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Institutional Quality, Investors Objectives and FDI Inflow in African Regions

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Abstract: This paper investigates the impact of institutional quality and investors' objectives on Foreign Direct Investment (FDI) inflows using the system Generalized Method of Moments (GMM) for the sample period of 1996–2019. The empirical findings confirmed that institutional quality does not determine FDI inflows in the selected countries across the five (5) African regions while, investors' objectives were found to influence FDI inflows across the selected countries. The magnitude of the coefficients of political stability, control of corruption and rule of law are less significant. This study therefore concluded that institutional quality was not pungent to endogenously work with other macroeconomic variables to attract FDI inflows in the five (5) African regions during the period of investigation. However, market seeking objectives crowd-out FDI inflows negatively while efficiency seeking objective have positive impact on FDI inflows in the five African regions. Hence, the analysis inferred that investors' objectives are the core determinants of FDI inflows in the five African regions.

Keywords: Foreign direct investment; Market seeking; Efficiency seeking; Institutional Quality

JEL Classification: F21; F68; O55; F23

1. Introduction

Foreign Direct Investment (FDI) as a growth-enhancing component has received considerable attention in developing economies and developed nations in general and its increase has been the objective of African countries in the pursuit of economic

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growth (Wolf, 2008). Foreign direct investment has been defined as the category of cross-border investment made by a resident in one economy (the direct investor) to establish a lasting interest in an enterprise in another economy (OECD- Organisation for Economic Co-operation and Development, 2002).

The demand for FDI is quite significant in Africa, due to high level of poverty prevalence, making it increasingly difficult or almost impossible to save (Rishi & Buchanna, 2012). Uneven, low and unreliable savings pattern coupled with rising population growth in African countries has left an enormous investment gap that gave strength to rising problems of unemployment, widening income inequality, problems of insecurity among many other deep rooted issues (Loots & Kabundi, 2003). Hence, it has been argued that FDI inflow from abroad has been useful in bridging this huge investment gap in Africa (Hayami, 2001). In the developing countries percentage share of FDI inflows, African region had relatively received the smallest FDI inflows averaging just 6% while Latin America and Caribbean had 20% and Asia continent with 63% among the main developing countries. However, Asia remains the largest FDI inflows recipient among the developing nations during this study period.

Busse and Groizard (2008) defined institutional quality as human created regulatory framework that organize the relationship between people, setting the structure of motives in human interactions whether it is in political, economic or social spheres and identified as the major determinants of FDI inflow in African countries. Nevertheless, investors' objective which explained the mechanisms that impart substance to the anticipated benefits of home countries can be constrained by weak institutional-based environment where there are high index of corruption, political instability and weak rule of law (Buchanna, 2012; Wei, 2000; Nurgent & Gatanaga, 1998; Busse & Hefeker, 2007; Akpo & Hassan, 2015).

The potential for technology transfer, knowledge spillover, improved managerial skills, employee training and access to international production networks, host country markets and efficient production cost control, contributes to the potential to increase productivity and output, employment generation in the host country in the diversification of exports and transformation of the economic structure of the host economy (Busse & Hefeker, 2007; Buchanna, 2012; Villami & Aseidu, 2000). Thus, developing countries are substantially reducing barriers to FDI inflow through improved institutional quality to promote and attract FDI inflow. Hence, considering the build-up and characteristics of African economies, this paper attempts to provide empirical evidence to the FDI-institutional quality and investors' objective nexus.

Another important issue in FDI inflow for Africa development discourse is the ambiguity in the beneficiary and who determines foreign direct investment inflow (home or host countries). A growing list of studies have examined the gains of FDI for growth of host country but investors objectives driven by market size and the

urges to increase efficiency that create economies of scale in abroad for FDI outflow of home countries to host countries has remained grossly understudied in the extant literature for Africa. Some investors increased flow to Africa to gain a considerable share of the market and expand their coverage while others are interested in other objectives unclear.

This paper therefore intends to investigate the relationship between institutional quality, investors' objectives and FDI inflows in the five African regions using system GMM since the results emanating from this technique is best unbiased (Arellano & Bond, 1991). More so, other reliable and consistent estimation techniques such as static panel and PMG technique were considered.

