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Institutional Quality and Its Impact on FDI Inflows in East Africa: Panel Data Analysis

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Abstract

The main objective of this study is to examine the influence of institutional quality on FDI inflows in East African countries. Specifically, the study seeks to establish whether control of corruption, government effectiveness, regulatory quality, voice, and accountability have any significant positive impact on FDI. The time series data covering a period of 19 years (2002-2021) was used and it was collected from different sources such as the Fraser Institute, UNCTAD, and the World Bank. The study population consisted of five East African countries, namely Tanzania, Kenya, Rwanda, Burundi, and Uganda. The random effect panel regression model was employed to capture the causal links among the variables of interest. The model was vindicated to be more appropriate by the results of the Hausman test. The results indicated that government effectiveness and regulatory quality have a significant positive impact on FDI inflow in East Africa. Voice and accountability as well as control of corruption, were reported to be insignificant. On the basis of the study findings, it is highly recommended that East African countries should take the following measures to enhance FDI inflows. Firstly, governments should strengthen anti-corruption measures by enacting comprehensive laws and establishing specialized agencies to curb corruption, even if the variable was not found to be significant. Secondly, they should focus on improving regulatory quality through streamlined procedures and transparent frameworks. Thirdly, they should enhance voice and accountability mechanisms, including freedom of expression. Lastly, governments should prioritize measures to enhance government effectiveness, such as capacity building and international cooperation. This can create an attractive investment environment and drive sustainable development in the region.

Keywords: FDI inflows, Institutional quality, East African Countries

1. Introduction

Foreign Direct Investment (FDI) plays a crucial role in globalization as it serves as a catalyst for productivity, technological advancements, and job creation (Khan et al., 2022). Moreover, FDI inflows accelerate economic growth, leading to increased tax revenues, foreign exchange earnings, and overall development of developing and transitioning economies (Peres et al., 2018). Attracting investors to develop and enhance a nation's economy and workforce is among the crucial factors that make FDI an essential contributor to economic growth (Simionescu & Naros, 2019). FDI also induces technology spillovers that positively affect the quality standards of local firms, while competition from foreign firms enhances product quality through learning from the foreign firm's performance or by employing foreign workers (Yu et al., 2019).

In the global fight against poverty, FDI is an essential tool that bridges the savings-investment gap, facilitates technology transfer, and promotes the development of production infrastructure, thereby creating employment opportunities, fostering domestic competition, and encouraging overall economic growth (Milani, 2021). With FDI driving global economic integration, it provides financial stability by diversifying investment portfolios, driving economic development, and cultivating social welfare (Dinh et al., 2019). The advantages of FDI have led countries to adopt various policies and strategies to attract more inflows. Silajdzic and Mehic (2022) posit that countries have been making efforts to attract FDI since the 1990s by implementing reforms, liberalization measures, investment incentives, institutional setups, and enhancing regulatory policies. Many developing countries, for example, have implemented policies such as lower tariffs, tax breaks, exemptions on import duties, privatization of state enterprises, and reduced government control in the private sector (Kwaw-Nimeson & Tian, 2023). In addition, over the years, countries have revised their governance, legal, political, and regulatory frameworks to create a more business-friendly environment for investors (Yakubu, 2020).

The improvement of institutional quality is a vital indicator in attracting FDI to a country, with aspects such as control of corruption, rule of law, regulatory quality, and government effectiveness being the most important (Khan et al., 2022). Reviews of institutional reforms across countries have largely focused on FDI policy reforms, which involve setting up institutions and implementing policies specifically designed to target the interests of foreign investors (Khan et al., 2022). Institutional quality is a broad concept that encompasses law, individual rights, and high-quality government regulation and services (Khushnood et al., 2020). The pivotal role of institutional quality lies in the fact that institutions have a significant impact on economic agents, including multinational corporations, transaction costs, and production costs (Paul & Jadhav, 2020). Institutional quality is a country-specific advantage as it evolves according to the inherent historical, political, and cultural settings of individual societies within the country (Minović et al., 2021). As such, institutions are an important "immobile structure in a globalized market" that underpins the social and economic performance of individual countries (Kaushal, 2021).

African countries have implemented various measures to attract FDI, such as the creation of investment incentive agencies, facilities, and the establishment of specific plans aimed at attracting investments, such as Export Processing Zones (EPZs) and Special Economic Zones (SEZs). According to the United Nations Conference on Trade and Development (UNCTAD) report in 2019, 32 countries had established a total of 237 SEZs (UNCTAD, 2019). Moreover, African countries have signed Investment Integration Agreements (IIAs) and Double Taxation Treaties (DTTs) as part of their efforts to limit state regulatory rights and promote the Multinational Enterprises (MNE) activity. There are currently close to 3,000 International Investment Agreements (IIAs) that seek to protect and promote cross-border investment (UNCTAD, 2020).

Tanzania, Kenya, and Uganda are among the East African countries leading the way in attracting FDI due to their strong integration ties (Lwesya, 2022). The Tanzanian government has implemented substantial policies and restructurings to liberalize its economy and inspire private investment, both foreign and domestic, in support of the National Development Vision 2025 (Msami &Wangwe, 2016). Notably, Tanzanian reforms since 1986 include budget deficit reduction, monetary control, trade regime liberalization, removal of price controls, relaxation of food crop marketing restrictions, interest rate liberalization, and financial sector restructuring. The National Investment Act 1997 established the Tanzania Investment Center and an export processing zone to further promote investment.

The Kenyan government recognizes the significant role of investment in economic development and achieving the objectives of Vision 2030. The government has formulated various strategic policies, laws, and development plans aimed at supporting and growing investment since achieving independence (Ndung'u et al., 2011). In 2010, the Kenya Investment Center was established to facilitate and promote both private and public investment activities in the country. To provide a predictable regulatory environment for investors, the Kenyan investment environment is dictated by various laws such as the Kenya Constitution 2010, the Company Act 2015, the Business Registration Act 2015, the Foreign Investment Protection Act (FIPA), the Public Private Partnerships Act 2013, and the Insolvency Act 2015, among others (Kimani, 2017). The Kenyan government has also taken measures to ensure the safety of foreign investors by becoming a member of the International Centre for Settlement of Investment Disputes.

