africa (Kurul & Yalta, 2017). Indeed a number of studies have examined the relationship between institutional structures and foreign direct investment but have not focused on the context of oil producing countries where direct investment in oil production activities is dominated by foreign firms. Thus by focusing on oil producing counties in Africa, this study examined the relationship between institutional structures and FDI. By employing the General method of moment estimation technique, the study found that institutional structures are relevant to attracting FDI to oil producing countries in Africa. This study recommends that oil producing economies should continue to institute economic policies that enhances or promote institutional quality.

KEY WORDS

Africa

Foreign Direct Investment

General Method of Moments

Institutional Structures

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DEDICATION

To My Wife and Children

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LIST OF ACRONYMS

COC	Control of Corruption
FDIGDP	Foreign direct investment inflows as a percentage of GDP
GCFGDP	Gross Capital Formation (% of GDP)
GE	Government Effectiveness,
INFL	Inflation
INST	Institutional Quality
PS	Political Stability
RL	Rule of Law
RQ	Regulatory Quality
TO	Trade Openness,
VA	Voice and Accountability

CHAPTER ONE

INTRODUCTION

Foreign Direct Investment (FDI) inflows in oil producing countries in general have seen a decreasing trend over the past years. A gamut of literature has sought to evaluate factors that can stimulate investments in oil producing countries as such countries heavily rely on investment in the oil and gas sector (Kurul & Yalta, 2017). Anecdotal evidence suggests that the oil and gas sectors in oil producing countries in Africa are heavily chocked with foreign entities. It is at this backdrop that the study investigates the role of institutional quality in improving FDI inflows in oil producing countries in Africa. When institutions such as rule of law exists, governments are effective, proper regulations are functioning and the political climate is stable in an economy, foreign investors are confident and that their investments will be protected against nationalization and that rules will be enforced. Predictably, the study documents a direct role of institutional quality in enhancing FDI inflows.

Background to the Study

Oil and oil products play a major part in key areas in the economy of oil-producing countries. Revenues from the oil sector constitutes a significant component in the budget of oil producing economies. As expected, oil price fluctuations have direct effect on government's oil incomes and general income (and, consequently, government's expenditure).

Another possible phenomenon that could occur in oil producing countries is the Dutch disease. It emerged in early 1960s after gas reserves excavation in Netherlands. The Dutch disease was simply explained as the increase in the economic development of the oil resources sector in

Netherlands at the expense of other sectors like the manufacturing sector or agriculture. In fact the Dutch disease in Netherlands simply implied problems that resulted from anti-industrialization and the inability of the local firms to balance activities and resources to all sectors of its economy (Yavari & Salmani, 2006). Intuitively, one of the ways to support local firms and for that matter minimize the Dutch disease is to attract foreign firms to invest in the host country. Thus it has been argued in literature that FDI inflows is one of the ways the Dutch disease could be minimized (Asiedu, 2006).

Therefore, the essence of foreign direct investment to oil producing countries cannot be underestimated. It contributes immensely to host economies' economic growth and it also forms greater proportion of host economies' share of world capital flows (Asiedu, 2006). According to Bannaga, Gangi, Abdrazak, and Al-Fakhry (2013), FDI contributes enormously to economic growth in the host country via the creation of employment, transfer of managerial and employee competences, expansion of host economies productive capacity and enhancement of healthy competition among firms in the host economy.

Owing to the various benefits derived from FDI inflows, there are a number of theoretical literatures that explains why there exist FDI gaps among sectors, economies and even regions. One of the well-grounded theories is the Eclectic Paradigm theory (the OLI Approach) developed by Dunning (1988, 2001). The theory argues that the Location advantages (L), which is the central theme of this study, refers to the advantages found in the location where the firm is seeking to engage in FDI. Based on the locational advantages, there are

plethora of empirical studies have examined the factors in host countries that attracts firms to engage in FDI.

Some of the factors include large market size, sound infrastructure, abundance of economically useful natural resources, trade openness, human capital, institutional structures, among many others (Asiedu ,2006 ; Kinda, 2010; Acheampong & Osei , 2014; Habib & Zurawicki, 2002; and Masuku & Dlamini, 2009). The last factor, institutional structures, has not been examined thoroughly in the context of oil producing countries. It is against this backdrop that this study seeks to examine the role of institutional structures in attracting FDI to oil producing countries in Africa.

Problem Statement

In recent times, there has been a decline of investment in oil producing countries worldwide. According to OPEC (2017), the world economy came under severe pressure in the years 2015 and 2016 following a contraction of $300 billion in investment which resulted in unemployment and cut of at least half in revenue of oil producing companies. World Bank (2018) document on FDI inflows also reveals that FDI had been decreasing in Africa, including oil producing countries for the past decade. Due to the fact that direct investment in oil production activities in most African countries are dominated by foreign entities, there are doubts as to the future of foreign direct investment in oil producing countries in Africa (Masuku & Dlamini, 2009).

Indeed a number of studies have examined the relationship between institutional quality and foreign direct investment but have not focused on the context of oil producing countries where direct investment in oil production activities is dominated by foreign firms. Thus three tendencies will motivate

this inquiry, namely: the decline of foreign investment in oil producing countries over the past decade; the increasing body of literature on the relationship between institutional structures and foreign direct investment, the literature gaps on the relationship between institutional quality and foreign direct investment in the context of oil producing countries in Africa. To the best of my knowledge, this is the first study that situates the FDI and institutional quality in the context of oil producing countries in Africa. Based on these three tendencies, this study will examine how institutional structures affect FDI inflows to oil producing countries in Africa.

Purpose of the Study

This study seeks to examine the relationship between institutional structures and FDI inflows to oil producing countries in Africa.

Research Objectives

Specifically, this study will:

1. Assess the relationship between voice and accountability and FDI in oil producing countries in Africa
2. Assess the relationship between regulatory quality and FDI in oil producing countries in Africa
3. Examine the relationship between government effectiveness and FDI in oil producing countries in Africa
4. Investigate the relationship between control of corruption and FDI in oil producing countries in Africa
5. Investigate the relationship between political stability and FDI in oil producing countries in Africa.

6. Examine the relationship between rule of law and FDI in oil producing countries in Africa

Research Hypotheses

H1: There is a positive relationship between voice and accountability and FDI in oil producing countries in Africa

H2: There is a positive relationship between regulatory quality and FDI in oil producing countries in Africa

H3: There is a positive relationship between government effectiveness and FDI in oil producing countries in Africa

H4: There is a positive relationship between control of corruption and FDI in oil producing countries in Africa.

H5: There is a positive relationship between political stability and FDI in oil producing countries in Africa.

H6: There is a positive relationship between rule of law and FDI in oil producing countries in Africa

Significance of the Study

This research examines how institutional structures help to attract foreign direct inflows to Oil producing countries in Africa economies and as result it has both social and empirical importance. The empirical significance of this study is that it will contribute to existing literature on the relationship between institutional structures and foreign direct investment in African economies because it focuses specifically on oil producing countries. With regards to social relevance, this study will encourage oil producing economies in Africa economies to enhance their institutional structures so as to bring in

more foreign direct investments which will in effect enhance economic development.

Definition of Terms

Foreign Direct Investment

Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities (OECD, 2012).

Institutional Structures

Institutional structures simply refer to the pillars that determine how a state or economy is governed. They consist of Rule of Law, Voice and Accountability, Regulatory Quality, Control of Corruption, Government effectiveness and Political Stability.

Organization of the study

This study is divided into five chapters. Chapter one talks about an introduction of the study with specifications on areas such as the background to the study, statement of the problem, the purpose of the study, objectives of the study, research hypothesis, significance of the study, delimitations,

definition of terms, organization of the study and chapter summary. Chapter two talks about literature review, provides theoretical reviews and empirical review of literature of the study.

Chapter three is about the research methods used. It includes the research design, sources of data, variables and measurement, data processing and analysis and chapter summary. Regression results, thorough discussion of the hypothesis stated and a chapter summary are highlighted in chapter four. Chapter five also presents the summary, conclusions and recommendations and suggestion for future research.

