

Responsiveness of Foreign Direct Investment to Governance Quality

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ABSTRACT: The study analyzed the impact of government indicators on foreign direct investment inflow in Nigeria from 1999 to 2023. Variables such as regulatory quality, control of corruption, and government effectiveness capture government indicators, while the net inflow of FDI is used to capture foreign direct investment. The study employed the autoregressive distributive lag (ARDL), since it allows for variables that are stationary at the level and at first difference. The unit root test confirmed that a few variables were stationary at the level, while all variables were stationary at first difference. Also, the ARDL bound cointegration result confirmed that a long-run equilibrium relationship exists between government indicators and foreign direct investment. Furthermore, empirical findings revealed that all the government indicators, such as regulatory quality, control of corruption, and government effectiveness, assert a negative influence on foreign direct investment. Based on this, the study suggests that the government should improve the quality of the country's institutions and ensure a vigorous anti-corruption campaign, more accountability and freedom of expression, strengthen regulatory authority, and improved government efficacy through better leadership selection processes.

KEYWORDS: Government indicators, foreign direct investment, ARDL model, regulatory quality, control of corruption.

1. INTRODUCTION

Government indicators and foreign direct investment (FDI) inflows critically shape the economic trajectories of developing nations, including Nigeria, Africa's largest economy by natural and human resources (Linus et al., 2025). This interplay fosters growth while addressing unemployment, infrastructure deficits, and inequality. FDI injects capital, technology, skills, and market access, with institutional indicators regulatory quality control of corruption, and government effectiveness serving as key investor determinants. Fiscal, monetary, trade, and investment frameworks profoundly influence Nigeria's FDI flows. Stability-focused policies, regulatory easing, and incentives attract investors, whereas uncertainty, bureaucracy, infrastructure gaps, and weak institutions deter them (Lawal et al., 2024). Tax incentives enable capital transfers, spillovers, and employment but reduce revenues, shifting burdens to local firms via multiple taxation and rendering FDI counterproductive (Edmiston, Mudd, and Valav, 2003). Institutional lapses, alongside policy shortcomings, further impede inflows (Kalu et al., 2025). FDI aids oil diversification, yet efficacy depends on policy, institutions, and absorptive capacity.

Nigeria's policies include the 1986 Structural Adjustment Programme, 1988 Industrial Development Coordinating Committee and Multilateral Investment Guarantee Agency, and 1995 Nigerian Investment Promotion Commission (NIPC). Pre-1995 contractionary stances limited FDI (Ayanwale, 2007); post-NIPC, inflows remained volatile. As a GDP share, FDI stayed below 1% (1996–1998), rose above 1% (1999–2004) and 2% (peaking at 2.93% in 2009), then declined to 0.50% (2018) and 0.74% (2019) (World Development Indicators, 2020). Absolute inflows mirrored this: \$1.14 billion (2000) to \$4.98 billion (2005) and \$6.03 billion (2010), falling to \$3.06 billion (2015), \$2.39 billion (2020), rising to \$3.31 billion (2021), and dropping to \$1.87 billion (2023) (World Development Indicators, 2024). From 1985–1996, political instability fueled volatility; the 1995 NIPC Act enabled 100% foreign ownership, boosting mainly oil FDI while non-oil sectors lagged. Friendly policies outperform harsh ones (Buchanan, Le, and Rishi, 2012; Siddica and Angkur, 2017; Peres et al., 2018), as institutions curb uncertainty and costs (North, 1990). FDI, the top capital source for developing economies, drives growth through technology and expertise (Jude and Leveuge, 2015; Naudé and Krugell, 2007; Uwubanmwun and Ogiemudia, 2016), with multinationals prioritizing supportive frameworks (Osabutey and Okoro, 2015; Nsofor and Tankon, 2017; Forte & Moura, 2013).

Despite resources, location, and market size, Nigeria's FDI is inconsistent, oil-skewed, and unevenly distributed, yielding mixed results from incentives, reforms, and liberalization. Policy inconsistency, infrastructure, corruption, and regulations deter investors,

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limiting sustainable impacts (Isiaka, and Oderghohwu, 2018). Liberalization (e.g., 1995 NIPC) spurred gains, but uncertainty caused declines, including 2022 drops and 2023–2024 rebounds, impairing productivity. Empirical gaps persist in policy-FDI links, sectoral allocation, and interactions with human capital and institutions. This study fills them by examining government indicators' effects on FDI inflows (1999–2023), using regulatory quality, control of corruption, and government effectiveness overlooked measures vital for growth.

