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The Impact of Political Stability and Government Effectiveness on Foreign Direct Investment Inflows in Nigeria: Assessing the Mediating Role of Financial Development

Ubong Effiong

ABSTRACT

The concern of this paper was targeted at studying how Nigeria's political stability, and government effectiveness influences foreign direct investment (FDI) inflows from 1996 to 2024 and overtly test the mediating effect of domestic financial development in such relationship. The analysis was based on the System Generalized Method of Moments estimation technique to deal with the potential endogeneity, dynamic persistence and unobserved heterogeneity associated with FDI determinants. The empirical results show that political stability and government effectiveness have a positive and statistically significant impact on FDI inflows in Nigeria in the full mediation model, with political stability having a relatively larger effect than government effectiveness. Furthermore, the results of the mediation analysis indicate that financial development has a significant mediation role between institutional governance quality and FDI inflows. This highlights the fact that while good political and administrative institutions are essential to building investor confidence, a well-developed domestic financial sector is an indispensable structural route to enhancing the country's capacity to absorb investment and returns. Based on the findings, it is recommended that policymakers in Nigeria should strive to mitigate political risks, electoral instability, and make the capital market more liquid.

Keywords: Foreign Direct Investment, Political Stability, Government Effectiveness, Financial Development.

JEL Classification: F21, H11, O55

1. INTRODUCTION

Foreign direct investment (FDI) is a vital catalyst for economic growth, technology transfer and employment in developing economies. Nigeria is one of the biggest potential investment markets in Sub-Saharan Africa, with its vast consumer market and abundant natural resources. But this is not enough to ensure that capital will keep flowing. As noted in North Institutional Theory (1990) and Dunning Eclectic Paradigm (1993), foreign investors consider location-specific advantages; with both theories focusing on the institutional governance structures that lower the risk of

operating and the friction of transactions. Political stability and government effectiveness are among the core institutional factors that are crucial to creating a stable economic environment. Political stability reduces the risk of policy changes, civil unrest and expropriation, at the same time government effectiveness helps to ensure that the legal, regulatory and public services operate effectively to protect private investments.

In addition to institutional governance, a country's financial structure has a big influence on the absorptive capacity for foreign capital (Alfaro et al., 2010). The positive effects of governance reforms can be amplified or directed to investment inflows through financial sector development, which includes the presence of liquid capital markets, efficient credit allocation, and well-developed banking systems (Asongu & Odhiambo, 2020). Financial systems in imperfect economies can serve as an important intermediate link to reduce risk by providing access to domestic capital, credit guarantees, and efficient foreign exchange settlement. On the other hand, an underdeveloped or fragile financial system can limit the benefits of good governance and act as a barrier to retaining long-term capital. Over the years, data gathered from various sources have revealed the amount of FDI in Nigeria in relation to various levels of the institutional quality variables and financial sector development. The data on these basic variables are given in Table 1. It is observed that the share of FDI to GDP in 1996 was 0.27%, which increased to 1.65% in 2000 and 2.84% in 2005. During this period, there was a decline in the government effectiveness score (GE) from 30.37% in 1996 to 26.70% in 2000, but it increased marginally to 30.15% in 2005. Furthermore, political stability score went down from 43.10% in 1996 to 38.11% and then 36.28% while financial sector development on the other hand showed an upward trend from 4.15% in 1996 to 7.20% and 8.55% during the same period.

Table 1. Foreign direct investment and institutional quality and financial development

Year	FDI (% of GDP)	GE (% score)	PS (% score)	FD (% of GDP)
1996	0.27	30.37	43.10	4.15
2000	1.65	26.70	38.11	7.20
2002	1.97	21.66	30.64	8.30
2005	2.84	30.15	36.28	8.55
2008	2.41	31.57	38.57	19.52
2010	1.64	29.22	31.31	13.89
2012	1.52	32.48	30.22	11.23
2015	0.62	33.57	37.41	13.75
2020	0.40	32.20	31.58	13.21
2022	-0.03	30.79	32.54	14.55
2024	0.43	31.77	31.69	21.34

Source: WDI (2023); WGI (2023); CBN (2024).

Recent statistics have depicted FDI net inflows amounting to 0.40% in 2020, became negative (-0.03%) in 2022, and improved slightly to 0.43% in 2024. Throughout the period under investigation, FDI has not reached 3% of GDP portraying low level of FDI attraction in Nigeria. This, probably, can be linked to poor institutional quality which are all below 50% even though financial development keeps on showcasing greater improvements over the years.

Although successive Nigerian governments have provided macroeconomic reforms and policy incentives for attracting FDI, the inflows into Nigeria have been volatile and sub-optimal when compared with the level of FDI inflows into other countries in the region. Foreign investors in Nigeria are prone to structural risks, including regional insurgencies in the Northern part of the country, electoral violence, regulatory ambiguity, cum deficient protection of contractual rights (Adenuga, 2023; Eliphus et al., 2024). Although the empirical literature on political instability and institutional weakness and their effects on investment exists (Aisen & Veiga, 2013), there is a significant empirical disagreement on which of the two is more important in influencing FDI decisions in Nigeria. Moreover, most of the empirical studies so far investigate institutional quality and FDI in a direct linear model, and a gap in knowledge exists on the extent to which financial sector development mediates the relationship between political stability, government effectiveness and FDI inflows to Nigeria.

This study aims to investigate the effects of political instability and government effectiveness on foreign direct investment inflows in Nigeria and to assess the possible mediation effect of financial development. This study aims in particular to:

- a) evaluate the level of political instability effect on Foreign Direct Investment (FDI) inflows to Nigeria;
- b) examine the role of government effectiveness in regulatory enforcement and rule of law in foreign investors' investment decisions;
- c) compare the relative contribution of political stability and government effectiveness on FDI flows to Nigeria, and
- d) analyze if the financial sector development act as an explicit mediating variable in the nexus between political stability cum government effectiveness on inflow of FDI into Nigeria.

The theoretical, empirical and policy implications of this study are very important. It contributes to the institutional and international business literature by introducing as an explicit mediating variable financial sector development in the relationship between governance indicators and FDI in the context of an emerging market environment. The findings offer practical policy recommendations for key policymakers in Nigeria, such as the *Federal Ministry of Industry, Trade and Investment*, the *Nigerian Investment Promotion Commission (NIPC)* and the *Central Bank of Nigeria (CBN)*. It helps to identify which of the two – political risk or regulatory inefficiency – is the main obstacle to capital inflows, which allows policymakers to focus on governance interventions. Further emphasizing the role of financial development as an explicit mediating variable offers tangible proof that greater financial development of domestic markets can help to mitigate political risk and maximize capital absorption.

This study geographically focuses on Nigeria and uses country-level time-series macroeconomic and institutional data from 1996 to 2024. This timeframe will include key political events such as Nigeria's return to democratic rule in 1999 and a number of financial sector consolidation regimes.

