AN EMPIRICAL ANALYSIS OF INSTITUTIONAL QUALITY AND FOREIGN DIRECT INVESTMENT INFLOWS IN NIGERIA

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Abstract*: This study investigated the relationship between the measures of institutional quality provided by the World Bank, World Governance Indicators and foreign direct investment inflows in Nigeria. The study used time-series data covering the period between 1996 and 2019. We sourced the data from the World Bank, World Development Indicators and World Governance Indicators databases. The measures of institutional quality used along with other selected control variables include voice and accountability, government effectiveness, rule of law, regulatory quality, control of corruption, political stability and the composite of these six variables. In order to control for endogeneity problem, we employed generalized method of moments (GMM) estimation for this study. The empirical results from GMM show that the composite institutional index, control of corruption, voice and accountability, government effectiveness, rule of law, and regulatory quality has a positive and insignificant effect on foreign direct investment inflows into Nigeria, while political stability has a negative and insignificant effect on foreign direct investment inflows. In light of these findings, this study concluded that the amount of foreign direct investment inflows into Nigeria reflect the poor institutional quality prevalent in Nigeria. This study therefore recommended that the Nigerian government should intensify measures to improve the institutional quality of Nigeria.*

1. Introduction

Studies have shown that countries with strong institutional quality attract more foreign direct investment (FDI) than countries with weak institutional quality (Buchanan, Le & Rishi, 2012; Siddica & Angkur, 2017; Peres et al., 2018). North (1990) postulated that institutions are human-made limitations in form of political, economic and social interactions that reduce uncertainty and allow firms and individual to interact efficiently. Institutions seek to promote investment, reduce transaction and production costs. Invariably, institutions affect the profitability of investments (North, 1990). FDI is unarguably the most sought-after foreign source of capital, especially in developing countries (Jude & Levieuge, 2015). The interest in FDI is related to the fact that FDI provides necessary capital and supplies host economies with foreign technology and expertise, enabling the host economies to stimulate economic growth and development (Naudé & Krugell, 2007; Uwubanmwen & Ogiemudia, 2016).

However, Multinational companies (MNCs), which drive FDI, consider various factors when deciding where to invest (Osabutey & Okoro, 2015). Availability of strong institutional framework is one of the factors MNCs consider in locating (OECD, 2002; Nsofor & Tankon, 2017; Forte & Moura, 2013).

Nigeria has a developing country requires FDI inflows as a critical factor to her economic success. The domestic investment alone is insufficient to boost economic development. Nigerian government over the years have implemented numerous FDI policies to attract FDI inflows. These policies include the Structural Adjustment programme (SAP) in 1986, the Industrial Development Co-ordinating Committee (IDCC) in 1988, the Multilateral Investment Guarantee in 1988 and the Nigerian Investment Promotion commission in 1995 among others. Instructively, before the establishment of NIPC in 1995, the policy focusing on FDI were contractionary limiting the flow of FDI in Nigeria (Ayanwale, 2007). Despite the policy on FDI, the inflow of FDI into Nigeria has been unstably low. Nigeria's net inflow of FDI from 1996-2019 was less than 1% of the GDP between 1996 and 1998 and grew above 1% between 1999 and 2004. Between 2005 and 2009, it grew above 2% reaching a peak of 2.93% in 2009 when it started the downward movement to the lowest point of 0.50% in 2018 before moving marginally upward to 0.74% in 2019 (see World Development Indicators,2020). More so, Nigeria has suffered from political instability, social unrest, insecurity, inadequate public services, weak law enforcement, and justice systems. Other are incidence of corruption in the public service, pervasive rent seeking and failure to diversify the economy, significantly depending on the oil sector. Thus, Nigeria has consistently scored poorly on all the six indices of institutional quality when benchmarked against the World Bank, World Governance Indicators between 1996 and 2019. This implies that Nigerian institutional framework is weak. The six indices of institutional quality are control of corruption (CC), government effectiveness (GE), political stability and absence of violence/terrorism (PS), regulatory quality (RQ) and rule of law (RL). The scores range between -2.5 (indicating weak institutional quality) and +2.5 (indicating good institutional quality). (See World Governance Indicators, 2020).