In an effort to attract FDI, the Ugandan government has implemented various measures, such as liberalizing capital accounts, imposing no restrictions on capital transfers, and establishing the Investment Centre through the Investment Code Act of 1991. Uganda has also enacted laws that support investment, including the Public Enterprise Reform and Divestiture Act of 1993, the Companies Act of 2012, the Uganda Free Zones Act of 2014, the Public Private Partnerships Act of 2015, and the Petroleum (Exploration, Development, and Production) Act of 2013 (Mbabazi, 2020). Additionally, Uganda is currently undergoing a regulatory and legal reform process to review commercial laws for amendment and implement business licensing reforms aimed at reducing the burden of fees on businesses.

Despite good efforts, the trends of FDI inflows among East African countries are still low. During the year 2021, FDI inflows in East African countries exhibited a noteworthy overall increase by 35% to \$8.2 billion, driven by the contributions of Kenya, Uganda, Tanzania, Rwanda, and Burundi. Uganda recorded a substantial growth of 31% in FDI inflows, amounting to \$1.1 billion, while Tanzania witnessed a notable rise of 35%, reaching \$922 million (UNCTAD,2022). Apart from the poor performance of FDI in flows among East African countries, there is also a scarcity of empirical studies in the region with a focus on institutional quality and FDI inflows. The majority of studies conducted focused on individual countries, while none of them have so far conducted a study that combines the three countries together.

Notably, Senkuku and Gharleghi (2015) examined the factors that influence Foreign Direct Investment (FDI) inflows in Tanzania. According to their findings, government terms and regulations may not have a significant effect on attracting FDI. However, they identified the lack of technology and infrastructure, along with the presence of abundant natural resources, as significant factors influencing investors' decisions to engage in business activities in the country. In a separate study by Kingu (2016), time series analysis was used to examine the factors influencing FDI in Tanzania. The results indicated that Gross Domestic Product (GDP), openness, and inflation rates were significant determinants of FDI in the country. Mfinanga (2018) investigated the factors influencing FDI inflows into Tanzania using annual time series data from 1990 to 2015. Their study revealed that the exchange rate is a major determinant of FDI inflows into the country. The fluctuating exchange rate policy adopted by Tanzania was found to increase the inflow of FDI.

Given the underwhelming FDI inflows in the region and the inconclusive results from the extant literature on the causal links between institutional quality and FDI inflows, this study is conducted to examine the influence of institutional quality on FDI inflow in East African economies, with a focus on Tanzania, Kenya, Uganda, Burundi, and Rwanda. Specifically, the study seeks to establish whether control of corruption, government effectiveness, regulatory quality, voice, and accountability have any significant positive impact on FDI inflows in the region. The next section presents the literature review, while section three explicates the methodology employed, section four reports study findings, and section five focuses on conclusions and policy implications of the results.

2. Theory and Empirical Evidence

UNCTAD (2021) defined Foreign Direct Investment (FDI) as "an investment that involves a long-term relationship and reflects a lasting interest and control of a resident entity in one economy, known as the foreign direct investor in an enterprise resident in an economy other than that of foreign direct investor" (Moosa, 2002 pp. 1). This type of investment occurs in an enterprise residing in an economy different from that of the foreign direct investor, referred to as the affiliate enterprise or foreign affiliate. Furthermore, the investment fosters long-term collaborations and interests, indicating a substantial commitment by the foreign direct investor to operate and influence the affiliate enterprise in the host country (Mohammed, 2022; Aromasodun, 2022). FDI inflows consist of capital delivered by a foreign direct investor to a foreign affiliate or capital received by a foreign direct investor from a foreign affiliate, whereas FDI outflows represent the same flows from the other economy's perspective (Siriopoulos et al., 2021). In recent years, researchers worldwide have increasingly focused on understanding the significance of institutional quality in shaping Foreign Direct Investment (FDI) patterns. As part of this ongoing exploration, the current study reviewed the extant literature that investigates the impact of institutional quality on FDI inflows from both developed and developing countries.

2.1 Control of Corruption and FDI Inflows

The issue of corruption and its impact on economies has garnered attention in recent years, becoming a subject of interest for researchers. However, the existing literature presents conflicting views on the effects of corruption on economic outcomes. Some scholars argue that corruption can, in some cases, facilitate the functioning of government and lead to positive outcomes, while others contend that it hampers governance and results in suboptimal consequences. Teeramungcalanon et al. (2020) conducted a study to investigate the impact of institutional factors on FDI inflows in Korea, China, and Japan during the period from 1996 to 2018. The study findings revealed that political stability, rule of law, as well as voice and accountability had a significant influence on FDI inflows, particularly in Korea. However, the study observed that although the quality of regulation, government effectiveness, and control of corruption were also considered important, they did not exhibit a statistically significant impact on FDI inflows in the countries under examination. On the contrary, Moustafa's (2021) study conducted in Egypt revealed a positive influence of corruption on FDI.

Zander (2021) investigated the impact of corruption on FDI flows in OECD countries between 1996 and 2017. The research found that higher levels of corruption were associated with lower FDI flows in these countries. Similarly, Zangina and Hassan (2020) examined the relationship between corruption control and FDI in Nigeria over the period from 1984 to 2017. Their study revealed that corruption inhibited FDI inflows into Nigeria and that controlling corruption had an asymmetric impact on FDI flows. In contrast to the findings in Nigeria, Yohannaa and Suyanto (2022) studied the impact of the corruption perception index on FDI inflows to Indonesia from 1995 to 2019. Their research indicated that higher corruption index scores were associated with higher FDI inflows, suggesting that low corruption levels attracted more FDI inflows to Indonesia.

Samargandi et al. (2022) adopted a two-step approach to examine the drivers of FDI inflows into the Saudi Arabian economy. Their study utilized data from 1984 to 2018 and identified institutional qualities, such as market competitiveness, entrepreneurial freedom, political globalization, bureaucratic quality, and investment profile, as important determinants of FDI inflows in Saudi Arabia. Mohammed (2022) focused on selected emerging Sub-Saharan African countries and investigated the determinants of FDI from 2000 to 2017. Using modified ordinary least squares, the study found that corruption had a negative impact on FDI in the region.

Siriopoulos et al. (2021) examined FDI in the Gulf Cooperation Council countries and found that the adoption of International Financial Reporting Standards (IFRS) contributed significantly to FDI. Other important factors influencing FDI in the region included confidence in the law, control over corruption, and economic growth. Kasasbeh et al. (2018) conducted a study in Jordan and utilized multivariate VAR analysis to analyze the factors affecting FDI inflows. They found that while economic, population, and financial factors positively affected FDI inflows, corruption and rule of law restricted the economy from fully benefiting from FDI.