2. LITERATURE REVIEW

2.1. Theoretical Framework

The present study is based on three major theories namely, Dunning's Eclectic Paradigm (OLI Framework), North's New Institutional Economics (NIE) Theory and Financial Intermediation and Absorptive Capacity Theory.

2.1.1. Dunning's Eclectic Paradigm (OLI Framework)

The Eclectic Paradigm formulated by John Dunning (1977, 1988 and 1993) suggests that a firm will undertake FDI if the following three conditional advantages are met:

- a) Ownership advantages (O): Firm specific assets such as proprietary technology, managerial skill, brand reputation.
- b) Location advantages (L): The attributes of the host country that include market size, natural resources, institutional stability, and infrastructural quality.
- c) Internalization advantages (I): The benefits that accrue to the firm from keeping the cross-border activities within the firm instead of licensing them.

In this context, political stability, and government effectiveness are key advantages at a location (L). Political instability, policy unpredictability and inefficient regulatory bodies are negative location factors (disincentives) that increase the operational hazards and non-commercial transaction costs of Multinational Enterprises (MNEs).

2.1.2. New Institutional Economics (NIE) Theory

The New Institutional Economics (NIE) Theory was proposed by Douglas North. New Institutional Economics (NIE) (North, 1990) states that institutions are the "rules of the game in a society" that shape human and economic interactions. NIE distinguishes between formal and informal rules, formal constitutions, laws, property rights, and informal being sanctions, customs, codes of conduct. Higher institutional quality impacts economic outcomes through a reduction in transaction costs, and uncertainty in the markets.

In the context of FDI, the formal institutional machinery that insulates foreign property rights from arbitrary expropriation or administrative delays is government effectiveness (the quality of public service delivery, policy implementation and contract enforcement) and political stability. But in weak institutions, transaction costs increase, capital risk premiums increase, and international capital flows are reduced.

2.1.3. Financial Intermediation and Absorptive Capacity Theory

The theory is based on the seminal papers of McKinnon (1973) and Shaw (1973) and was extended by Hermes and Lensink (2003) and Alfaro et al. (2004, 2010), which argue that without a well-developed domestic financial market, foreign capital inflows cannot automatically lead to growth and optimal returns.

An economy's absorptive capacity is increased by a sophisticated financial system through the following ways:

- a) efficiently mobilizing credit,
- b) lowering transaction friction,
- c) facilitating diversification of risk, and
- d) helping foreign investors to manage local operational and governance risks in liquidity provision.

As a mediating mechanism, financial development serves as a channel: institutional improvements (e.g., regulatory stability and effective government) lead to more effective and efficient channels of sustained FDI inflows when host-country financial institutions offer deep liquidity, credit access, and foreign exchange settlement mechanisms.

2.2. Empirical Literature Review

The empirical literature is divided into four thematic areas in line with the main research objectives.

2.2.1. Political Instability and FDI Deterrence

Aisen and Veiga (2013) examined the macroeconomic transmission mechanisms of the impact of political instability on capital accumulation and economic productivity in 169 countries between 1960 and 2004. The study sought to estimate the extent of the dampening effect of political volatility on capital formation using Generalized Method of Moments (GMM) dynamic panel estimators. The authors concluded that high political instability has a strong and negative impact on investment and economic growth because it increases overall market uncertainty and drastically reduces the time horizon of investment. The basic idea is that political uncertainty lowers the net present value of long-term capital investments, leading to capital flight and an orientation of international investors towards short-term speculative assets instead of long-term direct investments.

Oladipo (2013) investigated the specific effect of socio-political violence and regime instability on non-resource FDI inflows into Nigeria in the period 1970–2010. The study used Autoregressive Distributed Lag (ARDL) cointegration technique to determine short-run and long-run relationship between security threats and capital inflows. The empirical results validated the socio-political violence, communal clashes and political regime changes all have a statistically significant long-run negative effect on non-oil FDI. The study suggests that Nigeria's continued over-dependence on oil-sector FDI is a reflection of its underinvestment in the secondary and tertiary sectors, where the economy continues to be very fragile to political and security shocks.

Kurecic and Kokotovic (2017) examined the correlation between political stability, economic growth and FDI inflows in the small developed and developing economies during the period 1996–2014. The main goal was to find out if political stability can be considered a universal precondition for FDI in various economic structures by using VAR models and ARDL. They discovered that although political stability is important for FDI, its quantitative effect is widely different depending on whether the host economy is a primary-resource-driven or a market-seeking economy. This suggests that foreign investors looking for resources are more likely to be tolerant of political volatility than are those looking for markets or efficiency, and that sectoral targeting is important in political risk.

Lee (2023) investigated the relationship between political risk and institutional predictability and the impact on the volatility of capital flows in 38 emerging market economies (EMM) during 2000–2020. The results indicated that the effect of governance predictability on reducing international financial contagion and capital flight is positive and direct, as found using panel fixed-effects and dynamic panel econometrics. The findings confirmed that political predictability positively and directly affects country risk premiums, capital flow volatility, and FDI inflows. The main policy takeaway is that transparency in political decision-making and policy continuity are important countercyclical buffers against international capital shocks in emerging markets.

2.2.2. Government Effectiveness, Regulatory Enforcement, and Investor Decisions

Mengistu and Adhikary (2011) focused on fifteen (15) Asian nations to analyzed how diverse dimensions of governance influenced FDI inflows between 1996 and 2007. With the fixed-effects, FGLS, and Prais–Winsten panel techniques being put to use in the analysis, the study pointed out that political stability, government effectiveness, rule of law, and control of corruption reliably enticed FDI inflows. In contrast, voice and accountability and regulatory quality portrayed no significant effect. Factors such as human capital, infrastructure,

lending rates, and economic growth trajectories played potent roles in FDI attraction. In sum, the findings advocate that perfecting governance dimensions can enhance FDI inflows, even if progression on selected institutional indices lags.

In examining diverging impact of institutional quality on FDI inflows, Peres et al. (2018) used data from 110 developed and developing nations from 2002 to 2012 in studying the connection. Using OLS and IV estimations approaches, the study noticed positive and significant nexus amid institutional quality and FDI in developed economies. Specifically, the observed findings indicated that a one-standard-deviation rise in governance caused an upsurge in FDI by 0.2225 units. Equally, the nexus between institutional quality and FDI inflows exhibited an insignificant effect when the developing nations constitute the sample. Such an insignificant effect was noted to be attributed to the prevalent institutional fragilities embedded in developing countries. In sum, the study emphasizes that institutional quality connotes a chief variable in attracting FDI, predominantly in developed nations.

