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Impact analysis of institutional quality on foreign direct investment inflows into the Southern African Development Community (SADC) region

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[1606161]

Thesis Submitted in fulfillment of the Requirements of
for the Degree of Doctor of Philosophy

University of the Witwatersrand

Supervisor: Prof P. Pillay

March 2022

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DEDICATION

This thesis is wholeheartedly dedicated to my family and colleagues who have been my greatest source of inspiration.

ACKNOWLEDGEMENT

Although this journey has certainly not been smooth, it was, however, filled with wonderful experiences, fond memories and determination. I thank the Lord Almighty for his faithfulness in strengthening me and enabling me to endure the journey. Now the song in my heart is……*Through it all, I've learned to depend upon his word.*

My sincere gratitude to my supervisor, Prof Pundy Pillay for invaluable guidance and persistent enthusiasm even under frustrating circumstances. Your patience and positivity propelled me ahead.

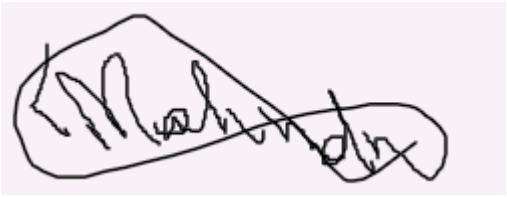
I would like to thank my family - *Fefez, Achuma, Queen and Mihlali* - their understanding, patience and most of all their support towards my project during this demanding period has been incredible. The journey was not seamless, but you were there with me at every stage, and that kept me focused on this project. Thank you so much, and may the Lord bless you.

I would also like to acknowledge my siblings and friends who provided me with massive support and love during this demanding experience. Thank you for your prayers.

My colleagues at the Wits School of Governance have been amazing. I would like to thank specifically Prof Anthoni Van Nieuwkerk and Prof Ivor Sarakinsky for their contributions to the execution and the success of this thesis. Your support has been remarkable.

DECLARATION

I, KHOLISWA MALINDINI (1606161), hereby declare that this thesis titled *'An analysis of institutional quality on foreign direct investment inflows into the Southern African Development Community (SADC*) on which this Degree of Doctor of Philosophy is based on my work conceptually and in the execution, except for quotations and citations which have been acknowledged accordingly and that it has not previously been submitted to another university or for another qualification.



KHOLISWA MALINDINI

DATE: March 2022

ABSTRACT

The quality of governance has increasingly become a significant determinant of foreign direct investment inflows in recipient countries. Although extensive research has been conducted internationally to examine the role of institutional quality on foreign direct investment inflows, this concept has not been thoroughly interrogated in the Southern African Development Community (SADC) context. The region is poverty-stricken, unemployment rates are skyrocketing, economic growth is deteriorating, and the region only accounts for only one percent of global FDI.

Thus, this study sought to examine three main objectives critically: first, the effect of institutional quality on foreign direct investment inflows into the SADC region; second, the influence of the financial development on the FDI-institutional quality nexus and thirdly, to assess whether countries' income levels matter for attracting FDI inflows.

FDI as a percentage of GDP was measured as a dependent variable, while institutional quality, financial development, natural resource availability, and GDP growth were the main explanatory variables. The study controlled for inflation rates, trade openness, and trade policy. An interaction term was generated to evaluate the effect of financial development on the FDI-institutional quality nexus in the SADC region.

In order to achieve the research objectives, a mixed-methods approach was adopted, and a convergence research design was applied. Secondary data for other macroeconomic variables were drawn from the World Bank Development Indicators. In contrast, data for financial development were drawn from the International Monetary Fund's Financial Development Index database, and data for governance indicators were drawn from the Worldwide Governance Indicators' database. Primary data was collected through semi-structured interviews and survey questionnaires.

Econometric models were developed to analyse panel data from 2011 – 2018 for 15 SADC member states to achieve the set objectives quantitatively. Specifically, the study adopted the Generalised System Methods of Moments (GMM) as the appropriate and efficient estimation technique for the analysis. Using a Pillar Integration Process, the data were integrated. The overall findings suggested that, while GDP growth, trade openness, and natural resources positively influence FDI inflows into the region and are statistically significant, institutional quality, inflation, trade policy and financial development are negatively and statistically significant coefficients towards FDI. The results revealed that a poor regulatory environment, the rule of law, and weak accountability are the main disincentives to improved quality of governance.

The overall results indicated that weak institutional quality is still a significant challenge as far as inward FDI attraction is concerned; the lack of an enforcement mechanism directly impacts foreign

investor property rights protection and eventually deters foreign investment inflows. Also, the unstable political framework that fails to sufficiently support economic institutions and ensure certainty, and the lack of political will, particularly by heads of government to implement and prioritize regional objectives over national interests, is a significant problem and stifles progress towards more profound integration. It also transpired that the financial markets and institutions within the region are not efficiently developed and are still fragmented, and this is attributed to macroeconomic instability and weak macroeconomic convergence. The findings also revealed that the countries' income levels do not matter as far as FDI attraction is concerned.

Based on these results, it may be necessary for SADC member states to adopt an institutional framework that promotes collaboration in the region and ensures effective and efficient implementation of the potential protocols. Given the dominance of national sovereignty over regional objectives, it may be worth examining the regimes that govern the member states; based on the view that sometimes non-compliance by member states emanates from the regime, which may sometimes not support regionalism. Convergent bilateral and multilateral arrangements are necessary for the region. The region needs to raise its export competitiveness by attracting domestic and foreign investments, and a rigorous trade integration process is a prerequisite. Policymakers in the region should focus on working together with institutions to promote development in the banking sector. Further, given the adverse effects of financial development on FDI inflows due to rising domestic credit by the banking sector, efforts should be made to maintain domestic credit levels to allow room for more FDI.

Keywords: FDI, institutional quality, SADC, macroeconomic convergence, regionalism, governance, GMM

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List of Acronyms

AfCFTA	African Continental Free Trade Area
APRM	African Peer Review Mechanism
ASEAN	Association of South-East Asian Nations
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECOWAS	Economic Community of West African States
FDI	Foreign Direct Investment
FIP	Finance and Investment Protocol
IIAG	Ibrahim Index of African Governance
LDCs	Least Developed Countries
MNE	Multinational Enterprises
NAFTA	North American Free Trade Agreement
NEPAD	New Partnership for Africa's Development
NIE	New Institutions Economics
OLS	Ordinary Least Squares
RIA	Regional Investment Agreements
RISDP	Regional Indicative Strategic Development Plan
RTA	Regional Trade Agreements
SACU	Southern African Customs Union
SADC	Southern African Development Community
SEZs	Special Economic Zones
TRIMS	Trade-related investment measures
TRIPS	Trade-related intellectual Property rights
UNCTAD	United Nations Conference for Trade and Development

Chapter 1

General overview of the research

1.1 Introduction

Foreign direct investment (FDI) has always been considered an important pre-condition for economic growth and development particularly in developing economies, based on the economic benefits it brings to recipient countries. However, despite being an engine for economic prosperity, observation suggests that inward FDI are unevenly spread across the globe. In line with this observation, the literature identifies and outlines factors that may possibly stimulate or deter FDI in recipient countries inflows leading to the observed unevenness. Among these factors, the quality of governance has increasingly become a significant determinant of foreign direct investment inflows. Although extensive research has been conducted internationally to examine the role of institutional quality on foreign direct investment inflows, this concept has not been thoroughly interrogated in the Southern African Development Community (SADC) context. This chapter presents a background to the study, the rationale behind the study, it further outlines explicitly the problem examined in the study, the purpose of the study, research objectives and questions. Further, this chapter also presents the significance of the study, that is, its contribution to the body of knowledge, and briefly presents the adopted methodologies to accomplish the study objectives.

1.2 Background to the study

Globalization and increased international trade in the last three decades have made Foreign Direct Investments (FDI) an engine for the economic advancement and modernization of developed and developing countries and a tool through which economies can be integrated into the global world. This belief emanated from the benefits that FDI brings to host countries, such as stimulating economic growth through capital accumulation, bridging the gap in domestic savings, ensuring an improved balance of payments as a result of foreign exchange, technological transfers, which lead to improved production techniques as well as enhanced managerial practices and efficiency through exposure to competition, and deeper integration (Gangi and Abdulrazak, 2012; Mottaleb and Kalirajan 2010; Crespo and Fontoura, 2007).

Subsequently, many developing countries, mainly Africa, have now undertaken to offer incentives to stimulate FDI. These incentives include tax holidays offered to investors in critical sectors and general incentive packages to attract more investors (Gangi and Abdulrazak, 2012). In addition to these efforts, the literature revealed that regional economic integration is key to enhancing member countries' FDI attractiveness, and this occurs through the Regional Investment Agreements (RIA) and Regional Trade Agreements (RTA) that countries sign off as part of the integration (Kubny, Molders, and Nunnenkamp, 2008). According to Börzel and van Hüllen (2014), regional integration creates global institutions whereby political authority is delegated to make collective decisions. It is a historical process of increased interaction levels between political units provided by actors who share common ideas, objectives, and clear-cut methods to achieve them and thus contributes to building the region (De Lombaerde (2011).

Regional economic integration came as a rational response to developing countries' difficulties, particularly in Africa, where countries cannot operate in isolation due to limited economies of scale; the least competitive stature of the continent in the global market, and small market size, which calls for coordinated efforts by member countries. Theoretically, economic integration provides a legal framework to guide national administrations towards joint and firm action (Hartzenberg and Erasmus, 2015). Regionalism refers to "*formal cooperation and integration arrangements by neighbouring countries to enhance cooperation through the creation of institutions that shape and drive collective action"* (Jiboku and Okeke-Uzodike, 2017:50). It is a process of social change that involves unique patterns of social interaction.

For Africa, economic integration has been hailed as the most efficacious tool to deal with the socio-economic challenges that the continent is confronted with. Accordingly, several regional integration agreements have been formed in Africa in an attempt to stimulate FDI attractiveness; these include, among others, the African Union, Southern African Customs Union (SACU), Southern African Development Community (SADC), Economic Community of West African States (ECOWAS), COMESA, and East African Community (EAC), to mention a few. Subsequently, these regional groupings adopted and implemented FDI-enhancing policies and strategies and SADC followed suit.

The SADC mission was to stimulate sustainable and equitable economic growth and socio-economic development (Mapuva and Muyengwa-Mapuva, 2014). Accordingly, both fiscal and non-fiscal incentives were offered to investors, exchange controls were also relaxed, and MNEs were permitted repatriate profits and dividends (Muradzikwa, 2002). Apart from the incentives, several reforms were

embraced to create an investor-friendly environment: the SADC Treaty and the SADC Finance and Investment Protocol (FIP) (SADC 2001).

It was believed that deeper economic integration would address trade barriers and the continent's perceived unattractiveness to foreign capital flows, thereby promoting investments in the continent (Phirinyane, 2004).

Despite all these efforts, African countries still attract an insignificant amount of global FDI flows.

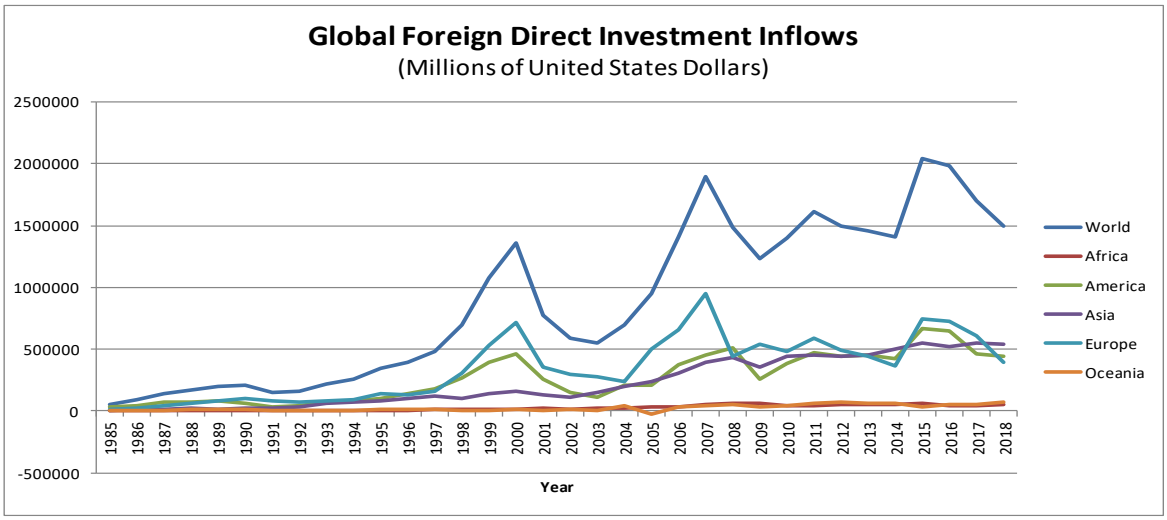


Figure 1: Global Foreign Direct Investment Inflows, 1985 – 2018

Source: Author's compilation from the UNCTAD (2020)

As presented in Figure 1, it is indeed evident that the African continent and Oceania are the least attractive continents as far as global FDI inflows are concerned, while other continents have accounted for the largest share of these inflows. According to Onyeiwu and Shrestha (2004), although the share of FDI inflows into Africa has gradually increased in absolute terms in the past decades, a decline is observed in relative terms. Consistent with this, the World Investment Report as outlined in UNCTAD (2017), reveals that Africa's global FDI share has been on a declining trend since 2013, partly due to the protracted macroeconomic effects of the plummeting oil price and adverse weather conditions. For example, in 2014, Africa accounted for only 2.9 percent of global FDI – this is insignificant compared to developed countries share of 49.8 percent while developing Asia and Latin America accounted for 33.3 percent and 10.6 percent, respectively (UNCTAD, 2017). Furthermore, between 2016 – 2017, Africa experienced a 21 percent decline in its FDI inflows, while Sub-Saharan Africa's FDI inflows

dropped by 28 percent, whereas Southern Africa's FDI fell by 66 percent. Noteworthy during these periods, both greenfield investments and Mergers and Acquisitions have been declining.

Furthermore, SADC still lags behind other African regions and other Least Developed countries (LDCs) globally as far as FDI inflow is concerned (Sichei and Kinyondo, 2012; Kalenga, 2000). For instance, in 2014, the SADC region only captured a 1.5 percent share of the world's FDI inflows, while the Association of South-East Asian Nations (ASEAN) captured 9.6%, and Mercosur accounted for almost 6% of the world's FDI inflows (UNACTAD, 2016).

The question, therefore, is this: why is Africa attracting an insignificant amount of FDI inflows despite its resource endowment?

As Gangi and Abdulrazak (2012) stated, Africa's failure to attract FDI is linked to the fact that the introduction of economic reforms by international organisations such as the World Bank was not accompanied by institutional and political reforms that could enhance institutions' effectiveness stimulate growth and development in the continent. For this reason, Africa is generally seen as a high risk by foreign investors as it is characterized by political and institutional instability and lacks predictability.

The literature presents numerous factors as to why the protocols' introduction has not translated into increased FDI inflows into the region. Amongst the experimental factors, Jenkins and Thomas (2002); Goldstein, (2003); and Mapuva and Muyengwa-Mapuva (2014) highlight the following: the multiple and overlapping membership patterns of regional economic communities; the heterogeneous nature of the SADC economies, which has provided an unstable economic environment; duplication emanating from the activities of SACU and the SADC; macroeconomic instability; weak regulatory framework and most importantly, a flawed institutional framework.

The SADC's Regional Indicative Strategic Development Plan (RISDP) point out that 'good political, social, and economic governance are prerequisites for sustainable socio-economic development in the region. It emphasizes that the 'SADC's quest for poverty eradication and deeper regional integration will not be realized in the absence of good governance' (SADC Secretariat, 2001:31). The literature also highlights the shift from traditional FDI determinants (such as market size, trade openness and inflation) to institutional quality as the significant FDI determinant (Dunning, 2002; Knack and Keefer, 1997; Rutherford, 2012; Gangi and Abdulrazak, 2012; Mougani, Rivera, Zhang, Mezui, and Kim, 2013; and Chidede, 2017). Therefore, the literature emphasizes the importance of establishing solid and high-quality institutions through which property rights are protected. Moreover, there is the "ease

of doing business" factor which ultimately attracts more FDI for achieving sustainable development (Dunning, 2002; Gani, 2007 and Bellos and Subasat, 2012). Interestingly, the Corruption Perceptions Index (2015) revealed that Africa's ranking, at 34 percent is lower relative to Developing and Transition Economies' average rankings of 41 percent. Latin America and the Caribbean lead with 51 percent, followed by Asia which ranks 47 percent, and Oceania, 42 per cent. This lower ranking adversely affects the competitiveness of the continent.

Empirical studies also support this notion, for example, North (1990); Barro (1997); Hall and Jones (2013); Knack and Keefer (1997); Mougani, Rivera, Zhang, Mezui, Kim, (2013). Thus, high-quality institutions that are efficient and solid tend to influence investments and contribute to increased total productivity positively.

To this end, this study's question is: to what extent does institutional quality influence foreign investors' decisions in the SADC region?

According to North (1990), institutions at the regional level are formulated to reduce the uncertainty associated with the human exchange and provide societies with predictable interaction frameworks.

Within this context, the underlying FDI benefits, particularly the institutional framework and quality, become crucial. Data reveals that the institutional arrangements of the host country are one of the primary determinants of foreign investors' decisions to undertake investments. An excellent legal and administrative framework for investors is also vital for FDI attraction into the region as this will minimize investors' risk through the enforcement of property rights (OECD, 2012; Phirinyane, 2004).

Considering the above, institutional quality is a significant determinant of FDI given the critical role institutions play in defining a country's long-run growth probability. Therefore, markets with good institutions, the effective rule of law, good business environment, safe and comprehensive property rights and market-friendly social norms are better positioned to attract investment, participate in trade and utilize physical and human capital more efficiently, resulting in better growth performance over the long run (Robinson, Torvik, and Verdier, 2006).

The rest of the chapter is structured as follows: Section two presents the study's problem statement; Section three describes the data and measures to be used. Section four presents the data analysis techniques that are employed. Section five discusses the managerial and policy implications, makes suggestions for future research, and offers concluding remarks.

1.3 Problem Statement

The literature points out that regional economic integration is fundamental to enhancing member countries' FDI attractiveness, and this occurs through the RIAs and RTAs that are part of the integration process. On this basis, the SADC Protocol on trade was introduced to improve both the region's domestic and foreign direct investment climates.

However, despite FDI-enhancing policies, which are believed to stimulate significant investment flows, the SADC region has failed to woo foreign investors as expected, and it still accounts for the lowest percentage of total world FDI compared to its regional counterparts. For instance, the SADC region accounted for an average of 0.7 percent for the period 1990 – 2017, while ASEAN, SAARC and Mercosur accounted for 6, 2 and 4 percent respectively in the same period.

This raises the question: why do certain regions attract more FDI than others? What factors drive FDI into these regions?

The literature reveals that apart from the main determinants of FDI inflows such as market size, trade openness, infrastructural development, *among other things* - the quality of institutions in the host country features prominently as one of the significant determinants of FDI inflows globally. One will remember that even though tremendous strides have been made by both the continent and the SADC region to embrace and institutionalize multi-party democratic governance, which saw SADC member countries undergoing a transition from authoritarian rule towards democratic governance, the region still faces a plethora of democratic deficits as stated in Matlosa (2008). For instance, all SADC member countries have undergone this transition and even those that have transitioned exhibit different tendencies towards democratization; in a nutshell, there is a "mixed bag" of governance in the region.

Additionally, despite several successes in the area of politics, defence and security in recent years, the SADC is still grappling with political, and socio-economic challenges relating to underdevelopment and poverty; national security, interstate and intrastate conflicts; consolidation of democracy and most importantly, poor governance, (Chidede, 2017). The African Economic Outlook (2017) and the Mo Ibrahim Foundation Index (2017) add that even though the continent is gradually improving in terms of ensuring citizen participation in decision-making processes, commitment to accountability within decision-making institutions is still below expectations and policy uncertainty remains high, and terrorism is a growing challenge for security. The lack of political will has persisted despite introducing the African Peer Review Mechanism (APRM) intended to harmonize the region and instil sound

governance principles. Furthermore, the region is also characterized by a lack of cooperation and coordination among SADC institutions.

Could poor governance be the reason why the SADC region attracts less than expected FDI inflows?

There is consensus in the literature that institutional quality or good governance is a prerequisite for real and well-organized functioning of markets (for example, North, 1990; Barro 1997 Hall and Jones 2013; Knack and Keefer, 1997; Rutherford 2012; SADC Secretariat, 2001; Mougani, Rivera, Zhang, Mezui and Kim 2013; Chidede 2017). Additionally, good institutional qualities such as political stability, the rule of law, the absence of violence, and control of corruption in the host country convince and attract foreign investors. Even the SADC's Regional Indicative Strategic Development Plan (RISDP) emphasizes these core governance factors as prerequisites for good quality institutions – considered by foreign investors when assessing a region for its suitability toward business.

This study explores this question by examining the effect of governance on FDI inflows into the SADC region using the composite governance indicator proposed by (Kaufmann & Zoido-lobatón, 1999).

1.4 Purpose Statement

Given the significant roles of institutional quality and FDI inflows in stimulating growth and development in host countries, the study sought to assess the relationship between the two variables. Specifically, through a panel data analysis of ten SADC member countries, the study examined the impact and mechanism by which institutional quality influences FDI inflows, which renders economic growth, thus shaping an enabling environment for foreign investors and innovation in the SADC region. Based on the reviewed literature, which underscored the role of financial development in the FDI- institutional quality nexus, this study examined the interaction between institutional quality and financial development and its effect on FDI inflows in the region. Further, given the six governance indicators which impact FDI differently, this study sought to identify components that matter most for FDI inflows to inform policy decisions. The availability of the Worldwide Governance Indicators data determines the period chosen since 1996. Thus, the period of observation is 2011-2018.

Focusing only on the SADC region with almost the same socio-economic and political conditions reduces bias (Adeleke, 2014). It is worth noting that this study's findings apply only to SADC member states and cannot be generalized to other countries or the world unless countries share the same conditions.

1.5 Research Objectives

The focal objectives of the proposed study are:

- To examine the association between institutional quality and FDI inflows and assess the extent to which institutional quality influences FDI decisions in the SADC region;
- To assess the effect of financial development on the institutions-FDI nexus; and
- To investigate the effect of country-income level rankings on the institutional quality- inward FDI nexus.

The overarching purpose of the study will be achieved through the accomplishment of the following sub-objectives:

- To critically examine the region's inward foreign direct investment performance concerning the investment promotion policies ratified over the last 2 decades;
- To assess the determinants of FDI in the SADC region;
- To understand the region's institutional framework and how it enhances development through supporting markets and promoting property rights;
- To examine the extent of the region's financial system's development and the degree to which it allows foreign firms to borrow funds to expand innovative activities in host countries;
- Inspect how institutions have facilitated trade and capital account liberalization to integrate markets, reduce transaction costs, and thus inward FDI in the region; and
- To establish a link between regional economic integration and institutional quality and development in the region

1.6 Research Questions

In order to achieve the specified objectives; the study seeks to answer the following main questions:

- Is there an association between institutional quality and inward FDI in the SADC region? To what extent does institutional quality influence inward FDI into the SADC region?
- What is the effect of financial development and liberalization on the institutions' inward FDI nexus?

- What is the effect of income level on the dynamics of inward FDI and institutional quality in the region?

The research sub-questions are:

- How has the region's performance with regard to attracting inward FDI in relation to the investment promotion policies been ratified in the last two decades?
- How is the institutional framework in the region? Does it enhance development through supporting markets and ensuring property rights protection?
- How developed is the region's financial system/sector? Moreover, to what extent has this system allowed foreign firms to borrow funds to expand their host countries' innovative activities?
- To what extent has the relaxation of foreign ownership restrictions and deregulation of offshore borrowing enhanced FDI inflows into the region?
- What role has institutional quality played in facilitating both trade and capital account liberalization to integrate markets and thus reduce transaction costs of doing business in the region?
- What role has liberalization played in influencing FDI inflows in the region?
- Does the country-income level matter for the institution-FDI relationship?
- Is there a link between economic integration, institutional quality, and development in the region?

1.7 Research Hypothesis

Based on the theoretical links between governance and FDI inflows, the following hypothesis was developed to achieve the study's objectives.

$\mathbf{H_0}$: There is no association between institutional quality and FDI inflows in the SADC region.

$\mathbf{H_1}$: There is an association between institutional quality and FDI inflows in the SADC region.

1.8 Justification for the Study and the Literature Gap

Although the effects of institutional quality have received some recognition in the economics literature, for example, Kaufmann, Kraay, and Mastruzzi (2003); Dixit (2009); and Rodrik (2007), the

international trade and finance literature has paid little attention to this aspect, particularly pertaining to the SADC region. This is probably due to weak institutional structure and a significant gap between lofty collaboration goals and genuine accomplishments that have always been mainstream criticism which suggests that it demonstrates deficiency and thus limits progress in regional integration.

Kooiman (1993) asserts that no single actor, whether private or public, can resolve dynamic, complex, and diversified challenges. This assertion underscores the significance of interactive governance amongst the countries in order to achieve common objectives.

The novel aspect of this study lies in the fact that little attention has been devoted to examining the link between institutional quality and FDI in the region. This is despite a notable insignificant FDI inflow and the observed weak institutional quality in the region. The study's point of departure is that a correlation exists between institutional quality and FDI inflows in the host country. This study further argued that under conditions of weak and poorly managed institutions, FDI inflows deteriorate.

Despite the significance of institutional quality as a determinant of inward FDI, as the literature suggests, not much has been done in this area, particularly in the SADC context.

Although many studies have been undertaken in Africa to examine the effects of governance on FDI inflows in the SADC region, some studies focused on the African continent as a whole (Onyeiwu and Shrestha, 2004; Gangi and Abdulrazak, 2012; Adeleke, 2014; and Kaulihowa and Adjasi, 2017) while some studies focused on sub-Saharan Africa (Asiedu, 2002; and Basson, 2015; Bbale and Nnyanzi, 2016). Karavasilev (2016) and Stephan and Hunter (2016) examined the effects of political stability and corruption on FDI inflows in the SADC region - however, these studies focused on only two out of six governance indicators.

Given that the literature suggests that economic integration enhances FDI inflows, it is necessary to undertake a comprehensive study to see how this has unfolded in the SADC region and assess the effect of institutional structure on FDI inflows. This research seals this niche by examining the relationship between the six components of governance and FDI inflows into the SADC region.

Thus, the novel aspect of this research is its contribution to the body of literature in the following ways: First, the study attempts to highlight the importance of institutional quality as the primary determinant for attracting FDI in the SADC region, a long-run indicator for sustainable development that unlocks the economic growth potential of the region through enhanced FDI inflows. This study utilized a composite governance indicator to measure this link. It broadens the understanding of governance's

role in regional economic integration processes, for FDI gains to be maximized. Second, by focusing only on the SADC region, the study endeavoured to reduce preconceptions and generalizations of the findings that might result when considering all developing countries or the continent; thus, it informs policy decisions in the region characterized by socio-economic problems such as inequality and poverty.

Third, according to the researcher's knowledge, only Busse and Hefeker (2007); Daude and Stein (2007) and Kurul and Yalta (2017) have employed the Generalized Methods of Moments (GMM) method (Arellano and Bond, 1991) to examine the effects of institutional quality on FDI. However, these studies were not focused on Africa. On the other hand, Okada (2013) and Asiedu (2002) adopted this method to analyze the indirect effect of institutional quality and FDI in Africa. No study has used this method to analyze the impact of governance on FDI, particularly in the SADC region. Moreover, no study has used a mixed-methods approach to analyze the governance-FDI link. Thus, this study filled this knowledge gap by analyzing this relationship using a mixed-methods approach.

The study thus contributes to the current body of knowledge concerning good governance and inward FDI and will inform SADC governments' policies to attract more FDI. The study also provides insight into the negative and positive effects of governance indicators on FDI in the region.

1.9 Data, Sample and Techniques

Data for this research were drawn from secondary sources such as the World Bank Development Indicators and the World Governance Indicators. In addition to secondary sources, qualitative data were collected from primary sources using semi-structured interviews and questionnaires. Therefore, a mixed-method approach was employed. The target population was all SADC member states, and the sample comprised ten countries for the period 2012 – 2019, which was partly dependent on data availability. Data were quantitatively analysed using panel data estimation techniques such as the pooled Ordinary Least Squares, Fixed effects, and Generalized Methods of Moments. Some statistical diagnostic tests were also conducted to test the assumptions of no structural and behavioural differences between sample sizes before pooling or not pooling the data. Inward FDI as a ratio of GDP was modelled as a dependent variable to examine the effect of institutional quality on inward FDI in the region.

Also, interview and survey data were qualitatively analysed using thematic analysis, and this comprised the participants' views concerning the determinants of FDI inflows in the region and, in particular, the institutional quality effect. Subsequently, a joint display approach was employed to integrate qualitative and quantitative data and to draw an overall conclusion for the study.

1.10 Limitations of the Study

The study analyzed the effects of institutional quality on foreign direct investment in the SADC region; however, due to data constraints, the sample size did not capture all SADC member states, however, the ten member states included in the analysis were representative of the population. Consequently, the presented results are based on a micro panel analysis. The study is focused only on SADC member countries, and thus, the findings cannot be used to make inferences about the governance-FDI link in other regions since a non-probability sampling technique was utilized.

Data for FDI, growth and other control variables are available for almost all the years; however, governance indicators were only developed in 1996 by Kaufmann et al. (2004) and are available bi-annually from 1996 to 2002 but there are still gaps for other member states. This posed a challenge and therefore limited the study to the years of available data. For this reason, the study uses data from 2002- to 2019.

1.11 Delimitations of the study

The proposed study attempts to examine the impact of governance on FDI inflows in the SADC region. The focus is on the SADC region, which was formed on the expectation that more significant FDI inflows would be realized through regional integration. There are different dimensions of institutional quality factors on which MNEs base their investment decisions in developing countries. These include the security of property rights, the guarantee of civil liberties and governance. The proposed study focused on these factors' governance dimension, focusing on their effect on FDI inflows. The study considered FDI inflows as recorded in the SADC countries' respective Balance of Payments accounts (BOP), and thus capital flight, which is impossible to measure, is not included in this study.

1.12 Ethical Considerations

Ethical considerations are crucial in research; they require the researcher to ensure credibility, the trustworthiness of the data collected, - and confidentiality and the protection of the participants' rights are crucial (Westhuizen & Maree, 2021). This study involved human beings – and in order to ensure this, the researcher ensured that this project does not infringe on the respondents' rights or safety. The researcher identified herself to the participants – and the purpose of the study was explicitly expounded as well as the benefits and risks related to the study not only to the interviewees but to the SADC region at large- the participants were made aware of their respective roles and the value they added to the study. Participation was voluntary, and where participants require confidentiality, it was granted and adhered to, anonymity was observed, and sensitive information about the participants was not divulged. Further, the researcher safeguarded the findings against manipulation and for purposes other than academic purposes.

1.13 Organisational structure of the thesis

The primary objective of this study is to examine the impact of institutional quality on foreign direct investment inflows in the SADC region, and the roadmap for the achievement of this objective is spread out in nine chapters as follows:

Chapter one presents an overview of the study holistically; it briefly presents the background to the study; the chapter explicitly states the identified problem, which is, deteriorating inward FDI on the one hand, and the persistent weak institutional quality in the SADC region and these are also linked to the relevant theories which serve as the basis for this study. The purpose of the study is clearly articulated in this chapter, and both research objectives and questions are developed in this chapter.

Chapter two provides a contextual understanding of the phenomena of FDI inflows into the SADC region. This relates to the meaning, nature, trends, and magnitude of FDI inflows into the SADC region and ensures a better understanding of the FDI environment in the SADC region relative to other regions. These are linked to the reforms that have been enacted and implemented in the region to stimulate its attractiveness.

Chapter three gives a broad overview of institutional quality, how it came about, and its significance. The chapter further analyses institutional framework in the SADC region, the analysis is linked to the Worldwide Governance Indicators drawn from the World Bank database in order to get a sense and the level of institutional quality in the region. And to further see whether the level of institutional quality in the regions a contributing factor may be to deteriorating inward FDI.

Chapter four reviews both the theoretical and empirical literature on the issues related to the phenomena under study and are based on the constructs contained in the research questions. Several theoretical postulations are introduced in this chapter. Specifically, three main theoretical models; namely: the regional integration theory, the Eclectic model, and the new institutional economics are relied upon as the theoretical guide for the study. The strengths and weaknesses of these theories are presented.

The Empirical literature revealed some inconsistencies concerning the effect of governance quality on inward FDI; hence it was crucial to examine and understand this relationship in the context of the SADC region and ultimately answer the research questions. Through this analysis, hypotheses are developed based on the reviewed literature. The conceptual framework for this study is further developed and presented to articulate and put the derivative concepts from these theories into proper perspective. It guides expectations of signs, magnitudes, and economic significance of the explanatory variables.

Chapter five presents the methodology based on the hypotheses to be tested. It presents the research design, approach and procedures followed in the study to examine the effect of institutional quality on FDI in the SADC region. It describes the empirical estimation data and discusses the econometric panel techniques that the study employs. Lastly, it also provides justification and selection criteria for the models, data and countries used. A mixed-methods approach is adopted to effectively assess the effect of institutional quality on inward FDI; that is, primary and secondary data are collected and analysed using thematic and statistical analyses.

Chapter six describes the data analysis based on econometric estimations and survey data to quantitatively examine the relationship between governance and FDI in the SADC region. Diagnostic tests are conducted to validate assumptions for some estimation techniques. Dynamic panel data estimation techniques are modelled to examine the link between institutional quality (main explanatory variable) and inward FDI in the region and other identified explanatory variables.

Chapter seven analyses the qualitative data based on the expert interview results and document review concerning FDI inflows' determinants into the region. Here themes are developed through the identification of patterns in the data.

Chapter eight shows the data integration, a joint display of qualitative and quantitative data. Through this approach, convergences and divergences are identified, and overall findings relating to the research problem, research objectives and questions are presented.

Chapter nine provides the conclusion and policy implications; the conclusion is based on the integration process. This presents a summary of the research objectives, research contributions, policy implications, research methodology, limitations of research, and possible areas for further research.

1.14 Conclusion

This chapter presented an overview of the study, the significance of inward FDI as an engine for economic prosperity especially in developing economies. The uneven spread of FDI inflows across is noted, most importantly, the deterioration of inward FDI into the African continent and the regions despite the ratification and implementation of investment promotion strategies triggered some questions, whether the quality of governance in the continent with a particular focus on the SADC region could e responsible for this inward FDI deterioration. The chapter presents a glimpse of the inward FDI trend into the continent and the regional groupings on one hand, while also presenting a quick outlook of the quality of governance in the SADC region. Thus, considering the low volumes of inward FDI, and the weak institutional quality, the main objective of this study is to examine the extent to which the quality of governance influences inward FDI in the SADC region. Given the significance of FDI inflows for economic prosperity, the next chapter presents a detailed overview of investment promotion strategies adopted by member states in the SADC region and the subsequent deteriorating inward FDI trends. The chapter further presents some arguments on whether these strategies have served their purpose.

Chapter 2

Overview of FDI trends in the SADC region

2.1 Introduction

Foreign Direct Investment (FDI) remains a backbone of economic prosperity, particularly for developing economies due to its package of benefits and spillover effects and for giving firms and economies access to advanced technology (Ajayi, 2006). The United Nations Conference for Trade and Development (UNCTAD, 2000:28) defines FDI as a type of international investment that indicates the foreign investor's objective in obtaining a lasting interest in an enterprise resident in another economy. It aims to obtain at least a ten percent controlling share in the resident enterprise, which ultimately leads to a significant degree of influence in the management of the enterprise. In this way, it can create a long-lasting relationship between the direct investor and the resident enterprise. For a better understanding, this chapter unpacks FDI as a concept, the various forms of FDI and their significance in stimulating sustainable economic growth and development. The main aim of this chapter is to present an overview of the strides undertaken by SADC member states to create an investment-friendly environment in an effort to stimulate FDI inflows, and to examine the subsequent inward FDI trends. A comparative view of the SADC's share of global FDI with other regional groupings from other continents is also presented. The main question interrogated in this chapter is: has the SADC region sufficiently and effectively applied its FDI promotion strategies in order to obtain a meaningful share of global FDI?

2.2 Rationale for FDI

FDI is unevenly distributed across countries and regions, and several factors are attributed to this uneven distribution. For instance, Narula and Dunning (2000) point out four main motives of FDI on which Multinational Enterprises (MNEs) base their decisions to invest in specific locations. It is essential to understand the motives behind foreign investments to determine how linkages and spillover effects develop, and each motive reflects the state of development. These motives are: *Natural resource seeking* (objective is to obtain resources both natural such as minerals, raw materials, agricultural products and non-natural resources such as unskilled labour) and these investments are mainly in low-income countries; *Market-seeking investments* (that is, FDI which seeks to supply local or adjacent

markets) is typically seen in both low and middle-income countries; *Efficiency seeking investments* refer to the search for the enhancement of the overall cost efficiency of the MNE. These investments take advantage of different factor endowments, cultures, institutional arrangements, economic systems, and policies, as well market structures by concentrating production in a restricted number of locations to supply multiple markets. Such investments flow to middle-income countries. Finally, *Strategic asset seeking investments* (which strive to obtain strategic assets (either tangible or intangible) may be crucially important for the operation of the firm in the long run and not available at home. This type of investment is seen in high-income countries where knowledge and technology are available.

2.3 Forms of FDI

The literature identifies two primary forms of FDI, namely, *Horizontal* and *Vertical* FDI. The *horizontal model* of FDI (also called Mergers and Acquisitions) originates from the work of Markusen (1983) and posits that FDI is mainly driven by market-seeking motivations and the purchasing power of the local market. This form of investment occurs when firms establish the same type of business operations in a foreign country, for example, Toyota assembles cars in foreign countries. The motive associated with this type of investment is accessing markets and natural resources or to draw on technical expertise in the area by locating near other established firms. in recipient economies.

On the other hand, the *vertical mode* of FDI (also called Greenfield investments) developed by Helpman (1984) suggests that FDI can be explained by Multinational Enterprises' (MNE) desire to take advantage of factor-cost differences and enhance efficiency. This is a form of investment that occurs when a firm from a developed country establish operations in a foreign country that serve as suppliers or distributors. The rationale behind this form is to reduce the production costs or to control the supply chain in a low-wage country. Thus, these are efficiency-seeking investments.

Of these two forms, data shows that the bulk of FDI to developing economies is horizontal than vertical - suggesting that market access and natural resource availability are more crucial factors for investors than production costs. It is worth noting that most FDI benefits, such as the current account surplus, technology spillovers and advanced production techniques are derived from vertical FDI. However, vertical FDI are long-term investments whose operations may be affected by local policy, and are thus sensitive to policy uncertainty, unstable macroeconomic and political environments as transaction costs tend to be high (United States International Trade Commission, 2014). Noteworthy, vertical FDI are

ideal forms for sustainable and inclusive economic growth, therefore, it is crucial to assess the form of FDI attracted by the SADC region so as make informed policy decisions.

2.4 FDI flows into the SADC region

Theoretically, regional economic integration is regarded as a mechanism to enhance country attractiveness to FDI through improved competitiveness and cooperation and coordinated efforts amongst member countries. It is believed that deeper integration addresses trade barriers and attracts foreign capital inflows. Given the belief that developing economies need to attract foreign investment to facilitate economic prosperity, SADC member states followed suit and adopted and implemented FDI–enhancing policies.

Accordingly, SADC member countries adopted and implemented regional investment regimes with investment provisions. The exercise's rationale was to create a conducive environment that fosters growth, development, job creation and ultimately poverty alleviation through foreign direct investments. Interestingly all member countries believed that FDI is a crucial instrument through which almost all socio-economic challenges could be addressed. The first investment regime is the SADC Treaty, which deems FDI an essential tool to enhance cooperation and regional development among member countries and enjoins SADC institutions to coordinate, rationalize, and harmonize macroeconomic policies and strategies for countries. The second regime is the SADC Finance and Investment Protocol (FIP) which is meant to stimulate inter-regional and intra-regional investments while accelerating cooperation among members. This was per the SADC Regional Indicative Strategic Development Plan (RISDP).

In addition to these regimes, the SADC Model BIT (2012) was adopted under the overall objective SADC FIP and the SADC Investment Policy Framework (IPF) at the regional level. Furthermore, individual member countries except for Botswana and Lesotho also have their own specific and unique FDI regimes (legislation) that govern domestic and foreign investments. These laws provide for the encouragement, facilitation, licensing, and protection of investment and establishing an investment promotion agency. These are as follows:

Table 1: *Investment regimes in the SADC region*

Country	Investment regime
Angola	Private Investment Law (2015)
Botswana	
DR Congo	Investment Code (2002)
Eswatini	Investment Promotion Act (1998)
Lesotho	
Madagascar	Industry-specific laws
Malawi	Investment and Export Promotion Act (2012)
Mozambique	Investment Law (1993) and Regulations Decree no 43 (2009
Mauritius	Investment Promotion Act (1998)
Namibia	Namibia Investment Promotion Act (2016)
Seychelles	Investment Act (2010)
South Africa	Protection of Investment Act (2015)
Tanzania	Investment Act (1997)
Zambia	Development Agency Act (2006)
Zimbabwe	Investment Authority Act (2006)

Source: SADC, (1992)

As presented in Table 1, individual member countries adopted different policies, laws, and regulations, which aimed to create a conducive environment and introduce legal rules that ensure property rights protection. It is worth noting that these national laws cover entry procedures and the ease of establishing companies in SADC countries which basically refers to admission and creation of foreign investments.

2.5 Investment Promotion and facilitation in the region

In addition to several regimes aimed at stimulating an investor-friendly environment at both regional and national levels, other FDI enhancing policies and strategies have been adopted and implemented in the SADC region – these include, among other things, investment promotion agencies, the incentives offered to investors, the special economic zones. The agencies' role is to promote, facilitate and coordinate investments. All member countries also have their own unique investment promotion agencies, as shown in Table 2.

Table 2: *SADC Investment Promotion Agencies*

Investment Promotion Agencies	
SADC member state	**Agency**
Angola	Investment and Export Promotion Agency
Botswana	Export Development and Investment Authority
DR Congo	National Agency for Investment Promotion
Eswatini	Investment Promotion Authority
Lesotho	National Development Corporation
Madagascar	Economic Development Board
Malawi	Investment and Trade Centre
Mauritius	Investment Board
Mozambique	Investment and Export Promotion Agency
Namibia	Namibia Investment Centre
South Africa	InvestSA and Provincial Trade and Investment Promotion Agencies
Tanzania	Investment Centre
Zambia	Development Agency
Zimbabwe	Investment Authority

Source: SADC, (2001)

As depicted in Table 2, all SADC member states have adopted investment promotion strategies, which is evidence of their eagerness to stimulate an investor-friendly environment. In addition to these agencies, most SADC member states have also adopted Special Economic Zones (SEZs) as instruments to attract foreign and domestic investments, and their main objective is to increase trade, attract investments, improve job creation and efficient administration. Companies relocating to these zones are incentivized; for example, Angola offers customs or tax incentives to search companies in the SEZs. Investments of a minimum of US$1 million in agriculture and livestock, equipment, textiles *inter alia* qualify for these incentives in Angola, whereas South Africa offers a Foreign Investment Grant to investors seeking approval within the Manufacturing Investment Programme. Zambia provides tax incentives to investors in farming, agro-processing, manufacturing, and tourism, to mention a few (WTO, 2015).

To this end, the adoption and implementation of these investment regimes with investment provisions at regional and national levels and the different environments generate interest in the amount and nature of total FDI inflows received by the region and individual member countries. For instance, the question that can be asked at this stage is the following: have these regimes, and their provisions served their purpose of creating an investor-friendly environment? Have investments in the region improved given the effort put into creating a favourable environment for doing business?

2.6 Investor treatment and protection in the SADC region

According to Chidede (2017), SADC member countries treat foreign investors the same as local investors, according to the investment laws and provisions in the region that apply to all investments regardless of sector or industry. These provisions also incorporate the provisions for foreign investor property rights protection. For instance, South Africa and Zimbabwe have constitutions that provide for the expropriation of the property but are subject to the public interest, payment compensation and non-discrimination. Furthermore, member countries also use commercial arbitration to settle commercial or investment-related disputes. It is, however, worth noting that after the suspension of the SADC Tribunal in 2010, the region does not have a regional court where investor-state disputes can be heard. The new SADC Tribunal Protocol was signed in 2014 by the regional leaders but has not yet been ratified.

To this end, the region's strides to attract foreign investors and implement policies to protect investors raise interest in FDI trends in the region. Given these endeavours, one would expect more inflows into the region. It is also crucial to assess the recipients and the factors that may have attracted the inflows. This helps determine whether inflows are spread evenly across member countries given the adoption of national investment laws and regulations - and if not, to find out why.

Given the efforts by the SADC region through the adoption and implementation of several alterations at regional and national levels to create an investor-friendly environment, it is crucial to see how the region compares to other regions across the world. Figure 2 presents six regional communities with their FDI inflows measured as a percentage of total world FDI. The chosen regional groupings were selected from different continents. They included the West African Economic and Monetary Union (WAEMU), the Association of Southeast Asian Nations (ASEAN), Mercosur (known as the Common Market of Southern America), the North American Free Trade Agreement (NAFTA) and the South Asian Association for Regional Cooperation (SARRC). Figure 3 presents the share of each trading bloc in global FDI.

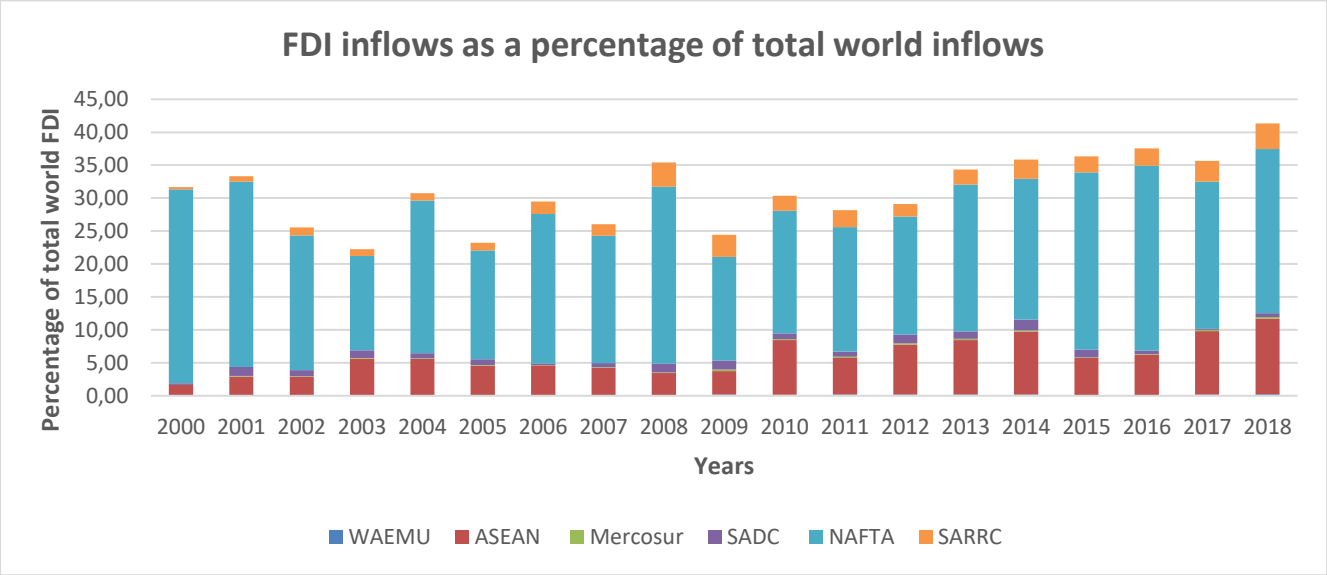


Figure 2: The share of global FDI by region. Source: Compiled from UNCTAD 2019 database – https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx

Figure 2 presents six regional communities, which all constitute developing countries and their total FDI inflows measured as a percentage of total world inflows for 18 years. This exercise aims to compare the percentage of total world FDI that flows to the SADC region with other regions. Figure 2 shows that the SADC region has attracted between 0.16 and 1.63 percent of world FDI inflows over the observed period – this is despite the reforms implemented to augment the attractiveness of the region as well as the resource endowment, whereas NAFTA's inflows range between 14.32 percent and 29.42 for the same period – followed by the ASEAN with a range of 1.60 percent to 11.46 over the same period. The SARRC's inflows range from 0.34 to 3.91 percent of total world inflows – WAEMU's inflows range from 0.00 percent to 0.24 over the same period, whereas Mercosur's inflows range from 0.04 percent to 0.24 percent of world inflows. By implication, the SADC region is among the least attractive regions globally as far as FDI inflows are concerned but better than the WAEMU and Mercosur, displaying very low percentages of inward FDI. Thus, Figure 2 shows the uneven spread of FDI over the selected regional economic communities, underscoring the fact that regional integration does not guarantee an increase in FDI inflows.

Nevertheless, the literature revealed that country-specific factors have a crucial role to play. That said, the question that this study asks is - does institutional quality play a significant role as far as FDI destinations are concerned in these regions? The study attempts to answer this question.

In addition to the regional comparison above, it is crucial to examine the spread of total FDI inflows within the SADC region to determine whether all member countries have benefited from these inflows. Table 3 presents this information.

***Table 3**: SADC inward FDI trend*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Angola	27,15	20,38	31,97	55,25	39,74	-15,87	-1,11	-7,16	8,80	13,68	-27,53	-24,98	-7,73	-44,08	16,58	42,97	-1,81	-310,68	-74,76
Botswana	1,89	0,29	7,48	6,46	7,07	5,13	14,34	3,96	2,73	1,29	1,86	2,42	0,77	0,42	2,34	1,62	1,23	7,44	2,98
Comoros	0,00	0,01	0,01	0,01	0,01	0,01	0,02	0,06	0,02	0,09	0,07	0,19	0,05	0,03	0,02	0,02	0,04	0,16	0,10
Dem. Rep. of the Congo	2,91	0,97	3,44	6,04	7,40	3,25	7,55	14,49	9,05	4,12	25,08	13,94	17,48	12,99	8,35	7,17	12,17	56,29	19,48
Eswatini	3,27	0,27	1,77	-0,99	1,26	-0,56	3,57	0,30	0,55	0,41	1,02	0,90	0,17	0,52	0,12	0,18	0,21	-2,35	0,33
Lesotho	1,00	0,28	0,52	0,68	1,03	0,35	0,83	0,68	0,32	0,57	0,44	1,24	0,13	0,52	0,30	0,17	0,48	1,81	0,51
Madagascar	2,56	0,88	1,12	1,47	1,72	1,05	8,68	5,93	7,30	7,87	6,52	6,51	4,10	3,41	1,42	1,87	4,55	16,34	4,55
Malawi	1,22	0,37	0,71	0,20	1,07	1,21	3,59	0,28	0,65	1,21	0,39	0,77	0,43	0,55	1,75	2,18	1,17	3,79	1,33
Mauritius	8,55	-0,24	0,59	0,96	0,20	0,51	3,11	2,72	2,01	1,54	3,67	3,58	3,11	1,82	2,06	0,93	3,83	18,60	4,84
Mozambique	4,30	2,43	6,37	5,20	8,60	1,31	3,32	3,19	3,10	5,57	21,60	29,40	29,71	38,23	22,22	16,57	31,24	96,31	35,36
Namibia	5,76	3,47	3,33	2,30	4,08	4,69	11,40	5,87	3,78	5,22	2,42	6,75	5,60	4,77	2,00	4,00	3,57	19,37	2,55
Seychelles	0,75	0,61	0,87	0,90	0,68	1,05	4,29	1,46	0,95	1,06	1,80	1,71	1,38	1,05	1,04	0,83	1,57	8,06	1,62
South Africa	27,42	64,43	28,77	11,33	14,43	80,91	9,18	52,39	48,28	46,52	31,02	35,06	24,06	51,38	26,16	7,41	22,57	84,29	69,56
United Republic of Tanzania	8,71	4,44	7,11	4,76	5,98	11,39	11,88	4,66	7,25	5,91	15,47	10,16	9,50	12,92	6,42	6,69	8,73	39,38	14,41
Zambia	3,76	1,38	5,47	5,35	6,58	4,34	18,16	10,61	4,92	4,31	14,75	9,16	9,14	13,00	6,75	5,59	6,70	46,51	7,42
Zimbabwe	0,72	0,04	0,47	0,06	0,16	1,25	1,18	0,55	0,27	0,65	1,42	3,20	2,11	2,48	2,47	1,80	3,76	14,68	9,71
SADC TOTAL	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**

Source: Compiled by the author using UNCTAD 2019 database.

