

Institutional Performance and the Mobilisation of Capital Inflows in Ecowas Countries

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Abstract

This paper examines how institutional performance affects capital inflows to the selected ECOWAS countries between 2002 and 2024. The specific objectives are to determine the effects of government effectiveness, regulatory quality, rule of law, control of corruption, and political stability on portfolio investment. Given the nature of this study, panel datasets were obtained from the World and IMF Financial Statistics. Descriptive statistics, cross-sectional dependence test, panel unit root and cointegration tests, as well as heterogenous panel model estimation, comprising mean group (MG) and pooled mean group (PMG) were used for the data analysis. The cross-sectional dependence test indicates that there is no cross-sectional dependence across the panels. The panel unit root test results showed evidence of mixed integration in the series. The panel regression estimates indicate that government effectiveness has a significant positive effect on portfolio investment in the long run. The results also showed that regulatory quality has a significant negative effect on portfolio investment in the long run. Evidence of a significant effect of the rule of law on portfolio investment, was established in the long run. The results further showed that the control of corruption had a positive and significant effect on Given the findings, this study recommends that governments in the ECOWAS region should continue to strengthen public sector effectiveness through improved policy implementation, enhanced service delivery, stronger institutional capacity, and greater administrative efficiency to create more opportunities to attract portfolio investment.

Keywords: Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption, Political Stability, Portfolio Investment

1. Introduction

Capital inflows have become one of the major drivers of economic growth and regional integration, particularly in developing economies where domestic savings are often inadequate to finance investment requirements. External capital in the form of foreign direct investment, foreign portfolio investment, official development assistance, external borrowing and remittances supplements domestic resources, enhances technology transfer, promotes employment generation,

deepens financial markets and stimulates economic growth. However, the magnitude and sustainability of these inflows depend largely on the quality of institutions operating within recipient countries. Consequently, institutional performance has increasingly emerged as one of the most important determinants of international capital allocation, especially within regional economic blocs such as the Economic Community of West African States (ECOWAS). Institutional performance refers to the extent to which public institutions effectively formulate and implement policies, enforce the rule of law, maintain political stability, control corruption, ensure regulatory quality, promote accountability, and deliver public services efficiently.

According to the World Bank (2024), institutional performance reflects the effectiveness of governance structures in creating a stable and predictable environment that encourages private sector activities and investment. Similarly, the Organisation for Economic Co-operation and Development (OECD, 2023) describes institutional performance as the capacity of public institutions to provide transparent, accountable, efficient and responsive governance capable of fostering sustainable economic development. Likewise, the International Monetary Fund (2024) views institutional performance as the quality of governance systems that strengthen macroeconomic stability, reduce uncertainty and improve investor confidence through effective policy implementation. Theoretically, sound institutional performance enhances capital inflows by lowering transaction costs, strengthening contract enforcement, protecting property rights, reducing corruption, improving policy credibility and minimizing political uncertainty. Countries characterized by effective governance, regulatory efficiency and strong legal systems are generally perceived as less risky investment destinations and therefore attract greater volumes of foreign capital. Conversely, poor institutional performance increases investment uncertainty, weakens investor confidence, encourages capital flight and discourages both domestic and foreign investments. Within the ECOWAS region, where member countries continue to pursue economic integration and private sector-led growth, institutional performance remains a critical factor influencing the ability of countries to attract stable and long-term capital inflows. Despite various regional reforms aimed at strengthening governance and improving the investment climate, institutional performance across ECOWAS countries remains uneven. According to the World Bank Worldwide Governance Indicators (2024), several ECOWAS countries continue to record weak performances in government effectiveness, regulatory quality, rule of law, control of corruption and political stability. Similarly, Transparency International (2024) reported that many countries within the sub-region still recorded relatively low scores on the Corruption Perceptions Index, indicating persistent governance challenges capable of undermining investor confidence. These institutional weaknesses continue to limit the competitiveness of the region in attracting productive foreign capital. The implication of weak institutional performance is reflected in the pattern of capital inflows across the region. The United Nations Conference on Trade and Development (UNCTAD, 2024) reported that Africa attracted approximately US\$53 billion in foreign direct investment inflows in 2023, representing only about 3.5 percent of global FDI inflows. Within Africa, ECOWAS accounted for only a modest share of these inflows, with investment concentrated mainly in Nigeria, Côte d'Ivoire, Ghana and Senegal, while several member countries experienced either declining or highly volatile investment inflows. Likewise, World Bank (2024) statistics indicate considerable disparities in remittance inflows among ECOWAS countries, while OECD Development Assistance Committee (2024) reports reveal that official development assistance remains unevenly distributed across the sub-region. These trends suggest that institutional performance remains an important factor influencing investors' location