Given Nigeria's weak institutional framework, it is crucial to investigate the extent to which institutional quality influences FDI inflows. The relationship between institutional quality and FDI inflows has generated several empirical questions which studies have attempted to provide answers. This question centres on the desirability or otherwise of institutional quality in shaping the direction of FDI.

Nevertheless, most of the empirical studies on the relationship between FDI and institutional quality are cross-countries analysis, and the evidence is quite mixed with respect to various measures of institutional quality (Subasat, & Bellos, 2013; Bissoon, 2011; Nondo, Kahsai, & Hailu, 2016; Peres, Ameer, & Helian, 2018; Asongu, Akpan & Isihak, 2018; Bouchoucha & Benammou, 2018; Sabir, Rafique, & Abbas, 2019). Again, the institutional environment that determines the flow of FDI varies for different countries, and as such, the validity of cross-country study becomes doubtful (Deaton, 1989). This study, therefore, attempts to add to the literature by focusing on country-specific problem with Nigeria as a case study, as there are just few studies on Nigeria. The few studies; Salanko, Obilikwu & David (2020) used aggregated institutional variable from World Governance Indicators to examine the relationship between FDI and institutional quality, while Zangina & Hassan (2020) only utilised control of corruption as institutional variable in their study. The objectives of this study, therefore, is to investigate the extent to which individual institutional quality measure influences foreign direct investment inflows into the Nigerian economy for the period between 1996 and 2019, utilising institutional quality variables provided by World Governance Indicators and the generalized method of moments (GMMs) estimation.

The rest of this paper is structured as follows: section two covers the brief literature review. Section three describes the methodology. Section four presents the empirical results and discussion, while section five is the conclusion and recommendations.

2. Brief review of related literature

Empirical studies have been conducted on the relationship between institutional quality and FDI in developed countries, as well as in emerging and developing countries. Bissoon (2011) employed OLS estimates to analyse how control of corruption, political stability and regulatory quality matter for attracting FDI inflows in a sample of 45 developing nations between 1996 and 2005. The outcome of the results revealed that all the three indices of institutional quality exact a significant and positive influence in attracting FDI to all the countries in the sample. In another study Saidi et al. (2013) employed a fixed effects panel regression to investigate the impact of six institutional variables (from WGI) on FDI net inflows in 20 countries (comprising developed and developing) between the period 1998 and 2011. In the overall sample, the results revealed that only political stability and regulatory quality are significant positive in attracting FDI inflows. However, when the sample is divided into developed and developing countries, the result for developed countries showed that only political stability, regulatory quality, government effectiveness and control of corruption exact a significant and positive effect on FDI inflows. For developing countries, only regulatory quality is significantly positive in attracting inward FDI. Using OLS and GMM, Peres, Ameer & Xu (2018) investigated the effect of control of corruption and rule of law (from WGI database) on inward FDI in a sample of 110 countries (both developed and developing) between the period 2002 and 2012. The results supported a significant positive influence of institutional quality on FDI in developed economies, while in developing countries it was insignificant due to the weak institutional structure prevalent. In conclusion, the study identified institutional quality as an important variable in attracting FDI inflows. Bouchoucha & Benammou (2018) employed the fixed effect (FE), random effect (RE) and SGMM estimations to investigate the effect of the six institutional indices (from WGI) on the attractiveness of FDI to 41 African countries between 1996 and 2013. The results showed that all the six institutional measures for FE and RE are positive but insignificant. However, the results for the SGMM revealed that government effectiveness, control of corruption, regulatory quality and voice and accountability have a positive and significant impact, while rule of law and political stability are positive but not significant. Sabir, Rafique and Abbas (2019) used SGMM to study the role of aggregated and disaggregated institutional variables (from WGI dataset) in attracting FDI to high-income, upper-middle, lower-middle and low-income economies between 1996 and 2016. The study showed that control of corruption, political stability and government effectiveness significantly and positively influence FDI to LDCs. At the same time, regulatory quality and voice and accountability are insignificant in influencing FDI to LDCs. However, all the six institutional variables are significantly positive in attracting FDI to developed economies. The composite of the six institutional variables are significant positive determinant of FDI inflows in all the countries, but a more important determinant of FDI in developed countries than developing countries. In some studies, institutional quality does not influence the inflows of FDI. For instance, Subasat & Bellos (2013) employed a panel gravity model to investigate the impact of bureaucratic quality, law and order, democratic accountability, control of corruption (sourced from ICRG) and regulatory quality (sourced from WGIs) on the Latin American region between 1985 and 2008. Their findings suggested that all institutional measures used in the study are statistically insignificant negative related to inward FDI. In conclusion, weak institutional quality does not influence the decision of MNCs to invest in Latin American region. Similarly, Nondo, Kahsai & Hailu (2016) employed the FE estimation technique to investigate the effect of disaggregated and aggregated institutional indicators (from WGI) on inward flows of FDI to 45 countries in the Sub-Saharan region between 1996 and 2007.The study found that all the institutional variables have no statistically significant effect on FDI inflows. They attributed this to the prevalence of weak institutional quality in Sub-Saharan region. In the same fashion, Asongu et al. (2018) used a panel analysis and institutional

