



(RESEARCH ARTICLE)



## Impact of investment climate on foreign direct investment in Nigeria, Ghana, Kenya and South Africa,

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International Journal of Science and Research Archive, 2024, 13(02), 258–274

Publication history: Received on 19 September 2024; revised on 28 October 2024; accepted on 30 October 2024

Article DOI: <https://doi.org/10.30574/ijrsra.2024.13.2.2064>

### Abstract

The study examined the Impact of Investment Climate on Foreign Direct Investment in Nigeria, Ghana, Kenya and South Africa, for the period of 2000 to 2021. The focus of this study is on how the business environment in Nigeria, Ghana, Kenya and South Africa influences foreign direct investment. Specific goals are as follows: (i). Evaluate critically the effect of the economic investment climate in Nigeria, Ghana, Kenya and South Africa on the inflow of FDI. The variable scope include economic investment climate (ease of doing business index, gross domestic product, inflation rate), political investment climate (political stability index, corruption perception index, quality of institutions), environmental investment climate (nitrous-oxide emission, population density, land/air pollution rate) as the independent variable. The dependent variable was foreign direct investment inflows. *Time series analysis, and more specifically the multiple panel regression analysis method, was used in analyzing the data* adopting the Cobb Douglass model for its theoretical framework *and data was sourced from the Statistical Bulletin of the countries studied and the World Bank Statistics.* The results show that, Economic investment climate variable (GDP) had significant positive effect on the inflow of foreign direct investment into Nigeria, Ghana, Kenya and South Africa. While inflation have positive insignificant relationship with FDI; It was recommended that; Efforts should be made by the governments of Nigeria, Ghana, Kenya and South Africa to enhance their economic fortunes by strengthening their economy through engaging in massive production for exports which will boost economic growth and as well attract more foreign direct investment

**Keyword:** Investment Climate; Foreign Direct Investment; Nigeria; Ghana; Kenya and South Africa; GDP; Cobb Douglass.

### 1. Introduction

The business climate of a country or area usually influences the chance that private investors, financial institutions, and banks would lend money to or acquire shares in local businesses (Hayes, 2022). The investment climate is influenced by a variety of variables all throughout the world. Political insecurity, tax uncertainty, government accountability, and national security concerns are among these concerns (Hayes, 2022). Given the possibility of big gains despite the region's bad environment, some investors are ready to accept the tremendous risk and volatility associated with investing there (Qokweni, 2021). This has led to a favorable investment climate in Africa for decades especially Nigeria, Ghana, Kenya and South Africa.

Africa attracted more foreign investment after the 2008 financial crisis because of its robust economic development rates, expanding middle class, growing population, perceived improved socio-political and macroeconomic stability, vast tracts of fertile land, and superior geology. Investment inflows increased by 22% between 2010 and 2014. But when the commodities "super-cycle" ended in 2015, foreign direct investment (FDI) inflows to Sub-Saharan Africa (SSA), particularly to Nigeria, Ghana, Kenya, and South Africa, decreased by 31% (Qokweni, 2021)..

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In the face of declining FDI inflows, African countries that have refocused their economies on manufacturing and services have fared better than others. South Africa's more diversified economy and image as an investor-friendly business climate helped it to attract the highest levels of foreign direct investment (FDI) in Africa in both 2013 and 2014. One example is Kenya, an East African nation whose main exports are manufactured goods (11%), coffee (4%), horticulture (14%), and tea (18%). However, from US\$8.3 billion in 2019 to US\$5.7 billion in 2021, foreign direct investment (FDI) into South Africa decreased by 33% in 2020 (Qokweni, 2021). The World Bank Ease of Doing Business Survey 2021 gave South Africa a lower score of 61%, down from 77% in 2018. This is due to the country's prolonged industrial action, low expected GDP growth rates, policy concerns surrounding the mining industry, and power shortages. These difficulties have made South Africa a less desirable location for foreign investment. Nigeria's oil-based economy, which is heavily resource-dependent and has significant gas potential, was ranked in the bottom 11% of all countries in the Ease of Doing Business Survey 2021. Nigeria received US\$3.4 billion in foreign direct investment in 2021, despite its low ranking (World Bank, 2021).

Given the likelihood of future improvements in the investment climate in Nigeria, Ghana, Kenya, and South Africa, it is appropriate to examine the ways in which the existing investor climate has impacted foreign direct investment in different nations. The goal of this study is to provide light on the aspects of South Africa, Ghana, Nigeria, and Kenya's investment climates—political, economic, and environmental—that have the most effects on foreign direct investment (FDI).

However, studies have demonstrated an interest in following up on the point presented in the first paragraph by looking at the broad patterns of investment climate and how they influence businesses in Nigeria, Ghana, Kenya and South Africa. Moreso, these studies either focus on a single nation or make only limited use of time series analysis, so they did not make use of the results of a cross-sectional econometric survey like the one used here. Many studies have focused on the investment climate and economic growth of individual countries, such as those by Yeboah and Anning (2020), Owusu-Antwi et al. (2018), Ogu et al. (2021), Offiong and Atsu (2019), Maduku and Zerihun (2021), and Ocharo et al. (2018). Therefore, thorough empirical research into the usage and acceptance of cross-sectional data in studying the investment climate and FDI inflows to Nigeria, Ghana, Kenya and South Africa is indispensably paramount.

The analysis will be guided by the research inquiries below: What are the effects of the economic investment climate in Nigeria, Ghana, Kenya and South Africa on the inflow of FDI? The focus of this study is on how the business environment in Nigeria, Ghana, Kenya and South Africa influences foreign direct investment. The specific goal is as follows: To evaluate critically the effects of economic investment climate in Nigeria, Ghana, Kenya and South Africa on the inflow of FDI; We hypothesize that the following will help us accomplish the outlined objective and answer the research questions: H0<sub>1</sub>: Economic investment climate has no significant effect on the inflow of foreign direct investment into Nigeria, Ghana, Kenya and South Africa.