Zhang and Weihua (2021) conducted a comprehensive study using a global panel dataset to examine how the rule of law influences Foreign Direct Investment (FDI) inflows. Their fixed effects regression analysis yielded compelling results, showing a positive impact of the rule of law on inward FDI. This effect was particularly pronounced in the absence of corruption, in the presence of effective regulation enforcement, and with a transparent government. In a separate investigation, Minović et al. (2021) delved into the relationship between FDI and institutional quality in Western Balkan countries. Their findings underscored the significance of several factors, including control of corruption, political stability, and the rule of law, as major drivers of FDI inflows in the region. Interestingly, the study also revealed bidirectional relationships between political stability and the rule of law, as well as between corruption control and FDI inflow. Aromasodun (2022) conducted a longitudinal analysis of FDI inflows in West African countries spanning an impressive 50-year period. The study highlighted the positive influence of control of corruption on FDI inflows. Finally, Kahveci (2022) focused on investigating the impact of corruption control on FDI inflows in the case of Mexico, Indonesia, Nigeria, and Turkey over the period from 2002 to 2019. Their findings demonstrated a positive long-term influence of corruption control on FDI inflows, although no significant short-term impact was observed. According to a previous empirical review, the following hypothesis was developed, and it will be tested by the study:

Hypothesis 1: Control of corruption has a significant positive influence on FDI inflow in East Africa.

2.2 Regulatory Quality and FDI Inflow

The quality of a country's legal system and its institutional factors play a crucial role in shaping economic outcomes, particularly in a market-based economy. These factors influence Foreign Direct Investment (FDI) inflows and impact the overall investment climate and investor confidence. Emako et al. (2022) undertook a study investigating FDI inflows in 53 developing countries over the period from 1996 to 2019. Firstly, the study revealed that political stability and regulatory quality played a substantial and positive role in influencing FDI inflows in developing countries. Countries with stable political environments and effective regulatory frameworks were more attractive to foreign investors, leading to increased FDI inflows. Secondly, the research showed that voice and accountability had a negative and significant impact on FDI in these contexts. This suggests that weak mechanisms for citizen participation and limited accountability of governing institutions could deter foreign investors from committing capital to these countries.

Paul and Jadhav (2020) conducted a comprehensive exploration of institutional determinants of FDI in 24 emerging markets, encompassing countries such as China, India, Indonesia, Turkey, Thailand, Malaysia, and Pakistan, during the period from 2003 to 2015. Their study revealed a range of influential factors affecting FDI in these emerging markets. The findings highlighted that infrastructure quality and trade costs, measured by tariff and non-tariff barriers, played crucial roles in influencing FDI flows. Additionally, the study identified effective rule of law, political stability, regulatory quality, and corruption control as significant factors shaping FDI inflows. Ozekhome (2022) delved into the influence of regulatory quality, government effectiveness, and the rule of law as determinants affecting FDI in Nigeria, spanning from 1970 to 2020. The study employed various regression techniques for robustness check. The results indicated that regulatory quality, government effectiveness, and the rule of law had substantial and positive impacts on FDI inflows into Nigeria. Moreover, political stability and the exchange rate were positively associated with FDI, although the effects were not statistically significant. On the contrary, factors such as infrastructure development (measured by ICT), inflation rate, and control of corruption were found to have significant negative impacts on FDI inflows.

Khushnood et al. (2020) conducted a thorough analysis of good governance in Pakistan and its impact on attracting Foreign Direct Investment (FDI) from 1996 to 2017. Using the ABDL approach for data analysis, their research highlighted that political instability, regulatory quality, and government effectiveness significantly influenced FDI inflows. However, during the studied period, the rule of law and corruption were found to have an insignificant effect on FDI inflows. In another study, Khan et al. (2022) examined the influence of institutional quality on attracting FDI and carbon emission reduction on a global panel, consisting of 107 developing countries and 39 Belt and Road Initiative countries, from 2002 to 2019. Their research revealed a diverse influence of various institutional factors on FDI inflows. Factors such as judicial independence, legal framework efficiency, press freedom, government regulation burden, dispute settlement efficiency, e-participation index, future government orientation, corruption perception index, property rights, intellectual property protection, land administration quality, auditing and accounting standards, conflict of interest regulation, and shareholder governance were all found to significantly influence FDI inflows.

Mariotti and Marzano (2021) explored the impact of competition policy, regulatory quality, and trust on inward Foreign Direct Investment (FDI) in a sample of 63 countries spanning the years from 1980 to 2017. Their findings revealed that the effectiveness of competition policy enforcement played a crucial role in attracting FDI, particularly in host countries characterized by both a lack of trust and a high-quality regulatory institutional environment. On the other hand, Gizaw et al. (2023) conducted a study focusing on the influence of business regulations on FDI inflows and economic growth in the East African region during the period from 2010 to 2019. The study found that enforcement of contracts, getting credit, electricity, taxes, and protecting minority investors are among the indicators that attract FDI inflows.

In a comprehensive study conducted by Kaushal (2021) focused on India's FDI inflows from 2006 to 2019, the researcher examined the impact of regulatory and institutional quality on foreign investment. The study highlighted the positive and significant impact of certain reforms aimed at improving the ease of starting businesses and reducing economic policy uncertainty. These particular measures proved to be crucial in attracting foreign investors to India during the examined period. Interestingly, the study found that easing trade across borders and resolving insolvency had an insignificant impact on FDI inflows during the same timeframe. While these aspects are undoubtedly important for enhancing the overall business environment, they did not appear to be major direct factors influencing FDI attraction in India.

In the study conducted by Saidi et al. (2023), the researchers focused on examining the relationship between governance and FDI inflows in ASEAN countries from 2002 to 2018. Their empirical findings provided strong evidence that good governance plays a critical role in encouraging foreign direct investment in host countries. This suggests that countries in the ASEAN region with better governance structures tend to attract higher levels of FDI. Contrasting this, Contractor et al. (2021) conducted research that delved into the impact of various factors on the attractiveness of emerging markets over a 12-year period. The study identified formal regulations, rule of law, property rights, procedural efficiency, and infrastructure as crucial elements affecting FDI inflows. Specifically, countries with more efficient start-up regulations, stronger protection of minority investments, as well as better procedures and infrastructure for international trade across their borders, were found to attract higher levels of FDI.