Table 3 presents total FDI inflows in the region and the percentage share of each member country over the period 2000-2018. As seen on the table, South Africa and Angola had the largest share of FDI inflows into the SADC region in the year 2000 with 27.42 and 27.15 respectively- while other countries accounted for less than ten percent of inflows in the region. By implication, these were the most attractive economies to foreign investors at the time.

Both South Africa and Angola are resource-rich, and therefore, it may be assumed that these were resource-seeking investments, however, it would be interesting to understand the institutional environment in these two countries and link it to FDI inflows to assess a correlation. Interestingly, after the year 2004, there is a noticeable decline in Angola's share of inflows, and an all-time low of -310.68 is reached in 2017. This may suggest that the environment was no longer attractive to foreign investors; consistent with this, the World Bank's ease of doing business 2019 rankings where Angola ranks 173

out of 190 countries. This ranking is indicative of an unconducive environment for doing business in Angola. Comoros is relatively new in the region, and therefore the lower rate is not surprising.

Furthermore, South Africa has increased its share of FDI inflows, while other economies in the region account for relatively low percentages. To this end, given the uneven spread of FDI inflows across countries in the region – Table 3 underscores the importance of country-specific factors that foreign investors consider when deciding on FDI destinations.

The literature points out that the nature of FDI inflows is crucial for growth, development, and the institutional environment. Table 4 presents the trend of inward vertical FDI into the region.

***Table 4**: Overview of Vertical (Greenfield) FDI into SADC by destination, 2003 - 2018*

SADC : Number of greenfield (Vertical) FDI projects by destination, 2003-2018

Source region/economy	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2016	2017	2018
World	**9 496**	**10 395**	**10 824**	**12 834**	**12 977**	**17 211**	**14 808**	**15 477**	**16 886**	**15 637**	**16 747**	**15 780**	**16 350**	**17 567**
Africa	**336**	**273**	**446**	**471**	**414**	**887**	**770**	**714**	**951**	**878**	**931**	**677**	**675**	**721**
SADC	**120**	**107**	**142**	**167**	**137**	**320**	**282**	**276**	**419**	**373**	**369**	**236**	**223**	**225**
Angola	15	15	17	19	26	49	52	44	34	23	22	8	5	5
Botswana	5	4	5	4	7	17	13	8	16	12	7	5	1	6
Congo, Democratic Republic of the	3	2	10	8	5	15	5	9	12	9	12	8	5	8
Eswatini	-	2	2	-	-	3	1	-	9	1	1	-	-	1
Lesotho	1	-	-	-	1	1	1	1	4	1	-	-	1	4
Madagascar	4	2	4	3	3	4	3	-	2	8	5	2	2	2
Malawi	-	-	-	-	-	2	4	4	5	4	2	1	2	5
Mauritius	4	8	5	2	4	15	6	6	7	13	4	9	4	6
Mozambique	6	4	-	5	6	22	10	15	27	30	40	14	30	15
Namibia	4	4	7	5	6	14	11	6	16	11	15	4	23	8
Seychelles	-	3	3	-	2	2	1	1	1	1	2	2	-	4
South Africa	63	52	62	96	64	137	133	128	198	192	180	140	106	110
United Republic of Tanzania	7	6	11	7	7	19	12	25	44	39	35	23	22	19
Zambia	5	4	14	14	5	15	17	15	30	20	26	13	15	15
Zimbabwe	3	1	2	4	1	5	13	14	14	9	18	7	7	17

Source: UNCTAD 2019

Table 4 presents the number of Greenfield (vertical) investments received by SADC member countries. This is an essential type of investment through which countries can achieve long-term economic growth, development, and job creation, ultimately alleviating the poverty and inequality that currently confront the region. The table shows the total projects for the world, Africa, SADC, and individual member countries. As seen, Africa's share of Greenfield investments increased from 2003 and peaked in 2011; then, it declined until 2018. On the other hand, out of 336 projects into the continent, the SADC region received 120 in 2003, 36 percent of its share. However, South Africa received 63 (54 percent) projects, followed by Angola with 15 projects (13 percent), while the other 14 member

countries shared the remaining 33 percent. Although most member countries experienced an increase in the number of projects received, particularly between 2011 and 2013, South Africa remains the principal recipient of these projects.

Noteworthy, all member countries have investment promotion agencies that are meant to be implementing investor-friendly policies. This ensures that foreign investors see Africa and particularly the SADC region as an essential destination for their investments; this is particularly crucial given that almost all these countries are resource-rich and have a reasonable market size and skilled personnel.

Interestingly, the literature points out that Vertical FDI is sensitive to governance; this is due to the nature of investments; in other words, good quality governance attracts more Vertical types of investments while poor governance deters vertical FDI. To this end, the question that this study asks is – if vertical FDI is sensitive to the quality of governance as suggested in the literature, does this theory hold in the SADC region given that South Africa attracts more vertical investment while other regions account for a fewer number of vertical projects. Additionally, the literature also points out that democratic governments tend to attract more inflows of this type based on the assumed transparency and accountability; however, Eswatini, an authoritarian government, has received nine projects beating countries with democratic regimes, e.g., Malawi and Mauritius. This study attempts to bring clarity to these ambiguities.

Table 5: *Overview of horizontal (Mergers and Acquisitions) FDI 2003 - 2018*

Total number of SADC net cross-border M&As by region/economy of seller, 2003-2018

(Millions of dollars)

Region/economy	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
World	**3 037**	**3 762**	**5 206**	**6 110**	**7 582**	**6 909**	**4 453**	**5 562**	**5 916**	**5 455**	**4 936**	**6 090**	**6 364**	**6 607**	**6 967**	**6 821**
Africa	**36**	**52**	**77**	**118**	**132**	**111**	**70**	**81**	**135**	**87**	**100**	**140**	**155**	**105**	**116**	**89**
SADC	**22**	**36**	**38**	**69**	**84**	**60**	**86**	**96**	**105**	**115**	**125**	**134**	**144**	**154**	**163**	**173**
Angola	-	1	1	3	5	-	-	1	-	-	1	1	2	- 1	-	-
Botswana	- 1	1	1	1	4	1	1	1	2	1	-	3	1	1	1	2
Congo, Democratic Republic of	-	-	-	-	2	-	2	1	-	-	3	-	2	2	1	-
Eswatini	-	-	1	-	2	-	-	-	-	-	-	- 1	- 1	1	-	3
Lesotho	-	-	-	-	-	-	-	-	-	-	-	1	-	- 1	2	2
Madagascar	-	1	-	3	-	1	-	-	-	-	-	-	-	2	3	-
Malawi	-	-	-	-	2	-	1	1	-	-	3	3	- 1	-	2	1
Mauritania	-	1	-	-	1	-	-	-	-	-	-	-	-	-	-	- 1
Mauritius	1	-	3	4	3	6	6	8	7	4	1	4	3	4	5	6
Mozambique	-	-	-	5	3	1	-	4	6	3	4	7	3	6	-	2
Namibia	2	2	2	1	6	1	2	2	2	5	1	-	2	-	2	1
Seychelles	-	-	-	-	2	1	-	1	-	-	-	-	1	1	3	1
South Africa	19	26	25	44	47	41	22	29	64	23	30	44	54	19	33	25
United Republic of Tanzania	2	-	-	3	2	2	4	1	1	6	1	4	2	-	2	- 1
Zambia	-	2	3	4	-	3	2	4	3	2	1	-	2	1	1	3
Zimbabwe	- 1	2	2	1	5	3	2	2	1	1	1	3	2	- 1	-	1

Source: UNCTAD 2019 www.unctad.org/fdistatistics

Table 5 presents the number of Mergers and Acquisition investment projects in SADC member states. This involves the sale of domestic companies in a host country to foreign companies; it also entails expanding existing companies. The table shows the total number of companies sold globally at the continental, regional, and national levels. As depicted on the table, out of 3037 companies globally in 2003, the African continent accounted for only 36, while the SADC region accounted for 22 companies. This shows the extent of the relative unattractiveness of the continent and the region to foreign investors. Although, the share of the SADC region increased more than that of the continent; it should be noted that these investments are unevenly spread across member states – with South Africa accounting for the largest share throughout these years, while other member states attract an insignificant amount. This unevenness raises concerns about the factors that determine investors decisions in choosing locations.

The World Bank provides information regarding the ease of doing business in seven SADC member countries, determining whether the environment is FDI-friendly.

***Table 6**: A review of entry and establishment index of foreign businesses in SADC member states.*

SADC member states	**No of procedures**	**Days for registration**	**Ease of Business establishment index (0 - 100)**
Angola	12	263	39.5
Madagascar	3	12	65.0
Mauritius	9	11	68.4
Mozambique	12	34	65.4
South Africa	8	65	78.9
Tanzania	14	38	62.5
Zambia	9	58	47.4

Source: Author's table extracted from the World Bank Investing across Borders (2014)

Table 6 presents the process for entering and establishing a company in the SADC region following the World Bank's "investing across borders" database. Due to data constraints, only 7 out of 15 countries are presented. Three variables are considered: procedures, days, and the ease of business establishment to measure the process of establishing a business in these countries. The procedure column refers to the stages that foreign investors must undergo to establish a firm. Thus, procedures entail pre- and post-procedures that foreign investors must undergo to operate a business officially; the second column refers to the maximum number of days it takes to establish a foreign company; and

lastly, the ease of establishment index examines the characteristics of the regulatory regime for business start-up area. The index ranges from 0 – 100, here high values denote a start-up regime with fewer to no legal and administrative restrictions, while 0 or lower values denote all possible restrictions on the establishment process.

Table 6 shows the number of procedures foreign investors must undergo ranges from 3 steps in Madagascar to 14 steps in Tanzania. The procedures for establishing a foreign-owned business in the SADC takes a minimum of 11 days and a maximum of 263 days.

In terms of the ease of establishment index in the SADC region, Angola has the lowest index (39.5) followed by Zambia with (47.4) - this suggests that these countries have the most challenging business environments for doing business – while South Africa followed by Mauritius have the highest indices in the region.

2.7 Conclusion

This chapter presented an overview of inward FDI in the SADC region. The chapter unpacked FDI as an economic concept and various forms of FDI are discussed as well as their different contributions to sustainable economic growth. Various investment promotion strategies adopted by member states were discussed and the subsequent FDI trends were presented. Furthermore, a comparison concerning the share of global FDI was also drawn between the SADC region and other regional groupings across continents as well as the nature or the kind of FDI that the SADC region attracts.

Data presented in this chapter suggest that despite the adopted investment promotion policies, the region still attracts an insignificant amount of FDI relative to its regional counterparts. The data suggest that the region attracts more horizontal FDI than the much-needed sustainable vertical FDI. It is further noted in this chapter, that investments are unevenly spread regionally and across member states within the region.

The question that now arises is the following: what drives foreign investment inflows into the SADC region? Specifically, what role does institutional quality play in influencing inward FDI into this region?

The next chapter presents an overview of the quality of governance in the SADC region.

Chapter 3

The quality of governance in the SADC region.

3.1 Introduction

The literature has recently identified institutional quality or the quality of governance as a significant determinant of inward FDI in recipient economies particularly developing countries. The previous chapter presented the strides undertaken by member states to stimulate FDI and an overview of inward FDI trends into the SADC region. The chapter concluded that despite the strides undertaken by the SADC region to stimulate an FDI-attractive environment, the region still attracts an insignificant share of global FDI relative to other regional groupings. Thus, the literature highlights a shift from traditional FDI determinants (such as market size, trade openness and inflation) to the quality of governance as the significant FDI determinant (Dunning, 2002; Knack and Keefer, 1997; Rutherford, 2012; Gangi and Abdulrazak, 2012; Mougani, Rivera, Zhang, Mezui, and Kim, 2013; and Chidede, 2017). This chapter unpacks governance broadly as a concept, and its significance; the chapter further presents a comparative view of the quality of governance between the SADC region and other regional groupings based on data drawn from the World Bank's Worldwide Governance Indicators' database. The chapter further zooms in on the quality of governance in the SADC region using the same database, to identify the ease of doing business in the SADC member states and to conclude whether or not the quality of governance in the region could be responsible for the deteriorating FDI inflows.

3.2 What is Governance?

The concept of "*governance*" is comprehensive but vague and implies different meanings in different contexts. Generally, governance refers to how rules and actions governing an organization are structured and how actors interact in the decision-making process. It refers to the quality of institutions. It measures the quality of governance and institutions in a country or region. Given its ambiguity, there are varying definitions of governance from different organizations depending on the context.

According to the World Bank (1991:15) governance refers to 'traditions by which authority in a country is exercised in managing a country's social and economic resources. The United Nations Development Programme (UNDP) (2015) emphasizes political and administrative authority in managing a country's complex mechanisms, processes, relationships and institutions - through which citizens and groups

communicate their wellbeing, apply their lawful rights, meet their obligations and facilitate their differences. These definitions suggest that governance is about stimulating relationships and interactions among stakeholders and promoting consensual decision-making processes. Torfing, Peters, Pierre and Sorensen, 2013:14) underscore the significance of interaction among stakeholders as they define governance as an *'interactive and complex process through which a range of social ideas, rules and resources and political actors with diverging interests interact to achieve common goals through mobilizing and exchanging'.*

For the New Partnership for Africa's Development (NEPAD) (2001), governance is defined by transparency, accountability, respect for human rights, and the rule of law. This definition implies that governance goes beyond authority; in other words, all stakeholders should agree upon the set rules and procedures to promote transparency and accountability. Most importantly, these rules must uphold the rule of law while not violating human rights.

For this study, it is crucial to understand governance in a region since the study's focus is at the regional level. Different scholars provide different definitions of regional governance. For instance, Biermann et al. (2012) define global governance as an overarching system of public and private institutions, formal and informal, that are valid and active in a given area of world politics at the regional level. Others believe that regional governance refers to rule systems of all institutions (formal and informal, private and public) where consensus is reached regarding the objectives to be pursued through the exercise of control (Rosenau, 2000; and Nolte 2016).

These definitions suggest that, despite the level, governance is a collaborative process wherein stakeholders (different institutions) interact with each other and the state agencies to enhance development collectively and achieve a set objective.

To this end, Kaufmann and Zoido-lobatón (1999) used the World Bank's (1991) theoretical definition to formulate an operational definition of governance by identifying six indicators for measuring governance, namely: political stability, the voice of accountability, government effectiveness, regulatory quality, the rule of law and control of corruption. These six indicators measure how institutions are managed and the rules and procedures that govern them.

3.3 Importance of Institutional Quality

The growing awareness about the significance of good governance in developing countries' development agendas has raised interest among scholars. For instance, Oman and Arndt (2006) identify three reasons that triggered this growing interest in institutional quality, namely- 1) the increase in foreign investment in developing countries; 2) the end of the cold war; 3) and the awareness about the importance of politics in economic development and policy reform.

According to Oman and Arndt (2006), from the early 1980s, developing countries experienced a tremendous increase in international investments, which saw FDI inflows to these countries grow from an average annual inflow of 10 billion USD in the early 1980s to over 46 billion USD in 1990 - 1992 and 445 billion USD in 2006 - 2008 (UNCTAD, 2010). Furthermore, an increase from 2 million USD in the 1980s to about 46 billion USD in the 1990s in portfolio investments from foreign institutions in developed countries was also observed. However, the amount of risk that these funds were exposed to aroused interest as well as concerns among international investors about the trustworthiness of policies and the predictability of government systems in these countries.

Secondly, during the Cold War, aid to developing countries was meant to fight communism, and there were no concerns about the institutional framework. However, when it ended, the focus shifted from communism to the quality of governance in recipient countries – since the objective was to ensure efficient use of aid to these countries.

Thirdly, the development of New Institutional Economics (NIE) by North (1990) also emphasized the significance of institutional quality in host countries. According to North, institutions refer to the '*rules of the game, which define the respective roles of the participants; they affect the performance of the economy by their effects on the exchange and production costs and the transaction costs, which includes measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements'* (North, 1990: 5). Foreign investors seek to maximize their profits by investing in countries that promote ease of doing business, and this is possible only if markets are integrated at the national and regional or international level where institutions play a crucial role.

To this end, location-specific factors in the host country, such as political and economic stability, market size, and the extent of democracy and how institutions are managed, influence the volume and type of FDI that a country attracts. Effective institutions allow foreign investors to conduct their

business in an environment based on clear-cut rules. These institutions reduce uncertainty and risks of investing in a foreign country, thus giving investors' confidence for the future

The literature reveals that governance is a crucial determinant of FDI inflows – the FDI trends above suggest that although SADC is a regional community where countries are expected to be governed by a standard policy, FDI is still unevenly spread across member countries. Therefore, it is crucial to analyze the state of governance in the region to determine if a link exists between the trends in inward FDI and the institutional environment in the region and the recipient countries.

Figure 3 shows the quality of governance in different regions based on the Worldwide Governance Indicators.

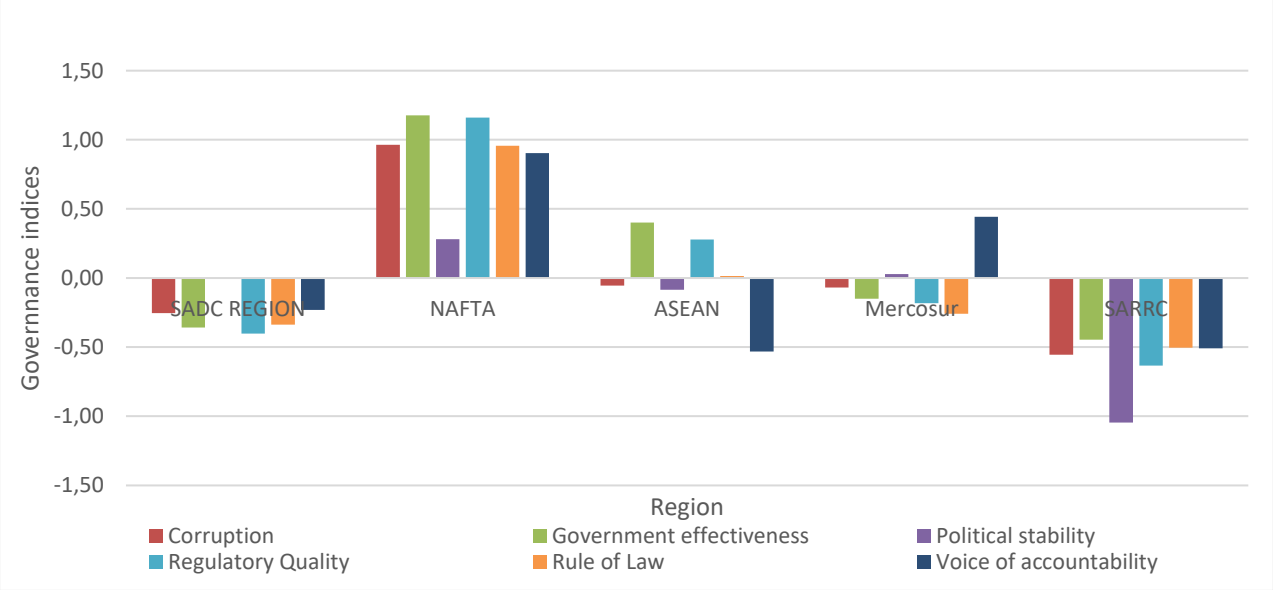


Figure 3: Governance indicators by region: averages from 2003 - 2018

Source: Authors' calculations from the Worldwide Governance Indicators database 2019.

Figure 3 presents an overview of governance by region – it compares the state of governance in the SADC region to that of other regions outside the African continent using the Kaufmann and Zoido-lobatón (1999) governance indicators. According to these indicators, governance ranges from -2.5 to +2.5, where the minimum implies "weak" governance while the maximum implies "good" governance.

An average for each indicator from 2003 to 2018 is used. Of the five regional blocs presented in figure 3, NAFTA stands out with positive values in all the indicators, the highest being government effectiveness and the lowest being political stability. Interestingly, this trading bloc stood out in terms

of FDI inflows compared to the same regions presented in chapter two – it is thus safe to assume that there is perhaps a link between inward FDI and the quality of governance in this region.

The ASEAN region has negative values in three of the six indicators, with government effectiveness being the highest while the voice of accountability is the lowest. This bloc is the second most attractive FDI destination after NAFTA and attracts a meaningful FDI, as seen in the previous chapter.

Interestingly, the SARRC has negative values with all the indicators, with political stability being the lowest and government effectiveness being the highest. This suggests poor governance in this region; however, despite poor governance - this region ranks third in FDI attractiveness. Although SARRC has the lowest values than SADC and Mercosur, it is also worth noting that it still attracts more inward FDI relative to these regions.

To this end, in the SARRC region, both poor governance and rising inward FDI co-exist, which suggests that institutional quality is not a significant determinant of FDI, or poor governance can potentially attract more FDI in some cases.

Concerning the SADC region, all the indicators are negative except for political stability that exactly equals zero. These negative values suggest weak institutional quality in the SADC region. This raised concerns as to whether the weak institutional quality is responsible for lower inward FDI into the region.

Having said that, it is crucial to zoom in on the SADC region and examine governance quality by country.

***Table 7**: An overview of Governance in the SADC Region: Averages from 2003 - 2018*

Country	Control of Corruption	Government Effectiveness	Political Stability	Regulatory Quality	Rule of Law:	Voice and Accountability
Angola	-1,33	-1,12	-0,50	-1,07	-1,26	-1,15
Botswana	0,96	0,51	1,03	0,54	0,63	0,50
Congo Dem. Rep.	-1,38	-1,61	-2,17	-1,44	-1,62	-1,42
Eswatini	-0,34	-0,69	-0,26	-0,54	-0,54	-1,36
Lesotho	0,04	-0,46	0,01	-0,53	-0,20	0,01
Madagascar	-0,53	-0,88	-0,32	-0,49	-0,65	-0,42
Malawi	-0,61	-0,62	-0,02	-0,62	-0,21	-0,21
Mauritius	0,36	0,84	0,89	0,82	0,91	0,85
Mozambique	-0,61	-0,64	-0,03	-0,53	-0,72	-0,19
Namibia	0,31	0,13	0,80	0,04	0,19	0,42
Seychelles	0,45	0,24	0,75	-0,39	0,10	0,10
South Africa	0,16	0,44	-0,10	0,44	0,11	0,63
Namibia	0,31	0,13	0,80	0,04	0,19	0,42
Zimbabwe	-1,34	-1,27	-0,93	-1,93	-1,63	-1,41
SADC REGION	**-0,25**	**-0,36**	**0,00**	**-0,40**	**-0,34**	**-0,23**

Source: Worldwide Governance Indicators database 2019.

https://datacatalog.worldbank.org/dataset/worldwide-governance-indicators

Table 7 presents the overview of governance at the country level within the SADC region. Of the 15 countries, Mauritius, Botswana, and Namibia have positive values on all the indicators over the observed period, while South Africa and Seychelles have positive values in 5 indicators and one negative value in political stability and regulatory quality, respectively. The rest of the member countries have negative values in all the governance indicators. The poor governance trend in Angola and the DRC can potentially explain the deterioration in FDI inflows as these have been declared as complex environments in which to do business.

Interestingly, although Mauritius and Botswana are considered to have strong institutions, quite evident in the case of Mauritius with the highest scores on all the indicators – and consistent with the World Bank rankings on ease of doing business, one would expect Mauritius in particular to attract more FDI inflows than other member countries. However, South Africa, which is deficient in political stability and ranks below Mauritius on all the indicators, surprisingly attracts more FDI than Mauritius. This is despite the adverse effects of political instability on FDI inflows cited in the literature. In addition, Zambia performs better than Mauritius as far as vertical FDI is concerned; Zimbabwe also received a significant number of vertical inward FDIs despite poor governance.

Consistent with the weak institutional quality in the SADC region, the World Bank Doing Business rankings indicate that the transaction costs are still high in the SADC region. This is evident from the rankings shown below.

Table 8: *Ease of doing business in the SADC region*

World Bank Ease of doing business rankings 2019 (range = 1 - 190)		
	Rank	**Score**
Angola	173	44
Botswana	86	65
DR Congo	184	37
Eswatini	117	59
Lesotho	106	61
Madagascar	161	49
Malawi	111	60
Mauritius	20	80
Mozambique	135	56
Namibia	107	61
South Africa	82	66
Tanzania	144	54
Zambia	87	65
Zimbabwe	155	50

Source: World Bank doing business database (2019). https://www.doingbusiness.org/en/data/exploreeconomies

Table 8 presents the rankings and scores for the ease of doing business in the SADC member states. Rankings range from 1 to 190, where 1 denotes a conducive environment for doing business, while 190 denotes a challenging environment. The score ranges from 0 – 100, the higher the score, the more conducive the environment is to doing business.

According to this data, the DRC and Angola are the most complex environments in which to do business. This is evident from their rankings of 184 and 173 respectively, as well as the lowest scores. These rankings explain the deterioration of FDI both vertical and horizontal, in these two countries. Therefore, despite their resource endowments, transaction costs are still high in these countries, and this can potentially deter foreign investments. However, it is worth noting that, although the DRC

ranks 184 as far as the ease of doing business is concerned, it performs better in attracting vertical FDI relative to Eswatini, Lesotho, Madagascar, Malawi, and Seychelles.

Interestingly, Mauritius has the highest ranking (20) with the highest score but attracts less FDI inflows than South Africa, which ranks 82 with a score of 66. This again underscores the significance of country-specific factors such as the market size, the resources, institutional environment, skilled labour, infrastructure, and economies of scale which may be the case in South Africa.

Overall, Mauritius, South Africa, Botswana, and Zambia have the highest rankings of 20, 82, 86 and 87, respectively. These rankings suggest that they have suitable environments in which to do business. On average, the SADC region ranks 119 with an average score of 56 as far as doing business is concerned in the region, which is not good compared to other regions.

The statistics in Table 8 about the ease of doing business in the SADC region are consistent with the Ibrahim Index of African Governance (IIAG) 2014 and the World Bank Group's Ease of Doing Business (2020) report, which report that African countries are still facing headwinds as far as transaction costs are concerned - both accountability is deteriorating and the environment is becoming less conducive to doing business in the whole continent and attributes this to the lack of transparency and accountability, corruption, bureaucracy and abuse of power. The deterioration in a business environment is mainly explained by the soundness of financial institutions and reserves (Ajambo, 2015) – while the sustainable economic opportunity (which measures economic governance) in the region, is directly linked to the ease of doing business and is influenced by the investment climate, competitiveness, and customs procedures to mention a few.

3.4 Conclusion

This chapter unpacked governance as a concept drawing various definitions from different institutions and scholars, the role of the quality of governance in stimulating economic prosperity is also discussed. Further, this chapter presented a comparative overview of the quality of governance between the SADC region and other regional groupings from other continents; this analysis is based on data drawn from the World Bank's database of Worldwide Governance Indicators. Using the same data, the chapter further narrows the focus to the SADC member states to analyse the quality of governance and the ease of doing business.

Based on the analysis conducted in this chapter, it is concluded that the quality of governance in the SADC is weak as indicated through the WGI data. This chapter further pointed out several issues that indicate weak governance in the SADC region leading to higher transaction costs and a lack of property rights protection and this ultimately hampers investments. The question that arises now is: could the weak quality of governance in the SADC region be responsible for the deteriorating inward FDI?

At this stage, it is not clear whether there is a link between FDI inflows and institutional quality; therefore, the following chapter presents a theoretical and empirical review of the relationship between these variables. This is important mainly because FDI is an instrument for growth and development, and a solution to poverty alleviation, and other socio-economic challenges that the region is confronted with. Establishing a link between these variables will determine the necessary FDI–enhancing policies that need to be implemented in the region.

Chapter 4

The Literature Review

4.1 Introduction

Chapter One presented a broad overview of the study and specified the problem that the study seeks to examine, that is, the deteriorating inward FDI into the SADC region on the one hand, and the observed weak quality of governance in the region. The economic literature has recently identified the quality of governance as the primary determinant of FDI, and this could explain variation across countries. According to the literature, foreign investors channel their investments to economies with strong or good governance, where property rights are protected, and transaction costs are low.

In order to justify the assumed correlation between the two variables as observed, Chapter Two presented inward FDI trends for the SADC region using data drawn from the World Development Indicators database, while also comparing SADC's share of global FDI to other regional groupings across continents. The chapter concluded that despite the strides undertaken by the region to stimulate FDI inflows, the region accounts for an insignificant share of global FDI relative to its regional counterparts. Then, chapter three unpacked governance and operationalised its definition, and further analysed the quality of governance in the SADC region. A comparison between the SADC region and other regional groupings is conducted to understand the extent of the quality of governance, and for this analysis, data from the Worldwide Governance Indicators are utilised. Based on this analysis, the chapter concludes that the SADC region is characterised by weak governance, higher transaction costs and no protection of property rights. Thus, the question that arises is: could weak governance be responsible for deteriorating FDI inflows? Subsequently, this chapter presents a theoretical review of the determinants of FDI to validate the scholarly view that there has been a shift from the conventional macroeconomic determinants of FDI to locational factors, mainly the quality of governance as a primary determinant. Thus, this chapter examines different theories concerning FDI drivers and resolves some of the empirical evidence's hitches to better understand the role of institutional quality on inward FDI. Furthermore, the chapter surveys the recent empirical literature, intending to evaluate the perceived inconclusiveness of the empirical evidence and better assesses the role of institutions in determining FDI. Based on this review, a conceptual framework that guides this study is developed and contextualized to the SADC region.

4.2 What drives FDI? – A theoretical review

Although there is consensus among scholars and policymakers regarding the significance of FDI inflows for economic growth and development in host economies, it is still unclear which factors actually drive FDI inflows into these countries; moreover, the factors outlined in the literature vary by country and region. Therefore, given the importance of inward FDI for economic prosperity and a platform for countries, especially developing economies, it was crucial to examine theories behind FDI inflows so as to better understand the situation in the SADC region. Most importantly, the focus was on understanding the link between inward FDI and institutional quality; thus, this section examines different theories relating to inward FDI.

4.2.1 Regional economic integration and FDI theory

By definition, regional integration is the formulation of global institutions to which political authority is devolved to collectively binding decisions (Börzel and van Hüllen 2014). It is a historical process of improved interaction between political units whereby actors share common ideas and objectives with clear-cut methods. Regional integration came as a rational response to developing countries' economic difficulties, particularly in Africa, where governments cannot operate in isolation due to limited economies of scale. The least competitive continent in the global market and small market size by country, calls for coordinated efforts from member countries. For Africa, economic integration has been hailed as the most productive tool to deal with the socio-economic challenges that the continent is confronted with.

Consequently, countries were inclined to believe that deeper economic integration would address trade barriers and the perceived unattractiveness of the continent to foreign capital flows, thereby promoting investments in the continent (Phirinyane, 2004).

Regional integration is theoretically considered a determinant of FDI, this is based on the effects that regional trade agreements (RIAs) have on foreign direct investments (FDI). The literature also reveals that regional integration is key to enhancing member countries' FDI attractiveness, this is achieved by establishing RIAs that countries sign off as part of the integration (Kubny, Molders, and Nunnenkamp, 2008). For instance, Blomstron and Kokko (1997) point out the short and long-run effects of regional integration on FDI, asserting that due to regional integration, intra-regional trade and investment are expected to increase in the short run. In contrast, a combination of a larger common market, stricter

competition due to the integration, more efficient resource allocation governed by comparative advantage, and various positive externalities will enhance the growth rates of member countries in the long run.

Interestingly, the literature also reveals that regional integration's positive FDI effects may be imaginary as belonging to a trading bloc may not necessarily enhance its FDI attractiveness. The literature also underscores the importance of host-country characteristics as an inducement or deterrent to FDI inflows. These characteristics may potentially explain the uneven spread of FDI across member countries.

It is worth noting that these effects vary by regional integration agreements and the type of FDI – for instance, the investment effect of regional integration on intra-regional FDI and inter-regional FDI differs. Also, the level of development of member countries, their competitiveness and complementarity, the extent of integration, and the significance and nature of the changes brought about by the agreement have a direct effect on how regional integration influences FDI (Blomstron and Kokko, 1997) and (Page and te Velde, 2004).

To this end, it can be safely generalized that regional integration is expected to enhance the region's FDI attractiveness through increased market size and improved efficiency. However, RIAs' effects on FDI depend on the magnitude and nature of the trade and investment liberalization initiatives embodied in the RIA. This is based on the various provisions through which regional trade agreements affect FDI and the literature findings that regional integration leads to further FDI due to increased market size. These provisions are categorized into investment rules, trade rules and other initiatives (Narula and Dunning, 2000); and (Blomstron and Kokko, 1997).

4.2.1.1 Investment-related rules and FDI

These are the rules that are ratified by member countries that govern cross-border investments in the region because of regional integration – these constitute how inward FDI is treated and protected within the area, which ultimately determines the investment climate within the region, which directly influences investment decisions.

Here the question is the following: how do investment rules within a region influence investment decisions? – the literature reveals that a predictable investment climate is what investors need

(European Commission, 2000). For instance, an improvement in foreign investor protection levels due to RIAs may enhance inward FDI since investors feel protected. However, investment rules may have little effect if investor protection levels are already high before the agreement.

Most importantly, it is even better if individual member countries ensure that foreign investors are treated in the same way as domestic investors. However, this would be determined by the scope and magnitude of pre-existing barriers to inward FDI and the degree of discrimination by the host country government against foreign investors.

By implication, predictable environments are a precondition for promoting investments. As pointed out in Willem te Velde and Bezemer (2006), certainty is amplified when domestic policies are enshrined into regional treaties and ensuring long-run investors' protection – thus creating a better investment climate.

According to Blomstron and Kokko, (1997), the RIA has static and dynamic effects on inward FDI. For instance, increases in intra-regional FDI may be observed due to the removal of trade barriers brought about by the RIA, driven by investors' desire to jump tariffs.

Secondly, increases in foreign capital flows may increase because of RIA if the initial size of individual national markets limited inward FDI. Noteworthy, although the surge of inward FDI into the region may increase, these would still be asymmetrically spread as they would be concentrated in the geographical areas with more locational advantages.

4.2.1.2 Regional trade rules and FDI

The removal of intra-regional tariffs resulting from regional integration, particularly the free trade area (FTA), can increase intra-regional FDI. These may be driven by the desire of investors to jump tariffs. Therefore, the trade patterns that exist before the agreement determine the necessary adjustments after the deal, which may affect FDI flows. Consequently, countries with lower trade barriers before the agreement are likely to benefit from increased intra-regional FDI inflows as trade barriers are reduced. These countries are less likely to host import substituting FDI projects.

After removing trade barriers, it may be profitable for investors to internalize firm-specific assets such as technological and marketing expertise. These enhance competitive advantage, and such expertise cannot be traded efficiently in markets; therefore, the firm needs to internalize its operations by

establishing foreign links to reduce transaction costs. Thus, internalization of processes can occur without formal trade barriers between countries - but is dependent on the costs of installing a foreign company Markusen and Maskus, (2002); Brainard and Riker, (1997); Willem te Velde and Bezemer, (2006).

To this end, the motive behind setting up a foreign company becomes crucial in examining the effects of regional trade agreements on FDI (Page, and te Velde, 2004). It is thus critical to identify and understand the motives behind foreign investments (Dunning, 2002). This helps establish how linkages and spillover effects develop; and to understand the state of development of the country or region as reflected by these motives, namely: *Natural resource seeking* (objective is to obtain resources both natural such as minerals, raw materials, and agricultural products and non-natural resources such as unskilled labor) and these investments are mainly in low income countries; *Market-seeking investments* (seek to supply local or adjacent markets) typically seen in both low and middle income countries; *Efficiency seeking investments* (these refer to the search for the enhancement of the overall cost efficiency of the MNE, and these investments take advantage of different factor endowments, cultures, institutional arrangements, economic systems and policies, as well market structures by concentrating production in a restricted number of locations to supply multiple markets) flow to middle income countries and lastly *Strategic asset seeking investments* (strive to obtain strategic assets (either tangible or intangible) that may be crucially important for the operation of the firm in the long run and not available at home. This type of investment is seen in high-income countries where knowledge and technology are available.

Additionally, the literature identifies two primary forms of FDI, namely, *horizontal*, and *vertical* FDI. The *horizontal mode* of FDI is mainly driven by market-seeking motivations and the local market's purchasing power and involves replicating production lines in different locations. On the other hand, the *vertical mode* of FDI is motivated by international cost differentials. It consists of slicing up the value chain by relocating specific stages of the production process to where they are most cost-effective to undertake and can be explained by Multinational Enterprises (MNE) desire to take advantage of factor-cost differences to enhance efficiency.

As pointed out in the literature, horizontal FDI tends to lead when there are relative factor endowments. Thus, comparative prices are similar in the home and the host country, where the incentive to undertake vertical FDI increases when relative factor endowments vary (Carr, Markusen, & Maskus, 2001). Trade costs tend to encourage horizontal FDI while discouraging vertical FDI (Carr et al., 2001). Thus, this measure alone may have several FDI effects working in different directions.

Based on these different motives, it is crucial to understand the inward FDI effects of regional integration. Therefore, while on the one hand, the removal of international trade barriers reduces FDI of the horizontal type as it discourages companies within the integration scheme to use FDI as a tariff-jumping device. However, it instead promotes comparative advantage and makes it cheaper to supply other economies through trade instead of establishing new enterprises and incurring more costs. On the other hand, intra-regional FDI of the vertical type may be stimulated by removing internal trade barriers since it may be cheaper to establish a new firm in a foreign country. Lower trade costs reduce the costs of establishing new enterprises across the region.

Subsequently, MNEs can set up efficiency-seeking companies in different countries within the regional grouping to process imports for re-export. It is worth noting that vertical FDI is crucial for sustainable economic growth and development. This applies especially to RIAs whose member countries are at different stages of economic development. Cost differentials within the RIA may strengthen companies' incentive to engage in intra-regional vertical specialization by undertaking efficiency-seeking FDI (Blomstrom, Lipsey, and Zejan, 1992) and Page, and te Velde, 2004).

Concerning inter-regional FDI, removing trade barriers within the region may potentially enhance horizontal FDI from investors outside the region due to effective market size increases. An external investor may now locate production facilities in one member country of the RIA and serve the local markets or all member countries from there. In the same vein, RIAs' approaches against foreign investors are essential. For example, if there is uncertainty regarding the level of protection of foreign investors, then extra-regional FDI of the horizontal type may increase. However, the uncertainty may be a disincentive for outsiders to undertake vertical FDI (Kubny et al., 2008).

Notwithstanding the above, the literature reveals that regional integration consists of winners and losers as far as FDI is concerned; for example, sometimes foreign investors may decide to relocate existing FDI stocks in favour of some member countries at the expense of some (developing/African) countries (Drabek & Payne, 2002). By implication, although RIA is crucial in determining FDI, the benefits amongst countries are uneven. Concerning the assumption that larger economies always benefit at the expense of smaller ones, UNCTAD (1998) argues that when the market size becomes less relevant, cost-effective locations, even in smaller economies, benefit.

Against this background, Blomstron and Kokko, (1997) provide a framework for analyzing the FDI framework in the context of regional integration. This framework shows FDI is not continually determined by regional integration, but other factors are involved. This is shown in table 9 below:

Table 9: Classification Dimensions

	Locational Advantages (Positive to Negative →)
Environmental Change (Strong to weak ↓)	1 → 2↓ 3 4

Source: Globerman and Schwindt (1996) attributed to Blomström and Kokko (1997)

The segment labelled environmental change recapitulates how the integration agreement liberalizes trade and investment flows. The prior institutional environment in the region and the nature of specific agreements among member countries matter. A vertical movement on the table implies that the degree of liberalization becomes weak. On the other hand, the segment labelled locational advantages summarizes the degree to which it is advantageous from a profitability perspective to locate an economic activity in a particular location. A horizontal movement (from left to right) in Table 9, depicts the locational advantage of a specific country compared to other countries in the RIA and the rest of the world is assumed to be weaker.

Therefore, identifying a specific country's position as per Table 9 enables one to develop a hypothesis for regional integration's investment impact. As Blomström and Kokko point out, "the robust positive effects on FDI are likely to occur in countries and industries where the integration agreement results in significant environmental change and where locational advantages concerning the other members of the RIA and the rest of the world are found" (Blomstr, 2002). In Table 9, those positive results are found in segment one, where positive locational advantages coincide with a sound environmental change.

Although both investment and trade rules are crucial in understanding the effects of regional agreements on FDI, a stable institutional framework remains vital because investors may fear that national reform efforts would change when the political administration changes. Therefore, certainty is enhanced by incorporating domestic economic reforms in international treaties, making policy reversal improbable. However, this is determined by the power of the regional bloc over individual member countries (Willem te Velde and Bezemer, 2006). This is based on the view that political risk hampers FDI inflows. Devlin and Ffrench-Davis, (1999:277) assert that 'the effects of regional integration critically depend on whether agreements are implemented fully and enforced effectively.

4.2.1.3 Regional integration and FDI theory - Empirical Evidence

The study analyses five regional integration schemes regarding regional integration's investment effects as provided in the literature. These are the North American Free Trade Agreement (NAFTA), Mercosur, the South Asian Association for Regional Cooperation (SAARC), the Association of South-East Asian Nations (ASEAN) in Asia and the Southern African Development Community (SADC) in Africa. This selection focuses on trading blocs of significant relevance in the respective regions and economic partner countries in the North. The critical question here is whether regional integration has stimulated inward FDI.

Initially, NAFTA was signed between three countries, namely, Canada, the United States and Mexico – the agreement included advances in government procurement, intellectual property and investors' rights, and more stringent rules of origin. For several reasons, the agreement was expected to have significance on Mexico due to its country-specific factors such as cheap and free access of labour? to the Canadian and US markets (Blomstron & Kokko, 1997). This is because NAFTA was giving Mexican's access to the United States. Consequently, North America's share of Mexican exports increased from 70 percent in the 1980s to over 86 percent in 1995. On the other hand, the value of Mexican exports more than quadrupled over the same period due to increased sales to North America, most of which occurred between 1992 and 1995.

Also, Mexico changed its policy from being a traditionally closed economy to an open market-oriented economy in some sectors before the agreement. These reforms were subsequently 'locked-in' and extended to another industry as a result of NAFTA. Therefore, the policy reforms and the locational advantages were expected to enhance economic growth in Mexico. Thus, in Table 9, Mexico could be positioned in area 1, suggesting that integration's investment effects should be significant. It can thus be concluded that NAFTA had a substantial impact on Mexico's inward FDI. This is because NAFTA's formation coincided with policy reforms that liberalized the country's institutional framework, which positively contributed to a positive environmental change. For Mexico, regional integration created new commercial opportunities for both domestic and foreign investors. Therefore, it is safe to conclude that both regional integration and locational advantages played significant roles in stimulating inward FDI in NAFTA and Mexico. As a result, Waldkirch, (2003:24) concludes that "had NAFTA not been established, FDI from the United States and Canada would have been as much as 45% lower since 1994".

Mercusur (established in 1995 between Argentina, Brazil, Paraguay and Uruguay), on the other hand, paints an ambiguous picture both in terms of FDI attractiveness and the FDI distribution among member countries. For instance, intra-regional trade liberalization commenced in 1991, the customs union was established in 1995, and all the internal barriers had been removed by the end of that year (Blomstron & Kokko, 1997). Evidence suggests a coincidence between the integration process and increases in investments – this implies that regional integration stimulated inward FDI. However, although the trading bloc has four member countries, FDI inflows are evenly distributed among them. For instance, Brazil and Argentina dominated and thus attracted more inward FDI relative to other members. In other words, this suggests that apart from being members of the bloc, Brazil and Argentina had locational advantages (such as natural resource abundance, well developed industrial sectors and a large domestic market) that attracted foreign investors. (Blomstrom, Lipsey, and Zejan, 1992) suggests that macroeconomic stability may significantly enhance inward FDI rather than regional integration for both countries. In terms of Table 9, Brazil and Argentina can be classified in area 1, suggesting that significant investment effects can be expected for these two countries. However, the story is different for the other two member countries due to locational disadvantages and relatively more minor markets. Developments in the individual Mercosur member countries' level underscore that regional integration is just one and possibly a little factor driving FDI inflows.

In terms of the ASEAN, the trading bloc attracted a constant share of FDI stocks in developing nations. China's presence in the bloc tended to divert FDI inflows away from its traditional locations. However, ASEAN's attractiveness was virtually affected FDI flows to China. The region experienced a continuous increase in FDI inflows for more than a decade until the Asian crisis struck. However, after the situation, the gap between China and ASEAN widened due to Indonesia's ASEAN members being affected by the crisis. It is worth noting that small economies performed better than China in attracting FDI, and FDI stocks were evenly distributed amongst the ASEAN member countries. Even small and less advanced countries such as Cambodia and Lao PDR benefited from FDI inflows. This underscores the fact that the market size does not always matter. For instance, with only 14 million people, Cambodia proved more attractive in 2005 than more extensive and more advanced economies such as the Philippines. Additionally, Lao PDR outperformed Indonesia. This is consistent with UNCTAD, (1999) which asserts that "when the market size becomes less relevant cost-effective locations even in smaller economies benefit", these can be attributed to the country-specific factors.

SAARC was established in 1985 with seven South Asian countries: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka). The SAARC member countries undertook economic

reforms that included adopting industrial policies that were meant to encourage foreign direct investment. However, the amount of inflows attracted by the regions remains relative to East Asia and South-East Asia relatively insignificant. The second period of policy reforms was between 1990 and 2001, which happened to be a significant driving force of India's FDI boom. This is because India opened its economy for trade and investment during the first period of reforms, which boosted FDI.

Consequently, FDI inflows substantially increased to US$5.6 billion by 2005 –India was the only South Asian country in the top-5 FDI destinations in Asia (Palit & Nawani, 2007) while the rest of SAARC member countries accounted for a less than 1 percent share of FDI inflows. This is a clear indication that regional integration and the policy reforms to attract FDI significantly varied among member countries. India is the most beneficiary of FDI inflows into the region, suggesting that country-specific factors played a significant role. So, in terms of Table 9, it is safe to conclude that India is in area 2 while the rest of the SAARC member countries are in area 4, where there is a combination of weak environmental change and locational disadvantages.

In contrast to the Asian region, where FDI from the investors in the same region accounts for 30% of total inwards FDI, in Africa, FDI provision comes from abroad. It remains highly concentrated in the oil and mining sectors (Malikane & Chitambara, 2017). The SADC region was established in 1992 with 15 member states to achieve development, growth, alleviating poverty, and regional integration (Chidede, 2017). All member countries believed that FDI is vital for advancing development and an engine for job creation in the region. Subsequently, several policy reforms (such as investment promotion agencies) were adopted by all member countries and designed to create a conducive environment for the region. For instance, the SADC region's investment regime includes the two treaties signed by SADC member countries with investment provisions: SADC Treaty and the SADC Finance and Investment Protocol (FIP). The SADC Treaty deems investment as a crucial aspect in fostering cooperation and regional development among member states. Also, the Treaty provides directives to SADC institutions to coordinate, rationalize and harmonize member countries' macroeconomic and sectoral policies and strategies, programmes and projects in the area of investment (Article 21.2) as stated in (Chidede, 2017). In the same vein, the SADC FIP was adopted and implemented in line with the SADC regional agenda enunciated in the Regional Indicative Strategic Development Plan (RISDP). The FIP implementation had two primary objectives (a to improve the investment climate and thus increase foreign and intraregional investment flows – (b and accelerate coordination and cooperation in the region. The RISDP facilitates trade, economic and financial liberalization to stimulate FDI in the region. Other regional investment initiatives have been adopted,

such as the SADC Model Bilateral Investment Treaty and the SADC Investment Policy Framework (IPF) of 2015. As part of the SADC Model BIT, member countries also adopted and implemented their national investment laws and legislation that govern foreign and domestic investments. These laws provide for the promotion, facilitation, licensing and protection of investment and establishing an investment promotion agency (Chidede, 2017).

Given these investment regimes, one would assume that the SADC region, through the treaties, has created a conducive environment that is attractive to foreign investors, thereby stimulating inter-regional inward FDI. For instance, the SADC IPF was developed around four pillars: reducing the costs of restrictions to foreign investors, improving legal regimes that ensure property rights for investor protection, coordinating regimes for tax incentives for investment and facilitating long-term investments in infrastructure.

The questions that arise now are these: - have these investment regimes served the purpose they were intended for? Has inward FDI into the SADC region improved? Is it evenly distributed across member countries? If not, which factors matter most for inward FDI such that it flows to specific locations and not others within the same region? Do national investment laws surpass regional laws?

In addition to these reforms, South Africa, the SADC's dominant actor, joined the World Trade Organization, TRIPS[1], and TRIMS [2]agreements, enhancing the new policy regime's trust. Consequently, the region's FDI attractiveness rose substantially – although the region mainly attracts resource-seeking investments as characterized by natural resource endowment, Jenkins and Thomas (2002) assert that the market size plays a crucial role. However, it should be noted that South Africa accounts for the lion's share of the total FDI inflows into the region. It accounts for two-thirds of the region's FDI stocks, followed by Angola. This is attributed to the conducive business climate, the developed infrastructure, and the relatively larger market in terms of GDP (Kubny, Molders, and Nunnenkamp, 2008).

Concerning intra-regional FDI, all member countries participate; however, some of these investments originate from South Africa, some from Mauritius. To this end, South Africa accounts for more than

[1] Trade-Related Intellectual Property rights – the most comprehensive multilateral agreement intellectual property. central role in facilitating trade in knowledge and creativity, in resolving trade disputes over IP, and in assuring WTO members the latitude to achieve their domestic policy objectives.

[2]Trade -related investment measures agreement – believes that certain investment measures can stimulate or distort trade. It's objective is the expansion and progressive liberalization of world trade and to facilitate investment across international frontiers so as to increase the economic growth of all trading partners, particularly developing country members, while ensuring free competition.

half of foreign investments in green-field investments in seven SADC countries. Against this background, apart from regional integration, South Africa has been the primary beneficiary of FDI inflows into the region due to its locational advantages. Therefore, in Table 9 South Africa is in area 1 with intense environmental changes and locational advantages. Other member countries like Zimbabwe may be in area 4, which implies that regional integration has not been effective. The locational disadvantages of the country are affected.

In the light of the literature reviewed here, it can be concluded that regional integration is but one minor determinant of inward FDI into regions. Other factors such as economic, socio-political, and institutional factors play a significant role as far as FDI attraction is concerned, and therefore other theories are equally important.

4.2.2 FDI and Institutional Quality - A theoretical review

4.2.2.1 The Eclectic Theory

The Eclectic theory was founded by Dunning (2002), who believed that foreign investors consider specific factors before deciding to invest in certain countries. Dunning explained the factors determining inward FDI by identifying three conditions a firm must meet to become a Multinational Enterprise (MNE). These conditions are ownership, localisation, and internalisation hence is also called the OLI paradigm.

First, this theory states that a firm must own assets that provide it with an advantage over domestic firms. These assets (tangible or intangible) enable the firm to cover additional costs of operating in a foreign country (such as dealing with foreign administrations, regulatory and tax systems, as well as customer preferences (Ahmed, Ghauri, Vveinhardt, & Streimikiene, 2018). Dunning refers to these assets as ownership advantages, and these may also include economies of scale and better technologies. This serves as a response to why FDI is unevenly distributed across countries and regions and what factors MNEs consider before investing in a specific location.

Second, after meeting the first condition, it must be valuable for the MNE to exploit its advantages through FDI and internalize them rather than leasing them out to avoid competitors' duplication. This advantage is called the internalization advantage. This advantage is associated with protecting foreign firms' patented assets from being replicated by other firms, particularly domestic firms.

Third, combining internal and ownership advantages with locational advantages should be profitable in the host country. The third condition is a country-specific advantage which explains why FDI is unevenly spread across countries. The locational advantage assumes that FDI exists because of the international rigidity of production factors such as natural resources and labour. Here the advantage usually is cheap labour which serves as a pulling factor for FDI. For example, China and India are believed to be attracting labour-intensive production FDI such as clothing and footwear from the developed world due to low wages in these countries (Cheng & Kwan, 2000). Consistent with this, the Overseas Development Institute (1997) echoes the view that labour cost is statistically high in stimulating FDI, particularly in labour-intensive industries. However, one should note that sometimes investors seek quality labour that is associated with increased wages. Therefore, the relationship between labour costs and FDI varies with investors' needs and are not subject to production exclusively but rather on the investment's intentions and a new or successive project (Dunning, 1998). According to Dunning, (1998), MNEs are increasingly searching for locations that offer the best economic and institutional facilities to exploit their full potential.

The question that arises here is this: what factors do MNEs consider when deciding to invest? Typically, MNEs invest in countries with favourable economic and political environments to minimize transaction costs while maximizing profit. The OLI paradigm remains a clear and robust framework for examining appropriate specific theories of foreign direct investment (Dunning, 2002).