The paper is structured into five sections. Section 1 encompasses the introductory aspect, section 2 presents the review of the literature, section 3 anchored the methodology, section 4 presents results and discussions and section 5 conclusion the study with recommendations.

2. Literature Review

Foreign direct investment by International Monetary Fund (IMF) is an investment which accounts for at least 10 percent of the foreign firms voting stock of shares. Both empirical and anecdotal evidence suggest that FDI has the potential to spur economic growth, and as such, increasing FDI inflows has become a high priority for African policymakers (UNCTAD, 2012; Bartels, Kratzsch, & Eichler, 2008).

Institutional quality is a broad concept that captures law, individual rights and high-quality government regulation and services in a country (Acemoglu & Robinson, 2007). North (1990) explained that institutional quality is formulated to reduce the uncertainty associated with human exchange and provide societies with a predictable framework for interaction. Dunning, OLI eclectic paradigm (2001) gave clarifications on investors' objectives to locate abroad in his eclectic paradigm theory of FDI. He gave details on the determinants of FDI based on the following advantages; Ownership, Location and Internalization advantages which is referred to as OLI framework. These three advantages are expected to be achieved to attract FDI inflow. Dunning (2001) states that these OLI advantages varies depending on a country's status in terms of been developed, developing, competitive or monopolistic, big or small, labour intensive or capital intensive. From the OLI eclectic paradigm theory, the following investors' objectives are decomposed for this paper; market seeking investors' and efficiency seeking investors' The market seeking investors' target and penetrate the domestic markets of host countries which is connected to: per capita income, access to regional and global markets, market growth, structure of domestic market and market size. While, efficiency-seeking

investors' are inspired through lower cost of production and establishing new sources of competitiveness for firms.

Theoretically, this paper looked at FDI theories from the macroeconomic and microeconomic approaches, macroeconomic approach due to the aggregation of those investors' as well as their increasing interest to create economies of scale in the recipient countries. These consequences arise from their trade, employment, production, and their flows and stocks of intellectual capital, measured by the capital flows and stocks in the balance of payments (Lipsey, 2004). Microeconomic FDI approach attempt to shed light on why MNCs variously choose to locate their subsidiaries where they do, and why they specifically seek to penetrate those locations.

FDI theories under microeconomic approach are all based on the existence of imperfect markets. The firm-specific advantage theory developed by Hymer, (1976) and Dunning, (1980) says that, decision of MNC to invest abroad rests on certain objectives and advantages at its disposal, such as access to raw material, economies of scale, access to labour, low transaction costs, intangible assets in the form of brands and patents, amongst others. It is a firm-level (firm-specific) decision, rather than a capital market one. Hymer's theory which laid the foundation in explaining international production was also supported by scholars such as (Kindleberger, 1969) in his imperfect markets model; (Knickerbocker's 1973) oligopolistic reaction theory of following the market leader; the internalization theory of (Buckley and Casson 1976) in an international context, as well as (Dunning's, 1974) eclectic paradigm.

The Eclectic Paradigm of FDI Theory is almost certainly the most well-known theory of FDI. Dunning (2001) integrated various theories discussed above been the international trade, imperfect markets and internalization theories.

Dunning (2001), explained that for a firm to engage in foreign direct investment, three conditions must be fulfilled. First, the firm should possess net ownership advantages over other firms serving particular markets. These ownership advantages are firm-specific and exclusive to that firm, in the form of both tangible and intangible assets such as trademarks, patents, information and technology, which would result in production cost reductions for the firm, fueling the firm to compete with firms in a foreign country. These advantages were also emphasized by Hymer (1976) and Kindleberger (1969) in their market imperfections' theories on firm-specific and monopolistic advantages, respectively. Second, it must be more profitable for the firm possessing these ownership advantages to use them for itself (internalization), rather than to sell or lease them to foreign firms through licensing or management contracts (externalization). Boddewyn, (1985) refers to this as the internalization condition. Finally, assuming that the preceding conditions are both met, it must be profitable for the firm to exploit these advantages through production,

in collaboration with additional input factors such as natural resources and human capital.