In a comprehensive study conducted by Sakanko et al. (2020), the researchers provided significant insights into the relationship between institutional quality and FDI in Nigeria. In both the short-run and long-run, the positive components of aggregate institutional quality indicators were found to have a considerable and statistically significant influence on foreign direct investment in Nigeria. Conversely, the negative components of aggregate institutional quality were shown to reduce FDI and were also statistically significant in both the short and long run. Moreover, the study revealed interesting dynamics regarding the effects of positive and negative components of aggregate institutional quality over time. The positive component of institutional quality had a larger impact on foreign direct investment in the short run, while the negative component had a more substantial effect in the long run. According to previous empirical literature, the following hypothesis has been developed, and it will be tested by the study:

> **Hypothesis 2:** Regulatory quality has a significant positive influence on FDI inflow in East Africa.

2.3 Voice, Accountability, and FDI Inflows

Voice and Accountability is an important aspect of institutional quality that reflects the extent to which citizens can participate in the decision-making processes of their government, express their opinions, and hold their leaders accountable for their actions. It is a fundamental pillar of democratic governance and a key determinant of a country's overall governance effectiveness. Many empirical studies have been conducted to confirm the influence of voice and accountability on FDI attraction, with contradictory findings.

In their study, Awadhi et al. (2022) focused on understanding the role of institutional development in attracting Foreign Direct Investment (FDI) to Sub-Saharan African countries from 1986 to 2015. The study assessed institutional development using six governance indicators, which included regulatory quality, political stability, voice and accountability, absence of violence and corruption, government effectiveness, and rule of law. The study's findings revealed that out of the six governance proxies, only the rule of law and government effectiveness had positive and statistically significant effects on attracting FDI inflows to Sub-Saharan Africa during the examined period. This suggests that countries in the region with stronger adherence to the rule of law and more effective governance structures were more successful in attracting foreign investment.

Biro et al. (2019) conducted a study focusing on the impact of good governance on Foreign Direct Investment (FDI) in Latin American countries from 2001 to 2012. They used the gravity model and assessed various indicators of good governance, including voice and accountability, political stability, absence of violence or terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. The study found that good governance indeed played a significant role in attracting FDI to the region. However, the significance of these governance indicators varied depending on the specific indicator used to proxy good governance. On the other hand, Kayani and Ganic (2021) investigated the relationship between governance indicators and FDI inflows in China from 2002 to 2019. They employed a fixed effect model and the generalized method of moments for their analysis. The study found a positive and significant relationship between rule of law, control of corruption, and regulatory quality, and FDI. Yet, government effectiveness, political stability, voice, and accountability were found to have no significant relationship with FDI inflows in the Chinese context.

In their study, Jurčić et al. (2020) examined the association between non-economic indicators and Foreign Direct Investment (FDI) inflows in Croatia from 1996 to 2017. Through OLS regression analysis, they found that institutional quality variables, including regulatory quality, political stability, government effectiveness, rule of law, and control of corruption, did not significantly influence FDI inflows in the country. Instead, economic variables such as GDP per capita and average gross wage emerged as important determinants affecting FDI inflows in Croatia. Similarly, Dang and Nguyen (2021) researched the factors influencing FDI in the ASEAN-7 countries. Their study identified several significant drivers of FDI, including economic growth, tax burden, economic freedom, inflation, political stability, and population growth. The findings highlighted the importance of considering long-term perspectives in investment decisions, as political stability and population growth were particularly relevant factors for attracting foreign investment. The study also shed light on the impact of corruption in countries with varying levels of institutional quality. In countries with poor institutional quality, corruption seemed to have a lesser

negative effect on economic growth. Moreover, in countries with higher economic freedom, corruption might even have a positive impact on FDI inflows, which is an intriguing finding.
In their study, Rehman et al. (2021) explored the relationship between the quality of institutions and sectoral Foreign Direct Investment (FDI) inflows in India from 1986 to 2019. The research highlighted that both aggregated and sectoral FDI were positively influenced by adequate institutional quality. Furthermore, FDI inflows also contributed to the improvement of institutional quality in the country. This mutual relationship between institutional quality and FDI serves as a stimulus for India to enhance its institutional framework and compete more effectively with developed economies. Similarly, Saha et al. (2022) examined the effects of institutional quality on FDI inflows in lower-middle-income countries from 2002 to 2018. The study identified that corruption control and regulatory quality had a positive impact on FDI inflows, while high rule of law, voice, and accountability had a negative effect. Government effectiveness and political stability did not significantly influence FDI. Notably, regulatory quality was found to have the most significant influence on foreign investment inflows among all the institutional indicators. The results indicated that regulatory quality and voice, as well as accountability, had a positive influence on FDI when the recipient nations' per capita GDP exceeded specific threshold values.

In the context of Chinese Foreign Direct Investment (FDI) flow to Africa, Gebre Borojo and Yushi (2020) found that both institutional quality and business environment indicators significantly influenced FDI flows. Furthermore, Younsi and Bechtini (2019) assessed the impact of institutional factors on FDI attractiveness in emerging host countries. They identified that FDI was positively and significantly influenced by political stability, government effectiveness, and regulatory quality, while other governance indicators had negative and statistically significant links to FDI. In the study by Lobanova et al. (2021), which investigated FDI determinants in transition countries, it was found that improving institutional quality, corruption control, voice and accountability, and regulatory quality have a positive impact on FDI inflows. Additionally, the interplay between overall institutional quality, voice and accountability, government effectiveness, and GDP growth was also positively and significantly related to FDI. According to previous empirical literature, the following hypothesis was developed, and it will be tested by the study:

Hypothesis 3: Voice and Accountability have a significant positive influence on FDI inflow in East African Countries.

2.4 Government Effectiveness and FDI Inflows

The effectiveness of the government in most cases reflects a favorable environment for FDI as MNCs expand their operations to foreign countries for various motives, including, among others, exploiting economies of scale. Many empirical studies have been conducted to confirm the influence of government effectiveness on FDI attraction, with contradictory findings. In their exploratory study, Jurčić et al. (2020) investigated the relationship among economic, institutional indicators, and Foreign Direct Investment (FDI) inflows in Croatia from 1996 to 2017 by employing the OLS estimation technique. The results indicated that political stability, government effectiveness, rule of law, regulatory quality, and control of corruption were not significant. Instead, they identified economic variables, such as GDP per capita and average gross wage, as important factors influencing the FDI inflows in the country.