In addition to the OLI paradigm, Dunning developed a framework for MNEs, and their strategies linked to their intentions when investing abroad. Thus, MNEs are classified into three categories, namely: market seekers, natural resource seekers and efficiency seekers. Market seekers are attracted by the market size and the economic growth of the host country.

This process involves imitating the production know-how in the host country. On the other hand, resource seekers are more interested in the host country's resources endowment that is not significant in the home country; these include natural resources, quality raw materials, and cheap labour force. Finally, efficiency seekers focus more on the quality of institutional arrangements, economic policies, market structures that MNEs consider when concentrating production in specific locations that would supply multiple markets.

According to Dunning (1998), locational advantages have been increased by adding institutional and economic factors. This is based on the argument that the best economic factors attract foreign investors. Still, institutional facilities are also crucial when investors select locations that offer the best financial and institutional facilities. Hence, decisions of foreign investors depend on the rate of return which in turn is based on sound institutional quality and other macroeconomic indicators (trade openness, macroeconomic stability, GDP growth).

The eclectic paradigm theory asserts that a foreign investor's decision to invest in a host country depends on the firm's size, administration and management systems, labour and transportation costs, government policies, institutions, and political stability. This suggests that firm-specific advantages are primarily based on knowledge capital, which may consist of intangible assets such as patents, human capital, trademarks, and brand name. Foreign investors may be more concerned about risk and return when entering foreign markets (Fedderke & Romm, 2006).

To this end, the eclectic paradigm serves as the popular theoretical framework for researchers to analyse FDI determinants and to test several hypotheses about the determinants of FDI inflows.

4.2.2.2 The New Institutional Economics

The growing awareness regarding the significance of good governance in the development plans of developing countries has raised interest among scholars. This emanates from FDI as an engine for economic growth and development and, therefore, the factors that drive FDI. Dunning, (2002) confirms that there has been a paradigm shift in terms of FDI determinants from the traditional macroeconomic variables in the host country to institutional factors.

The significance of socio-political factors such as the nature of domestic institutions, communal rights, and international institutions' involvement and agreements has for a long time been understood and underscored in the economic literature. The acknowledgement of institutions' role in social life began as far back as 1905 through the proponents of the "old" institutional economics, namely, Thorstein Veblen, Walton Hamilton, and John Commons. They criticized the traditional static economic theories for assuming that the economy is a static body with nothing to do with institutions - while they believed the economy is firmly embedded in social institutions. These researchers understood institutions as a type of social structure - 'humanly devised in nature' (North, 1990) and recognized that human

interaction is regulated by 'implicit rules' and thus combined economics and social sciences such that economic institutions become a broader process for cultural development.

After that, Williamson (1975) founded the 'New Institutional Economics (NIE) school – however, Coase, (1937) and North (1990) were the driving forces behind the development of the New Institutional Economics (NIE) theory since they shared a common idea that '*institutions matter*' in the development agenda. The NIE sought to integrate the neo-classical theory by exploring how institutions influence the choice available to human beings and add to institutions' fundamental determinants. We can define the options set available to people and analyse how institutions change and alter the available choice set over time.

Although both Williamson (1975) and North, (1990) advocate that '*institutions matter*' – their approaches to NIE differ to a certain degree; for instance, Williamson's (1975) approach to NIE is that human beings are rationally bounded – that is, there is little reasoning when men make decisions. Williamson further asserts that institutions are only designed to reduce transaction costs and consider norms, traditions, and customs as given and therefore do not matter. However, North (1990) believes that institutions are designed to reduce transaction costs and stimulate economic efficiency – and according to North, both formal and informal institutions matter. As North points out, *'institutions are the rules of the game that define the participants' respective roles. They affect the economy's performance by their effects on the exchange and production costs and the transaction costs, including measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements'* North (1990:5). Institutions provide a basis within which people have some confidence in how outcomes will be determined (North, 1991); these are not persons but customs and rules that provide incentives and disincentives for individuals in society. Therefore, they are humanly formulated, an 'underlying determinant of the long-run performance of economies; 'a a structure that shapes how people interact and controls the economic behaviour of negotiators and, most importantly, determines the level of security for property rights in society (North, 1990:107).

For this reason, North argues that foreign investors seek to maximize their profits by investing in countries that promote ease of doing business. This is possible only if markets are integrated at the national and regional or international level where institutions play a crucial role. Baumol (2006) believes that institutions stimulate incentives for investments and innovation through ensuring security, sound property rights and, most importantly, reducing transaction costs. These investments are directly

sensitive to transaction costs. Therefore, countries characterized by high transaction costs such as corruption, red tape, continuous wars and strikes, no respect for the rule of law, and property rights protection are most likely to deteriorate due to an unstable institutional environment. Effective institutions allow foreign investors to conduct their business in an environment based on clear-cut rules, thereby reducing uncertainty and risks that stimulate investors' confidence for the future.

North (1990) distinguishes between the institutional environment and institutional arrangements. The former speaks to the 'rules of the game' which guide individual behaviour. In contrast, the latter refers to specific guidelines or 'governance structures' designed to mediate economic relationships, for example, public bureaucracies, NGOs, firms, and any contracted agreements.

The institutional framework of a country plays a significant role in the economy; for example, it supports societies, the legal framework and the political system and protects property rights within which the state operates. This framework entails three components- formal rules, informal and enforcement mechanisms (North, 1990). While legal rules refer to written rules to society, such as government laws and policies, informal rules govern social life such as culture, values, norms, and ideologies. On the other hand, the enforcement mechanism regulates the effectiveness of the rules. Consistent with this, Rodrik, (2007) presented five key institutions that directly affect economic growth and its determinants; these include regulatory institutions for macroeconomic instability, property rights, social insurance, and conflict management. Also, the state's dismissal accomplishes the contract terms, the weak rule of law, corruption, property rights, the political environment, expropriation risk and bureaucratic quality, and accountability are some of the factors that are utilized to measure the quality of institutions (Petrakos, Arvanitidis, & Pavleas, 2007).

Interestingly, institutions can be classified into internal institutions – rules for which the society endorses non-conformity - and external institutions – which refer to laws for which the state enforces non-conformity. At a country level, the state in an economy is considered an enforcer of the rules through public policy - the institutional theory involves examining the political framework and the degree to which it allows effective and efficient enforcement of the regulations. This is based on the view that the rule of law becomes a severe issue when courts fail to enforce contracts and when the government influences court decisions for political motives (Drabek & Payne, 2002).

To this end, institutions are created to reduce transaction costs and increase economic efficiency. However, this is made possible by the political framework's nature, which ultimately informs policy

decisions. As pointed out in Coase, (1937:3), "it is impossible to understand the working of the economic system properly and have a sound basis for establishing economic policy without considering transaction costs". This implies that institutions' quality is crucial in the functioning of economic systems that inform monetary policy formulation and the achievement of socio-economic objectives. To this end, the efficient enforcement mechanism governed by the political framework results in good quality institutions and ultimately reduces the cost of doing business and enhances economic activities' profitability (North, 1991, Ali and MacDonald, 2008, and Antelme, 2016).

Institutions can also be classified into economic, social, legal and political institutions (Acemoglu, Johnson, & Robinson, 2005) Antelme, (2016). While economic institutions determine the incentives as well as the limitations to economic actors, they regulate economic and financial stability; social institutions provide social security and issues of the social environment. In contrast, legal systems enforce property rights and the enforcement of contracts, and lastly, political institutions regulate political power and determine both incentives and constraints of the key political actors. These institutions are complementary to each other and are designed to create order and enhance certainty in collaborations. Thus, these institutions' functioning determines the country's economic prosperity by creating an enabling environment for the government and improving the ease of doing business to accelerate innovation. The IMF (2003) adds that growth-promoting institutions are a prerequisite for economic development. Thus, differences in their quality remain the primary reason for cross-country differences in growth rates and per capita incomes. Most importantly, institutions can potentially enhance or impede growth due to the protection they provide - the opportunities they present as well as the freedom of action they permit.

Noteworthy, country-specific factors such as political and economic stability, market size and the extent of democracy and how institutions are managed in the host country influence the volume and type of FDI that a country attracts (Bbale & Nnyanzi, 2016). To this end, the NIE is an interdisciplinary approach that combines economics, organizational theory, and political science to understand the institutions that govern our everyday lives.

This study is underpinned by North's (1990) idea of institutions that constitute formal laws and informal social norms. Although these rules are different, they are complementary in that the effectiveness of formal rules is derived from the citizens' beliefs and values. Both the norms and laws determine the property rights that citizens can possess, and in turn, property rights determine

technology which comes typically through foreign investments. Moreover, transaction costs are influenced by property rights and technology (Grigoriadis & Kamaras, 2008).

4.2.2.3 FDI and Institutional quality – A theoretical framework

In the light of the above, institutional quality is a significant determinant of FDI given the critical role institutions play in defining a country's long-run growth potential. Therefore, this study hypothesizes that economies with good institutions are better positioned to attract foreign investment, participate in trade and utilize physical and human capital more efficiently, resulting in better growth performance through increasing FDI over the long run (Robinson, Torvik, and Verdier, 2006).

However, to fully understand the effect of institutions on FDI inflows in the host country, Aysan, Nabli, and Véganzonès-Varoudakis, (2006) suggest the importance of linking frameworks addressing the determinants of FDI inflows to those that address the effects of institutions on economic activities in general and investment incentives in particular. This is done through collaborating Dunning's eclectic paradigm or OLI paradigm with North's (1990) views on the effects of institutions on investment and economic activities.

Fundamentally, the eclectic paradigm was developed by Dunning (2002). The theory explains the determinants of FDI and multinational enterprise behaviour – for example, which factors determine their investment decisions. The critical components in this theory are ownership, location and internalization advantages which are directly linked to the motives (market, resources, and efficiency-seeking investments) of investors and therefore determine FDI inflows to specific destinations. These include market size, macroeconomic stability, human capital and financial development, government incentives, access to raw materials and exchange rate stability in the host country.

Subsequently, the theory has been extensively used to investigate the determinants of FDI inflows – however, despite its theoretical contribution, the OLI paradigm does not illuminate the role of institutions in FDI inflows. In other words, although it unpacks the motives behind foreign investment flows to different destinations, it does not adequately address the prevalent conditions of institutional distance and institutional voids (Agarwal and Wu, 2007) in developing countries and regions.

Institutional space refers to variances between institutional formation which may become evident in terms of differences in formalized rules and regulations and monitoring or administration approaches or differences in informal norms, values and beliefs between the settings (Xu and Shenkar, 2002). An 'institutional void', as defined by (Gao, Zuzul, Jones, and Khanna, 2017), refers to poorly established or entirely undeveloped formal institutions and infrastructure that can significantly reduce transaction efficiency; these voids may include, among other things, the absence of governing systems, and lack of contract enforcing instruments.

On the other hand, the New Institutional Economics (NIE) theory, as developed by Coase, (1937), Williamson (1975) and North (1990), focuses on the effects of institutions on economic activities and investment – and defines institutions as the rules of the game, which are humanly devised. This theory is governed by both formal and informal laws of the game. This implies that institutions develop, regulate, and enforce the rules. However, how these institutions are established and how the rules are enforced determines an institutional void or a distance that can potentially increase transaction costs in a country or region.

Against this background, this study adopts a multi-theoretical approach based on the premise that no one theory can adequately explain all the determinants of FDI. Each view has its own unique set of assumptions, strengths, and weaknesses; however, when jointly used, these theories provide a complete explanation as far as the determinants of FDI and institutional quality, in particular, are concerned. It is believed that this framework will provide a clear understanding of why FDI is unevenly distributed amongst countries, even within regional economic communities and provide a clear understanding of the role of institutional quality on inward FDI.

4.2.2.4 FDI and Institutional quality: An empirical review

In addition to the above theoretical justifications regarding the role of institutional quality on inward FDI, several empirical studies have also examined the relationship between the two variables – and an investigation of this relationship is given *among other things* in Lucas, 1990); La Porta, Lopez-de-Silanes, Shleifer, and Vishny, (1999); Jaspersen, Aylward, and Knox, (2000); Hausmann and Fernandez-Arias, (2000); Globerman and Shapiro (2002); Asiedu, (2002); Woo, (2008); and Bbale and Nnyanzi (2016). Dunning (2002) claimed that formal factors, such as good governance and economic freedom, are becoming vital determinants of FDI as the priorities of MNEs are shifting from

market and resource seeking to efficiency-seeking. The conventional FDI determinants, such as natural resources and low labour costs, are relatively becoming less important, while less traditional factors, such as institutional quality and economic freedom, are becoming more popular (A. A. Bevan & Estrin, 2004); Maloka, Mashamaite, and Ledwaba (2014) Loree and Guisinger (1995).

Despite the growing interest in the effect of institutions on FDI inflows, the literature is still inconclusive in terms of evidence that suggests that institutions are a significant determinant of FDI inflows; for example, Geda and Kebret (2008) confirms that the empirical results in this regard are mixed. For instance, while some have documented a positive relationship, others report a negative relationship, while insignificant results are also reported. Based on this review, the dominant view is that countries with good governance can attract more FDI Gani (2007); Globerman and Shapiro, (2002); La Porta et al. (1999); Wei (1997). This also includes findings in cross country studies such as Asiedu (2002).

For instance, Gani (2007) used a panel of 64 countries to examine the relationship between institutional quality and inward FDI. The findings suggest that a one standard deviation change in institutional quality leads to a 1.69 percent increase in inward FDI. Globerman and Shapiro, (2002) also concur that improving governance attracts foreign capital and creates conducive conditions under which MNEs operate. Also, Gastanaga Victor, Nugent, and Pashamova, (1998); Asiedu and Villamil (2002); and Wei and Ye (2009) add that weak institutions discourage foreign investment- hence reducing the scope for economic convergence. This may potentially be the case in the SADC region which is characterized by a lack of economic convergence. Furthermore, the literature reveals that better institutional quality can reduce economic problems.

While Wheeler and Mody (1992) provide evidence against institutions, in other words, a negative relationship between the two variables, Onyeiwu and Shrestha (2004a) found no significant relationship between institutional quality and FDI inflows. This indicates the ambiguity of the relationship.

Interestingly, a group of studies that examined the relationship using democracy and other variables as proxies for institutional quality are also not conclusive. For example, Harms and Ursprung (2001) find that strong democratic structures attract foreign investors. In contrast, autocratic societies often experience policy reversal and thus attract less FDI. Habib, Zurawicki (2002) and Smarzynska (2003) also find consistent results and report that corruption brings about less transparency in local

bureaucracy. As a result, it increases transaction costs for foreign investors, thereby reducing the protection of investors' intangible assets and the probability that disputes between foreign and domestic partners will be adjudicated relatively easily. Consequently, this lowers the value of having a local partner. Lower corruption index scores in the host country are associated with a rise in inward FDI, as perceived corruption levels would be lower (Cuervo-Cazurra, 2006).

On the contrary, Cuervo-Cazurra and Genc (2009) reported that investors from highly corrupt countries are unhindered by foreign corruption. This view emanates from the belief that MNEs operating in unstable institutional environments tend to willingly invest in risky and unpredictable environments than place their FDI in stable economies with lower returns (Cuervo-Cazurra & Genc, 2009). Mougani, Rivera, Zhang, Mezui, and Kim (2013) present findings that support the argument that countries with high levels of government corruption and low levels of democracy have higher FDI inflows while being lower for those with greater political rights. Consistent with these findings, Gani and Al-Abri (2013) examined the effect of institutional quality on FDI inflows in GCC countries. The results confirm that political instability and the absence of democracy encourage FDI inflows.

Furthermore, Lucke and Eichler (2016) estimated the impact of institutional and cultural determinants of FDI in developing countries. Their findings suggested a positive association between weak institutions and FDI in developing countries -interestingly, they find that some foreign investors prefer to invest in politically unstable countries. By implication, poor institutional quality attracts more inward FDI. At the same time, it may also deter FDI inflows for some investors - this speaks to the different motives for which MNEs invest in other locations and the different factors they consider. Countries with better quality institutions contribute to attracting FDI into the manufacturing sector (Culahovic, Mehic, Agic, & Selimovic, 2009). Interestingly, Akimov, Wijeweera, and Dollery (2009) found no statistically significant impact of corruption on FDI.

Other studies examined this relationship in countries with different development levels; however, the results are still inconclusive. For instance, Ameer, Xu, and Peres (2016) analyzed the impact of institutional quality on FDI inflows in developed and developing countries using corruption and the rule of law as institutional quality measures. They found that institutions have an insignificant impact on FDI in developing countries due to their weak structure.

Interestingly, Sabir, Rafique, and Abbas (2019) examined the impact of institutional quality on FDI inflows using panel data for low, lower-middle, upper-middle and high-income countries through a Generalized Method of Moments (GMM). Their findings suggest that good institutional quality positively influences FDI inflows in all the groups of countries. Consistent with these findings, (Maloka et al., 2014)employed the same method on a sample of 77 developing countries, and their results suggest that institutional quality, represented by bureaucratic quality, the rule of law, corruption, risk of expropriation and government rejection of contracts, is an essential determinant of FDI inflows. Also, Mohamed and Sidiropoulos (2010) confirm that all institutional variables are the significant determinants of FDI in MENA countries. However, Gangi and Abdulrazak (2012) used panel data for 50 African countries and find that three (accountability, government effectiveness and the rule of law) out of the six governance indicators are statistically significant while the rest of the variables are insignificant.

Masron and Nor (2013) find that institutional quality plays a vital role in attracting FDI inflows to the Association of Southeast Asian Nations (ASEAN). On the other hand, Zaremba and Konieczka (2015) employed Ordinary Least Squares (OLS) to test the determinants of FDI inflows on a sample of Central and Eastern European (CEE) countries. The study finds that institutions, measured by economic freedoms, state fragility, and political rights, significantly impact attracting inward FDI. Pournakakis and Varsakelis (2004) confirmed that weak civil and political rights serve as deterrents to FDI inflows and thus advocate for a transparent business environment in the CEE region to be FDI attractive.

Paul and Jadhav (2020) analyzed the impact of a country's public policies in institutional quality on FDI inflows in Central and Eastern European (CEE) countries over the period 2007– 2010. The results suggest that the accuracy and efficiency of public administration create a proper framework for attracting foreign direct investment, as market forces cannot substitute for the government's role in this domain.

Naudé and Krugell (2007) examined the determinants of FDI inflows in Africa from 1970 to 1990. Their results show that geographic distance does not directly influence FDI inflows but that institutional quality, such as the rule of law and political stability, are robust determinants of FDI. Furthermore, in examining the institutions-FDI nexus, Mina (2012) uses Arab countries over the period 1990–2008; the results confirm that reducing the risk of investment expropriation and increasing government stability and bilateral investment treaties influence FDI inflows.

These findings underscore that the FDI effects of institutional quality vary by country, region, and development level and cannot be generalized to all countries given that it is not a "one–size–fits–all situation. These findings have policy implications for enhancing political stability and good governance via institutions. Lastly, the literature also reveals that African economic reforms have not been accompanied by political and institutional reforms that could facilitate effective and efficient institutions for better African governance. Consistent with this, Ngowi (2001) believes that lack of political and institutional stability and uncertainty is the main reason why Africa is attracting a small share of FDI inflows.

Against this background, the SADC region is characterized by a weak institutional environment characterised by uncertainty, ineffective government policies, poor accountability, and the weak rule of law, which does not enforce rules and protect investors' property rights. This study hypothesizes that institutional quality negatively and significantly impacts FDI inflows into the region. Therefore, institutional quality is expected to have a negative and statistically significant coefficient based on the current conditions in the area; thus, the following hypothesis is developed:

Hypothesis 1: Weak institutional quality deters inward FDI in the SADC region.

4.3 Other conventional determinants of FDI

Dunning (1998) pointed out that apart from the recent increase in the interest among scholars and policymakers in examining the influence of institutional quality on FDI inflows, there are traditional factors that have consistently impacted FDI inflows that Dunning refers to as locational advantages. While this study focuses on understanding the effects of institutional quality on FDI inflows, it is crucial to assess the theoretical impact of other factors in informing policy decisions and for this study to draw its propositions. These factors include the recipient country's market size, trade openness, financial development, macroeconomic stability, natural resource availability, infrastructure development, and trade policy.

4.3.1 Market size and FDI

The literature reveals that one of the motives behind foreign investors' decisions to invest in specific countries is market size. It remains a vital determinant for FDI inflows, and it endorses the emergence of regionalization. Thus, individual countries with higher growth in the gross domestic product are

theoretically better positioned to attract more horizontal FDI as this is found to be profitable to serve a bigger market and receive higher returns on investment. On this basis, regional economic integration became crucial as a tool through which small economies can expand their needs and motivate firms from outside countries to invest in integrated economic areas. The market becomes large enough to stimulate investments. Therefore, regional economic communities are crucial in enhancing member states' attractiveness and not only induce trade but also enhance production.

The literature provides an interesting bi-directional relationship between FDI inflows and economic growth. For instance, while on the one hand, the literature suggests that countries with higher GDP growth rates attract more FDI; on the other hand, foreign direct investments also stimulate economic growth (Narayanamurthy, Perumal, and Chandra, 2010; Kubny, Molders, and Nunnenkamp, 2008). Contrary to this view, Asiedu (2002) argues that the market size is not a determinant of FDI in developing countries due to low incomes. Asiedu further purports that a large market alone is not sufficient to attract FDI inflows, but higher levels of income are crucial, that is, the purchasing power of the population.

Given that SADC is a regional economic community where small economies at different levels of development have integrated to become one entity, it is expected that the larger market size as a result of integration enhances the region's FDI attractiveness to foreign investors. Based on the reviewed literature, the following hypothesis is developed for the effect of market size on FDI inflows in the SADC region.

Hypothesis 2: Market size positively stimulates the FDI attractiveness of the SADC region.

The market size which uses GDP-growth as a proxy is expected to be a positive and a significant determinant of FDI inflows in the SADC region, and this is consistent with the following studies: Holland and Pain (1998); Durán and Úbeda (2005); Garibaldi, Mora, Sahay, and Zettelmeyer (2002); Bevan and Estrin (1996); Nunes, Annansingh, Eaglestone, and Wakefield (2006) and Sahoo (2006).

4.3.2 Trade openness and FDI inflows

Trade openness has been highlighted as the key determinant of FDI inflows in the literature; this refers to removing trade barriers to allow goods and services to flow freely between countries. Openness in regional economic integration is perceived as fundamental to enhancing countries' FDI attractiveness.

This can be achieved through the establishment of Regional Investment Agreements (Kubny, Molders, and Nunnenkamp, 2008). The removal of trade barriers improves the interaction levels between economies, and they get to share common ideas and objectives and have clear-cut methods to achieve set goals. Additionally, the removal of trade barriers within the region potentially enhances horizontal FDI from investors outside the region due to effective market size increases. Notably, the theory reveals that trade restrictions or openness can both? have adverse effects on FDI inflows; for instance, Dunning (2002); and Markusen and Maskus (2002) report that trade liberalization of inward FDI varies according to the motivation for engaging in FDI activities. Consequently, while Biglaiser and DeRouen (2006) Chakrabarti (2001) and Liargovas and Skandalis (2012) found a positive and statistically significant association between inward FDI and trade openness, Mallik and Chowdhury (2017) reports a negative relationship between the two variables in transition economies.

In the context of the SADC region, several reforms have been enacted to liberalize trade among member states and to attract foreign investors – these include the Protocol on Trade and the creation of the SADC free trade area. Another effort to stimulate openness in the region is adopting and implementing One-Stop Border Posts (OSBPs) by member states that aim to address delays at cross border points due to non-integrated processes and inadequate facilities. These reforms aimed to stimulate an investor-friendly environment and promote foreign investments and trade and intra-regional trade and investments.

Based on the efforts described above, this study believes that trade openness enables inward FDI into the region; however, the low levels of intra-regional trade and investments, and non-tariff barriers to trade may lead to an adverse effect concerning trade openness on FDI inflows. Consistent with this, Raff (2004) asserts that under certain conditions, Free Trade Areas do not lead to increased FDI inflows. This may be attributed to very low equilibrium external tariffs making it challenging to stimulate FDI or multiple equilibrium points and member states are trapped in one that does not support FDI. The literature revealed that countries with lower trade barriers before the agreement are likely to benefit from increased intra-regional FDI inflows as trade barriers are reduced. These countries are less likely to host import-substituting FDI projects (Biglaiser and DeRouen, 2006; Chakrabarti, 2001).
That said, the following hypothesis is developed in this study:

Hypothesis 3: trade openness positively influences foreign direct investments in the SADC region.

4.3.3 Inflation and FDI

The economics literature revealed that macroeconomic stability is an essential determining factor of FDI inflows. This is based on the view that the locational advantages in host countries are less risky, and a stable macroeconomic environment contributes to larger volumes of inward FDI. Besides, higher rates of inflation in host countries reduce the actual return of investments, thus discouraging foreign investments and economic prosperity Narayanamurthy, Perumal, and Chandra (2010); Ahmed, Ghauri, Vveinhardt, and Streimikiene, 2018, Onyeiwu and Shrestha, 2004, Nonnemberg and Mendonca, 2000, Reinhart and Rogoff, 2004; and Fuat and Ekrem, 2002). Consistent with that, Nnadi and Soobaroyen (2015) and Andinuur (2013) posit that a higher rate of inflation hinder new investments and chase away the already existing investors in the country due to low returns on investments. Interestingly, Jaiblai and Shenai (2019) note that inflation rates can positively impact FDI inflows up to a specific level.

The literature further reveals that an inflation-targeting monetary policy regime also stimulates FDI inflows as an initiative towards macroeconomic stability. It serves as a locational advantage or a pull factor in the recipient country and is generally considered a precise measure of macroeconomic conditions in the host country. This policy regime is believed to reduce political uncertainty and stimulate a more predictable macroeconomic environment while also allowing investors to base their plans on the centre's policy announcements (Mishkin & Schmidt-Hebbel, 2004).

While there is consensus that macroeconomic instability deters foreign direct investments, Wijeweera and Mounter (2008); Moosa and Cardak (2006); and Siklar and Kocaman (2018) found inflation to be insignificant. They thus concluded that inflation does not affect FDI inflows.

It is worth noting that as a step towards deeper regional economic integration and to achieve macroeconomic convergence, the SADC member countries undertook to harmonize their stability-oriented policies, after which a stable macroeconomic environment was envisioned. Therefore, harmonization is expected to lower inflation and stimulate stability.

For political stability and a more predictable macroeconomic environment, several SADC member states adopted an inflation-targeting monetary policy regime, including Zambia, South Africa, Eswatini, Tanzania, Mozambique, DRC, Malawi, and Botswana. This policy regime requires that countries be free from fiscal dominance, that is, the government should not pose pressures on the monetary policy - thus, fiscal policy concerns should not command monetary policy, but monetary

policy authorities must remain independent. These pressures are likely to undermine monetary policy's effectiveness by compelling the monetary authorities to respond to government demands of easing interest rates to accomplish fiscal policy objectives.

Most importantly, authorities should be firmly committed to the policy and avoid targeting other indicators such as wages, employment level, or the exchange rate (Debelle, Masson, Savastano, and Sharma, 2006). Accordingly, macroeconomic convergence is measured through inflation rates, public debt to GDP ratio, budget deficits and current account balances. A closer look at the SADC region shows that member states have not yet successfully harmonized their stability policies. This is evident in higher inflation rates, public debt-to-GDP ratios rising over 60 percent of GDP, and budget and current account deficits. According to the reviewed literature, all these factors stifle macroeconomic stability, which ultimately deters FDI inflows.

Based on this information, the following hypothesis is developed for the study:

Hypothesis 4: Macroeconomic instability hampers FDI inflows in the SADC region.

4.3.4 Financial development and inward FDI

The literature reveals that financial development is another essential factor. This view is based on the belief that the financial sector directly affects investment financing and business activities. Thus, the development of the financial sector in the host country enables foreign firms to borrow to increase their innovative activities in the host country Bbale and Nnyanzi (2016). According to the theory of economic efficiency, developed financial institutions tend to be more efficient, timely.

By implication, improvements in the local financial sector are likely to influence FDI positively and thus contribute to spillovers such as technological diffusion, efficiency, and skill acquisition (Alfaro, Kalemli-Ozcan, & Volosovych, 2008).

It is worth noting that a negative relationship may exist between FDI and bank credit because access to bank credit may result in a rise in domestic capital to the extent that foreign capital in the form of FDI may not be necessary for the host country (Anyanwu & Augustine, 2014). On the other hand, Kose, Prasad, and Terrones (2003) add that the deregulation of activities in the domestic financial

market, and liberalizing capital account transactions and equity markets can potentially attract international capital flows. Developed financial markets are deemed efficient in allocating scarce resources towards productive projects for growth purposes, thereby augmenting foreign capital productivity levels Havrylchyk and Poncet (2007b) and Guiso, Sapienza, and Zingales (2019).

Interestingly, Hailu (2010a) warns that sometimes a developed financial sector may stimulate portfolio investments instead of direct investments. This can crowd out FDI; therefore, depending on the investments and their nature, financial development can either have a positive or a negative effect on FDI. The literature further revealed that apart from the development of the financial sector, the banking sector's rise in domestic credit harms inward FDI, which is the case in the BRICS countries Kaur et al. (2013).

In the context of the SADC region, several strides have been taken to develop the financial sector. These include removing restrictions on foreign ownership and the deregulation of offshore investments to allow foreign firms to borrow to increase their creative activities in the region. It is also worth noting that the banking sector's domestic credit has increased in the region, affecting inward FDI. That said, financial development will either be a positive or negative effect on inward FDI.

4.3.5 Natural resource availability and FDI

The literature also shows that natural resource availability is a fundamental determinant of inward FDI. This is consistent with the view that some foreign investments are driven by the desire to access recipient country resources. According to this reasoning, as the FDI benefits such as capital inflows and technology flow into the recipient country, foreign investors in return need access to cheaper but high-quality raw materials available in the host country to maximize their financial returns Tüselmann, Sinkovics, and Pishchulov (2016). It is undeniable that natural resources, particularly in developing economies characterized by resource extractive sectors, contribute significantly to their gross domestic product (GDP). Additionally, the factor-endowment-based theory argues that resource-endowed economies with a comparative advantage in natural resources attract more FDI since firms want to gain access to those low-cost natural resources and maximize profits.

Contrary to this, the literature also revealed that resource endowment could sometimes be a ‘curse’ particularly for developing economies that generate undesirable developmental outcomes, such as poor economic performance and rising corruption levels. This emanates from the belief that natural resource

abundance gives rise to rent-seeking behaviour, high corruption and environmental damage, particularly where resource-rich economies tend to have weak institutions Auty (2001); (Gylfason, 2012). Based on this line of reasoning, natural resource endowment does not automatically translate to national economic prosperity. Accordingly, the World Bank (2019) noted that "countries that rely greatly on extractive industries have seen a rise in natural resource rents, but their growth will not be sustainable unless they invest in productive assets" (Bokpin, Mensah, & Asamoah, 2015). Hailu, (2010a) reported that natural resources (mineral depletion as a share of natural resources and FDI in GCC) are positively and significantly associated with the FDI ratio. A one percent increase in natural resources availability leads to an impact between 0.500 and 0.19 percent on FDI.

Furthermore, Kinoshita and Campos (2003) investigated the determinants of FDI inflows in 25 transition economies between 1990 and 1998 using panel data; this study concluded that natural resources are the fundamental determinant in attracting FDI.

Interestingly, Asiedu and Villamil (2002) examined the effect of natural resources on FDI in 99 developing countries and found that natural resource availability negatively impacts FDI inflows by 0.05 percent. According to Asiedu, the negative impact of natural resources on inward FDI is triggered by the crowding-out effects of resource FDI.

Thus, given the abundance of natural resources in Africa, linked to the natural resource-seeking motive of investments, the continent is expected to attract more inward FDI. Importantly, although resource-rich, the African continent is characterized by weak institutional environments, which could potentially lead to a resource curse that ultimately hampers foreign investments.

Empirical studies relating to the effect of natural resources on FDI are inconclusive and still controversial, with some scholars finding positive results while others find negative consequences. Therefore, considering all these theoretical and empirical underpinnings and considering the weak institutional environment in the region, it is not easy to develop a directional hypothesis for this variable. For instance, while on the one hand, the region has a natural resource abundance to attract inward FDI, the institutional environment is weak, and this may lead to the 'resource curse' as stated in the literature.

Based on this review, the effect of natural resource availability may be positive or negative in the context of the SADC region.

4.3.6 Trade policy and inward FDI

According to the Mercantilist theory, a positive balance of trade stimulates a country's economic prosperity by promoting exports and discouraging imports Cavusgil and Knight (2015). This theory uses trade policies that support trade surpluses and government intervention to ensure compliance. The literature reveals that liberal trade policies and low levels of tariff encourage inward FDI. This study used the average tariff rate as a proxy to capture trade policy's effect on FDI inflows in the region.

In the SADC region, several strides have been taken to stimulate a trade surplus and, thus, low tariffs. However, despite these endeavours, tariff rates are still high in the region, negatively impacting inward FDI. Against this background, this study expects a negative association between FDI inflows and trade policy in the region.

4.4 The Conceptual Framework for the determinants of FDI

Based on the reviewed literature, the conceptual framework for this study is designed as follows:

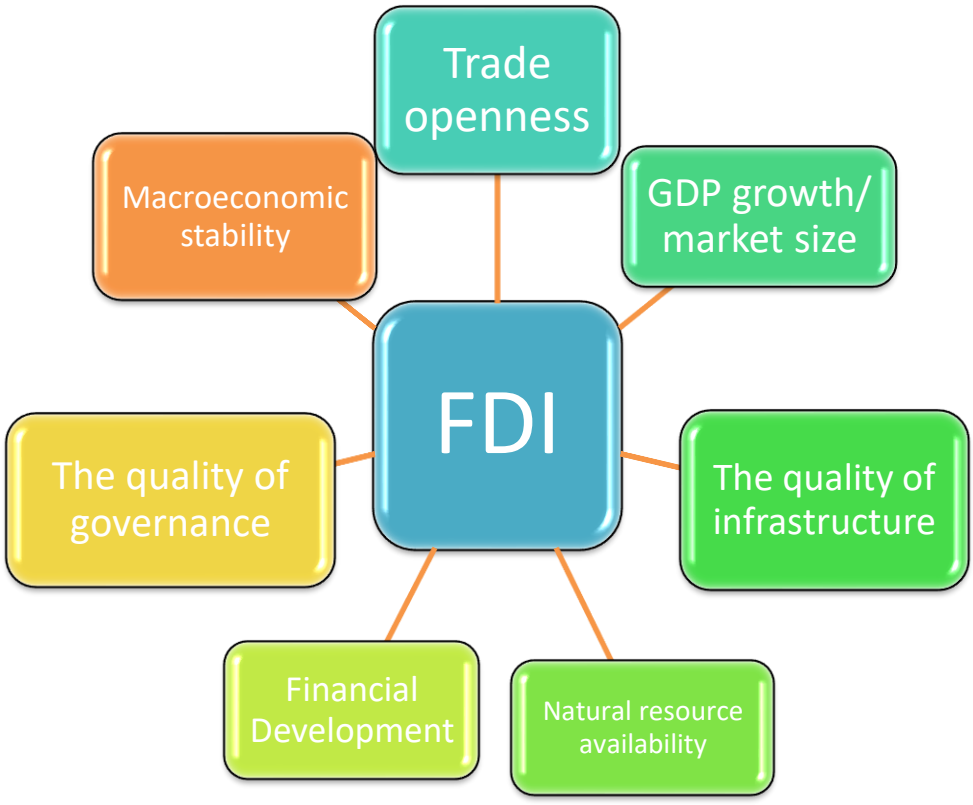


Figure 4: The Conceptual framework
***Source:* Author's computation based on literature**

4.5 Conclusion

This chapter interrogated the relevant theories concerning the effect of institutional quality on FDI. The SADC region has also been compared to other trading blocs as far as the governance-FDI nexus is concerned. However, the link between the quality of governance and FDI inflows is still not clear and seemingly varies by region, country and context - therefore, it is necessary to examine this relationship scientifically. This is particularly crucial in the SADC context as poor governance impedes macroeconomic stability, reduces accountability, weakens the business environment and the investment climate, all of which are prerequisites for foreign investment inflows and the region to achieve its developmental goals ultimately.

Therefore, this study aimed to examine the effect of institutional quality on FDI inflows in the SADC region. This is important, mainly because FDI is an instrument for growth, development, job creation, and poverty alleviation, precisely the socio-economic challenges that the region is grappling with. Establishing a link between these variables will expose the necessary FDI- enhancing policies that the region ought to implement.

The following chapter presents the methodology adopted to examine the relationship between inward FDI (a dependent variable) and the selected explanatory variables.

Chapter 5

Data and Methodology

5.1 Introduction

Chapter Four reviewed both the theoretical and empirical literature concerning the relationship between inward FDI and the quality of governance. Through this review, a theoretical framework for this study was formulated, and this entails the Eclectic paradigm and the New Institutional Economics, which was followed by empirical analysis. This analysis allowed the identification of factors that drive inward FDI in recipient countries; consequently, based on this analysis, a conceptual framework with clear variables to be measured in this study is developed.

This chapter presents the methodology adopted in this study to scientifically examine the relationship between inward FDI and the quality of governance in the SADC region. Thus, this chapter unpacks the research paradigm, the design followed, the adopted research approach to accomplish the research objectives - furthermore, some justifications for the chosen design and approach as well as their appropriateness in achieving the study objectives are also provided in this chapter.

5.2 What is a Methodology?

A methodology is a theory of how an enquiry proceeds and is about the analysis of procedures to be followed, and assumptions and principles in a particular method of inquiry (Schwandt, 2007). Creswell and Tashakkori (2007) and Schwandt (2007) point out that a methodology elucidates and clearly defines the identified problems which are to be investigated. This includes the identified problem, the hypothesis to be tested, the research procedure, and the sampling and data collection techniques to be used. Thus, research methodology refers to the methods, approaches, techniques, and organized processes adopted to collect, analyse, and apply information to validate theoretical assumptions (Kothari, 2004). It is a logical way of solving a problem.

5.3 The Research Paradigm

Given the three main dimensions of the research process, namely, ontology, epistemology, and methodology, Blanche and Wilbraham (2007:3) state that 'a research paradigm is an all-encompassing system of interrelated practice and thinking that define the nature of enquiry along these three dimensions. For instance, Smircich (1980) asserts that the researcher's assumptions or beliefs about the nature of the social world influence the choice of method to conduct research. These assumptions relate to the epistemological beliefs and the research approach on how to examine knowledge (Morgan, 2004). These assumptions are also linked to a set of significant paradigms, namely, the positivist, post-positivist and constructivist paradigms (Guba and Lincoln, 1998).

This study's primary purpose is to examine the impact of governance on inward FDI in the SADC region. A hybrid type of enquiry was adopted to assess the relationship. Firstly, the enquiry is descriptive as it systematically described the information about the association between institutional quality and foreign direct investment inflows in the region and described the perceptions of participants regarding this link. Secondly, the study's enquiry is correlational as it sought to establish a relationship between the two variables.

The study adopted a mixed-methods approach which comprises qualitative and quantitative approaches. Therefore, this research pursued "a post-positivist paradigm which accepts knowledge as non-falsified hypotheses which can be considered as facts" (Guba & Lincoln 1998:113) as stated in Joslin and Müller (2016).

According to Joslin and Müller (2016), the post-positivism paradigm has three key features, namely: 1) logicism which seeks to confirm theory using deductive logic; 2) empirical verificationism, - only statements that are empirically verifiable or falsifiable or true by definition; 3) the human theory of causation, which is the belief that causal relationships can be established by discovering short-run relationships between the observed variables. To this end, the research question for the proposed study was answered through empirical hypothesis testing using valid, reliable, and objective methodologies. According to Howe and Eisenhart (1990), epistemology and methodology are synonymous since post-positivist researchers typically subscribe to purely quantitative research methodology; however, Johnson (2004), as stated in Joslin and Müller (2016:123) argues that "the logic of justification (epistemology) does not prescribe the data collection and analysis techniques to be used in the research process".

The authors further assert that taking a mixed position allows the researcher to mix and match components that best answer the research question. With that said, the proposed study adopts Johnson's (2004) belief and thus combines the post-positivist epistemology with a pragmatic research methodology to offer appropriate recommendations. In this context, the pragmatic methodology is about finding a suitable and practical method to respond to real-world questions, and researchers are at liberty to choose their tools, instruments, and methods. To this end, Teddlie et al., (2003) suggest that the mixed method approach supports the pragmatic view as it uses different approaches but values both objective and subjective knowledge.

5.4 The Research Design

Although a research design is simply a plan for a study that offers the entire structure for data collection, researchers have put forth several perspectives as far as the concept is concerned. For instance, while Creswell (2003) refer to it as a plan for choosing matters, research locations, and data collection techniques to address research questions – Durrheim and Terre Blanche (2004) defines it as a tactical framework that links research questions and the implementation of the research strategy whose objective is to generate credible results. Also, Creswell and Tashakkori (2007) define it as the action plan that links the philosophical assumptions to specific methods. Research designs include experimental research, survey research, ethnography. and mixed methods. Creswell (2003) posits that a mixed methods design includes both philosophical assumptions and methods of inquiry. This design includes elements of both quantitative and qualitative research approaches for in-depth understanding and corroboration. Although these two approaches are distinct concerning their characteristics, such as the nature of the data used, and the methods of collecting data, Sogunro, (2002) cautions that differences should not cloudy the logic which then makes them compatible.

For the proposed study, testing the specified hypotheses requires quantitative research to examine the strength and significance of the association between governance and FDI inflows. While quantitative research offers objectivity and structure and promises generalizable findings on cause-and-effect relationships, qualitative research focuses on interpreting verbal material. To this end, the purpose of this research was to understand the relationship between institutional quality and foreign direct investment inflows and the reasons why SADC member countries have not reaped more significant FDI inflows as expected in regionally integrated economies. Also, the research purpose is to determine whether governance influences FDI inflows in the region; thus, while quantitative methods measure

the association between these variables, the qualitative approach is used to understand governance mechanisms in place in the region and the factors that influence foreign investors' decisions to invest.

This study employed the above approaches concurrently; thus, they complemented each other, which helped the researcher achieve the specified research objectives. Thus, the hybrid research method was used to generate research results where both qualitative and quantitative research methods were inefficient on their own.

5.5 The Research Approach

As stated above, the study adopted a mixed-methods approach which comprises both qualitative and quantitative data collection and analysis synchronously to address the research question and the study objectives (Teddlie, 2003). It is important to note that this approach goes beyond the collection of qualitative and quantitative data but integrates the data to establish the inclinations and specifics of the problem. Further, this approach combines inductive and deductive inquiries to research – where inductive enquiry refers to the establishment of patterns, whereas deductive inquiry involves theories and hypotheses (Johnson & Onwuegbuzie 2012).

The literature reveals different reasons for the significance of a mixed-methods approach – for instance, Sale, Lohfeld, and Brazil (2002:46) postulate that:

"Both approaches can be combined because they share the goal of understanding the world in which we live. They share a unified logic, and the same rules of inference apply to both. A combination of both approaches provides a variety of perspectives from which a particular phenomenon can be studied, and they share a common commitment to understanding and improving the human condition, a common goal of disseminating knowledge for practical use. Both approaches provide for cross-validation or triangulation – combining two or more theories or sources of data with studying the same phenomena in order to gain a complete understanding of that phenomenon (interdependence of research methods), and they also provide for the achievement of complementary results by using the strengths of one method to enhance the other (independence of research methods)."

Consistent with this, Sale et al. (2002), and Onwuegbuzie and Leech (2015:479) recognize the following justifications for merging these approaches: *participant enrichment, instrument fidelity, treatment integrity, and significance enhancement. These authors elaborate these concepts as follows:*

- *Participant enrichment* is the rise in the number of participants in the research as a result of this approach – in line with this, Lee and Lee (2010) argues larger sample sizes produce precise results and lead to reliable and valid research.
- Instrument fidelity is defined as the optimal use of the instruments in the study; that is, the approach allows the researcher to use a variety of research instruments to address the research question.
- Treatment integrity refers to combining these approaches to assess the reliability of interventions, treatments, or programmes; and
- Significance augmentation refers to exploiting the researcher ‘s elucidation of data.

5.6 The Research Process

This study's research process to implement the mixed methods approach was adopted from Creswell, Hanson and Clark (2007). Figure 6 depicts the steps followed in conducting mixed methods research.

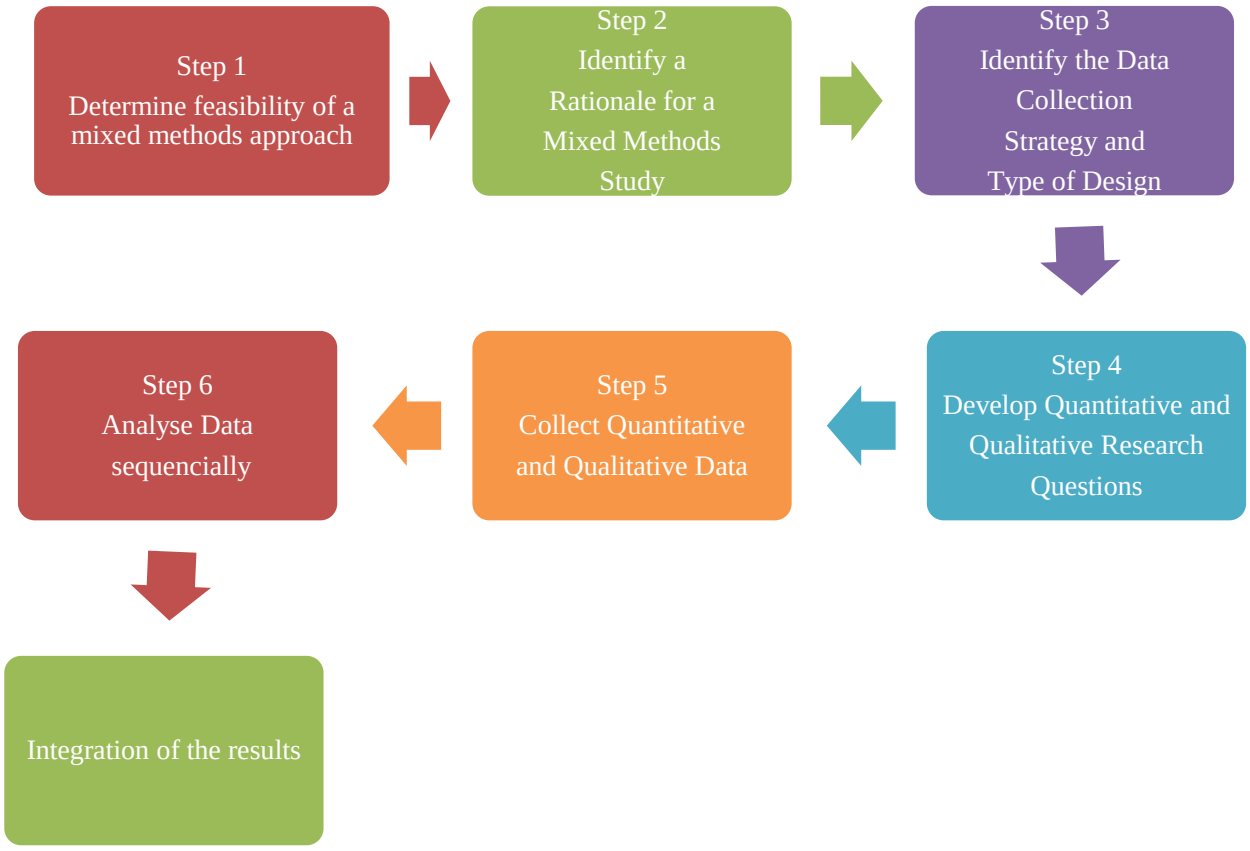


Figure 5: Mixed Methods research process

Source: Cannon (2004)

The study observed all seven steps depicted in Figure 5. The two approaches were used as complementary modes of analysis. Based on the chosen sequence, econometric analysis was conducted first, and then qualitative data was analyzed to supplement quantitative results. Following a joint display approach to integration, the results from both methods were integrated and interpreted in order to check for agreements and disagreements between qualitative findings and quantitative results Creswell (2003); Greene, Caracelli, and Graham (1989a) and Teddlie and Tashakkori (2006) - regarding the impact of institutional quality on FDI inflows in the SADC region. This enabled the researcher to answer the research question and draw a valid conclusion.

The following section discusses the qualitative and quantitative research methods that were adopted, and the research instruments utilized in this study.

5.7 Quantitative Research Methodology

Quantitative research is an inquiry into research problems based on testing theories and hypotheses, establishing associations between variables, and envisaging outcomes. These are arithmetically measured, and statistical techniques are used in the analysis to validate theories (Creswell, 2003). This approach is usually linked to positivist perceptions in social research and has a high degree of pre-conceptualisation.

This section outlines the methodology adopted in this study to quantitatively examine institutional quality on foreign direct investment inflows in the SADC region, aligning with theory and practical guidelines. The period of study is from 2011 – to 2019.

5.7.1 Variable description and data sources

Following the reviewed literature, the following variables were included in the regression analysis.

Table 10: Variable description and signs

Dependent variable		
Foreign Direct Investment inflows.	Measured as a percentage of GDP	
Independent Variables		
Concept Measured	**Description**	**Expected Sign**
Macroeconomic Stability	Inflation measured as a percentage of the Consumer price index is used as a proxy. A negative association between FDI inflows and inflation is expected (Greene and Villanueva, 1991	-
Trade openness	Measures how liberalized a host country's trade regime is. Trade as a share of GDP is used as a proxy for openness in the host country.	+
Market size	GDP growth is used as a proxy for market size.	+
Trade Policy	The weighted tariff rate for each country is used as a proxy for the trade policy.	+/-
Financial development	Measured as a comprehensive index for financial market development and the development of financial institutions in the region. Considers the depth, access and efficiency of financial institutions and financial markets	+/-
Regulatory Quality	Measures the responsiveness of the market. The higher the quality, the higher the level of inward FDI	+
Voice of accountability	Measures the degree of civil liberties and independence of media	+

Control of Corruption	Measures the degree to which public power is used for private gain	+/-
Political stability	Measures citizens' ability to peacefully select and replace those in power and the extent to which government is stable.	+
Government effectiveness	Measures the effectiveness of government policies. A practical and stable government reduce uncertainty and thus attract more FDI	+
The Rule of law	Measures the confidence in the rule of society and contract enforcement in the host country.	+

Source: Author's compilation based on literature review

5.7.2 Data Sources

The data series for FDI and other macroeconomic variables for all countries, except for financial development, were drawn from the *World Bank database of World Development Indicators*; this ensured optimal data consistency. The Financial development index was used as a proxy for financial sector development. This is a comprehensive measure as it encompasses the development of financial institutions and financial markets, for instance, it considers the depth, access and efficiency of financial markets and financial institutions to compile and index for the region. Data were drawn from the *International Monetary Fund* database.

Proxies were used as ratios to increase the probability of the variables being stationary in the long run. The Governance indicators' data was drawn from the *Worldwide Governance Indicators*, a World Bank database from 2011 - 2019. These are indicators provided by Kaufumann et al. (1999) in the form of estimates and percentile ranks for all countries. The estimates of -2.5 and +2.5 were utilized as indices of governance for all SADC countries; these estimates imply bad and good governance, respectively. The governance variable constitutes six components, namely, control of corruption, government effectiveness, the rule of law, regulatory quality, control of accountability, and political stability.

These indicators were formulated from a variety of surveys on the perceptions of governance from a range of stakeholders; these include surveys of firms and individuals with first-hand information of governance in the country, assessment of commercial risk rating agencies, non-governmental organizations, several multilateral aid agencies such as the World Bank and the African Development Bank, and public sector organizations. These indicators were compiled from a total of 441 individual variables drawn from 35 different sources and produced by 33 different organizations that then report on six dimensions of governance at both the micro and macro levels in each country. Therefore, this data captures governance perceptions at all levels, making it suitable to measure the overall impact of governance on FDI. Table 10 shows the variables used to determine the impact of governance on FDI inflows in this study.

5.7.3 Model Specification

The body of literature provides several factors that determine FDI inflows in host countries, and these include the market size (GDP growth), macroeconomic stability (inflation), financial development, trade openness, trade policy average tariff, and natural resources. However, the integrated FDI theory suggests that institutional factors be incorporated as they shape the market environment under which these other determinants perform. Thus, a model is developed based on the literature and is specified as follows:

FDI = f (GDP growth, inflation, trade openness, financial development, natural resources, trade policy, institutional quality) **[1]**

5.7.4 Econometric Technique

As this study examines the governance-FDI inflows nexus in a regional grouping, a panel data econometric technique was adopted. Panel data contains time-series observations recorded for several individuals (Hsiao, 2005). Meanwhile, Frees (2004) states that 'panel data is a group of individual units repeatedly surveyed over time. A panel data has a cross-sectional component denoted by *i* and a time series component denoted by "*t*". A panel data is preferred as it provides for larger data sets, moderates collinearity among control variables, and enhances the estimator's effectiveness (Pretoria, 2003). It can also put together two data measurements, giving more accurate inferences of model parameters (Hsiao, 2005).

