

Impact of Political Stability on Foreign Direct Investment Inflows in Nigeria

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ABSTRACT

Foreign direct investment (FDI), through its contributions to expanded employment opportunities, capital formation, technological growth, technology transfer, and productivity, has been perceived as a key factor in economic advancement in developing economies, particularly Nigeria. However, this largely depends on the nature of the political environment. Despite these gains, Nigeria still faces many challenges in further strengthening its investment environment through political stability (PS). This study investigates the impact of PS on FDI inflows in Nigeria. A time-series analysis was conducted using the ARDL model on secondary data covering 1996 to 2024. The data employed were obtained from the Central Bank of Nigeria Statistical Bulletin, as well as the World Bank WDI and WGI. The results show that political stability (with coeff. = -12.5012; $p = 0.0175$) exerts a negative and significant influence on FDI inflows in the study area. This suggests that PS undermines investor confidence, thereby limiting the growth of capital inflows into Nigeria. Building on this finding, the study suggests that the government should strengthen political stability by creating a safer and more predictable environment for both domestic and foreign investors. It also recommends improving foreign exchange policies to attract and sustain cross-border economic cooperation.

KEYWORDS

Political Stability, FDI, FDI Inflows, ARDL, Nigeria

1 | INTRODUCTION

Political stability is widely recognised as a fundamental determinant of economic development and investment performance across countries. A stable political environment promotes predictability in policy direction, reduces uncertainty, and builds investor confidence (Elish, 2022). In contrast, political instability tends to create economic uncertainty through frequent policy shifts, social unrest, insecurity, weak governance, and inefficient institutions, all of which discourage both domestic and foreign investment. In today's highly globalised economy, multinational corporations closely evaluate political conditions before committing capital abroad, making political stability a key determinant in international investment decisions. Among the various forms of international capital flows, foreign direct investment (FDI), particularly its inflows, remains essentially important because of its potential to facilitate technology transfer, enhance productivity, generate employment opportunities, and promote long-term economic growth (Sabir & Khan, 2018; Groznykh et al., 2020).

Globally, countries with stable political systems and strong governance frameworks tend to attract higher levels of foreign direct investment (FDI) compared to those facing political

uncertainty and weak institutions. Political stability reduces investment risk and enhances the business climate by ensuring policy continuity and the protection of property rights. As a result, many developing economies have pursued institutional and governance reforms aimed at creating a more favourable environment for foreign investors (UNCTAD, 2017).

However, the extent to which political stability influences FDI inflows remains an important empirical question, especially in developing countries where political and institutional structures are still evolving. Nigeria offers a particularly relevant case for this analysis. As Africa's largest economy and one of its most resource-rich nations, it holds significant potential for attracting foreign investment. Over the past three decades, successive governments have introduced various reforms designed to improve the investment climate, including the establishment of the Nigeria Investment Promotion Commission (NIPC), financial sector reforms, foreign exchange liberalisation measures, bilateral investment agreements, and sector-specific investment policies (Oguntoye and Oguntoye, 2021). These reforms contributed to periods of increased FDI inflows, particularly during the 2000s and early 2010s. Despite its vast market size, strategic location, and abundant natural resources, FDI inflows into Nigeria have remained volatile and below their potential compared to other emerging economies and resource-rich countries (UNCTAD, 2017).

The evolution of foreign direct investment (FDI) inflows in Nigeria reflects the country's changing political and institutional landscape over the last three decades. During the late military era, Nigeria attracted relatively low levels of foreign investment due to political uncertainty, weak institutions, and international sanctions. FDI inflows remained below US\$1 billion annually for much of the 1990s. However, the transition to democratic governance in 1999 marked a turning point in investor perception. Supported by political liberalisation, economic reforms, debt relief initiatives, and the expansion of the telecommunications sector (IMF 2024), FDI inflows increased substantially during the 2000s. According to available statistics, FDI rose from approximately US\$1.1 billion in 2001 to over US\$8.8 billion in 2011, representing one of the highest levels recorded in the country's history. During this period, improvements in political stability, banking sector reforms, and favourable global oil prices enhanced Nigeria's attractiveness to foreign investors.