Saha et al. (2022) explored the non-linear relationship between governance quality and foreign direct investment (FDI) across 28 lower-middle-income countries (LMICs) from 2002 to 2018. Employing a two-step system GMM to ascertain threshold effects associated with income levels, the study observed diverse outcomes: while FDI inflows are enhanced by regulatory quality (RQ) cum control of corruption (CC), rule of law (RL) cum voice and accountability (VC) surprisingly stalled FDI inflows. Government effectiveness (GE) and political stability (PS) yielded no statistically significant influence, with RQ emerging as the single most powerful driver of foreign capital. Besides, threshold estimations portrayed that RQ and VA only exercised a positive influence on FDI once a recipient country's income per capita goes beyond threshold values of 7.197% and 7.776%, respectively.

In a study to ascertain how institutional governance and regulatory constraints influences FDI in Nigeria, Adenuga (2023) utilized data from 1999–2021 which was analyzed through the Dynamic Ordinary Least Squares (DOLS) and the Fully Modified OLS (FMOLS) techniques. The observed findings prompt that whereas macroeconomic inducements to foreign investors are crucial, red tape associated bureaucracy, delays legal outcomes, and poor contract enforcement equally exerts negative effects. The study advocates priority in reforming legal and administrative institutions over external trade advancements in external capital pull to Nigeria.

2.2.3. Political Stability vs. Broader Institutional Quality for FDI Attraction

Ali et al. (2010) examined the impact of institutional indicators on FDI in 69 countries over the period 1981 to 2005 and found that the impact varies by sector. The aim was to use cointegration techniques and dynamic panel system GMM to check if there is any difference in the sensitivity of institutions in primary, manufacturing and services sectors. Their empirical results indicated that the most important factor affecting FDI in manufacturing and services is institutional quality, measured as protection of property rights and legal enforcement. At the same time, FDI in the primary sector is mainly determined by the availability of resources and basic political stability. The study suggests that structural economic changes call for institutional strengthening, and not just for the maintenance of a political regime.

Buchanan et al. (2012) studied how institutional quality and political volatility affect FDI volume and volatility of 164 countries during the time interval 1996–2006. The main goal was to identify the effect of institutional quality on the volatility in capital flows, using panel data analysis and SUR estimation models. The empirical findings indicated that the overall institutional quality has a positive impact on the level of FDI while high political volatility has a significant impact on the volatility of FDI inflows. The message for the countries to which the capital flows are directed is that strengthening institutions encourages long-term and stable capital inflows and lowers the risk of sudden capital outflows.

Examining ECOWAS countries, Ajide and Raheem (2016) analyzed how institutional quality impacts FDI inflows. Overall, they observed poor governance performance across the region, both as an aggregate measure and across six distinct sub-indices (VS, PS, GE, RQ, RL, and CC). Crucially, regime-split analysis indicated that countries with stronger institutional frameworks attracted more FDI than those with weak governance. The authors concluded that building durable governance structures is key to driving regional FDI growth.

The research by Kurul & Yalta (2017) utilized data from 2002 to 2012 in 113 developing countries to study the influence of institutional quality on FDI inflows. With the dynamic panel method serving as estimation technique to address endogeneity, the study noticed that selected institutional indicators are more potent at attracting FDI inflows compared to others. The study also pointed out an outstanding downturn in FDI flows consequent upon Global Financial Crisis of 2008–2009.

2.2.4. The Mediating and Moderating Role of Financial Sector Development

Based on the data from 1975 to 2005, Alfaro et al. (2010) examined how domestic financial markets affect economic growth from FDI in 71 developed and developing countries. Using cross-country and panel instrumental variable regressions, the aim of the study was to

identify the local financial market depth needed for efficient capital absorption. They found that the extent to which foreign technology and capital linkages are absorbed in host economies is a function of financial depth (private sector credit to GDP). The study suggests that foreign capital inflows are not independent but require the domestic credit markets and banking systems to develop at the same time, so that foreign capital is channeled into productive sectors.

Choong et al. (2010) studied the relationship between private capital inflows, financial sector depth and economic growth for both developed and developing countries for the period 1988-2002. The paper applied Johansen cointegration test, and Granger causality test to test the mediating role of financial development in the output growth in the long run from FDI. They found that financial development is an important channel by which foreign capital inflows boost economic productivity. Thus, they suggest linking FDI policies with domestic financial sector reforms.

Soumaré and Tchana (2015) assessed the causal feedback loop between FDI and DFFM in 29 emerging market economies between 1994 and 2006. Using the techniques of panel Vector Autoregression (PVAR) and simultaneous equation models, the research goal was to determine the direction of causality and the institutional conditioning effects between FDI and stock market/banking indicators. The empirical results showed that there was a strong bi-directional causal relationship between FDI and financial market measures, with strong mediation by host country institutional quality. The lesson is that governance reforms lead to greater financial depth domestically, and capital inflows from abroad, which in turn leads to more economic growth.

Otchere et al. (2016) studied the dynamic relationship of foreign capital inflows, financial development and institutional quality in 36 African countries between 1996 and 2011. The goal was to find out if domestic banking liquidity and capital market capitalization have a positive effect on the positive effect of governance reforms on FDI and using dynamic panel system GMM estimators, it was found that the positive effect of governance reforms on FDI is indeed positively affected by domestic banking liquidity and capital market capitalization. The study found that institutional governance reforms have a significant positive impact on FDI inflows when complemented by liquid domestic banking systems and stock market capitalization. The main lesson is that the positive effects of institutional reforms are magnified by the expansion of the financial sector when it comes to international investors.

The study by Asongu and Odhiambo (2020) focusing on 42 Sub-Saharan African (SSA) countries used data from 2004 to 2014 was to determine if financial access modifies the influence of governance on life and non-life insurance demand. With the GMM and LSDVC estimators serving as technique of analysis, the study noticed that LSDVC results were insignificant, but GMM outcomes portrayed that enhanced financial access functions with strong governance to spur insurance growth. In particular, financial access interacted with PS, VA, GE, RL, and CC amplified both life and non-life insurance demand, with RQ additionally reinforcing non-life insurance.

Patra and Sethi (2023) examined the direct and indirect linkages between institutional quality, financial development, and FDI inflows in 18 emerging market economies (EMEs) for the period 1998–2020. The main aim was to measure the direct as well as mediated effects of governance measures on FDI using a dynamic panel ARDL and structural mediation approach. The empirical results supported that financial sector intermediation has a direct positive effect on capital inflows, and an indirect positive effect on the positive effect of institutional reforms on foreign investment. The study suggests that policy interventions to boost governance indicators would be ineffective in attracting sub-optimal levels of FDI inflows without targeted reforms to create a more diverse and effective credit market, and more efficient allocation of capital.

A critical review of the literature shows that there are three gaps in the institutional governance, financial intermediation and FDI literature. Previous empirical studies on Nigeria (e.g., Oladipo, 2013; Ajide & Raheem, 2016; Adenuga, 2023) have assessed the institutional quality and FDI using direct linear models (simple OLS, ARDL, and VAR). These studies make an unmediated link between governance indicators and capital inflows. Existing studies have not considered mediating variables, which can cause misspecification in the model and the inability to study the role of internal financial markets to absorb, filter, or amplify governance signals.