Since there is a high probability of multicollinearity, particularly among governance indicators, the panel data technique allows for more degrees of freedom and reduced variable multicollinearity and gives more accurate information (Baltagi 2005). The technique also controls individual heterogeneity -this is crucial for this study given the diversity of SADC member states. Therefore, country-specific factors can potentially influence the role of institutions in enhancing FDI inflows into the region. The panel data allowed the researcher to account for this country heterogeneity to avoid misspecification.

Thus, the proposed study modelled countries over time, and panel data catered for heterogeneity among the observed variables. Panel data is also referred to as longitudinal data and can be short or micro panels (consisting of many entities (N) and few periods (T) or long/macro (with fewer entities and many periods (Cameron & Trivedi, 2014). Longitudinal (panel) data can be balanced or unbalanced – a balanced panel consists of measurements for all the entities and all periods, and when a different number of observations within entities exist, then the data set in question is said to be unbalanced. Lastly, panel data can be fixed or rotational; a panel is fixed if the same cross-section units are observed over time, but if units change over the observed period, it is called a rotational panel.

To this end, this study used a micro, balanced, and fixed panel data set of 10 SADC countries (N) observed over eight years (T) from 2011 – to 2019.

The study estimates a panel regression model to examine the role of institutional quality in foreign direct investment inflows in the SADC region. To this end, the dynamic panel regression model is specified as follows:

$$Y_{it} = \alpha_i + \beta_1 X'_{it} + u_{it} \quad \textbf{[2]}$$

Where Y_{it} is a dependent variable, X_{it} is a vector of all explanatory variables, α_{it} denotes individual heterogeneity and u_{it} is the idiosyncratic term that varies among the cross-section as well as overtime.

In the context of this study, equation (1) is specified as follows

$$FDI_{it} = \alpha_{it} + \beta_1 VA_{it} + \beta_2 PS_{it} + \beta_3 GE_{it} + \beta_4 RQ_{it} + \beta_5 RL_{it} + \beta_6 CC_{it} + \beta_7 INFL_{it} + \beta_8 TO_{it} + \beta_9 GDPgrowth_{it} + \beta_{10} FD_{it} + \beta_{11} NR_{it} + \beta_{12} TP_{it} + \varepsilon_{it} \quad \textbf{[3]}$$

Where FDI (a dependent variable), is the FDI inflows expressed as a percentage of GDP. α_{it} is a common fixed-term effect; $\beta_1 - \beta_{11}$ are the parameters which measure the coefficients for all the explanatory variables: inflation rate (INFL), Trade Openness (TO); GDP-growth; Financial development (FD), trade policy (TP); Voice of accountability(VA), political stability(PS), government effectiveness(GE), regulatory quality(RQ), rule of law(RL) and the control of corruption(CC); i denotes individual countries within the SADC region, t denotes time-series dimension and u_{it} accounts for any unobserved individual-specific effect in the regression.

Thus, to examine the effect of institutional quality on FDI inflows, the following panel regression was estimated. Thus equation (3) with governance indicators estimated as a composite indicator is specified as follows:

$$FDI_{it} = \alpha_i + \beta_1 GDPgrowth_{it} + \beta_2 Inf_{it} + \beta_3 TO_{it} + \beta_4 FD_{it} + \beta_5 NR_{it} + \beta_6 TP_{it} + \beta_7 InstV_{it} + \varepsilon_{it} \quad \textbf{[4]}$$

Where InstiV is a composite variable for all the governance indicators.

In order to assess the interaction effect of institutional quality and financial development in the SADC region, an interaction term for financial development and institutional quality was added and the equation is specified as follows:

$$FDI_{it} = \alpha_i + \beta_1 GDPgrowth_{it} + \beta_2 Inf_{it} + \beta_3 TO_{it} + \beta_4 FD_{it} + \beta_5 NR_{it} + \beta_6 TP_{it} + \beta_7 InstV_{it} + \beta_8 InstV_{it}.FD_{it} + + \varepsilon_{it} \quad \textbf{[5]}$$

Where: $\beta_8 InstV_{it}.FD_{it}$ represents the interaction term.

5.7.5 Static Panel data techniques

Choosing a panel estimation method depends on the hypothesized correlation between personal and regressors (Baltagi, Bresson, Chaturvedi, and Lacroix, 2018). Panel data models assess both group and time effects to deal with heterogeneity or individual effect that may be observed (Myoung, 2011). To test the presence of group and time effects in panel models, static estimation models were employed – namely, fixed effects (FE) and random effects (RE). Static models focus on both time series and cross-sectional data concurrently. These models are stated as follows:

FE model: $y_{it} = (\alpha + u_i) + X'_{it}\,\beta + v_{it}$ **[6]**

RE model: $y_{it} = \alpha + X'_{it}\,\beta + (u_i + v_{it})$ **[7]**

Where u_i indicates a fixed or random effect specific to individual countries or periods that are not included in the regression, and errors are independent identically distributed, $v_{it} \sim IID(0, \sigma_v^2)$.

Baltagi (2018) stated that fixed effects refer to a sampling technique in which the same units are (believably) repeatedly sampled for a given period holding constant the same and is based on the assumption that fixed effects are correlated with explanatory variables.

For instance, in equation (2), ε_{it} represents individual effects that are assumed to be correlated with $\beta_1 X'_{it}$. And the fixed effects model removes the individual effects to allow for a smooth analysis.

Essentially, fixed effects are intended to examine the reasons for changes within an entity – while the RE model assumes that individual effects are determined at random, and there is no correlation between regressors and individual effects. The rationale for eliminating individual heterogeneity from a fixed-effects model assumes that individual heterogeneity is correlated with the included endogenous variables and is not equal to zero.

Thus, if there is a correlation, RE results become inconsistent and invalid while FE becomes the appropriate model.

Given that the study deals with a regional grouping, the first step is to test for the "poolability" of the data. This is to check whether the cross-section can be pooled together, (Gujarati, 2012). Thus, if the cross-section is homogeneous with no individual effects, then Ordinary Least Square regression can be run – to do this a simple chow poolability test was conducted based on equation (2).

5.7.5.1 Testing for Fixed Effects

The F-test was run to assess the presence of fixed effects in the data at hand - this test relates the Ordinary Least Squares (OLS) to Fixed Effects to check how much FE can amplify the goodness-of-fit of the model. The test differentiated between a robust Least Square Dummy Variables (LSDV) and pooled OLS and inspects the extent to which the goodness-of-fit measures changed. Here the null hypothesis for *the F-test is that all dummy parameters except for the dropped are all zero*, that is, $H_O : \mu_1 = 0 \ldots\ldots \mu_{n-1} = 0$. While *the alternative hypothesis is at least one dummy parameter is not equal to zero*.

The F-test is stated as follows:

$$\boldsymbol{F}(n-1, nT-n-k) = \frac{(e'e_{LSDV})/(n-1)}{(e'e_{LSDV})/(nT-n-k)} = \frac{\left(R^2_{LSDV} - R^2_{pooled}\right)/(n-1)}{(1-R^2_{LSDV})/(nT-n-k)} \quad \textbf{[8]}$$

If the stated null hypothesis is rejected, which implies that at least one country or time-specific intercept u_i is not equal to zero – it can be concluded that there is a considerable fixed-effect or a significant increase in goodness-of-fit in the fixed-effect model, and thus, the FE model is better than the pooled OLS.

5.7.5.2 Testing for Random Effects

Breusch and Pagan's (1980) Langrage multiplier (LM) test was conducted to examine random effects through distinguishing between random effects and OLS. The LM test examines whether individual or time-specific variance components are zero, that is, $H_0 : \sigma_u^2 = 0$. The null hypothesis for the LM test is that variances across entities are zero, with no substantial difference across entities.

The LM test is modelled as follows:

$$LM_u = \frac{nT}{2(T-1)}\left[\frac{T^2\bar{e}'e^-}{e'e} - 1\right] \sim x^2\,(1) \quad \textbf{[9]}$$

Where $\bar{e}$ is the n x 1 vector of the group means of pooled regression residuals, and $e'e$ is the SSE of pooled OLS regression. Again, if the null hypothesis is rejected, we can conclude that the random effect model can deal with heterogeneity better than the pooled OLS (Hun, 2011).

5.7.5.3 The Hausman Test

The Hausman test was conducted to determine the applicable and significant model between fixed and random panel data effects. This test compares FE and RE models through the null hypothesis that there is no correlation between personal effects and regressors in the model (Hausman, 1978). If we fail to reject the null hypothesis of no correlation, then LSDV and Generalised Least Squares (GLS) are consistent. However, LSDV is inefficient (Baltagi & Kao 1999). The Hausman test further states that an efficient estimator's covariance with its difference from an inefficient estimator is zero (Greene, 2008). To this end, the Hausman specification test was used to determine the appropriate model. The test is specified as follows:

$$LM = (b_{LSDV} - b_{random})' W^{-1} (b_{LSDV} - b_{random}) \sim X^2 (k) \quad \textbf{[10]}$$

Where $\widehat{W} = Var[b_{LSDV} - b_{random}] = Var(b_{LSDV}) - Var(b_{random})$ is the difference in the estimated covariance matrices of LSDV (the robust model) and GLS (efficient model). If the null hypothesis of no correlation is rejected, it can then be concluded that individual effects u_i are significantly correlated with regressors in the model, and thus, the RE model is not appropriate, and a fixed-effects model was chosen. It is, however, worth noting that the Hausman test has its shortcomings; for instance, the difference of covariance matrices *W* may not be a definite positive, it can then be concluded that the null is not rejected on the assumption that similarity of the covariance matrices renders such a problem (Greene, 2008).

5.7.6 Diagnostic Tests

Diagnostic tests are crucial in panel data in order to ensure that proper estimation techniques are applied. It is worth noting that this study estimates a micro panel, that is, large N (15) and small T (8). Given the nature of the panel, issues surrounding panel unit root tests and panel cointegration do not come into play Baltagi (2005) – therefore, no unit root and cointegration tests were conducted; however, the following diagnostic tests were run.

5.7.6.1 Heteroscedasticity test

Given the differences in colonial history, institutions and political regimes among the SADC member countries, the possibility of heteroscedasticity is very high – thus, the assumption that error terms are equal may be violated; hence the test was conducted to detect heteroscedasticity. Data errors may deviate from the basic assumption of homoscedasticity in the panel context due to error variances specific to the cross-sectional unit, leading to group-wise heteroscedasticity. In the presence of heteroscedasticity, standard errors of the estimates become biased. A modified Wald test statistic was conducted to detect group-wise heteroscedasticity in the residuals of a fixed effect regression model.

The null hypothesis for this test is that each error term's variance is constant or homoscedastic, while the alternative hypothesis is that the error variances are not equal. That is:

$H_o: var(u_i) = \sigma^2$

$H_1: var(u_i) \neq \sigma^2$

The null hypothesis states that $\sigma_i^2 = \sigma^2 \; for \; i = 1, \ldots \ldots \; N_{g,}$

Where $N_{g,}$ is the sample size (the number of cross-sectional units). The test results are shown in a chi-square format - thus, a small chi-square value with a small p-value implies that the null hypothesis is true and thus cannot be rejected.

5.7.6.2 Cross-Sectional dependence

A panel study cannot assume that all cross-sectional units are independent of each other, particularly in regional groupings where countries tend to be interdependent. Cross-sectional dependence negatively affects both Fixed Effects and Random Effects estimates, thus leading to biased standard errors, necessitating the use of robust standard errors. The possible reasons for cross-section dependence is economic or financial integration in the region, neighbourhood effects. This means that if one member country decides to do things a certain way, that can potentially affect the whole group.

For these reasons, a Pesaran CD test (Cross-sectional dependence) test was run to test whether the residuals are correlated across the member countries. This test is crucial given that the presence of cross-sectional dependence can lead to biased results. The null hypothesis for this test is that residuals are not correlated – a significant p-value implies a rejection of the null hypothesis

5.7.6.3 Serial correlation test

Serial correlation in a data set occurs when the disturbance terms from different periods are correlated – this is prevalent in time-series research where errors associated with a given period overlaps into future periods (Williams 1990). Serial correlation in panel data models leads to biased standard errors and ultimately inefficient results. Various tests are proposed in the literature to detect serial correlation in panel data models and are all useful. However, (Wooldridge, 2002) is very popular as it requires a few assumptions and is easy to implement. This test statistic utilizes the residuals from a regression in first differences. Thus, first-differencing the data leads to the removal of the individual effect; this is based on the time-invariant covariates and a constant.

$$y_{it} - y_{it-1} = (X_{it} - X_{it-1})b_1 + \varepsilon_{it} - \varepsilon_{it-1} \quad \textbf{[11]}$$

$$\Delta y_{it} = \Delta X_{it} \, b_1 + \Delta \, \varepsilon_{it} \quad \textbf{[12]}$$

Where Δ is the first difference operator

This test estimates the parameters b_1 by regressing Δy_{it} on ΔX_{it} To obtain the residuals. According to this procedure, if the error term ε_{it} are not serially correlated, then Corr ($\Delta\ \varepsilon_{it,}\ \varepsilon_{it-1}$) $= -0.5$. The null hypothesis for this test is that there is no first-order autocorrelation.

5.7.6.4 Multicollinearity

Multicollinearity occurs when an exact linear relationship exists among explanatory variables; that is, multiple variables are correlated with the dependent variables and each other, thus leading to redundant information about the response-ability (Gujarati, 2012). In the presence of multicollinearity in a regression model, the standard errors become too large such that the statistical significance of explanatory variables is destabilized. Besides, multicollinearity leads to large variances and standard error of the Ordinary Least Square estimators; confidence intervals become too broad and less precise. As a result of an intense increase in standard errors, 't' values become smaller with fewer significant ratios but a high R^2. This can even lead to incorrect signs for the regression coefficients.

The study regressed FDI inflows as a function of explanatory variables amongst which the institutional quality is proxied by the six components of governance – multicollinearity is possible.

Thus, to detect multicollinearity – a pairwise correlation was run through computing coefficients of correlation between any pair of the observed variables. If the correlation between two variables is high, for instance, more than 0.6, a conclusion can be drawn that collinearity exists (Gujarati, 2012). It is worth noting that sometimes pairwise correlation can be low, thus suggesting no collinearity; however, with very few statistically significant t-values, collinearity could still be a suspect.

That said, in addition to pairwise correlation, the variance inflation factor (VIF) and tolerance was also run to detect multicollinearity in the regression. The VIF quantifies the extent of inflation invariance. A VIF of 1 implies no collinearity, and thus variances are not inflated; however, a VIF value of more than 4.0 or by tolerance less than 0.2 then signals severe multicollinearity to be addressed (Hair, Black, Babin, & Anderson, 2010). That said, the lower the VIF, the better. To this end, VIF is measured as a reciprocal of tolerance as stated below:

$$VIF = \frac{1}{(1- R^2)}$$

After running the VIF, very high (0.80+) multicollinearity was detected amongst the governance variables, namely, control of corruption, government effectiveness, the rule of law, regulatory quality, the voice of accountability and political stability, and this necessitated an action.

5.7.6.5 Principal Component Analysis

Daude and Stein (2007) point out that if multicollinearity is detected among a group of explanatory variables – a solution to create a composite variable that measures the exact dimensions through grouping the variables.

Upon detecting multicollinearity among governance variables, the principal component analysis was applied. This analysis is a process by which principal components are computed and the subsequent use of these components to understand better. It serves as a technique for data visualization and reduction. The technique converts the original correlated variables into new covariates, which are linear combinations of the original variables, and thus the new predictors become uncorrelated to each other.

To do this, a linear regression model replaced the six governance components of governance with the principal component as follows:

$$FDI_{it} = \beta_0 + \beta_1 pc1_i + \varepsilon_i \quad \textbf{[13]}$$

Consequently, the Institutional variable was computed as the single predictor, *pc1* in the above regression.

5.7.7 Dynamic panel models

In order to remove the individual heterogeneity from the FE model

$y_{it} = (\alpha + u_i) + X'_{it}\beta + v_{it}$ - Dynamic panel models become crucial. Panel regression models are dynamic because they incorporate a lagged dependent variable, Baltagi (2008). Dynamic panel models comprise one or more lagged dependent variables, which allows for a partial adjustment mechanism. Compared to static estimation methods, dynamic models tend to be correctly specified because the dynamics are in the model's estimated part rather than displayed in error terms. Dynamic models are richer in economic content by virtue of distinguishing short and long-run effects of independent variables on dependent variables. They are also helpful when the dependent variable depends on its

past realizations, which is the case for the study's dependent variable (FDI). The dynamic panel model is specified as follows:

$$y_{it} = \beta_1 x_{it} + \lambda y_{it-1} + \alpha_i + \varepsilon_{it} \quad \textbf{[14]}$$

Where everything is the same as in static panel models except for λy_{it-1} which denotes the lagged dependent variable.

SADC member countries are inherently heterogeneous. This is due to the varying colonial history, different institutions as well as political regimes. Heterogeneity is generally dealt with by the static estimation method (FE); however, these models pose some challenges, mainly if the observed period is short while the number of individual units is significant. That said, the period for the present study is only eight (8) years, and the number of countries is 15; hence some challenges were encountered with regards to heterogeneity.

According to Nickell (1981), the heterogeneity problem arises due to the "demeaning process" particularly that this study has a large N and small T, which generates a correlation between the regressor and the error term. Thus, the correlation produces biased and unreliable estimates of the lagged dependent variable's coefficients, which cannot be moderated by increasing the number of units. Therefore, with FE models - the regressor cannot be autonomously distributed of the error term.

To this end, the solution to the demeaning process was the dynamic panel model by Arellano and Bond (1991), as it dealt with inherent endogeneity by transforming the data to remove fixed effects and introducing instrumental variables. The Arellano-Bond is a Generalised Methods of Moments (GMM) estimator, which is relatively efficient in addressing endogeneity and the Nickell bias than the Anderson-Hsiao model, which uses only one instrument first difference equation gives rise to serial correlation. The GMM is the principal approach in dynamic panel models (Nickell, 1981). This approach has been applied by several scholars such as Busse and Hefeker (2007), Daude and Stein (2007), and Kurul and Yalta (2017).

To this end, not only does the GMM first difference estimator account for endogeneity, but it also uses some instruments and addresses the issue of biased estimates. For instance, in GMM, the number of instruments equals the number of parameters; hence efficiency is enhanced. This Arellano-Bond estimator uses differenced data with lagged levels of the data used as instruments. Thus, the equation was first differenced as follows:

$$\Delta y_{it} = \beta \Delta_1 x_{it} + \lambda \Delta y_{it-1} + \Delta \varepsilon_{it} \quad \textbf{[15]}$$

Noteworthy, the Arellano-Bond estimator may suffer from poor small-sample properties when the coefficient of the lagged dependent variable is close to 1. Therefore, although a lagged dependent variable's coefficient should be between 0 -1, a lower coefficient is preferred to avoid poor small sample properties. The lagged levels correlate poorly with the lagged differences, thus creating a weak instrument problem. The instrumental variables approach used in the first difference GMM does not exploit all the sample's information. For instance, these authors argue that while the approach is unswerving, it fails to consider all the potential statistically independent conditions into account. The first difference GMM estimator has also been found to be biased in cases where the series are highly persistent (Blundell and Bond, 1998).

Accordingly, Arellano and Bover (1995) and Blundell and Bond (1998) extend the first difference GMM to a System-GMM by including additional instrumental variables which allow first differences to be used as instruments in the level equations, and this addresses any bias that would emerge using the first difference GMM. The Blundell-Bond approach combines the levels and the first difference equation and is estimated using the System GMM technique. The model is specified as follows:

$$\begin{bmatrix}\Delta y_{it}\\ y_{it}\end{bmatrix}=\beta_1 \begin{bmatrix}\Delta x_{it}\\ x_{it}\end{bmatrix}+ \lambda\begin{bmatrix}\Delta y_{it-1}\\ y_{it-1}\end{bmatrix}+ \begin{bmatrix}\Delta \varepsilon_{it}\\ \alpha_i + \varepsilon_{it}\end{bmatrix} \quad \textbf{[16]}$$

The System GMM estimator creates a system of two equations whereby in terms of unit root testing, one remains in levels while the other is first differenced. The variables in levels are then instrumented with their first differences, while variables in differences are instrumented with lags of their levels (Blundell and Bond, 1998; Kurul and Yalta 2017).

The approach is preferred for its ability to restrict instrument proliferation and control cross-sectional dependence (Baltagi, 2008). Also, this technique has better finite-sample properties and uses more orthogonality conditions involving levels of variables. Baltagi et al. (2018) report a need to utilize the initial conditions in generating efficient estimators when using dynamic panel data estimation, given the small time series in the data. The system-GMM is further considered more robust than other models because of assumptions about specific moments of the random variables instead of assumptions about the entire distribution at some efficiency cost. This study employs the system GMM panel data technique developed by Arrelano, Blundell and Bond (1998) and (Roodman, 2009). The application of this technique follows the Monte Carlo evidence which suggests that when the time dimension is short

and the dependent variable is persistent, the more significant number of moment conditions leads to precision while also reducing sample bias.

This technique uses uncorrelated instruments with the error term to control for the endogeneity of the lagged dependent variable. It finds the parameters estimates by maximizing the moment restriction that the correlation between zero; and controls for omitted variable bias, unobserved heterogeneity and dramatically improves efficiency in the model. In essence, the GMM considers the time observable country-specific effects, including lagged explanatory variables and the possibility that all explanatory variables are homoscedastic, cross-sectional independent, and serially independent (Blundell, Bond, & Windmeijer, 2000).

5.7.7.1 GMM Diagnostic Tests

It is worth noting that when using the system-GMM model, one must ensure instrumental validity is tested through the Hasen and Sargan tests and also test for the first and second-order serial correlation test (Arellano & Bond, 1991).

Diagnostic tests were run to assess the instruments' reliability, namely, the Hansen and Sargan tests for over-identifying restrictions and the first and second-order autocorrelation tests (A_1 and A_2). While the Sargan test's null hypothesis is that instruments are not over-identified - the null hypothesis for A_1 is that there is the first-order autocorrelation between the instruments and the error term. Lastly, for A_2, the null hypothesis is that there is no second-order autocorrelation. Thus, failing to reject the Sargan test implies that all the instruments are valid – whereas failing to reject the A_1 test suggests autocorrelation. Moreover, failing to reject the A_2 test suggests the absence of second-order autocorrelation.

5.7.7.2 Difference or System GMM?

The study adopted the rule of thumb by Bond (2001) to choose between the difference and system GMM. As pointed out in Arellano and Bond (1991), the autoregressive model should be initially estimated using the pooled OLS and fixed effects approach.

The pooled OLS estimate should be considered an upper-bound estimate, while the corresponding fixed effects estimate should be considered a lower-bound estimate.

If the difference GMM estimate obtained is close to or below the fixed effects estimate, the former estimate is downward biased due to weak instruments, and a system GMM estimator is preferred.

This study followed this procedure, where pooled OLS estimated the regression

Step 2: Estimation by fixed effects

Step3: Estimation by difference GMM

Step 4: Outcomes were observed, and a decision was taken.

5.8. The Survey Data Methodology

Due to the lockdown, some participants were not available for face-to-face interviews and thus opted for questionnaires. Thus, different forms were prepared for each group to ensure relevance. The study's purpose and the main research question were included in the questionnaire to ensure that participants are fully informed. These forms comprised structured and unstructured questions and were designed to ensure mutual understanding between the participants and the researcher regarding the meaning of governance and foreign direct investments – this was done to improve clarity and minimize confusion in responses.

Questionnaires consisted of 14 key questions which covered:

- Views on the role of governance on foreign direct investment inflows in the region;
- The importance of FDI inflows into the region;
- The extent to which the SADC Treaty has served as a legal instrument and the degree of compliance by member countries;
- How the political framework shapes an investor-friendly environment;
- The degree of application of the rules of the game by the Secretariat and
- How financial liberalization in the region has influenced foreign investor decisions.

One of the fundamental aspects of research design is to ensure that the questionnaire design relates to the research's purpose. Two questionnaires were developed for this study to achieve and consider its objectives.

A questionnaire is a tool that comprises a set of structured or unstructured questions intended to capture participants' responses in a homogeneous fashion (Bhattacherjee, 2012). While unstructured questions allow respondents to respond in their own words, structured questions require that respondents choose answers from the list of responses.

This tool is advantageous because of its affordability, practicality, and scalability. It also ensures comparability, accessible analysis, and respondent anonymity. Also, questionnaires allow the research to formulate questions that are targeted at specific participants and can include multiple-choice as well as open-ended questions – it further allows the researcher to reach out to large audiences and gather information timeously (Jones, Baxter, and Khanduja, 2013).

The study equivocated the blanket approach to ensure coherence and relevance, which ultimately improves the response rate. However, before sampling techniques, questionnaires were comprehensively tested and regulated through a pilot survey for each group of participants to uncover problems and to test validity and reliability (Creswell, 2003). The pilot survey comprised of interview questions - this ensured that relevant questions that are easily interpreted. The pilot survey was an imitation of the actual study but targeted people with similar characteristics as those of the primary respondents.

5.8.1 The Sampling Strategy

Since this study's objective, particularly the quantitative component, was to gauge participant views and perceptions regarding the effects of governance or institutional quality on FDI inflows in the SADC region – data was collected from different sources. For instance, the target population for the study was:

- Senior officials from the SADC Secretariat - Here, the focus was on officials from the regional integration, trade, industry, finance and investment and Infrastructure directorate/s. These participants are directly involved in policy formulation and implementation in the SADC region – specifically, the Finance and Investment Protocol and Trade protocol in the region.
- Financial Institutions - the focus was on institutions at the regional level that work directly with the SADC Secretariat to liberalize its financial sector.
- Academics – the focus was on experts in political economics, that is, people who understand the effects of a political framework on the region's economic policy.

- Multinational Enterprises (MNEs): here, the target was enterprises that have operated in the region for at least ten years. Given the varying theoretical perspectives regarding foreign investor views on recipient country's institutional quality, with some arguing that MNEs within the continent are quite used to operating in regions with poor governance, and therefore, for them, it does not matter as long as the market size and other factors look lucrative – while investors from outside the continent would be more concerned about their safety. Based on these views, the study sampled four MNEs, two from within the continent and two from outside the continent.
- Think tanks – here the targeted organizations were those with a focus on governance and economic performance in the region. The study sampled three organizations.

5.8.1.1 The Sample size

Using the specified non-probability sampling technique, the sample is comprised of 16 knowledge experts as follows:

- Four executive managers were selected from the SADC secretariat, that is, from its regional integration, trade, industry, finance and investment unit.
- Four experts from three think tanks in the SADC region, namely, Good Governance Africa; Trade and Invest Africa; and the African Peer Review Mechanism.
- Four academics from two academic institutions in Southern Africa were selected, namely, Rhodes University, Wits University.
- Four representatives from four Multinational Enterprises in the SADC region; and
- Two participants from financial institutions in the region, namely, the SADC Banking Association and the Development Bank of Southern Africa (DBSA).

5.9 The Qualitative Research Methodology

In order to conduct proper research, it was necessary to generate valid research data in line with the purpose and nature of the research. As mentioned earlier, this study adopted a mixed-methods design; according to Creswell (2003), the qualitative research approach helps collect in-depth data based on an open data collection environment. The data collection technique is advantageous because it generates only in-depth research data that is highly bias-free and contributes to generating unbiased research results.

This study sought to examine the relationship between institutional quality and foreign direct investment inflows into the SADC region. As defined in previous chapters, institutional quality refers to the 'rules of the game' (laws, regulations, and policies), which are humanly devised – these rules can be formal and informal. However, enforcement mechanisms must be in place for the rules to be effective (Louis, and Simon, 1992).

The reviewed literature revealed that the political framework in the region or country plays a crucial role in creating an enabling environment for foreign investments – it further revealed that decisions by multinational enterprises (MNEs) to invest in foreign locations are determined by factors such as the institutional environment, market size, and macroeconomic stability, to mention a few.

Against this background, the qualitative approach was considered applicable in this study. Not only does this approach focus on understanding social contexts which shape human behaviour, but it also develops concepts that enable the researcher to understand social phenomena in natural settings through an emphasis on meanings, experiences, and the views of the participants. Also, this approach is malleable, highly focused, and intended to be completed quickly because the results are seen or heard first-hand, and readers can relate easily to the findings.

This approach gathers comprehensive insights and interprets different processes that shape behavioural patterns through exploratory and explanatory strategies (Wagner et al., 2012). To this end, understanding the views and perceptions of those involved in policy formulation and implementation, and those whose decisions are influenced by the prevailing policies and academics (political economists) is crucial for understanding the role of institutional quality on foreign direct investment inflows in the SADC region. This study used in-depth explanatory data from a small sample of participants to describe the region's governance-FDI nexus. Notably, the researcher is cognizant that the results obtained through this approach do not offer definitive but indicative insinuations. Therefore, the obtained information was sufficient to establish a firm foundation for decision making and policy formulation.

5.9.1 The Qualitative Research Design

A research design is an instrument that guides the methodology a researcher needs to use in a study. It enables researchers to decide on the type of tool they need to collect data. There are different research designs: ethnography, action research, grounded theory, and case study research (Creswell, 2003). As Djamba and Neuman (2002) points out, case study design examines one small part and focuses on the

study's details and context. Neuman further adds that this design offers lessons, discoveries, and problem-solving mechanisms, creating new theories.

Given that the study focused on understanding the role of institutional quality on FDI inflows in the SADC region, a case study design for the qualitative approach was adopted. This design offers an in-depth investigation of a single unit over time. Even though case study results cannot be generalized, the case study design is beneficial as it is more accurate than large samples (Version, Kumar, & Singh, 2014).

Therefore, through this design, lessons and problems can be identified, and ultimately, problem-solving mechanisms may be identified to help understand theoretical linkages between governance and FDI inflows in the region.

5.9.2 The Research strategy

According to Gray and Guppy (1999), various research strategies can be applied to collect research data in different contexts. The most popular and accepted forms of research strategies are survey questionnaires, observations, in-depth interviews, focus groups, and ethnic analysis strategies.

This study adopted in-depth and expert semi-interviews as a research strategy. The semi-structured interviews permitted the researcher to have in-depth discussions with key participants to solicit their views on the region's governance-FDI nexus.

In addition to semi-structured interviews, survey questionnaires were also distributed to obtain opinions from critical participants in governance and economic policy in the region. Therefore, while one-on-one semi-structured interviews generated exploratory and qualitative data, questionnaires generated descriptive statistics, relationships, and analysis.

The questionnaire scrutinized a framework of themes to allow participants to bring in their contextual ideas, which may have been unknown to the researcher (Ritchie, Lewis, Nichollos, & Ormston, 1998).

Further, since expert interviews could not provide all the information necessary for this study, such as policy formulation, the study also used secondary data drawn from SADC's official public documents. These documents were used to untangle meanings, sharpen understanding and discover deeper insights relevant to the research problem (Bowen, 2009). As pointed out in Bowen (2009), this is a process of 'evaluating documents such that empirical knowledge is produced and understanding is developed' (p.

33). This includes coding the content of the documents into themes. This analysis allowed the researcher to focus on the objectives, accomplishments, and problems encountered by the SADC region and then make inferences about the state of governance and its effect on FDI in the region over time. Lastly, introductory letters were distributed to all participants to elucidate research objectives and voluntarily interview them.

5.9.3 The Research Instruments

An interview guideline consisting of open-ended questions was used to collect data. It helped identify facts rather than confirm assumptions about the link between the observed variables; it also allowed for openness and flexibility and maintained a low level of detail. Interviews were conducted with academics (political economists) from institutions within the region, representatives from financial institutions in the region, think tanks, and senior officials from the SADC Secretariat. This was done to gauge their views regarding the governance- FDI link in the SADC region.

Interviews were also conducted with MNEs operating in the SADC region to understand the factors influencing their investment decisions. The study targeted enterprises that had operated for at least ten years in the region.

Expert interviews occur when the researcher is willing and eager to allow the interviewee to identify the problem, the question, and the situation (Dexter, 1970:3). The participants' expert status was based on their technical or experiential expertise, which allows them to have knowledge that is not generally accessible. In this regard, the expert's context knowledge was of crucial relevance for this instrument's choice and was the main reason for selecting expert interviews as a qualitative research instrument for the study.

After identifying research objectives, a six-step process of implementing expert interviews as outlined in Bassey (2007) and Bortz and Doring (2006) was adopted as follows:

1. Identification of the sample
2. Development of an interview guideline
3. Preparing and conducting the interviews
4. Recording each interview
5. Qualitative data analysis
6. Interpretation

The interview schedule comprised provocative, ideal, and interpretative questions and focused on participant experiences, opinions, knowledge, and inputs.

5.9.4 Document Analysis

This analysis was meant to provide answers to some of the research questions; for instance, the content analysis helped the researcher understand the region's objectives, accomplishments, and the challenges that the region is confronted with as far as regional integration is concerned. This information is available in policy documents and reports. Documents are 'stable non-reactive data sources, meaning that they can be read and reviewed multiple times and remain unchanged by the researcher's influence or research process' (Bowen, 2009:31). It ensures critical and comprehensive research.

5.9.5 Sampling Strategy

The target population for the study was:

- Senior officials from the SADC Secretariat - Here, the focus was on officials from the regional integration, trade, industry, finance and investment and Infrastructure directorate/s. These participants are directly involved in policy formulation and implementation in the SADC region – specifically, the Finance and Investment Protocol and Trade protocol in the region.
- Financial Institutions - the focus was on institutions at the regional level which work directly with the SADC Secretariat to liberalize its financial sector.
- Academics – the focus was on experts in political economics, that is, people who understand the effects of a political framework on the region's economic policy.
- Multinational Enterprises (MNEs): here, the target was enterprises that have operated in the region for at least ten years. Given the varying theoretical perspectives regarding foreign investor views on recipient country's institutional quality, with some arguing that MNEs within the continent are quite used to operating in regions with poor governance, and therefore, for them, it does not matter as long as the market size and other factors look lucrative – while investors from outside the continent would be more concerned about their safety. Based on these views, the study sampled four MNEs, two from within the continent and two from outside the continent.

- Think tanks – here the targeted organizations were those with a focus on governance and economic performance in the region. The study sampled three organizations.

All these participants were identified using the specified criteria and networks to select and recruit them.

The guiding principle in selecting the sample with relevant and detailed information was based on their practical involvement and experience in the research area. For instance, specific criteria were applied to identify participants with relevant characteristics for the research, which would help in identifying central themes and the required data Ritchie et al. (1998); Wagner et al. (2012). The adopted sampling strategy is consistent with the phenomenological approach because participants have the observed subject's know-how Creswell (2003).

To this end, a purposive sampling technique was used in this study. This technique was found appropriate for the study as "it maximizes the researcher's chances of identifying variations and density categories in the population" (Baxter & Jack, 2015). It produces a good sample that covers numerous insights from different walks of life.

There are various sampling techniques, and the logic for each one of them is unique as each one is used for a different purpose. Thus, 'the logic and power of purposive sampling lie in selecting information-rich cases whose study will illuminate the questions under study (Patton, 1990:169).

As Manen (2014) points out, purposive sampling is a technique wherein respondents are selected based on their expertise and verbal persuasiveness to narrate a category to which they belong. (Maphalla 2013:22) asserts that when the researcher decides on participants whom they know are most likely to provide the information required when applying purposive sampling. According to Patton (1990), there are various approaches for purposive sampling. Each one of them serves a particular evaluation purpose; these approaches include *inter alia*, deviate sampling, intensity sampling, maximum variation sampling, homogenous sampling and typical case sampling, to mention a few. The maximum variation sampling approach aims at capturing and describing common patterns and central themes or principal outcomes that emerge and cut across most participants variation (Creswell, 2003).

5.9.6 Data Collection procedure

Data was collected from the stated five sources:

a) Interviews with SADC Senior officials from the Secretariat Investment directorate were asked 10 open-ended questions about the region's strides to create an investment-friendly environment. The interview questions included hypothetical, provocative, ideal, and interpretative questions. Amongst others, the questions included the following:

- the extent to which the use of the SADC Treaty as a legal instrument to ratify Finance and Investment Protocols led to accomplishing the developmental goals.
- The extent to which member countries comply by incorporating regional objectives in their national objectives.
- The effectiveness of the enforcement mechanisms employed by the SADC Secretariat to ensure compliance.
- How the institutional environment and arrangements shaped an investor-friendly environment that supports markets and ensured property rights protection
- The degree of cooperation and coordination between political and economic institutions towards accomplishing the region's developmental goals.

b) Interviews with senior officials from financial institutions: Each participant responded to 12 open-ended questions focusing on:

- The effects of the removal of restrictions on foreign ownership and the deregulation of offshore investments in enhancing inward FDI through attracting foreign private loans.
- The extent to which financial sector liberalization allowed monetary policy instruments to be market-driven.
- The extent to which protocols have been efficient in integrating the region with the global world is opening room for technological change, increased capital flows, and international links.
- How is the financial sector sufficiently developed to allow foreign firms to borrow to increase their creative activities in the region?

(c) Interviews were held with two MNE representatives – the questions focused on identifying the type of investments they are involved in:

- The motives behind their investment in the region

- To understand the extent to which institutional environment or the quality of governance in the recipient country serves as a deterrent or incentive for their investment decisions in the region
- To understand the region's political framework's role in creating an enabling environment through reducing transaction costs.
- To understand how financial liberalization through the removal of barriers has influenced their investment decisions.
- How efficient and effective are the region's political institutions in enforcing laws, policies and regulations.

(d) Interviews were also held with two representatives from Think Tanks – here the questions focused on:

- Gauging their view regarding the quality of governance in the region.
- How does the region's political framework shape the macroeconomic environment including FDI attraction?
- The extent of compliance and enforcement mechanisms employed.
- How has financial liberalization influenced investments in the region?

The researcher conducted the interviews, and all interview data were recorded and transcribed.

In addition to the above instruments - secondary data from the following SADC documents were examined in this study, including the following:

- SADC Regional Indicative Strategic Development Plan
- Finance and investment protocol
- Memorandum of understanding on Macroeconomic convergence
- Protocol against corruption
- SADC investment policy framework
- Protocol on trade
- SADC annual reports

In line with O'Leary's (2004) concerns regarding document analysis as a research tool, the authenticity, agenda and purposes of the documents were certified, and the content was explored.

5.10 Reliability and Validity

As pointed out in Drost (2011), reliability in research refers to the extent to which similar results can be acquired using the same instruments more than once. Reliability refers to the dependability of measurement), or stability of measurement over a variety of conditions in which the same results should be obtained. In other words, if a study is considered highly reliable - other researchers should be able to generate the same results, using the same enquiry under similar conditions. To ensure reliability in this study, the research methods were consistently applied – for instance, during interviews, the researcher ensured that the same information was supplied to all participants. Questions are phrased the same way to all the participants to ensure reliability. Also, the econometric techniques adopted as part of the quantitative approach guaranteed replicability of the regression results. To further enhance reliability, the researcher adopted an objective approach to avoid being biased (Creswell, 2003).

On the other hand, validity refers to the extent to which perceived propositions and theoretical justifications support the suitability and appropriateness of elucidations and actions founded in test scores. Specifically, research validity refers to the extent to which research instruments are appropriately utilized to measure what the researcher wants to measure. Cohen, Manion, Morrison, and Publishers (2009) outline different research validity types, namely: statistical conclusion validity, content validity, internal validity, external validity, construct validity, criterion validity and face validity.

To ensure validity in this study, the methods of measurement were cautiously chosen – the study adopted a mixed-methods approach and thus statistical techniques and qualitative instruments such as interviews and questionnaires were used. The study endeavoured to improve validity through statistical conclusions by making inferences about the population using sample information. The interview questions and the designed questionnaires regarding the role of institutional quality on foreign direct investments inflows were based on conventional theories or findings of previous studies. Further, given that the study's target population was senior executive managers with expert knowledge as far as the institutions-FDI nexus is concerned, a judgement sampling technique was used to identify suitable participants from which to collect information.

5.11 Ethical Considerations

Ethical considerations are crucial in research- they require that the researcher ensure credibility, the trustworthiness of the data collected, confidentiality, and the protection of the participants' rights (Westhuizen & Maree, 2021). This study involved human beings as respondents – thus, the researcher guaranteed their safety and no contravention of human rights. The researcher identified herself to the participants – and the purpose of the study was explicitly expounded as well as the benefits and risks of the study to the interviewees and the SADC region at large. All the participants were made aware of their respective roles and the value they added to the study. It is important to note that participation in this study was voluntary. Although the participants in this study were experts and senior executive managers who could be easily identifiable, the researcher maintained their anonymity by using false names throughout the research project to safeguard participant identity. The sample for this study comprised different groups from different organisations; thus, organisations were also treated with confidentiality. For instance, participants' opinions were generalized under the specified groups (e.g., MNEs) without mentioning the participant's organisation or institution – therefore, anonymity was maintained. Further, the researcher ensured that this study's findings are not manipulated to pursue objectives other than academic purposes.

5.12 Participant Consent

According to Gisselquist (2014), consent is required from all the study respondents. This reduces the risks associated with research and ensures that the study is ethically sound. Thus, consent forms were signed by all the participants who took part in this project. Permission to conduct interviews with SADC officials was obtained from the SADC Secretariat office to ensure a legal exercise approved by the University Ethics Committee.

5.13 Qualitative Data Analysis Procedure

Since this study used Maximum Variation sampling to capture themes, the appropriate data analysis technique was the content/thematic analysis. This analysis tool compresses texts into themes and is applicable as a systematic approach to analyse expert interviews' content (Joslin & Müller, 2016). This tool provided a detailed and rich account of data (Braun and Clarke, 2006). The emerging themes from both interviews, questionnaires and documents were categorized for analysis purposes. It is worth

noting that throughout this research, objectivity and sensitivity were ensured in order to get credible and reliable results.

5.14 Data Integration

Following a joint display approach to integration, the results from both methods were integrated and interpreted in order to check for agreements and disagreements between qualitative findings and quantitative results (Creswell, 2003, Greene et al., 1989 and Teddlie, 2003)- regarding the impact of governance on FDI in the SADC region. This approach allowed the researcher to answer the research question and draw a valid conclusion. Johnson, Grove, and Clarke (2017) define the integration approach as the one that "merges, connects, or embeds qualitative and quantitative procedures at some point in the collection, analysis, and interpretation of data" (p: 2).

To achieve integration, the study adopted the Pillar Integration Process (PIP) as suggested by Johnson et al. (2017). The PIP is a transparent and rigorous four-stage process to integration that presents both qualitative findings and quantitative results in a joint display for sound conclusions. This process's novel aspect lies in its efficient and replicable processes and allows researchers to convey both the process and their mixed-methods integration findings concurrently. The process is transparent and supports the external validity of integration in mixed-methods analysis.

The PIP is a four-step linear process and is outlined in Johnson et al. (2017:5) as follows:

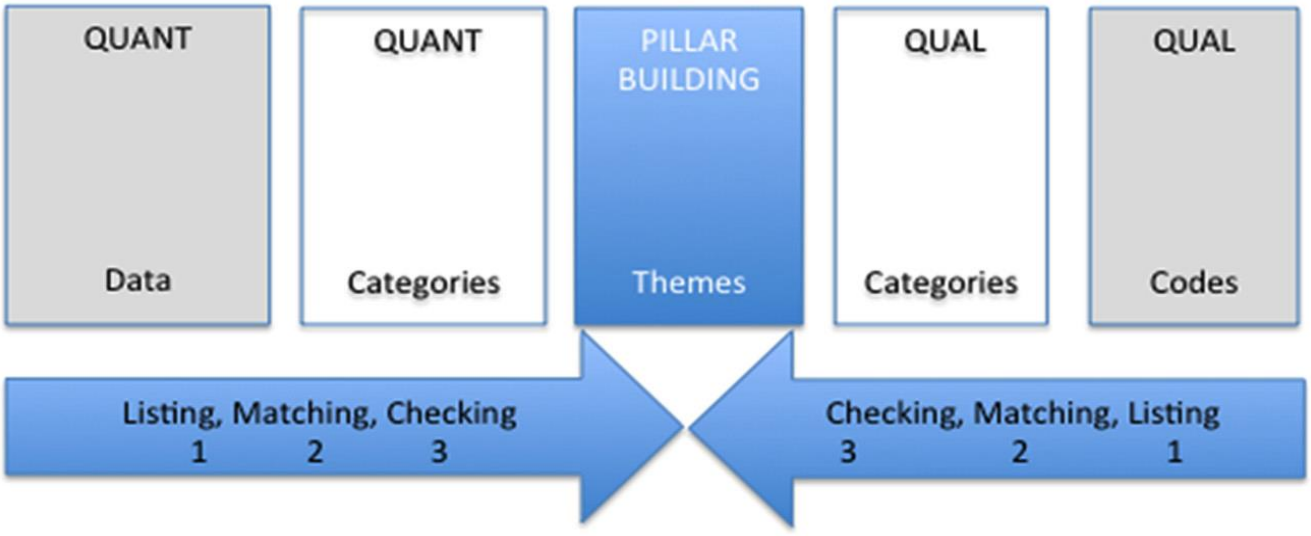


Figure 6: PIP process, Johnson et al. (2017: 5)

1. **Listing** – here raw data (percentages) or coded data (themes) or grouped data (categories) that are considered essential for inclusion in integration are listed in the joint display. The study listed coded data and emerging themes from expert interviews.

2. **Matching**- Once the listing is complete, the matching process proceeds on the display's opposite side. Thus, the quantitative data listed was then matched with qualitative codes. This was done to display content related to the initial listed data; this horizontally aligns similar data, thus refining and organizing categories generated. Here interview quotations from expert interviews about governance and FDI in the region were matched with quantitative data. If there are no matches, the column is labelled 'not identified'.
3. **Checking**- This stage ensured the validity of matches by checking qualitative findings for references to factors identified from quantitative results. Checking ensured a high-quality integration standard; thus, all data in the four completed columns are cross-checked to ensure accuracy and completeness.
4. **Pillar building** – this stage compared the findings that emerged from the first three stages and hypothesized the insights identified from connecting and integrating the qualitative and quantitative columns. Thus, inferences could be made about what patterns, insights, or themes have emerged and the possible explanations. All the themes are located in the pillar column and can be viewed together to make a meaningful narrative from the mixed methods approach, which provides answers to the research questions about whether or not governance affects FDI in the SADC region and allows the researcher to draw valid conclusions.

5.15 Conclusion

This chapter unpacked the research paradigm, the design, and the research approach adopted in this study. A mixed-methods approach was deemed appropriate for the study; since it is believed that this methodology is robust and relevant for examining the type of research questions in this study. Thus, in order to accomplish the main objectives of this study, an econometric regression model with a dependent variable and explanatory variables is developed based on the reviewed literature. In addition, questionnaires were also distributed to a sample of participants, and other participants were interviewed to solicit their expert views. Furthermore, this chapter also discussed the estimation techniques and the procedures followed, the sampling techniques, data sources and data collection instruments. Based on the chosen research approach, an integration of the qualitative and quantitative data will be conducted in the following chapters. However, the next chapter presents quantitative data and the analysis of the results.

Chapter 6

Data Presentation and Analysis

Quantitative Data Presentation and Analysis

6.1 Introduction

Chapter Five critically outlined examined the research methodology adopted in this study. A mixed-methods approach was adopted, and in terms of sequence, the quantitative data analysis preceded the qualitative data analysis. While quantitative data comprised of econometric models and estimation techniques as well as structured survey data - qualitative data consisted of semi-structured interviews. Thus, the focus of this chapter is on quantitative data presentation and analysis concerning the relationship between FDI and institutional quality in the SADC region. Furthermore, various relationships between the dependent (FDI inflows) and independent variables (institutional quality) were established to identify their effect on this study's hypotheses. This chapter fulfilled the objective of answering the main research question, *to what extent does institutional quality influence foreign direct investment inflows into the SADC region?* In order to answer the research question, this study used both primary and secondary data.

6.2 Types of Data and the Method of Analysis

As already stated in the previous chapter, the study suppositions were tested using secondary data. The dataset for the SADC macroeconomic variables that were estimated was drawn from the World Bank's development indicators database, whereas the data set for regional governance (institutional quality) indicators were sourced from the Worldwide Governance Indicators. These datasets covered 15 SADC countries. Subsequently, a regression analysis was used to examine the association between foreign direct investment inflows (a dependent variable) and independent variables of which institutional quality was the primary explanatory variable. Furthermore, the period from 2012 to 2019 was chosen as the observation period for this study, and the availability partly informed this choice of data and the chosen estimation technique.

6.3 Presentation of Results

This section presents the quantitative data analysis based on the econometric techniques adopted in this study. As part of econometric data analysis**,** it is considered essential to present the unit root tests conducted for all variables and test for cointegration tests. These are particularly crucial as they determine the appropriate methods to adopt. This is a panel data study since it focuses on a regional bloc that consists of 15 member countries, and the observation period is eight years. Thus, the number of cross-sectional units (N) is 15, while the number of periods (T) is eight years; this implies that the study is a micro panel. That said, although panel data analysis requires that unit root tests and cointegration tests be conducted before identifying the appropriate model, the econometric literature states that a small T implies that issues surrounding panel unit roots and panel cointegration do not come into play. For this reason, the unit root test and cointegration tests were not conducted.

Diagnostic tests such as autocorrelation and cross-section dependence are not of significant concern in micro panels.

Afterwards, the results of each of the study hypotheses are presented in the same sequential order. The output of the regression equation is presented first, followed by the scatter single graph. This is followed by the actual, fitted, residual table, and then trailed by the Breusch-Godfrey Serial Correlation LM Test, Heteroscedasticity Test (Breusch -Pagan-Godfrey), and Histogram Normality Test. Finally, Pairwise Granger Causality Tests are carried out.

6.4 Empirical Results

6.4.1 Descriptive data analysis

The statistical analysis begins with the description of the data at hand. It presents the data in a meaningful way such that patterns in the data starts making sense. This analysis presents data in a meaningful manner such that the features of the data are explicitly described, allowing for a simpler interpretation of data and the patterns that emerge from the data.

Table 11: Descriptive Statistics for the study

Variable		Mean	Std. Dev.	Min	Max	Observations
FDI	overall	5.194092	8.599169	-6.057209	57.83755	N = 105
	between		6.791779	-.9809525	26.90487	n = 15
	within		5.520751	-5.15902	49.91572	T = 7
GDPgro~h	overall	3.885593	2.781101	-2.580097	16.66543	N = 105
	between		1.458265	1.477134	6.262799	n = 15
	within		2.393882	-2.086054	15.63233	T = 7
Tarrif~d	overall	4.400737	3.232034	.33	14.76	N = 95
	between		2.819708	.8185714	8.628571	n = 14
	within		1.670706	.9807368	13.69931	T-bar = 6.78571
Financ~t	overall	33.41701	28.79699	.6036144	125.673	N = 105
	between		29.33557	7.17428	116.0331	n = 15
	within		4.28248	24.4968	46.2419	T = 7
Inf	overall	53	30.45488	1	105	N = 105
	between		20.82105	21.14286	83	n = 15
	within		22.78145	-6.714286	129	T = 7
TO	overall	53	30.45488	1	105	N = 105
	between		20.13149	19.71429	92.14286	n = 15
	within		23.35818	9.142857	122	T = 7
NR	overall	53	30.45488	1	105	N = 105
	between		26.56677	5	89.71429	n = 15
	within		16.19956	-6.285714	107.8571	T = 7
InstV	overall	-1.83e-09	1.000003	-2.790347	1.519371	N = 105
	between		1.003373	-2.58376	1.435274	n = 15
	within		.2265626	-.7423025	1.109319	T = 7

Table 11 presents the descriptive statistics for the study. The table depicts different statistics, namely: overall, between, and within statistics. In the above table, overall statistics refer to the total number of observations; while between statistics imply the number of cross-sections and lastly, within statistics summarize the period. Based on this table, the overall mean for FDI inflows for all SADC member countries over the observed period is 5.1940 with a standard deviation of 8.59916.

6.4.2 Principal Component Analysis

This study's primary explanatory variable is institutional quality, measured using estimates from the Worldwide Governance Indicators' database. These include control of corruption, government effectiveness, the rule of law, regulatory quality, political stability, and voice of accountability. The table below presents the correlation coefficients of the governance indicators towards inward FDI in the region.