Chapter Summary

Foreign direct investment in oil producing countries over the years has not been encouraging .This chapter therefore examined at the need for oil producing countries in Africa to have foreign direct investment. The chapter also highlighted the importance of strong institutional structures in attracting FDI inflows. This is because the nature institutional structures play a significant role in attracting foreign direct investment for the growth of the economy. The chapter concluded by giving out the definitions of the key terms used in the study and an outline of how the rest of the study is organized.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter presents a review of relevant literature on the relationship between institutional structures and FDI in oil producing countries. The review covers both theoretical and empirical literature. The theoretical literature starts with discussion of the eclectic paradigm theory, overview of FDI, its importance to oil producing countries and the role of oil sector to oil producing countries. The chapter also presents a comprehensive review of empirical literature that supports the objectives of the study. The empirical literature reviews empirical studies that deal with the topic using different studies.

Theoretical Review

Eclectic Paradigm Theory

Dunning (1993; 2001) proposed the eclectic paradigm theory which is a three-tiered evaluation framework that companies can follow when attempting to determine if it is beneficial to pursue foreign direct investment. The theory is further explained as an economic model used to evaluate a company's strategy to expand its operations through foreign direct investment. This theory explained that when there are locational advantages, ownership advantages and international advantages within a country, foreign direct investments are attracted into the country.

Dunning (1993; 2001) argued that, locational advantages are necessary for the attraction of foreign direct investment because when there are locational advantages such as large market size, sound infrastructure,

abundance of economically useful natural resources, trade openness, human capital, institutional structures, among many others, the level of foreign direct investment will be high. This study therefore stands to argue that institutional structures play a major role in the attraction of foreign direct investment to oil producing countries in Africa. That is, cetaris paribus, when rule of law, voice and accountability, political stability, government effectiveness, regulatory quality and control of corruption among others are in place, the level at which foreign direct investment is attracted will be high.

Overview of Foreign direct investment

There are different comprehensive definitions and basic features attached to FDI as a concept. It can simply be defined as the official action of a firm in a country to acquire the ownership of assets in another country with the different business-oriented purposes like production, distribution, advertisement etc. According to the United nations 1999 World Investment Report (UNCTAD, 1999), FDI is simply defined as an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate)'. According to Montiel and Reinhart (2001), one important component of international capital flows is the Foreign Direct Investment (FDI), which refers to movement of financial and human capital from abroad for investment in another country.

According to World Bank (1996), FDI is defined as an investment made to acquire a long term ownership and controlling interest (at least one-tenth of the equity) in firm operating outside the investors' own country.

Foreign Direct Investment (FDI) has been defined as the investment of resources in business activities outside a firm's home country. Caves (1996) is on the opinion that attracting more FDI is based on the fact that FDI impact positively on the developmental challenges of host economies.

Mallampally and Sauvant (1999), define FDI as investments by multinational corporations in foreign countries with the aim of controlling assets and managing production activities in those countries. Ayanwale (2007) offers an expanded explanation of the operational meaning of FDI as ownership of at least 10% of the ordinary shares or voting stock in a foreign enterprise. Thus, ownership of 10% ordinary shares is the criterion for the existence of a direct investment relationship while ownership of less than 10% is recorded as portfolio investment. Annaek (2007) defines Foreign Direct Investment as the process whereby people in one country obtain ownership of assets for the purpose of gaining control over the production, distribution and other activities of a firm in a foreign country.

FDI has been classified to different types according to different authors. There are four types of FDI derived from ownership location and internalization (OLI) theory according to Dunning. These are market-seeking FDI, resource-seeking FDI, efficiency seeking FDI and strategic asset seeking FDI. The primary aim of the market-seeking FDI is to penetrate the local markets of host countries in respect to market size and per capita income, market growth, access to regional and global markets, consumer preferences and structure of domestic market. The resource-asset seeking FDI seeks and secures natural resources, for example, raw materials, lower unit labor cost of unskilled labor force and the pool of skilled labor, physical infrastructure

(ports, roads, power, and telecommunication), and the level of technology. The efficiency-seeking FDI is motivated by creating a source of competitiveness for firms and it goes where the costs of production are lower. And lastly, strategic asset seeking FDI aims at advancing firm's global or regional strategy on how to operate in the internalizational market.

Dunning (1998), postulates that for a country to attract FDI, it should take into considerations the following conditions: Firstly, the firms should possess ownership advantages, which enable them to compete efficiently in the local market. Secondly, the host countries should possess some locational advantages which encourage outside firms to serve local market directly rather than going for exports.

The Importance of FDI for Oil- Producing Countries

One major benefit of FDI inflows to oil producing countries is that it enhances economic growth**.** According to the neoclassical models of growth, which also called Solow-Swan model and the exogenous growth model, FDI contributes to country's economic growth via capital accumulation, it further suggests that the long-run economic growth depends on technology and employment tools (Solow, 1956; Swan, 1956). The new growth model has also explained the relationship between FDI and economic growth. That model, which is also called the endogenous growth model, suggests that FDI is more significant than domestic investment in terms of enhancing a country's economic growth (Romer, 1986, Lucas, 1988). Thus, FDI can affect the economic growth of the host economy positively in two ways, directly and indirectly. The direct impact of FDI on economic growth occurs through new capital flows which lead to an increase of capital accumulation in the host

country and through the transfer of new technologies. The indirect impacts take the form of improvements in human capital and managerial skills due to the entry of new technologies into the production process (De Mello, 1999).

Technology Diffusion is another importance of FDI inflows to oil producing countries. FDI is regarded as a channel for transferring ideas (Rivera-Batiz and Romer, 1991, Barrell and Pain, 1997), and it is widely documented that most new ideas in the form of modern technologies and inventions are produced in developed countries, by MNCs in particular, thanks to their high level of expenditure on Research and Development (R&D) (UNCTAD, 2005). One of the important reasons that encourage oil producing countries to attract FDI is the desire of acquiring technology that they are unable to develop on their own.

FDI inflows may also be beneficial to the development and restructuring of domestic firms in oil producing countries. The presence of FDI creates backward linkages with domestic firms through increasing the demand for intermediate goods. This process thereby might serve and promote industrial development in the host economy. For instance, in most oil producing countries, there are local content policies which make provision for domestic companies to participate in the oil and gas value chain. These advantages are likely to be greater if MNCs have succeeded in transferring technology to domestic firms as it will increase their productivity and efficiency (Lin and Saggi, 2007, Batra and Tan, 2002).

The labour market in the oil producing economies could derive benefits from the presence of FDI through three main channels which are: job creation, wages ratio and skills development. FDI creates job opportunities in

the host country in two ways: firstly, the establishing of new projects in the host economy by foreign firms requires local labour at different stages of the production cycle. Secondly, the linkages between MNCs and domestic firms in terms of the demand for intermediate goods will also help to create jobs in the domestic firms themselves to meet the growing demand for new products (UNCTAD, 1999). With respect to employee training, it is widely agreed that MNCs tend to spend extensively on training; a tendency which contributes to developing local employment skills among those who work in foreign firms, while it can also encourage domestic firms to train their employees in order to reach higher productivity levels (UNCTAD, 1999).

Empirical Review

Voice and accountability and FDI Inflows

Accountability is one of the mainstays of good governance and democracy that empowers the state and its institutions, the public sector and civil society work in the direction of focused objectives and results, accomplish their goals, create compelling strategies through strong monitoring and reporting mechanisms (Rondinelli, 2007). As indicated by Cheema (2007), accountability can be characterized as the premise of public services, and is regularly used to depict the process of governance where the citizens measure the political accountability. In addition, Albritton and Bureekul (2009) accept that through accountability, the local constituents have the capacity to make their representatives liable for their performance and actions and reward or discipline them when required. Similarly, the likelihood of establishing accountability is only when the public have access to information

about the performance of the government, and has the chance to raise their voice when fundamental.

According to Cheema (2007), the accountability can be divided into three general classes. They are, firstly, financial accountability where authorities taking care of resources have an obligation to report about the utilization of those resources. Secondly, political accountability where transparent mechanisms are set up to either sanction or reward the judiciary, legislative or executive power through a strong check and balance system, and thirdly, implementing administrative accountability where government officials are considered accountable. Kaufmann et al, (2008) defined the Voice and Accountability (VA) indicator as a perception which measures the extent to which people have the opportunity to participate in electing a government, have the freedom to association, freedom of expression and the freedom given for the media.