This study is focused on Nigeria (1999–2023, 24 years), amid post-1999 declines affecting sectors. It employs autoregressive distributed lag (ARDL) modeling on World Governance Indicators (WGI) time-series data (starting 1999) to reveal short- and long-run effects. For policymakers, it provides evidence on tax incentives, trade regulations, and reforms' FDI impacts, aiding consistent, transparent strategies. Insights from NIPC-like shifts enable past evaluations and future prioritization of non-oil sectors (agriculture, manufacturing) for diversification, plus monitoring frameworks for global competitiveness. Socially, it elucidates FDI's contributions to GDP, jobs, infrastructure, and standards e.g., post-2020 tech inflows boosting youth innovation fostering equity across urban-rural and regional divides.

2. REVIEW OF RELATED LITERATURE

Governance indicators quantify government program efficacy, aiding policymakers in monitoring progress and decision-making. They represent principles guiding public and private entities to maximize wealth, rooted in institutional best practices (Yildirim and Gokalp, 2016). North (1990) defines them as rules, compliance procedures, and ethical norms constraining behavior to enhance principals' utility. Yildirim (2015) views them as socially embedded habits limiting actions, fostering trust that bolsters business scale, industrial flexibility, and shock resilience. Institutions should incentivize innovation, capital accumulation, education, property rights, and curb predation like corruption (North, 1990). They indirectly boost growth via physical/human capital, investment, and technical change (Yildirim and Gokalp, 2016). Key FDI bottlenecks include voice/accountability (citizen participation limiting executive power); political stability/absence of violence (reducing instability to encourage investment); government effectiveness (quality public services independent of politics); regulatory quality (sound policies promoting private development); rule of law (contract enforcement, property rights, policing); and control of corruption (prioritizing effort over bribery) (PricewaterhouseCoopers [PWC], 2017).

Foreign Direct Investment entails capital transfers granting foreign investors significant ownership ($\geq 10\%$ equity) and managerial influence in host enterprises (International Monetary Fund, cited in Villaverde and Maza, 2015; Koepke, 2019). Primarily by corporations expanding reach, it contrasts with indirect investment (fragmented production across economies) and excels via physical assets like plants, enhancing host economies long-term (Almfraji and Almsafir, 2014; Herger and McCorriston, 2014; Margeirsson, 2015). FDI attraction hinges on macroeconomic performance, infrastructure, investment climate, institutional quality, market size, human capital investment, and government spending (Lucke and Eichler, 2016; Cleeve et al., 2015).

The conceptual framework demonstrates the link between government policy indicators and foreign direct investment. The graphic shows how government regulation quality, corruption control, and government effectiveness may all have an impact on foreign direct investment in Nigeria. This means that a government's capacity to establish and implement solid policies and regulations that encourage private sector development and improve the business climate can assist in increasing the flow of foreign direct investment. For example, a government with good regulatory quality creates a stable and predictable environment for international investment. Clear and uniform laws eliminate ambiguity, increasing investor confidence in the safety and profitability of their investments in the country. Furthermore, high regulatory quality typically results in expedited processes for beginning and running firms, such as faster access to permits, licenses, and tax compliance. This lowers transaction costs for international investors, making the country a more appealing option for foreign direct investment.

Similarly, a government's capacity to restrain public officials' misuse of authority for personal benefit while also ensuring openness, accountability, and fairness in both the public and private sectors. Corruption creates uncertainty and the possibility of unlawful or unfair commercial actions, such as bribery and fraud. Countries with low levels of corruption, on the other hand, typically have a more effective regulatory structure, allowing firms to traverse bureaucracy without resorting to unlawful methods. Investors are more willing to invest in such nations because they anticipate fewer challenges and hidden expenses. The efficacy of the government in combating corruption may go a long way toward improving and boosting the flow of foreign direct investment to the country. Government effectiveness refers to a government's capacity to design and implement good policies while also providing effective public services.

New Institutional Economics Theory (Institutions Quality Hypothesis) best supports this study on governance indicators and FDI flows in Nigeria.