***Table 12**: FDI and Governance Pairwise correlation Matrix*

	FDI	Control of corruption	Government effectiveness	Political stability	Regulatory quality	Rule of law	Voice of accountability
FDI	1.0000						
Control of corruption	0.0215	1.0000					
Government effectiveness	0.0107	0.8845	1.0000				
Political stability	0.0266	0.8108	0.8345	1.0000			
Regulatory quality	0.0033	0.8276	0.9105	0.7556	1.0000		
Rule of law	0.0596	0.9113	0.9388	0.8672	0.9312	1.0000	
Voice of accountability	0.0740	0.7891	0.8391	0.7617	0.8544	0.8669	1.0000

Source: author's computation

One of the objectives of this study was to assess the effect of individual components of governance indicators on FDI inflows in the region. The rationale behind this objective was to identify components that can potentially hinder FDI inflows into the region in order to inform policy decisions. As depicted in Table 12, four out of six components have positive coefficients, while regulatory quality and the rule of law are negative. By implication, while government effectiveness, political stability control of corruption and voice of accountability may potentially stimulate FDI inflows, the weak regulatory quality and the rule of law serve as deterrents to inward FDI in the region. Thus, policy recommendations are required in this regard.

Due to the high correlation among these governance indicators, a principal component analysis technique was adopted to form an institutional quality composite index. This technique reduces dimensionality by converting the original correlated variables into new covariates, which are linear combinations of the original variables, and thus the new predictor became uncorrelated to each other. Thus, Table 13 presents the principal component analysis results. The analysis involves the application of Eigenvalues and vectors in the problem of fitting a line. Eigenvalues and vectors were computed to identify principal components. These components are formulated such that the first principal component explains the most considerable possible variance in the data set. Eigenvalues are coefficients attached to eigenvectors that determine the amount of variance carried in each Principal Component.

***Table 13**: Principal Component Analysis*

Component	Eigenvalue	Difference	Proportion	Cumulative
Comp1	5.26569	4.98646	0.8776	0.8776
Comp2	.279232	.0784403	0.0465	0.9242
Comp3	.200791	.0556571	0.0335	0.9576
Comp4	.145134	.071192	0.0242	0.9818
Comp5	.0739423	.0387359	0.0123	0.9941
Comp6	.0352064	.	0.0059	1.0000

Source: author's calculations

Table 13 presents eigenvalue rankings from the highest to the lowest to determine the principal component in order of significance. Here there were six principal components from 1 – 6. Thus, to work out the percentage of adjustment accounted for by each component, each component's eigenvalues were divided by the sum of eigenvalues. After this, Table 13 shows that the first component has the highest eigenvalue (5.27) and thus explains most (87.7%) of the variation in the data. The first two components together explain 92 percent of the variation. However, in terms of significance, only the first component is significant with a higher eigenvalue of 5.265, and the rest of the components are insignificant; that is, they have eigenvalues below one. Because the objective was to reduce dimensionality, a decision was made to discard components that had low eigenvalues and were thus insignificant. components 3 – 6 were discarded, and the first two components were used to compute a composite predictor, namely the institutional variable. It is worth noting that, due to discarding some of the components, 8 percent of the data was lost given that the chosen components explain 92 percent of the variation; however, dimensionality reduction was achieved.

6.4.3 Multicollinearity Results

Multicollinearity is one of the main challenges in econometric analysis and thus needs to be addressed before regression analysis. Multicollinearity occurs when a linear relationship exists among explanatory variables; that is, multiple variables are correlated with the dependent variable and each other, thus leading to a piece of redundant information about the response-ability (Gujarati, 2012). In the presence of multicollinearity in a regression model, the standard errors become too large such that

the statistical significance of explanatory variables is destabilized. The study regressed FDI inflows as a function of explanatory variables amongst which there was institutional quality.

6.4.3.1 Pairwise Correlation

After conducting a principal component analysis through which a composite indicator was computed, it was necessary to conduct a correlation analysis for the newly computed variable. The correlation provides intuitions into the relationship between the variables and uncovered associations of interest. If the correlation between two variables is high, for instance, more than 0.6, a conclusion can be drawn that collinearity exists (Gujarati, 2012).

Table 14 presents the correlation matrix between FDI inflows and the explanatory variables. As expected, GDP growth and trade ratio to GDP (openness) are positively correlated to FDI inflows and are statistically significant. In contrast, the weighted tariff rate, inflation, financial development, natural resource availability and Institutional quality variable are all negatively correlated to FDI inflows.

***Table 14**: Pairwise Correlation Matrix*

	FDI	***GDPgrowth***	***F_Development***	***Inflation***	***Trade openness***	***Natural resource***	***Weighted Tariff***	***Institutional Variable***	***FDIQ***
FDI	1.0000								
GDP-growth	0.1796*	1.0000							
F -Development	-0.0235	-0.1707***	1.0000						
Inflation	-0.0977*	-0.0100	-0.1106	1.0000					
Trade openness	0.2370***	0.0065	-0.0670	0.0236	1.0000				
Natural resource	-0.2346***	-0.0211	-0.3081***	0.2300**	0.0190	1.0000			
Weighted Tariff	-0.0579	0.2276***	-0.3389***	0.2297**	0.0032	0.3504***	1.0000		
Institutional	-0.2660***	-0.1334	0.4212***	0.0144	-0.1951**	-0.4200***	-0.5816***	1.0000	
FDIQ	-0.1625**	-0.1520*	0.8404	-0.0414	-0.0727	-0.2837	0.2471	0.9023	1.0000

, **, * indicate significance at levels 10, 0.5 and 0.01 respectively.*

Of these variables, inflation, natural resource availability and the institutional variable are all statistically significant, whereas financial development and tariff rates are not significant, which is evident in their low coefficients. Overall, apart from financial development and the weighted tariff with low correlation with FDI inflows, the rest of the variables are highly correlated with the dependent variable and appropriate for the study. Notable, the correlations between these variables are reasonable given that the highest is 0.58; this implies that the variable is moderately marginally correlated.

6.4.3.2 Variable Inflation Factor

Sometimes the pairwise correlation among variables can be low, implying no collinearity; however, with very few statistically significant t-values, collinearity could still be a suspect. Therefore, to confirm no multicollinearity, the variable inflation factor (VIF) was conducted to further detect multicollinearity among the explanatory variables. The VIF quantifies the extent of inflation invariance, and the coefficients' variances are inflated when multicollinearity exists. The VIF is the factor for which the variance is inflated due to a high correlation in variables.

If the VIF is less than 2, it implies that there is no collinearity and thus variances are not inflated; however, a VIF value of more than 3.0 or tolerance of fewer than 0.2 signals severe multicollinearity which needs to be addressed before the regression analysis (Hair et al., 2010). Thus, the lower the VIF, the better. The VIF results are presented below.

Table 15: *Variable Inflation Factor*

Variable	***VIF***	***1/VIF***
Governance	1.98	0.51
Weighted tariff rate	1.72	0.58
Natural resources	1.43	0.70
Financial Development	1.24	0.81
GDP- growth	1.12	0.90
Inflation	1.11	0.90
Trade openness	1.04	0.96
Mean VIF	**1.38**	

Source: Author's calculations

Table 15 presents the Variable Inflation Factor (VIF) results for all the explanatory variables observed in the study. As presented in column 2 of the table, VIF values range between 1.04 and 1.98, with an average of 1.38; this implies no collinearity among the predictor variables. The tolerance (measured in the third column) for all the variables is reasonable and above 0.2, suggesting that there is no collinearity among variables, and thus variances are not inflated. This implies that there is no linear relationship between the observed variables.

6.5 Panel Data Model Estimation Results

In this study, panel data models were preferred because the study objective was to understand the SADC region dynamics. These models allow for heterogeneity among member states while also introducing individual effects. Panel data models are categorized into homogenous and heterogeneous panels; homogenous panels are based on the assumption that model parameters are the same for all cross-sections. Thus, they can be pooled together using a classical linear regression model, whereas heterogeneous panels allow for model variation across countries. The appropriate models for homogeneous panels are Ordinary Least Squares (OLS), and for heterogeneous panels, Fixed Effects (FE) and random effects (RE) are appropriate estimation models.

The step in this analysis was to test for individual effects in the data, which determines the appropriate model to adopt. The critical assumptions of the OLS were considered in this process; namely:

- Linearity – implies that the response variable is expressed as a linear function of the explanatory variables and the idiosyncratic term.
- Exogeneity – implies that disturbances are not correlated with the regressors
- Homoscedasticity – disturbances have the same variance, and there is no autocorrelation.
- Fixed observations without measurement errors.
- No multicollinearity.

All these assumptions must be met to produce unbiased, efficient, and consistent OLS parameter estimates; failure to meet these assumptions renders the OLS model inappropriate and thus, static models become appropriate. Table 16 below presents the OLS model results, one-way fixed effects and one-way random effects and the diagnostic tests.

***Table 16**: Basic Panel Models*

	Estimate		
Variables	**OLS**	**Fixed effects**	**Random effects**
GDP-growth	*.0204537***	*.25075234*	*.31884324**
Financial-development	*-. 01318843*	*-.08126707*	*-.05677851*
Tariff-rates	*-.62746129**	*-.16975304*	*-.11328246*
Inflation	*-.06101272***	*-.0119236*	*-. 01532337*
Trade openness	*.0668894***	*-.03004095**	*-. 03354036***
Natural resources	*-.06968926***	*-.00973077*	*-.01118736*
Institutional quality	*0.46670632****	*4.2375633***	*2.4831376**
FDIQ	*-0.336130***	*-0.368231**	*-0.278413**
Constant	*.489863****	*.4373814***	*.712096***
Observations	*95*	*95*	*95*
R^2	*.3821465*	*.283697*	
$R^2 - Adjusted$	*.32818594*	*.0901016*	
Number of cross- sections	*14*	*14*	*14*

Diagnostic Tests

Test	**Value**	**P-value**
F-test	*F(13, 75) = 24.59*	*0.0000*
L M test	*Chibar2 (01) = 54.32*	*0.0000*
Hausman test	*Chi2(6) = 125.61*	*0.0000*
Wald test	*Chi2(7) =209.7*	*0.0000*
Woodridge test	*F(1,12) = 0.062*	*0.8079*
Pesaran test	*= 1. 383*	*0.1666*

*Source: Authors own regression results. Legend: * p<0.05; ** p<0.01; *** p<0.001*

The data were tested for individual effects to determine their poolability; thus, the F- test for poolability

was conducted to establish the presence of individual-specific effects whether the coefficients of the residuals are constant across member states.

6.5.1 The F- test

It is also worth noting that a poolability test can be conducted across periods or cross-sections. This study tested poolability across cross-section units. The null hypothesis for the F-test is that the data are poolable, which means, the slopes are the same for all the cross-section units. As shown in Table 15, the F-test value is 24.59 and statistically significant; this implies that individual-specific effects exist among SADC member states, suggesting heterogeneity. Therefore, pooled OLS are biased, inefficient and inconsistent if the individual effect is non zero $(u_i \neq 0)$. $The\ OLS\ estimates'\ inefficiency$ is evident in the coefficients in column 2 of Table 5, which are biased and inconsistent. By implication, the OLS estimates depicted in Table 5 are not a true reflection of the SADC member states.

Given a statistically significant p-value for the F-test; we thus reject the null hypothesis of $u_i = 0$ and conclude that the data are not poolable due to unobserved heterogeneity. It can thus, be concluded that there is a considerable fixed-effect or a significant increase in goodness-of-fit in the fixed-effect model, and thus the FE model is better than the pooled OLS.

6.5.2 The Breusch and Pagan Lagrangian multiplier test

After establishing individual-specific effects in the data, it was crucial to determine whether individual or time effects variance components are zero that is, $H_0 : \sigma_u^2 = 0$ or not. The study conducted a Breusch and Pagan Lagrangian multiplier test to assess random effects in the data. The null hypothesis for this test is that variances across countries are zero. The amount by which foreign direct investment inflows changes due to changes in explanatory variables is the same for all member countries.

As indicated, the LM test value is 54.32 and is statistically significant at a 5 percent level of significance, that is implying that, $H_0 : \sigma_u^2 \neq 0$. That said, the null hypothesis that variances are equal to zero is rejected, and it can thus be concluded the effect of explanatory variables on FDI inflows varies by country in the SADC region. It is concluded that there is a significant random effect in the panel data which can deal with heterogeneity better than the pooled OLS.

This means, there is evidence of significant differences across countries; therefore, we cannot run a simple OLS regression.

6.5.3 The Hausman Test

Having identified individual effects in the panel data that ruled out pooled OLS models, the study conducted a test to compare fixed and random effects to determine the significant model. The Hausman test was conducted to deal with individual-specific effects; it tests whether the unique errors are linked with the regressors; the null hypothesis is that they are not. This test compares FE and RE models; and the null hypothesis for this test is that there is no correlation concerning individual effects and regressors in the model (Hair et al., 2010). If the null hypothesis of no correlation is rejected, it can then be concluded that individual effects u_i are significantly correlated with regressors in the model, and thus, the RE model is not appropriate. As shown in the table, the Hausman test value is 125.61 with a p-value of 0.0000; therefore, the null hypothesis of no correlation is rejected, and the conclusion is that a correlation exists between individual effects and regressors in the model. Therefore, the FE model is appropriate for the SADC panel study. Thus, table 16 shows a one-way fixed effects model for the study.

6.5.4 Diagnostic Tests

Several diagnostic tests were conducted to understand the data better and identify estimation techniques to be adopted for the analysis. It should be noted that the study did not engage in panel unit root tests as well as cointegration tests since this is a micro panel study.

6.5.4.1 Cross-sectional dependence tests

Subsequently, the Pesaran (CD) test was conducted to test whether the residuals are correlated across countries. The null hypothesis is that residuals are not correlated. The p-value of 0.1666 suggests that we fail to reject the null and conclude that the residuals are not correlated; thus, there is no cross-sectional dependence.

6.5.4.2 Serial correlation test

Furthermore, the Woodridge test for serial correlation was run; the null hypothesis for this test is that there is no serial correlation – the results show a p-value of 0.8079. Thus, we fail to reject the null and conclude no serial correlation among the variables. This implies that there is no correlation among the variables.

6.5.4.3 Heteroscedasticity test

Furthermore, a heterogeneity test was also conducted to test the presence of heteroscedasticity in the data. The null hypothesis for the adjusted Wald test statistic is that variance across countries is homoscedastic. As presented in table 5, the null hypothesis of homoscedastic variances is rejected and thus conclude that variances are not constant and thus, robust standard errors became necessary. This is somewhat not surprising given varying colonial history, different institutions, and political regimes in the SADC region, giving rise to individuality among member countries.

6.6 The One-way Fixed Effects Model

Concerning Table 15, while GDP-growth, as expected, has positive and a statistically significant coefficient at 5 percent level of significance and the Governance variable is also positive and statistically significant at 1 percent level of significance - trade openness, natural resource availability and the weighted tariff rate have negative and statistically significant coefficients at 5 and 1 percent levels of significance respectively. Lastly, inflation has a negative coefficient but is statistically insignificant. Due to the demeaning process emanating from a micro panel (with large N and small T) and a correlation between the regressors and the error term, it is worth mentioning. Thus, the correlation produces biased and unreliable estimates of the lagged dependent variable's coefficients, which cannot be moderated by increasing the number of units. This implies the fixed effects model results presented here are not a true reflection of the SADC region's situation; therefore, with FE models, the regressors cannot be autonomously distributed of the error term. The solution to the demeaning process was the dynamic panel model by Arellano and Bond (1991) as it dealt with inherent endogeneity by transforming the data to remove fixed effects and introducing instrumental variables.

To this end, dynamic panel models, specifically Generalized Methods of Moments (GMM) estimates, were adopted as a solution to the demeaning process using instrumental variables. These models provide more vigorous and efficient estimates where static panel models fail (Arellano & Bover, 1995); (Blundell & Bond, 1998).

6.7 The Dynamic Panel Models – GMM estimates

The dynamic panel models comprise one or more lagged dependent variable which allows the modelling of a partial adjustment mechanism. Compared to static estimation methods, dynamic models tend to be correctly specified because the dynamics are in the model's estimated part rather than displayed in error terms. Dynamic models are richer in economic content by distinguishing the short and long-run effects of independent variables on dependent variables.

The Arellano – Bond is a Generalized Methods of Moments (GMM) estimator, that is relatively efficient in addressing endogeneity. The Nickell bias than the Anderson-Hsiao model uses only one instrument, and its first difference equation gives rise to serial correlation.

The study applied the first difference approach, and the results for the system GMM are presented in Table 17.

Table 17 presents the results of the estimated coefficients and their robust standard errors in parenthesis. The table presents Arellano – Bond; Blundell – Bond and Blundell – Bover estimation results which were executed. The first difference GMM estimator uses first differences to estimate the equations whereas the system GMM estimates a system of two equations in first differences and levels respectively. The systems-GMM uses instrumental variables to produce more efficient results than the differenced GMM and perform estimations this study banked on internal instruments.

As seen in the table, the coefficients of the lagged dependent variable (LI_FDI) for both estimators are between 0 – 1 (0.478 and 0.662), respectively. This is consistent with the theory, which stipulates that a model is efficient if the lagged dependent variable's coefficient ranges between 0 and 1 (Baltagi, Bresson, Chaturvedi, and Lacroix, 2018).

Table 17: *Dynamic panel model - GMM*

Variables	***Difference GMM***	***Two-step GMM***
FDI	*Coefficient*	*Coefficient*
L1_FDI	*0.4381****	*0.66257****
	(0.153)	*(0.5050)*
GDP-growth	*0.269*	*.40212****
	(0.230)	*(.111788)*
Tariff rate weighted	*0.295*	*-.13985*
	(0.438)	*(1.05988)*
Financial development	*-0.209*	*-0.1637*
	(0.3140)	*(0.4513)*
Inflation	*-0.0123*	*-.01969****
	(0.0196)	*(.005008)*
Trade-openness	*-0.0223*	*.012027****
	(0.0167)	*(.0041424)*
Natural resources	*0.0194*	*.009879*
	(0.0252)	*(.006074)*
Institutional quality	*-0.384*	*-0.49203****
	(0.3365)	*(.339219)*
FDIQ	*-0.1402*	*0.6317***
	(0.0214)	*(0.1030)*
Cons	*0.520***	*.4871****
	(0.4883)	*(0.80613)*
Observations	*68*	*82*
Number of groups	*14*	*14*
No of instruments	*12*	*10*
Diagnostic tests		
Hasen/ Sargan P-value	*0.0238*	*0.6093*
AR1	*0.0301*	*0.0224*
AR2	*0.4322*	*0.6029*

*Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Source: author's estimations using Stata

The study employed four main information benchmarks to evaluate the strength of estimated models., A Sargan-Hansen test for the over-identification of instruments was conducted to validate the statistical power of these estimates statistical power. The null hypothesis for the test is that all the instruments are valid; that is, there is no over-identification. As seen in Table 17, while the Sargan-Hansen test for the Difference GMM estimate rejects the null hypothesis of valid instruments, thus suggesting instrument proliferation for the Arellano- Bond estimates – the two-step GMM estimates fail to reject the null hypothesis of valid instruments. This implies no instrument proliferation for the system GMM estimates used as instruments first difference and level equations.

Autocorrelation is one crucial criterion as far as GMM estimates are concerned, and this needs to examine the strength of the estimate; there is the first-order autocorrelation, denoted by AR_1 and second-order denoted by AR_2. The null hypothesis for AR_1 is that there is the first-order autocorrelation between the instruments and the error term. Table 17 shows that both estimates reject the first-order autocorrelation's null hypothesis with statistically significant p-values of 0.0301 and 0.0224, respectively; therefore, we conclude no first-order correlation. The null hypothesis for AR_2 is that there is no second-order autocorrelation; that said, the p-values for both estimates are not statistically significant, 0.4322 and 0.6029, respectively. Thus, failure to reject the null hypothesis implies the absence of autocorrelation in the residuals.

6.8 Difference or System GMM?

The study adopted the rule of thumb by Bond (2001) to choose between the difference and system GMM. As pointed out in Arellano and Bond (1991), the autoregressive model should be initially estimated using the pooled OLS and fixed effects approach. The pooled OLS estimate should be measured as an upper-bound estimate, while the corresponding fixed effects estimate should be considered a lower-bound estimate.

If the difference GMM estimate obtained is close to or below the fixed effects estimate, the former estimate is downward biased due to weak instruments, and a system GMM estimator is preferred. Table 18 below presents coefficients for the lagged dependent variable (FDI) from all the estimation models.

***Table 18**: Difference or System GMM?*

Estimations	Coefficients
Pooled OLS	0.778720
Fixed effects	0.391291
Two-step difference GMM	0.438101
Two-step system GMM	0.662573

Source: author's regression results

As presented in Table 18, the lagged dependent variable's coefficients were estimated using different estimation techniques, as suggested by Bond (2001). The pooled OLS estimates are 0.778720, and this is an upper bound estimate, and the lower bound estimate is the fixed effects coefficient of the lagged dependent variable, which is 0.391291. Also, the coefficient for the difference GMM is 0,438101 and 0.662573 for the two-step system GMM.

The obtained difference GMM estimate (0.438101) is close to the fixed effects estimate (0.391291). To this end, it can be concluded that the difference GMM estimate is downward biased due to weak instruments, and therefore, system GMM was adopted as the efficient and robust model for the study and the results are discussed below.

Regarding the two-step GMM estimation results, as expected, GDP growth, trade openness and natural resource availability have positive coefficients (0.4020, 0.0120 and 0.0194), respectively. This suggests a positive relationship with FDI inflows in the SADC region – it should be noted that GDP growth and trade openness are statistically significant at 5 percent and 1 percent levels of significance, respectively, whereas the natural resource variable is insignificant. By implication, GDP growth explains 40 percent of the variation in FDI inflows in the SADC region, and this is consistent with the theory which stipulates that the location factors such as the large market size are a crucial determinant of FDI inflows (Dunning, 1998).

Furthermore, trade openness explains 12 percent of the variation in FDI inflows in the region; this implies that a unit increase in trade openness in the region subsequently leads to a 12 percent rise in FDI inflows. This is also consistent with the theory that suggests that trade liberalization is an engine for economic prosperity. For instance, the Hector-Ohlin and Samuelson theory emphasizes the importance of comparative advantage whereby countries specialize in producing goods that the

required resources are available. Consistent with this, the neoclassical theory concurs that trade liberalization stimulates economic growth and thus FDI inflows.

Further, natural resource availability has a positive and statistically significant coefficient. This implies that this variable positively impacts foreign direct investments inflows in the SADC region. The region is abundantly endowed with natural resources, one of the locational factors sought by foreign investors. Based on the results in Table 17, natural resources explain 10 percent of the variation in FDI inflows in the region. These results underscore the fact that most foreign investments inflows into the region are resource-seeking investments. However, to make the most out of these resources, the SADC authorities need to ensure value and these resources' exports.

On the other hand, trade policy (proxied by weighted tariff rates), inflation, and governance quality have negative coefficients, and except for trade policy, all these variables are statistically significant at a 1 percent level of significance. For instance, the trade policy has a negative and statistically significant coefficient; this implies that the regional trade policy is not promoting FDI inflows in the region but instead reduces it. For instance, the table shows that trade policy explains that 13 percent of the FDI inflows variation; a unit change in trade policy reduces regional FDI inflows by 13 percent. Further, inflation is a negative coefficient that is also statistically significant; this study used inflation as a proxy for macroeconomic stability. These results suggest that rising inflation rates impede FDI inflows; thus, in the absence of macroeconomic stability due to rising inflation rates, investors shy away, leading to low FDI inflows. As presented in Table 17, a unit rise in inflation leads to a one percent decrease in FDI inflows in the SADC region. These results are theoretically correct, particularly as they pertain to the SADC region, given that member countries have been trying to harmonize their stability-oriented policies to achieve macroeconomic convergence but are still confronted with challenges in this regard.

Furthermore, the study used institutional quality as the primary explanatory variable. It sought to examine the effect of thereof on FDI inflows in the region, a composite indicator for governance derived from the six governance components: control of corruption, government effectiveness, the rule of law, regulatory quality, political stability, and the voice of accountability. These governance estimates range between -2.5, which implies poor governance and +2.5, which implies good governance.

As presented in Table 17, the governance variable is negative and statistically significant at 5 percent; this implies that the SADC region's governance quality deters FDI inflows. According to the presented results, the governance variable's coefficient is -0.49203; this means that the quality of governance explains almost fifty percent of the variation in FDI inflows in the region. The negative coefficient indicates poor governance in the region, which ultimately deters FDI inflows; in this context, it implies that the region is characterized by political instability, poor control of corruption, government policies' ineffectiveness, low regulatory quality and the rule of law. This is consistent with the theory which revealed that 'the quality of institutions matters' for the economic advancement of economies, and thus, there has been a shift from them conventional determinants of FDI inflows to institutional quality, that is, '*the rules of the game'* in recipient countries as the fundamental determinant for FDI inflows. Furthermore, the literature also revealed that countries with sound institutional environments attract more FDI inflows as foreign investors feel safe and protected in an environment characterized by stability and certainty. To this end, these results imply the institutional environment in the SADC region is not conducive to foreign investors; in other words, the transaction costs of doing business are still relatively high in the region and the lack of property rights protection and uncertainty thus leading to investors receding their investments or even altogether avoiding the region.

The study further examined the effect of financial development and institutional quality in the SADC region; this objective was accomplished through the creation of an interaction term which in Table 17 is depicted as FDIQ. As presented, the coefficient for the interaction term is negative and statistically significant, for instance. a coefficient of -0.1402 implies that the level of financial development combined with the quality of institutions in the region explains 14 percent of the variation in FDI inflows and thus weak institutional quality and poorly developed financial markets lead to a deterioration of FDI inflows into the region.

6.9 The Questionnaire Analysis

This section presents the survey questionnaire findings that were distributed to some of the participants in the study. The questionnaire included closed and open-ended questions; however, responses to open-ended questions were already included in the interview results analysis. Although the questionnaires largely adopted a Likert scale approach which is a popular approach in survey research, it also included categorical data in nominal variables where participants were required to choose options based on their

perceptions. The responses emerged from perceptions of senior officials who participated in this study, and therefore the validity rises proportionally with the number of deeds. The total number of participants in the questionnaire was eleven officials, and their profiles were as follows:

Category	*Total number of participants*
MNEs	3
Academics	4
Think-tanks	4
Total	**11**

Therefore, for accurate results interpretation, the Likert scale used was as follows:

1. Strongly agree
2. Agree
3. Neutral
4. Disagree
5. Strongly disagree

FDI inflows are the backbone of economic performance in host countries. Do you agree with this statement?

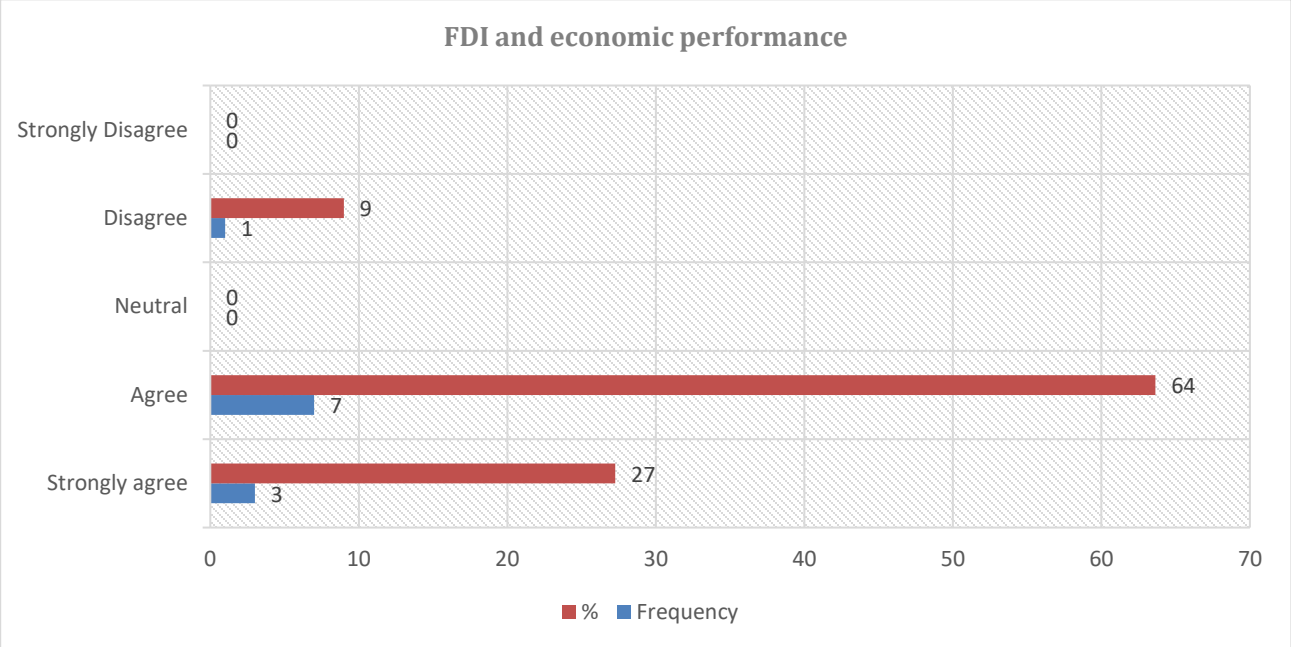


Figure 7: FDI and Economic performance

Figure 7 presents the results concerning participants' responses to the first question; this question endeavoured to solicit respondents' views regarding the significance of foreign direct investment inflows for economic performance in general. The answers ranged from strongly disagree to agree strongly. As shown in figure 7 above, eleven participants were surveyed regarding the importance of FDI inflows in stimulating the recipient countries' economic performance. The focus was on the SADC, a region characterized by a deficient savings culture, and balance of payments deficits, to mention two such challenges. Three (27%) participants strongly agreed that FDI is an engine for economic growth in host countries. However, seven (64%) agreed with the statement, and only one person (9%) disagreed with the statement that FDI is essential for the country's economic prosperity. Based on these results, 91 percent of the respondents agreed that FDI inflows are necessary for growth, while 9 percent disagreed. These results are indicative of the importance of FDI inflows, particularly in developing countries. However, one should also be mindful of the disadvantages of FDI inflows in the context of the African context – for instance, the literature has revealed that overreliance on FDI inflows is problematic as it can potentially lead to economies not exploring their opportunities domestically, especially SADC countries which are resource-rich. However, despite the disadvantages of FDI inflows, these results suggest that it remains fundamental for the SADC Member states.

Below is Figure 8, which presents the question that sought respondents' views regarding motives behind investments in the region. This question required respondents to identify factors that mattered most for FDI in the region and could choose more than one factor.

In your view, which factors matter most for inward FDI in the region?

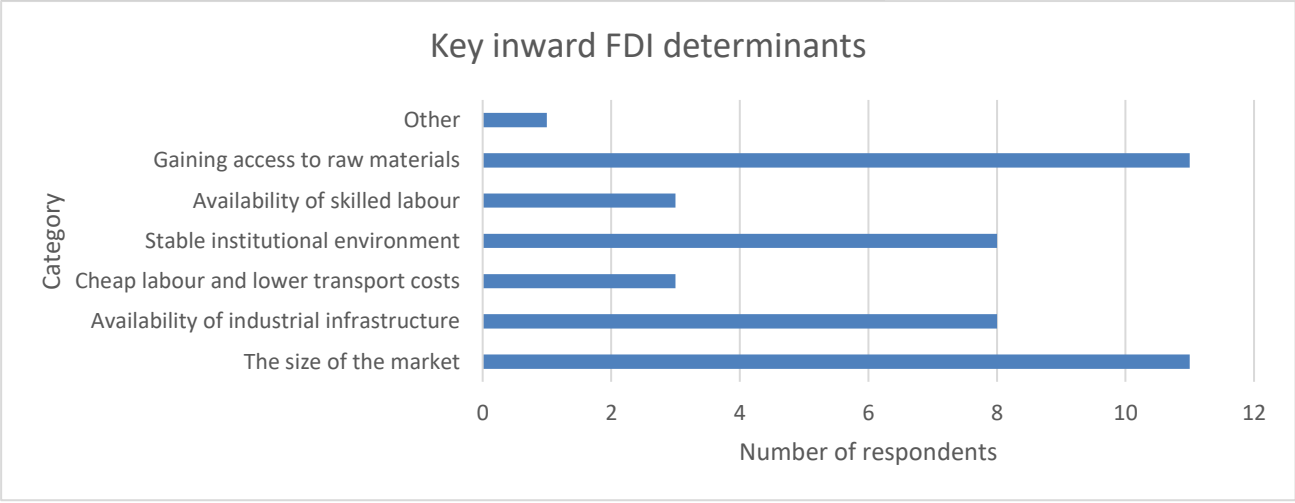


Figure 8: Key inward FDI determinants in the SADC

As seen in figure 8 above, of the six factors given, the market's size and access to raw materials were chosen as essential factors behind which investors base their investment decisions. Among the respondents were Multinational Enterprises (MNEs). Therefore, these results underscore the significance of regional economic integration as far as the market's size is concerned; also, the region is resource-rich. Therefore, it makes sense for MNEs to invest in the region because they want access to raw materials available in the region. Also, a stable institutional environment and the availability of high-quality infrastructure emerged as critical determinants of FDI inflows in the region.

In contrast, cheap labour and lower transport costs and skilled labour availability emerged as less important than other factors. These results are consistent with the theory, which revealed that countries with stable institutional environments and developed infrastructure attract more FDI. Of particular concern regarding these critical factors for attracting FDI is the availability of industrial infrastructure in the region; this is currently lacking in the SADC region or the continent. For instance, the infrastructure that links member states that could induce intra-regional and foreign investments is less developed in the region. To this end, this may potentially be the reason behind low FDI inflows in the region.

Following the protocols that were ratified through the SADC legal instrument with a particular focus on the protocol on finance and investment (FIP) which was meant to create a SADC investment zone, the question focused on the extent to which the protocol has served its purpose. Figure 9 presents the results based on the eleven participants in the survey.

As a result of globalization, the region has taken several strides to enhance the region's attractiveness, particularly to foreign investors – these include others, protocols on trade, finance, and investments. To what extent have these strides stimulated inward FDI into the region?

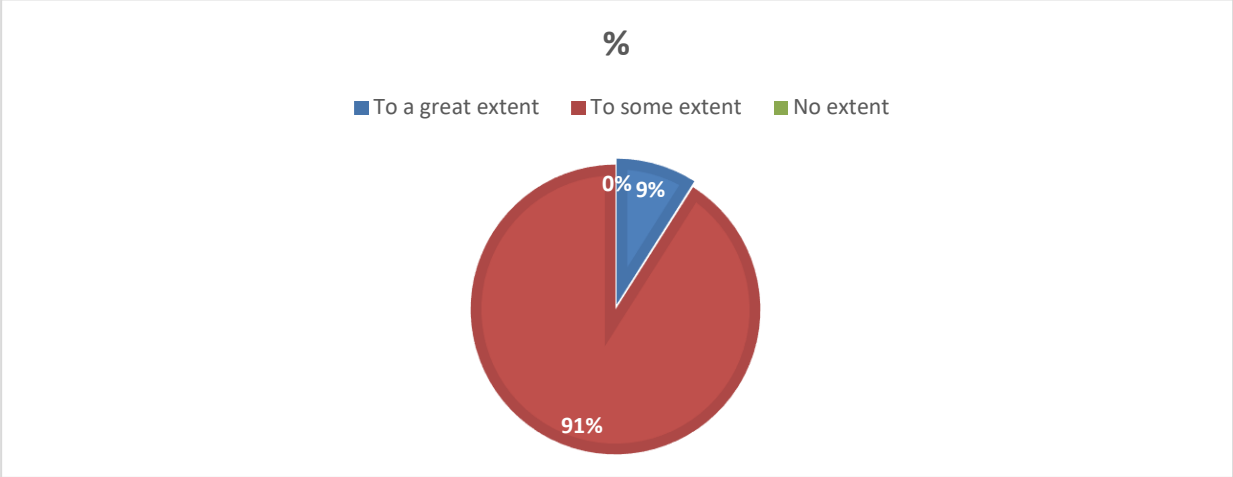


Figure 9: Protocols and their influence on FDI

Participants were given three options to choose from based on their understanding and knowledge of the protocol and its role in creating an investment attractive region. Of the eleven participants, 91 percent of the respondents were of the view that the FIP has to some extent stimulated investments inflows in the region, while 9 percent thought the protocol has to a great extent enhanced FDI inflows into the region – according to these views the protocol has served its purpose. However, given that most respondents believed that although the protocol has, to some extent, enhanced investment inflows, there is a lot that still needs to be done. Most importantly, none of the respondents said the protocol has wholly failed to serve its purpose; but some improvements are necessary to achieve the region's developmental goals and deepen regional economic integration in the SADC.

The literature revealed that the financial sector plays a crucial role in enhancing the area's investment attractiveness by developing the financial system such that it becomes easier for investors to transact in recipient countries. Respondents expressed their views in this regard, particularly as it pertains to the SADC region.

The development of the financial sector plays a huge role in enhancing the FDI attractiveness of the region.

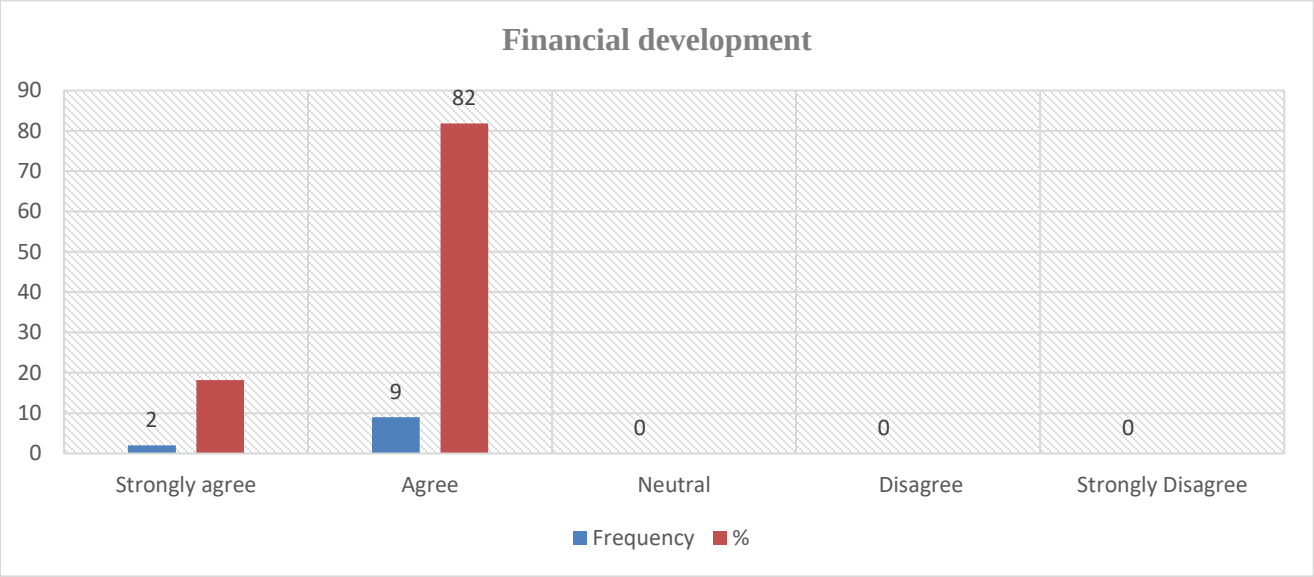


Figure 10: Financial development

As presented in Figure 10, of the 11 participants surveyed, 82 percent of the respondents agreed that financial development is essential for the region to FDI attractive, while 2 percent strongly agreed with the statement. By implication, all the participants agreed that the financial system needs to be developed and aligned regionally for the SADC investment zone to be created.

Some reforms were implemented to create a SADC investment zone. These include removing foreign ownership restrictions to allow foreign investors to borrow funds from regional institutions to pursue their innovative ideas while ensuring market-driven monetary policy. Here, the respondents' question was based on the efficacy of these reforms in stimulating foreign investments.

As part of liberalizing the financial sector, the region undertook to remove or relax restrictions on foreign ownership and the deregulation of off-shore investments; how effective have these reforms been in enhancing inward FDI by attracting foreign private loans? On a scale of 1 (dismally ineffective) to 5 (extremely useful)

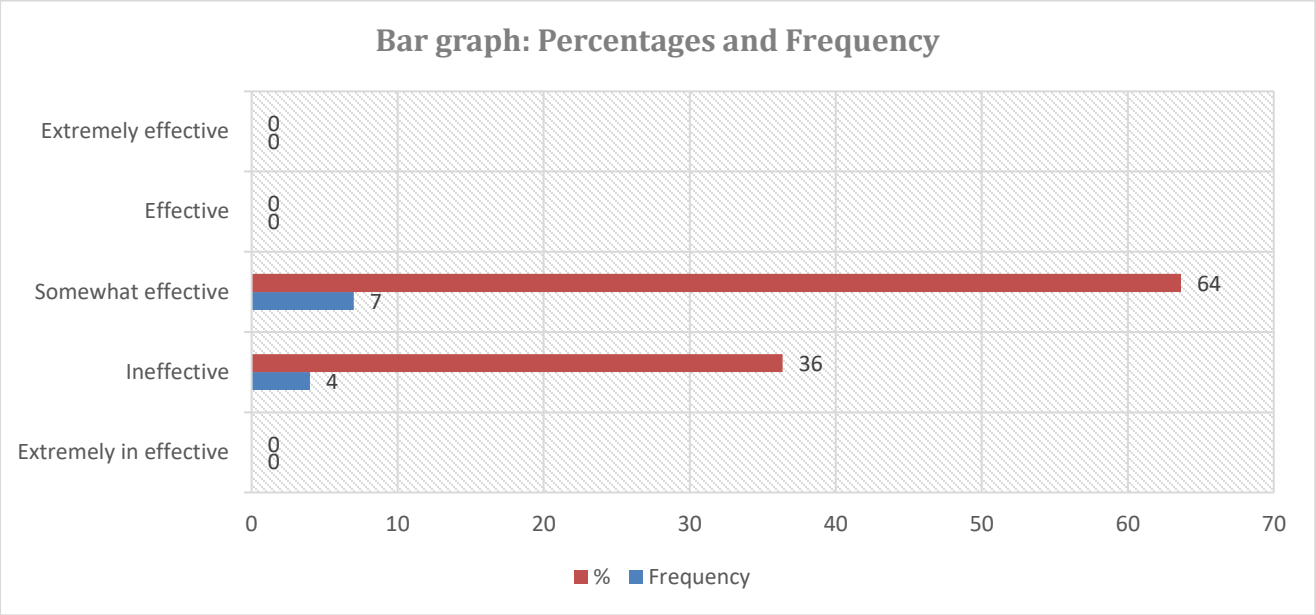


Figure 11:Financial development and FDI inflows

Figure 11 presents the results based on respondents' views and experiences. Thus, of the 11 participants that took part in the survey, 64 percent were of the view that the reforms have been somewhat effective, which implies that the removal of restrictions and deregulation of off-shore investments augmented FDI inflows into the region; however, 36 percent thought the reforms are ineffective, thus suggesting that the reforms have failed to serve the purpose behind their introduction. Although most of the respondents thought the reforms are effective, the minority views should also be considered, suggesting that there are still areas in which improvements are required regarding the financial sector, and FDI attractions are concerned in the region.

Another crucial question regarding the financial sector was understanding their views regarding how the system has allowed MNEs to borrow funds. Figure 12 presents the results.

The region's financial sector is sufficiently developed to allow foreign firms to borrow to increase their region's creative activities.

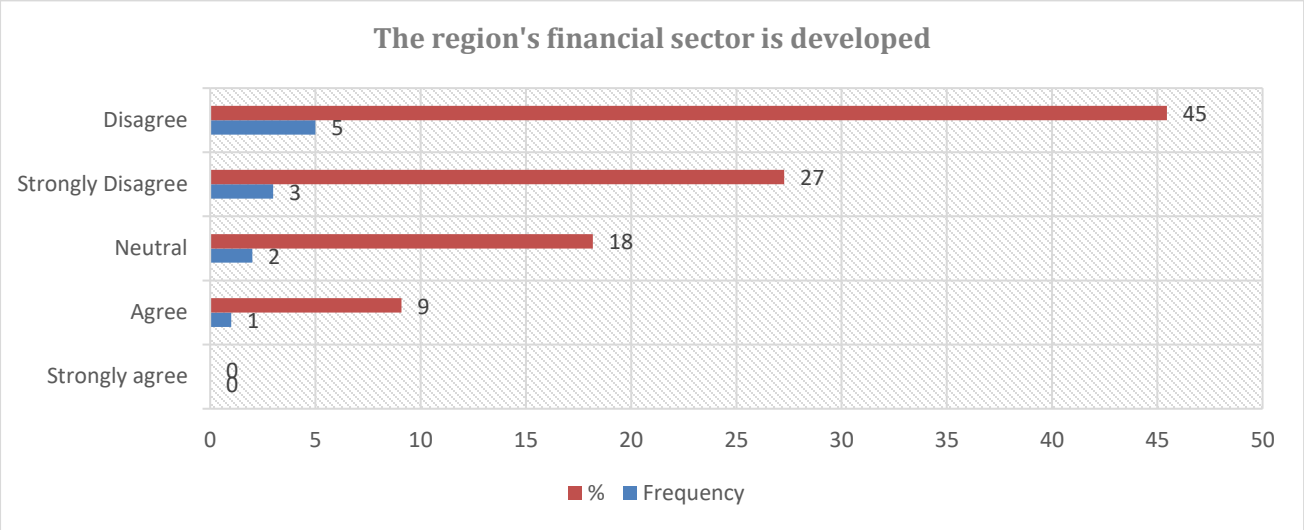


Figure 12: Perceptions on the state of development of the financial sector

Figure 12 shows that, of the total number of respondents, while 9 percent (1 participant) agreed, that is, was of the view that the region's financial sector is developed; 45 percent (5 respondents) of the respondents disagreed with the statement - also, 27 percent (3 respondents) strongly disagreed with the statement, and lastly two of the respondents (18 percent) were neutral. From these results, it can be concluded that the majority (71%) of the respondents were of the view that the region's financial sector is not sufficiently developed. This again suggests that the region's financial authorities and institutions need to collaborate to ensure that the system is adequately developed to create an investment zone. Given that the FIP was meant to integrate the region globally, respondents had to express their views on whether the protocol has fulfilled its decree.

How impactful has the protocol been in integrating the region globally – that is, opening room for technological change, increased capital flows and international links.

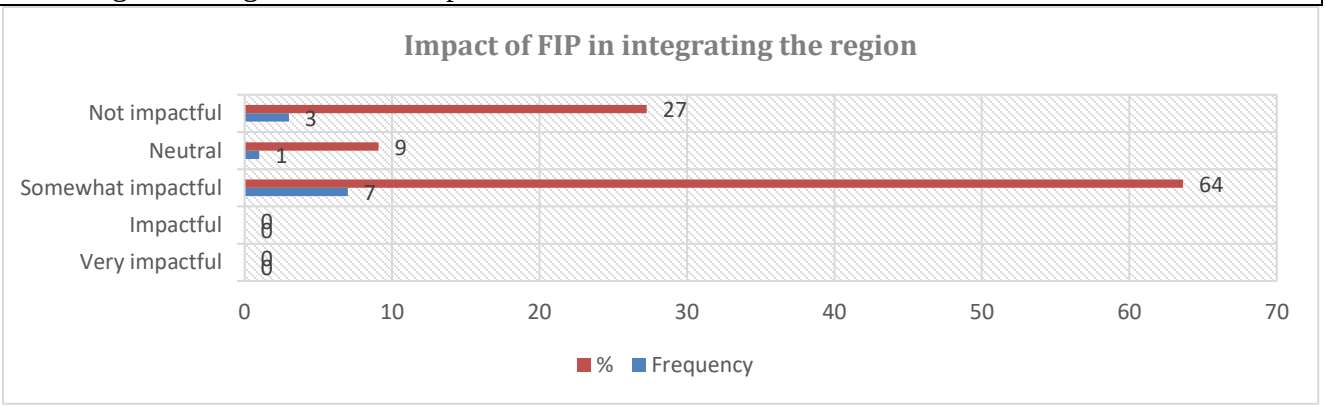


Figure 13: FIP and global integration

The responses ranged from "not impactful" to "very impactful". As presented, 64 percent of the respondents believed that the protocol is somewhat impactful in creating global links; however, 27 percent thought the protocol is not impactful, while 9 percent (1 person) were neutral, and none of the participants thought the protocol is impactful let alone very impactful. By implication, the protocol partially serves its purpose; therefore, a lot still needs to be done.

The literature revealed that in addition to the conventional determinants of FDI, the institutional environment and arrangements in recipient countries play a crucial role in determining FDI that flows into these countries. Figure 14 presents respondents' views in this regard.

The host country's institutional environment is a critical locational determinant of the amount and nature of FDI inflows that an economy can attract- this is because it directly affects the transaction costs of doing business in the host country.

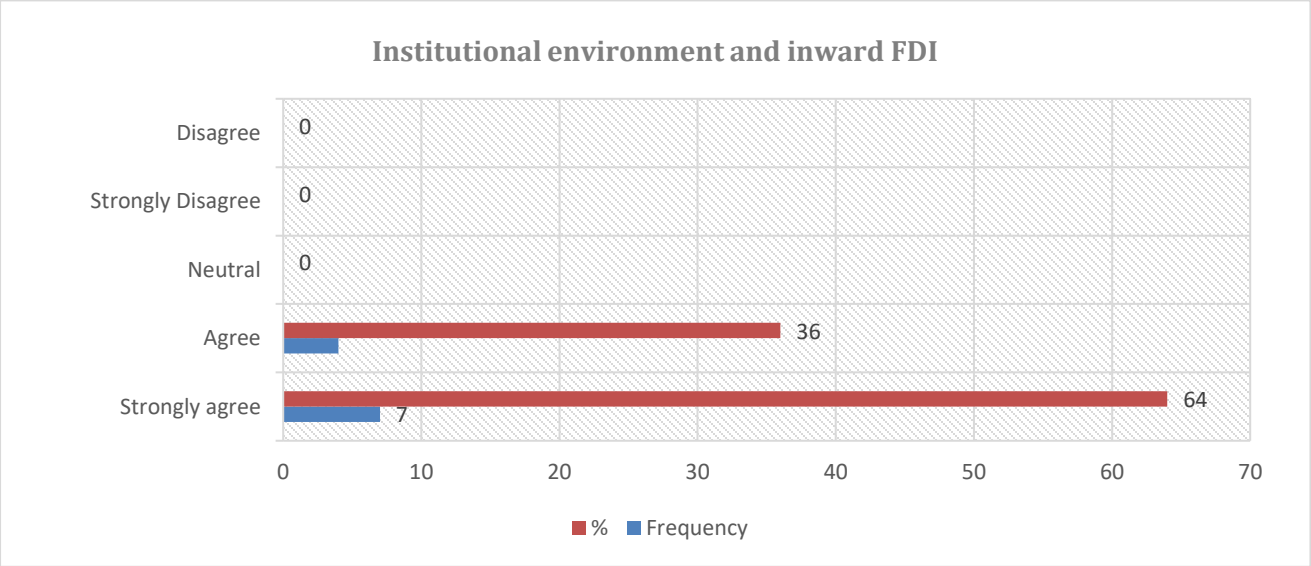


Figure 14: Institutional environment and FDI inflows

As shown in Figure 14 of the total number of respondents, 64 percent strongly agreed that the host country's institutional environment and arrangements directly affect investors' decisions to invest. In comparison, 36 percent also agreed that this is a fundamental locational determinant of FDI. None of the respondents disagreed with the statement, which underscores this factor's significance for economic prosperity.

As part of institutional arrangements in recipient countries, the literature views political institutions as key players in creating a conducive environment for investments. This happens through the ratified laws and regulatory frameworks in host countries. Here, the question focused on respondents' views regarding the effectiveness of political institutions in creating an enabling environment.

The role of political institutions (the legal and regulatory framework) in the region is to create a conducive economic environment that supports inclusive economic institutions that support markets and ensure property rights protection, particularly foreign investors. How effective are these institutions in creating this enabling environment?