In developed countries Dawn Holland and Nigel Pain (1996) examined the impact of institutional quality of developed countries using panel data analysis of the factors affecting aggregate inflows of foreign direct investment in 8 Eastern European economies over five year period from 1992 to 1996. Their findings indicated that the method of privatization, proximity to the EU and the extent of trade linkages with the advanced economies can have significant effects on the level of investment

Mateev and Tsekov (2012) also applied a panel data analysis to investigate the determinants of FDI in 26 Central and Eastern European countries over the period 1996-2010 and discovered a significant relationship between FDI and institutional quality. Unit of labour cost and corporate tax rate were seen to be statistically significant in the Eastern European countries, while the impact of institutional quality remained stronger among more developed Western economies.

Samina, Anum and Kamran (2016), examined the impact of institutional quality on Foreign Direct Investment (FDI) inflows using system generalized method of moments (SGMM) from 1996 to 2016. Their empirical results confirmed that institutional quality has a positive impact on FDI inflow in developed countries. The magnitude of the coefficients of control of corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability for FDI inflows are greater in developed countries. The study concluded that institutional quality is a more important determinant of FDI in developed countries. Agriculture value-added as a percentage of GDP, and inflation influence FDI inflows negatively in developed countries while trade openness as a percentage of GDP and infrastructure positively affect FDI in developed countries. Hence, the study showed that institutional quality is a more important determinant of FDI in developed countries.

Ajide and Adeniyi (2014) examined the relationship between governance and FDI inflows in 27 Sub-Saharan African (SSA) countries using panel regression analysis. Their results found that government effectiveness and control of corruption impacted positively and significantly on FDI inflows and economic growth in SSA countries. Furthermore, they also identified the rule of law, voice and accountability, and regulatory quality to be insignificant on the FDI inflows and economic growth in the 27 countries of Sub-Saharan African (SSA). Nonetheless, this study debased investors' objectives to FDI inflows into the 27 Sub-Saharan African (SSA) countries.

Kariuki (2015) investigated the determinants of FDI inflows using Fixed Effects model in 35 African countries through the period of 1984 to 2010. These results found a negative and insignificant correlation between political risk, financial risk, and FDI inflows. Commodity price index, trade openness, and development of

infrastructure were found statistically significant and positively correlated with FDI inflows. Further, commodity price index, the stock market, gross fixed capital formation, and trade openness were found to be important determinants of FDI inflows in these countries. However, this study failed to identify investors' interest in the host country. Also, this study was not regionally based.

Asamoah et al. (2016) employed the dynamic panel approach to investigate impact and how institutional quality mitigates the nexus between macroeconomic uncertainty and FDI in 40 countries in the SSA region for the period 1996 to 2011. Their finding indicates a negative relationship between macroeconomic uncertainty and the flow of FDI. However, the authors identified a positive relationship between institutional quality and FDI. The authors also found institutional quality and macroeconomic uncertainty to significantly correct the negative effect of economic uncertainty on FDI inflow. Nonetheless, the macroeconomic and microeconomic impacts on FDI inflow were not simultaneously considered in this study as other reviewed evidences such as (Asiedu, 2002, 2006; Benassy-Quere, Coupet & Mayer, 2007; Buckley et al., 2007; Naude´ & Krugell, 2007; Vindelyn & Omar, 2005). Asiedu (2006) used a panel data analysis to examine the factors that drives FDI inflows in 22 Sub Saharan Africa countries from 1984 to 2000. The study found that countries with large market size and natural resource endowments attracted more FDI. Also, FDI inflows were sensitive to macroeconomic stability, good infrastructure, an educated labour force, openness to FDI, an efficient legal system, less corruption and political stability.

Anyanwu (2012) adopted a panel analysis to investigate variables that caused the inflows of FDI in 53 African countries from 1996 to 2008. This study found that openness of the countries to foreign trade, market size, rule of law, foreign aid, natural resources, and past FDI inflows were the principal variables that caused inflows of FDI in Africa.

Accordingly, Aderemi, Olayemi and Olu-Young (2018) used a panel OLS to examine the determinants of FDI in the three largest economies in Africa from 1990 to 2017. This study found that, there is an active and passive determinant of FDI inflows in Africa. They concluded that the active determinants of FDI inflows into Africa are market size. While the passive determinants are GDP per capita.

Onyeiwu & Shresthe (2004) used Fixed and random effects models to investigate the impact of investors' objectives proxy with natural resources on FDI inflows into Africa. The finding of this study was that investors' objectives (measured by natural resources) had positive relationship with FDI inflow into African countries.