North (1990) frames institutions as "rules of the game" formal regulations and informal norms that reduce uncertainty, transaction costs, and risks, directly shaping investment decisions. Your study's focus on regulatory quality, control of corruption, and government effectiveness perfectly aligns with this framework, as these World Governance Indicators measure institutional quality's impact on economic behavior (Rodrik and Subramanian, 2003). Weak institutions foster rent-seeking, corruption, and resource

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misallocation precisely what deters FDI inflows in Nigeria while strong institutions incentivize productive investment, innovation, and growth (Iqbal and Daly, 2014).

This theory explains your ARDL findings of negative long-run relationships: poor regulatory quality signals unpredictable rules; weak corruption control enables predation; ineffective government undermines contract enforcement all elevating FDI risks (Alexiou, Tsaliki and Osman, 2014). Unlike Neoclassical theory's capital/technology focus or Host Country Development's broader policy emphasis, Institutional Quality directly links governance indicators to investor confidence, making it the most precise theoretical anchor for Nigeria's FDI challenges and reform recommendations.

To maintain sustainable growth and development, the government must strike a balance between government indicators and foreign direct investment inflows, as both variables of interest play a critical part in deciding how well an economy can perform. Since government policy indicators are statistical metrics used to analyze the performance, effectiveness, and efficiency of a government's policies, programs, and services, it is necessary to investigate.

A study conducted in BRICS countries by Jadhav (2012) investigated the association between institutional quality factors and foreign direct investment, using the Autoregressive distributive lag technique from 1980 to 2011. The findings show that institutional quality negatively and insignificantly impacts foreign direct investment, although voice and accountability have a significant and positive influence on foreign direct investment. In another study, Gangi and Abdulrazak (2012) examined the effects of the same government indicators (political stability, control of corruption, rule of law, regularity quality, voice and accountability, and government effectiveness) on foreign direct investment inflows to fifty African countries from 2000 to 2011. By using a fixed and random effect model, the study found that voice and accountability, government effectiveness, and rule of law were positive and significant on foreign direct investment.

Alexiou, Tsaliki, and Osman (2014) investigated the relationship between institutional quality and economic development using empirical evidence from the Sudanese economy. The study uses the ARDL limits testing technique to cointegration suggested by Pesaran et al. (2001), to analyze the time series data spanning from 1972-2008. The empirical result affirms that the institutional quality proxy by the political freedom index has a negative effect on the country's economic prosperity. Also, Babayan (2015) explored the role of institutional framework on foreign direct investment inflow in Nigeria, from 1996 to 2014, using ordinary last square and found that quality institutions are important to attract huge foreign direct investment. The result further indicates that institutions are important to obtain benefits linked to foreign direct investment in the long run.

Olanrewaju (2018) also used the Bounds testing technique to cointegration inside an ARDL framework from 1999 to 2017 to investigate the relationship between institutional quality, financial inclusion, and inclusive growth in Nigeria's resource-rich and labor-rich economy. The findings revealed that financial inclusion and institutional determinants promoted inclusive growth. Radzeviča and Bulderberga (2018) investigate the impact of institutional quality on economic growth and its consequences in the Baltic States. The Generalized Method of Moments was applied to a panel of 113 nations between 2006 and 2016. Government effectiveness, regulatory quality, tax load, monetary freedom, financial freedom, trade freedom, the robustness of auditing and reporting requirements, the performance of company boards, and investor protection all have a beneficial impact on economic growth.

Epaphra and Kombe (2018) investigated the effect of institutions on economic growth in Africa. The study used the Generalized method of Moment (GMM), Fixed Effects (FE), and Random Effects (RE) models. 1996-2016. Institutional quality indicators of political stability appear to be the most significant factor in explaining real GDP per capita growth in Africa. De Michiel and Belderbos (2018) investigated the influence of infrastructure on Africa's foreign direct investment. They employed fixed effects and generalized estimate of moments techniques, which revealed that the connections between numerous infrastructure characteristics and foreign direct investment were generally robust and inconsequential. Furthermore, the authors discovered that African governments did not encourage infrastructure investment to attract foreign direct investment.

Ngepah and Udeagha (2018) used panel data from 1995 to 2014 to investigate Africa's regional trade agreements. To investigate trade formation and diversion effects, a gravity model was built using the Eicker-White robust covariance Poisson pseudo maximum likelihood approach. The findings indicate that regional trade agreements have the potential to promote business. Using the instrumental variables approach, Peres et al. (2018) also get insignificant results for developing countries by summing up the control of corruption and rule of law index, which measure the institutional quality. The negative impact of institutional efficiency on extractive FDI. Using the random effect model, Ross (2019) demonstrates that in developing countries, poor political conditions can capture the attention of foreign investors to invest. The use of a diverse group of countries and timeframes, as well as a discrepancy in estimation procedures, may be the cause of the disparity in performance.