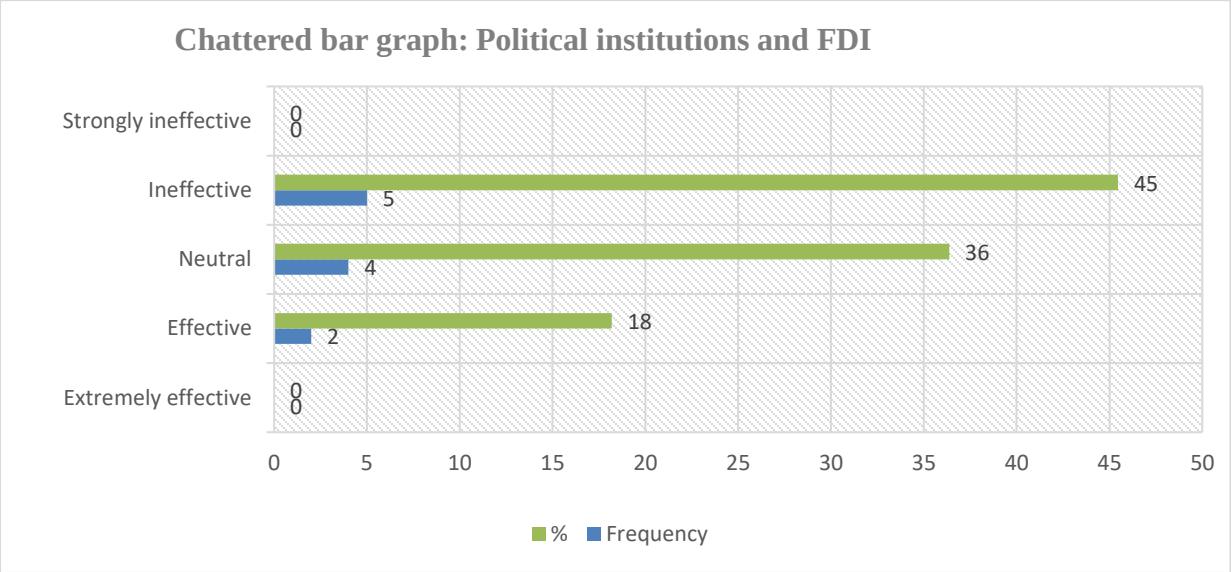


Figure 15: Political institutions and FDI

Figure 15 presents the results based on respondents' views; of the surveyed participants, 18 percent believed that the region's political institutions are effective, while 45 percent viewed political institutions as ineffective in applying laws and regulations. Also, 36 percent of the respondents were neutral in this regard. Based on these results, it can be concluded that political institutions have not effectively played their role in ensuring that policies, laws, and regulations enacted in the region are appealing to foreign investors, particularly as these pertain to the protection of property rights and restoring stability and the ease of doing business while reducing uncertainty in the region.

Although the laws and regulations are ratified at the national or regional level, the game rules become effective only when they are enforced. The focus here was on respondents' views concerning

implementing the FIP by member countries to harmonize policies throughout the region. Figure 16 below presents the results.

The region enacted protocols on trade, finance, and investments that stipulate the rules member countries are expected to abide by to achieve regional financial integration, thus leading to the creation of an investor-friendly environment – however, rules become effective only when enforced. In your view, how efficient and effective are the region's institutions in enforcing laws, policies and regulations?

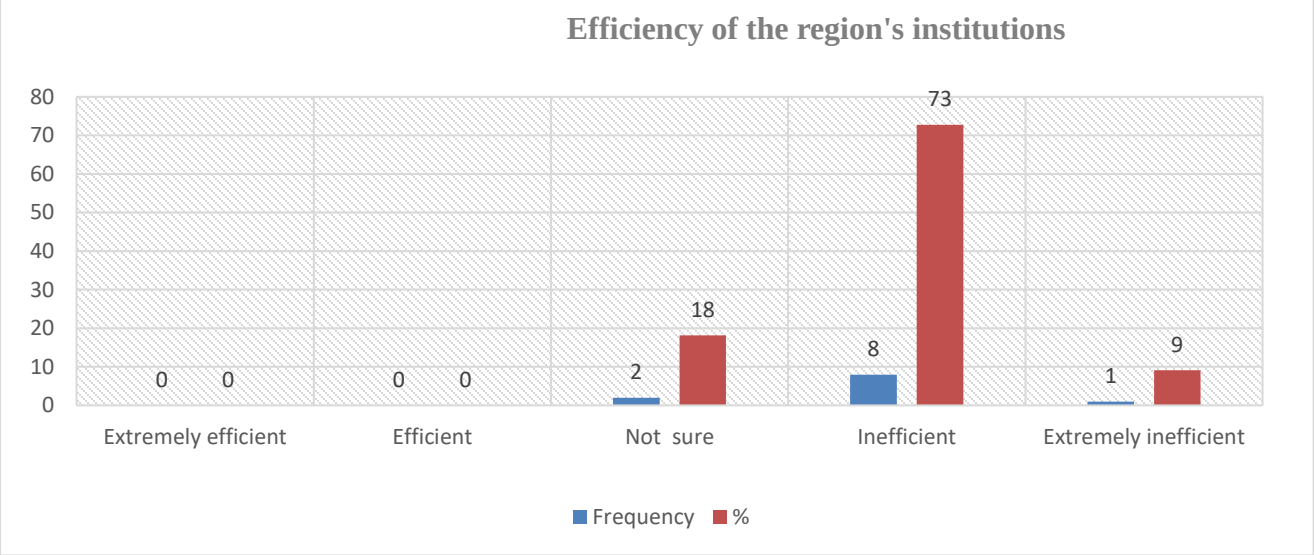


Figure 16: Enforcement mechanisms

The results presented in Figure 16 indicate that 73 percent of the respondents were of the view that there is a lack of enforcement mechanisms in the region; equally, 9 percent viewed the region's institutions as being highly inefficient in enforcing compliance by member states while 18 percent were not sure about the region's ability to enforce rules. None of the participants thought the region's institutions are effective. This is worrisome given that deeper regional integration requires countries to harmonize their policies and go beyond cooperation and coordination to prioritise regional objectives over national objectives; however, this is not the case in the SADC region.

The ease of doing business is one of the crucial determinants of FDI inflows, particularly in developing countries. The region implemented several investment promotion strategies, and member states also introduced their strategies. Based on these regions' endeavours, respondents, including MNEs, expressed their views concerning the region's transaction costs.

The transaction costs of doing business in the region are still high relative to other regional groupings in the developing world.

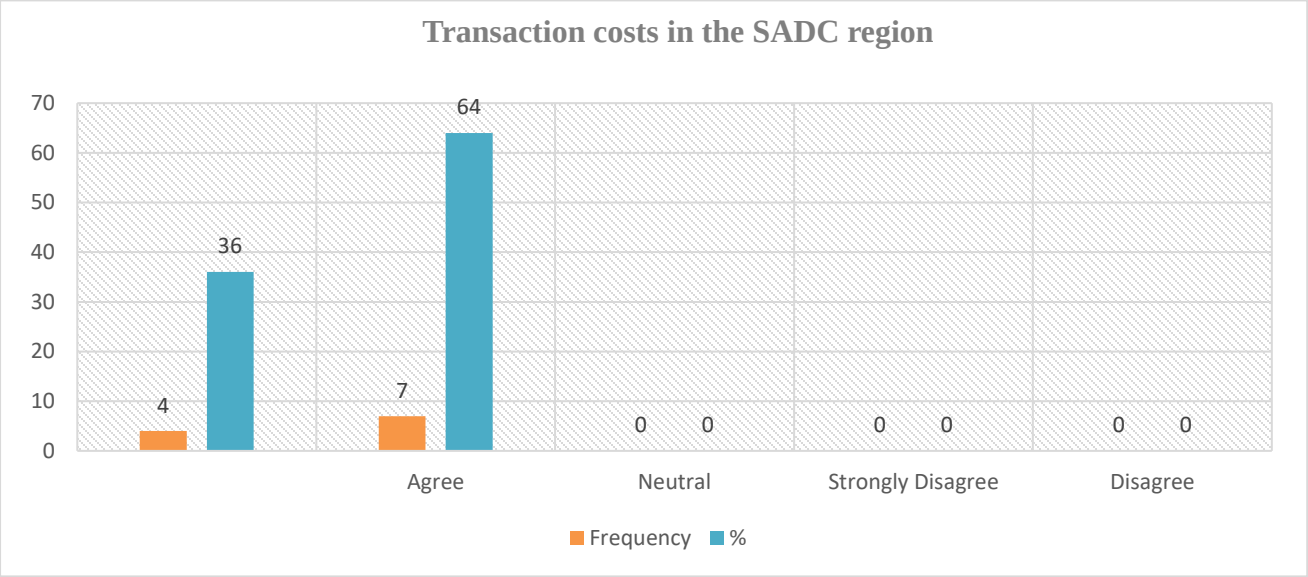


Figure 17:Transaction costs in the SADC region

Figure 17 presents the results based on the views of respondents. Of the respondents surveyed, 64 percent agreed that the transaction costs are still high, while 36 percent strongly agreed that the costs are high. None of the respondents disagreed or was neutral as far as this statement is concerned. Based on these results, all the respondents believe that the region has relatively higher transaction costs than its regional counterparts. These views are consistent with the World Bank's ease of doing business index, in which African countries rank low due to higher transaction costs. These views call for more efforts from the region to enhance the region's investment climate.

In order to improve the investment environment and to enhance uncertainty and the ease of doing business, the literature suggests that MNEs should be treated as stakeholders in recipient economies; for instance, platforms should be established for interaction between MNEs and host country governments to discuss issues that may directly affect MNEs' operations. Respondents expressed their opinions on this matter.

Is it necessary for host country governments to create platforms to interact with MNEs regarding the development of new laws, policies, and regulatory mechanisms that may directly affect the operations of MNEs, particularly the transaction costs?

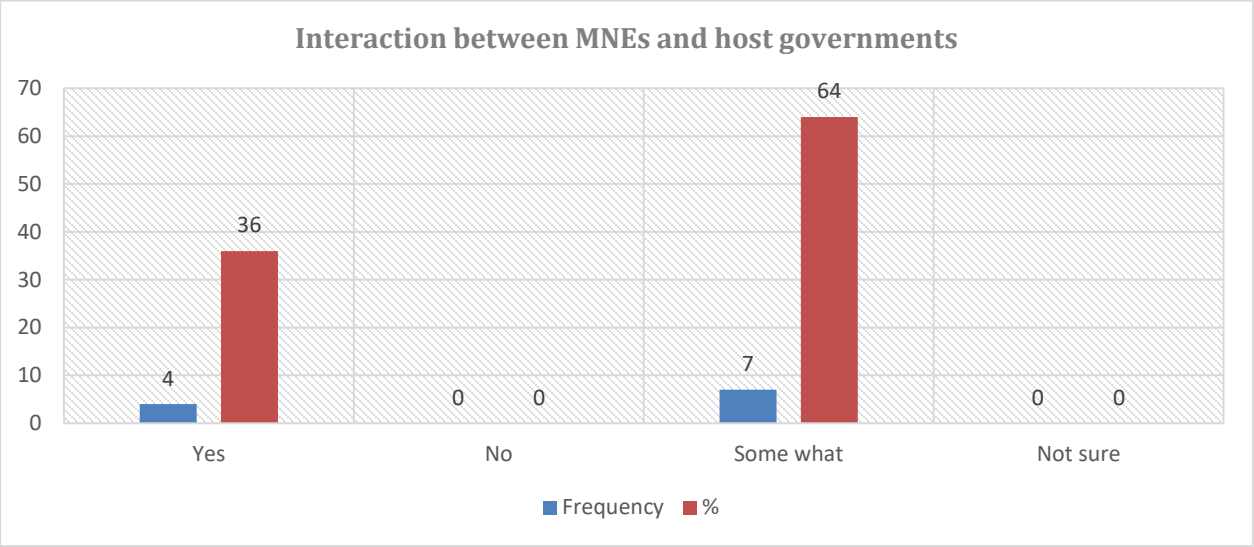
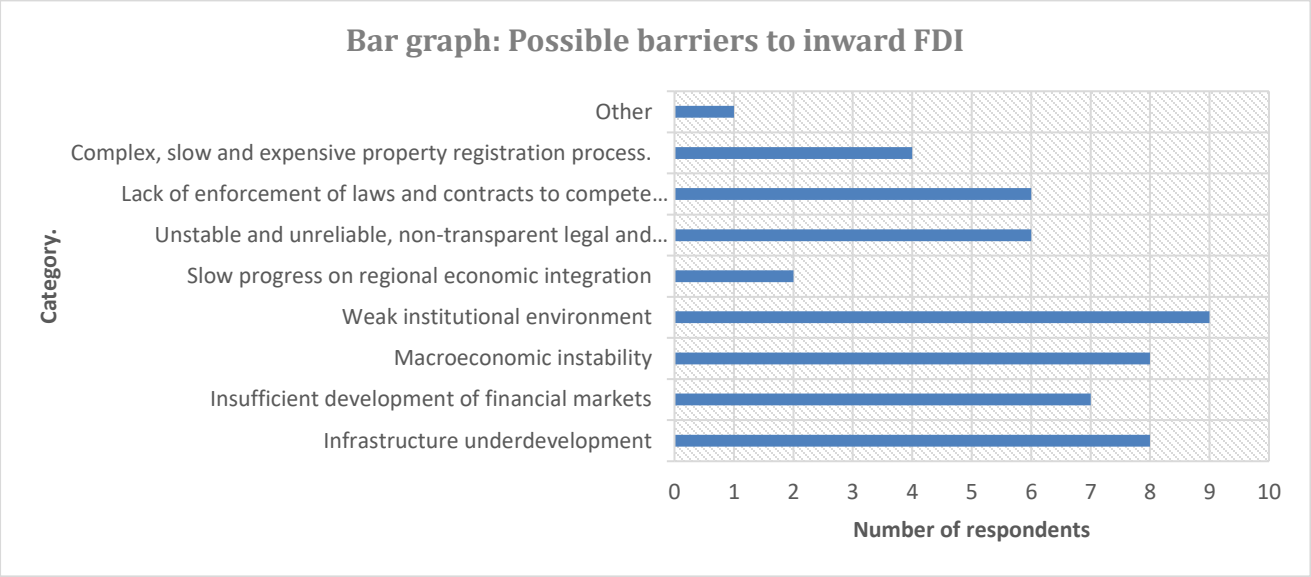


Figure 18: MNEs and host governments

Figure 18 presents the results based on respondents' views. From these results, it can be concluded that, to some extent, consultation with MNEs regarding changing laws and policies that directly affect MNEs' operations in host countries is of paramount importance as far as certainty and stability are concerned.

Consistent with the above observations, it was imperative to find out from the experts and investors themselves the factors that impede FDI inflows in the region. These insights could serve as recommendations to regional authorities and policymakers in terms of guiding their decisions. Participants were presented with eight possible barriers to FDI inflows in the region.

From the list below, in your view, what are the possible barriers to FDI inflows in the SADC region?



Source: Author's compilation

Figure 19: Barriers to FDI inflows

Figure 19 presents the results of the eight possible factors that are deterrents to FDI inflows, and poor institutional quality emerged as the fundamental factor, chosen by 9 out of 11 respondents, while infrastructure underdevelopment and macroeconomic instability followed chosen by 8 out of 11 participants; then insufficient development of financial markets emerged as the third factor. Whereas unstable and unreliable, non-transparent legal, regulatory framework and lack of enforcement mechanisms were chosen as the fourth factor. Then, complicated, slow, and expensive property registration processes, slow progress on regional economic integration, and others emerged as the minor barriers to FDI inflows in the region. Based on these results, political stability, macroeconomic stability, and infrastructure development are the key instruments that both policymakers and regional authorities should focus on when stimulating a SADC investment zone.

6.10 Summary of the findings

This chapter attempted to address the first two main objectives of the study: to examine the extent to which institutional quality influences FDI inflows into the region; and to assess the effect of financial development on the institutional quality-FDI nexus. Quantitative data are from different sources are examined using

the dynamic panel estimation technique (System GMM) to answer the research question for the study. The study regressed FDI inflows as a percentage of GDP as a response variable, while institutional quality, GDP-growth, trade policy, the level of financial development and natural resource availability are explanatory variables, and controls for trade openness and inflation.

The results suggest that GDP growth, trade openness and natural resource availability are positively correlated with FDI inflows. In contrast, institutional quality, inflation, trade policy and financial development were found to have negative coefficients. However, only institutional quality and inflation are significant. The negative coefficients imply that these variables deter FDI inflows into the region. Further, the combined effect of institutional quality and the level of financial was examined through interacting of these variables towards FDI. The findings reveal a negative and statistically significant coefficient for the interaction effect. This implies that weak institutional quality combined with fragmented and underdeveloped financial institutions hamper FDI into the region. Furthermore, findings based on the views of the respondents reveal that despite the rules and regulations set out in the Treaty, the quality of governance is weak in the region. This is mainly due to a lack of enforcement mechanism which leads to non-compliance.

6.11 Conclusion

This chapter aimed to present and analyse quantitative data in an endeavour to accomplish the study's objective of examining the extent to which institutional quality influences inward FDI in the SADC region. To this end, the quantitative analysis undertaken in this chapter has answered the first main research questions concerning how FDI inflows are impacted by governance quality in the region as well as the effects of financial development on the FDI-institutional quality nexus in the region. Furthermore, through this analysis, the study managed to identify the governance indicators that have a meaningful impact on FDI inflows into the region.

It is worth noting that the study used a mixed-methods approach, and only the quantitative data analysis was presented in this chapter. The next chapter presents findings based on the qualitative data analysis, after which the data will be integrated, and an inclusive conclusion will be drawn.

Chapter 7

Qualitative Data Analysis

7.1 Introduction

As stated earlier, this study adopted a mixed-methods approach; thus, various data analysis instruments are used. Each approach served a specific purpose in this study; therefore, it is crucial to view both results. That said, the previous presented and analysed quantitative data, which includes econometric models adopted and estimation techniques applied as well as survey data.

This chapter presents qualitative data analysis and outlines the procedures followed in coding data collected, semi-structured interviews with open-ended questions. The qualitative analysis here comprises transcripts of interviews from audio and video recordings. The results presented in this chapter are based on expert views, perceptions and experience concerning the effect of the quality of governance on foreign direct investment inflows into the SADC region.

Qualitative data analysis refers to a process of moving from the collected data into a discussion to establish understanding, meaning and interpretation of data and the existing relationships. This analysis is based on a revelatory philosophy and aims to establish meaningful and representative data (Creswell and Tashakkori, 2007). In this analysis, the idea is to investigate the representative and evocative content of the data. These data are categorical and cannot be easily converted into numbers related to participants' opinions, knowledge and experience, concepts, and behaviour. This study adopted a deductive approach to qualitative analysis, and this was implemented using research questions to group data before identifying patterns, similarities, and differences.

7.2 Principles of qualitative data analysis

Sunday (2016:24) outlines the principles of qualitative data analysis as follows:

- Because people differ in their experiences and understanding of reality, data has different meanings and is thus constructivist.
- Data analysis is context-bound
- Research can be used to describe a phenomenon or generate a theory grounded on data.
- The understanding of human behaviour develops slowly and non-linearly.

- Exceptional cases may yield insights into a problem or new idea for further inquiry.

7.3 Adopted type of Qualitative Analysis

The literature identifies different techniques for analyzing qualitative data, including content analysis, narrative, discourse, framework and grounded theory (Sunday, 2016; Creswell, 2003). The literature reveals that, while content analysis is a technique for categorizing verbal or behavioural data for classification, summarization and tabulation purposes, narrative analysis involves transcribing experiences to reformulate stories presented by people based on their different experiences and contexts. On the other hand, discourse analysis is a technique for analyzing spoken interactions and written texts and focusing on how people express themselves verbally and their body language. Further, grounded theory examines single cases from a predefined population to formulate a general hypothesis about the population.

Lastly, the framework analysis involves transcribing and reading the data, after which the thematic framework is identified, consisting of initial coding developed from prior issues and evolving issues. Here, coding involves using documented codes to categorize specific pieces of data which correspond to different themes. After coding the data, the analysis proceeds to chart through headings from the thematic structure; following charting is mapping and interpretation; this encompasses searching for patterns, associations, concepts and explanations in the data (Creswell and Tashakkori, 2007).

This study adopted a framework analysis that enabled the researcher to transcribe interview data, code, chart, map and interpret. There was no interest in participants' body language but just their opinions, knowledge, and experiences.

7.4 Qualitative Data Analysis Procedure

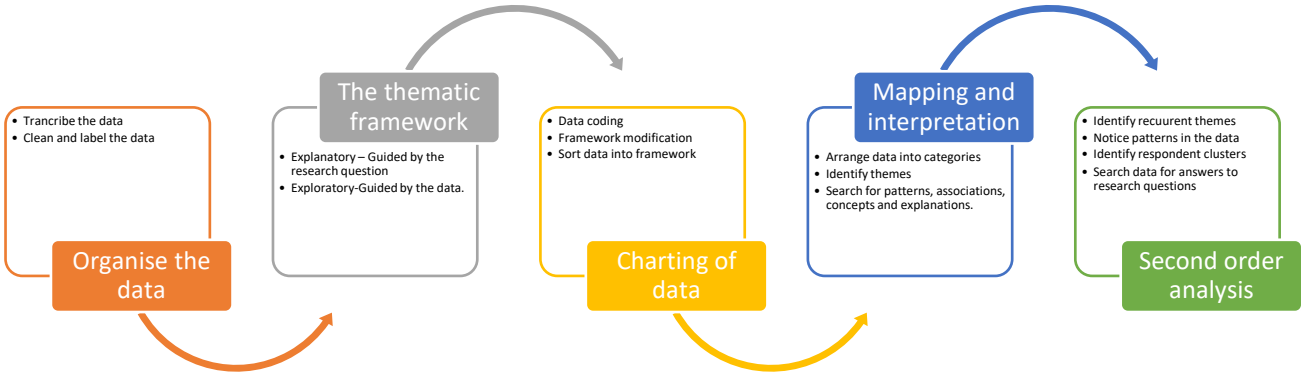


Figure 20: Analysis procedure adopted in this study as outlined on (Sunday, 2016)

Source: author's compilation adopted from Sunday 2016

Based on the chosen data analysis procedure, an outline of the process followed in this study is provided below.

7.4.1 Transcription

Before data analysis, data was transcribed from the videos that were recorded during interviews. This is a crucial aspect of qualitative research and requires that the researcher be careful as data may be lost during transcription due to inferior transcription methods (McLellan, Macqueen, and Neidig 2003). For instance, audio transcription does not capture participants' body language, meaning that this data is lost during the transcription process. Because transcription translates spoken words to written words, it is undeniable that it is an interpretive process (Narula & Dunning, 2000). As already stated, the primary concern was understanding participants' opinions, knowledge and experiences concerning the effects of institutional quality of foreign direct investment inflows in the SADC region rather than their body language.

For ease of reference, interview transcriptions were done within 48 hours of conducting interviews while the interview process was still fresh in the researcher's mind (Creswell and Tashakkori, 2007).

Because the transcription aimed to capture what was said rather than how it was said, hesitations, laughs, and *other things* were excluded. However, equally, verbatim quotes captured during interviews were included to understand the audience better and create links to the analyzed data (Corden, Sainsbury, Corden, and Sainsbury 2006). Subsequently, the transcript was checked for any possible errors through listening to the audio while re-reading the transcript.

7.4.2 Thematic Analysis

Braun and Clarke (2006) stated that thematic analysis is a technique used to identify, analyze, and report patterns found in data that insignificantly consolidate and describe the data in detail. This type of analysis is one of the common qualitative analysis types despite insufficient acknowledgement in the literature. This is mainly based on the view thematic analysis is not a complete method on its own; Braun and Clarke (2006) advocate strongly for the use of thematic analysis as a standalone analysis technique. These authors argue that the technique is malleable and applicable in methodologies free of theory and limiting epistemologies. Thus, this analysis technique is helpful for pragmatic researchers whose focus is not on one epistemology. Consistent with this, Boyatzis (1998) adds that this technique helps interpret numerous facets of the research questions and is not theoretically bounded (Joffe and Yardley 2004). To this end, Braun, and Clarke (2006) provide a framework for analysis that was adopted in this study.

7.4.3 Acquaintance and Coding

To understand the collected data, the researcher split it into categories, followed by a coding model (Kendall, 1999). The model divided the data into three stages, and the first stage entailed opening codes; this allowed the researcher to identify properties, concepts, and scopes through the analytical process. All aspects related to the research questions and the aim of the interview were coded manually: for instance, the extent to which the implementation of the protocol on Finance and Investment has created an investor-friendly environment in the SADC region; and how the institutional arrangements in the region influence investor's decision to invest, among other things.

Miles, Huberman and Saldaña (1994) assert that coding is crucial in the analysis process. Subsequently, the codes were regrouped into sub-categories which fed into grouped categories.

7.4.4 Themes

After grouping data according to codes, themes were identified. Themes capture groups of data that answer research questions (Corbin and Strauss 1990). Notably, there are no specified sizes for themes; while some themes can be a small part of the data, some can form a more significant part of the data set. Accordingly, themes were created from the data, most of the generated themes were present throughout the dataset, and the researcher was able to identify predominant themes within the data which address the research questions.

It is worth noting that the theme-generation exercise can be challenging, particularly in determining the theme's name or if a code overlaps two themes or no theme at all. Moreover, the process is subjective and driven by the researcher's views and understanding of the data. Subsequently, the researcher had themes and sub-themes of data, and each theme formed the basis for the discussion and analysis.

It is crucial for researchers who adopt the thematic analysis to ensure that the data presented, and the successive claims made about the data truly match the themes. Consistent with this, Braun and Clarke (2006) caution researchers to avoid making claims that are not supported by data or, even worse, the data excerpts that indicate another analysis or contradict the claims made by the researcher.

7.5 Key results

The following findings from participants are grouped in common responses, as per the themes identified.

7.5.5 Presentation of Themes

The interview responses were categorized into themes, thus presenting connections and variations among participants to allow the reader to create relations. Below is a presentation of the categories of themes that sought to address the objectives of this study.

- Significance of FDI for regional development
- The SADC Treaty and the implementation of the Finance and Investment Protocol.
- FDI challenges in the region

- Different levels of development and financial systems
- Mutually reciprocal model.

7.5.5.1: Significance of FDI for regional development

This theme was generated based on participant responses concerning the importance of foreign direct investment (FDI) inflows for development purposes. As stated in previous chapters, FDI is believed to be an engine for economic growth and development, particularly for recipient countries, and modernization of both developed and developing countries and an instrument through which economies can be integrated into the global world. This emanates from the benefits that FDI brings to host countries such as stimulating economic growth through capital accumulation, bridging the gap in domestic savings, improved balance of payments as a result of foreign exchange, stimulating technological transfers which lead to improved production techniques as well as enhanced managerial practices and efficiency through exposure to competition, and deeper integration.

The respondents concurred with the conviction that FDI is of paramount importance, especially in developing countries will relatively small market sizes…for instance, some of the facts that respondents specified……

> *Respondent A "foreign investment inflows are a backbone for economic performance in the continent. As a continent, we are characterized by a deficient savings culture; therefore, the capital inflows from abroad bridge that gap. Not only does it bridge the gap, but through FDI inflows, countries and regions benefit from spillover effects through absorptive capacity".*

Consistent with this, respondent B added that *"the significance of FDI inflows in recipient countries particularly in the African continent is indicated by the number of mechanisms that have been in place to stimulate investment inflows in the region……for example, there are many instruments that we have designed to create an FDI attractive environment in Africa. These include the African Union (AU) agenda 2073, which sets out a comprehensive aspirational framework and infrastructure development program in the continent. At the regional level, some mechanism has also been put in place to create an investor-friendly environment at the regional and country levels and expand integration among SADC members. Also, we have the Africa Free Trade Agreement*

and the SADC regional Free Trade Agreement……so all these instruments have been designed to create a more attractive investment for investors to invest in Africa. The focus, particularly in terms of the free trade area, was based on recognising that our markets are very fragmented. We are not integrated…..hence the adoption of these mechanisms."

As noted in the literature, foreign investment inflows can sometimes be a disadvantage to recipient countries despite the stated benefits. Some of the detriments noted in the literature are that an over-reliance on FDI can potentially make the host country vulnerable to external developments beyond their power, particularly if foreign investors repatriate profits to their countries of origin without reinvestments in the host country, Angola is an excellent example in this case. The presence of foreign investors can also lead to a loss of control by governments when foreign investors own a large share of the country's economy, and thus national sovereignty may be lost.

Consistent with this, despite highlighting the importance of FDI and the number of instruments adopted to create an investor-friendly SADC region, respondent B noted that "…..

In my view, I think Africa is obsessed with foreign investments. I think we should focus on mobilizing our resources and use these to leverage investment. Part of our problem is expecting investors to take risks in an environment for which they have no control and plough in a billion dollars with 40 per cent equity and raise a loan for another 60 percent, and it does not make sense. Therefore, the leveraging approach is very disconcerting for an investor. Moreover, investors may ask themselves why invest there when beneficiaries are not willing to take the risk.

Looking at the available data, the number of billionaires and the private equity associations in Africa, the number of private equity assets have a total asset value of about $2.5 trillion in high-net-worth individuals, which is not small….. America today can speak about 2 trillion; it is not like there is cash in the bank. It is leveraged if the system is set up for leveraging; why are we not leveraging the mineral resources on the ground? We have become so obsessed that what comes from outside is better than what we have."

Concerning FDI as an engine for growth and development, particularly in the African context, Respondent F expressed his view as follows; "Concerning FDI as an engine for growth and development particularly in the African context, this is what Respondent F had to say, …

> "*I disagree, especially for African and Least Developed Countries, FDI focused on extractive industries and does not promote value addition. The structure of these economies adds no significant manufacturing capability.*
>
> *Consequently, even when trade increases significantly, African countries are not able to generate terms of trade benefits because they occupy the low-level of productive hierarchy."*

These results suggest that although FDI is an engine for economic growth, particularly in the globalized world, and considering the benefits it brings to host countries, recipients should avoid over-reliance on FDI to attain their developmental objectives.

7.5.5.2: The SADC Treaty and the implementation of the Finance and Investment Protocol

This theme emanated from assessing the role of the protocol on Finance and Investment in enhancing an attractive FDI environment in the SADC region, following the identified benefits.

The SADC region introduced its main legal instrument, the SADC Treaty, to deepen regional integration and accelerate its developmental agenda. The Treaty regards investment as a platform for member states to cooperate and enhance regional development and integration; it further encourages member states to cooperate in trade, finance, industry, and investment. The Treaty stipulates the responsibilities of different institutions within the SADC region; for instance, the SADC Secretariat is expected to monitor the ratified protocols' adoption and implementation.

Thus, following the importance of FDI inflows for host countries and regions, the SADC, through its legal instrument (the Treaty), ratified many protocols, amongst which there is a protocol on finance and investment (FIP). The FIP required member countries to harmonize their finance and investment policies, laws, and practices to create and foster a SADC investment zone with a standard Regional Investment Policy Framework while also working towards achieving macroeconomic stability and convergence. As stated in the FIP, the region intends to achieve these objectives by facilitating regional integration, cooperation, and coordination.

Here the question was: To what extent has this protocol created an investor-friendly environment with lower transaction costs and ease of doing business? These are the responses from the participants:

> Respondent E…*It is difficult to say. One has to understand what these protocols are. These frameworks can only be effective if member states implement them. They are aimed at creating one regional economic space. Nevertheless, the first and primary question is whether the objectives within these protocols' provisions are being implemented. That, on its own, requires some monitoring and evaluation. That is lacking. For a long time, we have been trying to track the implementation of the Finance and Investment Protocol, but that project has failed. So, in 2017/2018, SADC Ministers of Finance agreed that a study should be undertaken to assess FIP implementation. Secondly, to evaluate whether the current FIP is in line with the SADC development taken, for example, in 2015. These include adopting the SADC Industrialization and Roadmap, which prioritized industrialization and adopted a new strategic plan in the Regional Indicative Strategic Development Plan (RISDP).*
>
> *The FIP also includes the macroeconomic convergence programme that seeks to ensure that the SADC Member States achieve macroeconomic stability and is defined in terms of various quantitative indicators such as economic growth rate, fiscal deficit, debt ratio, level of foreign reserves, among other things. This is done on a peer-review basis, i.e., each SADC Member State gets to peer review another Member State. This is meant to ensure peer pressure whilst the programme is implemented voluntarily. Even before Covid-19, most countries were struggling to meet most of the indicators. It will be worse now."*

This is a crucial point; although the protocol is ratified at the regional level, it can only be effective only if the Member States implements it to create that regional economic space. Concerning the implementation of the protocol, respondent A said……

> "*The finance and investment protocol is our primary instrument……, although there were some ratification problems, as you can see almost, all Member States signed the protocol how the member states relate when it comes to investment or finance and everything involved in letting us say on whether on FDI or investment promotion activities. SADC is working on a business and investment promotion framework, and this framework enables us to see the value of the protocol and the number of*

mechanisms aimed at promoting the protocol. So, in terms of the framework, I would say we are not bad, but we need to move in terms of materializing these instruments or mechanisms that we have put in place if we are `become the economic hub in Sub-Saharan Africa.

For instance, for these mechanisms to materialize, member states need to implement the protocol on finance and investment, and these must go through and be approved by national parliaments. Now, our challenge with the protocol is that, although all member countries signed the protocol; thus, agreeing to harmonize their policies, laws, and practices to create and foster a SADC investment zone, the actual implementation, or the incorporation of regional objectives into national objectives is still a challenge that we are confronted with. Member States prioritize their national objectives over regional objectives. Note that protocols are not binding, which implies that Member states can sign the protocol, but they are not legally bound, and member states can ignore them.

This is a critical point concerning the implementation of the protocol and materializing the instruments and mechanisms put in place, and the ultimate attainment of the set regional integration objectives. In line with this, respondent E added that...

"It appears that we participate in the regional integration process for different reasons. The whole process is driven very much by narrow national interests. There is also a demonstration of what I call asymmetric demands. It is easy for all Member States to take decisions even when they know they have little interest in them. This leads to challenges in implementation. This leads to challenges around contributions of financing to the decisions."

The fact that national interests drive regional integration is a significant challenge because Member states signed the protocol and are thus expected to harmonize their policies, laws, and practices in line with the region. However, they, for their reasons, decide not to implement the provisions of the protocol.

Respondent F adds that *"the main challenge with both the SADC Treaty and the FIP is the lack of enforcement power. For instance, all it says is Member states are expected to cooperate. Even us, the Secretariat, cannot enforce laws and regulations because decision-making powers are vested in the Member States; we can only make recommendations."*

Consistent with these responses, Respondent D added that "……*the SADC region is very good at formulating protocols, but the enforcement of the rules becomes a challenge. The political will is the biggest problem as heads of state and governments feel above the regional body. SADC does not have the implementation 'teeth' it needs to drive change in the region."*

Still on the issue of efficiency in implementing the provisions of the SADC Treaty and the subsequently ratified protocols, particularly the FIP and the implementation thereof; Respondent C added that

"SADC institutions require the requisite capacity and authority to implement regional policies and protocols. The capacity of a regional institution to implement regional policies is a function of how they are constructed, what authority is delegated to them? SADC institutions' role is merely to coordinate without any authority over the Member States, and the SADC Secretariat is an example of such an institution."

Furthermore, Respondent G interestingly added that "……*There is too much of an onus placed on the SADC Secretariat to coordinate complex layers of agreements and programmes. While the intentions are noble (such as the different iterations of RISDP), the heads of state have not shown the necessary political energy and inclination to drive more in-depth integration of people, markets, and societies to deal with the region's development challenges. The record of SADC institutions in developing the necessary capacity and making the strategic interventions to drive development goals have been seriously compromised by a history of weak political leadership and inadequate technical and managerial competencies in the secretariat. This is very evident in the extent to which the SADC Free Trade Area's promise and ambition, greater intra-regional trade levels, the move to a region-wide customs union, and gains from EPA negotiations have not been realized. Moreover, SADC countries have some of the lowest human development indicators, which means that hardly any progress has been made in poverty reduction and social progress.*

To this end, it is clear that the harmonization of policies and laws to create a SADC investment zone through the SADC Treaty and the FIP have not fully materialized.

"*Part of the problem is that nationalism seems to prevail over regionalism, and due to the consensus decision-making approach that prevails, the documents are always drafted to be consensual. Moreover, this is the reason why we have not moved to stage two of the regional integration process or any further stages …….respondent B". Besides, the SADC speaks about the Free Trade Agreement, then it speaks about the Customs Union, and then the Monetary Union, but the disparities in social, economic, and political policy between the SADC countries are a disincentive for us to move to that level.*

Looking at the free trade area for South Africa, our import duties contribute about 7% to our revenue. Our most significant revenue contribution is VAT and personal income tax; the third one is corporate tax. For most SADC countries, the most significant contributor to the budget is foreign earnings from exports, net taxes and levies due to government or import duties. Some are just introducing VAT; now, if I need to move to a free trade area, I need to ask myself, what are the substitutes for that? That is a good question. The second one, if I need to move to a customs union and adopt its harmonizing policies, procedures and processes, documentation, phytosanitary, sanitary and all those things, how do you harmonize with somebody who has their sovereign decision-making in specific ways, and you have got very little influence? ……. This is a challenge in our region.

Concerning the implementation of protocols, some information is missing; for instance, we need to start looking at these and tell member states that this is the forecasted impact of this relationship and answer questions such as…. What will be the impact on the GDP? Will it create jobs? What will be the impact on the revenue collection? So, we need to do these exercises to tell member countries that if you implement this protocol -that is the impact it will have, and this is where you will be in 20 years - and then they can make better decisions."

The above response perhaps underscores the issue of asymmetric demands raised earlier by one of the respondents, whereby they sign and agree on certain things even if they do not find them beneficiary to them or without identifying benefits to them, which then gives rise to nationalism within a regional bloc. Based on all the stated aspects concerning the extent to which the FIP has stimulated an investor-

friendly environment in the region and how it has fostered harmonization of finance and investment policies among member countries.

This is what respondent A had to say, *"Taking everything into account, in my view, I think the FIP needs to be reviewed…..because at the moment it is not aligned to the industrialization objective. My view is consistent with the SADC Committee of the Minister of Finance and Investment who gathered in Namibia and have directed the Secretariat to review the protocol and align it to the new industrialization objectives."*

By implication, the protocol needs to be reviewed and aligned to the SADC industrialization and roadmap, which prioritizes industrialization and the adoption of the new strategic plan in the form of the Regional Indicative Strategic Development Plan (RISDP).

Although the proposal to review the protocol is a good move by the authorities, it should be noted that the SADC region adopted the RISDP in 1999 to review its operations while simultaneously amplifying their efficiency and effectiveness in attaining the region's developmental objectives. Specifically, the RISDP focused on facilitating progress in regional integration in the region. Although keeping abreast with changes is fundamental, particularly as it pertains to the review of the protocol and the developmental objectives, it is unclear whether these reviews add value to the facilitation and progress of regional integration in the SADC.

However, despite all these efforts, after two decades of being in operation, the region still has not progressed from the first stage of regional integration; this alone is indicative of the challenges that the region is grappling with as far as regional integration is concerned.

Thus, both the Treaty and the FIP have not realized the objective of creating a SADC investment hub, mainly due to national interests preceding regional interests, the consensus decision-making approach, and the lack of enforcement power. By implication, Member States belong to a regional bloc only on paper but operate s individual countries.

7.5.5.3 FDI challenges in the region

The literature indicated that despite the identified disadvantages, particularly for recipient countries, FDI remains fundamental to countries' growth and development. This theme was developed based on the question that sought to establish why the SADC region is not attracting as much FDI as expected despite all the endeavours to create an attractive FDI environment.

Noteworthy, FDI is unevenly distributed across countries and regions, and several factors are attributed to this uneven distribution; for instance, the literature has identified motives on which investors base the investment decisions in specific locations. These motives are market–seeking investments, resource-seeking investments, efficiency-seeking investments, and strategic investments. Linked to these motives are investment types, namely: horizontal and vertical FDI.

The responses received around this theme necessitated the development of sub-themes as follows:

a) Nationalism versus regionalism
b) Competition and Comparative advantage among member states
c) Macroeconomic convergence
d) Development of the financial systems
e) Infrastructure development

a) Nationalism versus Regionalism

While nationalism refers to a sense of national mindfulness exalting one nation above all other things – regionalism refers to 'formal cooperation and integration arrangements by neighbouring countries aimed at enhancing cooperation through the creation of institutions that shape and drive collective action' (Jiboku and Okeke-Uzodike, 2017: 50). It is a process of social change that involves unique patterns of social interaction.

The challenge of nationalism superseding regionalism featured across responses concerning possible deterrents to foreign direct investment inflows in the region.

For instance, respondent A stated that "*though we have designed several mechanisms to stimulate FDI inflows into the region, one of the significant constraints to inflows is that our markets remain fragmented. Despite belonging to the same regional bloc, the level of integration of our markets constrains investments; that is, it is not easy to move goods and people across our borders. That in itself is a significant constraint because when you invest,*

you want to be able, whenever the need arises, to board a plane or get on a car, on the train to deal with any bottlenecks.

Consistent with this, respondent C added that *"member states prioritize their national objectives while ignoring regional objectives. For example, while we have SADC investment promotion strategies, member states also have their national investment policies and investment promotion agencies. What I have noticed is that when these national policies and strategies are formulated, they often do not consider the possibility of regional projects."*

This is indicative of the lack of harmonization of policies to create a conducive environment for foreign investors. Another important aspect concerning nationalism is that it reduces the market size; the literature has revealed that market size is one of the foreign investors' motives. By implication, when investors decide to invest in one of the member states within the region, they need assurance that all member states are also open.

This is what respondent A had to say, "*even though we speak about regional integration, and operating within a globalized world in our way of acting and making policy, nationalism seems to prevail. For example, say Mozambique got a 50-billion-dollar investment in its oil and gas, potentially unlocking many other economic activities along the way. So, Mozambique may look at the gas and think, what can I get out of it? Moreover, the only way to guarantee benefits is by excluding other countries; however, excluding other member states reduces the market. So as an investor, I am looking at Mozambique, but it is too small to give me the returns that I need for this gas; therefore, I need the region to be behind Mozambique so that after investing in Mozambique and I want to invest in other member states, assurance that I am not going to be faced with challenges if I want to export to South Africa, to Malawi is crucial.*

In line with this, respondent F concurred and added that *"from an investor perspective, bankability of projects or investments is crucial, for example, we have projects for which we have done bankability, and some projects are so large that they need to be linked to countries outside the national borders. As investors, we need assurance that our investments are protected once they cross borders regarding bankability. This is because some projects are so large that they become bankable by linking them to projects outside the borders; for example, the Zambian utility cannot bank on their*

projects because Zambia does not have the balance sheet to attract financing and government as well. Another aspect that relates to bankability is that citizens are unemployed; we speak about the African continental trade area, which has about 1.5 million people, but only 2% of these people are billionaires, and the rest are poor; so, investors cannot bank projects in such situations because their fallback position is government. For investors, bankability is more important than the returns on investments. However, returns on investments are low, and investors need to be assured that they are protected; for instance, instead of investing in Africa where there are currency fluctuation issues and thus no certainty, investors may opt to invest in China where returns on investments are low, but safety is guaranteed."

These are cases where domestic imperatives appear to stifle cross-border movements, thereby hampering investments.

> Related to this, respondent E added that "*member states pursue different political objectives which are not aligned to regional objectives, and these may directly influence investor decisions to invest in the region. For instance, even though we are now in a democratic dispensation, and this is most African countries, the truth is that whenever a government changes, it is still the same political party, the policy changes drastically. There does not appear to be a correspondence that sort of gives an investor assurance to say that these are the common minimum denominators that are never going to change; we do not have that……..and it heightens investor uncertainty and ultimately reduces our investment inflows." I must also add that the region's political framework directly influences how regional policies are ratified and implemented at the national level; this view is based on the fact that these policies must go through the national parliament for approval. Therefore, the political environment determines whether or not regional policies are implemented."*

This is an important finding that underscores the challenges that SADC is confronted with, such as the lack of shared social, economic, and political interests, norms, and values among member states. For instance, the FIP failed to deliver the expected results in the region due to the lack of political will by member countries to prioritize regional integration objectives before national interests; hence the provisions and objectives of the FIP are onerous for the region to accomplish.

b) Competition and Comparative advantage among member states

Concerning factors that possibly hamper foreign investment inflows into the region, this sub-theme also featured all responses. It is worth noting that economies operate as one entity in a globalised world, thus creating a larger market. Globalization requires that countries specialize in what they can produce best and supply other countries while also importing goods and services that cannot be locally produced. In the same vein, regional integration implies that member states work towards becoming one entity. Regional economic integration came as a rational response to developing countries' difficulties, particularly in Africa where countries cannot operate in isolation due to limited economies of scale; the least competitiveness of the continent in the global market and small market size, which calls for coordinated efforts by member countries.

By implication, comparative advantage is fundamental in a regional bloc for the attainment of developmental objectives.

This triggered different views from the respondents. For instance, respondent D said that *"development begins with intra-regional investments where member states capitalize on their resource endowment and then expand and invest in other countries within the region while importing and allowing other member states to invest. However, the SADC region situation is different; the region still suffers from the lack of intra-regional investments…… It almost does not exist. For instance, we have what we call the national action plan for investment (NAPI). Through NAPI, the SADC is trying to assist member states to produce their NAPIs based on the protocol of investment and finance and the policy framework. The idea is to promote harmonization because we currently pursue different objectives; we offer incentives to investors. For example, Madagascar provides many facilities in terms of incentives and tax incentives to better its position, etcetera. Member states compete instead of working together to attain prosperity.*

Instead of creating a more significant market within the region, competition is fierce amongst member countries - we are fighting for the same investors' same money. Even member states like South Africa and Angola, instead of boosting intra-regional investments invest outside the region"

Consistent with this, respondent C added that **"**.....*I still think we need some countries to act as champions for the benefit of everybody else in the region, and I think South Africa should be playing that role. We currently have no value-addition in the region and even continentally; even COVID-19 has sort of come to show Africa that we need to work together more closely with one another than to try and compete. A clear example is the importation of Personal Protective Equipment (PPE) in response to Covid-19 overseas. The African continent is endowed with resources, but countries failed to consolidate their resources according to their comparative advantage to supply the PPE. This competition among member states serves as a deterrent to foreign investors as it heightens uncertainty."*

Respondent F added that "……..*one of the challenges with FDI is that FDI in Africa and the SADC region comes in the form of capital flows. There are few countries in Africa with profound capital markets. Nevertheless, for those with capital markets, the exchange risk is perennial. The second-largest stock exchange in Africa is in Egypt and is roughly six times less than the Johannesburg Stock Exchange (JSE). The Covid-19 pandemic also demonstrated that too much reliance on FDI is a risk as countries lack the basic capacity to produce masks, sanitisers, and PPEs. The focus should be to promote Indigenous Development Investment (IDI) and FDIs to be complementary."*

Respondent A concluded that "….*to attain greater levels of investments, starting with intra-SADC investments, a consolidated approach, that is, greater levels of collaboration between countries are required if they are to benefit from investments."*

c) Macroeconomic convergence

One of the Finance and Investment Protocol's primary objectives was to promote macroeconomic convergence on policies concerned with stability to enhance member states' macroeconomic stability. The criteria for convergence as specified in the memorandum of understanding on Macroeconomic Convergence (2011) include, among others, low and stable inflation rates, prevention of large deficits, monetization of deficits and maintaining low and stable levels of public debt-to-GDP ratio; and preventing significant financial discrepancies in the economy and minimizing market distortions.

Therefore, these are the indicators for macroeconomic convergence in the region. This is done on a peer-review basis; for example, each SADC Member States peer reviews another Member State. This is meant to ensure peer pressure whilst the programme is implemented voluntarily.

This sub-theme emerged as one factor that hampers foreign investment inflows in the region based on the participants' responses. For instance, Respondent B stated that "

> "*The SADC speaks about the Free Trade Agreement, then it speaks about the Customs Union, and then the Monetary Union, but the disparities in social, economic and political policy between the SADC countries are a disincentive for us to move to that level……. Our current macroeconomic policy is diverse. Moreover, many of them are very contradictory, so we need to get to the point. The socio-economic conditions will never be perfect and equal, but you must at least bring them to a level where countries can gradually get to the same level. How do you harmonize with somebody who has their sovereign decision-making in specific ways, and you have got very little influence?*

Respondent F added that *"……. macroeconomic stability and the achievement thereof is still a challenge in the region, for example, Even before Covid-19, the majority of countries were struggling to meet most of the indicators. It will be worse now. Furthermore, you will be familiar with the fact that studies show a positive relationship between FDI and macroeconomic stability, especially in a low inflation environment. The fact that the FIP is being reviewed is even more progressive. What now is needed is to ensure that policy and performance is assessed quantitatively and scientifically".*

Contrary to these views, Respondent D had a different concerning macroeconomic convergence in the region; in his words, he stated that "……

> *My view is that the SADC countries are on a better footing than their peers in the other parts of the continent regarding ratifying and implementing development policies. For instance, the regional Macroeconomic convergence criteria that SADC set is well underway. The role of SADC in fast-tracking the adoption and implementation needs to be acknowledged."*

Although progress by the SADC region concerning macroeconomic convergence is acknowledged and commendable, there are still several challenges as far as this is concerned; for instance, the public debt-

to-GDP ratios are way above 60 percent for almost all countries, and this was the case even before the global pandemic. However, the Covid-19 pandemic perpetuated the situation because countries increased their borrowing rates to meet the pandemic demands. On the other hand, member states are struggling to maintain low budget deficits and stable inflation rates. Therefore, based on this information, SADC member states are still far from achieving macroeconomic convergence.

d) Level of development of the financial systems

The development of the financial sector is one crucial factor that may stimulate or deter foreign direct investment inflows. To stimulate an investor-friendly environment in the SADC region, there are several mechanisms to liberalize the financial sector, and these include, *among other things,* the removal of restrictions on foreign ownership and the deregulation of off-shore investments; and allowing foreign investors to borrow money from the region's financial institutions to finance their innovative activities within the region. Here the question was, in your view, how crucial is the financial sector development, and how effective have these reforms been in promoting inward FDI?

Respondents had much to say on this aspect; for instance, Respondent A asserted that **"**.....*In my view, the financial sector indeed has a crucial role to play in promoting investments. However, we also must understand that some countries are at different development levels and have different financial systems. For example, in Africa, South Africa is always ahead in terms of FDI – followed by Angola, not because they have a perfect financial system but also because of the oil and gas. For example, South Africa's financial system is relatively developed because there are no foreign exchange issues. For instance, when he invests in South Africa, there is no problem for him to repatriate his profits, if you compare with Angola, whose financial system faces many difficulties, very high inflation, etc. For example, investors who invested money in Angola are unable to repatriate profits. So, this causes frustration to the investors.*

> *So, the financial system is crucial in the region but impacts negatively on capital investment. For instance, if we look at countries like Angola, Zimbabwe, Zambia, Zambia, and Malawi have many problems, but South Africa, Seychelles, and even Botswana are okay because they share the same financial system, so it is okay. Hence, an investor is more inclined to come to countries with stable financial systems instead of Angola.*

Consistent with this, Respondent F added that *"…… the financial sector is vital for FDI attraction; however, FDI can be opportunistic, and we have had cases like these in Africa where the money is made and taken out. This highlights our system's weakness; the country can build sufficient capacity from within based on reinvested earnings. The issue of illicit financial flows is still a huge challenge in the region, and our financial systems are still not up to speed as far as this is concerned."*

Respondent D added that" ……*From a financial point of view, investors want to be assured that they can do seamless banking in our region; they can immediately have transactions cleared. How can we then align this structure for the investor thus, our role is to assist in attracting FDI by ensuring that the banking systems are aligned. However, the region's banking systems are currently not aligned because many countries in the region have indigenous banks involved in the cross-border banking world, and each member state is governed by its own rules and regulations that is a challenge we are grappling with."*

These responses suggest that harmonizing stability-oriented policies in the SADC region is still a challenge.

e) Infrastructure development

The advancement of infrastructure is another critical aspect that can potentially promote foreign investment inflows. Similarly, the respondents touched on the significance of infrastructure development in facilitating trade and other member states' links. Concerning this aspect, particularly as it pertains to the region, Respondent A stated that

"……., in my view, the SADC should play a convener role where they bring countries together, the policy, discuss plans and try to align plans that are important for regional integration and economic development. Although we see more cross border regional infrastructure projects in the ICT space, railroads, roads, and ports, which are developed to allow other countries in the neighbourhood to share that piece of infrastructure for goods to flow in and out. However, most of our infrastructure until

today was designed to get raw materials out to the rest of the world and consume but not attract foreign direct investments. Consequently, our logistics and supply chain links are inferior connectivity. We are better connected with the rest of the world than with African countries.

The only infrastructure project that links local economies is the Maputo development corridor, which links them out to monoculture to Matala in Mozambique. It was not designed merely to export but to service local communities as well; that is the infrastructure framework that the region should strive for."