Despite these gains, the momentum was not sustained. Beginning in the mid-2010s, FDI inflows declined considerably as Nigeria faced increasing political and economic challenges. The collapse of global oil prices in 2014, the rise of insurgency and insecurity in several parts of the country, foreign exchange restrictions, and the economic recession of 2016 weakened investor confidence. Consequently, FDI inflows fell from about US\$8.84 billion in 2011 to US\$3.1 billion in 2015, and further declined to approximately US\$2.0 billion in 2018. Although inflows recovered marginally to US\$2.31 billion in 2019 and US\$2.39 billion in 2020, they remained significantly below their earlier peak. In 2021, FDI increased to about US\$3.31 billion, reflecting gradual post-pandemic recovery and renewed investor interest. The total FDI stock reached \$895.2 billion, or 18.5% of GDP in 2022 and increased to \$1.873 billion in 2023 (Akinwalere & Chang, 2023; Statista, 2024). This was attributed to the gradual clearance of foreign exchange backlogs by the Central Bank of Nigeria, thereby restoring investors' confidence.

More recently, Nigeria has experienced a new wave of economic and policy reforms accompanied by significant uncertainty. The foreign exchange crisis that intensified between 2021 and 2023, persistent exchange-rate misalignment, rising inflation, and concerns over insecurity continued to constrain investment decisions. Following the inauguration of a new administration in 2023, fuel subsidies were removed, and the foreign exchange market was liberalised to address longstanding macroeconomic distortions. While these reforms were welcomed by international financial institutions and some foreign investors, they also contributed to short-term inflationary pressures and exchange-rate volatility (IMF 2024). Nevertheless, improvements in foreign exchange management and the

gradual clearance of outstanding foreign exchange obligations contributed to a modest recovery in investor confidence, with FDI inflows estimated at approximately US\$1.87 billion in 2023 (Statista, 2024). These fluctuations suggest that Nigeria's FDI performance has been shaped by economic fundamentals and has closely mirrored the country's political stability, institutional quality, policy credibility, and security conditions over time.

Recent economic and political developments have further heightened concerns regarding Nigeria's ability to attract and retain foreign investment. The country has faced growing security challenges, including insurgency, banditry, kidnapping, and communal conflicts, which have increased operational risks for investors. In addition, persistent foreign exchange shortages, exchange rate volatility, rising inflation, and policy uncertainty have created significant macroeconomic challenges. More recently, major policy reforms such as the removal of fuel subsidies and the liberalisation of the foreign exchange market have generated mixed reactions among investors. While these reforms are intended to improve economic efficiency and restore macroeconomic stability, their short-term effects have contributed to uncertainty regarding the future investment climate. These developments raise important questions about the extent to which political stability and institutional conditions continue to influence foreign investment decisions in Nigeria.

Despite Nigeria's position as Africa's largest economy and abundant natural resources, FDI inflows have remained volatile and below potential. Existing evidence suggests that political stability may influence investment decisions (Alesina & Perotti, 1996; Gani & Al-Abri, 2013), yet empirical findings remain inconclusive, particularly in Nigeria, where governance reforms, insecurity, and institutional weaknesses continue to evolve. While some studies report a positive and significant relationship between political stability and FDI inflows (Gakpa, 2020; Groznykh et al., 2020; Elish, 2022), others find weak, insignificant, or even negative effects (Kurecic & Kokotovic, 2017; Shan et al., 2018). These conflicting findings suggest that the relationship remains far from settled. Consequently, the extent to which political stability drives FDI inflows in Nigeria remains insufficiently understood.

This study examines the impact of political stability on foreign direct investment inflows in Nigeria. The period captures multiple political administrations, institutional reforms, and major economic events that may influence investment behaviour. The study contributes to the literature because it provides updated evidence on PS-FDI nexus in Nigeria using annual data covering the period 1996–2024, thereby incorporating recent economic and political developments that are largely absent from previous studies.

The existing literature also reveals several gaps. Many previous

studies focused on cross-country analyses that may not adequately capture Nigeria's unique political and institutional dynamics. Early Nigerian studies often relied on relatively short sample periods and may not reflect recent economic and political developments, including the foreign exchange crisis, insecurity challenges, fuel subsidy reforms, and exchange rate liberalisation policies. The evolving nature of governance and institutional reforms in Nigeria necessitates updated empirical evidence capable of capturing contemporary realities. These limitations necessitate a comprehensive reassessment of the political stability–FDI nexus in the Nigerian context. Similarly, by focusing specifically on Nigeria, the study provides country-specific evidence that complements broader cross-country findings and offers insights that are more relevant for policy formulation.

The remainder of the paper is organised into five sections. Following this introduction, Section Two reviews the relevant theoretical and empirical literature. Section Three presents the methodology and model specification. Section Four discusses the empirical results, while Section Five concludes the study and offers policy recommendations.