Similarly, Dang and Nguyen (2021) researched the influence of tax burden, institutional quality, and macroeconomic determinants on attracting FDI in the ASEAN-7 countries. The study revealed compelling evidence supporting the hypothesis that market factors, including economic growth, tax burden, economic freedom, and inflation, play crucial roles in driving FDI. Political stability and population growth were also found to be important considerations for foreign investors, as they often consider long-term perspectives in their investment decisions. Notably, in developing countries, political stability and population growth were negatively related to FDI inflows. Furthermore, the study identified a noteworthy finding regarding the impact of corruption in countries with poor institutional quality. In such contexts, corruption appeared to have a little negative impact on economic growth, and it may even have a positive effect on FDI inflows, especially in countries with high economic freedom.

Rehman et al. (2021) explored the relationship between institutional quality and sectoral Foreign Direct Investment (FDI) inflows in India from 1986 to 2019. The study confirmed that both aggregated and sectoral FDI were positively influenced by adequate institutional quality. Interestingly, the study also revealed that FDI inflows contributed to the improvement of institutional quality, creating a symbiotic relationship between the two. This finding serves as an inspiration for India to focus on enhancing its institutional quality to effectively compete with developed economies.

Similarly, Saha et al. (2022) analyzed the effects of institutional quality on FDI inflows in lower-middle-income countries from 2002 to 2018. The study identified that control of corruption and regulatory quality increased FDI inflows in these countries, while high rule of law, voice, and accountability had a reducing effect. Government effectiveness and political stability, however, were not significant. Regulatory quality was recognized as the most influential factor affecting foreign investment inflows. The study also highlighted threshold analysis results, indicating that regulatory quality and voice, as well as accountability, had a positive impact on FDI when the recipient nations' per capita GDP exceeded specific threshold values.

Gebre Borojo and Yushi (2020) examined the influence of institutional quality and the business environment on Chinese Foreign Direct Investment (FDI) flow to Africa. The findings revealed that aggregate indicators of institutional quality and the business environment significantly influenced the Chinese FDI flow to 44 African countries. Younsi and Bechtini (2019) assessed the impact of institutional factors on the attractiveness of Foreign Direct Investment (FDI) across 25 emerging host countries from 1996 to 2012. The study's findings revealed that political stability, government effectiveness, and regulatory quality had a positive and significant impact on FDI inflows. However, other governance indicators showed statistically significant negative links to FDI. This suggests that the quality of political stability, government effectiveness, and regulatory frameworks play a crucial role in attracting foreign investment in emerging markets.

Similarly, Lobanova et al. (2021) investigated FDI determinants in 27 transition countries over the period from 2002 to 2018 using system GMM analysis. The study's findings demonstrated that improvements in institutional quality, including corruption control, voice and accountability, as well as regulatory quality, had a positive impact on FDI inflows in these countries. Additionally, the interplay between overall institutional quality, voice and accountability, government effectiveness, and GDP growth showed positive and significant relationships. This highlights the significance of maintaining and enhancing institutional quality to attract foreign investment and promote economic growth in transition economies. According to previous empirical literature, the following hypothesis was developed, and it will be tested by the study:

> **Hypothesis 4:** Government effectiveness has a positive and significant influence on FDI inflow in East African Countries.

Based on the evidence from the extant literature reviewed by the authors, it can be revealed that so far, there is no current study that has investigated the causal links between institutional quality and FDI inflows in East Africa. Hence, the present study aims to fill this knowledge gap.

3. Methodology

This study utilized a causal inference research design. Purposive sampling was used to select five East African countries (Tanzania, Kenya, Uganda, Rwanda, and Burundi) from the population of six East African countries.

3.1. Data

For this study, two sets of secondary data were used, collected annually over a period of 19 years from 2002 to 2021. The first dataset comprised institutional quality indicators, namely control of corruption, voice and accountability, government effectiveness, and regulatory quality, while the second dataset consisted of the dependent variable, FDI inflows. Both datasets were sourced from the United Nations Conference on Trade and Development, World Bank Governance development indicators, and the Fraser Institute. Table 1 indicates how the variables were measured.

Table 1: Operationalisation of Variables

Variable	Measurement	Reference
FDI inflows (FDI)	FDI Inflow % of GDP	Kahveci (2022); Aromasodun (2022); Samargandi et al. (2022)
Voice and Accountability (VOA)	Voice and Accountability Index	Kahveci (2022); Aromasodun (2022); Samargandi et al. (2022)
Control of Corruption (CC)	Control of Corruption Index	Minović, et al. (2021); Zhang and Weihua (2021)
Regulatory Quality (RQ)	Regulatory Quality Index	Emako et al. (2022); Paul and Jadhav (2020); Khan et al. (2022)
Government Effectiveness (GE)	Government Effectiveness Index	Dang and Nguyen (2021); Rehman et al. (2021); Saha et al. (2022)

Source: Researcher (2023)

3.2 Model Specifications

For this study, the E-Views software version 12 was utilized for data analysis. The panel regression model was utilized due to its advantages, such as controlling for the effects of missing or unobserved variables, generating more accurate predictions for individual outcomes, and learning about an individual's behavior by observing the behavior of others. However, the Hausman test vindicated a random effect (RE) model to be more appropriate and the basic model specification is as indicated in Equation (1).

$$Y_{it} = \beta_0 + \boldsymbol{\beta X}_{it} + (\varepsilon_i + \epsilon_{it}) \tag{1}$$

Where Y_{it} stands for the dependent variable, $\boldsymbol{X}_{it}$ represents a vector of all explanatory variables employed in the study, i stands for individual cross-section, t represents time, $\boldsymbol{\beta}$ is a vector of coefficients, and ε_i are the individual-specific errors assumed to be random variables such that $\epsilon_i \sim IID(0, \sigma_\varepsilon^2)$. This indicates that the individual-specific effects are independent and identically distributed random variables with a mean of zero and constant variance, and their distribution follows a normal distribution. By incorporating the variables used in the current study, the model becomes:

$$FDI_{it} = \beta_{i0} + \beta_1 CC_{it} + \beta_2 VOA_{it} + \beta_3 GE_{it} + \beta_4 RQ_{it} + \mu_{it} \tag{2}$$

Where:

FDI_{it} = Stands for FDI inflows

CC_{it} = Control of Corruption

VOA_{it} =Voice and Accountability

GE_{it} =Government Effectiveness

RQ_{it} =Regulatory Quality

β_{i0} = Individual-specific effect

β_i = Regression coefficients

μ_{it} =Composite stochastic error term ($\mu_{it} = \varepsilon_i + \epsilon_{it}$)