In many existing empirical studies, composite institutional indexes are created on a broad level or political stability, and regulatory enforcement are used interchangeably. This blurs the clear lines of action of the various institutional dimensions. If administrative regulatory efficiency is high, international investors may be able to stand the political risk and vice versa. The empirical evidence specifically comparing the relative importance of political stability and government effectiveness in foreign investors' decision-making processes in the largest economy in Sub-Saharan Africa is lacking.

Although research such as Hermes and Lensink (2003), Alfaro et al. (2010), and Asongu and Odhiambo (2020) suggests that the development of financial services affects FDI effectiveness, the studies have been based on pooled regional panels (e.g., Latin America, Asia, or wide Sub-Saharan Africa). Pooled panel estimates do not consider the structural features of the countries, including the fact that Nigeria is dependent on crude oil export revenues, and volatile foreign portfolio/direct capital inflows. Moreover, most of the

empirical works do not have recent data on macroeconomic shocks, democratic governance regimes and financial sector consolidation policies in Nigeria.

This research attempts to fill these gaps by explicitly modeling financial sector development as a mediating variable in a single econometric framework (via mediation estimation techniques such as Mediation Analysis using Path Models estimated through GMM). It does this by comparing the importance of political stability and government effectiveness in attracting FDI inflows into Nigeria.

3. RESEARCH METHODOLOGY

3.1. Model Specification and Conceptual Mediation Framework

This study employs a structural time-series mediation technique, which is an augmentation to Baron and Kenny (1986) causal step process to a GMM technique to account for endogeneity and reverse causality and to evaluate the influence of political stability cum government effectiveness on FDI inflows in Nigeria, mediated by financial sector development.

A mediation design separates three different path channels:

1. Path *a* (Mediator Equation): The path between institutional indicators and the mediator (Financial Development).
2. Path *c'* (Direct Effect): The direct effect of institutional quality on the FDI inflows when the mediator is held constant.
3. Path *b* and *c* (Total and Mediated/Indirect Effect): The indirect path of the impact of institutional environment on FDI through financial depth ($a \times b$).

Step 1: Total Effect Model (Without Mediator)

$$FDI_t = \alpha_0 + \alpha_1 PS_t + \alpha_2 GE_t + \sum_{k=1}^n \delta_k X_{kt} + \varepsilon_{1t} \quad (1)$$

Where:

FDI_t : Net Foreign Direct Investment inflows in period t (as % of GDP).

PS_t : Political Stability and Absence of Violence/Terrorism score.

GE_t : Government Effectiveness score.

X_{kt} : Market size, trade openness, inflation rate and infrastructure as macroeconomic control variables as vectors.

ε_{1t} : White-noise error term.

Step 2: Mediator Model (Path *a*)

$$FD_t = \beta_0 + \beta_1 PS_t + \beta_2 GE_t + \sum_{k=1}^n \phi_k X_{kt} + \varepsilon_{2t} \quad (2)$$

Where:

FD_t : Financial sector development index / private sector credit ratio in period t .

β_1 and β_2 : Capture the level of institutional governance that supports internal development of the financial sector (Path *a*).

Step 3: Full Mediation Model (Paths *b* and *c'*)

$$FDI_t = \gamma_0 + \gamma_1' PS_t + \gamma_2' GE_t + \theta FD_t + \sum_{k=1}^n \psi_k X_{kt} + \varepsilon_{3t} \quad (3)$$

Where:

θ : Represents Path *b* (the impact of financial development on FDI, controlling for governance).

γ_1' and γ_2' : Represent Path *c'* (the direct effect of political stability and government effectiveness on FDI).

Indirect Effect (Mediation): Computed as $(\beta_1 \times \theta)$ for political stability and $(\beta_2 \times \theta)$ for government effectiveness.

Total Effect: $\alpha_1 = \gamma_1' + (\beta_1 \times \theta)$ and $\alpha_2 = \gamma_2' + (\beta_2 \times \theta)$.

3.2. Operationalization of Variables and Data Sources

The study employs annual frequency macroeconomic and institutional time-series data for the period 1996 to 2024 for Nigeria. This sample period covers important economic changes such as the 1999 democratic transition, important banking sector consolidations, and

recent macroeconomic shock regimes. It is worth noting that data on institutional quality variables were not available for 1997, 1999, and 2001; hence, our analysis will reflect 26 observations instead of 29 observations. The description of the variables is listed in Table 2.

Table 2. Description of the variables

Variable	Metric / Operationalization	Expected Sign	Data Source
FDI Inflows (<i>FDI</i>)	Foreign direct investment, net inflows (% of GDP)	Dependent	World Bank - WDI
Political Stability (<i>PS</i>)	Political stability and absence of violence/terrorism index (governance score ranging from 0 to 100)	+	World Bank - WGI
Government Effectiveness (<i>GE</i>)	Quality of public services, policy formulation, administrative capacity, and regulatory enforcement (governance score ranging from 0 to 100)	+	World Bank - WGI
Financial Development (<i>FD</i>)	Domestic credit to private sector (% of GDP)	+	Central Bank of Nigeria
Market Size (<i>GDPG</i>)	Real GDP growth rate (annual %)	+	World Bank - WDI
Trade Openness (<i>TOP</i>)	Sum of Exports and Imports (% of GDP)	+	World Bank - WDI
Inflation Rate (<i>INF</i>)	Consumer Price Index (annual % change)	–	Central Bank of Nigeria (CBN) / WDI
Infrastructure (<i>INFRA</i>)	Mobile cellular subscriptions per 100 people	+	World Bank - WDI

Source: Compiled by the researcher.

3.3. Estimation Techniques and Diagnostic Framework

The empirical analysis follows a three-stage sequential estimation strategy:

Stage 1: Generalized Method of Moments

The specified models for the study are estimated employing the GMM, which accounts for endogeneity between the regressand and the regressor(s). This strategy therefore yields consistent and reliable estimates, for use in the subsequent stage.

Stage 2: Formal Testing of Mediation Effects

To ratify if financial sector development statistically mediates governance impact to FDI, the Sobel (1982) test is utilized. It tests the hypothesis that the indirect path product $a \times b$ is significantly different from zero:

$$z = \frac{a \times b}{\sqrt{b^2 s_a^2 + a^2 s_b^2}}$$

(where s_a and s_b are standard errors of paths a and b).

Decision Rules

- H_0 : $a \times b = 0$ (No indirect/mediated effect exists).
- H_1 : $a \times b \neq 0$ (A statistically significant indirect/mediated effect exists).

Test Metric: The calculated z-statistic is compared against critical values from the standard normal distribution (e.g., $z_{\text{critical}} = \pm 1.96$ for a 5% significance level, $\alpha = 0.05$).