2 | LITERATURE REVIEW

Conceptually, variables such as political stability and foreign direct investment were discussed as follows:

Political stability (PS) is seen as one of the most widely examined institutional determinants of economic performance and foreign investment. Although there is no universally accepted definition, the concept generally refers to the degree to which a country's political system is predictable, durable, and free from major disruptions that may threaten governance and policy continuity (Goldstone et al., 2010; Aisen & Veiga, 2013). It involves the ability of governments to maintain law and order, ensure peaceful transitions of power, enforce regulations, manage social conflicts, and provide a predictable environment for economic activities. From an investment perspective, political stability reduces uncertainty regarding future policies, property rights protection, contract enforcement, and the overall security of investment assets (Onah & Ozoko, 2022).

Despite broad agreement regarding its importance, the literature reveals considerable variation in how political stability is conceptualised and measured. This variation has generated methodological debates concerning the most appropriate proxy for capturing political conditions that influence investment decisions. Existing studies have employed several indicators, each reflecting different dimensions of political stability and institutional quality. One of the most widely used measures is the Political Stability and Absence of Violence/Terrorism Index developed under the World Governance Indicators (WGI) project.

The WDI indicator measures perceptions regarding the likelihood of political instability, government overthrow, politically motivated violence, terrorism, and social unrest. The index ranges approximately from -2.5 (weak political stability) to +2.5 (strong political stability), allowing cross-country and intertemporal comparisons (Kaufmann, Kraay, & Mastruzzi, 2010). Consequently, several studies examining the political stability–FDI nexus (such as Gani & Al-Abri, 2013; Elish, 2022) have relied on this measure. However, the WGI indicator is largely perception-based and relies on surveys and expert assessments, which may introduce subjective biases. Another dimension of measuring PS is the Political Risk Index produced by the International Country Risk Guide (ICRG). The ICRG index assesses political risk through multiple components, including government stability, corruption, bureaucratic quality, law and order, ethnic tensions, military involvement in politics, and democratic accountability (PRS Group, 2023). This diversity of measurement approaches suggests that political stability is a multidimensional concept that a single indicator cannot fully capture.

Nevertheless, the WGI PS Index remain one of the most widely accepted measures in contemporary empirical research. Its extensive country coverage, methodological consistency, annual availability, and ability to capture both political stability and security-related risks make it particularly suitable for longitudinal studies involving developing countries such as Nigeria. Moreover, because the present study seeks to examine the long-run relationship between political stability and foreign direct investment inflows over the period 1996–2024, the WGI indicator provides a consistent and internationally comparable measure that allows for the assessment of political conditions across different political administrations and economic cycles.

Foreign direct investment (FDI) refers to an investment relationship through which an investor from one country acquires a lasting interest and significant degree of control in an enterprise located in another country (OECD, 2014; UNCTAD, 2017). FDI involves long-term commitments through the establishment of subsidiaries, mergers and acquisitions, joint ventures, or Greenfield investments (World Bank, 2015). According to Dunning's (2001) eclectic paradigm, multinational enterprises engage in FDI to exploit ownership advantages, location-specific opportunities, and internalisation benefits.

However, the conceptualisation of FDI is relatively straightforward; debates regarding the appropriate measurement of foreign investment performance persist. Existing studies such as Rao & Dhar (2018) have employed various indicators, including net FDI inflows, FDI stock, FDI as a percentage of gross domestic product (GDP), and sectoral FDI flows. FDI inflows remain the most commonly used measure because they capture actual annual investment decisions made by foreign investors and are readily available.

from international databases such as the World Bank. Consequently, this study adopts net FDI inflows as the measure of foreign direct investment because it directly reflects yearly changes in foreign investors' commitment to Nigeria.

The theoretical underpinning of this study is anchored on the Eclectic Paradigm (OLI Framework), Institutional Theory, and Political Risk Theory. These theories are complementary and collectively analyse how political stability influences FDI inflows. They are discussed below:

The OLI Framework, originally developed by John H. Dunning (1980, 2001), explains that firms undertake foreign direct investment when three conditions are satisfied: ownership (firm-specific assets) advantages, location advantages (attributes of the host economy), and internalisation advantages (benefits of internal control over foreign assets). Among these determinants, location advantages refer to the characteristics of host countries that make them attractive destinations for long-term investment. Thus, political stability constitutes an important location advantage because it reduces uncertainty or risk, enhances predictability, and improves the security of expected investment returns (Dunning & Lundan, 2008). Consequently, politically stable countries are more likely to attract foreign investors seeking long-term investment opportunities. Recent studies continue to apply or refine the OLI paradigm in the context of the PS-FDI nexus; for example, Le et al. (2023) demonstrate that political stability significantly moderates the effect of location advantages on FDI inflows.