Several empirical studies have examined the effect of voice and accountability on FDI inflows. Dutta and Roy (2009), using a panel of 115 countries for a period of 20 years, investigated the impact of press freedom on FDI inflows. They established that higher inflows of FDI to an economy are significantly associated with media freedom. Morck et al. (2005), in their extensive review of the literature, indicated that FDI is correlated with voice and accountability. In particular, they argued that economies that are characterized by freedom of expression and freedom of association may create popular support for FDI inflows. Further, their results suggested that more freedom of association may generate domestic political support for FDI inflows.

Kummell (1998) and Diamond (1992) stated that the increased participation of society in government criticism will reduce government inefficiencies and will enhance FDI inflows. Voice and Accountability is expected to increase FDI flows by encouraging political reliability, participation in the political system, and promoting democratic institutions (Kurul \& Yalta, 2017). The results of Kurul and Yalta (2017) indicated that voice and accountability positively and significantly influences FDI inflows.

Regulatory Quality and FDI

The quality or the superiority of the regulation system of a country depends on the extent to which the regulations are made and the level to which people accept them (Lee & Tan, 2006). Therefore, it is an immense responsibility of the governments to ensure that quality regulations are in place and the economy is operated within those regulations and policies to boost economic development improve social welfare and attract foreign investments (Rodrik, 1999). Using panel data set containing information on FDI flows to host countries, Moe (1990) examined the impact of changes in the quality of government regulatory effectiveness and governance practices upon the direction of FDI inflows. The study showed that deterioration in the effectiveness and enforcement of investment regulations (such as price controls and excessive regulation in foreign trade and business development) has an adverse effect on FDI inflows.

According to Glass and Saggi (2002), there are three main reasons why regulatory qualities are essential increasing the inflow of FDI and attracting foreign investors. They are, firstly, efficient and able state institutions run within a strong regulatory framework will boost production to attract

investment. Secondly, bad governance and poor regulations will lead to inefficient institutions associated with corruption and mismanagement. Therefore, thirdly, the risk and uncertainty of FDI will negatively impact the economy and possibility of attaining foreign investments. According to Kostevc, et al. (2007), most essential determinants of FDI inflows are the quality of institutional framework based on private property rights, strong laws on investments and contracts.

Government Effectiveness and FDI

Governance is a multi-faceted concept encompassing all aspects of the exercise of authority through formal and informal institutions in the management of the resource endowment of a state (Hunter & Shah, 1998). Its effectiveness refers to whether the public administration does well what it is supposed to do, whether people in these entities work hard and well, whether the actions and procedures of the public organizations and its members help achieve the objectives, and in the end, whether it actually achieves its mission (Rainey & Steinbauer, 1999). Government effectiveness constitutes the capacity and ability of the state to implement effective policies (Lederman, et al., 2005). Hence, when government effectiveness exists, the state will be able to provide quality public services, exercise effective bureaucracy, make the civil service independent from political pressure and earn the public's trust on the credibility and commitment of the government in implementing sound policies (Oster, 2009).

More concretely, government effectiveness is oriented to more closely matching services with citizen preferences, and moving governments closer to the people they are intended to serve, thus ensuring greater accountability of

the public sector (Hunter & Shah, 1998). Several studies show that improved governance leads to better development outcomes such as, among other variables, economic growth, public investment and foreign direct investment (Gupta et al., 1998; Boswell & Richardson, 2003).

Government effectiveness plays a major role in contributing to the inflow of foreign investments by attracting foreign firms into the host country (Rodrik, 2008). According to Adhikary (2011), many empirical studies agree that governance effectiveness indicator is a determining factor of economic development through the inflow of FDI. Moreover, Montinola and Jackman (2002) stated that the ability to attract foreign investments does not depend on the nature of existing policies but also the nature of the government. Easterly (2006) stated that the empirical observations argue that countries with unhelpful policies, high inflation, major black market rewards, high budget deficits leads to economic growth deficiency and lower level of foreign investments. Similarly, the ability of the host country government to have a strong and favorable tax mechanism and suitable rental policies will attract FDI (Gerring, et al., 2005).

Blaydes and Kayser (2011) argues that effective and favorable governance infrastructure is one of the most important factors to attract the inflow of FDI and increase the outflow. Investment in governance infrastructure will not only attract foreign capital, but create favorable conditions for domestic and foreign Multinational Companies (MNCs) in small and developing nations (Murphy, et al., 1991). Hence, a 'positive' governance infrastructure will consist of impartial, effective and transparent legal system, stable public institutions, honest and credible government

policies which will favor free and open markets (Globerman & Shapiro, 2003).

Corruption and FDI

The all-embracing piece of literature related to FDI and corruption is by Quazi, Vemuri, and Soliman (2014). Quazi et al. (2014) posited that corruption acts as a grabbing hand to reduce FDI inflows. The authors explain that there are multiple ways that this occurs. Corruption creates inefficiencies and distortions, which raise transaction costs for investors. It also creates a risk of endangering brand goodwill in cases when a scandal occurs. Finally, corruption negatively affects other important determinants of FDI, like economic growth, productivity of public investment, quality of infrastructure, education, and healthcare services..

Wei (2000) directly examined the effect of corruption on FDI. The study found that corruption has a negative effect on inward FDI. Al-Sadig (2009) reexamined the effects of corruption on FDI inflows using an econometric method based on panel data. The study found that corruption level in the host country has an adverse effect on FDI inflows. When controlling for institutional quality, however, Al-Sadig finds that countries with sound institutions are able to attract around 29 percent more per capita FDI than ones with weaker ones. Another study that supports the grabbing hand hypothesis was by Habib and Zurawicki (2002). The study also examines the impact of corruption on FDI, but discussed extensively the theoretical background of FDI and corruption's impact on markets. The study concluded that foreign investors generally avoid corruption because it is considered wrong and can create operational inefficiencies. These three sources provide

credible evidence that corruption negatively impacts FDI inflows into countries. The "helping hand" hypothesis concludes the exact opposite.

However, there are some other studies that posits that corruption actual increases FDI inflows. Quazi et al. (2014) described this phenomenon as the helping hand hypothesis. First, corruption can allow investors to avoid bureaucratic red tape. Paying off key officials might also mean quicker entry into a country and less stringent regulatory policies on multinational companies. Corruption also helps to supplement low wages in developing countries, which allows multinational companies to keep their tax burdens low and contributes to growth. Finally, it can smooth the economic system in the presence of weak regulations to create a Pareto Optimal outcome. Houston (2007) finds that while there are restrictive effects of corruption, there tends to be expansionary economic effects in countries with weak institutions. The study concludes that trying to eliminate corruption in countries where it plays an expansionary role can be a costly battle and will be resisted. The study proposes improving fundamental governance structures as a more appropriate target. This piece of literature doesn't reject that corruption is costly, but instead proposes that corruption might be a benefit for weaker institutions.

Indeed, corruption is a predominant phenomenon in resource-rich developing countries. Kareem (2015) finds that FDI is negatively associated with inadequate infrastructure, corruption, inconsistent regulations, and security problems.

Political Stability and FDI

Political stability is the durability and integrity of a current government regime. This is determined based on the amount of violence and terrorism

expressed in the nation and by citizens associated with the state. A stable society is one that is satisfied with the ruling party and system of operations and is not interested in revolutionary or despotic ideas. A stable political scene is one where the ruling government is favored by the population and does not experience strong indicators of social unrest. While there are problems within any nation, and times of war or hardship are common, a stable political system is one that can withstand these occurrences without major societal upheaval and ongoing endurance of these circumstances. Much of the ability of a political system to sustain itself relies on how leaders respond to crises. People must be satisfied with how their rulers handle problems and the solutions they create or else the fallout from these events results in destruction of hierarchies and government agencies. Revolutions, terrorism and public violence are associated with failed political stability. Political stability requires that the public interacts freely and openly with legislators on a regular basis. Granting individuals a say in how a nation is run enhances the stability of the region.

Lucas (1990) argued that political instability could limit capital flows. Investments in many oil-rich countries are exposed to large political risks, so FDI inflows to these countries are limited. Democracies tend to be more predictable and make their preferences clear (Desbordes & Veradi, 2017), thus reducing investment uncertainty. Additionally, democracies may be accompanied by countries' openness to the world economy.