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## 2. Review of related literature

### 2.1. Conceptual Literature

#### 2.1.1. What is FDI?

The World Bank (2016) defines Foreign Direct Investment (FDI) as any investment made to purchase a controlling interest (10% of voting shares) in a company that has its headquarters in a different country than the investor. This includes both greenfield (often referred to as "brick and mortar") and merger and acquisition (M&A) deals, which involve buying out an existing company. "Foreign direct investment" (FDI) is the term used to describe capital that is transferred from a parent firm to a subsidiary, whether via merger, acquisition, fresh investment, or loan reinvestment of earnings. In FDI projects, countries might take on the role of either the host or the guest. Projects owned by foreign investors comprise a country's inbound FDI position, whereas projects hosted by foreign investors comprise its outward FDI position (World Bank, 2016). In the present globalization movement, foreign direct investment (FDI) has been strongly promoted, especially by transnational corporations (TNCs). The objective of foreign direct investment is for an organization based in one nation (the direct investor) to purchase a majority stake in a business based in another economy (the direct investment enterprise), according to the International Monetary Fund (2018) and the Organization for Economic Cooperation and Development (2018). A long-term partnership and strong influence over the operation of the direct investment firm are suggested by the direct investor's significant financial interest in the enterprise's success.

## 2.2. Investment Climate in Nigeria, Ghana, South Africa and Kenya

"Economic, financial, and socio-political conditions that affect the willingness of individuals, banks, and institutions to lend to and acquire a stake in the businesses operating there" Economists use Hayes (2022) to define an investment climate in a country or area. The European Bank for Reconstruction and Development (EBRD, 2021) defines the investment environment as a confluence of factors that impact the probability of both domestic and foreign investment in a particular region. The economic, environmental, financial, and sociopolitical factors that influence an individual's or corporate entity's decision to conduct business in a particular nation or region are collectively referred to as the "investment climate" (Wulandari, 2020).

### 2.2.1. South Africa

In the World Bank's 2021 Rankings & Ease of Doing Business Score, South Africa is placed #82 out of 190 countries, despite having a strong economy. It does badly when it comes to getting a construction permit (96), getting electricity (109), and forming a business (134). The World Economic Forum's Global Competitiveness 2019 Report states that South Africa has "regained momentum after the recent political landscape shift and climbs seven places to rank 60 out of 141 countries." Due to its high prevalence of murder (rank 135), poor rate of ICT adoption (89), and skill scarcity (101), South Africa received a low score. As to the annual report of the World Economic Forum, South Africa is among the nations with the highest levels of inequality. "The rich-poor divide is widening." Partisan labor markets are the root source of pay disparities.

### 2.2.2. Nigeria

Government policy has a big impact on Nigeria's investment environment. With the adoption of "the Nigerian Enterprises Promotion Decree" (NEPD) in 1972, the indigenization effort got underway. The directive limited foreign direct investment in a number of ways. As a result, only residents had access to about 22 distinct economic sectors. These industries included media, retail, personal services, transportation (including taxi and bus services), gaming, electronics manufacture, basic manufacturing, advertising, and retail. Three further restrictions on foreign direct investment (FDI) were put in place by the Nigerian Enterprises Promotion Decree of 1977. Enterprises like as bus services, travel agency, home goods wholesaling, newspaper distribution, radio and television, movie distribution, and hairdressing are exclusive to Nigerian investors. Two updates have resulted in this list growing: (a) lowering the percentage of foreign ownership in FDI-restricted activities from 60% to 40% and including clauses that exclude foreign investors.

Nigeria was a major participant in the world markets for groundnuts, cocoa, and palm oil when it gained its independence. Nigeria's agriculture accounted for more than 60% of its GDP, 90% of its exports, and 85% of its food production was self-sufficient. The manufacturing sector generated less than 3% of the GDP, and the oil industry provided 0.2%. The current economic reform initiative began during the post-SAP era (Anyanwu, 2019). Nigeria has the opportunity to revive its economy and take decisive action to draw in more international investment once democracy was restored there in 1999. The potential contributions of the approximately five million Nigerians who now reside outside of Nigeria to the reform process have been considered. The new policies are starting to show results, and if they are kept in place, they will improve the environment for private investment and increase foreign direct investment's attraction to Nigeria's sizable and growing market.

After Nigeria's return to democracy in May 1999, its poverty-reduction strategy revived investment. NEEDS, introduced in 2003, was designed to guide public policy (Anyanwu, 2019). State and local poverty reduction initiatives, SEEDS and LEEDS, were created in conjunction with NEEDS. As a result of these policies, Nigeria has lagged behind other emerging nations in terms of structural transformation during the past 40 years (Central Bank of Nigeria, 2020). 4% of GDP comes from the manufacturing sector, whereas 14% comes from Sub-Saharan Africa. Nigeria's lagging industrial and service sectors are demonstrated by the rapid growth of Indonesia, a major oil producer, and Malaysia, a neighbor that was also a major oil palm grower at the time of its independence in 1954. Thus, 40 years of improper use of public funds have seriously harmed fundamental infrastructure. Water, sewage, sanitation, drainage, roads, and electricity infrastructure have all degraded as a result of poor maintenance spending (Central Bank of Nigeria, 2020).

### 2.2.3. Ghana

As of the end of the second quarter of 2017, the service sector accounted for 62% of Ghana's GDP. The industrial sector accounted for 26.5% of the GDP at the end of the second quarter of 2017, with agriculture contributing 11.5% of the GDP (Central Bank of Ghana, 2020). Ghana is now the second-largest cocoa producer in the world, behind Côte d'Ivoire, with approximately 778, 044 metric tons produced in the 2015–2016 crop year. Ghana imports a net amount of

petroleum products at the moment. 2018 is expected to see an increase in the production of Tweneboa, Enyenera, and Ntomme (TEN) and Sankofa oilfield production, which will fortify the trade surplus.

After a 45% increase from 2015 to 2016, gold production was predicted to rise in 2018. The artisanal mining community was responsible for the vast majority of the 4.1 million ounces of gold produced (1.5 million ounces in 2016, up from 267 662 ounces in 2015). As a result of the problem of illegal gold mining, the country's gold earnings suffered in 2016. The Minister of Lands and Natural Resources estimated that illicit miners stole gold worth \$2.3 billion. That's why they launched the Multilateral Mining Integrated Project: a government initiative to put a stop to it. In 2017, Ghana's economy grew at a faster rate than the world economy and most of sub-Saharan Africa, according to a report by PwC (2018). Ghana's political stability and improving macroeconomic conditions over the previous two decades have made it an appealing investment destination (Central Bank of Ghana, 2020). According to projections made in the October 2017 issue of the World Economic Outlook (WEO), Ghana's annual inflation rate remained stable at 1.7% in 2018.