4. Findings and Discussion

4.1 Descriptive Analysis

To examine the influence of institutional quality on FDI inflow in East African countries, the study utilizes FDI inflow as a percentage of GDP and as the dependent variable. Meanwhile, the independent variables include control of corruption, regulatory quality, government effectiveness as well as voice and accountability. The descriptive statistics are reported in Table 2. The results indicate that the maximum value of FDI is 24.580 and the minimum value is 0.014. The average FDI inflow is 8.738, implying that on average, FDI inflows constitute approximately 8.74% of GDP in the given context. Regarding the control of corruption variable, the maximum value is 75.480, and the minimum value is 0.947. The average score is 28.338, suggesting that, on average, the East African countries have moderate success in controlling corruption. The maximum value of regulatory quality stands at 60.096, and the minimum value is 8.333. The mean score is 35.702, indicating that the average regulatory quality in the region is relatively moderate. The maximum value of voice and accountability is 44.230, and the minimum value is 4.830. The mean score is 27.597, suggesting that, on average, East African countries have limited levels of voice and accountability. In terms of the government effectiveness variable, the maximum value is 63.461, and the minimum value is 2.162. The mean score of 31.072 suggests that, on average, East African countries exhibit moderate levels of government effectiveness.

Table 2: Descriptive Statistics

Statistic	FDI	CC	RQ	VOA	GE
Mean	8.738	28.338	35.703	27.597	31.0726
Median	9.024	20.530	38.833	29.355	32.048
Maximum	24.580	75.480	60.096	44.231	63.461
Minimum	0.014	0.947	8.333	4.831	2.1622
Std. Dev.	6.582	20.054	13.622	11.488	14.683
Skewness	0.344	1.038	-0.453	-0.331	-0.028
Kurtosis	2.240	2.973	2.221	1.879	2.521
Jarque-Bera	4.3825	17.963	5.959	7.061	0.970
Probability	0.111	0.00012	0.050	0.029	0.616

Note: FDI is the measure for FDI inflow % of GDP, CC stands for Control of Corruption, RQ represents Regulatory Quality, VOA stands for Voice and Accountability, GE stands for Government Effectiveness. **Source**: Author computation

Source: E-View Outputs (2023)

4.2 Correlation Analysis

The strength of the linear relationship among the variables of interest was captured by the product-moment correlation coefficient approach. The main objective was to validate whether the explanatory variables are highly correlated so as to avoid some spurious results that may transpire in further analysis. Table 3 indicates the results for the correlation matrix. It can be observed that all the correlation coefficients among the independent variables are less than 0.5, except the correlation coefficient between control of corruption and regulatory quality, which stood to be -0.692. However, after testing issues related to multicollinearity using the variance inflation factor, the statistics were reported to be less than 3, which shows that multicollinearity is no longer a problem (Thomson et al., 2017).

Table 3: Correlation Matrix

Variable	FDI	RQ	CC	GE	VOA
FDI	1				
RQ	-0.336	1			
CC	0.212	-0.692	1		
GE	-0.308	0.213	-0.133	1	
VOA	-0.358	-0.224	0.260	0.123	1

Source: E-View Outputs (2023)

4.3 Panel Unit Root Test

Three panel unit root tests were employed to determine the presence of unit roots in the panel data, which helps to identify whether the variables are stationary or non-stationary. Non-stationary variables can lead to spurious regression results. In this case, we employed Levin, Lin & Chu t* (LLC henceforth) (Levin et al., 2002), Im, Pesaran, and Shin W-stat (IPS henceforth), and ADF-Fisher Chi-square (Maddala & Wu, 1999). The results, as reported in Table 4, indicate that all four variables have a unit root in their level form. However, all the variables are found to be stationary in the first difference. For example, in the case of the FDI series, all three techniques: LLC, IPS, and ADF-Fisher Chi-square report the variable to be stationary in the first difference at 1% level of significance. That means all the approaches report a p-value of 0.0000, indicating that the null hypothesis of a unit root is rejected. This suggests that FDI inflow is stationary in the first difference.

Table 4: Results for Unit Root

Variables	LLC		IPS		ADF-FISHER	
	Level	First Difference	Level	First Difference	Level	First Difference
FDI	-1.023	-5.455***	-1.035	-5.969***	14.368	52.361***
CC	-1.476	-3.944***	-0.512	-4.422***	10.368	39.557***
GE	-3.160	-5.933***	-1.619	-5.483***	16.705	46.866***
RQ	-0.371	-6.586***	0.867	-5.759***	7.171	48.077***
VOA	2.150	-9.237***	0.942	-8.362***	5.334	69.622***

Note: ***Indicates significance at 1% level, CC represents control of corruption, RQ stands for Regulatory Quality, GE represents Government Effectiveness, and VOA stands for Voice and Accountability. LLC stands for Levin, Lin & Chu t*, IPS is Im, Pesaran, and Shin W-stat. The test equations in the level series included both intercept and trend components, whereas in the case of the first difference series, the test equations included only the intercept component.

Source: E-View Outputs (2023)

4.4 Co-integration Test

Cointegration tests assess whether there is a long-run equilibrium relationship among multiple time series variables. The null hypothesis (H_0) states that there is no cointegration, which means that the variables do not share a long-run relationship. The alternative hypothesis (H_1) posits that the variables are cointegrated, implying that they are bound together in a long-run equilibrium relationship. Table 5 presents the results of the Pedroni Residual Cointegration Test, which is used to assess the existence of a long-run relationship among the variables of interest. The test provides two types of statistics: within-dimension (common AR coefficients) and between-dimension (individual AR coefficients). For within-dimension statistics, the panel v-statistic, panel rho-statistic, panel PP-statistic, and panel ADF-statistic are reported. On the other hand, the between-dimension statistics include the group rho-statistic, group PP-statistic, and group ADF-statistic. For within-dimension statistics, the panel PP-statistic (-3.111) and panel ADF-statistic (-2.817) have significant p-values (0.0009 and 0.0024, respectively), indicating that there is evidence of cointegration among the variables in the panel data. In terms of the between-dimension statistics, both the group PP-statistic (-5.285) and group ADF-statistic (-4.628) have significant p-values (0.0000), further confirming the presence of cointegration among the variables. Overall, the results of the Pedroni residual cointegration test suggest a long-run relationship among the variables in the study.