The lack of democracy boosts social tensions that increase the likelihood of bringing severe political and social crisis to a country (Guerin & Manzocchi, 2009). Similarly, Harms et. al., (2002) and Kucera et. al. (2017) point out a positive relationship between democracy and FDI. In contrast,

however studies such as Adam et. al. (2007) and Paniagua and Sapena (2014) found a negative effect of democracy on FDI. This is because some characteristics of democracies, such as changes of governments and policies, may be seen as drawbacks.

More precisely, in countries abundant in natural resources, autocracies may offer more advantages than disadvantages to those foreign firms interested in investing in the resource sector for rent-seeking motives. This is mainly due to the fact that point-source natural resources, and particularly oil, are controlled by local authorities. Aseidu and Lien (2011) suggested that MNEs in the extractive industry wish to avoid frequent changes of governments, since governments that have long-term stability favour closer ties. Moreover, Adam et. al., (2007) argued that when investment seeks to access natural resources, MNEs may prefer slight civil repression.

In recent times, there are many factors which the investors consider significant when they want to invest their money and resources in another country, and one of those factors significantly influencing the decision of the investors is the political stability of the environment in which they want to establish their business (Martinez-Zarzoso, 2003). Therefore, the political stability of a country significantly influences the inflow of FDI (Wang, 2009). Political uncertainty makes public official and investors to have a short term focus, and at the same time sacrifices the legality and work for personal benefits (Shahbaz & Rahman, 2010).

Rule of Law and FDI

Many scholars and policy makers cite the rule of law as a key factor in a number of different positive outcomes. In particular, policy makers point to

the important role the rule of law plays in facilitating FDI and economic development. In general, there is support for the idea that a strong rule of law relates positively to FDI. In the context of FDI, rule of law reduces uncertainty, allows for long-term planning, and therefore increases FDI. Governments that establish independent courts commit to protecting investment against both citizens and the government itself and this will attract FDI inflows (Staats & Biglaiser, 2011).

Rights protection is one of the main outcomes of the rule of law. Some empirical works have therefore established a strong positive connection between FDI and contract, property, physical integrity (Harms and Ursprung 2002; Blanton and Blanton 2007), workers' right (Kucera 2002; Neumeyer & de Soysa, 2006) and education rights (Noorbakhsh, Paloni, & Youssef, 2001; Blomstrom & Kokko, 2003). Investors value contract and property rights as a way to protect their investment from government expropriation and from business partners reneging on agreements (Li & Resnick 2003; Biglaiser & DeRouen, 2006; Jensen 2008). Protections of the other rights mean a country is more stable, a more educated work force, and that the host country government that expresses concern for their citizens' well-being. These are all conditions investors find attractive and thus attracts more FDI inflows.

Finally, some studies debate the importance of regime type (as a measure of rule of law) for FDI. While scholars initially believed authoritarian regimes were better able to attract FDI (e.g. O'Donnell 1978; Tuman & Emmert 2004), more recent work established that democracies are actually better at committing to investor-friendly policies and protecting property and

contract rights over the long term to attract FDI (Henisz 2000; Li & Resnick 2003, Jensen 2008).

Chapter Summary

The chapter began by providing a theoretical backing to the study. The eclectic paradigm theory provided the theoretical justification for the study. The study also reviewed concepts of FDI and Institutions and narrowed it to the context of Africa. The chapter further reviewed empirical literature based on the objectives of the study in order to substantiate the objectives of the study. Gaps in the review of literature revealed that FDI inflows has been extensively studied in Africa, however, gaps still exists as the nexus between FDI inflows and institutions has not been studied in the context of oil producing countries.

CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter presents a thorough and systematic process that the researcher employed to achieve the objectives of the study. These procedures were used to examine how institutional structures and FDI inflows affects oil producing countries in Africa. This chapter specifically presents the research paradigm, research design, research approach, definition, source and measurement of variables, data collection procedure and data source, methods of data processing and analysis and empirical model specification.

Research Philosophical Perspectives or Paradigm

Philosophical perspectives can be defined as the frameworks in which all academic researchers are involved. At the other hand, the research paradigm is characterized as a general organizing structure for theory and study that includes basic theories, key issues and quality research models and methods for finding answers (Neuman, 2006). In line with this view, ignoring the philosophical questions and paradigms of research will affect the quality of research (Amaratunga, Baldry, Sarshar, & Newton, 2002).

There are two main philosophical positions of social research, namely epistemology and ontology (Bryman, 2004). Ontology regards the researcher's opinions concerning the global community and what could be identified from it. Ontology comprises two extreme positions namely: realism and relativism.

The acknowledgement of knowledge in a discipline is Epistemology. Epistemology also comprises two extreme positions namely: positivism and interpretivism. Positivist research only views objective statements as valid and

scientific. Positivist model seeks objective results through a value-free approach and makes sure the researcher is separate from the respondent (Malhotra & Birks, 2007). In addition, the positivist paradigm is also associated with the quantitative approach to research in literature. Interpretivist research on the other hand, only considers the ideas and thoughts of the subject to be valid. Interpretivist paradigm follows an inductive approach, which seeks to generate research theory through a variety of research methods. Interpretivist research is also linked to a qualitative research approach in literature. The philosophy behind this study at the level of epistemology is the positivist paradigm.

Research Design

Research design can be exploratory, descriptive or explanatory (Saunders et al., 2012). The study employed the explanatory research design. Explanatory research design investigates the cause and effect of one or a set of variables (independent) on another variable (dependent) in a theoretical model that is developed (Saunders et al., 2012). Explanatory research design places importance on studying a situation to explain the relationships between variables. The study is grounded on explanatory research design since it sought to examine the cause and effect of institutional structures and foreign direct investment inflows to oil producing countries in Africa.

Research Approach

According to Creswell (2014), there exist three key approaches to research, namely, the quantitative approach, the qualitative approach and the mixed research approach. A qualitative research has to do with studies that concentrate on events that occur naturally and in natural settings. It makes

generalization from intuitive and perceptual phenomena which could not be appreciated numerically. The mixed method has to do with combination of both the qualitative and quantitative research methods. It provides a comprehensive appreciation of the research problem from both the quantitative and qualitative perspective (Creswell, 2013). The mixed method of research merges components of the qualitative and quantitative research approaches together before making conclusion about the behaviour of a phenomenon (Clark & Creswell, 2011).

The quantitative research approach seeks to determine the effect between the main study variables. Quantitative approach places focus on measurement and to provide explanations, data is analyzed in numeric form. Similarly, quantitative approach has techniques, measures and designs that come up with numerical and quantifiable data (Simon, Lee, Cottrell, &Verleysen, 2007). For these reasons, the study deploys quantitative variables to test the contribution of institutional structures and foreign direct investment inflows to oil producing countries in Africa.

Data Collection Procedures

The study examined the relationship between institutional structures and foreign direct investment inflows to oil producing countries in Africa. Based on that basis, annual secondary data on institutional structure indicators for 19 oil producing countries in Africa were obtained from the Worldwide Governance Indicators whilst FDI variables were obtained from World Development Indicators dataset, both by World Bank. The drive for the period selection is that the indicators that make up institutional quality currently spans from the year 1996 – 2016. However, this study obtains data from 2002

to 2016. With the exception of Ghana that started oil production in 2007, all the oil producing countries in Africa started oil production before 1996 so there was a data not inputted for Ghana for the periods before 2007.

Model Specification

A regression analysis was conducted to show the actual relationship between institutional structures and FDI. This involves both the focus on dependent (foreign direct investment), independent (institutional structures which entails control of corruption, political stability, rule of law, voice and accountability, regulatory quality and government effectiveness) and control variables. The model below specifies the relationship between institutional structures and FDI.

$$FDIGDP_{it} = \beta_1 FDIGDP_{it-1} + \beta_2 INST_{it} + \sum_{i=3}^{n} \beta_i Z_{it} + \mu_{it} \quad \ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where:

Where *i* and *t* represents cross-sections (countries) and time respectively.