Majority of these determinants found in the extant literature consist of market size and economic growth (Bevan & Estrin, 2004); accessibility of natural resources (Asiedu, 2002, 2006), availability of human capital development (Kar 2013; Lewin, Massini, &Peeters, 2009; Ndeffo, 2010; Suliman and Mollick, 2009). In summary,

the conclusions emanating from most of the extant literature on investors' objectives, institutional quality and FDI inflows in Africa, revealed a divergence opinion and in order to have a clearer understanding on the impacts of home and host countries investment phenomena on FDI inflows in Africa, this paper investigate the strength between institutional quality and investors' objectives in attracting FDI inflows in African countries.

3. Theoretical Framework

This paper is theoretically underpinned on the modified theory of Dunning's (1993, 2001) eclectic paradigm. This theory serves the basis for the model of this paper. The OLI eclectic Paradigm of Dunning's (1993, 2001) theoretical framework grouped FDI theories into microeconomic and macroeconomic level determinants as considered by this paper.

3.1. Data

Data for this study was sourced from World Bank's World Development Indicators (WDI) and World Bank's Governance Indicators. Annual data was used for the analysis covering the period from 1996 to 2019. Net FDI inflow was used (New investment funds less Repatriated funds). Other variables used include market seeking objective proxy for the ration of per capita income to population (GDP/PN), efficiency seeking objective proxy for trade openness (X+M/GDP), institutional quality components (political stability, control of corruption and rule of law) in the five (5) African regions; (Northern African Region; Egypt, Morocco, Tunisia, Algeria and Libya. Southern African Region; South Africa, Angola, Mozambique, Malawi and Lesotho.Western African Region; Nigeria, Ghana, Senegal, Mali and Cote-d-Ivoire.Eastern Region: Ethiopia, Kenya, Uganda, Madagascar and Mauritius. Central African Region; Chad, Republic of Congo, Cameroon, Equatorial Guinea and Gabon).

3.2. Model Specification

Based on John, Dunning's, (1993, 2001) theoretical background. This study uses the following empirical model to analyze the impact of institutional quality and investors objectives on FDI inflow across the selected countries in the five (5) African regions

$$\gamma_{it} = \alpha + \beta_i X_{it} + \gamma_i Z_{it} + U_{it} \quad (1)$$

Where $\gamma_{it}$is the FDI inflows, Z_{it} is a vector of the institutional quality variables of interest, X_{it} is the vector of investors' objectives, country i is the domain that contain the cross sectional characteristics of data (the selected African countries in the five

regions) and t is the time series scope the study cover (1996 to 2019; 24 years) the variables of interest for Z_{it} are political instability, rule of law and control for corruption. While X_{it} is the vector of investors' objectives which consist of efficiency seeking objective and market seeking objective proxy for Trade openness and per capita income respectively. U_{it} is the error term. FDI is the dependent variable inflows of FDI in current U.S. dollars.

Per capita income captures the size of the host country market. Moreover, trade openness also captured the efficiency of the host country.

4. Results and Discussions

$$FDI_{i,t} = \alpha + \beta_1 PoV_{i,t} + \beta_2 CoC_{i,t} + \beta_3 RuL_{i,t} + \beta_1 MAS_{it} + \beta_2 EFS_{it} + W_{i,t} \quad (2)$$

Where FDI is Net foreign direct investment, POV is political stability, CoC is control of corruption, RuL is rule of law, MAS is market seeking objective and EFS is efficiency seeking objective

Pre-Estimation Tests

The study tests for normality, presence of multicorrelation problem in the dataset and unit root.

Normality Test

The Jacque-Bera (JB) test was employed for the normality test. The test also presents the descriptive statistics of the variables in this paper. The result of the Jarque-Bera test is presented in Table 1 as follows;

Table 1. Descriptive Statistics

	FDI	POV	RUL	COC	MAS	EFS
Mean	4.401741	-0.479927	-0.517796	-0.574681	5426.576	70.01347
Median	2.189989	-0.260000	-0.450000	-0.590000	2740.000	65.14191
Maximum	161.8238	1.120000	1.080000	0.730000	28880.00	165.6459
Minimum	-8.589432	-2.350000	-6.950000	-1.830000	0.000000	0.000000
Std. Dev.	10.08559	0.745181	0.648129	0.541609	5877.663	33.98939
Skewness	8.777451	-0.476394	-1.672514	-0.044611	1.783999	0.213070
Kurtosis	1.9046	2.474875	19.51268	2.076250	5.902372	3.308424