Conclusion: If $|z| > 1.96$ (and $p < 0.05$), H_0 is overruled, validating that the mediation is statistically substantial.

Stage 3: Diagnostic and Stability Tests

The robustness of the model is substantiated by utilizing standard econometrics diagnostics such as normality test (Jarque-Bera test) and the variable redundancy test.

4. RESULTS & DISCUSSION

4.1. Descriptive Statistics and Correlation Analysis

Exploring the descriptive statistics of the variables, Table 3 shows that the mean value of FDI was 1.20% with an associated standard deviation of 0.8882 and recorded a maximum and minimum value of 2.90% and -0.03% respectively. Likewise, political stability score averaged 34.76% with a 4.222 standard deviation and having 46.84% and 28.56% as its respective maximum and minimum values during the study period. In the case of government effectiveness score, the observed mean value was 30.68% accompanied by a 3.1384 standard deviation and having a maximum and minimum value of 34.89% and 21.66% respectively.

Table 3. Descriptive statistics

	FDI	PS	GE	GDPG	TOP	INF	INFRA	FD
Mean	1.2013	34.762	30.678	4.6368	32.421	14.180	51.160	12.511
Median	0.9615	33.480	30.968	4.6674	32.743	12.707	59.768	12.779
Maximum	2.9002	46.838	34.894	15.329	51.224	33.242	99.585	21.340
Minimum	-0.0289	28.562	21.661	-6.3689	17.856	5.3880	0.0126	4.1467
Std. Dev.	0.8882	4.222	3.1384	3.9915	8.4458	6.5455	35.661	4.4245
Observations	26	26	26	26	26	26	26	26

Source: Computed by the researcher.

Financial sector development (FD), measured as total credit in the economy as percentage of GDP, recorded a mean value of 12.51% with 4.4245 as its standard deviation and having 21.34% and 4.15% as its respective maximum and minimum values. Among the control variables, GDPG averaged 4.64%, with its value ranging between -6.37% and 15.33% and having a standard deviation of 3.9915. In the case of TOP and INF, their respective mean value was 34.42% and 14.18% whereas infrastructure (mobile cellular subscriptions per 100 people) averaged 51 people.

Table 4. Matrix of correlation coefficients

	FDI	PS	GE	GDPG	TOP	INF	INFRA	FD
FDI	1							
PS	0.4832	1						
GE	0.3502	-0.1917	1					
GDPG	0.5933	-0.0202	-0.5908	1				
TOP	0.4043	0.2548	-0.3308	0.4349	1			
INF	-0.3612	-0.0070	0.1378	-0.1342	0.3397	1		
INFRA	0.5249	-0.5527	0.4100	-0.5862	-0.5866	0.1336	1	
FD	0.0100	-0.2938	0.4793	-0.1563	-0.1547	0.2204	0.4383	1

Source: Computed by the researcher.

In Table 4, it is observed that FDI has fairly strong positive correlation with PS ($r = +0.4832$) whereas such correlation with GE is weakly positive ($r = +0.3502$). The correlation between FDI and GDPG exhibits fairly strong positive association ($r = +0.5933$) with similar fairly strong positive relationship observed with TOP ($r = +0.4043$) and INFRA ($r = +0.5249$). Meanwhile, the correlation between FDI and FD is weakly positive ($r = +0.010$) while with INF is weakly negative ($r = -0.3612$). The correlation between the regressors is moderate and does not portray any threat of multicollinearity in the model.

4.2. Direct Effect of Institutional Quality on FDI Inflows in Nigeria

Adopting the system generalized method of moments (GMM), our empirical result on the direct nexus between institutional quality variables and FDI inflows is given in Table 5.

Table 5. GMM estimate of direct effect of institutional quality on FDI inflows

Regressand: FDI				
Technique: GMM				
Instrument specification: FDI(-1) PS GE GDPG TOP INF INFRA				
Variable	Coefficient	Std. Error	t-Statistic	Probability
PS	0.1257	0.0177	7.1017	0.0000
GE	0.0758	0.0606	1.208	0.2266
GDPG	0.0119	0.0601	0.1986	0.8448
TOP	0.0258	0.0263	0.9825	0.3389
INF	-0.0349	0.0311	-1.1219	0.2766
INFRA	0.0810	0.0112	7.2540	0.0000
C	1.6714	2.9692	0.5629	0.5804
R ²	0.5050	Mean of FDI		1.2386
Adjusted R ²	0.3400	S.D. of FDI		0.8855
S.E. of regression	0.7194	$\sum e^2$		9.3153
D-W	1.8920	J-statistic		4.6385
Instrument rank	8	Prob(J-statistic)		0.0313

Source: Computed by the researcher.

The empirical result in Table 5 indicates that political stability yielded a significant positive direct effect on FDI inflows at the 1% level. It therefore connotes that an improvement in political stability and absence of violence and terrorism in Nigeria will attract massive inflow of FDI into Nigeria. From the estimate of the model, a 1% increase in PS yields about a 0.1257% increase in FDI inflows in Nigeria. However, the direct effect of government effectiveness was positive but statistically insignificant. This means that government effectiveness does not yield any substantial effect in attracting FDI into Nigeria during the period of analysis. Likewise, the market size does not yield significant effect on FDI inflows though its effect is positive. The result further shows that while trade openness exerted an insignificant positive effect on FDI inflows, the effect of inflation was negative and statistically insignificant. In contrast to the observed insignificant effect of TOP and INF on FDI, it was observed that infrastructure yielded a significant positive effect. Thus, a 1% increase in INFRA leads to about 0.081% increase in the inflow of FDI into Nigeria. The constant term of 1.6710 which is statistically insignificant portrays that FDI (% of GDP) will assume a value of zero if the regressors are held constant. The model explanatory power is given by the R-squared showing that the regressors accounted for about 50.50% of the overall changes in FDI inflows in Nigeria. The significance of the J-statistic (4.6385) at the 5% level is an indication that the instruments utilized in the model are valid.

4.3. Effect of Institutional Quality on Financial Development (the Mediator Model)

The empirical result presented in Table 6 showcases the influence of institutional quality on the mediator variable (financial development). The result shows that both political stability (PS) and government effectiveness (GE) positively enhanced financial development in Nigeria significantly. The estimate of the model shows that a 1% increase in PS and GE prompt about 0.2315% and 0.1775% increase in financial development respectively. It therefore follows that stability in the political spheres with associated absence of violence and terrorism will yield some positive spillovers on the Nigerian financial system. Likewise, government effectiveness is a financial sector development catalyst since financial repression by the government can trigger some undesirable consequences within the financial system. The established findings therefore connote that sound institutional quality is a prerequisite for a developed financial system in Nigeria. However, the empirical findings indicated that economic growth, though exerting a positive effect, does not significantly affect financial sector development in Nigeria. This therefore raises concerns about whether Nigeria is experiencing demand-following or supply-leading finance.