index among other factors to search for the determinants of FDI inflows to MINT and BRICS countries between the period 2001 and 2011.The results found that Institutional index is insignificant.

To the best of our knowledge, there is scarce evidence of exclusively based studies on Nigerian. Esew & Yaroson (2014) used the Vector Error Correction Model (VECM) to study the impact of political stability and corruption index on FDI inflows to Nigeria between 1980 and 2011. The results revealed that political stability and corruption positively and significantly related to inward FDI to Nigeria. Salanko, Obilikwu & David (2020) employed NARDL to investigate the impact of an institutional index (from the six measures of institution provided by the WGIs) on FDI inflows to Nigeria, using quarterly data from 1996Q1-2019Q4. The findings of the study showed that the institutional quality index has an asymmetric and statistically significant impact on FDI inflows to Nigeria, both in the short-run and in long-run. In Another study, Zangina & Hassan (2020) employed NARDL to analyses the asymmetric relationship between corruption control and FDI inflows to Nigeria between 1984 and 2017. The findings confirmed that corruption influences foreign direct investment inflows and corruption control had asymmetric effects on foreign direct investment inflows to Nigeria. This study therefore departs from these few existing studies on Nigeria by making use of both the aggregate and disaggregate measures of institutional quality provided by WGIs. For the aggregate measure, the six indices of institutional quality are bundled by finding the simple average. The unbundling of institutional quality allows for determining how each of the six component indices influence FDI inflows to Nigeria.

3. Methodology

3.1. Model specification

The relationship between institutional quality and foreign direct investment inflows can be described under two prominent theoretical frameworks, eclectic paradigm (OLI) framework provided by Dunning (2001) and North's institution theory. The OLI framework describes how MNEs will move to a host country when three sets of advantages, namely; Ownership (O), Location (L) and Internalisation, are met. It is instructive to know that ownership and internalisation are firm-specific advantages, most firms that desire to invest in foreign markets possess them, while location is country-specific advantages. Therefore, location advantages of different countries may make some countries to attract more FDI inflows than the others. In this sense, institutional quality can be considered as a locational factor that motivate or discourage foreign investors. Secondly, North (1990) established a link between institutional quality and investment. He argued that institutions reduce uncertainty and allow firms and individuals to interact efficiently. Institutions influence transaction and production costs, which in turn affects the profitability of investments (both local and foreign investments). Hence, incorporating institutional quality (IQ) as a critical determinant of FDI among others determinant (X), and taking note that ε is the unexplained term, the relationship may be specified as

$$FDI = f\left(IQ, X, \varepsilon\right)$$

(1)