FDIGDP is foreign direct investment (% GDP)

$FDIGDP_{t-1}$ is the lag of foreign direct investment (% GDP)

INST represents the institutional structures

lnZ also denotes the control variables

β denotes the coefficients

μ represents the error term

Several aspects determine the institutional quality of countries. These institutional structures will be proxied by the six institutional indicators put forth by Kaufmann, Kraay and Mastruzzi (2011) which includes control of corruption, political stability, voice and accountability, regulatory quality, rule

of law and government effectiveness. These institutional structures influence or affect foreign direct investment inflows to oil producing countries in Africa.

Data Processing and Analysis

The data were processed by Stata version 13.0 and the study engaged the dynamic panel Generalized Method of Moment estimators in the estimation of the model. This technique was developed by Holtz-Eeakin and Rosen (1990), and Arellano and Bond (1991) and later advanced by Arellano and Bover (1995) and Blundell and Bond (1998). The study employed the dynamic panel data estimator as a result of the need to deal with simultaneity bias and country-specific effect. By estimating the model using the dynamic panel data Generalized Method of Moment estimator, the model was transformed into first difference to do away with country-specific effect and the one-year lag of the independent variables have been employed as instruments to avoid simultaneity bias (Arellano & Bond, 1991). Nonetheless, it is asserted that this sort of modeling would perhaps result in invalid conclusion if the independent variables persist (Arellano & Bover, 1995). This case holds for institutional structures as they persist the moment they are instituted in society (Acemoglu & Robinson, 2008; Law & Azman-Saini, 2012). However, Arellano and Bover (1995) suggested a system Generalized Method of Moment estimator where the level and the difference equations are combined.

There are two alternates of system Generalized Method of Moment estimator; the one-step estimators and the two-step estimators. The study employed the two-step estimators coupled with corrected standard errors because, theoretically; it is more efficient than on-step estimator. The system

GMM is suitable for this study for two main reasons. First, the Generalized Method of Moment method takes control of endogeneity problems created by the independent variables.

Second, it is efficient if the study's time period is short (Roodman, 2006). The time period considered in this study is not long and quite significant numbers of oil producing countries in Africa have been included. To ensure whether our estimation is consistent, we applied the Arellano and Bond test of second order serial correlation with the disturbance term (Arellona & Bond, 1991). In addition, the potency of the instruments and whether the model is correctly specified would be based on the failure to reject the null of the Arellano and Bond test. Disturbance term, by structure, will perhaps be serially interrelated in the first order. Nevertheless, second level serial association is indicative of misspecification.

Measurement of Variables

The choice of measurement for all the variables was influenced by the fact that those measures have been widely used in literature. Foreign direct investment, the dependent variable was measure by FDI inflows as a percentage of GDP and this data will be sourced from world development indicators dataset. Institutional structures, the independent variable was measured by the simple average of the six worldwide governance indicators which are control of corruption, voice and accountability, rule of law, government effectiveness, regulatory quality and political stability. The World Bank gives a comprehensive explanation of these variables as listed underneath:

Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy.

Rule of law highlights perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Voice and accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and the freedom given to the media. Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Political stability measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism. Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state elites and private interests.

The description of the above mentioned variables is summarized in the table below.

Table 1: Description of Variables and Source of Data

Variable	Measurement	Data source
Foreign direct investment inflows	Foreign direct investment inflows as a percentage of GDP	World Development Indicators 2002 to 2017
Institutional Quality	Simple average of the estimates of the six Worldwide Governance Indicators	Worldwide governance Indicators, 2002 to 2017
Regulatory Quality (Estimate)	Estimates ranging from approximately -2.5 to 2.5.	Worldwide governance Indicators, 2002 to 2017
Control of Corruption (Estimate)	Estimates ranging from approximately -2.5 to 2.5.	Worldwide governance Indicators, 2002 to 2017
Voice and accountability (Estimate)	Estimates ranging from approximately -2.5 to 2.5.	Worldwide governance Indicators, 2002 to 2017

Table 1 continued

Political Stability (Estimate)	Estimates ranging from approximately -2.5 to 2.5.	Worldwide governance Indicators, 2002 to 2017
Rule of Law (Estimate)	Estimates ranging from approximately -2.5 to 2.5.	Worldwide governance Indicators, 2002 to 2017
Government effectiveness (Estimate)	Estimates ranging from approximately -2.5 to 2.5.	Worldwide governance Indicators, 2002 to 2017
Gross Capital Formation (% GDP)	Gross Capital Formation (% GDP)	World Development Indicators 2002 to 2017
Trade Openness	Trade (%GDP)	World Development Indicators 2002 to 2017
Inflation	% Change in CPI	World Development Indicators 2002 to 2017

Source: Field Survey, Armah (2018)

Chapter Summary

This chapter presented the research methods employed in conducting the study. The study is grounded on the positivist research paradigm and the quantitative research approach. The study adopted the explanatory research design as it seeks to examine the relationship between institutional structures and FDI inflows to oil producing countries in Africa. Added to the above, the study sampled 17 out of a total of 54 countries in Africa due to fact those selected are oil producing countries. Furthermore, the study developed a model. This model seeks to examine the relationship between institutional structures and FDI inflows to oil producing countries in Africa. Finally, the study employed the Generalized Method of Moment estimation techniques to estimate the model as it controls for endogeneity.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The results obtained from the empirical analysis are presented and discussed in this chapter. First of all, this chapter presents descriptive statistics to give an impression of institutional structures and FDI in oil producing African countries. The chapter then presents a correlation matrix and subsequently, the discussions on various model estimated in the study.

Descriptive Statistics

The descriptive statistics is presented on a sample of 17 out of a total of 54 countries in Africa due to fact those selected are oil producing countries and also have available data that spans over 15 years. The descriptive statistics presented in this section is the mean, which is the measure of average, the standard deviation which is the measure of degree of variability in the data, the minimum and the maximum values for each variable.

Table 2: Descriptive Statistics of the Variables employed in the study

	Mean	SD	MIN	MAX
FDIGDP	4.33	6.26	-6.1	50.0
INST	-0.83	0.54	-2.1	0.4
VA	-0.88	0.66	-2.0	0.7
RQ	-0.78	0.56	-2.3	0.8
GE	-0.82	0.60	-2.5	0.7
COC	-0.86	0.51	-1.8	0.6
PS	-0.83	0.84	-2.7	0.8
RL	-0.82	0.57	-1.9	0.3
TO	76.36	29.24	19.1	165.6
GCFGDP	24.73	10.09	1.6	61.5
INFL	120.28	53.28	12.88	140.89

Source: Field data, Armah (2019)

FDIGDP is a measure of Foreign direct investment inflows as a percentage of GDP, INST is a measure of institutional quality, VA represents Voice and Accountability, RQ represents Regulatory Quality, GE represents Government Effectiveness, COC represents Control of Corruption, PS represents Political Stability, RL represents Rule of Law, TO represents Trade openness, GCFGDP is represents Gross Capital Formation (% of GDP) and INFL represents Inflation.

From the descriptive statistics, foreign direct investment inflows had an average of 4.33 within the ranges of -6.1 and 50.0. This clearly shows that although most oil producing African economies attract foreign direct inflows over time; these economies have not been able to match up well with other regions in the world. With regards to institutional quality, the aggregate institutional quality variable had an average of -0.83 within the limits of -2.1 and 0.4. This proposes that institutional quality in Africa is weak because even the best oil producing economies in terms of institutional quality had an average of 0.4.

In order to have a detailed understanding of the specific state of the institutional quality in the sample African countries, the study also presented the descriptive statistics of each of the six institutional indicators. Voice and Accountability and Regulatory Quality had averages of -0.88 within the ranges of -2.0 and 0.7 as well as -0.78 within the limits -2.3 and 0.8 respectively. Government Effectiveness and Control of Corruption recorded averages of -0.82 within the limits -2.5 and 0.7 as well as -0.86 within the ranges of -1.8 and 0.6 respectively. Moreover, Political Stability and Rule of Law had averages of -0.83 within the limits -2.7 and 0.8 as well as -0.82 within the ranges of -1.9 and 0.3 respectively. Collectively, all these statistics on the various institutional quality scopes disclose that Voice and Accountability is the weakest dimension of all institutional quality followed by Control of Corruption, Political Stability, Rule of Law, and Government Effectiveness in most oil producing African economies whilst Regulatory Quality is the strongest.