#### 2.2.4. Kenya

The favorable investment climate in Kenya has drawn the attention of foreign companies. For example, in July 2020, the United States and Kenya began discussions for the first free trade agreement in Sub-Saharan Africa. Notwithstanding the agreement, American companies doing business in Kenya face significant challenges related to tax collection, challenging bureaucratic procedures, and needless delays in obtaining business licenses. Kenya demonstrated its readiness for business in 2017 and 2018 by enacting significant measures to enhance its business climate. The enactment of the Finance Act of 2018 and the Tax Laws Amendment of 2018 are two examples of this. They simplify business operations, lower the cost of construction permits, and create a "one-stop" border post system to expedite the flow of goods across borders. In Kenya, corruption is still rampant.

### 2.3. Foreign Direct Investment in Sub-Sahara Africa

According to Ideue (2020) many Sub-Sahara African countries made effort to attract Foreign Direct Investment (FDI) by offering tax break and eliminating duties on capital goods, manufacturing and equipment imported into so-called Export Processing Zones (EPZs). While other developing countries received \$216 billion in 1999 and \$7 billion in 1980, it received just \$256 million in FDI in 1980. "There are concerning indications that the African continent as a whole is being marginalized in the global competition for FDI" (Ancharaz, 2003). FDI inflows to SSA seem to have changed over the 2000s. Africa is experiencing the longest era of continuous expansion in its history. The net inflows of foreign direct investment (FDI) into emerging economies between 1990 and 2017 are shown in Figure 2.2. The statistics showed that by 2000, the bulk of foreign direct investment (FDI) was going to nations in Asia and Latin America, with Africa appearing to have benefited little from FDI despite its best efforts. For instance, just 2.3% of global foreign direct investment (FDI) occurred in Sub-Saharan Africa (SSA) between 1980 and 1999 (UNCTAD, 2017).

But after the year 2000, it seems that FDI into SSA has been decreasing. Over the past 20 years, Sub-Saharan Africa has seen an increase in foreign direct investment (FDI). From 1970 to 1979, the Social Security Administration received \$942 million in annual financing; from 1980 to 1999, that amount increased to \$1.3 to ensure the long-term competitiveness of particular enterprises, sectors, or local clusters (Williamson, 2018). As a result, government action is billion. UNCTAD (2021) reports that the average amount of money spent in the 1990s was \$4.7 billion, but in the 2010s, it increased to \$20.2 billion. FDI inflows into SSA increased by a factor of 40 between 2010 and 2021, amounting to \$38.7 billion (Figure 2.2). Africa, the Middle East, and Central Asia (SSA) accounted for 1.3%, 1.9%, and 2.5% of global foreign direct investment (FDI) in the 1990s, 2000s, and 2020s, respectively.

### 2.4. Investment Climate and FDI flows by Country

#### 2.4.1. Foreign Direct Investment in Kenya

Foreign direct investment (FDI) into Kenya has surged since 2007, when the country's telecoms industry was privatized and railway construction began. Table 2.2 lists the top five Chinese FDI industries to SSA in 2021. Building (29.8%), mining (22.5%), and manufacturing (14.0%) accounted for about 66% of FDI in 2021. Bräutigam (2021) claims that China's negative impact on Africa's industrial industry may be overstated. He showed that 20% of 150 Chinese firms with foreign projects were in Africa, with over half manufacturing companies. Some African garment exporters had a rebound after the 2008 global financial crisis, despite competition from Chinese textile exports (Bräutigam, 2021). Chinese and African company owners have also triggered an industrial revolution. India is investing a lot of money as well. Over the past seven years, India has been the country that has sent the most foreign direct investment (FDI) to African countries including Mauritius, Liberia, Sudan, Libya, and South Africa. FDI inflows to Kenya are shown in Table 2.3 below from 1990 to 2021. As indicated in the table, foreign direct investment (FDI) into Kenya increased twentyfold between 2006 and 2021, from \$51 million to \$1.1 billion, but has since fallen. According to Kinyanjui (2021), the

following factors contribute to Kenya's low foreign direct investment (FDI): (1) bottlenecks in energy and transportation infrastructure; (2) a recent drop in Kenya's labor productivity; and (3) an anti-FDI regulatory climate.

In 2019, wholesale and retail trade accounted for 19% of total foreign direct investment in Kenya, followed by manufacturing (14%), banking and insurance (12%), energy (10%), and logistics (2%). According to the World Bank (2021), this is the case. To increase the amount of foreign direct investment (FDI) flowing into Kenya, the government offered tax breaks to foreign investors. In 2017, Kenya attracted \$671 million in foreign direct investment (FDI), an increase of 71% from 2016. UNCTAD reports that South African ICT investors have increased their market share in Kenya. In contrast, the World Bank reports that foreign direct investment (FDI) in the manufacturing sector has led to the creation of low-skilled jobs (in 2013-2014, food and beverages accounted for 29% of FDI, motor vehicles and others accounted for 21%, non-metallic mineral products accounted for 17%, consumer products accounted for 14%, electrical and electronic equipment accounted for 8%, and others accounted for 10%). That's according to the World Bank (2021).

## 2.5. FDI flows to Nigeria Foreign direct investment

(FDI) growth in Nigeria has been erratic, fluctuating between decline and expansion for some time. Foreign private investment inflow in Nigeria totaled 55999.3 million naira in 1994, up from 6825.5 million naira the previous year. This represented an increase of nearly 700 percent. Positive subsequent years' results include 1989, 1997, and 2000, as well as the years 2003–2010, which show some volatility but overall are optimistic. Meanwhile, the years 1980, 1990, 2001, and 2002 all saw significant drops. Positive FDI inflows in the non-oil sector were directly impacted by various private sector policies introduced beginning in the early 1970s, as reported by UNCTAD (UNCTAD, 2009). This resulted in a rise in FDI from \$205m to \$470m between 1970 and 1975. According to reports, Nigeria has been the recipient of 30% of all foreign direct investment (FDI) inflow into Africa over the past decade, with a total of \$11 billion flowing into the country. This is up from \$1.14 billion in 2001 and \$2.1 billion in 2004. Guide to International Business, Trade, and Investment 2010-2011. The Central Intelligence Agency predicted that FDI in Nigeria would total \$70.23 billion in December 2019 and \$61.23 billion in December 2021 (CBN, 2021).