Hence, we specify the model thus:

$$FDI = f\left(FDI_{(-1)}, RGDPC, EXCH, INFL, OPN, INFR, INV, HC, IQ\right)$$

(2)

$$IQ = f\left(CC, GE, PS, RQ, RL, VA\right)$$

In econometric form, the model can be written thus:

$$\ln FDI_t = \beta_0 + \beta_1 \ln FDI_{t(-1)} + \beta_2 \ln RGDPC_t + \beta_3 \ln EXCH_t + \beta_4 \ln INFL_t + \beta_5 \ln OPN_t + \beta_6 \ln INFR_t + \beta_7 \ln INV_t$$

$$+ \beta_8 \ln HC_t + \beta_9 \ln IQ_t + \mu_t \tag{3}$$

Where: lnFDI is the natural log of net foreign direct investment inflows as a % of GDP, $\ln FDI(-1)$ is the natural log of one year lag of net foreign direct investment, lnRGDPC is the natural log real GDP per capita (LCU constant 2010), lnEXCH is the natural log of real effective exchange rate index., lnINFL is the natural log of inflation measured as consumer price index, lnOPN is the natural log of trade openness measured by the sum of exports and imports of goods and services as a % of GDP, lnINFR is the natural log of infrastructure measured by the number of telephones per 100 population , lnIVN is the natural log of domestic investment measured by gross capital formation as percentage of real GDP) and lnHC is the natural log of human capital development measured by the gross rate of secondary school enrolment ratio. IQ represents the measure of institutional quality with six component indices: control of corruption (CC), government effectiveness (GE), political stability (PS), regulatory quality (RQ), rule of law (RL), and voice and accountability (VA)). $\beta_0 - \beta_9$ are the parameters to be estimated and μ_t is the error term. The choice of natural logarithmic form of the variables in the analysis of this study is to achieve a normal distribution and for statistical convenience in interpreting the estimates as elasticities. However, it must be noted that the institutional indicators for Nigeria are negative in value and in order to take the logarithm, there is the need to normalize the data by converting the base data into new range from 0 - 100 by the following formula, with the higher index indicating higher quality of institution: New index = country indicator value – minimum indicator value divided by maximum indicator value – minimum indicator value multiplied by 100 (Giang, 2017).

3.2. Estimation Technique
This study adopted Generalized Method of Moments (GMMs) estimators proposed by Hansen (1982), which provides consistent estimators when lagged dependent variables are used. This is necessary to solve the endogeneity problem. This method involves the instrumentalisation of the explanatory variables with their appropriate lags and prevent the instruments from correlating with the error term.

4. Analysis of Data

4.1 Descriptive Analysis and Tests for Stationarity
As shown in Table1, all the series display a high level of consistency as the mean and median values are within the range of minimum and maximum values of the series. Each variable has 24 observations. Also, the standard deviation (S.D), which measures the level of variation or degrees of dispersion of each series from its mean value is shown in the table to be generally low. Again, the normally distribution assumption is valid for almost all the series in the variables at a 5 per cent level of significance. Table 2. Presents the Augmented Dickey Fuller (ADF) and Phillips-Perron (PP) unit root tests. It shows mixtures of cointegration order.