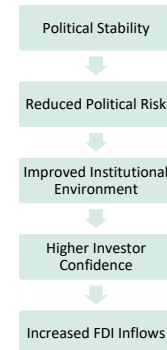
Nevertheless, the Institutional Theory further strengthens this explanation by emphasising the importance of formal and informal institutions in shaping economic behaviour and investment decisions (North, 1990). Strong institutions characterised by political stability, effective governance, regulatory quality, rule of law, and transparency reduce transaction costs and create a conducive business environment for foreign investors. When institutions function effectively, investors perceive lower levels of uncertainty and greater confidence in the host country's economic and political systems, thereby increasing the likelihood of FDI inflows (Triarchi & Marangos, 2024). The theory has been widely used in recent FDI research to highlight how political and governance conditions affect investor confidence and FDI decisions

Closely related is the Political Risk Theory, which focuses on the effects of political uncertainty on investment decisions (Montes & Nogueira, 2022). Political risk factors such as expropriation, policy reversal, regulatory uncertainty and civil unrest increase the costs and risks associated with foreign investment. Political stability can therefore be viewed as the inverse of political risk. Lower political risk enhances investor

confidence and encourages multinational enterprises to commit resources to foreign markets. Empirical evidence demonstrates that countries with lower political risks tend to attract higher levels of FDI because investors perceive a more secure environment for their investments (Paudel et al., 2024).

The integration of these theories provides a comprehensive explanation of the relationship between political stability and FDI inflows. Political stability reduces political risk, which contributes to the development of a stronger institutional environment. Improved institutional quality enhances investor confidence and strengthens the location advantages identified in the Eclectic Paradigm. As investor confidence increases, foreign investors become more willing to commit capital, resulting in higher FDI inflows. The integrated framework can be represented as follows:

Figure 1 The Integrated Conceptual Framework of Political Stability-FDI Inflow Nexus



Source: Li and Tanna (2022)

This conceptual framework in Figure 1 guides the study's empirical model specification by positing that political stability influences FDI inflows through its ability to reduce political risk, strengthen institutional quality, and enhance investor confidence. Thus, political stability serves as a fundamental determinant of FDI attraction in host economies.

Empirically, the relationship between political stability and foreign direct investment (FDI) has received considerable empirical attention across developed and developing economies. The dominant view in the literature is that political stability positively influences FDI inflows by reducing uncertainty, lowering investment risk, and enhancing investor confidence. For example, Sabir and Khan (2018), using panel data from developing economies, found that political stability and institutional quality significantly stimulate FDI inflows. Similarly, Akin (2019) reported that countries characterised by stable political environments attract greater foreign investment due to lower perceived investment risks. Recent studies by Zangina and Hassan (2020), Ciesielska-Maciagowska and Koltuniak (2021), Elish (2022), and Chebli and Saidi (2024)

further confirm that political stability remains a critical determinant of FDI attraction, particularly when accompanied by sound governance structures and macroeconomic stability.

Beyond establishing a direct relationship, recent empirical studies increasingly emphasise the mediating role of institutional quality. Adenuga (2023) investigated the relationship between the measures of institutional quality and foreign direct investment inflows in Nigeria. Employing time series data covering the period between 1996 and 2019, and the generalised method of moments (GMM) estimation. The results show that the composite institutional index and political stability exhibit positive and insignificant effects on foreign direct investment inflows into Nigeria. This suggests that the amount of FDI inflows into the country reflects the poor institutional quality prevalent in the nation. Also, Groznykh et al. (2020) employed the Pseudo-Poisson Maximum Likelihood (PPML) estimation technique to assess the impact of various political stability indicators on foreign direct investment (FDI) inflows across both developed and developing countries. They demonstrated that political stability enhances FDI primarily through improvements in governance effectiveness and regulatory quality. Likewise, Bitar et al. (2019) and Chebli and Saidi (2024) found that stable political environments become more attractive to foreign investors when supported by strong institutions, human capital development, and transparent regulatory systems. These findings suggest that political stability alone may not be sufficient; rather, its effectiveness depends on the broader institutional environment within which investment decisions are made.

Despite this dominant consensus, some studies report contrary findings. Kurecic and Kokotovic (2017), Shan et al. (2018), and Chen et al. (2023) observed that the relationship between political stability and FDI is not always linear. Their findings suggest that excessive political centralisation or rigid policy structures associated with certain forms of stability may discourage foreign investment. Similarly, Mosikari et al. (2018) and Epaphra and Massawe (2017) found that corruption and weak governance can offset the benefits of political stability, resulting in lower FDI inflows.