Jarque-Bera	309069.8	27.07400	6493.245	19.70165	483.9064	6.329966
Probability	0.000000	0.000001	0.000000	0.000053	0.000000	0.042215
Sum	2416.556	263.4800	-284.2700	-315.5000	2979190.	38437.40
Sum Sq.Dev.	55742.05	304.3014	230.1992	160.7505	1.89E+10	633092.8
Observations	549	549	549	549	549	549

Authors Compilation, 2021

The Jarque-Bera statistics presented in Table 1 indicated a P-value less than 0.05 for foreign direct investment (FDI), political stability (POV), control of corruption (COC), rule of law (RUL), market seeking objective (MAS) and efficiency objective (EFS). Hence the null hypothesis that the residuals of these variables are normally distributed is rejected at the 5% significance level. Therefore, the result indicates that all the variables in the dataset are not normally distributed around the mean. The implication of this result is that, over the period covered in this paper, the distribution in terms of the movement in the values of FDI, POV, COC, RUL, MAS and EFS significantly differs. The successive values of these variables over the period are different as such the estimation of the model requires an estimation technique that address the issues of normality problem.

Correlation Analysis

The correlation analysis checks whether there is multicollinearity problem in the model or not.

Table 2. Correlation Matrix

	FDI	**POV**	**RUL**	**COC**	**MAS**	**EFS**
FDI	1					
POV	0.067256	1				
RUL	-0.086335	0.615773	1			
COC	-0.080150	0.533314	0.836235	1		
MAS	-0.084674	0.221585	0.018204	-0.075346	1	
EFS	-0.040571	0.168066	-0.055720	-0.080406	0.333833	1

Source: Authors Compilation, 2021

The result of the correlation analysis indicates that there is no multicorrelation among the explanatory variables since there are no explanatory variables with 0.90 or even with greater correlation coefficients. While political instability is positively related to foreign direct investment inflow, control of corruption, rule of law, market seeking objective and efficiency seeking objective are negatively related to foreign direct investment inflow in the selected countries across the five (5) African regions.

Lag Order Selection

The choice of an appropriate lag is an important issue in econometric research. The results of lag-order selection criteria for the estimated model are presented in Table 3.

Table 3. Lag Order Selection

Lag	Lag L	LR	FPE	AIC	SC	HQ
0	-7014.613	NA	1.706110	40.58158	40.64828	40.60814
1	-5165.812	3622.794	477219.5	30.10296	30.56987*	30.28889
2	-5112.163	103.2672	431012.3	30.00094	30.86806	30.34623
3	-5082.194	56.64728	446503.5	30.03580	31.30313	30.54045
4	-5029.155	98.41231	404968.5	29.93731	31.60484	30.60133
5	-4980.235	89.07401	376344.3	29.86263	31.93037	30.68601
6	-4850.347	231.9963	219167.0	29.31993	31.78787	30.30267
7	-4775.897	130.3952*	175985.9*	29.09767*	31.96583	30.23978*
8	-4759.077	28.87560	197358.5	29.20854	32.47690	30.51001

* indicates lag order selected by the criterion, LR: sequential modified LR test statistic (each test at 5% level), FPE: Final prediction error, AIC: Akaike information criterion, SC: Schwarz information criterion, HQ: Hannan-Quinn information criterion

Source: Authors Compilation, 2021

Based on the result in Table 3, a maximum of 7 lags as suggested by Sequential Modified LR test, Final prediction error (FPE), Akaike Information criterion (AIC) and Hannan-Quinn information criterion (HQ) is appropriate.

Unit Root Tests

This section reports the results of unit root test. The unit root test is computed without constant and trend (none) as well as with intercept. The study used the conventional Augmented Dickey-Fuller-Fisher (ADF-Fisher) and Levin, Lin & Chu unit root tests expressed in two model forms, without intercept and trend and with intercept for all the variables as reported in Table 4 below;

Table 4. Unit Root Test Results. .