Table 1: Summary of the Descriptive Statistics

	lnCC	lnPS	lnRL	lnRQ	lnVA	lnGE
Mean	3.292	2.546	3.297	3.470	3.580	3.380
Median	3.288	2.485	3.296	3.481	3.581	3.384
Maximum	3.472	3.638	3.484	3.605	3.780	3.472
Minimum	3.063	1.792	3.063	3.135	2.944	3.250
Std. Dev.	0.091	0.411	0.121	0.117	0.168	0.059
Skewness	-0.659	0.757	-0.439	-1.559	-2.247	-0.713
Kurtosis	3.476	3.738	2.508	4.851	9.639	2.713
Jarque-Bera	1.962*	2.836*	1.011*	13.146	64.275	2.118*
Probability	0.375	0.242	0.603	0.001	0.0000	0.347
Obs.	24	24	24	24	24	24
	lnIQ	lnOPN	lnINV	inINFR	lnRGDPC	lnHC
Mean	3.320	3.613	3.149	-1.071	12.581	3.576
Median	3.317	3.671	3.179	-0.871	12.630	3.561
Maximum	3.400	3.976	3.704	0.169	12.862	4.029
Minimum	3.200	3.031	2.702	-2.617	12.221	3.159
Std. Dev.	0.052	0.253	0.344	0.926	0.237	0.260
Skewness	-0.250	-0.697	0.103	-0.516	-0.389	-0.216
Kurtosis	2.521	3.026	1.633	1.934	1.597	1.842
Jarque-Bera	0.479*	1.943*	1.912*	2.200*	2.576*	1.529*
Probability	0.787	0.379	0.384	0.333	0.276	0.465
Obs.	24	24	24	24	24	24
	lnFDI	lnEXCH	lnINFL			
Mean	0.296	4.665	2.440			
Median	0.457	4.608	2.471			
Maximum	1.075	5.609	3.377			
Minimum	-0.687	4.237	1.684			
Std. Dev.	0.513	0.359	0.381			
Skewness	-0.353	1.293	0.217			
Kurtosis	2.060	4.149	3.073			
Jarque-Bera	1.382*	8.007*	0.193*			
Probability	0.501	0.018	0.908			
Obs.	24	24	24			

Source: Author's Computation.

Table 2: Unit Root Tests Results

Variable	Augmented Dickey-Fuller (ADF) Test			Phillips-Perron (PP) Test			Order of Integration
	LEVEL	1ST DIFF	2nd DIFF	LEVEL	1ST DIFF	2nd DIFF	
lnCC	-2.096 (0.248)	-6.259* (0.0001)	---	-2.244 (0.198)	-5.193* (0.000)	---	I(1)
lnGE	-4.011* (0.006)	-----	----	-4.012* (0.006)	----	----	I(0)
lnRL	-1.439 (0.546)	-3.406* (0.024)	----	-1.567 (0.483)	-4.385* (0.003)	----	I(1)
lnPS	-3.304* (0.027)	----	----	-3.270* (0.029)	----	-----	I(0)
lnRQ	-2.470 (0.135)	-5.442* (0.0002)	----	-2.489 (0.131)	-5.376* (0.0002)	-----	I(1)
lnVA	-6.284* (0.000)	-----	----	-5.870 (0.0001)	----	-----	I(0)
lnIQ	-2.860 (0.066)	-6.555* (0.000)	----	-2.921 (0.058)	-6.632* (0.0000)	-----	I(1)
lnRGDPC	-1.413 (0.558)	-2.323 (0.174)	-6.042* (0.0001)	-1.236 (0.640)	-2.353 (0.166)	-6.029* (0.0001)	I(2)
lnFDI	-1.935 (0.312)	-6.486* (0.0000)	-----	-1.808 (0.367)	-6.662* (0.0000)	-----	I(1)
lnEXCH	-2.686 (0.092)	-4.953* (0.0007)	-----	-2.585 (0.1102)	-4.976* (0.0007)	-----	I(1)
lnINFL	-4.713* (0.001)	-----	------	-4.672* (0.0012)	----	-----	I(1)
lnOPN	-2.231 (0.202)	-5.213* (0.0004)	-----	-2.265 (0.1909)	-5.531* (0.0002)	-----	I(1)
lnINFR	-2.644 (0.101)	-1.403 (0.561)	-9.056* (0.0000)	-0.239 (0.9200)	-2.915 (0.060)	-9.503* (0.0000)	I(2)
lnINV	-1.346 (0.590)	-2.924 (0.059)	-5.609* (0.0002)	-1.346 (0.5903)	-2.919 (0.059)	-8.077* (0.0000)	I(2)
lnHC	-1.549 (0.492)	-5.073* (0.001)	-----	-1.549 (0.492)	-5.073* (0.001)	-----	I(1)

Source: Author's Computation.