Table 6. The mediator model (path a)

Regressand: FD				
Technique: GMM				
Instrument specification: FD(-1) PS GE GDPG TOP INF INFRA				
Variable	Coefficient	Std. Error	t-Statistic	Probability
PS	0.2315	0.0469	4.9402	0.0002
GE	0.1775	0.0370	4.7960	0.0003
GDPG	0.3479	0.2815	1.2357	0.2325
TOP	0.0950	0.0229	4.1478	0.0009
INF	0.2028	0.1093	1.8564	0.0798
INFRA	0.1033	0.0476	2.1679	0.0438
C	-13.7450	14.8945	-0.9228	0.3683
R ²	0.6256	Mean of FD		12.8451
Adjusted R ²	0.5008	S.D. of FD		4.1666
S.E. of regression	2.9440	$\sum e^2$		156.0064
D-W	1.8008	J-statistic		5.1251
Instrument rank	8	Prob(J-statistic)		0.0236

Source: Computed by the researcher.

The empirical result in Table 6 further shows that trade openness (TOP) yielded a significant positive effect on financial development in Nigeria, with the estimate showing that a 1% increase in TOP will lead to approximately a 0.095% increase in financial development. It follows that trade openness creates competitiveness and technological transfers within the financial system, thereby boosting its development. Inflation was also observed to exert significant positive effect on FD with a 1% increase in inflation culminating to about 0.2028% increase in financial sector development. Infrastructure (mobile cellular subscriptions) was observed to exert a significant positive effect on financial sector development. Thus, a 1% increase in INFRA will yield about 0.1033% increase in financial development. This observed finding holds true since mobile cellular subscription aids mobile payments and access to fintech services, thereby enhancing financial access.

The estimated model exhibits a good fit since the regressors in the model jointly account for about 62.56% of the total changes in financial development. Also, the Durbin-Watson statistic of 1.8008 exhibits that the estimated model is autocorrelation-free, and the J-statistic of 5.1251 which is significant at the 5% level ($p = 0.0236$) portraying that the instruments in the model are valid.

4.4. Effect of Institutional Quality and Financial Development on FDI inflows (Full Mediation Model)

The empirical result in Table 7 presents the full mediation effects of financial development on the nexus between institutional quality and FDI in Nigeria. The total effect of political stability, and government effectiveness are computed as follows:

Table 7. The full mediation model (path b and c')

Regressand: FDI				
Technique: GM M				
Instrument specification: FDI(-1) PS GE FD GDPG TOP INF INFRA				
Constant added to instrument list				
Variable	Coefficient	Std. Error	t-Statistic	Probability
PS	0.0957	0.0261	3.6632	0.0018
GE	0.0528	0.0169	3.1323	0.0027
FD	0.1298	0.0534	2.4317	0.0264
GDPG	0.0095	0.0278	0.3418	0.7367
TOP	0.0128	0.0023	5.6596	0.0000

INF	0.0609	0.0114	5.3344	0.0001
INFRA	0.0298	0.0067	4.4418	0.0004
C	3.2921	1.6717	1.9693	0.0654
R ²	0.6949	Mean of FDI		1.2386
Adjusted R ²	0.5692	S.D. of FDI		0.8855
S.E. of regression	0.5812	$\sum e^2$		5.7425
D-W	1.7665	J-statistic		5.8780
Instrument rank	9	Prob(J-statistic)		0.0153

Source: Computed by the researcher.

Total Effect: $\alpha_1 = \gamma_1' + (\beta_1 \times \theta)$ and $\alpha_2 = \gamma_2' + (\beta_2 \times \theta)$.

Thus,

$$\begin{aligned} \text{Total Effect for PS: } \alpha_1 &= \gamma_1' + (\beta_1 \times \theta) = 0.0957 + (0.2315 \times 0.1298) \\ \alpha_1 &= 0.0957 + 0.0300487 = 0.1257 \end{aligned}$$

$$\begin{aligned} \text{Total Effect for GE: } \alpha_2 &= \gamma_2' + (\beta_2 \times \theta) = 0.0528 + (0.1775 \times 0.1298) \\ \alpha_2 &= 0.0528 + 0.0230395 = 0.0758 \end{aligned}$$

The computation shows that the total effect of political stability and government effectiveness on foreign direct investment is 0.1257% and 0.0758% respectively, portraying that political stability matters more to foreign investors relative to domestic government effectiveness.

The mediating role of financial sector development in the relationship between institutional quality (political stability and government effectiveness) and FDI inflows in Nigeria is computed as follows using the Sobel (1982) test.

For political stability:

$$\begin{aligned} z &= \frac{a \times b}{\sqrt{b^2 s_a^2 + a^2 s_b^2}} = \frac{0.231463 \times 0.129769}{\sqrt{(0.129769^2)(0.046853^2) + (0.231463^2)(0.053366^2)}} \\ z &= 2.1971 \end{aligned}$$

For government effectiveness:

$$\begin{aligned} z &= \frac{a \times b}{\sqrt{b^2 s_a^2 + a^2 s_b^2}} = z = \frac{0.177485 \times 0.129769}{\sqrt{(0.129769^2)(0.037007^2) + (0.177485^2)(0.053366^2)}} \\ z &= 2.1667 \end{aligned}$$

In both cases, the computed z-statistic ($z = 2.1971$ and $z = 2.1667$), $|z| > 1.96$ validates the rejection of the null hypothesis, confirming that mediation is statistically significant. Hence, financial development mediates the effect of political stability and government effectiveness on foreign direct investment in Nigeria during the study period.

The individual effect of financial sector development on foreign direct investment was observed to be positive and statistically significant, portraying that a developed financial system is catalyst for attraction of FDI to Nigeria. The estimate of the model shows that a 1% increase in financial sector development yields about a 0.1298% increase in FDI inflows in Nigeria. It was further observed that trade openness, inflation, and infrastructure yielded significant positive effect on foreign direct investment inflows in Nigeria, whereas the market sized yielded an insignificant positive effect. The positive effect of TOP implies that a liberalized economy removes the impediments for free flow of capital thereby stimulating FDI inflows. The estimate shows that a 1% increase in TOP yields about a 0.0128% increase in FDI inflows in Nigeria.

Meanwhile, a 1% increase in INF and INFRA yielded about 0.0609% and 0.0298% increase in FDI inflows in Nigeria, respectively. The model yields an R-square of 0.6949 implying that the regressors collectively explained 69.49% of the overall variations in FDI during the period of analysis. The Durbin-Watson statistics ($1.7665 \approx 2$) is an indication that the model is autocorrelation-free, while the J-statistic of 5.8780 which is statistically significant at the 5% ($p < 0.05$) is an indication that the instruments are valid.

4.5. Post Estimation Diagnostics

Since the study employed the GMM technique of estimation, we therefore explored both the normality test and variable redundancy test.

