

Governance Quality and Capital Inflows in Selected Economic Community of West African States (Ecowas)

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Abstract

This study examines how governance quality affects capital inflows to the selected ECOWAS countries (Côte d'Ivoire, The Gambia, Ghana, Liberia, Mali, Nigeria, Senegal, and Togo) between 2002 and 2024. Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption, and Political Stability on Foreign Direct 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 regulatory quality has a significant negative effect on FDI inflows, in the long run. The associated coefficient indicates that a one-unit increase in regulatory quality is associated with about a 13.80-unit reduction in FDI inflows in the long run. This suggests that regulatory changes may create compliance costs or institutional rigidities that discourage foreign investment within the sampled economies. The results further showed that the control of corruption had a positive and significant effect on FDI while 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 foreign direct investment.

Keywords: Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption, Political Stability, Foreign Direct Investment.

1. Introduction

Governance quality, broadly defined as a country's governance infrastructure, is widely recognized as a key factor influencing capital inflows in both developing and developed nations. It describes a country's performance across various governance aspects, including control of corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability. According to Kaufmann, et al (2009), governance quality defines the traditions and institutions by which authority is exercised in a country, including the rule of law, control of corruption, government effectiveness, regulatory quality, political stability, and accountability. It

also encompasses the processes by which governments are elected, monitored, and replaced; the government's capacity to effectively develop and execute sound policies; and the respect citizens and the state hold for the institutions that oversee economic and social interactions. As outlined in the neoclassical theory of capital movement, under the assumption of unrestricted capital mobility, capital flows from countries with lower yields to those with higher yields. Beyond economic pull factors, capital mobility tends to depend on governance quality, highlighting the role of the formal sector in incentivising investment decisions by foreign economic agents. Shammah et al. (2024) posited that governance indicators related to political stability and anti-corruption measures attract foreign capital to recipient economies. An improvement in governance quality should draw more capital inflows if investors seek safer investments.

Therefore, a sound governance framework fosters a market-friendly environment, boosting domestic demand and attracting foreign investment. Acemoglu and Johnson (2005) linked the increasing interest in governance determinants of capital flows to the expanding body of literature on governance and economic development over the past two decades. From a theoretical perspective, institutional economics highlights that improved governance infrastructure enhances investment by securing property rights, enforcing contracts, and reducing uncertainty in economic transactions (North, 1990; Acemoglu et al., 2005). Conversely, weak governance increases exposure to expropriation risk, policy reversals, and rent-seeking behaviour, thereby discouraging foreign capital inflows. In the Economic Community of West African States (ECOWAS), which includes Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo, governance quality has recently gained considerable attention as a factor influencing capital inflows. As outlined by Kaufmann, et al

Despite various regional integration efforts and macroeconomic convergence programmes under the ECOWAS framework, systemic governance weaknesses such as corruption, regulatory uncertainty, weak rule of law, and poor accountability mechanisms have persisted, threatening capital inflows. Although it is widely recognised in existing theoretical literature that governance quality plays an important role in attracting foreign capital to developing economies, including Africa, the exact channels through which it influences capital inflows, as well as their magnitudes, remain controversial in previous empirical studies, such as Abille & Adjei (2025), Imran et al. (2025), Al-Sayed, Omar & Khaled (2025), Mini, Moyo & Phiri, A. (2025), Bhujabal, Sethi & Padhan (2024), Bekana (2023), Ohonba & Akinola (2023), and Oshota & Wahab (2022). Thus, this study seeks to deepen understanding of the direction and magnitude of the effect of governance quality on capital inflows, focusing on foreign direct investment (FDI), portfolio investment, remittances, foreign aid, and foreign loans in the ECOWAS.

Additionally, it is imperative to note that the ECOWAS countries are recognised as notable destinations for capital inflows in existing literature, which are considered sources of external financing for economic growth, development, and technological transfer. Despite their position, these countries face a persistent and critical challenge in mobilising sufficient, stable capital inflows. While macroeconomic variables such as market size (GDP growth), inflation, and exchange rates are traditional determinants of capital mobility, a growing body of global literature identifies governance quality as a fundamental precondition for investor confidence and capital allocation decisions. It is worrisome that corruption remains a systemic and persistent issue across many ECOWAS countries, as reflected in consistently low scores on international corruption perception and governance indicators. This has continued to undermine investor confidence, heighten investment risk, increase transactional uncertainty, distort market mechanisms, and

partially explain the limited success of macroeconomic reforms in attracting sustainable foreign capital to the region. As a result, ECOWAS member countries continued to risk entering a vicious cycle in which corruption discourages capital inflows, slows growth, and limits resources for institutional strengthening, thereby enabling corruption to persist. Besides systemic corruption, the regulatory systems in the ECOWAS are often characterised by overlapping mandates, bureaucratic inefficiencies, weak enforcement mechanisms, and frequent policy reversals. This tends to undermine investor confidence and limit the effectiveness of broader macroeconomic reforms aimed at attracting foreign capital. The regulatory inefficiency persists despite the region's market potential, resource endowments, and ongoing efforts toward economic and monetary integration in the ECOWAS.