Trade openness (imports and exports) had an average of 76.36 within the ranges of 19.1 and 165.6. This clearly shows that most oil producing African economies have engaged in greater trade openness over time and this is essentially because international financial organizations grant aids to developing economies based on the condition of greater trade openness. The investment rate as measured by Gross capital formation recorded an average of 24.73 within the limits 1.6 and 61.5. Finally, inflation recorded an average of 120.28, within the limits 12.88 and 140.89, and this reveals that there are still inflationary pressures in the sampled some oil producing economies in Africa.

Correlation Analysis

Table 3 : Correlation Matrix

	FDIGDP	INST	VA	RQ	GE	COC	PS	RL	TO	GCFGDP	INFL
FDIGDP	1										
INST	-0.02932	1									
VA	-0.04059	0.823562	1								
RQ	-0.04644	0.927052	0.77843	1							
GE	-0.05226	0.939848	0.734042	0.904409	1						
COC	-0.04923	0.925361	0.778141	0.883739	0.934362	1					
PS	0.052689	0.703155	0.357986	0.515718	0.53534	0.468817	1				
RL	-0.05223	0.951034	0.74713	0.872906	0.91243	0.906708	0.608127	1			
TO	0.415249	-0.01258	-0.15703	-0.108	-0.10736	-0.08008	0.342894	-0.10438	1		
GCFGDP	0.432062	0.032456	-0.06867	-0.01066	0.066455	0.032473	0.114602	0.00577	0.327492	1	
INFL	-0.55206	-0.12226	-0.07667	-0.12663	-0.77455	-0.53847	-0.4486	-0.12658	-0.56349	-0.55878	1

Source: Field data, Armah (2019)

FDIGDP is a measure of Foreign direct investment inflows as a percentage of GDP, INST is a measure of institutional quality, VA represents Voice and Accountability, RQ represents Regulatory Quality, GE represents Government Effectiveness, COC represents Control of Corruption, PS represents Political Stability, RL represents Rule of Law, TO represents Trade openness, GCFGDP is represents Gross Capital Formation (% of GDP) and INFL represents Inflation.

Table 3 presents the pairwise correlation matrix for the all the variables employed in the empirical analysis. Predictably, the overall or aggregate institutional structure index depicts a high pairwise correlation with each of the six institutional structures indicators and this is because the aggregated institutional quality variable is an average of the institutional structure indicators. It does not pose multicollinearity or autocorrelation problems because the aggregate institutional quality variable does not enter the same model with any of the six institutional structures indicators. Also, a close examination of the correlation matrix reveals that there are no issues of multicollinearity in the empirical specification because the other independent variables do not exhibit correlation coefficients more than 0.90 (Adam & Gyamfi, 2015).

Regression results on the relationship between institutional structures and foreign direct investment in oil producing economies in Africa

The table below shows the effect of each of the institutional indicators as well the composite institutional quality on the FDI of sampled oil producing countries in Africa. The column labeled Model 1 depicts the results on the effect of the overall or aggregate institutional structures index on foreign direct investment which is in line with purpose of the study. The table further presents the effect of each of the institutional structures indicators on foreign direct investment of sampled oil producing countries in Africa in sub-models 2 – 7.

Table 4: Relationship between institutional structures and foreign direct investment in oil producing economies in Africa

Dependent Variable: Foreign Direct Investment

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
L.FDIGDP	0.133***	0.184***	0.119***	0.123***	0.168***	0.148***	0.147***
	[0.019]	[0.013]	[0.014]	[0.014]	[0.008]	[0.010]	[0.010]
INST	9.772***						
	[0.488]						
VA		4.319***					
		[0.228]					
RQ			7.157***				
			[0.345]				
GE				7.295***			
				[1.052]			
COC					-7.455***		
					[0.356]		
PS						3.248***	
						[0.436]	
RL							6.930***
							[0.573]
Control Var.							
GCFGDP	0.332***	0.303***	0.322***	0.325***	0.300***	0.327***	0.290***
	[0.017]	[0.009]	[0.016]	[0.006]	[0.013]	[0.007]	[0.010]
TO	0.055***	0.009**	0.0360***	0.047***	0.043***	-0.008*	0.043***
	[0.003]	[0.004]	[0.003]	[0.008]	[0.003]	[0.004]	[0.004]
INFL	- 0.050***	-0.011**	-0.086***	-0.667***	-0.083***	-0.118***	-0.431***
	[0.004]	[0.003]	[0.002]	[0.016]	[0.039]	[0.0164]	[0.009]
Diagnostic							
AR(2):z	-1.344	-1.396	-1.444	-1.365	-3.421	-1.877	-1.228
P-Value	0.2143	0.1966	0.162	0.2096	0.1554	0.1020	0.2435
Sargan OIR	0.445	0.0083	0.362	0.264	0.603	0.126	0.3456
Hansen OIR	0.750	0.714	0.888	0.554	0.911	0.323	0.5687
Observ.	293	293	293	293	293	293	293

Source: Field survey, Armah (2018)

Note: FDIGDP is a measure of Foreign direct investment inflows as a percentage of GDP, INST is a measure of institutional quality, VA represents Voice and Accountability, RQ represents Regulatory Quality, GE represents Government Effectiveness, COC represents Control of Corruption, PS represents Political Stability, RL represents Rule of Law, TO represents Trade openness, GCFGDP is represents Gross Capital Formation (% of GDP) and INFL represents Inflation. Apart from the diagnostics section, all values in bracket are the standard errors of the coefficients values and values other than those in bracket represent the coefficient values; *** represents significant at 1%, **represents significant at 5%, * represents significant at 10%. The diagnostics section presents the values of the Z values of AR (2) and the probability of z values of AR (2).

Figures in parenthesis are standard errors

Model 1 in Table 4 presents the results on the relationship between institutional quality and foreign direct investment of oil producing African countries. The result from model 1 shows that at 1% significance level, institutional quality has a significant positive effect on foreign direct

investment of oil producing African economies. The coefficient of 9.772 shows that a unit increase in institutional quality will lead to a 9.772 unit increase in foreign direct investment of oil producing African economies. This shows that institutional quality in is expected to enhance FDI to oil producing countries because FDI since risk associated with the investment reduces when there is a strong institutional environment. Again, strong institutional quality will enhance FDI to oil producing countries because investors, and especially foreign investors, will seek a system that fully guarantees a stable environment and allows them to develop in a continuous manner their economic activity in a country. This results is in line with Wei (2000) who argues that low quality institutions are prone to represent extra costs for firms through corruption or high load of arbitrary bureaucracy. Therefore, high institutional quality institutions will help attract more foreign direct investments in economies since it saves these foreign investors some cost, set the tone for them to begin operations and urges or influence them to invest in countries that are particularly oil producing African economies.

Table 4 additionally presents the results from Models 2 – 7 in order to examine the specific effects of each of the institutional indicators on foreign direct investment of oil producing African economies.

Voice and Accountability and FDI inflows

The result from Model 2 in Table 1 shows that at 1% significance level, voice and accountability has a significant positive effect on foreign direct investment in oil producing countries in Africa. The coefficient of 4.319 shows that a unit increase in voice and accountability will lead to a 4.319 unit increase in foreign direct investment of oil producing African economies.

Accountability is one of the mainstays of good governance and democracy that powers the state and its institutions, the public sector and civil society work in the direction of focused objectives and results, accomplish their goals, create compelling strategies through strong monitoring and reporting mechanisms. Thus this results is consistent with Dutta and Roy (2009) who established that higher inflows of FDI to an economy are significantly associated with media freedom. Also, it is in line with Morck et al. (2005) who indicated that FDI is correlated with voice and accountability. In particular, they argued that economies that are characterized by freedom of expression and freedom of association may create popular support for FDI inflows. Again the results corroborate with Kummell (1998) and Diamond (1992) who stated that the increased participation of society in government criticism will reduce government inefficiencies and will enhance FDI inflows. In line with the results, Kurul and Yalta (2017) posited that, voice and accountability is expected to increase FDI flows by encouraging political reliability, participation in the political system, and promoting democratic.