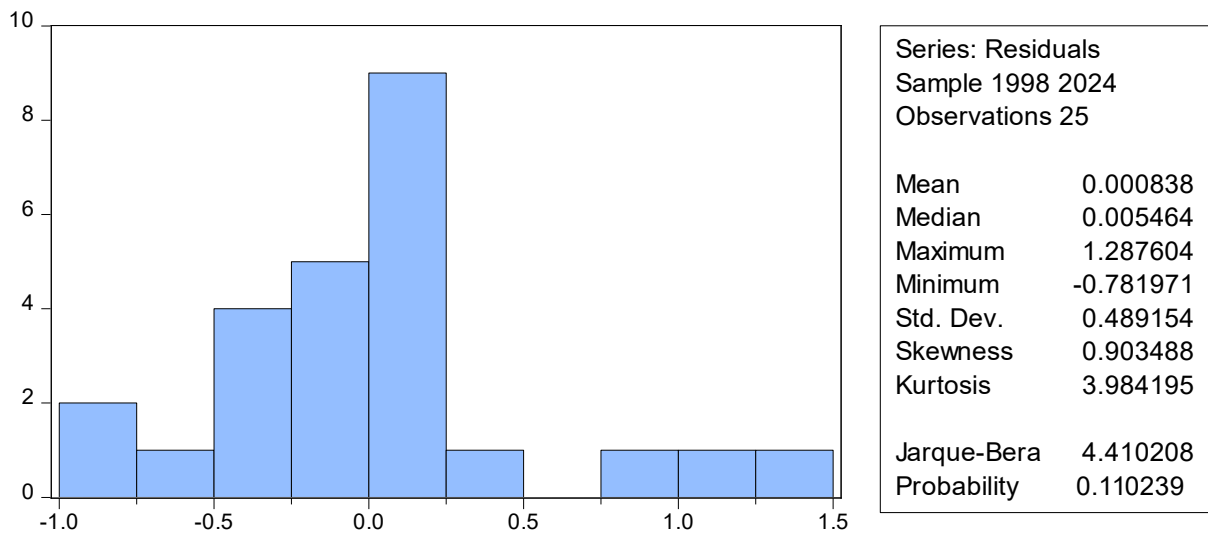


Figure 1. Normality test for residuals

The result from Figure 1 reported a Jarque-Bera statistic of 4.4102 with its associated p-value of 0.1102 indicating an insignificant JB statistic at the 5% level ($p > 0.05$) signalling the acceptance of the null hypothesis that the residuals do not break the rule of normality. This therefore implies that the residuals in the estimated model are normally distributed with a zero mean and constant variance.

Table 8. Redundant variable test

Null hypothesis: PS GE FDs are jointly insignificant			
	Value	df	Probability
Difference in J-stats	15.9631	3	0.0012
J-statistic summary:			
Statistics	Value		
Restricted J-statistic	21.8411		
Unrestricted J-statistic	5.8780		

Source: Computed by the researcher.

Table 8 presents the redundancy test for PS, GE, and FD. The test generated restricted J-statistic of 21.8411 and an unrestricted J-statistic of 5.8780 all which are statistically significant at the 1% level. Consequently, the null hypothesis that PS, GE, and FD are jointly insignificant in influencing FDI is rejected.

4.6. Discussion of Findings

The total effect of the respective institutional quality variables is given as follows:

Political Stability vs FDI Inflows

The empirical result of this study revealed that political stability has significant positive influence on foreign direct investment (FDI) inflows in Nigeria, which is in line with the basic economic principles of capital irreversibility and risk premiums. Foreign direct investment is generally characterized by long-term investments in physical capital, machinery and infrastructure and it is hard to liquidate and repatriate during socio-political turmoil (Dixit & Pindyck, 1994). Political stability is an indicator to MNEs that their property rights are going to be respected, that regulatory regimes will be predictable, and that operations will not be impeded by violent conflict or civil unrest (Kobrin, 1979). Political stability directly lowers the political risk premium that foreign investors will demand for investing in the country, which in turn will ease capital inflows particularly in Nigeria where the country risk premium has been a significant concern owing to the political instability and security threats in the regions.

This is solid evidence of the Institutional Theory of North (1990) which states that formal institutions are the "rules of the game" that are designed to diminish uncertainty and transaction costs in an economy. Moreover, the finding supports the Location (L) advantage of Dunning's (1988) Eclectic (OLI) Paradigm that suggests that stable and continuous political institutions are also an important draw for foreign firms to invest in risk management and non-commercial risk mitigation. The results are similar to those of Busse and Hefeker (2007) and Schneider and Frey (1985), who empirically demonstrated that among the most statistically significant factors affecting inflows of FDI in developing countries are measures of political risk, such as regime durability, lack of internal conflict, and policy continuity.

Government Effectiveness vs FDI Inflows

The result indicates that there was a significant positive relationship between government effectiveness and FDI inflows in Nigeria; it therefore implies that government effectiveness is significant in the operations of international business in Nigeria. Government effectiveness is defined as the quality of public service provision, the quality of the civil service, the independence of the civil service from politics, and the credibility of the government's commitment to its policies (Kaufmann et al., 2010). Administrative efficiency reduces the friction in the functioning of foreign investors by making business registration easier, having low bureaucracy, efficient customs clearance, and enforcing commercial contracts (World Bank, 2020). On the other hand, poor governance has a hidden cost on foreign firms, which is to increase the transaction costs and to lower the net present value of investment projects (Wei, 2000).

Theoretically, this is related to the idea of Transaction Cost Economics (Williamson, 1985) that governance structures are designed to reduce the friction in transactions, and good government institutions reduce the costs and operating uncertainty of foreign investors in foreign markets in which they lack knowledge. Such an empirical fact is corroborated by a wealth of literature on emerging economies. For example, Globerman and Shapiro (2002) discovered that the governance infrastructure, especially the effective government machinery, is a basic precondition for attracting foreign direct investment and portfolio equity. Similarly, Mengistu and Adhikary (2011) also discovered that improvement in the efficiency of public administration and bureaucratic quality has significant positive impact on foreign capital inflows into Asian and African developing countries as it creates an enabling environment for private enterprise.

Comparative Impact of PS vs GE

The finding that political stability has a greater impact on FDI in Nigeria than government effectiveness implies that there is a hierarchy of investors' preferences in the emerging markets. Foreign investors analyze risks from a structural point of view, in which political stability is a "survival requirement" (existential risk) and government effectiveness is an "efficiency requirement" (operational risk) (Root & Ahmed, 1979). While administrative inefficiencies and bureaucratic delays and poor public services add to the costs of doing business in the country, they can be borne, managed, or circumvented by international firms, systemic political instability, civil conflict and regime-level expropriation, however, can result in total asset loss (Henisz, 2000). In an economy such as that of a developing country, where there has been a lot of institutional uncertainty in the past, the marginal effect of reducing political risk on the investors' confidence will be higher than the marginal effect on the day-to-day administrative procedures.