decisions within ECOWAS. Existing empirical studies have provided considerable evidence linking institutional performance with capital inflows. Kaya and Aksoy (2020) found that governance quality significantly enhanced international portfolio investment in emerging economies through improvements in government effectiveness, regulatory quality, rule of law and accountability. Similarly, Agyei et al. (2022) reported that institutional quality positively moderated the relationship between corporate governance and foreign portfolio investment in sub-Saharan Africa, implying that countries with stronger institutional frameworks attracted higher capital inflows. Likewise, Moskalenko et al. (2022) established that improvements in institutional quality significantly increased investment attractiveness in both European Union and transition economies. Notwithstanding these findings, empirical evidence remains inconclusive. While studies such as Kaya and Aksoy (2020), Agyei et al. (2022) and Moskalenko et al. (2022) reported a positive relationship between institutional performance and capital inflows, Fon and Alon (2022) found that Chinese state-owned enterprises tended to increase investment in countries characterized by relatively weak governance when investment was supported by official Chinese financing. Similarly, Ndugbu et al. (2021) reported that foreign portfolio investment exerted a negative and insignificant influence on economic performance in Nigeria despite improvements in some institutional indicators. These divergent findings suggest that the relationship between institutional performance and capital inflows remains unresolved. Ideally, ECOWAS countries are expected to possess efficient institutions capable of guaranteeing political stability, policy consistency, regulatory effectiveness, transparency, accountability and the rule of law in order to attract stable inflows of foreign investment and other forms of international capital. Strong institutional performance should reduce investment risks, improve resource allocation and create a favourable business environment that stimulates sustainable capital inflows. However, persistent governance challenges, institutional inefficiencies, weak regulatory enforcement, corruption and political instability continue to undermine the region's investment attractiveness despite several institutional reforms implemented by individual member states and ECOWAS. Although numerous studies have examined governance quality, institutional quality and political stability in relation to foreign investment, most of the existing studies concentrated on single countries, individual governance indicators or specific categories of capital inflows such as FDI or foreign portfolio investment. Consequently, limited empirical evidence exists on the effect of institutional performance as a comprehensive governance construct on aggregate capital inflows across ECOWAS countries. This represents an important gap in the literature. It is against this background that this study investigates the effect of institutional performance on capital inflows in ECOWAS countries. The study is motivated by the need to provide empirical evidence on how improvements in institutional performance can strengthen investor confidence, enhance external capital mobilization and support sustainable economic growth and regional integration within the ECOWAS sub-region.

2. Methodology

This study utilises panel data comprising cross-sectional units and time series. Specifically, the cross-sectional units include the selected countries in the ECOWAS region, such as Côte d'Ivoire, The Gambia, Ghana, Liberia, Mali, Nigeria, Senegal, and Togo. Thus, the dataset covers 8 countries, including the anglophone and francophone countries, over the period 2002-2024. This period allows us to analyse the behaviour of capital inflows in response to changes in institutional quality before and after the global financial crisis (2008-2009). Capital inflows data was taken

from the International Financial Statistics of the IMF and the World Bank Development Indicators (WDI). These sources allow for the disaggregation of capital inflows into FDI, portfolio investments, foreign aid, remittances, and foreign loans. Additionally, to assess the role of governance quality as a determinant of capital inflows, a set of governance variables from the Worldwide Governance indicators was utilised. These include annual time-series data on governance quality, including government effectiveness, regulatory quality, rule of law, corruption control, and political stability.