Olanrewaju, Tella, and Adesoye (2019) examined the causal interactions among the institutional, financial, and inclusive growth variables by employing the Toda-Yamamoto Granger non-causality test within the augmented VAR framework. The Toda-Yamamoto analysis showed that all the variables, except the financial inclusion index, caused inclusive growth but without any evidence of feedback. However, a bidirectional causal relationship was found between inclusive finance and the interaction of institutional quality and financial inclusion. In another study, Uddin, Chowdhury, Zafar Shafique, and Liu (2019) explored the

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institutional determinants of inward foreign direct investment in Pakistan from 1990 to 2018 using vector autoregression. The result revealed the effectiveness of a conducive institutional environment to attract foreign investment.

Also, Nawaz and Ganic (2021) investigated the effect of governance indicators on Chinese inward foreign direct investment from 2002 to 2019 using the fixed effect model and the generalized method of moments (GMM). The study reports a positively significant relationship between control of corruption, rule of law, and regulatory quality with the flow of foreign investment in China. In another study, Rehman, Sohag, and Ahmad (2021) examined the bidirectional causal nexus between institutional quality and aggregated foreign direct investment in India from 1980 to 2019 using the simulated autoregressive distributed lag. The empirical results support the idea that institutional quality strongly attracts aggregated and disaggregated foreign direct investment and enhances the quality of institutions.

There is no doubt that a lot of studies in this area have been conducted in Nigeria and around the world. However, most previous studies were limited in scope and used variables from only one dimension, particularly institution quality and foreign direct investment, as well as institutional quality and economic growth. In some cases, the studies were limited in scope because they only looked at the relationship between institutional quality and economic growth or institutional quality and foreign direct investment. These studies failed to establish the relationship between government indicators and foreign direct investment in Nigeria. The few studies that investigated the nexus between government indicators and foreign investment were only done in selected African countries and China, without a specific study conducted in Nigeria. Also, these studies have limited scope as well as employed government indicators that might not be relevant to Nigeria. Meanwhile, this present study tends to bridge the gap in the literature as well as extend the frontier of knowledge by investigating the impact of government indicators and foreign direct investment in Nigeria. The study tends to compute the government indicators index using the principal component analysis as well as test each of the indicators on foreign direct investment. In other to address welfare related issues in Nigeria, one of the areas that the government have regulated on is fuel subsidy removal (see Kalu et al., 2024). Resolving the Fuel Subsidy and Welfare Dilemma in the Nigerian Economic Space.

3. METHODOLOGY

The study utilizes quantitative data, which can be measured numerically, as well as secondary data, which must be a time series of data spanning from 1999 to 2023. The rationale for selecting this period is based on the data available; that is, data for government institutions or indicators became more available in 1996. The secondary data used for the study will be obtained from World Development Indicators, World Governance Indicators, and the CBN statistical bulletin.

This study adopts the institutions' quality hypothesis. The 'institutions' quality hypothesis' contends that the institutional framework within which economic agents interact with each other in an economy affects economic development (Alexiou, Tsaliki & Osman, 2014). This work adopted similar methodology by Chidinma et. Al (2025). Econometric Assessment of the Impact of Conflict on Youth Unemployment in Nigeria (2003-2023). According to this view, what matters most are the 'rules of the game' in a society, which are defined by the prevailing explicit and implicit behavioural norms and their ability to create appropriate incentives for desirable economic behaviour (Rodrik & Subramanian, 2003). North, (1990) argues that institutions set market rules, structure interactions among economic actors and ensure that economic actions are bound by these rules. In this view, firms are encouraged in an environment protected by market rules as a result competition often leads to technological upgrading, innovation and productivity gains.

$$FDI = f(RQ, CC, GE, GOVCAP, INF, DINV)$$

The model above is linearized and specified as:

$$FDI_t = \beta_0 + \beta_1 RQ_t + \beta_2 CC_t + \beta_3 GE_t + \beta_4 GOVCAP_t + \beta_5 INF_t + \beta_6 DINV_t + \varepsilon_t$$

Where:

FDI_t represents foreign direct investment captured with net inflow of foreign direct investment at time t , RQ_t denotes regulatory quality at time t , CC_t is control of corruption at time t , GE_t signifies government effectiveness at time t , $GOVCAP_t$ denotes Government Capital Expenditure at time t , INF_t represents inflation captured with food inflation rate at time t , $DINV_t$ denotes domestic investment at time t , β_0 is the constant term, $\beta_1, \beta_2, \beta_3, \beta_4, \dots, \beta_6$ are the parameter estimates, while ε_t is the stochastic error term.