Regulatory Quality and FDI inflows

Results from Model 3 in Table 4 indicated a positive significant effect of regulatory quality on foreign direct investment. This positive coefficient for regulatory quality signifies very good indication that it is important for foreign direct investment of oil producing countries in African. The result from the model shows that at 1% significant level, regulatory quality has a significant positive effect on foreign direct investment. The coefficient of 7.157 shows that a unit increase in regulatory quality of an economy will lead to a 7.157 unit increase in foreign direct investment of oil producing countries in Africa.

Therefore, this shows that it is an immense responsibility of the governments in Oil producing countries in Africa to ensure that quality regulations are in place and the economy is operated within those regulations and policies to boost economic development improve social welfare and attract foreign investments (Rodrik, 1999). The result is in line with Moe (1990) who argued on the changes in the quality of government regulatory effectiveness and governance practices affect the direction of FDI inflows. Their study showed that deterioration in the effectiveness and enforcement of investment regulations (such as price controls and excessive regulation in foreign trade and business development) has an adverse effect on FDI inflows.

This means strengthening of an economies regulatory quality has positive effect on FDI inflows. Again this is consistent with Glass and Saggi (2002) who gave emphasis to three main reasons why regulatory qualities are essential increasing the inflow of FDI and attracting foreign investors. They mentioned how efficient and able state institutions run within a strong regulatory framework will boost production to attract investment, how good governance and proper regulations will lead to inefficient institutions associated with corruption and mismanagement and finally how the risk and certainty of FDI will positively impact the economy and possibility of attaining foreign investments.

Government Effectiveness and FDI inflows

Government effectiveness also had a very significant positive effect on foreign direct investment in oil producing economies in Africa. The result from Model 4 in Table 4 shows that at 1% significant level, government effectiveness also has a significant positive effect on foreign direct investment.

The coefficient of 7.295 portrays that a unit increase in government effectiveness of a country can lead to a 7.295 unit increase in foreign direct investment on African oil producing countries. This means that Government effectiveness plays a major role in contributing to the inflow of foreign investments to oil producing countries in Africa. This result is consistent with Adhikary (2011), who argues that government effectiveness indicator is a determining factor of economic development through the inflow of FDI. Moreover, it is in linw with Montinola and Jackman (2002) who stated that the ability to attract foreign investments does not depend on the nature of existing policies but also the nature of the government. Similarly, the ability of the host country government to have a strong and favorable tax mechanism and suitable rental policies will attract FDI (Gerring, et al., 2005). Finally the results is in line with Blaydes and Kayser (2011) who argues that effective and favorable governance infrastructure is one of the most important factors to attract the inflow of FDI and increase the outflow. They added that investment in governance infrastructure will not only attract foreign capital, but create favorable conditions for domestic and foreign Multinational Companies (MNCs) in small and developing nations (Murphy et al., 1991).

Control of Corruption and FDI inflows

The result from Model 5 in Table 4 shows that at 1% significance level, control of corruption has a significant negative effect on foreign direct investment to oil producing countries in Africa. The coefficient of 7.455 highlights that a unit increases in the control of corruption of an oil producing economy can lead to a 7.455 unit decrease in foreign direct investment. There are some studies that posits that corruption actual increases FDI inflows. This

result is consistent with Quazi et al. (2014) who described this phenomenon as the helping hand hypothesis. They stated that corruption can allow investors to avoid bureaucratic red tape. Paying off key officials might also mean quicker entry into a country and less stringent regulatory policies on multinational companies. They further argued that Corruption helps to supplement low wages in developing countries, which allows multinational companies to keep their tax burdens low and contributes to growth. They concluded by saying, corruption can smooth the economic system in the presence of weak regulations to create a Pareto Optimal outcome. This result is also consistent with Houston (2007) who posits that while there are restrictive effects of corruption, there tends to be expansionary economic effects in countries with weak institutions. Thus trying to eliminate corruption in oil producing countries in Africa where it plays an expansionary role can be a costly battle and will be resisted. The study thus proposes improving fundamental governance structures as a more appropriate target. This doesn't reject that corruption is costly, but instead proposes that corruption might be a benefit for weaker institutions.

However, the result is inconsistent with Quazi et al. (2014). They posited that corruption acts as a grabbing hand to reduce FDI inflows. The authors explain that there are multiple ways that this occurs. Corruption creates inefficiencies and distortions, which raise transaction costs for investors. It also creates a risk of endangering brand goodwill in cases when a scandal occurs. Finally, corruption negatively affects other important determinants of FDI, like economic growth, productivity of public investment, quality of infrastructure, education, and healthcare services. Also the result is

inconsistent with Al-Sadig (2009) who found that corruption level in the host country has an adverse effect on FDI inflows.

Political Stability and FDI inflows

Political stability also had a positive significant effect on foreign direct investment as presented in the results from model 6 as shown in Table 5. At 1% significant level, the results from model 6 showed that political stability had coefficients of 3.248. Political stability is the durability and integrity of a current government regime. This is determined based on the amount of violence and terrorism expressed in the nation and by citizens associated with the state. The result is in line with Lucas (1990) who argued that political instability could limit capital flows. Investments in many oil-rich countries are exposed to large political risks, so FDI inflows to these countries are limited. The lack of democracy boosts social tensions that increase the likelihood of bringing severe political and social crisis to a country (Guerin & Manzocchi, 2009). Similarly, the results is in line with that of Harms et. al., (2002) and Kucera et. al., (2017) who point out a positive relationship between democracy and FDI. In contrast, however studies such as Adam et. al. (2007) and Paniagua et al. (2014) found a negative effect of democracy on FDI.

Rule of Law and FDI Inflows

Rule of law had a positive significant effect on foreign direct investment as presented in the results from model 7. At 1% significant level, the results from model 7 showed that political stability and rule of law had coefficient of 6.930. The coefficient indicates that a unit increase in rule of law can lead to a 6.930 unit increase in FDI inflows.

The rule of law addresses the interactions between citizens and the institutions that assist in governing these interactions. Institutions like the judiciary should exhibit characteristics such as fairness and efficiency in its delivery which plays an important role in facilitating sound and fair observance of the rule of law, including the maintenance of law and order, limitations on government power to interfere in business activities and trading environment, and impartial enforcement of contracts.

Many scholars and policy makers cite the rule of law as a key factor in a number of different positive outcomes. In particular, policy makers point to the important role the rule of law plays in facilitating FDI and economic development. Thus the result is consistent with Staats and Biglaiser (2011) who supports that in general, a strong rule of law relates positively to FDI. In the context of FDI, rule of law reduces uncertainty, allows for long-term planning, and therefore increases FDI. Governments that establish independent courts commit to protecting investment against both citizens and the government itself and this will attract FDI inflows. Investors value contract and property rights as a way to protect their investment from government expropriation and from business partners reneging on agreements (Li & Resnick, 2003). Protections of the other rights mean a country is more stable, a more educated work force, and that the host country government that expresses concern for their citizens' well-being.

These are all conditions investors find attractive and thus attracts more FDI inflows. Comparably, this result is consistent with Henisz (2000) argued that democracies are actually better at committing to investor-friendly policies and protecting property and contract rights over the long term to attract FDI.

Results of the control variables for the models assessing the effects institutional structures and foreign direct investment of oil producing countries in African

All the models in Table 4 controls for three consisting macroeconomic variables including Trade Openness, Gross capital formation (investment rate) and inflation. In model 1, Trade Openness had a positive effect on foreign direct investment. At 1% significance level, a percentage increase in Trade openness will lead to 5.5% increase foreign direct investment. Moreover, trade openness acquired a significant coefficient of 0.009 at 5% significant level in model 2 and this means that a percentage increase in trade openness will lead to 0.9% increase in foreign direct investment. Comparable results were obtained in models 3-7 due to the fact that trade openness had a positive effect on foreign direct investment. Even though all the coefficients were significant, its importance signifies very little indications to foreign direct investment. This is in line with the findings of Kucera et. al., (2017) and Harms et. al., (2002) who documents that trade openness plays a direct role in influencing FDI.

The rate of investment as measured by gross capital formation had a positive effect on ease of access to loans. At 1% significance level, a percentage increase in gross capital formation will lead to 33.2% increase foreign direct investment. Also, gross capital formation had a significant coefficient of 0.303 at 1% significant level in model which means a percentage increase in gross capital formation will lead to 30.3% increase in foreign direct investment of oil producing economies in Africa. Similar results were obtained in models 3-7 since gross capital formation had a positive effect

on foreign direct investment in oil producing economies. Similarly, Kucera et. al., (2017) and Harms et. al., (2002) also document that gross capital formation positively influence FDI.