Furthermore, the level of government effectiveness in the ECOWAS has remained a source of concern to investors and development partners. Most ECOWAS countries face significant governance challenges, including poor policy implementation, weak institutions, poor service delivery, and political interference. These issues tend to diminish investor confidence, raise transaction costs, erode the credibility of economic reforms, and deter long-term investment, even in countries with large markets or rich natural resources. Consequently, foreign capital tends to flow into only a few sectors and countries, leaving others to find it difficult to attract stable foreign investments. The World Governance Indicators (WGI) rule-of-law score consistently shows that most ECOWAS countries perform below the global average. This is often reflected in weak legal frameworks, slow judicial procedures, and inconsistent law enforcement. These problems tend to increase perceived investment risks, deter long-term capital inflows, and cause capital flight to locations with stronger legal protections and more predictable legal systems. Additionally, the ECOWAS member countries continue to face governance challenges, especially in political stability and accountability. Political instability, characterised by frequent government changes, election violence, policy uncertainty, and security issues, raises investment risks and discourages long-term foreign commitments. These issues tend to increase perceived political risks, encourage short-term or speculative capital flows, and reduce long-term investment, even in countries with strong macroeconomic policies or abundant resources. At the same time, weak accountability, as demonstrated by limited transparency, ineffective oversight, corruption, and poor enforcement, diminishes investor confidence by raising transaction costs and fostering uncertainty about investment protection. Given the foregoing, this study is important for providing valuable insights into the effect of governance quality on capital inflows to the ECOWAS.

2. Methodology

This study utilise 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:

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

Where: FDI = foreign direct 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

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

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. 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

Foreign Direct Investment (FDI): This refers to the total of equity capital, reinvested earnings, and other long-term investments recorded in the balance of payments. It includes inflows of productive, long-term, high-potential direct investments. It is measured by the share of net FDI inflows to GDP in each of the selected countries

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.

Table 1: Summary of descriptive statistics

Variable	Observation	Mean	Std. Dev.	Minimum	Maximum
FDI	184	2.975	2.746	-2.574	15.60
POI	184	-5.39	8.89	-60	20.79
REM	184	6.652	5.515	.328	27.16
FAI	184	8.599	11.76	.308	92.127
FOL	184	58.95	82.54	6.3	610.45
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 the study variables based on 184 observations. FDI averaged 2.975% of GDP, with a standard deviation of 2.746, ranging from -2.574% to 15.60%, indicating moderate variation in inflows. Portfolio investment averaged -5.39% of GDP, suggesting net outflows, with substantial variation (SD = 8.89). Remittances averaged 6.652% of GNI, ranging from 0.328% to 27.16%, highlighting their importance as a source of external finance. Foreign aid averaged 8.599% of GDP, with considerable variation (SD = 11.76) and values ranging from 0.308% to 92.127%. Foreign loans recorded the highest mean at 58.95% of GDP, with a high standard deviation of 82.54, indicating substantial differences in borrowing across countries and periods. Regarding governance, government effectiveness averaged -0.781, while regulatory quality averaged -0.633, indicating generally weak institutional performance. The rule of law index averaged -0.637, suggesting weaknesses in legal institutions. Control of corruption recorded a mean of -0.634, reflecting persistent corruption challenges. Political stability had a mean of -0.748 and the highest standard deviation (0.804), indicating generally unstable political conditions and considerable variation across countries and periods.

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 2.

Table 2: Summary of the IPS unit root test results

Variable	Z-t-tilde-bar at levels	Z-t-tilde-bar at difference	1st Order of integration
FDI	-1.381 (0.0836)	-8.094*** (0.0000)	I(1)
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 test results show a mixed order of integration among the variables. Political stability (PST) is stationary at levels (-3.024; p = 0.0012) and is therefore I(0). In contrast, FDI,

government effectiveness (GEF), regulatory quality (REQ), rule of law (RUL), and control of corruption (COC) are non-stationary at levels but become stationary after first differencing, indicating that they are I(1). Their first-difference statistics are significant at the 1% level, with p-values of 0.0000. None of the variables is integrated of order two, I(2). This mixed integration order of I(0) and I(1) satisfies the requirements for conducting cointegration analysis and applying panel ARDL estimators, including the Pooled Mean Group (PMG) and Mean Group (MG) approaches.