The variables for the study include the government indicators, which serve as the independent variable. The government indicators data will be sourced from the World Governance Indicators. The justification for employing government indicators in the model of study is that the variable measures the government's effectiveness, reliability, fairness, and how well laws are enforced or implemented. Similarly, the study includes foreign direct investment as a dependent variable, which is sourced from World Development Indicators. The justification for employing the foreign direct investment is that it measures the number of foreign investments in the domestic economy and also serves as a source of government revenue. Other variables such as inflation, government capital expenditure, and domestic investment are the control variables that can also affect foreign direct investment positively or negatively. Few studies, like Nawaz and Ganic (2021), have investigated governance indicators and Chinese inward

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foreign direct investment in China, while Gangi et al. (2012), have also examined government indicators and foreign direct investment inflows fifty African countries, however, this tends to replicate this study in Nigeria to see how government indicators affect the inflow of foreign direct investment in Nigeria.

The autoregressive distributive lag (ARDL) model will be used as the estimation approach in this study since it is best suited to the task. This is because it allows us to establish the short and long-term link between tax income and economic growth in Nigeria. Furthermore, the argument for using the ARDL model is that it allows variables to remain stationary at level I(0) and first difference I(1), as well as showing the short and long-run connection among estimated variables. The autoregressive distributive lag (ARDL) model for the specified objectives is as follows:

$$\Delta FDI_t = \beta_0 + \sum_{i=1}^p \beta_1 \Delta FDI_{t-1} + \sum_{i=0}^p \beta_2 \Delta RQ_{t-1} + \sum_{i=0}^p \beta_3 \Delta GOVCAP_{t-1} + \sum_{i=0}^p \beta_4 \Delta INF_{t-1} + \sum_{i=0}^p \beta_5 \Delta DINV_{t-1} + ECT_{t-1} \\ + \beta_6 \ln FDI_{t-1} + \beta_7 \ln RQ_{t-1} + \beta_8 \ln GOVCAP_{t-1} + \beta_9 \ln INF_{t-1} + \beta_{10} \ln DINV_{t-1} \\ + \varepsilon_t$$

4. RESULTS

This section describes the statistical interpretation of the data in the research, including the average mean, median, skewness, and kurtosis values. The descriptive analysis is summarized in the table below:

Table 1: Descriptive Statistics of the Variables

	Mean	Median	Max	Min	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Prob
FDI	1.4324	1.5711	2.9002	0.1838	0.7768	0.1974	2.0086	1.1386	0.0659
GE	-0.9538	-1.0103	0	-1.2131	0.3098	2.4791	8.2309	51.9486	0.0000
CC	-1.0654	-1.1071	0	-1.5020	0.3556	2.1985	7.5084	39.6594	0.0000
RQ	-0.8310	-0.8830	0	-1.2928	0.2991	1.5531	5.9050	18.0878	0.0001
DINV	23.0916	21.645	38.34	14.9	7.1791	0.4115	1.9656	1.7471	0.0174
GOVCAP	1098.246	846.55	4931.01	239.5	1010.083	2.4998	9.7830	71.0053	0.0000
INF	14.3558	13.83	33.93	3.9	6.7540	1.1767	4.7345	8.5472	0.0139