Consistent with this, Respondent A concurred with Respondent B in that "…… *our infrastructure to a large extent, remains geared towards exporting raw materials and bringing in consumer goods, but as the regional authorities, we are currently working on improving the quality of our infrastructure in the region so that we can attract more foreign investors. So, we are working on the Project Preparation Fund (PDF), a framework to assist member states in developing and conceptualising their infrastructure projects – it promotes cross-border infrastructure projects. Nevertheless, our challenge here is the lack of cooperation by member states. The other challenge is that regional infrastructure projects are supported and approved by the African Development Bank (AfDB). However, the approval of the infrastructure project by the AfDB takes too long such that members can wait for three to four years for project approval; hence they then seek funding opportunities from other institutions. Thus, there is a lot to be done concerning their commitment to scaling up this development and lending to member states in the SADC region as it still lags."*

To this end, the information gathered from the study participants made a valuable contribution to this study and painted a clear picture, particularly in understanding progress towards deeper regional integration and the Finance and Investment Protocol's efficacy to create a SADC investment zone. Apart from FDI inflows as a prerequisite for growth and development in the region, this information also established some disadvantages concerning too much reliance on member states' FDI. Equally, some challenges that impede FDI inflows have also been established, including low institutional quality, and all these are valuable input, particularly in

terms of supporting the researcher to answer and achieve the study research questions and objectives.

As stated earlier, this study also collected data through a survey questionnaire due to some of the participants not being available for face-to-face interviews. The following section presents findings from the survey.

7.6 Summary of the findings

This chapter attempted to answer the research questions and ultimately accomplish the objectives of the study using qualitative data. Using semi-structured interviews data were collected. Data comprised expert views of the respondents on the quality of governance, the influence of the SADC Treaty, and Trade and investment Protocols on inward FDI in the region. Further, respondents also expressed their views on the effect of financial liberalisation in attracting foreign investments; the main determinants of FDI, and barriers thereof.

The findings based on the views of the respondents reveal that despite the rules and regulations set out in the Treaty, the quality of governance is weak in the region. This is mainly due to a lack of enforcement mechanism which leads to non-compliance. Consequently, member states are pursuing national objectives over regional objectives, and have become competitors rather than complementing each other. Consequently, intra-regional trade and investment are very low as member states are pursuing bilateral agreements mostly with non-member states. This adversely affects FDI inflows and the entire economic performance in the region. Further, data revealed that financial markets are still fragmented. In addition, macroeconomic instability, underdeveloped infrastructure, ineffective political institutions, lack of political will, uncertainty, poor protection of property rights, and higher transaction costs, are amongst factors that deter inward FDI into the SADC region. The findings further revealed that the income rankings of countries do not determine the FDI attractiveness of the country, but locational factors such as good governance, resource endowment, stability, and market size are crucial to investors.

7.7 Conclusion

This chapter presented and analyzed the qualitative data collected through semi-structured interviews. The analysis comprised the development of themes from the interview data and the descriptive analysis

of survey data; the rationale behind using these research instruments was to address research questions that could not be answered quantitatively. These findings are consistent with the reviewed literature, however, because the study adopted a mixed-methods approach in which the two methods were applied sequentially. The next chapter presents integrated results from both the regression results and the qualitative findings adopted in this study so that overall conclusions can be drawn. The integration allows the researcher to determine whether convergence or divergence exists between quantitative and qualitative data and thus enable the researcher to draw valid conclusions concerning the effect of institutional quality on foreign direct investment inflows in the SADC region.

Chapter 8

Data Integration Process

8.1 Introduction

As stated in the preceding chapters, this study adopted a mixed-methods approach that constitutes quantitative and qualitative analyses to accomplish the study objectives. These approaches were sequentially applied in the study to achieve the study objectives. To this end**,** the literature on research methodology emphasises the significance of integrating qualitative findings and quantitative to determine whether convergence or divergence exists between the two approaches and to ultimately draw concrete and valid overall conclusions and then present policy recommendations. Thus, this chapter combines the results from the quantitative data with the findings from the qualitative data; similarities and differences are then identified, and themes are developed based on consolidated data. Subsequently, a comprehensive discussion that is also linked to the problem investigated in this study, as well as the study research objectives and questions are presented in this chapter.

8.2 What is Data Integration?

According to Creswell, Hanson, and Clark (2007), data integration is a crucial part of the mixed-methods analysis. It can be conducted through various techniques widely used to blend, integrate, and eventually synthesise qualitative and quantitative results. These authors further outline four different techniques to data integration, and these include:

- Data transformation - transforming qualitative textual data into quantitative data or vice versa.
- Joint display of qualitative and quantitative data;
- Following a thread aims to identify critical themes for further exploration by conducting a primary analysis of all aspects of a study; and
- Triangulation of data sets – data are independently collected and analysed and then combined at the point of interpretation, checking for convergence and divergence in findings where the same phenomenon is being examined.

Of the different techniques presented above, this study chose the visual presentation or a joint display of data because both qualitative and quantitative data exist for the problem at hand and thus can be analysed together.

Following a joint display approach to data integration, the results from both methods were integrated and interpreted in order to check for agreements and disagreements between qualitative findings and quantitative results (Creswell, 2007; Greene, Caracelli, and Graham, 1989; and Teddlie and Tashakkori, 2006) concerning the impact of institutional quality on FDI inflows in the SADC region. Consistent with this, Bazeley (2015) asserts that data integration assists researchers in generating intuitions such as identifying sub-group characteristics, demonstrating parallels between behavioural characteristics and scaled scores which depict patterns of relationships among variables and the identification of divergent cases within a study set (Bazeley, 2015). A fundamental feature of data integration can be the visual presentation and the synthesis thereof; it is within this context that the proponents of the mixed methods approach have advocated for more articulation of integration techniques with a particular emphasis on the use of visual data presentation to stimulate the insight of the results found through a mixed-methods approach (Bazeley, 2015; Fetters and Freshwater, 2015; Guetterman, Creswell, and Fetters, 2015; Cathain, Murphy, and Nicholl, 2008). This data integration technique is applicable only when both qualitative and quantitative data for the case at hand are available.

In order to achieve data integration, the study adopted the Pillar Integration Process (PIP) as developed by Johnson, Grove and Clarke (2019) to integrate quantitative and qualitative data collected to examine the effects of the quality governance on foreign direct investment inflows in the SADC region. The PIP is a transparent and rigorous four-stage analytical technique to integration that presents qualitative findings and quantitative results in a joint display for sound conclusions. This process's novel aspect lies in its efficient and replicable processes, allowing the researcher to convey both the process and their mixed-methods integration findings concurrently. This analytical technique is transparent and supports the external validity of integration in mixed-methods analysis. It aims to minimise bias while maximising researchers' opportunities to methodologically and visually synthesise data (Johnson et al., 2019). Figure 20 shows the process followed using a sequential explanatory design.

8.3 Data integration analytical process

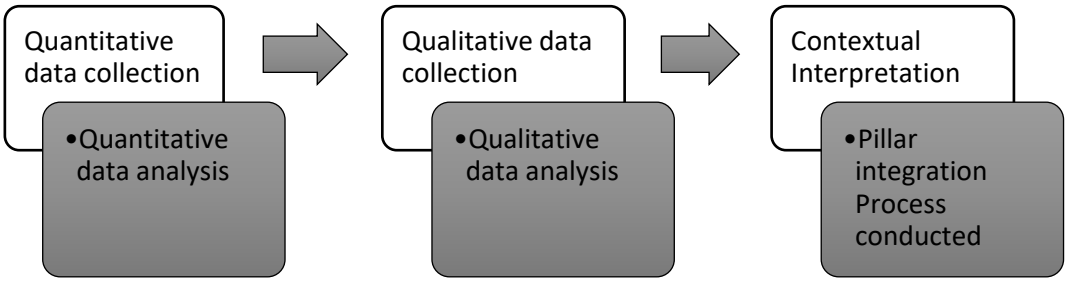


Figure 21: Individual components of the analysis

This study examined the extent to which institutional quality influences foreign direct investment (FDI) inflows in the SADC region; here, FDI was measured as a dependent variable while the growth of gross domestic product, inflation, trade openness, financial development, natural resources, trade policy and institutional quality were explanatory variables in a regression model. The period of observation was 2012 – 2019.

In addition to this, qualitative data from semi-structured interviews and a survey questionnaire administered to experts in foreign direct investments from a regional economic integration perspective and through a governance lens. Interviews were undertaken with four senior officials from the SADC Secretariat, the regional integration directorate; and two experts from Think Tanks namely: the African Peer Review Mechanism (APRM) and Good Governance Africa; the survey data was collected from eleven respondents from different institutions within the region, for instance, amongst the survey respondents were officials from the Development Bank of Southern Africa (DBSA), South African National Department of Treasury, Trade and Industry department, SADC Banking Association, and multinational enterprises in the region.

Here the objective was to establish their views concerning the effect of governance on FDI inflows in the region and determine whether weak governance explains variation in FDI inflows.

The PIP is a four-step linear process and is outlined in Johnson et al. (2017:5) as follows:

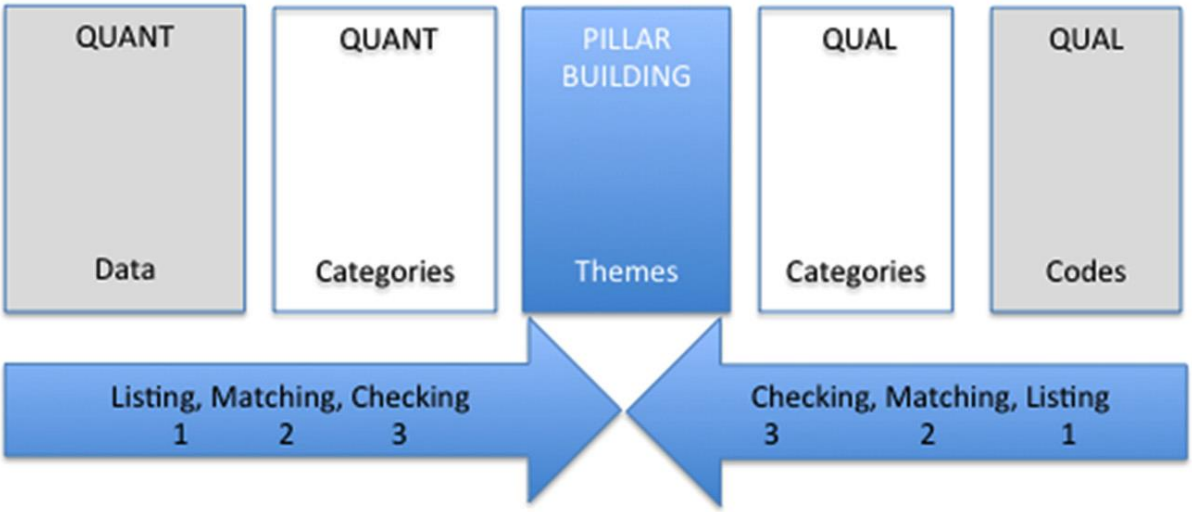
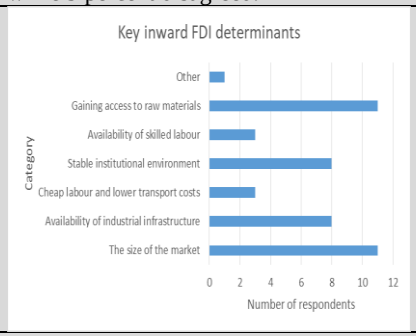


Figure 22: Diagrammatic representation of the Pillar Integration Process

Figure 22 above demonstrates the column captions and trend of integration. The sequential analysis comprised quantitative evaluation of data: descriptive and inferential statistics through econometric models; then this was followed by semi-structured qualitative interviews and questionnaires analyzed using *a thematic analysis approach.*

***Table 19**: Pillar Integration Process*

Quantitative data	*Quantitative codes*	*Pillar integration Themes*	*Qualitative Themes*	*Qualitative codes*
Panel data: 2011 – 2019	Heterogeneity			Tool – interview data
Drawn from WDI for 15 SADC member states				
	Interdependence			Participants
Variables measured:	Regression analysis results – System GMM			SADC Secretariat officials -
Dependent variable – FDI as a % of GDP	GDP-growth			Good Governance Africa
Independent variables:	Trade openness			African Peer Review Mechanism
GDP- growth %	Natural resource availability **Positive coefficients and statistically significant**			South African National Treasury
Trade Policy - - weighted tariff				SADC Banking Association
Inflation-				
Financial development	Trade policy – **negative coefficient but not significant**			
	Inflation			
Natural resource availability	Institutional quality **Negative and statistically significant coefficients**			
Institutional quality				
Survey data – collected through questionnaires	**Category - Number of participants**			
	MNEs - 3			
	Academics - 4			
	Think-tanks - 4			
	Total - 11			

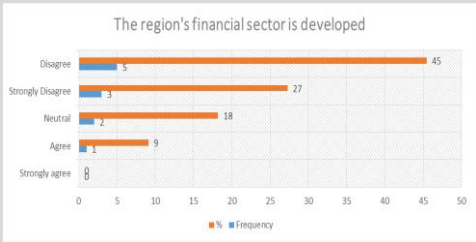
SURVEY QUESTIONS				
FDI inflows are the backbone of economic performance in host countries. Do you agree with this statement?	27%) of the participants strongly agreed that FDI is an engine for economic growth in host countries due to the benefits it brings to recipient countries; seven (64%) agreed with the statement, and only one person (9%) disagreed with the statement that FDI is essential for the country's economic prosperity.	FDI inflows remain a backbone for economic prosperity in the SADC region	**Significance of FDI for regional development**	*"FDI can be opportunistic, and we have had cases like these in Africa where the money is made and taken out" "In my view, I think Africa is obsessed with foreign investments. Let us focus on mobilising our resources and use these to leverage investment."*
In your view, which factors matter most for FDI in the region?	Ninety-one percent of the respondents agreed that FDI inflows are necessary for growth, while 9 percent disagreed.			*"The SADC region is rich in resources; therefore, the motive behind investors' decisions to invest in the region is to exploit natural resources."*
				

The SADC region enacted Protocols on Finance and investment to harness an investment climate in the region. To what extent have the strides taken by the SADC region stimulated inward FDI into the region?	Of the eleven participants, 91 percent of the respondents were of the view that the FIP has to some extent stimulated investments inflows in the region, while 9 percent thought the protocol has to a great extent enhanced FDI inflows into the region – according to these views the protocol has served its purpose.	Heterogeneous and contradictory social, economic and political policies		*"The SADC speaks about the Free Trade Agreement, then it speaks about the Customs Union, and then the Monetary Union, but the disparities in social, economic and political policy among the SADC countries are a disincentive for us to move to that level……. Our current macroeconomic policy is so diverse. And many of them very contradictory."*
				"The actual implementation or the incorporation of regional objectives into national objectives is still a challenge that we are confronted with. Member States prioritise their national objectives over regional objectives."
How impactful has the protocol been in integrating the region globally – that is, opening room for technological change, increased capital flows and international links?	64 percent of the respondents believed that the protocol is somewhat impactful in creating global links; however, 27 percent thought the protocol is not impactful, while 9 percent (1 person) were neutral, and none of the participants thought the protocol is impactful, let alone very impactful			"*Part of the problem is that nationalism seems to prevail over regionalism, and due to the consensus decision-making approach that prevails, the documents are always drafted to be consensual. And this is the reason why we have not moved to stage two of the regional integration process or any further stages from one*

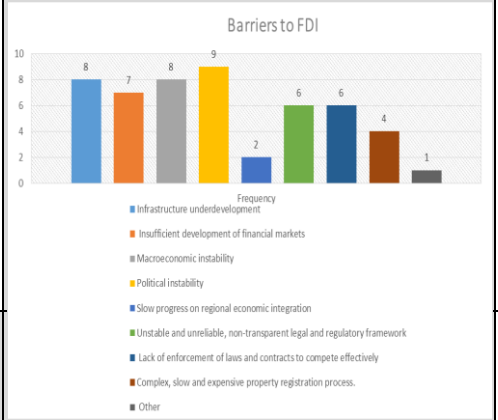
				"What I have noticed is that when these national policies and strategies are formulated, they often do not consider the possibility of regional projects."
Rules become effective only when enforced. In your view, how efficient and effective are the region's institutions in enforcing laws, policies and regulations?	Seventy-three percent of the respondents believed that there is a lack of enforcement mechanisms in the region; equally, 9 percent viewed the region's institutions as extremely inefficient in enforcing compliance by member states, while 18 percent were not sure about the region's ability to enforce rules.		**The SADC Treaty and the implementation of the Finance and Investment Protocol.**	*"the main challenge with both the SADC Treaty and the FIP is the lack of enforcement power. For instance….all it says is…Member states are expected to cooperate. Even us, the Secretariat we cannot enforce laws and regulations because decision-making powers are vested in the Member States, we can only make recommendations."*
The institutional environment in the host country is a key locational determinant of the amount and nature of FDI inflows that an economy can attract- this is because it directly affects the transaction costs of doing business in the host country	Sixty-four percent strongly agreed that the host country's institutional environment and arrangements directly affect investors' decisions to invest, while 36 percent also agreed that this is a fundamental locational determinant of FDI. None of the respondents disagreed with the statement.	**The state of SADC's institutional framework and investors' property rights protection**		"*Member states pursue different political objectives that are not aligned to regional objectives, which may directly influence investor decisions to invest in the region. For instance, even though we are now in a democratic dispensation, and this is the majority of African countries, the truth is, whenever a government changes, even, it's still the same political party; the policy changes drastically."*
				"SADC institutions require the requisite capacity and authority to implement regional policies and protocols. And the role of SADC institutions is merely to coordinate without any authority over the Member States, and the SADC Secretariat is an example of such an institution."

				"The heads of state have not shown the necessary political energy and inclination to drive deeper integration of people, markets, and societies to deal with the region's development challenges. The record of SADC institutions in developing the necessary capacity and making the strategic interventions to drive development goals have been seriously compromised by a history of weak political leadership and inadequate technical and managerial competencies in the secretariat."
The role of political institutions (the legal and regulatory framework) in the region is to create a conducive economic environment that supports inclusive economic institutions that support markets and ensure property rights protection, particularly foreign investors. How effective are these institutions in creating this enabling environment?	Eighteen percent believed that the region's political institutions are effective, while 45 percent viewed political institutions as ineffective in applying laws and regulations. Also, 36 percent of the respondents were neutral.	**Institutional quality deters FDI inflows in the SADC region.**	Poor macroeconomic stability in the region	*"the FIP includes the macroeconomic convergence programme which seeks to ensure that the SADC Member States achieve macroeconomic stability, and is defined in terms of various levels of quantitative indicators such as economic growth rate, fiscal deficit, debt ratio, level of foreign reserves" Even before Covid-19, the majority of countries were struggling to meet most of the indicators. It will be worse now."*
				"The political will is the biggest problem as heads of state and governments feel they are above the regional body."
			FDI challenges in the region.	*"The political framework in the region directly influences the extent to which regional policies are ratified and implemented at the national level, this view is based on the fact that these policies have to go through national parliament for approval – therefore, the political environment determines whether or not regional policies are implemented."*

			• Nationalism versus regionalism	*"We currently have no value-addition in the region and even continentally; even COVID-19 has sort of come to show Africa that we need to work together more closely to one another than to try and compete. A clear example is the importation of Personal Protective Equipment (PPE) in response to Covid-19 from overseas whereas the region as well as the continent are endowed with resources but failed to consolidate their resources according to their comparative advantage and ultimately work together to supply the PPE"*
			• Competition and Comparative advantage among member states	
The development of the financial sector plays a vital role in enhancing the FDI attractiveness of the region. Do you agree?	Eighty-two percent of the respondents agreed that financial development is essential for the region to FDI attractive, while 18 percent strongly agreed with the statement.	Poor macroeconomic stability in the region	• Macroeconomic convergence	*"Financial development is crucial for FDI attractions; however, we also must also understand that some countries are at different levels of development and different financial systems as well."*
			• Development of the financial systems	*"The banking systems in the region are currently not aligned because many countries in the region have indigenous banks involved in the cross-border banking world, and each member state is governed by its own rules and regulations that is a challenge we are grappling with."*
The SADC region undertook to remove or relax restrictions on foreign ownership and the deregulation of offshore investments; how effective have these reforms been in enhancing inward FDI by attracting foreign loans? On a scale of 1 (dismally ineffective) to 5 (extremely useful)	Sixty-four percent believed that the reforms have been somewhat effective, which implies removing restrictions and deregulation of offshore investments augmented FDI inflows into the region; however, 36 percent thought the reforms have been ineffective.		• Infrastructure development	
	the majority of the respondents thought the reforms are somewhat effective; some were of the view that the reforms have been ineffective			
		Different levels of development and financial systems.		

The region's financial sector is sufficiently developed to allow foreign firms to borrow to increase their creative activities in the region.				
	By implication, the protocol partially serves its purpose; therefore, a lot still needs to be done.			
The costs of doing business in the region are still high relative to other regional groupings in the developing world.	64 percent agreed that the transaction costs are still high; while 36 percent strongly agreed that the costs are high			

Is it necessary for host country governments to create platforms to interact with MNEs regarding the development of new laws, policies, and regulatory mechanisms that may directly affect the operations of MNEs, particularly the transaction costs?	4 out of 11 participants expressed consistent reviews with literature that MNEs should be consulted when new laws are ratified, particularly those that may reinforce certainty, stability, and property rights protection. However, seven respondents were of the view that consultation is somewhat necessary. none of the respondents explicitly said no neither were respondents who were not sure about the necessity of consultation			*When I decide to invest in a country within the region, I need the region to be behind that country so that after investing in Mozambique for example and I want to invest in. For example, a fertiliser plant, I need to have the assurance that I'm not going to be faced with challenges if I want to export to South Africa, to Malawi, because Malawi also wants to do their plant."*
From the list below possible barriers to region?	Of the eight possible deterrents to FDI inflows, political stability emerged as the first facto, chosen by 9 out of 11 respondents. While infrastructure underdevelopment and macroeconomic instability were chosen by 8 out of 11 participants; then insufficient development of financial markets emerged as the third factor, whereas unstable and unreliable, non-transparent legal, regulatory framework and lack of enforcement mechanisms were chosen as the fourth factor. Then, complicated, slow and expensive property			*"Member states compete with each other instead of working together to attain prosperity. So instead of creating a bigger market within the region, competition is fierce amongst member countries - we are fighting for the same money from the same investors."*

	registration processes, slow progress on regional economic integration, and others emerged as the least barriers to FDI inflows in the region. 			
		Barriers to FDI inflows in the region		*"We currently have no value-addition in the region and even continentally; even COVID-19 has sort of come to show Africa that we need to work together more closely to one another than to try and compete. A clear example is the importation of Personal Protective Equipment (PPE) in response to Covid-19 from overseas, whereas the region and the continent are endowed with resources but failed to consolidate their resources according to their comparative advantage and ultimately work together; to supply the PPE."*
				"To attain greater levels of investments, starting with intra-SADC investments, a consolidated approach, that is, greater levels of collaboration between

				countries are required if they are to benefit from investments."

Source: Author's integration process adapted from Johnson et al. (2017:5)

Table 19 presents the PIP, which was used to synthesise both qualitative findings and quantitative results. Following the integration process, as outlined in Johnson et al. (2017), stage one was the listing stage.

- **Listing stage**: this stage recorded quantitative data from the regression analysis and the survey questionnaires that sought to examine and understand the effect of institutional quality on foreign direct investment inflows into the SADC region. These were analysed and then transformed into categories and thus recorded in the quantitative categories' column. As shown in the table, the listing included econometric results from the study participants' analysis and survey responses. These were then grouped into factor codes with broader conceptual and meaningful quantitative categories. Here the focus was on the regression results, descriptive statistics as well as survey results. These included the correlation analysis, the diagnostic tests that were run as part of the analysis and the categories from the survey responses based on the respondents' views concerning institutional quality and other explanatory variables on FDI inflows in the region.

- **Matching stage**: After listing all the quantitative data for the study, quantitative and qualitative data were matched with quantitative codes and aligned to the study research questions and objectives. The data were matched to identify or reflect synergies aligned to the study research questions and objectives. For instance, the regression analysis results, the survey results and the quotation marks from interview findings related to quantitative data were matched concerning the explanatory variables' effect on FDI inflows and the region's economic prosperity. This enabled the researcher to identify similarities, patterns, agreements, and disagreements between the two types of data.

- **Checking stage**: To ensure validity, qualitative data collected were checked and aligned to the quantitative results found and vice versa. This stage enabled the researcher to maintain a high-quality level of integration and improved the results' accuracy. This stage ensured that all the relevant data were listed and that the matching was under the study research objectives, questions and the developed hypotheses and irrelevant information was thus discarded.

- **Pillar building**: This stage integrated quantitative and qualitative categories following the study objectives and questions; this enabled the researcher to interpret the data according to the research questions and objectives. The middle column of Table 19 presents this stage. The mixed methods were synthesised, findings developed from the first three stages were compared and contrasted, and insights identified from the integration process were conceptualised in a meaningful and transparent manner through developing themes from the integrated data. Subsequently, inferences were developed based on the patterns, insights and themes that emerged and the possible explanations were in the pillar-building column.

  This study sought to examine the effects of institutional quality on foreign direct investment inflows in the SADC region; this was triggered by the literature which considers FDI as an engine for economic growth and a crucial tool through which both developed and developing economies can be integrated into the globalised world. This view followed the benefits that FDI is believed to bring to the recipient economies. These include enhanced economic growth levels through capital accumulation, bridging the gap in domestic savings, improved balance of payments as a result of foreign exchange, technological transfers which improved production techniques as well. The study controlled for GDP growth, inflation, financial development, natural resource availability, trade policy and trade openness.

  Based on the integration process, the following themes were established:

  - FDI inflows are crucial for economic prosperity in the SADC region, but own resource utilisation to leverage investments is vital
  - Inward FDI determinants in the SADC region.
  - Barriers to inward FDI in the SADC region
    - Heterogeneous and contradictory social, economic, and political policies
    - The weak state of SADC's institutional framework and investors' property rights protection
    - Poor macroeconomic stability in the region.
    - Varying levels of financial development and the effects on inward FDI in the region
  - The association between institutional quality and FDI inflows in the SADC region.

8.3.1 Theme 1: FDI inflows are important for economic prosperity, but capitalizing on resource availability to leverage investments is essential

Given the benefits of FDI as outlined above, this study needed to assess the significance of inward FDI into the region concerning economic prosperity. This was assessed quantitatively through a survey and correlation analysis and quantitatively through semi-structured interviews.

As presented in Table 19, the correlation analysis suggested that FDI inflows positively impact the region's economic growth. Moreover, the survey results indicated that most of the respondents believed that inward FDI plays a significant role in enhancing the region's economic prosperity due to the deficient savings culture and the unfavourable balance of payments in the region. By implication, the SADC region must attract FDI to access advanced technology and improve managerial practices from the developed world, mainly because SADC member countries are labour-intensive economies.

These foreign investments also allow the region to participate in global trade, tap into international markets, and exchange their labour-intensive products for capital-intensive products from developed countries, which is always the case for developing economies. However, despite the significance of FDI for SADC globalisation purposes and the benefits it brings to recipient countries, qualitative data indicated that FDI could be unscrupulous as some investors take advantage of the investment incentives offered in the region and then repatriate profits to their countries of origin. While this is true for the SADC member states, inward FDI has some drawbacks in the host country; for example, over-reliance on FDI has made Angola vulnerable to external developments which are beyond their power, particularly if foreign investors repatriate profits to their countries of origin without reinvestments in the host country. The presence of foreign investors can also lead to a loss of control by governments when foreign investors own a large share of the country's GDP, and national sovereignty may be lost; an excellent example of this situation is the state capture in South Africa foreign investors control the country.

Subsequently, the data suggests that although inward FDI is vital for the region's prosperity, instead of being too obsessed with attracting foreign investors, as a resource-rich region, the focus should be on mobilising our resources and using them as leverage for our investments. For instance, one respondent argued that "…..*the number of private equity assets in Africa is valued at about $2.5 trillion in terms of high net worth individual, which is much money that could be used to leverage our investments. For instance, America can talk about $2 trillion, and it is not like there is cash in the bank. It is leveraged;*

thus, if the system is set up for leveraging, why are we not leveraging the mineral resources that are on the ground in our region?"

While on the significance of FDI inflows for economic prosperity, the data shows inflows into the African continent, particularly the Least Developed Countries, have focused on extractive industries and do not promote value. The structure of these economies adds no significant manufacturing capability. Consequently, African countries cannot generate terms of trade benefits because they occupy low productive hierarchy levels even when trade increases significantly. It is also worth noting that FDI comes in capital flows; few countries in Africa have profound capital markets; however, the exchange risk is perennial for capital markets. Thus, FDI does not always lead to incredible and sustainable economic growth.

To this end, although inward FDI is fundamental for economic prosperity in host countries, it is worth noting that these inflows do not always lead to more significant and sustainable economic growth. Therefore, leveraging available resources is vital if the region attains higher economic prosperity levels.

8.3.2 Theme 2: Inward FDI determinants in the SADC region

Given the significance of foreign investments that are deemed engines for economic growth and prosperity in host economies that followed the rise in globalisation and international trade, there has been a noticeable rise in research by scholars and policymakers focusing on promoting and realising FDI effectively.

The literature has identified several factors that are believed to stimulate FDI inflows; however, they vary by country and region. The African continent is characterised by developing and Less Developed Countries (LDCs), some of which are within the SADC region; therefore, it is crucial to examine the determinants of FDI inflows into the region to give insight into investment promotion agencies in the region.

The regression analysis for this study examined FDI inflows as a function of GDP growth, trade openness, inflation, natural resource availability, financial development, trade policy, and institutional quality. It is worth noting that the determinants are not limited to the stated factors; however, this study considered these factors due to data constraints.

Based on this model, the regression results indicated that inward FDI is stimulated by the GDP-growth percentage, trade openness and natural resource availability. This is represented by the positive coefficients that these variables had, which were also statistically significant.

The literature revealed that there are different motives behind foreign investments, and these include natural resource-seeking investments (objective is to obtain resources both natural such as minerals, raw materials, agricultural products, and non-natural resources such as unskilled labour); Market-seeking investments (seek to supply local or adjacent markets) are typically seen in both low, and middle-income countries. Efficiency seeking investments (which refer to the search for the enhancement of the overall cost efficiency of the MNE, these investments take advantage of different factor endowments, cultures, institutional arrangements, economic systems, and policies, as well market structures by concentrating production in a restricted number of locations to supply multiple markets) flow mainly to middle-income countries. Finally, Strategic asset seeking investments strive to obtain strategic assets (either tangible or intangible) that may be crucially important for the operation of the firm in the long run and are not available at home. This type of investment is seen in high-income countries where knowledge and technology are more readily available (Dunning, 2002).

Based on the regression results above and considering the motives behind foreign investments, GDP growth has a positive statistically significant coefficient implying that foreign investments into the SADC region are driven by the size of the market (market-seeking). Consistent with this, survey data also indicated that the market's size is among the essential factors that foreign investors consider when making investment decisions. This is also consistent with the view that FDI flows to countries with higher economic growth rates, while others believe that foreign investments enhance growth. While this may suggest a bi-directional relationship between the two variables as stated in the literature, the market size is the motive behind foreign investments for the SADC region.

Trade openness has been highlighted as the key determinant of FDI inflows in the literature; this refers to removing trade barriers to allow goods and services to flow freely between countries. Openness in regional economic integration is perceived as fundamental to enhancing countries' FDI attractiveness, and this is achieved through the establishment of Regional Investment Agreements (Kubny, Molders, and Nunnenkamp, 2008). The removal of trade barriers improves the interaction levels between economies, and they get to share common ideas and objectives and have clear-cut methods to achieve the set objectives. Additionally, the removal of trade barriers within the region potentially enhances horizontal FDI from investors outside the region due to effective market size increases. In contrast, Horizontal FDI is mainly driven by market-seeking and the local market's purchasing power and

involves replicating production lines in different locations. In comparison, the motive behind Vertical FDI is production cost differences and involves dividing up the value chain through repositioning stages of the production process to where they are most cost-effective to commence and can be explained by Multinational Enterprises (MNE) desire to take advantage of factor-cost differences and enhance efficiency in host countries.

For the SADC region, economic integration came as a rational response to the region's difficulties where countries could not operate in isolation due to limited economies of scale, and this was followed by the ratification of the SADC Free Trade Area. Trade openness within the region (intra-regional trade and investment) was expected to lead to a larger common market, capitalising on the competitive advantage as a result of the integration, and a more efficient resource allocation governed by comparative advantage as well as various positive externalities that would enhance the growth rates of member countries.

The study results indicated a positive and statistically significant coefficient for trade openness towards FDI inflows; by implication, removing barriers to trade in the region increase market size and thus positively influence FDI inflows into the region. This means that a unit increase in trade openness leads to more inward FDI; this is consistent with the theory and the literature that states that removing trade barriers resulting from regional economic integration attracts both FDI inflows. However, despite the positive and a statistically significant coefficient, the data also revealed that although the regional bloc has been in operation for quite some time, and with the Free Trade Area in place, the SADC markets are still fragmented. "It is still difficult to move goods and services as well as labour across our borders", that is, domestic imperatives still stifle the cross-border movements. This implies that the adoption and implementation of One-Stop Border Posts (OSBPs) by the member states that aim to address delays at cross border points due to non-integrated processes and inadequate facilities have failed to address the process (Ntara, 2016). This is consistent with Raff (2004), who asserts that under certain conditions, Free Trade areas do not lead to increased FDI inflows, and this may be attributed to very low equilibrium external tariffs making it challenging to stimulate FDI or that multiple equilibrium points and member states are trapped in one that does not support FDI.

The data has also indicated that notwithstanding the region's openness to trade, intra-SADC investments still lack. Instead of promoting regional orientation, intra-regional trade is dominated by bilateral agreements among member states such as South Africa and Botswana. Moreover, member states do not support export expansion. For instance, some member states are competitive exporters of certain products (such as petroleum, cotton, refined copper etc.) to the rest of the world. Thus, there is limited

support from the region – for example, instead of stimulating regional trade and investment, some SADC countries, including South Africa, import the same products outside the regional borders. Even for products produced within the region, there is no value addition due to member states' lack of cooperation. For instance, although cotton is abundantly available in the region, member states could not consolidate their resources to produce Covid-19 PPEs but instead imported PPEs from overseas – this exposed the lack of cooperation amongst African states. Hence, the establishment of the African Continental Free Trade Area might be a solution in stimulating cooperation and collaboration, in stimulating intra-continental trade and investments, which might facilitate economic recovery, and be even more beneficial post-Covid-19.

These developments occur despite the view that heightened intra-regional FDI may be observed due to the removal of trade barriers brought by the Regional Integration Agreements (RIAs), and this may be driven by investors' desire to jump tariffs (Blomstron and Kokko, 1997). In line with this, the literature revealed that countries with lower trade barriers before the agreement are likely to benefit from increased intra-regional FDI inflows as trade barriers are reduced, and these countries are less likely to host import-substituting FDI projects (Biglaiser and DeRouen, 2006; and Chakrabarti, 2001). This may be the case in the region given that some countries were sanctioned before forming the regional community, which implies higher trade barriers. The inward FDI effect of trade openness varies based on the motive behind engaging in FDI activities (Markusen and Maskus, 2002; Dunning, 1998).

Instead of adopting the comparative advantage model, member states compete upon forming the regional community, which adversely affects investments. For instance, data revealed that "……. *Member states compete instead of working together to attain prosperity. So instead of creating a bigger market within the region, competition is fierce amongst member countries - we are fighting for the same money from the same investors"*. This is contrary to what foreign investors are looking for which are integrated economies with harmonised policies; for example, one said: "*When I decide to invest in a country within the region, I need the region to be behind that country so that after investing in Mozambique for example and I want to invest in, for example, a fertiliser plant, I need to have the assurance that I'm not going to be faced with challenges if I want to export to South Africa, to Malawi, because Malawi also wants to do their plant."* The issues discussed above require attention if the region is to attain greater heights and achieve its developmental goals. These results are consistent with Biglaiser and DeRouen, (2006);

Chakrabarti, (2001) and Liargovas and Skandalis (2012), who also found that trade openness stimulates FDI.

Furthermore, although there is no consensus, the literature has also revealed that natural resource availability is a fundamental determinant of inward FDI. This is consistent with the view that some foreign investments are driven by the desire to access recipient countries' resources. It is undeniable that natural resources, particularly in developing economies characterised by resource extractive sectors, contribute significantly to its gross domestic product (GDP). Additionally, the factor-endowment-based theory argues that resource-endowed economies with a comparative advantage in natural resources attract more FDI since firms want to gain access to those low-cost natural resources and maximise profits. Contrary to this, the literature also revealed that resource endowment could sometimes be a 'curse' particularly for developing economies that generate undesirable developmental outcomes, such as poor economic performance and rising corruption levels.

The regression analysis results indicated that natural resource availability is an essential determinant of FDI inflows in the region; this is indicated by the positive coefficient, which is also statistically significant. In addition to regression results, the survey data suggests that natural resources' availability is one reason behind investors' decisions in the region. Considering that the SADC region is resource-rich, it is easy to believe that inward FDI is driven by the desire to access the resources and maximise profits. However, considering that the region is resource-rich and thus attracts resource-seeking foreign investments, a critical analysis of total FDI inflows into the region as a percentage of world FDI raises some concerns. For instance, despite being resource-rich, the region attracts an insignificant amount of world FDI, and inequality, poverty and unemployment levels are sky-rocketing in the region. Consistent with this, UNCTAD (2016) asserts that despite being resource-rich and the efforts towards economic liberalisation in a globalising world, many developing countries and the least developed economies have attracted insignificant FDI inflows. The literature further revealed that most resource-rich economies attract relatively lower volumes of FDI than their resource-scarce counterparts.

If natural resource availability is a locational advantage, then perhaps more than fifty percent of world FDI should flow to the region. Shah and Iqbal, (2008) raises a fundamental point: "*despite resource endowment, poor quality institutions divert scarce resources from productive to unproductive sectors, thus promoting rent-seeking behaviour.* Resource availability spreads corruption causes environmental damage and can be a source of conflict.

Most importantly, the data revealed that sometimes being resource-rich attracts foreign investors whose motives are exploiting and gaining control of natural resources in host countries without reinvesting profits. Thus, leaving the country worse-off suggests that resource-endowment should be used as leverage by SADC member countries and limit their dependency on foreign investors.

Furthermore, the literature also identified the development of the financial sector in the host economies as a critical determinant of FDI inflows (Klein and Olivei, 2008; Guiso, Kashyap, Panetta, and Terlizzese, 1997; Havrylchyk and Poncet, 2007; Kaur, Yadav, and Gautam, 2013; Ezeoha and Cattaneo, 2012). According to the literature, better-developed financial institutions, mainly in FDI host countries, positively contribute to FDI inflows. This emanates from the view that host country financial systems affect the allocative efficiency of financial resources over investment projects; thus, foreign investors use host country financial resources to finance their investments; that is, host country funds serve as a circumventing tool against exchange rate fluctuations. Thus, better-developed institutions in host countries reduce the costs of acquiring external finance while also accelerating collaborations between foreign and domestic firms (Donaubauer, Neumayer, and Nunnenkamp, 2016).

The literature also revealed that the effectiveness of financial sector development on FDI also depends on the development level of the sector in the source country; for instance, a less developed financial sector can potentially deter investments from source economies with a relatively weak financial sector, while investment inflows from economies with too developed markets are unlikely to be affected. In the same vein, well-functioning financial markets are most likely to attract investors who recognise those markets as a sign of strength, government authorities' openness, and a market-friendly environment. Furthermore, the removal of capital controls in host countries is considered to enhance foreign investors' domestic activities. Henry (2000) concurs that financial liberalisation always leads to private investment and FDI growth.

Against these theoretical foundations, this study regressed financial sector development as one of the inward FDI determinants in the SADC region. The proxy used to measure financial sector development was domestic credit provided by the financial sector as a GDP percentage for countries' observed sample. The regression results indicated a negative and statistically insignificant coefficient for financial development towards FDI inflows; by implication, the financial sector's development level dampens inward FDI into the region. However, this finding resonates with Hailu (2010), who argued that underdeveloped financial markets crowd out FDI as more foreign investors are inclined towards portfolio investment rather than direct investments. Consistent with these results, the survey data regarding the effect of the financial sector development on FDI inflows suggests that all the respondents

believed this is an essential locational determinant of FDI in the region. While acknowledging the significance of the development of the financial sector for attracting FDI into the region, the interview data indicated some concerns, for instance, one participant asserted that "……*Financial development is crucial for FDI attractions into the region; however, we must also understand that some countries are at different levels of development and different financial systems as well."*

In line with this, the data further suggest that " ..*the banking systems in the region are currently not aligned because many countries in the region have indigenous banks which are involved in the cross border banking world and each member state is governed by its own rules and regulations that is a challenge we are grappling with."*

These findings emerge despite the adoption of reforms such as the relaxation of restrictions of foreign ownership and the deregulation of offshore investments in order to stimulate and FDI friendly environment in the region of which most the respondents' thought were not sufficiently developed to fuel FDI inflows through allowing foreign firms to borrow money to expedite their innovative activities in the region. These results are contrary to the theoretical view that financial liberalisation always leads to inward FDI growth and can probably be attributed to the varying levels of development of the sector as well as the misalignment of the region's banking systems which lead to higher transaction costs of doing business and exchange rate fluctuations. Noteworthy, the literature revealed apart from the development of the financial sector, a rise in domestic credit by the banking sector has adverse effects on inward FDI, and this is the case in the BRICS countries, Kaur et al. (2013). This study also used domestic credit provided by the banking sector as a proxy for financial development; thus, although not significant, this could explain the negative coefficient for financial development in the SADC region.

Furthermore, macroeconomic stability is an essential determining factor of FDI inflows in the economics literature. This is based on the view that the locational advantages in host countries such as a less risky and stable macroeconomic environment, contribute to more significant inward FDI. Besides, higher rates of inflation in host countries reduce the real return of investments, thus discouraging foreign investments and economic prosperity (Narayanamurthy, Perumal, and Chandra, 2010; Ahmed, Ghauri, Vveinhardt, and Streimikiene, 2018, Onyeiwu and Shrestha, 2004, Nonnemberg and Mendonca, 2000, Reinhart and Rogoff, 2004; and Fuat and Ekrem, 2002).

Given the importance of macroeconomic stability as a locational advantage in the host country, this study included this variable as a possible determinant of FDI inflows in the SADC region. An inflation rate that denotes economic stability in the real sector was used as a proxy for macroeconomic stability

in the region. The regression results indicated a negative and statistically significant inflation coefficient, which implies that the region's inflation rates discourage FDI inflows as they lead to an unstable macroeconomic environment. It is worth noting that as a step towards deeper regional economic integration and to achieve macroeconomic convergence, the SADC member countries undertook to harmonise their stability-oriented policies, after which a stable macroeconomic environment was envisioned. Consistent with this, the qualitative findings revealed that heterogeneity still exists despite endeavours by member countries to harmonise the region's policies. For instance, one respondent stated that "……*"the SADC speaks about the Free Trade Agreement then it speaks about the Customs Union, and then the Monetary Union; but the disparities in social, economic and political policy among the SADC countries are a disincentive for us to move to deeper regional integration……. Our current macroeconomic policy is diverse. And many of them very contradictory."*

In line with this, the data revealed that: *"the FIP includes the macroeconomic convergence programme which seeks to ensure that the SADC Member States achieve macroeconomic stability and is defined in terms of various levels of quantitative indicators such as economic growth rate, fiscal deficit, debt ratio, level of foreign reserves" Even before Covid-19, most countries were struggling to meet most of the indicators. It will be worse now."*

By implication, SADC member states have not yet achieved macroeconomic stability, which is evident in the dwindling economic growth rates despite the efforts to enhance economic prosperity. Additionally, SADC countries are fiscally drained, and this is in line with the declining Gross Domestic Product Annual Real Growth Rates in the past decade, which saw economic growth rates decreasing from 4.5 percent in 2010 to only 1.4 percent in 2019. However, it is worth noting that these rates have drastically declined amid the global pandemic's adverse effects in 2020. Also, debt levels have been escalating due to increased borrowing by member states to contain the virus's spread and even before the virus, and this led to public debt-to-GDP ratios rising way above 60 percent, which suggests that member states have not yet achieved their macroeconomic convergence targets.

This study indicates that the region attracts horizontal (market-seeking) FDI whose objective is to serve domestic markets; thus, given that horizontal FDI is motivated by local demand, inflation rates become fundamental characteristics (Asiedu, 2002). Moreover, the literature also established that economies that adopt inflation targeting monetary policy reforms are likely to attract large volumes of inward FDI as it serves as a locational advantage or a pulling factor in host countries through reducing political

uncertainty while also creating a more predictable macroeconomic environment which stimulates foreign investment (Mishkin and Schmidt-hebbel, 2007; and Woglom, 2005). It improves certainty, but it is envisaged that this inflation regime reduces transaction costs while also enhancing investors' expected return rate. Several SADC member states adopted inflation targeting monetary policy to improve their macroeconomic environments, including Zambia, South Africa, Eswatini, Tanzania, Mozambique, DRC, Malawi, and Botswana[3]. However, despite these efforts, macroeconomic stability remains a challenge in the region; for example, Angola, Zambia and Zimbabwe recorded the highest inflation rates in 2020 with 21.1%, 20.9% and 890.5%, respectively (SADC Secretariat, 2020).

In line with this, the literature has also outlined the prerequisites for the monetary policy regime's effectiveness; for instance, it states that an inflation targeting policy regime requires that countries be free from fiscal dominance; that is, fiscal policy concerns should not command monetary policy. This is because fiscal pressures are likely to undermine the monetary policy's effectiveness by compelling the monetary authorities to respond to government demands of easing interest rates to accomplish fiscal policy objectives. Most importantly, authorities should be firmly committed to the policy and avoid targeting other indicators such as wages, employment level, or the exchange rate (Debelle, Masson, Savastano, and Sharma, 2006). While the literature has highlighted the macroeconomic benefits of inflation targeting regime in enhancing FDI, the policy has its distractors. It cannot be used as a long-run policy, particularly in developing countries, as it diminishes economic growth rates discouraging inward FDI as profitability expectations decrease. This could probably be the reason for the instability in the region.

To this end, an adverse effect of inflation on FDI inflows is consistent with findings by (Nnadi and Soobaroyen,(2015; Sayek (2009; Andinuur (2013) in the literature.

Furthermore, the recent economics literature concerning the determinants of inward FDI has identified institutional quality, the quality of governance, as a fundamental pulling factor in host countries as far as attracting FDI. Torfing, Peters, Pierre, and Sorensen (2013:14) define governance as an '*interactive and complex process through which a range of social ideas, rules and resources and political actors with diverging interests interact to achieve common goals through mobilising and exchanging*'.

[3] http://www.centralbanknews.info/p/inflation-targets.html

According to North (1990: 5), institutions refer to the '*rules of the game'* which define the respective roles of participants; these rules affect the performance of the economy through effects on the exchange and production costs and the transaction costs, which includes quantifying the treasured aspects of what is being substituted and the costs of protecting rights and policing and implementing agreements'. With that said, foreign investors seek to maximise their profits by investing in countries that reduce the cost of doing business, and this is possible only if markets are integrated at the national and regional or international level where institutions play a crucial role. Given the importance of the quality of governance and adherence to the rules of the game, the literature has also revealed that an efficient enforcement mechanism of the rules governed by the political framework leads to good quality institutions, which in due course reduces transaction costs, thereby improving the lucrativeness of economic activities in host countries (North, 1991, Ali and MacDonald, 2008, and Antelme, 2016).

Against this background, this study examined the effect of institutional quality on foreign investment inflows in the SADC region. This was triggered by the observed relatively insignificant amount of FDI inflows that the region attracts while also characterised by a weak institutional environment. For instance, governance indicators estimate as compiled by the World Bank range between -2.5 and +2.5, which imply poor and good institutional quality, respectively, and the SADC average is -0.25, which implies a weak institutional environment. Thus, the study sought to examine an association between the two variables in the SADC region context.

The study used Worldwide Governance Indicators, namely, Control of Corruption, Government Effectiveness, Regulatory Quality, the Rule of Law, Political Stability, and the Voice of Accountability as a proxy for the quality of governance in the SADC region, and the principal component analysis technique was adopted to formulate an institutional quality composite index.

Subsequently, on the one hand, the correlation analysis suggested a negative relationship between institutional quality and FDI inflows; and the regression analysis results indicated a negative and a statistically significant coefficient for institutional quality against inward FDI. By implication, institutional quality impacts negatively on FDI inflows in the region; that is, the quality of governance and the political framework do not promote the ease of doing business for foreign investors; as a result, investors typically do not feel comfortable in investing in such environments as they do not feel protected in terms of their property rights.

On the other hand, the survey data revealed that all the respondents believed that the host country's institutional environment plays a fundamental role in enhancing the region's FDI attractiveness. Despite

the significance of institutional quality as a fundamental determinant of inward FDI and considering the endeavours by the regional authorities to create an investment-friendly environment through the ratification of Protocols which include the Finance and Investment Protocol (FIP), which was expected to harmonise the region while also ensuring the foreign investor property rights. The survey data indicated that the FIP has not effectively integrated the region, which would open room for technological change and stimulate FDI inflows into the region. Consistent with this, the interview data indicated convergence with the quantitative data regarding the importance of an attractive institutional environment for FDI inflows; for instance, the lack of enforcement power by SADC institutions was identified as the main challenge that these protocols are not binding. However, member states are expected to cooperate, and there are no apparent consequences for non-compliance "…*SADC institutions require the requisite capacity and authority to implement regional policies and protocols.*

Furthermore, SADC institutions' role is merely to coordinate without any authority over the Member States…… Even us, the Secretariat, we have no capacity to enforce laws and regulations because decision-making powers are vested in the Member States, we can only make recommendations." This is consistent with DPRU, who concluded that the institutional framework remains scanty in the SADC region (DPRU, 2000). Moreover, it is somewhat worrying considering that both the theory and empirical evidence suggest that good institutions characterised by efficient enforcement of rules lead to a reduction in the cost of doing business for foreign investors, thereby increasing profitability levels (Ali et al., 2008).

In line with adverse effects of institutional quality on FDI inflows, the data indicates that although member countries have integrated to form a trading bloc whose objective was to harmonise and address the socio-economic challenges confronting the region (Phirinyane, 2004); the results suggest that member states prioritise their sovereignty over regional objectives. Therefore, nationalism supersedes regionalism in the SADC region. Member states' behaviour is against the regionalism efforts that speak to the integration of agreements by member states to enhance collaboration by creating institutions that shape and drive collective action (Jiboku and Okeke-Uzodike, 2017). The consensus nature of the decision-making approach that prevails in the region, which also impacts the enforcement of rules and regulations, has stifled the integration process. It allows member states to vote against individual decisions or even decide not to implement policies to accomplish regional objectives. Effective institutions are expected to allow foreign investors to conduct their business in an environment based on clear-cut rules - thereby reducing uncertainty and risks of investing in a foreign country, thus, giving investors' confidence for the future. It is worth noting that, although these rules are humanly formulated,

they are an underlying determinant of the long-run performance of economies; a structure that shapes how people interact and controls the economic behaviour of negotiators and, most importantly, determines the level of security for property rights in society (North, 1990).

8.3.3 Theme 3: Barriers to inward FDI in the region

Concerning barriers to inward FDI in the region, the data indicated that the political framework plays a vital role in institutional quality. For instance, political institutions are expected to create and support a conducive economic environment that ensures inclusive economic institutions that support markets and n sure foreign investor property rights protection. In line with this, the data further shows that the region's political structure influences how regional policies are ratified and implemented at a national level simply because national parliaments have to first approve these policies failing, leading to no implementation. Hence political will was also recognised as one of the main contributors to a conducive institutional environment; however, for the SADC region, things are seemingly not acceptable as the data shows that *"…. political will is the biggest problem as heads of state and governments feel they are above the regional body"*. It further indicates that the heads of state have thus far shown no political energy and inclination to drive deeper integration and to deal with the region's challenges and therefore " …….. *Member states pursue different political objectives which are not aligned to regional objectives, and these may directly influence investor decisions to invest in the region. For instance, even though we are now in a democratic dispensation, and this is most African countries, the truth is, whenever a government changes, even if it is still the same political party, the policy changes drastically"*. There is no correspondence that sort of gives any investor assurance that the typical minimum denominators will never change despite changes in administration.

The uncertain political environment scares away foreign investors as they are not sure of their property rights and their protection; if there is uncertainty regarding the level of protection of foreign investors, then extra-regional FDI of the horizontal type may increase, but the uncertainty may be a disincentive for outsiders to undertake vertical FDI (Kubny et al., 2008). This appears to be the SADC region situation, which is attracting market and resource seeking investments.