Table 5: Pedroni Residual Cointegration Test

Pedroni Tests	Statistic	P-value
Panel v-Statistic	-0.467	0.6799
Panel rho-Statistic	-0.040	0.4839
Panel PP-Statistic	-3.111***	0.0009
Panel ADF-Statistic	-2.817***	0.0024
Panel v-Statistic (Weighted statistic)	-0.672**	0.7493
Panel rho-Statistic (Weighted Statistics)	-0.018	0.4926
Panel PP-Statistic (Weighted Statistics)	-4.270***	0.0000
Panel ADF-Statistic (Weighted Statistics)	-3.525***	0.0002
Group rho-Statistic	0.441	0.6703
Group PP-Statistic	-5.285***	0.0000
Group ADF-Statistic	-4.628**	0.000

Note: ***Indicates significance at 1% level. **Source:** E-View Outputs (2023)

Source: E-View Outputs (2023)

4.5 Model Specification Test

Table 6 reports results for the Hausman test. The test provides a Chi-square statistic of 8.936 with 4 degrees of freedom and a probability of 0.0627. The p-value (0.0627) is marginally above the significance level of 0.05, suggesting weak evidence to reject the null hypothesis. Therefore, the random effects model appears to be more appropriate for this analysis. Furthermore, in examining the cross-section random effects test comparisons for each variable, including government effectiveness, we observe that the probabilities for control of corruption (0.230), government effectiveness (0.274), regulatory quality (0.486), as well as voice and accountability (0.364) are all above the 0.05 significance level. These results support the notion that the random effects model is suitable for investigating the relationships between FDI inflow and these independent variables, indicating the presence of unobserved individual-specific effects across the East African countries.

Table 6: Hausman Specification Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. DF	P-value
Cross-section random	8.936	4	0.0627

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	P-value
Control of Corruption	-0.106	-0.029	0.004	0.2303
Government Effectiveness	0.181	0.151	0.001	0.2738
Regulatory Quality	0.253	0.219	0.002	0.4862
Voice and Accountability	0.088	0.012	0.007	0.3637

Source: E-View Outputs (2023)

4.6 Regression Analysis

Table 7 shows an R-squared value of 0.402, indicating that approximately 40.23% of the variation in FDI inflow can be explained by the independent variables. This suggests a moderate level of explanatory power of the model in capturing the relationship between FDI inflows and the selected institutional quality indicators. The adjusted R-squared value of 0.377, which considers the number of independent variables in the model, is slightly lower than the R-squared value. This indicates that approximately 37.72% of the variation in FDI inflow as a percentage of GDP is explained by the independent variables, accounting for the degrees of freedom. The proximity between the R-squared and adjusted R-squared values suggests that the model is robust and adequately explains the relationship between the variables. However, the F-statistic of 15.987 with a probability of 0.0000 indicates that the model is statistically significant.

Table 7: Random Effect Regression Results

Variable	Coefficient	SE	t-statistics	P-value
Control of Corruption	-0.043	0.042	-1.036	0.3026
Government Effectiveness	0.168	0.079	2.128	0.0359**
Regulatory Quality	0.218	0.072	3.016	0.0033***
Voice and Accountability	0.022	0.049	0.446	0.6562
R-squared	0.402	Mean dependent var		5.533
Adjusted R-squared	0.377	S.D. dependent var		5.813
F-statistics	15.987			
Prob (F-statistics	0.0000			

Note: ***, ** indicates significance at 1% and 5% level of significance, SE stands for standard error

Source: E-Views Outputs (2023)

4.6.1 Control of Corruption and FDI Inflow

According to the results presented in Table 7, the control of corruption has a negative impact on FDI inflows in East African economies. However, the variable is not significant (B = -0.043, P-value > 0.05). This suggests that the control of corruption does not have an influence on FDI inflows in the region. The finding in the current study is not in line with Institutional Quality Theory which posits that higher institutional quality, including effective control of corruption, should lead to increased FDI inflows as it creates a more favorable investment environment (Masron, 2017).

However, the results are consistent with those of Younsi and Bechtini (2019), Teeramungcalanon et al. (2020), and Jurčić et al. (2020), who all concluded that the control of corruption does not have a significant effect on FDI inflows. In contrast, Moustafa (2021) and Aromasodun (2022) found a positive relationship between perceived corruption and FDI. Their research suggests that in certain contexts, where corruption is perceived to be beneficial or where investors can navigate and leverage corruption, FDI inflows may actually increase. On the other hand, Yohannaa and Suyanto (2022), Zhang and Weihua (2021), and Minović et al. (2021) observed a positive influence of control of corruption levels in attracting more FDI inflows. Their studies imply that countries with lower levels of corruption tend to be more attractive to foreign investors due to improved transparency, reduced risks, and enhanced business environments. Contrary to the findings of the current study, Zangina and Hassan (2020), Zander (2021), and Mohammed (2022) found that lower control of corruption had a negative impact on FDI in their respective regions. Their research suggests that high levels of corruption can deter foreign investors, as it creates uncertainties, increases transaction costs, and erodes trust in the business environment.

4.6.2 Regulatory Quality and FDI Inflow

Table 7 reports that regulatory quality has a positive and statistically significant impact on FDI inflows at 1% level of significance ($B = 0.218$, P-value < 0.05). This finding implies that improvements in regulatory quality have a positive influence on FDI inflows in the region. The current study findings are in line with the Institutional Quality Theory, which highlights the importance of institutional quality, including regulatory quality, in determining a country's attractiveness to FDI (Masron, 2017). The findings demonstrate that improved regulatory frameworks and more efficient governance practices contribute to a more conducive investment environment in East African countries. As a result, investors are more likely to allocate resources in these countries due to better regulatory quality. Furthermore, in line with the findings of the current study, studies by Contractor et al. (2021), Emako et al. (2022), Mariotti and Marzano (2021), Ozekhome (2022), Paul and Jadhav (2020) confirmed that regulatory quality has a positive influence on FDI inflows. In contrast to the findings of the current study, Kaushal (2021) and Jurčić et al. (2020) confirmed that regulatory quality has an insignificant influence on FDI inflows.

4.6.3 Voice-Accountability and FDI Inflow

The results presented in Table 7 confirm that voice and accountability have a positive and statistically insignificant influence on FDI inflows in East African countries ($B = 0.022$, P-value $>$ 0.05). This finding suggests that the levels of voice and accountability have no influence on FDI inflows in the region.