In Sub-Saharan Africa, political stability has consistently emerged as an important determinant of FDI inflows due to the region's historical challenges relating to governance, conflict, and institutional weaknesses. Cleeve (2012) found that stable political systems significantly improve the attractiveness of African economies to foreign investors. Similarly, Tintin (2013) reported that governance quality, political rights, and regulatory effectiveness positively influence FDI inflows across African countries. However, evidence from the region also highlights the importance of complementary institutional conditions. Studies by Goswami and Haider (2014) and Asif et al. (2018) showed that political

stability exerts a stronger effect on FDI when accompanied by improvements in infrastructure, market size, and macroeconomic performance. More recent evidence, such as Chebli & Saidi (2024), suggests that governance effectiveness, corruption control, and regulatory quality remain critical channels through which political stability affects investment outcomes.

Conversely, several African studies reveal that instability and insecurity continue to undermine investment performance. Epaphra and Massawe (2017) found that corruption and governance deficiencies weaken investor confidence despite periods of political stability. Similarly, Mosikari et al. (2018) concluded that institutional weaknesses and policy inconsistencies may reduce the attractiveness of otherwise politically stable economies. These findings underscore the need to consider political stability within a broader institutional framework.

The Nigerian literature largely supports the proposition that political stability promotes FDI inflows. For example, studies such as Koko et al. (2017) and Ozekhome (2022) consistently find that political stability positively influences FDI inflows in Nigeria. Similarly, Nkechi et al. (2024) investigated political turbulence and its effects on foreign direct investment (FDI) inflows across selected African countries. Using a panel ARDL model, they found that the political investment climate index (PSI) exerted a significant positive influence on FDI inflows in Nigeria, Ghana, Kenya, and South Africa. A recurring theme in studies focused on Nigeria highlights the importance of institutional quality in enhancing the effectiveness of political stability. Ozekhome (2022) and Zangina and Hassan (2020) found that variables such as government effectiveness, rule of law, and corruption control significantly influence the extent to which political stability translates into increased FDI inflows. These findings support the argument that investor confidence is shaped not only by political stability but also by the quality of institutions that govern economic activity.

Nevertheless, some Nigerian studies report adverse effects arising from political instability and insecurity. Danjuma (2021) and Omodero (2023) found that terrorism, insurgency, kidnapping, and political violence significantly discourage foreign investment. Jelilov (2018) similarly reported that persistent insecurity increases investment risk and reduces the attractiveness of investment destinations. These studies suggest that political stability remains fragile and uneven across sectors and regions of the country. Recent evidence also points to the growing significance of security and governance challenges in shaping investment decisions. Emerging studies emphasise that investors increasingly assess not only formal political stability indicators but also broader dimensions of institutional effectiveness, policy consistency, and security conditions before committing capital to Nigeria.

The empirical literature reveals three broad patterns. First, the majority of global, African, and Nigerian studies support a positive relationship between political stability and FDI inflows, arguing that stable political environments reduce uncertainty and enhance investor confidence (Osoghoyai & Kalama, 2025). Second, a smaller body of literature reports negative or conditional effects, suggesting that the benefits of political stability may be weakened by corruption, bureaucratic inefficiencies, weak institutions, or restrictive policy environments (Al-Jundi et al., 2022). Recent studies increasingly recognise that PS influences FDI through institutional channels including governance quality, regulatory effectiveness, rule of law, and corruption control (Khan et al., 2024).

Despite these contributions, important gaps remain. Existing evidence for Nigeria remains relatively limited compared with broader cross-country studies, and findings remain inconclusive regarding the magnitude and transmission mechanisms through which political stability affects FDI inflows. Furthermore, many Nigerian studies rely on earlier datasets and may not adequately capture recent political, security, and institutional developments that have shaped the investment environment (Yaskov & Smiesova, 2025). There is also a limited body of empirical evidence that considers political stability as a core explanatory variable within an integrated framework linking political risk, institutional quality, investor confidence, and FDI inflows.

Accordingly, this study contributes to the literature by examining the impact of political stability on FDI inflows in Nigeria using a framework grounded in the Eclectic Paradigm, Institutional Theory, and Political Risk Theory (Ajimobi, 2024). By focusing specifically on FDI inflows and incorporating contemporary institutional considerations, the study provides updated evidence on the role of political stability in shaping foreign investment decisions within Nigeria's evolving economic and governance environment. Furthermore, existing Nigerian studies largely examine either aggregate FDI or its outflows, with little attention given to its inflows. To bridge these gaps, this study adopts a comprehensive analytical framework that investigates FDI inflows and integrates political stability within Nigeria's specific economic and institutional context.