Model Specification

This study closely follows the works of Al Sayed, Omar & Khaled (2025), Ohonba & Akinola (2023), Shammah et al. (2024), Wu et al. (2024) and Bekana (2023). with some improvements. In particular, the models was augmented by expanding the governance quality indicators to include political stability and rule-of-law indexes, which were previously ignored. The functional specifications of the models are presented as follows:

$$POI = f(GEF, REQ, RUL, COC, PST) \quad 1$$

Where: POI = portfolio investment, GEF = government effectiveness, REQ = regulatory quality, RUL = rule of law, COC = corruption control, PST = political stability

Following the nature of this study, the static panel models involving pooled, fixed effects and random effects shall be specified accordingly:

i. Pooled Regression Model

$$POI_{it} = \beta_0 + \beta_1 GEF_{it} + \beta_2 REQ_{it} + \beta_3 RUL_{it} + \beta_4 COC_{it} + \beta_5 PST_{it} + \varepsilon_{it} \quad 2$$

Where: β_0 = Intercept, $\beta_1 - \beta_5$ = slope parameters, ε_{it} = error term

$i = 1, \dots, N. t = 1, \dots, T$

i = cross-sectional units, including the selected countries (Côte d'Ivoire, The Gambia, Ghana, Liberia, Mali, Nigeria, Senegal, and Togo) in the ECOWAS

t = time dimension (2002 to 2024)

A Priori Expectation

A priori expectation is a theoretically based prediction regarding how economic variables are related, including their direction and nature. In line with the a priori expectation, government effectiveness, regulatory quality, and rule of law are expected to positively affect capital inflows (portfolio investment,). Given the following, the a priori expectations based on the regression coefficients are expressed as: $\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$, $\beta_4 > 0$, and $\beta_5 > 0$.

Variable Description and Measurement

Portfolio investment inflows (POL): Portfolio investment is defined as cross-border transactions involving equity or debt securities. While equity comprises all instruments and records acknowledging claims on the residual value of a corporation or quasi-corporation after the claims of all creditors have been met, debt securities are negotiable instruments that serve as evidence of a debt. In this study, portfolio investment shall be measured by net inflows as a percentage of GDP in each of the selected countries in the ECOWAS.

Government effectiveness (GEF): This refers to perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The estimate for government effectiveness is in units of a standard normal distribution, ranging from approximately -2.5 to 2.5. A priori, government effectiveness is expected to positively affect capital inflows.

Regulatory quality (REQ): Regulatory quality refers to perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. The estimate for regulatory quality is measured as an aggregate indicator, in units of a standard normal distribution, ranging from approximately -2.5 to 2.5, as provided by the WGI. A priori, regulatory quality is expected to positively affect capital inflows, as sound, transparent, and predictable regulatory frameworks lower investment risk, improve market efficiency, and boost investor confidence.

Rule of law (RUL): This includes perceptions of how much agents trust and follow societal rules, especially regarding the quality of contract enforcement, property rights, the police, and the courts, as well as the chances of crime and violence. It shall be measured by the rule of law index, comprising a composite indicator in units of a standard normal distribution, ranging from approximately -2.5 to 2.5. A priori, improvements in the rule of law are expected to boost capital inflows, as strong legal institutions enhance property rights protection, reduce uncertainty, and improve investor confidence.

Control of corruption (COC): This encompasses perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests. The estimate for control of corruption is in units of a standard normal distribution, ranging from approximately -2.5 to 2.5. A priori, improvements in anti-corruption are expected to positively affect capital inflows, as enhanced institutional quality boosts investor confidence and reduces investment risk.