Source: Author's computation

The descriptive statistics presented in Table 1 reveal that the average mean for foreign direct investment stands at 1.4% lower than the median value of 1.57, suggesting a moderate symmetry. The result further affirms that over the entire period, the central value of foreign direct investment grows at 1.43% with a maximum annual value of \$2.9 billion and a minimum value of \$0.18 billion. In addition, the average means for government effectiveness stands at -0.95% less than the median value of -1.01. This implies that government effectiveness is very weak; that is, the quality of public services and policy implementation is porous and vulnerable. Furthermore, the average means for the control of corruption is -1.06% less than the median value of -1.10. In this regard, the result affirms a high perceived corruption, which can affect the inflow of foreign direct investment. In the same way, the average mean of regulatory quality stands at -0.83% lower than the median value of -0.88. This result implies that, generally, there is weak regulatory quality, which can adversely affect the implementation of sound policies that fast-track the inflow of foreign direct investment. Similarly, the average mean for domestic investment stands at 23.09, higher than the median value of 21.64. This signifies that, on average, the domestic investment over the period is 23.09%, indicating that 23.09% of gross domestic product is invested domestically. Moreover, the average mean for government capital expenditure stands at ₦10.98 trillion, higher than the median value of ₦8.46 trillion. This suggests that the government has a high average spending on capital projects in the country. Furthermore, the average mean for inflation stands at 14.35%, slightly higher than the median value of 13.83. The result further confirms that the maximum food inflation grows annually at 33.93%. Other results confirmed that most of the variables are moderately right-skewed, except for foreign direct investment and domestic investment, which are slightly skewed to the right. Also, foreign direct investment and domestic investment are platykurtic distributed, while others are leptokurtic, except for government capital expenditure, that highly peaked.

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Table 2: Correlation Analysis of the Regressors

Correlation	FDI	GE	CC	RQ	DINV	GOVCAP	INF
FDI	1						
GE	0.1459	1					
CC	0.0455	0.0445	1				
RQ	0.1538	0.1628	0.0985	1			
DINV	0.2185	0.5202	0.3247	0.1854	1		
GOVCAP	-0.5062	-0.1612	-0.0131	-0.1182	-0.2255	1	
INF	-0.2544	0.1704	0.2224	0.0608	-0.0624	0.0966	1

Source: Author's computation

Table 2 depicts the correlation matrix for the variables used. In this situation, the study used the correlation test to determine the degree of relationship between the dependent and independent variables. The results confirmed that there is no major association between the explanatory factors. The highest degree of positive association among the explanatory factors, however, was 0.52, which was found between domestic investment and government effectiveness. The results also reveal that the model's explanatory variables do not exhibit multicollinearity.

Table 3: Stationarity Test

Pre-Test	Variables	Level			First Difference			
		PP Static	1%	5%	PP Static	1%	5%	Level of Integration
PP Statistic Test	FDI	-1.5605	-3.7378	-2.9918	-8.3729***	-3.7529	-2.9980	I(1)
	RQ	-5.4619***	-3.7378	-2.9918	-12.1316***	-3.7529	-2.9980	I(0)
	CC	-7.6535***	-3.7378	-2.9918	-16.6636***	-3.7529	-2.9980	I(0)
	GE	-5.8147***	-3.7378	-2.9918	-17.3015***	-3.7529	-2.9980	I(0)
	GOVCAP	-0.5662	-3.7695	-3.0048	-6.0008***	-3.7880	-3.0123	I(1)
	INF	-2.7364	-3.7378	-2.9918	-7.3379***	-3.7529	-2.9980	I(1)
	DINV	-2.1962	-3.7378	-2.9918	-3.1619**	-3.7529	-2.9980	I(1)

Source: Author's Computation

Note: *** significant at 1%, ** significant at 5%,

The stationarity test, also known as the Phillips-Perron test, was utilized in this study to explain the direction of the data. The Phillips-Perron stationarity test indicated that the regulatory quality, control of corruption, and government effectiveness were stationary at the level, implying that all other variables were not stable. However, at the 1% and 5% levels of significance, all the variables became stationary after the first difference, suggesting that the series are mean-reverting and converge to their long-run equilibrium. Given that the series converges in the long term, the study employs the ARDL bound co-integration test to examine the effect of government indicators on foreign direct investment.

To analyze the study's objectives, the research used the Autoregressive Distributive Lag (ARDL) bound testing technique. The justification for employing the technique is that the approach permits variables that are stationary at the level and at first difference to be used. Also, the approach at a glance provides the short-run and long-run outcomes as well as the outcome for the bound cointegration test.

Table 4: ARDL Bounds Co-integration Result

Test Statistic	Value	K
F-statistic	12.81058	6
Critical Value Bounds		
Significance	I(0) Bound	I(1) Bound
10%	1.75	2.87
5%	2.04	3.24
2.5%	2.32	3.59
1%	2.66	4.05

Source: Author's computation (2025)

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The bound co-integration test found a long-run relationship between government indicators and foreign direct investment in Nigeria, since the F-statistic is greater than the I(0) and I(1) bounds at the 5% level of significance. The autoregressive distributive lag approach developed by Pesaran, Shin, and Smith (2001) is used in this work to estimate the short-run and long-run connection between the dependent and independent variables.