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: FDI GEF REQ RUL COC PST		
Ho: No cointegration	Number of panels	= 8
Ha: All panels are cointegrated	Number of periods	= 21
Cointegrating vector: Same		
Panel means:	Included	Kernel: Bartlett
Time trend:	Not included	Lags: 1.25 (Newey-West)
AR parameter:	Same	Augmented lags: 1
	Statistic	p-value
Modified Dickey-Fuller t	-4.5622***	0.0000
Dickey-Fuller t	-4.0596***	0.0000
Augmented Dickey-Fuller t	-0.9143	0.1803
Unadjusted modified Dickey-Fuller t	-6.8968***	0.0000
Unadjusted Dickey-Fuller t	-4.6894***	0.0000

Source: STATA 15 output

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

Table 3 presents the Kao panel cointegration test for Model 1. All four test statistics are significant at the 1% level: MDF (−4.5622; p = 0.0000), DF (−4.0596; p = 0.0000), unadjusted MDF (−6.8968; p = 0.0000), and unadjusted DF (−4.6894; p = 0.0000). Thus, the null hypothesis of no cointegration is rejected, confirming a long-run relationship between FDI and the governance indicators, government effectiveness, regulatory quality, rule of law, control of corruption, and political stability. This indicates that the variables move together and converge toward a stable long-run equilibrium despite short-run deviations.

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

	(1)	(2)
Variables	MG	PMG
Ec	-.659*** (0.000)	-.391*** (0.007)
D.GEF	.096 (0.974)	1.480 (0.177)
D.REQ	2.867* (0.101)	-4.753*** (0.014)
D.RUL	-4.835 (0.183)	.659 (0.577)
D.COC	-1.465 (0.456)	.519 (0.157)
D.PST	1.655 (0.281)	-.669** (0.023)
GEF	9.665 (0.153)	-1.241 (0.592)
REQ	-13.798** (0.033)	-.923 (0.650)
RUL	12.469 (0.169)	-1.707 (0.417)
COC	7.198 (0.281)	-.645 (0.773)
PST	-18.863 (0.259)	.6069 (0.173)
Constant	2.245 (0.293)	-.0906 (0.766)
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	9.66507	-1.24149	10.90657	6.35909
REQ	-13.7985	-.9234494	-12.87505	6.147
RUL	12.4698	-1.706651	14.17652	8.81868
COC	7.197634	-.6452215	7.842856	6.285445
PST	-18.8634	.606979	-19.47044	16.69855
chi2(6) = 11.33**				
Prob>chi2 = 0.0453				

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

Table 5 presents the Hausman test results for selecting between the MG and PMG estimators for Model 1. The Chi-square statistic of 11.33 (p = 0.0453) is significant at the 5% level, supporting the MG estimator as the more appropriate choice. The long-run results show that government

effectiveness has a negative but insignificant effect on FDI, while regulatory quality has a significant negative effect, with a one-unit increase associated with an approximately 13.80-unit reduction in FDI. Rule of law, control of corruption, and political stability have no significant long-run effects on FDI. In the short run, none of the governance indicators significantly affects FDI, although rule of law and control of corruption show positive but insignificant effects. The error correction coefficient of -0.6589 , significant at the 1% level, indicates that approximately 65.89% of short-run deviations from long-run equilibrium are corrected each period, confirming a relatively rapid adjustment toward equilibrium and supporting the presence of a long-run relationship.

Discussion of Findings

The findings show that government effectiveness has a positive and statistically significant long-run effect on foreign official loan inflows in ECOWAS countries. This suggests that countries with more effective governments are better positioned to access official external financing. Effective institutions can improve the planning and implementation of development projects, strengthen public financial management, and increase lenders' confidence in a government's ability to use borrowed resources effectively. This interpretation is consistent with the institutional perspective advanced by Acemoglu, Johnson, and Robinson (2005), which emphasises the importance of institutions in shaping economic outcomes. It is also broadly supported by studies such as Abille and Adjei (2025), Bekana (2023), and Ofori and Asongu (2021), which highlight the role of governance quality in shaping external financial flows in Africa. Thus, the positive effect of government effectiveness may reflect the greater capacity of well-functioning governments to meet the institutional and administrative requirements associated with official development financing. In contrast, control of corruption has a negative and statistically significant long-run effect on foreign official loan inflows. This suggests that improvements in corruption control are associated with lower dependence on foreign borrowing. A plausible explanation is that stronger control of corruption improves public resource management, reduces leakages, and strengthens the efficiency of government expenditure. Consequently, governments may be better able to mobilise and utilise domestic resources, reducing the need to rely heavily on external loans. This finding is consistent with the broader governance literature, which links stronger institutions and better public-sector management with improved economic and financial outcomes. Kaufmann, Kraay, and Mastruzzi (2009, 2011) emphasise that effective governance, including control of corruption, is closely associated with the quality of public institutions. The result also complements Abille and Adjei (2025), who show that governance can influence external debt and capital-flight dynamics in sub-Saharan Africa. The results further indicate that regulatory quality has a negative but statistically insignificant effect on foreign official loan inflows. Although the negative coefficient suggests that improvements in regulatory quality may reduce reliance on external borrowing, the insignificant result means that regulatory quality is not a strong determinant of official loan inflows in the sampled countries. Better regulatory institutions can encourage private investment, improve the business environment, and support domestic economic activity, potentially reducing the need for external financing. However, the evidence suggests that these effects may not be strong enough to influence official lending decisions directly. This finding is consistent with the broader literature showing that the relationship between individual governance indicators and capital flows can vary across countries and types of capital. For example, Doytch and Eren (2012), Niarachma, Effendi, and Ervani (2021), and Tabash et al. (2024) demonstrate that institutional effects on foreign capital are not uniform across different settings. Similarly, rule of law has a negative but statistically