## 2.6. Inflow to South Africa

South Africa does not appear to be receiving as much FDI as other developing or growing economies. Since 1999, there has been some fluctuation in South Africa's share of global FDI flows. South Africa saw a rise in its share of foreign direct investment in the years immediately after the country's transition to democracy. This followed a decade of modest but positive investment inflows that signaled the beginning of the economic rebound from the net disinvestment of the late 1980s. South Africa reaped few benefits from the worldwide growth in FDI between 1998 and 2000, which was largely fueled by massive cross-border mergers and acquisitions and benefited only the developed economies.

Foreign investment in South Africa comes primarily from European Union (EU) companies. The percentage of EU investment has increased dramatically since 2000, from 47% in 2000-2010 to 66% in 2011-2020. Anglo American, BHP Billiton, Old Mutual, and SABMiller, all once South African companies now headquartered in the UK, have all been active investors in South Africa in recent years, contributing to the EU's growing dominance in the country's investment landscape. Since making the move, these firms have become some of South Africa's most significant international investors. Even after excluding the investments of these re-domiciled enterprises, the European Union (EU) remains South Africa's primary geographic source of investment over the past decade (Qokweni, 2021).

### 2.6.1. FDI flows to Ghana

The majority of Ghana's FDI comes from industrialized countries, but some comes from developing economies like China and India (Yeboah and Anning, 2020). Most foreign direct investment (FDI) projects in Ghana originate in Asia, with China being the main investor followed by India. However, when it comes to the total amount of these FDI projects, the Netherlands typically comes out on top. Investment from the United States and the United Kingdom into Ghana is on the decline. In contrast, European countries are the primary contributors to Ghana's economy through direct investment. When comparing investments across continents, the two Asian countries outweigh their European counterparts in terms of the sheer volume of projects they fund. China, India, Lebanon, the United Kingdom, the United States of America, Germany, Nigeria, the Netherlands, Italy, and South Korea are among the leading foreign direct investment (FDI) providers to Ghana.

Over U.S. \$2 billion in FDI has been invested in Ghana's mining sector over the past decade, thanks to the country's attractive mining sector regulations. The mining industry is the primary source of export revenue, accounting for 41% of all foreign currency received by the country. Gold, the most important mineral, has surpassed cocoa as the top foreign

exchange earner, bringing in over US\$600 million and accounting for approximately 90% of mineral output. World Bank data for 2021 indicate that Ghana has surpassed all but South Africa as Africa's second-largest gold producer.

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### 3. Theoretical Review

#### 3.1. Endogenous Growth Theory

Romer's (1989) endogenous growth paradigm contrasts with neoclassical growth theory, which holds that FDI and capital in general have only a short-term impact on income growth due to the declining returns of capital. FDI can affect long-term income growth via these routes, according to the endogenous growth hypothesis (Belloumi, 2014), which states that economic growth is acquired through internal processes of technical improvement and human capital augmentation. According to Bailliu (2000), there is a third key route that must be considered in order to guarantee the efficient distribution of FDI: the growth of the host country's financial markets. The endogenous growth model described below derives these connections. In this section, a closed economy AK model is assumed in place of the generic production function, per Bailliu (2000).

#### 3.2. Empirical Literature Review

##### 3.2.1. Empirical research on Nigeria's investment climate and FDI inflows

Ocheni and Gemade (2015) analyzed how different types of taxation affect the productivity of SMEs. A total of 91 participants were surveyed for this investigation. Researchers used a self-administered questionnaire with a calculated sample size of 74. Percentages were used for quantitative analysis, and analysis of variance was used to assess study hypotheses. The results showed that small and medium-sized enterprises (SMEs) had a lower chance of survival when subjected to several taxes, and that the size of an enterprise has a substantial bearing on its tax-paying capacity. They argued that the government should implement universal tax policies that will help small and medium-sized enterprises (SMEs) in Nigeria thrive.

In addition, Gado (2015) looked into how the business climate in Nigeria affected 20 of the country's most valuable corporations. The impact of the Nigerian business environment on the performance of these enterprises is demonstrated using the Ordinary Least Square and simple multiple correlation approaches. When taken as a whole, environmental factors have a substantial, beneficial effect on business results. Overall, there was a positive and considerable impact, with positive effects from government spending and inflation and negative effects from the currency rate and interest rates. One of the suggestions is that the government increase its capital spending on important areas like healthcare and education without jeopardizing its economic stability. Rather of independently investing in infrastructure, businesses should work with the government to pool resources. .

##### 3.2.2. Empirical studies on investment climate and FDI inflows in Ghana

Awudi (2012) examined how FDI in Ghana's mining industry affects the ecosystem. This discussion paper examined Ghana's gold exploration FDI, economic policies that affect the mining sector, and regulatory environment. Mining concessions have eaten farmed area and land with potential for farming, they concluded. Thus, food production has plummeted, raising already high costs. Since large-scale mines have taken up almost all of the potential gold territory, indigenous miners, including women, who have been operating on specific parts of these concessions on a modest scale have been left without a means of subsistence. Due to the new foreign investor friendly mineral regulations and the massive FDI entry into the industry over the previous decade, Ghana's investment climate is threatened by mining activity. They stated that without governmental initiatives to assure the sector's successful contribution to the national economy with low environmental impacts, the economic gains promised from this mining boom would stay a phantom and primarily be a shadow to the regular populace.

Barthel, Busse, and Osei (2018) examined FDI in Ghana, a typical developing nation. Their mixed qualitative and quantitative analysis used data from the World Bank's 2007 Enterprise study and their examination of 54 multinational enterprises in Ghana. Trade, imports, value added per employee, investments, bank credit, finance, and market share were collated. The probit model showed that foreign firms did not have a larger market share, were not more productive than domestic competitors, faced fewer credit constraints and were better able to finance their expansion, and did not strain the current account or drain foreign exchange. They concluded that Ghana should attract more FDI and use it to develop.