The ARDL results for this study are presented in table 5.

Table 5: Summary of ARDL Estimates

	Variables	Dependent Variable: Foreign Direct Investment (FDI)			
		Coeff	Std. Error	t-Statistic	Prob.
Short run Equation	$\Delta FDI(-1)^*$	-0.51	0.10	-4.97	0.0016
	$\Delta RQ(-1)$	2.00	0.48	4.14	0.0043
	$\Delta GOVCAP(-1)$	-0.001	0.0002	-6.34	0.0004
	ΔINF^{**}	-0.06	0.01	-4.14	0.0043
	$\Delta DINV(-1)$	0.12	0.02	7.76	0.0001
	D(GE)	-1.55	0.57	-2.70	0.0306
	D(CC)	-2.11	0.455	-4.64	0.0024
	ECM	-0.51	0.04	-12.81	0.0000
Long run Equation	RQ	3.93	0.99	3.97	0.0054
	GOVCAP	-0.004	0.001	-5.90	0.0006
	INF	-0.12	0.03	-3.80	0.0067
	DINV	0.24	0.04	6.07	0.0005
	CC	2.87	0.99	2.91	0.0227
	GE	-7.66	1.28	-5.98	0.0006

Source: Authors' Computation, 2025

Before deploying the result for the test of the formulated hypothesis, the post estimation tests are first discussed. A summary of these tests is presented in table 6.

Table 6: Post Estimation Result

Breusch-Pagan Heteroscedasticity Test			
F-statistic	0.656888	Prob. F(14,6)	0.7584
Obs*R-squared	12.70858	Prob. Chi-Square(14)	0.5496
Scaled explained SS	1.242157	Prob. Chi-Square(14)	1.0000
Ramsey RESET Test			
	Value	Df	Probability
T-statistic	1.933404	6	0.2177
F-statistic	5.47167	(1, 6)	0.1177
Breusch-Godfrey Serial Correlation LM Test			
F-statistic	9.458824	Prob. F(6,1)	0.2439
Obs*R-squared	20.63638	Prob. Chi-Square(6)	0.0021

Source: Author's computation (2025)

From Table 6, the Heteroskedasticity Breusch-Pagan-Godfrey test affirmed that the probability values for the F-statistic and the probability value for the chi-square are 0.7584 and 0.5496 respectively, which are greater than the 5% level of significance. In this case, we cannot reject the null hypothesis, and the study concludes that the residual is homoscedastic, meaning that the model is free from heteroscedasticity.

The second rung of Table 6 shows the stability test conducted using the Ramsey RESET test. The results show that the variables are stable, and the models are well specified since the null hypothesis of no specification error cannot be rejected at the 0.05 level of significance.

At the lowest rung of Table 6, there is the Serial Correlation LM test. The result for the Breusch–Godfrey Correlation Lagrange Multiplier test exhibits probability values of 0.2439 for the probability of F-statistics causing us not to reject the null of no serial correlation. The diagnostic tests affirm that the results are properly specified and are without biases.

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Table 5 reveals the association between regulatory quality and foreign direct investment. The result shows government regulatory quality has a positive and significant effect on foreign direct investment both in the short run and in the long run. This suggests that the government's implementation policy promotes a sound business environment that can attract foreign investors into the domestic economy. In other words, a unit change in government regulatory quality reduces increases the eagerness of the foreign investors to invest by 1.99 units in the short-run and 3.93 units in the long-run. Objective one depicts the impact of regulatory quality on foreign direct investment inflow in Nigeria. The result is important as it explains the relevance of regulatory quality on foreign direct investment. The result of the study confirmed that the government regulatory quality has a positive and significant effect on foreign direct investment, both in the short run and in the long run. The result suggests that government's policy implementation can promote a sound business environment that can attract foreign investors into the domestic economy. In addition, the outcome of the findings is in line with the empirical findings obtained by Khan, Dong, Bibi, and Khan (2024) on the impact of institutional quality on foreign direct investment.