On this basis, some of the respondents believed that the region's political framework does not help create a conducive economic environment that supports inclusive economic institutions. These institutions could support markets and ensure property rights protection and lower transaction costs, particularly for foreign investors, deters foreign investment inflows, thus reducing the scope for

economic convergence. This is based on the view that foreign investors seek to maximise their profits by investing in economies that promote ease of doing business, and this is possible only if markets are integrated at national and regional or international level where institutions play a crucial role; however, the data has also revealed that the region suffers from lack of integration.

These findings are consistent with Gangi and Abdulrazak (2012), who examined the impact of governance on inward FDI using a panel of 50 African countries and found the institutional quality to be a fundamental determinant of FDI inflows. In line with this, these studies also found governance to be a statistically significant determinant of FDI inflows (Globerman and Shapiro 2002; Lucas 1990, Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1999, Jaspersen, Aylward, and Knox, 2000, Hausmann and Fernandez-Arias 2000, Globerman and Shapiro 2002; Woo, 2008 and Samimi and Ariani, 2010). Further, Masron (2013) finds that institutional quality plays a crucial role in attracting FDI inflows to the Association of Southeast Asian Nations (ASEAN). These findings are also consistent with the United Nations view that good governance is a cornerstone for stable and prosperous economies; in developing economies, good institutional quality is crucial for attaining Millennium Development Goals and combating poverty and inequality. For example, the SADC region has been fighting poverty, inequality and sky-rocking unemployment levels along with dwindling economic growth rates since its inception. However, it seems to be a losing battle for the region, making it even more challenging to attain the set MDGs – weak institutional quality may be the reason behind these socio-economic challenges.

Corruption levels in the region are so high that the citizens have lost confidence in governments and uncertainties regarding the protection of foreign investors' rights; the effective law enforcement mechanisms all create a risky environment for FDI. For instance, Henisz (2000) asserts that in the absence of property rights protection, foreign investors are confronted with two kinds of political hazard where an opportunistic behaviour by authorities arises through appropriating MNE' returns or nationalizing them; on the other hand, domestic firms may persuade the government to implement policies that benefit them at the expense of foreign firms. In line with this, participants in this study which also included MNEs were of the view that there should be an interaction between host governments and MNEs whenever host governments ratify new laws and regulations with direct impact on their operations as this would reassure the MNEs that despite the changes in administration certainty, stability and the reinforcement mechanism would be upheld.

To this end, these results are consistent with Wheeler and Ashoka Mody (1992); (Biglaiser & Staats, 2010); Wei (1997); Dunning (1998) and Bevan and Estrin (2004), who found that rising corruption in the political system threatens foreign investment through disrupting both the economic and the financial

environment and ultimately reduce government efficiency while increasing instability in the political process. These authors concluded that institutions' efficiency is one of the critical competencies for MNEs need to enhance their firm-specific advantages. Gastanaga, Nugent, and Pashamova (1998); Oxley (1999) and Smarzynska (1999) found that high and effective enforcement mechanisms of the rules lead to low corruption levels, which in turn stimulates FDI. However, weak property rights deter FDI inflows. Contrary to these findings, (2016) examined the effect of institutional quality on FDI inflows in three regional blocs: the SADC, EAC and ECOWAS – their results suggest that institutional quality is a fundamental determinant of FDI in EAC and ECOWAS. However, it was found to be insignificant for the SADC region. Grosse and Trevino (2005) have examined the relationship between FDI inflows in CEE countries found that higher corruption levels is adversely affect investment inflows. In line with these findings, Daude and Stein (2007) used a set of indicators developed by Kaufman and the results suggest that the quality of institutions is statistically significant and economically very important for the region's economic prosperity.

Furthermore, amongst the determinants of FDI, the literature identified the quality of infrastructure in the host country as one of the locational advantages that MNEs consider when making investment decisions. The literature revealed that both the quality and the availability thereof become crucial for the perfect functioning of MNEs (Wood, Mazouz, Yin, and Cheah, 2014). High-quality infrastructure leads to a decline in overhead cost-related activities (Shah and Afridi, 2015; Wheeler and Ashoka Mody, 1992) also echoed the significance of developed infrastructure, particularly for developing countries pursuing foreign investment promotion strategies. This implies that countries with poor infrastructure are unattractive to FDI. However, it should be noted that sometimes even countries with substantial amounts of infrastructure may not attract FDI due to several reasons. That said, the quality thereof and the type, whether hard (highways and railroads) or soft infrastructure (more transparent institutions and deeper reforms) infrastructure is a crucial determinant of FDI in host economies. In line with this, Coughlin, Terza, and Arromdee (1991) report that extensive transportation infrastructure enhances FDI. Similarly, (2000) reported that roads' density is a crucial for FDI attraction in 29 Chinese regions.

To this end, based on the observed consensus in the literature regarding infrastructure as a critical determinant of FDI inflows, this study incorporated infrastructure availability as one of the variables; however, due to data constraints, this variable could not be included in the regression analysis, but the effect was assessed through survey data and interview data.

In the context of the SADC region, the data indicated that physical infrastructure is fundamental in enhancing FDI, facilitating links between member states, making it easy to move goods and services outside the borders. The results further suggest that improved infrastructure stimulates the investment projects' bankability; it should be easy to move goods from one country to the other. Investors need assurance that their investments are protected once they cross borders in terms of bankability. Some projects are so large that they become bankable by linking them to projects outside the borders. However, the data also highlighted that low infrastructure development is one of the barriers to FDI in the region. This is based on the view that despite the region's efforts to construct better roads and railway lines which connect member states, such as the Lubombo railway in Eswatini, which links neighbouring countries and facilitates trade and investment, there are still concerns regarding the quality of infrastructure in the region and this stifles trade and investment. This is consistent with other studies which found that developing countries need good quality physical infrastructure to attract meaningful FDI.

Also, qualitative data in this study revealed that *regional authorities have committed to building 61 regional infrastructure projects funded through the Project Preparation Fund, whose purpose is to assist member states in developing and conceptualizing their infrastructure projects to promote cross-border infrastructure projects* (SADC official, 2020). The region also introduced the SADC Infrastructure Vision 2027 as part of its Regional Infrastructure Development Programme, which focuses on transport, energy, information, and communication technology (ICT), transboundary water resources, and tourism meteorology. Interestingly, the data also revealed something which underscores the lack of cooperation and prioritisation of national objectives by member states, for example, **"***we requested member states to submit regional infrastructure projects that they were undertaking so that these could be presented to worldwide investors to attract them. However, none of the member states submitted*, member *states are more concerned about their national objectives, so to them focusing on regional objectives seems to be a waste of time*.**"** This also underscores the fact that SADC institutions can only coordinate but cannot enforce compliance. The data further established that there are always delays in the approval of regional infrastructure projects by the responsible institutions, which negatively impacts the inward FDI.

8.4 Summary of the findings, and a conclusion

This chapter presented and integrated the qualitative and quantitative data as part of analysing the mixed methods approach. The Pillar Integration Process was followed to integrate and synthesise the

quantitative results and qualitative findings to identify similarities and differences. The study adopted a sequential method in which these approaches were used as complementary modes of analysis. The regression analysis was conducted first, after which qualitative data was collected and analysed as a complement to quantitative results.

Based on the presented results, qualitative data findings confirmed the quantitative results regarding institutional quality and other explanatory variables on foreign direct investment inflows in the region. Convergence was observed between the two approaches concerning the significance of investment inflows in the region. This highlighted several challenges that the region is still grappling with, requiring efforts by all member states if the region moves to deeper regional integration levels. For instance, the overall results indicated that weak institutional quality is still a significant challenge as far as inward FDI attraction is concerned; the lack of enforcement mechanism directly impacts foreign investor property rights protection and eventually deters foreign investment inflows. Also, the unstable political framework that fails to sufficiently support economic institutions and ensure certainty and the lack of political will, particularly by heads of state to implement and prioritise regional objectives over national interests, is a significant problem and stifles progress towards more profound integration. It seems to be the reason behind the slow progress in attaining the upper stages of regional integration. In line with this, member states' poor cooperation and lack of enforcement of the rules have also adversely affected intra-regional trade and investments. This can be attributed to bilateral agreements between member states, which has also contributed to the non-tariff barriers that can be observed and the dominance of robust economies in the region; the markets are not integrated, increasing the costs of doing business in the region. Consequently, the results indicated that foreign investments into the region are mostly market-seeking and resource-seeking; both motives fall within the horizontal type of FDI. This also confirmed the theory that unstable institutional environments tend to deter vertical FDI due to uncertainty.

Furthermore, financial institutions are not sufficiently developed to stimulate FDI inflows, but this can also be attributed to macroeconomic instability and weak macroeconomic convergence components that have also been observed through the results.

Thus, adopting the SADC Protocol on Finance and investment to stimulate a conducive environment for inward FDI and removing restrictions and deregulation of offshore investments to augment FDI have thus far not yielded the desired results.

Based on these results, the next chapter concludes and presents recommendations to deepen its integration while capitalising on the abundance of resources.

Chapter 9

Conclusion and Policy Recommendations

9.1 Introduction

Following the research study findings presented in the previous three chapters, this chapter draws conclusions based on the consolidated findings and also presents policy recommendations. The chapter commences with the review of the rationale behind the study, followed by the primary research objectives, and the chapter summary. It then proceeds to present the study's contribution to the body of knowledge and describes the policy implications of the research. The possible limitations of the study are also presented. Lastly, following the identified limitations, recommendations for future research are put forward.

9.2 Summary of the motivation for the study

Globalization and increased international trade in the last three decades have made Foreign Direct Investments (FDI) an engine for the economic advancement and modernization of both developed and developing countries and a tool through which economies can be integrated into the global world. This view emanates from the benefits that FDI brings to host countries, such as stimulating economic growth through capital accumulation, bridging the gap in domestic savings, developing an improved balance of payments as a result of foreign exchange, and technological transfers, which lead to improved production techniques as well as enhanced managerial practices and efficiency through exposure to competition, and deeper integration (Gangi and Abdulrazak, 2012; Mottaleb and Kalirajan 2010; Crespo and Fontoura, 2007).

In line with this, many developing countries, including many African countries, have since put in place incentives to attract foreign investors; examples were - tax holidays offered to investors in critical sectors and general incentives packages to attract more investors (Gangi and Abdulrazak, 2012).

The literature points out that regional economic integration is fundamental to enhancing member countries' FDI attractiveness, and this occurs through the RIAs and RTAs that are part of the integration

process. On this basis, the SADC Protocol on Finance and investment was introduced to improve both the region's domestic and foreign direct investment climate.

However, despite FDI-enhancing policies, which are believed to stimulate significant investment flows, the SADC region has failed to woo foreign investors as expected, and it still accounts for the lowest percentage of total world FDI compared to its regional counterparts.

For many decades, economic theory focused on traditional FDI determinants and wholly ignored the institutional framework in influencing investor decisions, until North (1990) identified the significance and pivotal role of the quality of institutions in investor decisions.
The institutional framework of a country thus plays a significant role in ensuring certainty and stability, protecting property rights and the legal framework, and the political system within which the state operates.

There is consensus in the literature that institutional quality or good governance is a prerequisite for the effective and efficient functioning of markets (for example, North, 1990; Barro 1997; Hall and Jones 2013; Knack and Keefer 1997; Rutherford 2012; SADC Secretariat, 2001; Mougani, Rivera, Zhang, Mezui and Kim 2013; Chidede 2017). Additionally, good institutional qualities such as political stability, the rule of law, absence of violence, control of corruption in the host country convince and attract foreign investors. In this regard, the SADC's Regional Indicative Strategic Development Plan (RISDP) emphasizes these core governance factors as prerequisites for good quality institutions – considered by foreign investors when assessing a region for its suitability toward business.

While there is a growing recognition that good governance is fundamental to FDI attraction, particularly in developing economies, there is little empirical evidence on the effects of institutional quality in the context of the SADC region. For instance, what is the nature and the amount of FDI inflows into the region? What is a state of institutional quality? And does a link exist between the two variables in the context of the SADC region?

9.3 Summary of the research objectives

This study had three main research objectives. Firstly, it intended to examine the effect of institutional quality on foreign direct investment inflows in the SADC region. This objective encompassed an analysis of the amount and nature of FDI inflows into the region given the number of investment

promotion reforms adopted and implemented in the region. In line with this objective, the study further aimed to assess the state of governance in the region and ultimately examine an association between governance quality and the amount and nature of FDI inflows that the region attracts. Understanding the region's institutional framework and how it enhances development through supporting markets and promoting property rights were fundamental in this regard. The study further assessed the determinants of inward FDI in the SADC region.

The second objective was to assess the extent to which financial sector development and the liberalization thereof influence the institution-FDI nexus and the degree to which it allows foreign firms to borrow funds to expand innovative activities in host countries. Here, the focus was on reflecting on (i) the efficiency, depth and accessibility of financial markets and institutions within the region; (ii) the effectiveness of the financial liberalization reforms to stimulate FDI inflows into the region and (iii) whether institutions have facilitated liberalisation to enhance market integration, ultimately reducing transaction costs, and thus stimulating more inflows.

Given the strides undertaken by the SADC region to achieve its developmental objectives and attain more profound levels of integration, the fourth objective was to establish a link between regional economic integration and institutional quality and the region's development path. The third main objective was to assess income rankings on FDI inflows, mainly to check whether variations in income matter to foreign investors.

9.4 Research Contribution

The growing awareness regarding the significance of good governance in the development agenda of developing countries has continued to raise interest among scholars. FDI constitutes the backbone for economic prosperity, especially for developing economies; therefore, FDI drivers become pivotal in this regard.

Dunning (1998) confirms that there has been a paradigm shift in terms of FDI determinants from the traditional macroeconomic variables in the host country to institutional factors. Consistent with this, the New Institutional Economics Theory advocated by Williamson (1975) and North (1990) argued that '*institutions matter'* for development. North (1990) believes that institutions are designed to reduce transaction costs and stimulate economic efficiency, according to North, both formal and informal institutions matter. As North points out, *'institutions are the rules of the game, which define the*

respective roles of the participants; they affect the performance of the economy by their effects on the exchange and production costs and the transaction costs which includes measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements' North (1990:5).

The literature reveals that foreign investors seek to maximize their profits by investing in countries that promote ease of doing business. This is possible only if markets are integrated at the national and regional or international level where institutions play a crucial role. Baumol (1990) also believes that institutions stimulate incentives for investments and innovation by ensuring security, sound property rights, and, most importantly, reducing investments' transaction costs. Thus, by implication, investments are directly responsive to transaction costs. Therefore, in countries characterized by high transaction costs such as corruption, red tape, continuous wars and strikes, no respect for the rule of law and lack of property rights protection for physical capital, profits, and patents, the incentives to invest, innovate and benefits from advanced technology from abroad will deteriorate due to an unstable institutional environment. Effective institutions allow foreign investors to conduct their business in an environment based on clear-cut rules, thereby reducing uncertainty and risks that stimulate investor confidence for the future. Kooiman (1993) asserts that no single actor, whether private or public, can resolve dynamic, complex, and diversified challenges. This assertion underscores the significance of interactive governance amongst the countries in order to achieve common objectives.

Although the effects of institutional quality have received some recognition in the economics literature, for example, Kaufmann, Kraay, and Mastruzzi (2003), Dixit (2009) and Rodrik (2007), the literature on international trade and finance has paid little attention to this aspect particularly as it pertains to the SADC region. Moreover, weak institutional environments, along with a significant gap between lofty collaboration goals and actual achievements have always been a mainstream criticism that limits progress in regional integration. For instance, many studies have been undertaken in Africa to examine the effects of governance on FDI inflows; some studies focused on the African continent as a whole (Onyeiwu and Shrestha, 2004; Adeleke, 2014; and Kaulihowa and Adjasi, 2017), while some studies focused on sub-Saharan Africa (Asiedu, 2002 and Basson, 2015, Bbale and Nnyanzi, 2016). Interestingly, Karavasilev (2016) and Stephan and Hunter (2016) examined the effects of political stability and corruption on FDI inflows in the SADC region; however, these studies focused on only two out of six governance indicators. Thus, given that the literature suggests that economic integration enhances FDI inflows, it is necessary to undertake a comprehensive study to see how this has unfolded

in the SADC region and assess the institutional framework's effect on FDI inflows. This study fills this gap to some extent by examining the relationship between the six components of governance and FDI inflows into the SADC region.

Thus, the novel aspect of this study is its contribution to the body of literature in the following ways. First, the study attempts to highlight the importance of institutional quality as the fundamental determinant for attracting FDI in the SADC region, a long-run indicator for sustainable development that unlocks the economic growth potential of the region through enhanced FDI inflows. This study utilized a composite governance indicator to measure this link. It broadened the understanding of the role played by good institutional quality in regional economic integration processes to maximise FDI gains.

Second, by focusing only on the SADC region, the study reduces preconceptions and generalizations of the findings that might result when considering all developing countries or the continent; and thus, inform policy decisions in the region characterized by socio-economic problems such as inequality and poverty.

Third, from this research, it appears that , only Busse and Hefeker (2007); Daude and Stein (2007) and Kurul and Yalta (2017) employed the Generalized Methods of Moments (GMM) method (Arellano and Bond, 1991) to examine the effects of institutional quality on FDI. However, these studies were not focused on Africa. On the other hand, Okada (2013) and Asiedu (2002) adopted this method to analyse the indirect effect of institutional quality and FDI in Africa. To the researcher’s knowledge, no study has used this method to analyse the impact of institutional quality on FDI, particularly in the SADC region. This is despite a notable low amount of FDI inflows and the observed weak institutional quality in the region. It was thus, the objective of this study to examine this relationship. The study proceeded from the premise that there is a correlation between institutional quality and FDI inflows in the host country and argued that under conditions of weak and poorly governed institutions, FDI inflows deteriorate.

This study further contributed to the body of knowledge by using a mixed-methods approach to analyse the governance-FDI link, which enabled the researcher to integrate quantitative results and qualitative results to draw a valid conclusion that informs policy formulation.

9.5 Chapter summary

This section summarises some key chapter information and findings. For instance, to understand the state of governance and the nature of FDI inflows in the region, Chapter two presented an overview of governance in the SADC region. This overview revealed that the region is still confronted with numerous challenges as far as good governance is concerned; for instance, the region as a trading bloc has a decentralised institutional framework where member states are the principal actors in decision-making processes; noteworthy, a consensus approach to decision-making is used. By implication, there are no supranational institutions in the region. Thus, the SADC Treaty set out the game rules, and member states are expected to follow them. However, the Treaty does not make provisions for contravening a deadlock where a consensus cannot be reached. Thus, the consensus approach in decision making also weakens the organization and stifles its progress towards economic prosperity.

Consequently, the costs of doing business are still high, and governance is relatively weak. On the other hand, the chapter presented an overview of the nature and amount of inward FDI; the overview also revealed that resource-seeking and market-seeking investments are the motives behind FDI into the region. This chapter also revealed that the region attracts an insignificant amount of global FDI than its regional counterparts and these are unevenly spread across the region.

Chapter three reviewed the theoretical and empirical literature to better understand the link between governance and FDI inflows in host countries. The literature unveiled the importance of FDI as an engine for economic prosperity and a conduit for technology transfer. However, the literature further accentuates the significance of institutional quality as a critical determinant for FDI inflows, outlining that countries or region with comprehensive institutional environments such as low corruption, the efficient rule of law, good enforcement of contracts and efficient bureaucracy are likely to attract more FDI since these environments are deemed to be stable and predictable. However, despite this belief, the literature is still unsettled and mixed concerning the effects of institutional quality on FDI inflows (Lim, 2001). For instance, Blonigen (2005) provides evidence favouring institutions as a crucial determinant, while some literature provides evidence against institutions such as Wheeler and Mody (1992). They argue that more substantial evidence is required in this regard, particularly as it pertains to regional groupings within developing countries.

Overall, the theoretical framework and the literature review underscored the importance of various paradigms in the FDI theory that need to be considered when assessing the effect of institutional quality on inward FDI as this varies by country and region. Through the literature review, several variables which are deemed fundamental for inward FDI were identified; these include, *among other things*,

market size, macroeconomic stability, financial development, trade policy, education, natural resource availability, infrastructure development, and the quality of governance measured through six components.

Based on the myriad of findings evident in the reviewed literature on the FDI-institutional quality nexus, it was crucial to analyse this relationship in the context of the SADC region.

That said, chapter four explored different analysis methods to examine the effect of institutional quality on inward FDI in the SADC region. For instance, a mixed-methods approach was adopted to examine the governance quality effects on FDI optimally. While quantitative research offered objectivity and structure and allowed generalizable findings on cause-and-effect relationships, qualitative research focused on interpreting verbal material. To this end, the purpose of this study was to understand the relationship between institutional quality and foreign direct investment inflows and the reasons why SADC member countries have not reaped more significant FDI inflows as expected in regionally integrated economies. To determine whether institutional quality influences FDI inflows in the region, quantitative methods were used to measure the association between these variables, while the qualitative approach was used to understand governance mechanisms in place in the region and the factors that influence foreign investment decisions to invest in the region. The study employed these approaches concurrently; thus, they complimented each other, which helped the researcher achieve the specified research objectives.

To this end, this study used a micro, balanced, and fixed panel data set of 10 SADC countries (N) observed over eight years (T) from 2011 – to 2019. While the data series for FDI and other macroeconomic variables were drawn from the World Bank's World Development Indicators database, which ensured optimal data consistency, the Governance indicators' data was drawn from the Worldwide Governance Indicators, which is a World Bank database.

Specifications and regressions were run to explore this relationship more fully. These include static and dynamic panel data estimation techniques. Diagnostic tests were also run to test group and time effects in panel models and ensure that proper estimation techniques are applied. Accordingly, static estimation models were employed – namely, fixed effects (FE) and random effects (RE). Static models focus on both time series and cross-sectional data concurrently, and the Hausman specification test was used to determine the appropriate model. Due to the identified heterogeneity amongst SADC member states, static panel estimation techniques were deemed inappropriate, and thus, dynamic panel estimation techniques were employed. Thus, the System generalised method of moments (GMM) was employed;

this approach was preferred to restrict instrument proliferation and control for cross-sectional dependence (Love and Zicchino, 2006; Baltagi, 2008). Further, the Hasen and Sargan tests were run to detect instrument proliferation and the existence of the first and second-order serial correlation.

In addition to econometric techniques, qualitative research methods were also adopted; these included semi-structured interviews with senior officials from the SADC Secretariat, Think tanks, and Multinational Enterprises (MNEs). Also, survey questionnaires were distributed to some MNEs, Academics, and financial institutions in the SADC region. The qualitative approach was considered applicable as it focuses on understanding the social context that shapes human behaviour and develops concepts that enable the researcher to understand social phenomena in natural settings by emphasising meanings, experiences, and participant views.

9.6 Policy implications

This study revealed crucial aspects and factors that robustly influence foreign direct investment inflows into the SADC region—having analysed the data both quantitatively and qualitatively and examining FDI inflows and their determinants to support or ascertain the reviewed theories and empirical evidence. Inward FDI was assessed as a function of GDP growth, institutional quality, trade policy, and financial development and controlled for macroeconomic stability, trade openness, natural resource availability, and infrastructure development. It can, therefore, be concluded that some of these factors significantly influence inward FDI in the region. For instance, institutional quality, GDP growth rate, trade openness and natural resource availability and macroeconomic stability robustly impact inward FDI into the region. This is a crucial finding as far as the region's developmental agenda is concerned, and therefore some policy recommendations can be made in this regard.

Although GDP growth rate, trade openness and natural resource availability have been found to impact FDI inflows positively and significantly in the region, institutional quality seems to have a greater and overlapping impact in all these determinants. For instance, the quality of governance in the region is weak, and not only does this hamper inward FDI into the region, but it also stifles economic growth domestically through limiting inflows to resource-seeking and market-seeking investments, which form part of horizontal FDI and are not as sustainable as vertical FDI. This is also consistent with the theory that states that unstable institutional environments do not promote the ease of doing business for foreign investors; thus, investors typically do not feel comfortable investing in such environments as they do not feel protected in terms of their property rights.

Therefore, given that SADC member states have failed to adhere to the rules stipulated in the SADC Treaty, the SADC Secretariat has also failed to enforce the regional integration agreement rules which have exposed weak or poor institutional quality, which in turn adversely affects the region's progress. Also, given that rules are only effective when enforced, there is no enforcement mechanism by those in power that cannot enforce laws and regulations because decision-making powers are vested in the Member States, and only recommendations can be made.

It may be necessary to review the nature and the approach to regional economic integration adopted by SADC member states. For example, the region seems to be struggling with a linear rules-based approach, this is also evident in that up to now, the SADC region has not moved from the first stage of regional economic integration. Therefore, attaining further stages and deeper integration remains a dream given that member states prioritize national objectives over regional objectives. Consequently, the insistence on respect for sovereignty has hampered the progress of all African regional groupings. Therefore, searching for new regionalism modalities that lean more towards co-operation, that is less rigid and more pragmatic, is necessary if the region is to realise these objectives. Moreover, the current rules-based economic integration approach (market orientation) does not seem to be effective in the African context; and that is evident in that, after two decades since its inception, SADC has only accomplished stage one in the regional integration process. It may be necessary to consider other approaches that stimulate cooperation among member states without specifying stages.

To expedite the region's developmental agenda and improve complementarity among member states, these states must arrive at a suitable institutional framework that promotes collaboration in the region and ensures effective and efficient implementation of the potential protocols. Given the dominance of national sovereignty over regional objectives, it may be worth examining the regimes that govern the member states. This is based on the view that sometimes non-compliance by member states emanates from the regime, which may sometimes not support regionalism. Not only will a stable institutional framework promote sustainable vertical FDI through property rights protection and a reduction in transaction costs, but it will also stimulate inclusive and sustainable economic growth, which in turn attracts even more FDI.

Secondly, the findings revealed that although trade liberalization reforms have been adopted and implemented, intra-SADC trade and investment are still lacking as the region is dominated by bilateral trade agreements between member states and with countries outside the region, and this is linked to weak institutional quality. Therefore, to avoid deflecting and diverting trade and to ensure ease of administration, there is a need for convergent bilateral and multilateral arrangements in the region. The

region needs to raise its export competitiveness by attracting domestic and foreign investments, and a sound trade integration process is a prerequisite. In line with this, the literature outlines preconditions for a credible integration process, includes *among other things,* moving towards trade policy harmonization and convergence, and the institutional quality reinforces this; a stable political framework, greater levels of collaboration; and macroeconomic stability if the region is to attract and benefit from investments.

Striving to meet these preconditions is a matter of urgency, particularly given that it has been established that the region is characterized by weak institutional quality, unstable and unpredictable political stability, and various macroeconomic policies. SADC member states have not yet achieved macroeconomic stability, which is evident in the dwindling economic growth rates despite the efforts to enhance economic prosperity. Consequently, higher inflation rates in host countries reduce investments' real returns, thus discouraging foreign investments and economic prosperity. Thus, greater cooperation and harmonization of stability policies in the region.

Thirdly, financial development is crucial for attaining the region's developmental objectives, although not statically significant; this study's findings revealed some important aspects as far as the effect of financial development is concerned. For instance, the banking systems in the region are currently not aligned because many countries in the region have indigenous banks involved in the cross-border banking world and each member state is run based on its own rules and regulations; that is a challenge we are grappling with. Also, financial institutions are not sufficiently developed to fuel FDI inflows by allowing foreign firms to borrow money to expedite their innovative activities in the region. This underscores the importance of harmonizing policies rather than having member states driving their agendas with a trading bloc. Therefore, policymakers in the region should focus on working together with institutions to promote development in the banking sector. Further, given the adverse effects of financial development on FDI inflows due to rising domestic credit by the banking sector, efforts should be made to maintain domestic credit levels to allow room for more FDI.

Furthermore, poor institutional quality is also linked to natural resources availability as a locational advantage in the host country. For instance, the region is resource-rich; however, it attracts an insignificant amount of FDI compared to regional groupings in other parts of the developing world. Based on the findings in the reviewed literature, which point out that some countries or regions may be endowed with resources, however, poor quality institutions divert scarce resources from productive to unproductive sectors, thus promoting rent-seeking behaviour. Resource availability spreads corruption causes environmental damage and can be a source of conflict. Given the resource endowment in the

region and the quality of governance, there is an urgent need to address governance issues and reduce corruption levels to capitalize on resource availability to enhance development and growth. Also, member states should be careful not to fall prey to foreign investors whose motives are to exploit and gain control of resources in the region and ultimately allow them to repatriate profits, leaving the country worse off. Incentives such as tax holidays should be given to investors; however, there should be an agreement that the parties sign with clear mutual benefits. That will provide a platform for member states to efficiently use resource endowment as leverage, limiting their dependency on foreign investors.

Most importantly, the region currently relies on commodities; however, support for economic diversification is crucial to avoid being trapped in *'commodity enclaves'* and cyclical FDI with limited spillover effects.

The fragmentation of markets in the region due to low infrastructure development levels is an area of concern; that is, poor physical interconnection or integration amongst member states explains the slow progress in regional integration. This applies to domestic and foreign investments, given that the mobility of production factors is imperative to the smooth functioning of regionalism and economic integration; people need to be able to move around quickly without any structural impediment. Thus, more investments to develop infrastructure and create more links through transport and telecommunication networks within and beyond the region are required. This will facilitate cross-border movements, stimulate intra-regional trade and investment, and ultimately reduce non-tariff barriers currently in the region.

In a nutshell, weak institutional quality seems to be a central issue that the region is hugely grappling with; and considering the extent of reliance of the region on FDI, addressing issues of governance as a matter of urgency would pave the way towards economic prosperity.

9.7 Limitations of the research

Although this study has reported essential and interesting findings that contribute to knowledge, it is crucial to note some limitations. For instance, the study analyzed the effect of institutional quality on foreign direct investment in the SADC region; however, due to data constraints, the sample size did not capture all SADC member states, however, the ten member states that were included in the analysis are considered representative of the population. Consequently, the presented results are based on a micro panel analysis.

Secondly, although the literature revealed several factors as key determinants of foreign direct investment in host economies, this study, due to data constraints, only included institutional quality, GDP growth rate, inflation, trade openness, financial development, trade policy and natural resource availability.

Thirdly, given that this study only focused on the SADC region, no inferences can be made to other regional groupings concerning these findings; they are only valid in this region. To this end, to mitigate the limitations, the study employed a mixed-methods approach to capture variables that could not be quantitatively measured, hence the robust results.

9.8 Recommendations for future research

Based on the limitations presented in this study, possible avenues to focus future research have been identified. For example, extended coverage of both the time variable and the cross-sectional units, that is, a macro panel analysis might be more helpful. Secondly, it might help to analyse FDI inflows from a sectoral perspective to understand better the sectors that are recipients of FDI in the region enable the member states to capitalize on those sectors to address the existing socio-economic challenges.

Thirdly, future research should conduct a comparative study between regional blocs concerning the effect of governance on foreign direct investment in Africa. In line with this, it has transpired that Africa's regional economic integration has not been as successful as initially assumed. For instance, very few regional groupings have reached a customs union stage, and none have passed this stage, given the unsatisfactory progress as observed, assessing the appropriateness of the current market-oriented approach to regional integration in the SADC region, which may inform policy and the adoption of a different approach that is more suitable for the continent.

Most importantly, to expand the market for goods and services, promote industrial development, while also facilitating inclusive and sustainable economic growth, and ultimately deepen economic integration in the continent – the African Union facilitated the establishment of the African Continental Free Trade Area (AfCFTA). This is a considerable stride for African economies, which are currently unattractive to foreign investors, therefore, this agreement is expected to stimulate intra-Africa trade which is significantly lower than other continents at 12 percent – while intra-trade in Europe, United States, and Asia are 70, 50, and 60, respectively. This lower intra-Africa trade stifles foreign investments within the continent and perpetuates Africa’s dependence on foreign markets. Therefore, integration at this level is expected to stimulate cooperation and collaboration within the continent, facilitate investments through

a larger market size while also enhancing the competitiveness of member states, and export diversification. This is crucial for the continent, particularly in facilitating post-Covid-19 recovery in Africa, but greater cooperation from member states is fundamental. Thus, given that the AfCFTA began its formal operations at the beginning of 2021, it might be interesting to establish the actual contribution of the agreement and its effectiveness in stimulating intra-continental trade and investments, and ultimately Africa's economic performance.

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APPENDICES

Appendix A: Ethics Clearance

UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

Research Office

HUMAN RESEARCH ETHICS COMMITTEE (NON-MEDICAL)
R14/49 Malindini

CLEARANCE CERTIFICATE	**PROTOCOL NUMBER: H20/02/23**
PROJECT TITLE	An impact analysis of governance on foreign direct investment: The case of the Southern African Development Community (SADC) region
INVESTIGATOR(S)	Miss K Malindini
SCHOOL/DEPARTMENT	School of Governance/
DATE CONSIDERED	14 February 2020
DECISION OF THE COMMITTEE	Approved Risk Level: Minimal
EXPIRY DATE	01 June 2023

DATE 02 June 2020 **CHAIRPERSON** J. Knight

(Professor J Knight)

cc: Supervisor : Professor P Pillay

DECLARATION OF INVESTIGATOR(S)

To be completed in duplicate and **ONE COPY** returned to the Secretary at Room 10004, 10th Floor, Senate House, University. Unreported changes to the application may invalidate the clearance given by the HREC (Non-Medical)

I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee. **I agree to completion of a yearly progress report.**

_____ _____/_____/_____

Signature **Date**

PLEASE QUOTE THE PROTOCOL NUMBER ON ALL ENQUIRIES

Appendix B: Permission Letter

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY SECRETARIAT

Private Bag 0095
Gaborone
Botswana

E-mail: registry@sadc.int
Website: www.sadc.int

Telephone: (267) 3951863
Telefax: (267) 3972848
(267) 3181070

27 July 2020 **SADC/15/6 II**

The Head of the Ethics Committee
University of the Witwatersrand
Johannesburg

PERMISSION LETTER

Reference is made to the above subject matter.

This serves to confirm that Ms. Kholiswa Malindini has been granted permission to conduct interviews with some officials at the SADC Secretariat based on her PHD project research titled "The Role of Institutions on Foreign Direct Investment inflows into the SADC Region".

SL Mtonakutha
For: Executive Secretary

Member States:

Angola	Eswatini	Mauritius	South Africa
Botswana	Lesotho	Mozambique	United Republic of Tanzania
Comoros	Madagascar	Namibia	Zambia
Democratic Republic of Congo	Malawi	Seychelles	Zimbabwe

All correspondence should be addressed to the Executive Secretary

Appendix C: Participants Information Sheet

Faculty of Commerce, Law and Management
Wits School of Governance

Thesis Title: An impact analysis of institutional quality on foreign direct investment (FDI) inflows into the SADC region

RE: SADC Secretariat - Directorate of Finance Investment and Customs

Dear Sir / Madam

My name is **Kholiswa Malindini,** and I am a registered Doctoral student at the Wits School of Governance under the Faculty of Commerce Law and Management at the University of the Witwatersrand in Johannesburg, **student no: 1606161**.

I have embarked on a research project that examines institutions' role on foreign direct investment (FDI) inflows into the Southern African Development Community (SADC) region over the past two decades. Institutional quality has, in recent decades, increasingly become a fundamental determinant of economic performance. FDI is an engine for economic performance and a significant source of financing economic diversification, particularly for developing countries. However, the African continent attracts less than five percent of the global FDI.

Thus, given the paradigm shift from the conventional determinants of FDI inflows to recipient country/region's institutional quality as the critical determinant - the purpose of this research is to understand the link between these two variables and to measure the extent to which governance influences foreign direct investment inflows in the SADC region.

With that said, participants are cordially invited to take part in a semi-structured (expert) interview, which will entail a discussion about the region's institutional framework and whether or not it creates a conducive environment that is attractive to foreign investors; this will take 30- 45 minutes of your time. With your permission, I would also like to use an audio recorder during the interview.

Noteworthy, there will be no direct benefits from participating in this project, and there are no disadvantages or penalties for not participating. Participants may withdraw at any time or not answer any question if they do not feel comfortable. The interview will be completely confidential, and the information given will be held securely on a password protected device. Thus, pseudonyms will be used to represent participation in the final research report. Should participants experience any distress or discomfort at any point in this process, the interview will pause and resume at another time.

If you have any questions anytime during this research, please contact me (the researcher) or my supervisor on the details provided below. This study will be written up as a research report, and if you wish to receive a summary of this report, I will be happy to send it to you.
If you have any concerns or complaints regarding the ethical procedures of this study, you are welcome to contact the University Human Research Ethics Committee (Non-Medical), telephone +27(0) 11 717 1408, email Shaun.Schoeman@wits.ac.za

Yours sincerely,
Kholiswa Malindini
Contact no: 011 717 3866
Email: Kholiswa.malindini@wits.ac.za

Supervisor: Prof Pundy Pillay
Contact no: 011 717 3808
Email: pundy.pillay@wits.ac.za

Appendix D: Participants' Consent Form

THESIS TITLE: *An impact analysis of institutional quality on foreign direct investment (FDI) inflows in the Southern African Development Community (SADC) region.*

Consent to take part in research (Please tick your answer and sign at the end of the form)

- I……voluntarily agree to participate in this research study.

  Yes No
- I understand that even if I agree to participate now, I can withdraw at any time or refuse to answer any question without any consequences of any kind. Yes No
- I understand that I can withdraw permission to use data from my interview within two weeks after the interview, in which case the material will be deleted. Yes No
- I have had the purpose and nature of the study explained to me in writing, and I have had the opportunity to ask questions about the study. Yes No
- I understand that participation involves my views about the institutional framework of the SADC of the region and whether or it supports markets, development and protect property rights. Yes No
- I understand that my participation will also involve my opinion on whether a relationship exists between governance and foreign direct investment in the region. Yes No
- I understand that I will not benefit directly from participating in this research. Yes No
- I understand that all information I provide for this study will be treated with confidentiality. Yes No

- I understand that in any report on the results of this research, my identity will remain anonymous. This will be done by changing my name and disguising any details of my interview which may reveal my identity or the people I speak about. Yes No

- I understand that disguised extracts from the interview may be quoted in the researcher's *thesis, school conversations, conference paper presentations, and published papers.* Yes No

- I understand that signed consent forms will be retained in the faculty research office for at least two years from the date of submission. Yes No

- I understand that my interview transcript, in which all identifying information has been removed, will be retained for two years after the submission date. Yes No

- I understand that under freedom of information legalization, I am entitled to access the information I have provided at any time while it is in storage as specified above. Yes No

- I understand that I am free to contact any of the research people to seek further clarification and information. Yes No

---------- ……

Participant signature *Date*

I believe the participant is giving informed consent to participate in this study.

---------- ----------

Signature of researcher Date

Appendix E: Interview Schedule - SADC Secretariat Officials

Main research question: To what extent does institutional quality influence foreign direct investment (FDI) inflows into the SADC Region?

1. Foreign Direct Investment (FDI) is an engine and backbone for economic growth- and regional economic integration is meant to broaden the market size of the region and thus enhance the region's attractiveness to foreign investors. Consequently, through its main legal instrument, the SADC Treaty, the SADC region ratified several protocols, specifically, protocols on trade, finance, and investment, which aim to create an investor-friendly environment in the region.
   - What measures did the SADC region put in place to ensure that not only are these protocols ratified but are implemented by member countries?

2. To what extent have these SADC strides stimulated inward FDI into the region?

3. Although FDI is fundamental to economic growth – it is unevenly spread across countries and regions, and variation is attributed to the institutional framework (laws, regulations and policies) in the recipient countries, which is deemed a vital determinant of the amount and nature of FDI that economies or regions can attract.
   In your view, in what ways have political institutions (through legal and regulatory frameworks) in the region shaped an investor-friendly environment that supports markets and ensures property rights protection?

4. The ratified protocols stipulate the rules of the game and procedures that member countries are expected to adhere to for the realization of the region's development agenda - however, rules become effective only when enforced.

   In your view, how efficient and effective are the regions' institutions (political and economic) in enforcing the rules, thus ensuring that member countries comply?

5. In driving the region's development agenda - would you describe SADC political institutions as inclusive or extractive? Please elaborate.

6. The attainment of the region's developmental goals requires good coordination among political and economic institutions in the region and the political will to implement ratified policies – how do SADC institutions fare in this regard?

7. The development of the financial sector or system in the region is directly linked to FDI inflows – in your view, what contribution has the removal of restrictions on foreign ownership and allowing market-driven monetary policy instruments made in empowering foreign firms to be innovative in their innovative activities in the region?

8. To what extent do recipient economies create platforms to interact with multinational enterprises (MNEs) regarding the formulation of new laws, policies and regulatory mechanisms which may directly affect the operations of MNEs?

9. Developed, efficient and adequate infrastructure is critical for stimulating an attractive environment for foreign direct investments and ultimately inclusive economic growth – What measures has the SADC region put in place to ensure that proper infrastructure links are set up throughout the region to facilitate trade and investments

Thank you - your cooperation is highly appreciated

Appendix F: Research Questionnaires

ACADEMICS AND THINK-TANKS

Main research question: To what extent does institutional quality influence foreign direct investment (FDI) inflows into the SADC Region?

Kindly mark the appropriate box next to your answer with an "x" (X), and please answer all of the questions to the best of your ability.

1. Which factors do you think matter most for inward FDI in the region?
    - ☐ The size of the market
    - ☐ Availability of industrial infrastructure
    - ☐ Cheap labour and lower transport costs
    - ☐ Availability of skilled labour
    - ☐ Gaining access to raw materials
    - ☐ Other (specify)_____

2. Foreign direct investment inflows are the backbone of economic performance in host countries. Do you agree with this statement?
    - ☐ Strongly agree
    - ☐ Agree
    - ☐ Neutral
    - ☐ Disagree
    - ☐ Strongly disagree

3. As a result of globalization, several strides have been taken by the region to enhance the region's attractiveness, particularly to foreign investors – these include, amongst others, protocols on trade, finance and investments. To what extent have these strides stimulated inward FDI into the region?
    - ☐ To a great extent
    - ☐ To some extent
    - ☐ No extent

4. The host country's institutional environment is a critical locational determinant of the amount and nature of FDI inflows that an economy can attract- this is because it directly affects the transaction costs of doing business in the host country.

    - Strongly agree
    - Agree
    - Neutral
    - Disagree
    - Strongly disagree

5. Variation in the living standards, the income disparities in various parts of the world or within the same geographic areas are entrenched in the types of institutions (laws, policies and regulations) devised and enforced.

    - Strongly agree
    - Agree
    - Neutral
    - Disagree
    - Strongly disagree

6. The role of political institutions (the legal and the political systems) in the region is to create a conducive economic environment that supports inclusive economic institutions that support markets and ensure property rights protection, particularly foreign investors. How effective are these institutions in creating this enabling environment?

    - Extremely effective
    - Effective
    - Neutral
    - Not effective
    - Dismally failing

7. The transaction costs of doing business in the region are still high relative to other regional groupings in the developing world.

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

8. Would you agree with the statement that ‘countries or regions with better-governed institutions attract more FDI’?
   - Strongly agree
   - Agree
   - Neutral
   - Disagree
   - Strongly disagree

9. The region’s financial sector is sufficiently developed to allow foreign firms to borrow in order to increase their inventive activities in the region.
   - Strongly agree
   - Agree
   - Neutral
   - Disagree
   - Strongly disagree

10. As part of liberalizing the financial sector, the region undertook to remove or relax restrictions on foreign ownership in specific sectors and the deregulation of offshore investments; how effective have these reforms been in enhancing inward FDI through attracting foreign private loans? On a scale of 1 (dismally ineffective) to 5 (extremely effective).
    - 1
    - 2
    - 3
    - 4
    - 5

11. The region has several protocols on trade and investments that stipulate the rules member countries are expected to abide by to create an investor-friendly environment – however, rules become effective only when they are enforced. In your view, how efficient and effective are the region's institutions in enforcing laws, policies and regulations?

    - Extremely efficient
    - Efficient
    - Not sure
    - Inefficient
    - Extremely poor

12. SADC member countries are at different levels of development and income rankings – In your view, does the income level influence investment decisions?

    - Yes
    - No
    - Somewhat
    - Not sure

13. Is it necessary for host country governments to create platforms to interact with MNEs regarding the development of new laws, policies and regulatory mechanisms which may directly affect the operations of MNEs particularly the transaction costs?

    - Yes
    - No
    - Somewhat
    - Not sure

14. In your view, what are the possible barriers to FDI inflows in the SADC region?
    - Infrastructure underdevelopment
    - Insufficient development of financial markets

- Macroeconomic instability
- Political instability
- Slow progress on regional economic integration
- Unstable and unreliable, non-transparent legal and regulatory framework
- Lack of enforcement of laws and contracts to compete effectively
- Complex, slow and expensive property registration process.

15. Generally, the attainment of the region's developmental goals requires good coordination among political and economic institutions in the region and the political will to implement ratified policies – how do SADC institutions fare in this regard?

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Thank you

SADC Financial Institutions

Research question: To what extent does institutional quality affect foreign direct investment inflows in the SADC region?

Various options are provided as possible answers to the questions, kindly mark the appropriate box next to your answer with an "x" (X) and please answer all of the questions to the best of your ability.

1. Foreign direct investment inflows are the backbone of economic performance in host countries. Do you agree with this statement?

    - ☐ Strongly agree
    - ☐ Agree
    - ☐ Neutral
    - ☐ Disagree
    - ☐ Strongly disagree

2. Which factors do you think matter most for inward FDI in the region?

    - ☐ The size of the market
    - ☐ Availability of industrial infrastructure
    - ☐ Cheap labour and lower transport costs
    - ☐ Availability of skilled labour
    - ☐ Gaining access to raw materials
    - ☐ Other_____

3. As a result of globalization, several strides have been taken by the region to enhance the attractiveness of the region, particularly to foreign investors – these include, amongst others, protocols on trade, finance and investments. To what extent have these strides stimulated inward FDI into the region?

    - ☐ To a great extent
    - ☐ To some extent
    - ☐ No extent

4. The development of the financial sector plays a huge role in enhancing the FDI attractiveness of the region.

- □ Strongly agree
- □ Agree
- □ Neutral
- □ Disagree
- □ Strongly disagree

5. As part of liberalizing the financial sector, the region undertook to remove or relax restrictions on foreign ownership and the deregulation of offshore investments; how effective have these reforms been in enhancing inward FDI through attracting foreign private loans? On a scale of 1 (dismally ineffective) to 5 (extremely effective)

- □ 1
- □ 2
- □ 3
- □ 4
- □ 5

6. To what extent has financial sector liberalization allowed monetary policy instruments to be market-driven?

- □ To a great extent
- □ To some extent
- □ No extent

7. Regional economic integration in the region through protocols on trade, finance and investment have significantly and positively enhanced the size and the efficiency of the banking sector in the region. Do you agree?

- □ Strongly agree
- □ Agree
- □ Neutral
- □ Disagree
- □ Strongly disagree

8. How impactful have these protocols been in integrating the region globally – that is, opening room for technological change, increased capital flows and international links.

- Very impactful
- Impactful
- Somewhat impactful
- Neutral
- Not impactful

9. The region's financial sector is sufficiently developed to allow foreign firms to borrow in order to increase their inventive activities in the region.

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

10. Variation in the standards of living, the income disparities in various parts of the world or within the same geographic areas are entrenched in the types of institutions (laws, policies and regulations) devised and enforced.

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

11. The institutional environment in the host is a key locational determinant of the amount and nature of FDI inflows that an economy can attract- this is because it directly affects the transaction costs of doing business in the host country.

- Strongly agree
- Agree
- Neutral

- Disagree
- Strongly disagree

12. The role of political institutions (the legal and regulatory framework) in the region is to create a conducive economic environment that supports inclusive economic institutions that support markets and ensure property rights protection, particularly for foreign investors. How effective are these institutions in creating this enabling environment?

- Extremely effective
- Effective
- Neutral
- Not effective
- Dismally failing

13. The region enacted protocols on trade, finance and investments, which stipulate the rules member countries are expected to abide by in order to achieve regional financial integration, thus leading to the creation of an investor-friendly environment – however, rules become effective only when enforced. In your view, how efficient and effective are the region's institutions in enforcing laws, policies and regulations?

- Extremely efficient
- Efficient
- Not sure
- Inefficient
- Extremely poor

14. The transaction costs of doing business in the region are still high relative to other regional groupings in the developing world.

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

15. Would you agree with the statement that ‘countries or regions with better-governed institutions attract more FDI’?

- □ Strongly agree
- □ Agree
- □ Neutral
- □ Disagree
- □ Strongly disagree

16. Form the given list below – what are the possible barriers to FDI inflows in the SADC region?

- □ Infrastructure underdevelopment
- □ Insufficient development of financial markets
- □ Macroeconomic instability
- □ Political instability
- □ low progress on regional economic integration
- □ Unstable and unreliable, non-transparent legal and regulatory framework
- □ Lack of enforcement of laws and contracts to compete effectively
- □ Complex, slow and expensive property registration process.
- □ Other_____

17. The attainment of the region’s developmental goals requires good coordination among political and economic institutions in the region as well as the political will to implement ratified policies – how do SADC institutions fare in this regard?

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Thank you for your cooperation, highly appreciated.

Multinational Enterprises

Research question: To what extent does institutional quality affect foreign direct investment inflows in the SADC region?

Various options are provided as possible answers to the questions, kindly mark the appropriate box next to your answer with an "x" (X) and please answer all of the questions to the best of your ability.

1. For how long have you been operating in the SADC region?
   - □ A decade
   - □ Two decades

2. In which sector do you operate in the region?
   - □ Manufacturing
   - □ Mining
   - □ Transport, storage and communications
   - □ Construction
   - □ Financial intermediation
   - □ Other_(specify)_____

3. What type of FDI are you involved in?
   - □ Greenfield investment
   - □ Mergers and Acquisitions

4. When did you decide to invest in the SADC region? What motives were behind your decision? Which factors mattered most?
   - □ The size of the market
   - □ Availability of industrial infrastructure
   - □ Cheap labour and lower transport costs

- Availability of skilled labour
- Gaining access to raw materials
- Other__(specify)_____

5. Foreign direct investment inflows are a backbone of economic performance in host countries.
   - Strongly agree
   - Agree
   - Neutral
   - Disagree
   - Strongly disagree

6. The host's institutional environment is a critical locational determinant of the amount and nature of FDI inflows that an economy can attract because it directly affects transactional costs of doing business in the country.

   - Strongly agree
   - Agree
   - Neutral
   - Disagree
   - Strongly disagree

7. The role of institutions political institutions in the region is to create a conducive economic environment that supports inclusive economic institutions that support markets and ensure property rights protection, particularly for foreign investors. How effective are political institutions in the region in creating this enabling environment?

   - Extremely effective
   - Effective
   - Neutral
   - Not effective
   - Dismally failing

8. The transaction costs of doing business in the region are still high relative to other regional groupings in the developing world.
   - Strongly agree
   - Agree
   - Neutral
   - Disagree
   - Strongly disagree

9. Would you agree with the statement that ‘countries or regions with better-governed institutions attract FDI? Please motivate your answer.

   - Strongly agree
   - Agree
   - Neutral
   - Disagree
   - Strongly disagree

10. In your view, what are the possible barriers to FDI inflows in the SADC region?
   - Infrastructure underdevelopment
   - Insufficient development of financial markets
   - Macroeconomic instability
   - Political instability
   - Slow progress on regional economic integration
   - Unstable and unreliable, non-transparent legal and regulatory Framework.
   - Lack of enforcement of laws and contracts to compete effectively
   - Complex, slow and expensive property registration process.

11. The region’s financial sector is sufficiently developed to allow foreign firms to borrow to increase their region's creative activities.
   - Strongly agree

- Agree
- Neutral
- Disagree
- Strongly disagree

12. As part of liberalizing the financial sector, the region undertook to remove or relax restrictions on foreign ownership in certain sectors and the deregulation of off-shore investments; how effective have these reforms been in enhancing inward FDI through attracting foreign private loans? On a scale of 1 (dismally ineffective) to 5 (extremely effective).

    - 1
    - 2
    - 3
    - 4
    - 5

13. The region has several protocols on trade and investments that stipulate the rules member countries are expected to abide by to create an investor-friendly environment – however, rules become effective only when they are enforced. In your view, how efficient and effective are the region's political institutions in enforcing laws, policies and regulations?

    - Extremely efficient
    - Efficient
    - Not sure
    - Inefficient
    - Extremely poor

14. SADC member countries are at different levels of development and income rankings – Does the income ranking influence your investment decisions?

    - Yes
    - No

- Somewhat
- Not sure

15. As an investor in the region, are there any platforms or programs that host country governments create to interact with MNEs regarding the development of new laws, policies, and regulatory mechanisms that directly affect the operations of MNEs?

    - Yes
    - No
    - Somewhat
    - Not sure

16. The attainment of the region's developmental goals requires good coordination among political and economic institutions in the region and the political will to implement ratified policies – how do SADC institutions fare in this regard?

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Thank you for your cooperation, highly appreciated.