### 3.2.3. Empirical Reviews on Investment climate and FDI inflows in South Africa

Without mentioning South Africa, the literature on Sub-Saharan Africa's investment climate and economy would be incomplete. The country has made significant progress in improving its investment climate, making it more competitive within the area. The investment climate and growth nexus in South Africa has been the subject of multiple recent studies. South African foreign direct investment (FDI) has been the subject of research by Draper, Kiratu, and Samuel (2010). They paid special attention to rules controlling financial transactions and commercial exchanges. South African FDI to Africa is private sector dominated, concentrated in Southern Africa but evincing a perceptible move to West Africa in recent years, and its impact is generally positive, according to a content analysis of the region's FDI inflows. When it comes to backing South African businesses in the region, however, the country's policies are all over the place. This is especially true of the role that bilateral investment treaties (BITs) have played, with the South African government seemingly favoring an approach that gives its companies significant advantages at the expense of the policy space of the host nation. They recommended that the South African government fix this ambiguity by continually reviewing its model approach to BITs.

In Thomas, L., Leape, J. Hanouch, M., & Runney, R., (2015) analyzed FDI in South Africa. They saw that the amount of foreign direct investment into South Africa is quite little. Foreign direct investment in South Africa, however, was not negligible. According to research conducted by the Business Map Foundation, both new and current foreign investors were allocating resources into investment by foreign-owned enterprises. They believed that the vast domestic capital market and advanced domestic business sector encouraged more cooperation between domestic and international investors. One possible result is that international investors are less likely to put money into South Africa over the long term compared to countries with less developed domestic markets. Discussion centered on the fact that corporations from the European Union (EU) have become an increasingly important source of new foreign investment for South Africa since the late 1990s. This growth is due in large part to fresh investment from South African businesses that have relocated to the UK. The survey found that the United Kingdom (UK) and Germany (Germany) were the two biggest contributors to EU investment.

### 3.2.4. Empirical Reviews on Investment climate and FDI inflows

The impact of FDI on Kenya's GDP, BOP, and exports was quantified by Saddimbah (2014). This study was guided by the following sets of research questions: What effect do foreign direct investments have on Kenya's GDP? Is the increase in foreign direct investment helping Kenya's exports? the effects of FDI on Kenya's GDP per capita. The study employed a correlational design based on data on FDI inflow, GDP, export value, and BOP value in Kenya. Analysis of the data included descriptive, correlation, regression, and analytical procedures. The GDP of Kenya rose after FDI began flowing into the country. As both the quantity and quality of FDI investments into the country improved, the GDP grew. Analysis of the relationship between FDI and GDP found that more FDI into a country is beneficial to the economy of that country. A positive relationship between FDI and GDP was discovered; however, the strength of this relationship would change depending on the investments themselves, the host country's operating policies, and the time span.

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## 4. Methodology

### 4.1. Research Design

The ex-post facto research methodology was used for this study. This is because studies that rely on secondary sources from academic institutions and researchers can benefit from the ex-post-facto design. Using previously collected and stored data, the approach seeks to identify the association between a dependent variable and a number of independent factors (Egbulonu, 2019). It's also a term for studies conducted after all relevant information has already been gathered. This study uses information from the Statistical Bulletin of the countries studied and the World Bank Statistics to determine whether or not there is a correlation between the investment climate and the inflow of foreign direct investment (FDI) in a subset of Southern and West Africa Region nations. Time series analysis, and more specifically the multiple panel regression analysis method, will fit comfortably inside the framework. The data used in the analysis are logged and the logged values are presented in the Appendix 1 of this work. However, the data in the appendix shows the original data as collected from the World Development Indicator (WDI). The data are shown in cross sections according to countries selected which are Nigeria, Ghana, Kenya and South Africa.

### 4.2. Model Specification

In order to estimate the factors that draw in FDI, numerous models have been defined in the economics literature. However, this research follows the model proposed by Nnadozie and Njuguna (2022), who found that the factors influencing FDI were the following investment climate variables:

$$FDI = f(X_j, Y_k, W_p, Z_q) \tag{3.1}$$

Where:

$X_j$  = refers to the economic variables, 1 ... J, such as exchange rate, inflation and other macroeconomic factors.

$Y_k$  = refers to policy variables, 1 ... K, such as trade openness, and business rules and regulations.

$W_p$  = refers to governance or political risk variables, 1 ... P, such as wars, conflict, corruption, etc.

$Z_q$  = refers to other variables, 1 ... Q, such as labour cost, human capital, market size and natural resource endowment.

We examined the above model and found that environmental factors which promote a conducive investment climate is missing. The World Bank (2021) outlined several significant environmental concerns that are taken into account during the investment appraisal process, including pollution, energy efficiency, reduced emissions, and compliance with environmental safety and regulatory standards. Therefore, we adjust the model as follows:

$$FDI = f(X_j, Q_k, K_q) \tag{3.2}$$

Where:

$X_j$  = refers to the economic investment climate variables, 1 ... J, such as inflation rate, market size (GDP) and ease of doing business index.

$Q_k$  = refers to political investment variables, 1 ... K, such as political stability index, corruption perception index and quality of institutions.

$K_q$  = refers to environmental investment climate variables, 1 ... q, such as nitrous oxide emissions, population density and land/air pollution rate.

By way of modification of the model of Nnadozie and Njuguna (2022), we merge policy variables ( $Y_k$ ) and governance variables ( $W_p$ ) to form a new variable – political investment climate variables ( $Q_k$ ) and also introduce environmental investment climate variables ( $K_q$ ) into the modified model.

The above functional equation 3.5 may be expressed in an econometric relationship as:

$$FDI_t = \mu + \alpha'x_t + \beta'q_t + \lambda'k_t + \varepsilon_t \tag{3.3}$$

Where:

$\mu$  is a constant;

$\alpha'$ ,  $\beta'$  and  $\lambda'$  are vectors of parameters to be estimated;

$FDI_t$  is the value of foreign direct investment at time t; which depends on explanatory variables  $(x_{1t}, x_{2t}, \dots, x_{3t}) = x'_t$ ,  $(q_{1t}, q_{2t}, \dots, q_{3t}) = q'_t$ ,  $(k_{1t}, k_{2t}, \dots, k_{3t}) = k'_t$  as defined above; and

$\varepsilon_t$  is the stochastic error term.