Also, table 5 reveals the relationship between the control of corruption and foreign direct investment. Control of corruption has a negative and significant impact on foreign direct investment in the short run while that turns positive and significant in the long run. This suggests in the short-run investors may be affected by corruption perception in the short-run while that is eliminated in the long-run where it is observed that control of corruption is a positive enhancer of FDI. A unit change in control of corruption impedes FDI in the short-run by 2.1units while this changes to a positive and significant change in the long-run by 2.87 units. Objective two shows the impact of control of corruption on foreign direct investment inflow in Nigeria. The result further confirms that government control of corruption plays a crucial role in enhancing or facilitating the inflow of foreign direct investment. In this regard, the study affirmed that control of corruption has a positive and significant impact on foreign direct investment. The results reveal that a percent change in control of corruption increases foreign direct investment. The result obtained is in line with the result obtained by Bayar and Alakbarov (2016) on the effect of corruption on foreign direct investment, as well as the result obtained by Peres et al (2018) on the impact of control of corruption and rule of law index on foreign direct investment in Nigeria.

A look at the impact of government effectiveness on foreign direct investment in Nigeria shows that it negatively and significantly affects FDI. This indicates that government effectiveness, both in the short run and the long run, has a negative and significant effect on foreign direct investment. The results further demonstrate that government reforms could lead to a decrease in the inflow of foreign direct investment. This suggests that enhancing government effectiveness may create uncertainty or disrupt the existing growth of foreign direct investment, as foreign investors may benefit from inefficiencies or corrupt administration. Empirically, the results confirm that a unit change in government effectiveness decreases foreign direct investment by 1.55units in the short run and 7.66units in the long run. The result of objective three explained the role of government effectiveness on foreign direct investment inflow in Nigeria. The result confirmed that government effectiveness has a negative and significant impact on foreign direct investment in Nigeria. The result implies that effective government policy implementation tends to reduce the inflow of foreign direct investment. The result is in line with the result obtained by Jadhav (2012), who conducted a study on the impact of institutional quality factors on foreign direct investment. Other results confirmed that inflation and domestic investment positively impact foreign direct investment, while government capital expenditure negatively influenced foreign direct investment on foreign direct investment both in the short run and in the long run. Moreso, the results further indicate that the cointegration equation is negative and significant, suggesting that the speed of adjustment from short-run disequilibrium to long-run equilibrium is 50.7%, and can be corrected within one year.

5. SUMMARY AND CONCLUSIONS

This study examined the impact of impact of the government policy indicators on the flow of foreign direct investment in Nigeria by disintegrating government policy indicators into regulatory quality, control of corruption, and government effectiveness. The study employed the secondary time series data spanning from the period 1999 to 2023 and also employed the autoregressive distributive lag technique to analyze the stated specific objectives of the study, which are structured into three models. The first model representing objective one established the relationship between regulatory quality and foreign direct investment. The second model, representing objective two, shows the relationship between control of corruption and foreign direct investment, while the third model, which is objective three, shows the role of government effectiveness on foreign direct investment. The result generally confirmed that government indicators negatively impact foreign direct investment since all the indicators such as regulatory quality, control of corruption and government effectiveness all exerted significant impacts on foreign direct investment in Nigeria. It can be concluded from the study that there is a negative but insignificant impact of government policy indicators, such as regulatory quality, control of corruption and government effectiveness on foreign direct investment in Nigeria throughout the period 1999-2023. The result also shows that government capital expenditure for the period examined has a negative and significant influence on foreign direct investment, while variables such domestic investment, and inflation rate all have positive but insignificant impact on foreign direct investment.

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This study has been designed to achieve research objectives. By employing a valid and reliable methodology which is the autoregression distributive lag. This study has significantly contributed to the theoretical and methodological knowledge in this area. The findings from this research also provide useful guidelines for investors' decisions considering the current changing environment and the researchers and students. Furthermore, the study also confirmed that all the government policy indicators are very weak attract effective foreign direct investment. However, the result has revealed that the government still needs to do more to improve on the weak indicators especially the control of corruption and regulatory quality that can help implement effective policies. The indication from the study reveals that there is a negative impact of government indicators on foreign direct investment in Nigeria. Hence, it is recommended that the Nigerian government should improve the quality of the country's institutions. This entails a vigorous anti-corruption campaign, more accountability and freedom of expression, strengthened regulatory authority, and improved government efficacy through better leadership selection processes.

The study also suggests that policymakers prioritize high and improved law and order to ensure Nigeria's stable and accelerated growth of foreign direct investment. These would aid in the promotion of good institutional qualities throughout the country. This also necessitates going beyond liberal policies and developing good governance capabilities that can accelerate productivity in all sectors of the Nigerian economy.

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