Political stability (PST): This defines perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism. It shall be measured by the political index, a composite indicator expressed in units of a standard normal distribution, ranging approximately from -2.5 to 2.5. A priori, political stability is expected to positively affect capital inflows, as a stable political environment reduces uncertainty and improves the investment climate.

3. Results and Discussion

Descriptive Statistics

The descriptive analyses focused on the mean, standard deviation, and range, including the minimum and maximum values of each variable. The summary of the descriptive statistics is presented in Table 1.

Variable	Observation	Mean	Std. Dev.	Minimum	Maximum
POI	184	-5.39	8.89	-60	20.79
GEF	184	-.781	.4994	-1.71	.23

REQ	184	-.633	.374	-2.11	.01
RUL	184	-.637	.459	-1.89	.28
COC	184	-.634	.396	-1.69	.36
PST	184	-.748	.8043	-2.56	.48

Source: STATA 15 Output

Table 1 presents the descriptive statistics for 184 observations. Portfolio investment averaged – 5.39% of GDP, indicating net capital outflows, with substantial variation across countries and periods (SD = 8.89). Government effectiveness averaged –0.781, while regulatory quality averaged –0.633, suggesting generally weak institutional performance. The rule of law averaged –0.637, indicating weaknesses in legal and judicial institutions. Control of corruption recorded a mean of –0.634, reflecting persistent corruption challenges. Political stability had the lowest mean (–0.748) and the highest standard deviation (0.804), indicating generally unstable political conditions and considerable variation across countries and over time.

Panel Unit Root Test

The Pesaran Cross-Sectional Dependence test results provide the basis for choosing the first-generation panel unit root test method. In particular, the IPS panel unit root test method was employed in this study. The results are presented in Table 3.

Table 2: Summary of the IPS unit root test results

Variable	Z-t-tilde-bar at levels	Z-t-tilde-bar at 1st difference	Order of integration
POI	-1.807** (0.0354)	-	I(0)
GEF	0.4184 (0.6622)	-7.266*** (0.0000)	I(1)
REQ	-0.872 (0.1915)	-6.571*** (0.0000)	I(1)
RUL	-1.499 (0.0669)	-7.058*** (0.0000)	I(1)
COC	-0.207 (0.4180)	-6.351*** (0.0000)	I(1)
PST	-3.024*** (0.0012)	-	I(0)

Source: STATA 15 output

Note: *, **, * denote significant at 1%, 5% and 10% levels, respectively**

The IPS panel unit root results indicate mixed orders of integration. Portfolio investment (POI) and political stability (PST) are stationary at levels and therefore I(0). In contrast, government effectiveness (GEF), regulatory quality (REQ), rule of law (RUL), and control of corruption (COC) become stationary after first differencing and are therefore I(1). Since none of the variables is I(2), the data satisfy the conditions for panel cointegration analysis and the use of panel ARDL estimators, including PMG and MG.

Panel Cointegration Test

The panel cointegration test for each model was conducted using the Kao method, given evidence of mixed integration in the series. The results are presented in Tables 3

Table 3: Kao panel cointegration test results

Series: POI GEF REQ RUL COC PST				
Ho: No cointegration		Number of panels	=	8
Ha: All panels are cointegrated		Number of periods	=	21
Panel means:	Included	Kernel:	Bartlett	
Time trend:	Not included	Lags:	1.63 (Newey-West)	
AR parameter:	Same	Augmented lags:	1	
		Statistic	p-value	
Modified Dickey-Fuller t		-4.2633***	0.0000	
Dickey-Fuller t		-3.3447***	0.0004	
Augmented Dickey-Fuller t		-3.7628***	0.0001	
Unadjusted modified Dickey-Fuller t		-4.9505***	0.0000	
Unadjusted Dickey-Fuller t		-3.5340***	0.0002	

Source: STATA 15 output

Note: *, **, * denote significant at 1%, 5% and 10% levels, respectively**

Table 3 reports the Kao panel cointegration results. All five test statistics are significant at the 1% level, with p-values below 0.01. Thus, the null hypothesis of no cointegration is rejected, confirming a stable long-run equilibrium relationship between portfolio investment and the five governance indicators—government effectiveness, regulatory quality, rule of law, control of corruption, and political stability—across the sampled countries.