3 | METHODOLOGY

This section presents the methodological framework adopted to examine the impact of political stability on foreign direct investment (FDI) in Nigeria. The study is anchored on a combined theoretical framework of Institutional Theory and the Eclectic Paradigm (OLI). Institutional Theory emphasises that strong institutions, transparent governance, and policy consistency reduce uncertainty and enhance investor confidence, thereby attracting FDI. Complementarily, the Eclectic Paradigm posits that FDI decisions are driven by

Ownership, Location, and Internalisation advantages, with political stability forming a key component of location advantage.

Based on this theoretical foundation, the empirical model of this study is adapted from Ozekhome (2022) with modifications. The initial model is specified as:

$$FDI_{ij} = \alpha_0 + \sum(\beta_1 O_i) + \sum(\beta_2 L_j) + \sum(\beta_3 I_i) \quad (1)$$

While the modified version is stated as;

$$FDII_t = \beta_0 + \beta_1 PS_t + \beta_2 REER_t + \beta_3 GDPGR_t + \beta_4 HDI_t + \mu_t \quad (2)$$

Where $FDII$ = FDI inflows, PS stands for political stability, $REER$ implies the real effective exchange rate, $GDPGR$ = GDP growth rate, and HDI = Human Development Index. $FDII$ is measured as a percentage of GDP, while political stability is measured using governance index scores from the World Governance Indicators. $REER$ and HDI were included as control variables to capture macroeconomic conditions while ensuring a balance between reducing omitted variable bias and mitigating multicollinearity concerns.

The study utilises annual data covering the period 1996–2024. The choice of 1996 as the starting year is a result of the availability of the Political Stability indicator from the Worldwide Governance Indicators (WGI) database. Variables such as $FDII$, GDP growth rate, and HDI were sourced from the World Bank's World Development Indicators (WDI), and the real effective exchange rate was from the Central Bank of Nigeria Statistical Bulletin (2024). The choice of this consistent sample period is to ensure comparability across all variables included in the model.

The pre-estimation procedures include the unit root test, which examines the stationarity properties of the variables. Specifically, the study employed the Augmented Dickey-Fuller (ADF) technique to determine the order of integration of the series and to avoid spurious regression results. Following this, cointegration tests are conducted using both the Johansen and Juselius approach and the ARDL bounds testing framework to establish the existence of long-run relationships among the variables. These procedures ensure that the appropriate estimation technique is applied based on the integration properties.

The study adopts the Autoregressive Distributed Lag (ARDL) approach developed by Pesaran, Shin, and Smith (2001). The flexibility of this approach in handling variables with different orders of integration, provided none is integrated beyond $I(1)$, makes it more preferred. ARDL also performs efficiently in small sample sizes, making it particularly suitable for the present study's annual time-series dataset. Similarly, unlike conventional cointegration approaches such as Johansen

cointegration, ARDL simultaneously estimates both short-run and long-run relationships within a unified framework. Therefore, provides unbiased long-run estimates and valid t-statistics even when explanatory variables are endogenous. Thus, given these advantages and the relatively small sample size, the ARDL is considered more appropriate than VECM, FMOLS, or DOLS, which generally perform better with larger samples and require stricter assumptions regarding integration properties.

Furthermore, where cointegration is established, an Error Correction Model (ECM) is estimated to capture the short-run dynamics and the speed of adjustment toward long-run equilibrium. The error correction term is expected to have a negative coefficient and be significant, which indicates a convergence from short-run disequilibrium to long-run equilibrium. In addition, Granger causality tests are conducted to determine the direction of causality between political stability and FDI, thereby strengthening the empirical analysis.

To ensure the robustness and reliability of the estimated models, diagnostic tests were conducted, including the Variance Inflation Factor (VIF) test for multicollinearity, the

Breusch-Godfrey LM test for serial correlation, the Breusch-Pagan-Godfrey test for heteroscedasticity, the Jarque-Bera test for normality, and the Ramsey RESET test for model specification error. In addition, model stability is examined using the CUSUM test and CUSUM of Squares (CUSUMSQ) test. These tests verify whether the estimated coefficients remain stable throughout the sample period. Normality tests are also performed to assess the distribution of residuals.