Inflation is persistent increase in the general price level of goods and services in a country at a given period of time. With respect to model 1, inflation had a coefficient of -0.050 at 1% significant level. This means that a percentage increase in inflation will lead to 5% decline in foreign direct investment. Again, inflation acquired a coefficient of -0.011 at 5% significant level in model 2 and this means that a percentage increase in inflation will reduce foreign direct investment by 1.1%. Related results were obtained in models 3-7 due to the fact that inflation had a negative significant effect on foreign direct investment in oil producing economies all those models. This is basically due to the crowding out effect of inflation. Similarly, (Noorbakhsh, Paloni, & Youssef, 2001; Blomstrom & Kokko, 2003) documents that inflation and FDI has an inverse relationship.

Diagnostics on the models assessing the effects of institutional structures on foreign direct investment in oil producing countries in Africa

According to Mileva (2007) the null hypothesis for the test for AR (2) in first differences should not be rejected. For all the models in Table 5, at 5 % significance level, the p-values of the AR (2) process showed no rejection of the null hypothesis of no autocorrelation. This shows that there is an absence of autocorrelation in all the models. The Sargan and Hansen test has the null hypothesis that the instruments are exogenous. The results presented in table 5 shows that we reject this null hypothesis. That we fail to reject the null hypothesis and conclude that all the instruments are valid.

Chapter Summary

The chapter presented descriptive analysis of the variables used in the study. The descriptive analysis revealed that on the average, oil producing African economies have a low level of institutional quality and some gaps in foreign direct investment. The chapter went on further to discuss the separate effects of each of the institutional structure indicators on foreign direct investment in oil producing African economies. From the discussions, it is evident in data that institutional quality or structures enhances foreign direct investment in oil producing economies in Africa.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the major findings obtained from conducting the entire study. The chapter also presents a summary of the findings, conclusions, recommendations as well as the suggestions for further research.

Summary of the Research

The essence of foreign direct investment to oil producing countries cannot be underestimated. It contributes immensely to host economies' economic growth and it also forms greater proportion of host economies' share of world capital flows. Owing to the various benefits derived from FDI inflows, there are a number of theoretical literatures that explains why there exist FDI gaps among sectors, economies and even regions. Other reviews highlights that there is a potential for oil producing African economies to close these foreign direct investment gaps. Literature suggests that Location advantage is the advantage found in the location where the firm is seeking to engage FDI. Empirical studies have examined the factors in host countries that attract firms to engage in FDI. Some of the factors include large market size, sound infrastructure, abundance of economically useful natural resources, trade openness, human capital, institutional structures, among many others.

Although literature suggests that these factors could enhance the foreign direct investment, there is no empirical study that examines institutional structures thoroughly in the context of oil producing countries. This study thus employed institutional structures as a driving tool or attracting force for foreign direct investment in oil producing countries. The literature

review provided a supporting theory as well as empirical evidence on the relationship institutional structures and foreign direct investment in the context of oil producing countries in Africa. Specifically the Eclectic Paradigm theory was employed in the study.

This study was based on the positivism research paradigm and the quantitative research approach. The study also employed the explanatory research design to estimate the various models. In addition, the study included only17 out of a total of 54 countries in Africa due to fact those selected are oil producing countries and this was essentially due to data availability. Furthermore, the study developed a baseline model to examine the effects of institutional quality on foreign direct investment. The study employed the Generalized Method of Moment estimation technique to estimate the model.

Summary of Findings

The first objective of the study was to investigate the relationship between Corruption and FDI in oil producing countries in Africa. The second objective was to examine the relationship between Government Effectiveness and FDI in oil producing countries in Africa. The third objective was to assess the relationship between Regulatory Quality and FDI in oil producing countries in Africa. The fourth objective was to examine the relationship between Rule of Law and FDI in oil producing countries in Africa. The fifth objective was to assess the relationship between Voice and Accountability and FDI in oil producing countries in Africa and finally the sixth objective was to investigate the relationship between Political Stability and FDI in oil producing countries in Africa. The summary of the findings on these objectives are summarized in the table below:

Table 5: Summary of Results on the Hypothesis

Hypotheses	Confirmation
H1: There is a positive effect of voice and accountability on FDI in oil producing countries in Africa.	Fail to Reject
H2: There is a positive effect of regulatory quality on FDI in oil producing countries in Africa.	Fail to Reject
H3: There is a positive effect government effectiveness on FDI in oil producing countries in Africa.	Fail to Reject
H4: There is a positive effect of control of corruption on FDI in oil producing countries in Africa.	Fail to Reject
H5: There is a positive effect of political stability on FDI in oil producing countries in Africa	Fail to Reject
H6: There is a positive effect of rule of Law on FDI in oil producing countries in Africa.	Fail to Reject

Source: Field Data, Armah(2018)

From the results on the first objective, strong evidence is found that voice and accountability had a significant positive effect on foreign direct investment in oil producing in Africa. Also, based on the second objective, indicated that regulatory quality attracts to foreign direct investment in oil producing economies in Africa. The results on the third objective indicated that government effectiveness was found to have a significant positive effect on foreign direct investment of oil producing economies in Africa. This signifies that maintaining high government effectiveness is necessary for foreign direct investment in oil producing economies in Africa.

With reference to the results on the fourth objective, corruption had a significant negative effect on foreign direct investment of the sample of oil producing economies in Africa. This implies that control of corruption in oil

producing economies will rather decrease foreign direct investment. Results on the fifth objective indicated political stability had a significant positive effect on foreign direct investment in oil producing economies in Africa. Finally the results on the sixth objective indicated that rule of law had a significant positive effect on foreign direct investment in oil producing economies in Africa. This implies that maintenance of rule of law in oil producing economies will increase foreign direct investment.

Conclusion

In relation to the first hypothesis, the study concludes that voice and accountability will be required to enhance the foreign direct investment of oil producing economies in Africa. The second hypothesis is accepted and the conclusion is that regulatory quality will be needed to increase foreign direct investment of oil producing economies in Africa. Also, the third hypothesis is accepted and the conclusion that increment in government effectiveness will be required to increase foreign direct investment of oil producing economies in Africa.

Based on the results, the fourth hypothesis is rejected and the conclusion on it is that corruption is required to increase foreign direct investment of oil producing economies in Africa. The conclusion on the fifth hypothesis is that political stability is necessary to foreign direct investment of oil producing economies in Africa. Finally, the sixth hypothesis is accepted and the conclusion is that rule of law is needed to increase foreign direct investment of oil producing economies in Africa.

Recommendations

In relation to the purpose of the study, it is recommended that oil producing economies should continue to institute economic policies that enhance or promote institutional quality. Results from the first objective indicate that oil producing economies in Africa also need to make available information about the performance of the government in order to enhance their voice and accountability to attract more FDI inflows. In relation to the second objective, regulatory quality in the oil producing economies should be enhanced. This will mean that there will be more labour freedom, more business freedom, and high monetary freedom which will in turn increase financial development. Based on the third objective, government should institute economic policies to increase its effectiveness. Increment in government effectiveness can be achieved by government orienting to more closely matching services with citizen preferences, and moving governments closer to the people they are intended to serve, thus ensuring greater accountability of the public sector.

Results from the fifth objective indicate that political stability is needed in oil producing economies in Africa. This will mean that for oil producing economies in Africa to strengthen their FDI inflows, they require stable political scene is one where the ruling government is favored by the population and does not experience strong indicators of social unrest and economies should have the capacity to make their representatives liable for their performance and actions and reward or discipline them when required. Based on the results of the sixth objective, rule of law should be improved.

Improvement in rule of law will mean that government will put in measures to enhance property rights, judicial effectiveness, and government integrity.

Suggestions for Future Research

First of all, other studies can extend this current study by examining the effect or role of economic freedom on foreign direct investment that have not yet been employed in extant literature. It is therefore suggested that further research can employ economic freedom indicators such as government size, regulatory efficiency and open markets to find its effect on foreign direct investment. Finally, further studies could employ other estimation techniques than those employed in this study.

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