The a-priori expectation can be represented mathematically as:

$$\alpha'_1 > 0, \beta' > 0 \text{ and } \lambda' > 0$$

The parameters of economic investment climate, political investment climate and environmental investment climate should be greater than zero i.e. positively related to FDI inflows into Nigeria, Ghana, Kenya and South Africa.



### 4.3. Methods of Data Analysis

The method used in estimating the parameters of the model formulated was the Panel Regression Model. This is justified since the data are time series and cross-sectional data in nature i.e. the data cuts across four countries with different characteristics which are Nigeria, Ghana, Kenya and South Africa. Therefore, we used the t-test from the multiple panel ARDL regression analysis. In addition, the pre-test of unit root was confirmed in the data in order to avoid a spurious regression. These tests make room for a robust modeling and forecasting. The panel ARDL model is further discussed below for clarity:

#### 4.3.1. Panel Least Square Analysis (Panel ARDL)

Egbulonu (2019) explains that panel ARDL analysis is a statistical modeling technique for estimating the association between a dependent variable and a group of independent variables in two dimensions with cross-sectional data that have stationarity properties as mixed. Data is collected over time and across multiple dimensions (or companies) before being put through a regression analysis. The corresponding equation is as follows:

$$Y = \alpha + b_1X_1^n + b_2X_2^n + \dots + b_nX_n + e \quad [iv]$$

Where Y is the response (dependent variable), X<sub>1</sub> is the first predictor (first independent variable), X<sub>2</sub> is the second predictor (second independent variable), α is the estimated slope, b<sub>1</sub> is the estimated intercept of the first predictor, b<sub>2</sub> is the estimated intercept of the second predictor etc. and n is the dimension of the data. The symbol e is the error term i.e. a set of other variables that can affect the model but are not included in the current model.

Panel least square regression is used when there is a combination of cross section data and time series, where the same unit cross section is measured at different times. So, in other words, panel least square involves analysis of similar data from several dimensions observed in a certain period of time. If we have T time periods (t = 1, 2, ..., T) and N the number of individuals (i = 1, 2, ..., N), then with panel data we will have total observation units of N x T. One of the methods in estimating the regression model using panel data is the general linear method which is the foundation of linear panel model estimation.

However, the result of the stationarity test on the panel data directed the analysis towards adoption of the panel autoregressive distributed lag (Panel ARDL) (Egbulonu, 2019). The Panel ARDL model is adopted because it has some advantages which include best linear, un-biasness, minimum service, efficiency, least mean square-error (MSE), recognition of lagged effects of regressors (Pesaran, et al (2001) and sufficiency (Gujarati, 2003). In the Random Effect model, the difference between intercepts is accommodated by the error terms of each cross-section.

#### 4.3.2. Panel ARDL Model Estimation

Estimating the multiple panel lag model comprises of the model coefficients, the standard error, the t-statistics, probability values of the t-statistics, the R-squared and the Durbin Watson statistic. Computation of the panel regression model will be done through the use of EViews statistical and econometric software in order to ensure ease and accuracy.

The coefficients tell us whether an independent variable has positive or negative effect on the dependent variable (Egbulonu, 2019). Dividing the coefficient by the standard error gives us the t-statistics which will be used to test the hypotheses of the study. These are discussed in details below: The coefficient of determination R<sup>2</sup> or its adjusted form

$\bar{R}^2$  indicates how well the data fits the model. This is given by

$$R^2 = \frac{\hat{B}^T X^T Y - (\sum Y)^2/n}{Y^T Y - \left(\frac{\sum Y}{n}\right)^2}$$

Or its adjusted form:

$$\bar{R}^2 = (1 - R^2) \frac{(n - 1)}{n - k}$$

If  $R^2$  or its adjusted form  $\bar{R}^2$  is high (i.e. above 50%), it shows a good fit for the model. The higher the  $R^2$  or  $\bar{R}^2$  the better the model fitness.

**4.4. Test of hypotheses**

The t-statistics are used to determine the individual significance of the variables. The t-statistic is computed as follows:

$$t_{cal} = \frac{b_i}{S.E(\hat{b}_i)}$$

Where  $SE(b_1)$  is the standard error of  $b_i$ . The null and alternate hypothesis are stated thus:

$H_0$ : No significant relationship exists between X and Y

$H_1$ : There is a significant relationship between X and Y

The t-calculated or the t-statistic has a probability value which corresponds to the risk indicated by the t-test table for the calculated t-value. The decision rule is as follows:

Decision Rule: If the probability value of the t-statistic is less than 0.05 critical value, we reject the null hypothesis. However, if the probability value of the t-statistic is greater than 0.05 critical value, we accept the null hypothesis. Alternatively, the t-calculated is compared with the t-tabulated where  $t_{table} = t_{\alpha/2, n-k}$ ; If the t-statistic value is greater than the t-table value at 5% level of significance, we reject the null hypothesis; if otherwise, we accept the null.

*4.4.1. The joint test or F-test*

This tests for the joint significance of the explanatory variables. The joint test is necessary because we tried to gauge the significance of the combination of the explanatory variables.

**Table 1** The computation of the F-statistic

Source of variation	Degree of freedom	Sum of squares	Mean square	F- ratio
Regression	k-1	$RSS = \hat{B}^T X^T Y - \frac{1}{n}(\sum y)^2$	$RSS / (K - 1)$	$\frac{RSS / (K - 1)}{ESS / (n - k)}$
Residual (Error)	n-k	$ESS = Y^T Y - \hat{B}^T X^T Y$	$ESS / (n - k)$	
Total	n-k	$TSS = Y^T Y - \frac{1}{n}(\sum y)^2$		

F-statistic = RMS/EMS

And the F-table is  $F_{\alpha, n-k}$  where  $\alpha = 5\%$ ,  $n$  = number of years studied,  $k$  = number of variables in the model. If the F-statistic is greater than the F-table at 5% level (i.e.  $F_{cal} > F_{tab}$ ), it means all the variables are jointly significant.