Model Estimation

The model estimation is segmented into the long-run and short-run dynamics. The long-run coefficients show the equilibrium relationship between each capital inflow and the governance quality variables, while the short-run coefficients capture how short-term changes in the explanatory variables affect each capital inflow across the sampled countries. The Hausman test results provide the basis for choosing between the PMG and MG estimators.

Table 4: Summary of MG and PMG results

Dependent variable: POI		
Variables	(1) MG	(2) PMG
Ec	-.766*** (0.000)	-.349*** (0.001)
D.GEF	3.146 (0.511)	-9.693 (0.416)
D.REQ	-2.006 (0.755)	10.852 (0.225)
D.RUL	3.219 (0.422)	-2.745 (0.396)
D.COC	-.385 (0.926)	8.387** (0.046)
D.PST	-4.132* (0.115)	-4.259 (0.369)

GEF	-5.697 (0.735)	-1.708 (0.785)
REQ	12.282 (0.484)	-8.611* (0.090)
RUL	-28.700** (0.045)	-5.611 (0.388)
COC	.0227 (0.998)	8.078 (0.253)
PST	9.487 (0.284)	.939 (0.492)
Constant	-8.395 (0.365)	-2.431*** (0.012)
Observations	176	176

Source: Author's computation (2026) from STATA 15

Note: ***, **, * denote statistically significant at 1%, 5%, and 10% levels, respectively

Figures in brackets are corresponding p-values of the parameters

Table 5: Hausman test results

Variable	Pmg	Mg	Difference	S.E.
GEF	-5.697022	-1.708381	-3.988641	15.59927
REQ	12.28279	-8.611319	20.89411	16.80199
RUL	-28.70032	-5.610974	-23.08934	12.73547
COC	.0227522	8.078191	-8.055438	4.827534
PST	9.487377	.9396871	8.54769	8.742369
chi2(6) = 16.42**				
Prob>chi2 = 0.0183				

Source: Author's computation (2026) from STATA 15

Table 5 presents the Hausman test results for selecting between the MG and PMG estimators. The p-value of 0.0183 is below 0.05, supporting the MG estimator. The long-run results show that the rule of law has a significant negative effect on portfolio investment, with a one-unit improvement associated with a 28.70-unit decline in inflows. Government effectiveness, regulatory quality, control of corruption, and political stability are statistically insignificant, although the latter three have positive coefficients. In the short run, none of the governance indicators significantly affects portfolio investment. Government effectiveness and rule of law have positive coefficients, while regulatory quality, control of corruption, and political stability have negative effects. The error-correction coefficient of -0.7659 is negative and significant at 1%, indicating that about 76.6% of short-run deviations from long-run equilibrium are corrected annually. The findings suggest that governance quality has limited short-run effects on portfolio investment, with the rule of law emerging as the only significant long-run determinant.

Discussion of Findings

The findings show that the rule of law has a significant negative long-run effect on portfolio investment in the sampled ECOWAS countries. Although stronger legal institutions, contract enforcement, and property-rights protection are generally expected to reduce investment risk and attract capital (North, 1990; Acemoglu et al., 2005), the negative result suggests that portfolio

investors may respond more strongly to market returns, liquidity, exchange-rate movements, and macroeconomic conditions than to improvements in legal institutions. This contrasts with evidence that institutional quality can strengthen the attractiveness of financial markets and portfolio investment (Agyei et al., 2022; Kaya & Aksoy, 2020). The result may also reflect the relatively volatile nature of portfolio flows in developing markets, where investors can quickly reallocate funds in response to changing market conditions.