Nevertheless, the study recognises the possibility of reverse causality between political stability and FDI inflows. While political stability attracts foreign investment, increased FDI may also contribute to improved economic conditions and institutional strengthening, thereby influencing political stability. Although the ARDL framework partially addresses endogeneity through lagged variables, it does not eliminate concerns about reverse causality. Consequently, findings should be interpreted as evidence of dynamic association rather than strict causality. This scope is acknowledged and provides an avenue for future studies to employ instrumental variable approaches, Vector Error Correction Models (VECM), or dynamic panel techniques to investigate the causal relationship between the variables.

4 | RESULT PRESENTATION AND DISCUSSION

Descriptive Statistics

Table 4.1: Descriptive Statistics

Variable	Mean	Max	Min	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Prob	Obs
FDII	1.2387	2.9002	-0.0395	0.8332	0.3378	2.0245	1.7013	0.4271	29
PS	-0.0277	0.4687	-0.8671	0.2290	-1.3752	7.7441	36.3368	0.0000	29
REER	-6.7352	36.9784	-23.815	42.0234	-3.7499	18.0632	32.1372	0.0000	29
GDPGR	4.6460	15.3292	-1.7943	3.4467	0.6656	4.6555	5.4520	0.0654	29
HDI	0.4894	0.5530	0.4220	0.0410	-0.0290	1.6703	2.1402	0.3420	29
INF	1.0937	1.3910	0.7314	0.1702	-0.1397	2.3688	0.5757	0.7498	29

Explanatory notes: Var = Variable, Max = Maximum, Min = Minimum, Std. Dev. = Standard deviation, Prob= Probability. No. of Observation = 29

Source: Author's Computation (2026)

The results show that FDII had a mean of 1.239 and moderate dispersion (Std. Dev. = 0.833), indicating moderate variability in foreign direct investment inflows over the study period. PS and REER exhibit relatively high volatility, as reflected in their standard deviations and extreme kurtosis values, suggesting the presence of outliers and non-normal distribution. REER, in particular, is highly dispersed (Std.

Dev. = 42.023) and strongly negatively skewed (-3.750), indicating significant exchange rate instability. GDPGR shows moderate variation with slight positive skewness, while HDI and INF are relatively stable and closer to a normal distribution. The Jarque-Bera statistics confirm that PS and REER deviate significantly from normality ($p = 0.0000$), whereas FDII, HDI, and INF are approximately normally distributed.

Table 4.2: Pairwise Correlation Matrix

Variables	FDII	PS	REER	GDPGR	HDI	INF
FDII	1					
PS	0.0492 (0.7997)	1				
REER	-0.0879 (0.6501)	0.0671 (0.7295)	1			
GDPGR	0.5919 (0.0007)	0.0192 (0.9211)	0.2371 (0.2155)	1		
HDI	-0.5114 (0.0046)	0.1894 (0.3250)	0.0161 (0.9339)	-0.4160 (0.0248)	1	
INF	-0.2231 (0.2447)	0.0281 (0.8849)	0.0702 (0.7176)	-0.0718 (0.7111)	0.5176 (0.0040)	1

Explanatory Note: FDII = Foreign Direct Investment Inflow, PS = Political Stability, REER = Real Effective Exchange Rate, GDPGR = Gross Domestic Product Growth Rate, HDI = Human Development Index, INF = Inflation

Source: Author's Computation (2026)

The above correlation results indicate that FDII has a positive and significant relationship with GDPGR ($r = 0.592$, $p = 0.0007$), suggesting that improved economic growth attracts higher foreign investment inflows. Conversely, FDII is negatively and significantly associated with HDI ($r = -0.511$,

$p = 0.0046$), implying that variations in human development have a dampening effect on foreign investment inflows in the study area. PS and REER show weak and statistically insignificant relationships with FDII. Overall, the correlation coefficients are below 0.80, indicating the absence of multicollinearity among explanatory variables.

Table 4.3: ADF and PP Unit Root Test Results

Variable	ADF Level	ADF 1st Diff	PP Level	PP 1st Diff	Order of Integration
FDII	-2.6981	-8.4194***	-2.5873	-8.4194***	I(1)
GDPGR	-3.0705	-7.3416***	-2.9453	-12.3440***	I(1)
INF	-4.5759***	—	-4.5684***	—	I(0)
REER	-5.5505***	—	-5.5593***	—	I(0)
PS	-5.6012	-7.2162***	-7.5095	-7.2162***	I(1)
HDI	-2.4428	-3.7823**	-4.6165***	-4.6165***	I(1)

Explanatory Note: FDII = Foreign Direct Investment Inflow, PS = Political Stability, REER = Real Effective Exchange Rate, GDPGR = Gross Domestic Product Growth Rate, HDI = Human Development Index, INF = Inflation

Source: Author's Computation (2026)

The unit root test results show mixed order of integration among the variables. FDII, GDPGR, PS, and HDI are integrated of order one, as they become stationary after first

differencing. INF and REER are stationary at the level. This validates the use of the ARDL methodology, which is appropriate for variables integrated at I(0) and I(1), provided none is I(2).