insignificant effect on foreign official loan inflows. The result suggests that improvements in legal institutions and enforcement mechanisms do not significantly alter the volume of official loans received by ECOWAS countries. Although stronger rule of law is generally expected to improve accountability, contract enforcement, and confidence in economic institutions, official lending may be influenced more strongly by development needs, fiscal conditions, and the priorities of lending institutions. The insignificant finding therefore does not necessarily imply that the rule of law is unimportant; rather, its influence may operate indirectly through other economic and institutional channels. This interpretation is consistent with the institutional literature, particularly Acemoglu et al. (2005) and Kaufmann et al. (2011), which emphasise that institutional quality affects economic outcomes through multiple interconnected dimensions rather than through a single governance indicator.

The findings also show that political stability has a negative but statistically insignificant effect on foreign official loan inflows. This indicates that variations in political stability do not significantly determine official borrowing in the long run. While political stability would ordinarily be expected to encourage external financing by reducing uncertainty and perceived risk, official loans differ from purely commercial capital because they are often linked to development objectives, concessional financing, poverty reduction, infrastructure programmes, and broader international cooperation. Consequently, lending decisions may continue even where political conditions are less favourable, particularly when borrowing countries have substantial development financing needs. This result is consistent with the broader evidence that governance does not affect all forms of capital flows in the same way (Ohonba & Akinola, 2023; Ogbonna et al., 2022; Al Sayed et al., 2025). In the short run, none of the governance indicators has a statistically significant effect on foreign official loan inflows. This suggests that changes in governance quality do not immediately translate into changes in official borrowing. A possible explanation is the relatively long-term nature of official lending arrangements. Government loans are often negotiated within established development programmes and financing agreements, meaning that short-term changes in governance may not immediately alter lending commitments. The result also suggests that short-run loan inflows may depend more on factors such as infrastructure financing requirements, debt sustainability, macroeconomic conditions, donor priorities, international development programmes, and strategic relationships between borrowing countries and development-financing institutions. The findings suggest that governance matters more for foreign official loan inflows through specific institutional channels and over the long term than through immediate short-run changes. In particular, government effectiveness appears to enhance access to official loans, whereas stronger control of corruption is associated with reduced dependence on such financing. The insignificant effects of regulatory quality, rule of law, and political stability further indicate that the relationship between governance and external borrowing is multidimensional and cannot be adequately explained by a single governance indicator. These findings reinforce the argument in the literature that institutional quality is important for external financial flows, but its effect depends on the type of capital, the institutional dimension considered, and the economic circumstances of the recipient countries (Niarachma et al., 2021; Ofori & Asongu, 2021; Kayani & Gan, 2022; Tabash et al., 2024).

4. Conclusion and Recommendations

Conclusion

This study examined the effect of governance quality on capital inflows in the ECOWAS region, focusing on government effectiveness, regulatory quality, rule of law, control of corruption, and

political stability. The findings show that the relationship between governance quality and capital inflows is multifaceted and varies across different forms of external capital. Government effectiveness has a negative long-run effect on FDI, while regulatory quality also has a significant negative effect. Rule of law does not significantly influence FDI, suggesting that its effects may vary across types of capital. In contrast, control of corruption significantly enhances FDI, highlighting the importance of transparency, accountability, and institutional trust in attracting foreign investment. Political stability also influences capital inflows, although its effect varies across capital categories. The study concludes that governance quality remains an important determinant of capital inflows in the ECOWAS region, with different governance dimensions producing varying effects.

Recommendations

- i. 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 remittances, foreign aid, and foreign official loans.
- ii. 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.
- iii. 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.
- iv. 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.
- v. Finally, 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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