The current study findings are not in line with the Institutional Quality Theory, which emphasizes the role of institutional quality in determining a country's attractiveness to FDI. The positive and statistically insignificant influence of voice and accountability on FDI inflows in East African countries does not support the notion that higher levels of voice and accountability, reflecting better governance, transparency, and democratic participation, create a more favorable investment environment. This, in turn, leads to increased FDI inflows because investors are more likely to invest in countries with strong institutions and predictable political environments.

The current study aligns with the findings of previous research conducted by Younsi and Bechtini (2019), Biro et al. (2019), and Awadhi et al. (2022), which all concluded that voice and accountability do not significantly influence the attraction of Foreign Direct Investment (FDI) inflows. These studies support the notion that factors other than voice and accountability play a more prominent role in FDI decisions. However, it is important to note that there are contrasting findings from other studies. For instance, Lobanova et al. (2021) and Gebre Borojo and Yushi (2020) found evidence suggesting that voice and accountability actually have a positive influence on FDI flows. According to their research, countries with stronger voice and accountability frameworks are more likely to attract foreign investors. Furthermore, the study by Saha et al. (2022) presents results that contradict the findings of the current study. Their research suggests that high levels of voice and accountability can have a negative influence on FDI inflows, potentially deterring foreign investors.

4.6.4 Government Effectiveness and FDI Inflow

The results presented in Table 7 confirm that government effectiveness has a positive and statistically significant influence on FDI inflows in East African countries (B = 0.168461, P-value < 0.05). This finding suggests that higher levels of government effectiveness positively influence FDI inflows in the region. The study findings are consistent with the Institutional Quality Theory, which highlights the importance of strong institutions in creating an environment that promotes economic growth, attracts foreign investments, and drives development in the region (Masron, 2017). Furthermore, the results are consistent with previous research conducted by Younsi and Bechtini (2019), Gebre Borojo and Yushi (2020), Meressa (2022), and Rehman et al. (2021), which have also found a positive influence of government effectiveness as a determinant of FDI inflows. These studies support the notion that higher levels of government effectiveness contribute to a conducive investment climate and attract foreign investments.

However, it is important to note that the study findings contradict the research conducted by Saha et al. (2022) and Jurčić et al. (2020), which did not find any significant influence of government effectiveness on FDI inflows. These studies suggest that other factors may play a more prominent role in determining FDI inflows, and the impact of government effectiveness may vary across different contexts or regions. The divergent findings across studies could be attributed to variations in methodology, sample size, time period, and specific country contexts. Factors such as political stability, infrastructure development, economic policies, market size, and sector-specific conditions may interact with government effectiveness to shape FDI inflows in complex ways.

5. Conclusion and Implications

The study was conducted to examine the influence of institutional quality on FDI inflows in East African countries. Specifically, the study sought to establish whether control of corruption, regulatory quality, government effectiveness, as well as voice and accountability, have any significant effect on FDI inflow in the region. The results have indicated that regulatory quality has a positive and statistically significant influence on FDI inflows in East African countries. The control of corruption has been found to have a negative influence on FDI, and the variable was not significant. Voice and accountability have been reported to have a positive and statistically insignificant influence on FDI, while government effectiveness has been reported to be significant at 5% level of significance.

Regulatory quality has been found to be significant at 1% level of significance. The finding that regulatory quality has a positive and statistically significant impact on FDI inflows in East African countries can have several implications. Improved regulatory quality can lead to a more transparent, predictable, and efficient business environment, which in turn can boost investor confidence, thus making them more likely to invest in the region. When investors perceive a stable and reliable regulatory environment, they are more inclined to invest their capital because they can expect consistent rules and regulations that protect their investments.

An efficient regulatory framework also contributes to reduced barriers to entry for businesses, facilitating the establishment of new ventures and foreign investments. When companies face fewer hurdles in entering a market, they are more likely to invest, leading to increased FDI inflows in the region. A strong regulatory system also provides better legal protection for investors, which can be an essential factor when deciding where to invest. By ensuring that their investments are protected, investors may be more willing to invest in countries with higher regulatory quality.

The positive influence of government effectiveness on FDI inflows in East African countries can be attributed to several key factors that contribute to a conducive investment environment within the region. Firstly, effective governments in East Africa demonstrate strong governance practices that foster stability and predictability. This includes transparent decision-making processes, efficient public administration, and the ability to implement and enforce policies and regulations effectively. Such governance practices create a favorable investment climate by reducing uncertainty and risks associated with investing in the region. Foreign investors are more inclined to allocate their capital to countries where government effectiveness ensures a stable and consistent business environment.

Secondly, governments with high levels of effectiveness tend to prioritize infrastructure development and investment in key sectors. They allocate resources efficiently, implement strategic plans, and facilitate the necessary infrastructure projects that support economic growth and attract foreign investments. Infrastructure development in transportation, energy, and telecommunication sectors enhances connectivity, reduces operational costs, and expands market access for businesses. These factors make East African countries more attractive to foreign investors, who are seeking to establish or expand their operations.

On the basis of the study findings, the study concludes that while the control of corruption as well as voice and accountability do not influence FDI inflows, both regulatory quality and government effectiveness have a positive influence on FDI inflows in the region. However, the findings have practical, policy, and theoretical implications in the context of the region: First, by recognizing the importance of regulatory quality as well as voice and accountability, governments can prioritize efforts to improve these aspects of governance. This includes streamlining regulations, reducing bureaucratic red tape, and ensuring that rules are consistently applied to create a more predictable and efficient business environment. In turn, this will attract more foreign direct investment, which can contribute to job creation, technology transfer, and overall economic development.

Second, enhancing voice and accountability can lead to more inclusive and participatory political environments, where citizens will have greater opportunities to express their opinions and influence policy-making processes. By fostering dialogue between the public and private sectors, governments can better understand the needs and concerns of investors, thus allowing them to implement policies that are more responsive to the demands of the business community. This can also improve the overall investment climate, as investors will be more likely to invest in countries where their voices are heard and their concerns are addressed.

Finally, the practical implications of the study findings highlight the need for governments to strike a balance between controlling corruption and government effectiveness while improving other aspects of governance, such as regulatory quality, as well as voice and accountability. While the study found that the control of corruption does not have a significant influence on FDI inflows in East Africa, governments need to continue to address corruption in order to maintain a stable and transparent business environment. At the same time, prioritizing regulatory quality as well as voice and accountability can lead to even more significant gains in FDI inflows because these factors are more influential in attracting foreign investment.

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