4.2 Empirical Results and Discussion

The empirical results of this study is presented in Table 3. The study found that institutional index (lnIQ), control of corruption (lnCC), voice and accountability (lnVA), government effectiveness (lnGE), the rule of law (lnRL) and regulatory quality (lnRQ) promote, to a limited extent, the inflow of foreign direct investment to Nigeria. This study also found the coefficients of these five institutional variables positively related to inflows of FDI to Nigeria over the study period. The Positive sign conforms to the apriori expectations, although the impacts of these indices are insignificant. Saidi et al. (2013) findings supported the insignificance of these institutional variables. They found that voice and accountability is insignificantly and positively correlated with FDI inflows into developing countries. Peres et al. (2018) also found that rule of law and control of corruption positively and insignificantly related to FDI inflows into developing countries. Nondo, et al. (2016) documented that all the six variables were insignificantly related to inward FDI flows into Sub-Saharan African

countries. Again, Kurul & Yalta (2017) confirmed an insignificant positive relationship between the rule of law and FDI to developing countries. Bouchoucha and Benammou (2018) revealed that the government effectiveness and rule of law insignificantly and positively related to inward FDI to African countries. The insignificant effect of these institutional variables on FDI inflows to Nigeria for the study period can plausibly be explained by the weak institutional structure, given its low scores in all the six dimensions of institutional quality according to the World Bank's Worldwide Governance Indicators (2020).

Table 3: GMM Estimates on the Impact of Institutional Quality on Foreign Direct Investment in Nigeria

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
InFDI(-1)	-0.582* (0.004)	-0.546* (0.010)	-0.588* (0.010)	-0.591* (0.013)	-0.571* (0.008)	-0.612* (0.007)	-0.523* (0.007)
InRGDPC	-1.249 (0.066)	-1.723 (0.1096)	-1.361 (0.154)	-1.354 (0.184)	-1.065 (0.151)	-1.522 (0.096)	-0.976 (0.150)
InEXCH	-0.809* (0.001)	-0.850* (0.003)	-0.633* (0.029)	-0.655* (0.032)	-0.712* (0.001)	-0.769* (0.002)	-0.725* (0.001)
InINFL	0.142 (0.183)	0.127 (0.272)	0.224 (0.338)	0.118 (0.397)	0.131 (0.327)	0.194 (0.201)	0.193 (0.194)
InOPN	0.035 (0.880)	0.054 (0.827)	0.149 (0.555)	0.083 (0.716)	0.119 (0.558)	0.068 (0.769)	0.095 (0.654)
InINFR	0.721* (0.0001)	0.666* (0.0001)	0.676* (0.0002)	0.729* (0.006)	0.679* (0.000)	0.733* (0.0002)	0.658* (0.000)
InINV	-1.599* (0.006)	-1.600* (0.009)	-1.859* (0.003)	-1.764* (0.003)	-1.744* (0.003)	-1.692* (0.004)	-1.618* (0.007)
InHC	0.372 (0.590)	0.654 (0.500)	-0.147 (0.782)	0.192 (0.838)	-0.052 (0.906)	0.421 (0.591)	-0.109 (0.435)
	0.872 (0.424)	----	----	-----	-----	-----	-----
InCC	-----	0.559 (0.385)	---	----	----	-----	-----
InPS	-----	----	-0.130	----	----	-----	-----
InVA	-----	----	-----	0.364 (0.791)	-----	-----	-----
InGE	-----	-----	-----		0.153 (0.892)	-----	-----
InRL	----	----	-----	-----	-----	0.413 (0.428)	-----
InRQ	-----	----	-----	-----	-----	-----	0.263 (0.435)
C	21.04* (0.035)	27.14* (0.027)	26.89* (0.051)	24.30* (0.015)	22.31 (0.089)	25.73* (0.022)	20.57 (0.058)
R-squared	0.833	0.818	0.824	0.826	0.831	0.829	0.855
Adj. R-squared	0.709	0.682	0.691	0.695	0.704	0.700	0.746
DW Stat.	2.611	2.441	2.374	2.494	2.495	2.280	2.594
Instr. rank	15	15	15	15	15	15	15
J-stat.	1.382	1.250	2.221	2.370	2.421	1.512	1.862
Prob (J-stat.)	0.926	0.940	0.818	0.796	0.788	0.912	0.868
*NB: *represents significance at 5 per cent. Probability of t-statistic is in the parenthesis*							