Test for Autocorrelation: The Durbin Watson (DW) statistic will be used to test for serial correlation of the error terms of the model. The DW statistic is given as:

$$d = \frac{\sum_{t=2}^n (e_t - e_{t-1})^2}{\sum_{t=1}^n e_t^2}$$

According to the rule of thumb as expatiated in Egbulonu (2019), if the Durbin Watson value (d) is close to 2, it means there is no significant presence of autocorrelation in the data. If d tends to 4, there is a negative autocorrelation in the error term, and if it is close to 0, then positive autocorrelation is present in the error term.

#### 4.5. Panel Unit Root Test (Stationarity Test)

Unless it is established that the variables in question are stationary, the ordinary least square (OLS) approach cannot be applied to the data in this study because it is a time series cross-section. The panel unit root test method developed by Levin, Lin, and Chu (2002) will be used in this investigation. Since the Levin, Lin, and Chu (2002) panel unit root is the standard for establishing stationarity in panel data, it is appropriate to adopt it. To prevent spurious regression, we will use the panel unit root test developed by Levin, Lin, and Chu. Since the unit root problem is ubiquitous in time series data, we will apply this test to all of the variables to establish the orders of integration. Before attempting modeling or estimate, it is customary to first transform a non-stationary data set into a stationary one (Ekanem & Iyoha, 2002).

## 5. Presentation and analysis of results

### 5.1. Unit Root Test for Panel Data

In order to derive meaningful results in a panel regression, it is essential that variables are stationary. Absence of stationarity in a time series data means that the persistence of shocks would be infinite and can lead to spurious regressions the unit root test is summarized in the Table 4.1 below.

**Table 2** Summary of the panel unit root test [*p-value in parenthesis*]

Variables	LLC test statistic		Order of Stationarity	Decision
	@Level	@First Difference		
FDI	-1.7847 [0.3372]	-2.7023 [0.0034]*	I(1)	Stationary at 1 <sup>st</sup> difference
GDP	-3.4965 [0.0002]*	-3.0832 [0.0010]*	I(0)	Stationary at Level
INF	-4.1482 [0.0000]*	-5.7674 [0.0000]*	I(0)	Stationary at Level
PSI	0.3900 [0.6517]	-2.7901 [0.0026]*	I(1)	Stationary at 1 <sup>st</sup> difference
CPI	0.1716 [0.5681]	-3.3029 [0.0005]*	I(1)	Stationary at 1 <sup>st</sup> difference
POP	-4.0183 [0.0000]*	6.1452 [0.0000]*	I(0)	Stationary at Level
NO2	-1.1611 [0.1228]	-6.3250 [0.0000]*	I(1)	Stationary at 1 <sup>st</sup> difference

Note: Probabilities of the tests statistics are presented in parenthesis; \* Indicates that the test statistic is significant at the 5% level

The panel unit root test presented in Table 4.1 above are relatively consistent and imply that more than half of the variables are stationary at order one, I(1). Specifically, foreign direct investment (FDI), political stability index (PSI, corruption perception index (CPI), and nitrous oxide emission (NO2)) are all stationary after first differencing which means that their order of stationary are represented as I(1). However, only the data on gross domestic product (GDP), inflation rate (INF) and population density (POP) were stationary at their level form which meant that their order of stationarity is represented as I(0). The implication of the stationarity test above is that the data used in the model have been ascertained to have no unit root and their statistical properties do not vary with time. This means that we assume no structural break in the series.

### 5.2. Cross-Sectional Dependency Test

Again, there is also possibility that the test may have little power if the estimated data suffers from cross-sectional dependency (Sadorsky, 2014). This prompts the test for cross-sectional dependency (CD) using the Pesaran’s (2004) CD test.

H0: *There is cross-section independence*

H1: *There is cross-section dependence.*

The result is summarized in the Table 4.2 below.

**Table 3** Cross-Sectional Dependency Test

Test	Statistic	d.f.	p-value
FDI	4.0542	6	0.0001
GDP	10.8232	6	0.0000
INF	-4.4437	6	0.0488
PSI	9.1209	6	0.0023
CPI	2.4437	6	0.0145
POP	11.7099	6	0.0000
NO2	3.9944	6	0.0461

Source: Extracted from EViews Output (See Appendix)

Table 4.2 above gives significant evidence to reject the null hypothesis of cross-section independence for the residuals of the panel data. This implies that the cross-sectional data used in the panel model are dependent on each other meaning that the FDI inflow for example into country A, will affect that of country B and so on. In other words, there is cross-section dependence (correlation) in the data (Sadorsky, 2014). This also justifies the choice of the countries from different regions of sub-Sahara Africa as they have similar economic outlook. Consequently, since the variables are of mixed order of stationarity i.e. I(0) and I(1) series, we proceed with the test for long run relationship in the model.

### 5.3. Panel Cointegration Test

Cointegration exists in a set of variables when the combination of their linear properties gives rise residuals that are non-trending (Egbulonu, 2019). The Johansen Fisher panel cointegration test requires that there must be at least one cointegrating equation for long run relationship to be assumed in a set of data. The Johansen Fisher panel cointegration test is based on the Trace statistic and the Max-eigen statistic. The test is shown in Table 4.3 below:

**Table 4** Summary of the Johansen Fisher Panel Cointegration Test

Hypothesized	Fisher Stat.*		Fisher Stat.*	
No. of CE(s)	(from trace test)	Prob.	(from max-eigen test)	Prob.
None	39.61	0.0000	39.61	0.0000
At most 1	172.7	0.0000	77.20	0.0000
At most 2	101.6	0.0000	51.36	0.0000
At most 3	60.03	0.0000	23.71	0.0026
At most 4	42.70	0.0000	16.03	0.0420
At most 5	37.04	0.0000	21.25	0.0065
At most 6	36.66	0.0000	36.66	0.0000

Source: Extracted from EViews’s Output (See Appendix)

There is significant p-values for all the hypothesized number of cointegrating equations. This implies that with every combination of the variables, there is long run relationship. At most 6 cointegrating vectors can arise from the model and this output strongly suggests that cointegration exists in the model at 5% level of significance.