	Levin, Lin & Chu t*				Order	ADF - Fisher Chi-square				Order
	Level		1st Difference			Level		1st Difference		
Variable	None	Constant	None	Constant		None	Constant	None	Constant	
FDI	-4.90383 (0.0000)	-2.98436 (0.0014)	-14.6066 (0.0000)	1.04283 (0.8515	I (0)	88.4203 (0.0007)	84.3961 (0.0017)	282.385 (0.0000)	160.738 (0.0000)	I (0)
POV	-1.90291 (0.0285)	0.91345 (0.8195)	-12.5051 (0.0000)	15.9078 (1.0000)	I (1)	68.7273 (0.0405)	56.2835 (0.2515)	226.082 (0.0000)	128.119 (0.0000)	I (1)
COC	1.33740 (0.9095)	3.98904 (1.0000)	-12.6350 (0.0000)	27.4298 (1.0000)	I (1)	32.4316 (0.9744)	39.7547 (0.8500)	210.130 (0.0000)	123.03 (0.0000)	I (1)
RUL	0.10170 (0.5405)	3.72216 (0.9999)	-12.6912 (0.0000)	27.0595 (1.0000)	I (1)	38.1282 (0.8904)	40.4522 (0.8303)	216.122 (0.0000)	120.075 (0.0000)	I (1)
MAS	10.7332 (1.0000)	3.38701 (0.9996)	-3.74540 (0.0001)	-2.41033 (0.0080)	I (1)	3.28729 (1.0000)	7.13775 (1.0000)	91.5252 (0.0003)	92.7400 (0.0002)	I (1)
EFS	-0.48666 (0.3133)	-1.43846 (0.0752)	-17.9607 (0.0000)	-10.5685 (0.0000)	I (1)	29.7516 (0.9898)	49.1939 (0.5057)	337.419 (0.0000)	212.637 (0.0000)	I(1)

Source: Authors Compilation, 2021

The result of the Augmented Dickey Fuller (ADF) unit root test in Table 4 indicated that, foreign direct investment inflows is stationary at level I(0) using both the Levin, Lin & Chu and ADF - Fisher Chi-square unit root tests. Conversely, political stability, control of corruption, rule of law, market seeking objective and efficiency seeking objective were found to be stationary only at first difference I(1) at 5% levels based on both the Levin, Lin & Chu and ADF - Fisher Chi-square unit root tests.

Empirical Results

System GMM Panel Results

The results from the System GMM dynamic panel data analysis is presented in Table 6.

Table 5. System GMM Panel Results

Variables→	Coefficients	t-statistics	P-values
$\mathbf{FDI}_{it-1}$	-0.228497	-6.111854	0.0000**
POV	0.668190	0.756215	0.4499
RUL	-0.098054	-0.134269	0.8932
COC	0.763040	0.661996	0.5083
MAS	-0.000398	-2.102459	0.0360**
EFS	0.028711	1.792659	0.0536**

Note: Significant at 5% level (*P*< 0.05)**

Source: Authors Compilation, 2021

The results presented in Table 5 shows that the lag of foreign direct investment inflows, rule of law and market seeking objective are negatively signed while political stability, control of corruption and efficiency seeking objective are positively signed in the system GMM model estimation. It is notable that market

seeking objective is negatively signed in both the fixed and the dynamic models. As additional information from the system GMM estimates, a negative significant relationship was established flowing from the lag of foreign direct investment inflows, indicating that there is consistent relationship from the past period level of foreign direct investment inflows to the successive current level of foreign direct investment inflows. Political stability, rule of law, control of corruption exert an insignificant effect on foreign direct investment inflows in the selected countries across the five (5) African regions.

Thus, the result from the system GMM estimation and the fixed effect estimation of the static model produce the same outcome with regards to the relationship between market seeking objective and foreign direct investment inflows in the selected countries in Africa. It was revealed that market seeking objective crowd-out foreign direct investment inflows while political stability, rule of law, control of corruption do not directly stimulate foreign direct investment inflows in the selected countries in Africa.