Source: Author's Computation.

The results also suggest that political stability (InPS) hinders the inflows of foreign direct investment into Nigeria for the period of study. The coefficient of this dimension of institutional quality is negatively and insignificantly related to FDI inflows to Nigeria for the period of study. This is contrary to the apriori expectation. The result does not conform to most of the findings in the literature. However, few studies found similar results Jadhav & Katti (2012); Berden et al. (2014); Lucker & Eichler (2016) found negative political stability with FDI. Nevertheless, one cannot conclude that this result is strong enough to disregard the importance of political stability in foreign firms' decisions to invest in Nigeria. More so, some of these large multinational corporations are often involved in rent-seeking activities (Subasat & Bellos, 2013).

Regarding the behaviour of Control Variables to FDI, Infrastructure, human capital, inflation and international trade promote the inflow of foreign direct investment (FDI). At the same time, high exchange rate, increase real GDP per capita, and increased domestic investment discourage the inflow of FDI to Nigeria.

5. Conclusions

This study investigated the relationship between measures of institutional quality and FDI inflows in Nigeria spanning the period between 1996 and 2019. We employed the GMM estimation technique to control endogeneity and make analysis robust. We found that the composite institutional index, control of corruption, voice and accountability, government effectiveness, rule of law and regulatory quality are positively but insignificantly related to FDI inflows in Nigeria for the study period. At the same time, political stability is negative and insignificant at 5%. The results also showed that infrastructure, human capital, inflation and trade openness have positive impact on FDI inflows. In contrast, exchange rate, domestic investment, real GDP per capita and FDI (-1) negatively impact FDI inflows. These insignificant institutional variables could be attributed to Nigeria's weak institutional framework (Nondo, et al., 2016).

This study therefore recommended that Nigeria government should intensify policies that would improve the institutional structure in the country in order to attract desirable FDI to the countries. The anti-corruption agencies should be strengthened, not only to fight corruption but also to tackle corruption at all levels of government. More importantly, the anti-corruption agencies should be independent and be helmed by men of integrity who are committed to the fight against corruption. Furthermore, sanctity of the rule of law should be sacrosanct, the independent of the judiciary guaranteed, the reform of the police, enforcement of property rights and tackling of insecurity to life and property. In addition, there should be improved government effectiveness in terms of the quality of public service delivery, absence of undue pressure of public officeholders on public servant, openness and transparency in providing sound policies and effective implementation. The democratic system should be strengthened to allow citizens to participate in the choice of their leaders, freedom of speech and association as well as independent of mass media should be guaranteed. This would attract the much-needed FDI to the country, and assist in delivering the benefits of FDI into Nigeria.

5.1. Limitations and Further Studies

This present study focuses on the relationship between institutional quality and aggregate FDI inflows to Nigeria. According to Busse (2004), the influence of institutional factors may differ across FDI sectors. Therefore, further study should investigate the effect of institutional quality on sector-specific FDI, namely, agriculture, manufacture and service.

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