The long run relationship affirms that investment climate variables have long run effect on foreign direct investment inflow in Nigeria, Ghana, Kenya and South Africa. This further implies that the effect of investment climate on foreign direct investment inflow in Nigeria, Ghana, Kenya and South Africa varies and is not static.

**5.4. Panel ARDL long run estimates**

The long run estimates show the long run effects of the investment climate variables on FDI inflow in Nigeria, Ghana, Kenya and South Africa as summarized below:

**Table 5** Summary of the Panel ARDL long run estimates

Variables	Coefficient	Std. Error	t-Stat.	p-value
GDP	2.013834	0.425887	4.728562	0.0000
INF	0.426898	0.223089	1.913578	0.0641
PSI	-0.095517	0.018024	-5.299434	0.0041
CPI	-0.136758	0.041052	-3.331336	0.0414
POP	-10.71465	3.698794	-2.896796	0.0065
NO2	6.801914	1.459327	4.660995	0.0000

Source: Extracted from EViews Output (See Appendix), Note: \*Fixed and Random effects (FE and RE) were not considered since the model assumes CD dependence

The estimates above reveals that the long run effect of economic growth trends on FDI inflows in Nigeria, Ghana, Kenya and South Africa is positive and significant as well. This is evident in the coefficient of 2.014 per cent which shows that there is increase in FDI inflows by 2.014 occasioned by changes in economic growth trends (GDP). Also, inflation rate increases FDI inflows to the region by 0.427 per cent but the probability value of 0.064 implies that the positive effect is not significant. Therefore, we can infer that the economic investment climates exert positive effect on FDI inflows to Nigeria, Ghana, Kenya and South Africa but inflation effect was not significant.

**5.5. Panel ARDL short run estimates**

The short run estimates of the panel model also show the coefficients of investment climate variables in the pen their effects on FDI are assumed to be static. This is summarized below:

**Table 6** Summary of the short run estimates

Variables	Coefficient	Std. Error	t-Stat.	p-value
COINTEQ01	-0.675870	0.266549	-2.535630	0.0160
D(GDP)	-2.326154	2.633808	-0.883191	0.3833
D(GDP(-1))	-0.236237	0.841599	-0.280700	0.7806
D(INF)	-0.074654	0.385579	-0.193616	0.8476
D(PSI)	0.647437	0.334904	1.933203	0.0616
D(PSI(-1))	0.299241	0.685016	0.436838	0.6650
D(CPI)	-1.723937	1.256941	-1.371534	0.1792
D(CPI(-1))	-0.398749	1.290587	-0.308968	0.7592
D(POP)	-42.51690	45.17984	-0.941059	0.3533
D(POP(-1))	-20.80223	14.61900	-1.422958	0.1639

D(NO2)	-1.862271	3.109794	-0.598841	0.5532
D(NO2(-1))	-1.499360	3.815828	-0.392932	0.6968
C	-35.83262	15.41612	-2.324361	0.0262

Source: Extracted from EViews Output; Note: \*Fixed and Random effects (FE and RE) were not considered since the model assume

### 5.6. s CD independence

There is long run convergence in the panel model as shown in the error correction coefficient (CointEq01). Also, the error correction coefficient represented by (CointEq01 = -0.6759) is rightly signed (i.e. negative and significant). The long run convergence shows a speed of adjustment mechanism of 67.59 per cent estimated annually. This implies that holding the investment climate variables at a steady state, FDI inflows into Nigeria, Ghana, Kenya and South Africa will increase by 67.59 per cent.

The coefficients of the short run estimates showed only two lagged effects of the regressors on FDI because the lag selection criterion (AIC) favored only 2 lagged effects. The results shows that the panel ARDL model adjusts the lagged effects to only one lag i.e. previous year. As a result, we see that the current and previous year's effect of political stability index increases FDI inflows to Nigeria, Ghana, Kenya and South Africa by 0.6474 and 0.2992 per cent respectively. Even though their effects were not significant, political stability index has short run positive effect on FDI to the region.

Interestingly, the economic investment and environmental investment climate variables were all negative in the short run. This implies that gross domestic product, inflation rate, population density and nitrous oxide emission all decreased FDI inflows to Nigeria, Ghana, Kenya and South Africa in the short run but not significantly since their p-values were all greater than 0.05 critical value.

### 5.7. Test of Hypotheses

The hypotheses test is based on the t-statistic values of the long run results of the panel model. The test is summarized as follows: The hypothesis tested above revealed that individually, gross domestic product (GDP) has significant *p-value* 0.0000 which implies that it has significant effect on FDI inflow into Nigeria, Ghana, Kenya and South Africa. However, inflation rate with p-value of 0.0641 was not significant. Notwithstanding, we concluded that economic investment climate significantly affects FDI inflows into Nigeria, Ghana, Kenya and South Africa since GDP which is the dominant economic variable has significant effect on FDI.

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## 6. Discussion

The study analyzed the effect of investment climate on foreign direct investment inflow in Nigeria, Ghana, Kenya and South Africa. Investment climate was disaggregated into economic climate, political climate and environmental climate. The modified Cobb Douglass model was the theoretical underpinning of the study since growth in FDI is likened to output and the factors that lead to growth are the investment climate variables. Using the panel ARDL model analysis, the following findings were made: Economic investment climate variable (GDP) had significant positive effect on the inflow of foreign direct investment in Nigeria, Ghana, Kenya and South Africa. While inflation have positive insignificant relationship with FDI

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## 7. Conclusion

The analysis of investment climate and FDI inflows in Nigeria, Ghana, Kenya and South Africa led to the conclusion that investment climate is a key determinant of the inflow of FDI into selected countries. The economic climate has been favorable to FDI inflows to the region but this may be short-lived as there is encroaching effect of political instability and environmental crisis which dissuades foreign investments. Finally, it was also observed that there is significant effect of nitrous oxide emission on selected Southern and West Africa Region countries.

### *Recommendations*

The study recommends as follows: Efforts should be made the governments of Nigeria, Ghana, Kenya and South Africa to enhance their economic fortunes by strengthening their economy through engaging in massive production for exports which will boost economic growth and as well attract more foreign direct investment.

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