Post Estimation Results

Table 6: presents the result of the test for over-identification serial correlation in the dynamic panel data as follows;

Table 6. Model Diagnostics

Number of Observations	499
Number of Groups	25
Number of Instruments	5
F-test of Joint Significance	F = 77.00000
Hansen J-test of Over identifying Restrictions	Chi^2 (2) = 459.2965; prob> chi^2 = 0.000000

Source: Author, 2021

In the result in Table 6, the Hansen J-statistic tests (Chi^2>459.2965; prob = 0.003257) indicates that the model has valid instrumentation. Therefore, we cannot reject the null hypothesis at any conventional level of significance. The F-statistic suggests that all the explanatory variables jointly and significantly explained the model at 5% significance level. Roodman (2006) suggests checking for steady-state assumption which can be used to investigate the validity of the instruments. In other words, the estimated coefficient on the lagged dependent variable in the model should indicate convergence by having a value less than absolute unity, otherwise system-GMM is invalid. The estimated coefficient on lagged dependent variables is -0.228497, which means the steady-state assumption holds. According to Roodman (2007) there is also the need to report the number of instruments used in the dynamic panel, since they can generate potentially "weak" instruments that can cause biased estimates. Hence,

the number of instruments should not exceed the number of observations, which is the case here (5 instruments <499 observations).

Table 6 presents the result of the fixed effects regression

Table 7. Fixed Effects Regression Results

Fixed Effects Estimates			
variables→	**Coefficients**	**t-statistics**	**P-values**
POV	1.119560	1.317195	0.1883
RUL	-0.754241	-0.578735	0.5630
COC	-0.668673	-0.429848	0.6675
MAS	-0.000372	-3.538069	0.0004**
EFS	-0.030135	-1.947990	0.0519**
C	8.292218	6.230630	0.0000
F-statistic(prob)=4.652247 (0.000362), R-squared= 0.641 Adj R= 0.632249 DW=1.702273			

Source: Authors Compilation, 2021

Hausman test in Table 7 suggests that the fixed effects model is also a good model since the chi square probability (Prob>chi^2) value is less than the chosen 5% level of significance. Thus, the fixed effect model estimation result is also reported in the study for comparison. In the model, both market seeking objective and efficiency seeking objective are statistically significant. These two variables exert a negative effect on foreign direct investment inflows while political stability, control of corruption and rule of law on foreign direct investment inflows are not significant in the selected countries in Africa.

The result of the static panel models suggest that while institutional factors comprising political stability, control of corruption and rule of law do not drive foreign direct investment inflows, investors' objectives consisting of market seeking objective and efficiency seeking objective crowd-out FDI inflows in the selected countries across the five (5) African regions. Hence, poor nature of these socio-economic factors in the host country would retard FDI inflows in the five African regions.

5. Conclusion and Recommendations

The implication of this results is that countries in the sample where there are large market coverage and efficiency, irrespective of their institutional quality influence, tend to experience more inflow of foreign direct investment, while in countries where market coverage and efficiency are poor, experienced lower foreign direct investment inflow in the five (5) African regions. However, the findings of this study supported the studies of (Lemi & Asefa 2003; Subasat & Bellos 2013) which show

that weak institutional quality does not retard MNC's investment in developing countries.

Based on these empirical findings, a number of policy implications were derived. These policy implications include further implementation of policies targeted at increasing and sustaining FDI inflows across the selected countries in the five (5) African regions.

1. The negative and statistical significant coefficient of the market seeking objective variable emphasized the significance of host countries market structure in attracting FDI inflows. Thus, African regions need to intensify efforts to engage an integrated common market that is FDI inflow induced.

2. Efficiency seeking objective variable also has contributory strength in attracting FDI inflow in the five (5) African regions, thus, African countries should design evidence based policies that are liberalization friendly such as reduction of taxes, licenses, insecurity.

3. African countries should design a policy that controls inflation to give a strong determinant of prevailing market price which in turn induced purchasing power parity.

4. Institutional quality does not have direct effect in our results but an indirect impact of institutional quality is believed to exist. Hence, governmental policies that enhance capital formation, human capital development and increase in GDP growth should be introduced.

5. The primary implication of the increase in GDP per capita is not unconnected to growth improving population size. Therefore, African leaders should implement policies that will control geometric population increase in African countries.

6. The statistical findings on institutional quality is weak for the selected countries across the five (5) African regions as all its measures (PoV, CoC and RuL) were not statistically significant in the short-run which implies that institutional quality are not potent enough to work endogenously with macroeconomic factors in the selected countries across the five (5) African regions to attract FDI inflows. Therefore, African countries should engage in institutional reforms to attract FDI inflows.

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