Such priority structure is consistent with the theory of investment under uncertainty (Bernanke, 1983) which indicates that in the case of extreme uncertainty (political crisis or regime collapse) the option value of waiting for investment decisions rises, and investment decisions cease altogether. In comparison, operational inefficiencies just redefine the ROI calculation and do not necessarily mean that capital inflows are completely stopped. Empirically, these results support the results of Almsafir et al. (2018) and Kurecic and Kokotovic (2017), who noted that political risk indicators are always more effective at explaining the variation of FDI in Sub-Saharan Africa and other high-risk areas than operational and bureaucratic governance indicators. Investors regularly show a tolerance of administrative problems, as long as the basic political situation is stable and safe.

The Mediating Role of Financial Development

The empirical finding that financial development is an important structural transmission mechanism between political stability and government effectiveness and FDI is important. Institutional quality (measured by political stability and government effectiveness) is a prerequisite for creating the right macroeconomic environment. In contrast, financial development (measured as institutional channels) is a prerequisite for foreign capital to enter, settle, and operate in the host economy (Hermes & Lensink, 2003). A well-developed domestic financial system with deep credit markets, adequate market liquidity, and robust banking institutions enables foreign firms to easily access local currency financing, manage foreign exchange risks, hedge risk exposure, and remit local profits (Levine, 2005). The efficient financialization of the positive effects of a stable and effective governance structure is still not realized or is inefficiently realized in foreign capital inflows.

This is a mediating mechanism that is consistent with the Schumpeterian growth theory and the financial intermediation theory of King and Levine (1993), which emphasizes the importance of financial systems in mobilizing savings, evaluating project viability, risk management, and transaction facilitation, all of which are necessary for capital accumulation. Furthermore, this outcome directly validates the groundbreaking empirical study by Alfaro et al. (2004), which identified the sophistication of local financial markets (absorptive capacity of the host country) as an important mediating condition of the deployment of FDI and the economic benefits thereof. Likewise, Durham (2004) and Omran and Bolbol (2003) showed in foreign capital studies that institutional reforms have a synergistic effect with financial market growth; that is, financial development serves as a necessary complement to good governance to result in tangible investment inflows.

5. CONCLUSION AND RECOMMENDATIONS

This study examines how financial sector development serves as a mediating variable in the nexus between political stability/governance and FDI in Nigeria from 1996 to 2024. The study uses the System-GMM estimation technique to estimate the impact of independent variables while dealing with potential endogeneity, persistence, and unobserved heterogeneity. The study offered a tripartite core finding. First, political stability and government effectiveness positively affect impact on FDI in Nigeria. Second, the effect of political stability is higher than government effectiveness, implying that foreign investors are hypersensitive to political risks than administrative hassles. Third, financial development has a dynamic mediation role in the institutional quality-FDI nexus.

The results obtained for the study presage that political stability and government effectiveness positively influence FDI in Nigeria. These findings so observed propose that the prospect of Nigeria attracting FDI is conditional upon the institutional conditions in the country. Investors need auspicious legal frameworks to preserve their interests and political stability to maximize profits. Consequently, a stable political atmosphere is key to the decision-making of international investors. The study further observes that firms that invest across borders are more sensitive to the risks radiating from political instability. Whereas administrative efficiency is anticipated, foreign investors can circumvent poor governance via private arrangements. However, geopolitical risks hinder smooth production processes and cannot be bypassed.

The result further portrays that financial development performs a dynamic mediation role in the governance-FDI nexus. The finding suggests that the positive impact of good governance on attracting foreign investment needs to be complemented with an effective financial system. In other words, the presence of well-developed domestic financial markets is a vital enabler of FDI. A developed financial system would provide the needed institutional infrastructure that maximizes returns on investments for both local and foreign firms. This implies that Nigeria's financial system needs to be expanded and deepened to meet the needs of foreign firms.

Recommendations

The established findings therefore generate a series of policy options to improve the institutional quality-FDI relationship while accounting for a development financial system as a mediator. Such policy options are:

a) Enhancing Political Stability

Since political stability exerts the strongest influence on FDI among the predictors, it is paramount that policymakers take proactive measures to enhance stability. The government needs to develop robust institutions that promote free and fair elections, prevent violence, and facilitate power transition. The party must devise institutional procedures that safeguard policy stability notwithstanding political opposition. Such measures aim to heighten confidence among investors, who are often hesitant to invest in politically unstable

regions due to the high risks involved. The government should also strengthen institutions charged with maintaining peace to minimize ethnic tensions and violence, as well as religious extremism.

b) Ameliorating Financial Development

Since the study revealed that financial development plays a dynamic mediation role in the governance-FDI nexus, it is critical that policymakers pay deliberate attention to the financial system. The Central Bank and the Securities and Exchange Commission should formulate policies that foster financial development in the country. Policymakers need to render Nigeria's capital market appealing to domestic and foreign investors. The strategy includes advancing market infrastructure to boost liquidity, ease access to credit, and promote fair pricing of goods and services. The capital market's effectiveness in serving as an alternative investment channel will ultimately augment FDI inflows.

c) Improving Government Effectiveness

To utilize the positive effect of governance indicators, Nigeria's government ought to enhance its effectiveness in dispensing public services. Policymakers need to instigate administrative reforms that curtail transaction costs for international investors. The reforms should involve digitalizing business processes at all levels to enhance transparency. The government should also enforce rigorous anti-corruption processes to deter bribes and irregularities in public tenders. Such special task forces could be assigned to serve as the nodal points for international firms. The Economic and Financial Crimes Commission (EFCC) must be reformed to independently perform their core mandate of curbing financial crimes within the country instead of being used as a political tool for intimidation.

d) Implementing an Integrated Policy Mix

Policymakers should promote FDI by executing an integrated policy mix that blends institutional and market reforms. As portrayed by the study, political stability, administrative efficiency, and financial development are vital in attracting FDI. Thus, the government should formulate investment plans that consider the tripartite framework. Policymakers need to pursue deliberate strategies that enhance political stability while bolstering financial development. The implementation of policies that promote institutional quality while bolstering the financial sector will create an investment-friendly environment in Nigeria.

Overall, the study suggests that Nigeria should implement policies that promote political stability, administrative efficiency, and financial development to improve FDI inflows. Whereas the former factors are favourable for doing business, the latter is critical in ensuring that investments are well-managed to maximize profits.

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Author Contributions

UE was solely involved in the design, writing of the paper from conception to completion.

Informed consent

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Conflicts of interests

The author declares that he has no conflicts of interest, competing financial interests or personal relationships that could have influenced the work reported in this paper.

Ethical approval & declaration

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Data and materials availability

Data associated with this study will be made available upon reasonable request.

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