Government effectiveness has a negative but insignificant long-run effect on portfolio investment. This suggests that improvements in public-sector efficiency, policy implementation, and service delivery have not been sufficient to significantly influence portfolio inflows. Although effective institutions are important for investment attractiveness (Moskalenko et al., 2022; Sakanko et al., 2020), portfolio investors may place greater emphasis on immediate financial returns and macroeconomic stability. Similarly, regulatory quality, control of corruption, and political stability have positive but statistically insignificant long-run effects. While these results indicate that better regulation, stronger corruption control, and greater political stability may support portfolio investment, their effects are not strong enough to be statistically decisive. This finding is consistent with the broader view that institutional quality is only one component of investment attractiveness, alongside market size, financial development, economic performance, and global financial conditions (Sadeghi et al., 2020; UNCTAD, 2024).

The insignificant effects of corruption control and regulatory quality are also noteworthy. Good governance can improve transparency and reduce investment risks, but portfolio investors may not respond immediately to institutional reforms where financial markets remain shallow or volatile. In this context, the findings support the argument that governance reforms need to be accompanied by stronger financial-market institutions and broader economic reforms to generate substantial investment responses (Fukuyama, 2013; World Bank, 2024a).

In the short run, none of the governance indicators significantly affects portfolio investment. This suggests that short-term changes in governance quality are insufficient to alter portfolio investors' decisions. The positive but insignificant effects of government effectiveness and the rule of law indicate that improvements in these areas may have some favourable influence, but not enough to generate a significant immediate response. Conversely, the negative but insignificant effects of regulatory quality, corruption control, and political stability suggest that short-term institutional changes may be overshadowed by market-specific and macroeconomic factors. Portfolio flows are often highly responsive to interest rates, exchange-rate expectations, asset prices, liquidity, and global financial conditions (IMF, 2024).

The findings suggest that governance quality matters for the investment environment but does not independently determine portfolio investment flows in ECOWAS. The significant negative effect of the rule of law highlights the need to consider the specific characteristics of portfolio capital when assessing the governance–investment relationship. The results further imply that strengthening governance should be complemented by financial-market development, macroeconomic stability, and investment facilitation measures to attract and retain portfolio capital.

5. Conclusion and Recommendations

Conclusion

This study examined the effect of institutional performance on capital inflows in the ECOWAS region, focusing on five major components of institutional performance (government

effectiveness, regulatory quality, rule of law, control of corruption, and political stability) and their influence on portfolio investment. The findings reveal that the relationship between institutional performance and capital inflows in the ECOWAS region is multifaceted and varies considerably across the different forms of external capital. The results show that government effectiveness has a significant positive effect on portfolio investment in the long run. The results also showed that regulatory quality has a significant negative effect on portfolio investment in the long run. Evidence of a significant effect of the rule of law on portfolio investment, was established in the long run. The results further showed that the control of corruption had a positive and significant effect on Given the findings, this study recommends that governments in the ECOWAS region should continue to strengthen public sector effectiveness through improved policy implementation, enhanced service delivery, stronger institutional capacity, and greater administrative efficiency to create more opportunities to attract portfolio investment.

Recommendations

- i.** The ECOWAS member states should promote regulatory harmonization and policy coordination to enhance regional integration, facilitate cross-border investment, and create a more attractive and predictable business environment in the region.
- ii.** Policymakers in ECOWAS governments should prioritize reforms aimed at strengthening the rule of law through improved judicial system, effective contract enforcement, protection of property rights, and the consistent application of legal framework to create a predictable legal environment that supports for increased inflow of foreign capital.
- iii.** The ECOWAS governments should strengthen anti-corruption institutions and promote transparency and accountability in the public sector to increase investor confidence and encourage greater greater inflows to the region.
- iv.** The ECOWAS member states should continue to promote political stability through the strengthening of democratic institutions and inclusive governance practices to creating a conducive environment for attracting foreign capital from various external sources.

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