ARDL Short-Run and Long-Run Estimates

Table 4.4: Short-Run and Long-Run ARDL Estimates

Variable	Short- Run			Long-Run		
Variable	Coef.	t-Stat	Prob.	Coef.	t-Stat	Prob.
C	5.2058	1.4846	0.1812	5.9368	1.3785	0.2105
FDII(-1)/ECM	-0.8769	-3.4258	0.0110	—	—	—

PS	-10.9617	-2.6042	0.0352	-12.5012	-3.0935	0.0175
REER	0.0364	2.741	0.0288	0.041510	3.4193	0.0111
GDPGR	0.0338	0.5010	0.6313	0.0385	0.5438	0.6034
HDI	-15.1267	-2.4416	0.0447	-17.2510	-1.9966	0.0860
INF	2.8723	2.9946	0.0201	3.2757	2.3035	0.0547

Explanatory Note: FDII = Foreign Direct Investment Inflow, PS = Political Stability, REER = Real Effective Exchange Rate, GDPGR = Gross Domestic Product Growth Rate, HDI = Human Development Index, INF = Inflation

Source: Author's Computation (2026)

The results from the ARDL bound test in Table 4.4 capture both the short-run and long-run dynamics on the economic relationships between FDII and its key macroeconomic determinants, namely PS, REER, GDPGR, HDI, and INF. The output of the lagged FDII/error correction term (FDII(-1)/ECM) shows a negative coefficient (-0.876862) and is significant at the 5 per cent significance level. This confirms the a priori expectation, suggesting the existence of a stable long-run equilibrium relationship among the variables. It implies a strong speed of adjustment toward the long run, where approximately 87.7 percent of short-run disequilibrium in FDII is corrected within the period. In practical terms, shocks to foreign direct investment inflows are quickly absorbed, and the system converges rapidly back to its long-run path.

Similarly, the results indicate that PS exerts a significant but negative relationship with FDI inflows in Nigeria in both the short run (Coeff = -10.9617, $p < 0.05$) and the long run (Coeff = -12.5012, $p < 0.05$). Specifically, improvement in political stability is associated with a reduction of approximately 10.96 units in FDI inflows in the short run and 12.50 units in the long run, ceteris paribus. Although the result is not in tandem with theoretical expectations that political stability encourages foreign investment by reducing uncertainty and risk, it may reflect that foreign investors are not driven mainly by stability alone, possibly due to the dominance of resource-seeking FDI, sector-specific investment patterns, or country-specific institutional and economic conditions prevailing during the study period. Therefore, political stability appears to be associated with lower FDI inflows to Nigeria over the period under investigation.

The results also show that the real effective exchange rate has a positive and statistically significant effect on FDI inflows in both the short run ($\beta = 0.0364$, $p < 0.05$) and the long run ($\beta = 0.0415$, $p < 0.05$). This implies that an increase in the real effective exchange rate enhances FDI inflows by

approximately 0.036 units in the short run and 0.042 units in the long run, other things being equal. The finding suggests that movements in the exchange rate may improve Nigeria's attractiveness to foreign investors. The positive effect may reflect increased investor confidence in the economy or favourable returns on investment associated with exchange rate conditions during the study period.

The Human Development Index exhibits a negative relationship with FDI inflows. In the short run, the effect is statistically significant ($\beta = -15.1267$, $p < 0.05$), while in the long run it remains negative but is only marginally significant at the 10% level ($\beta = -17.2510$, $p = 0.0860$). Specifically, an increase in HDI is associated with a decline of approximately 15.13 units in FDI inflows in the short run and 17.25 units in the long run, all else being equal. This contradicts the conventional expectations, as improvements in education, health, and living standards are generally expected to attract foreign investment. However, it suggests that FDI inflows into Nigeria are driven more by resource-seeking motives than by human capital considerations during the study period. Nevertheless, the effect of INF on FDII shows a significant relationship in the short run, with a coefficient of 2.8723 at 5 percent significance level. It suggests that periods of higher inflation coincided with economic expansions, higher commodity prices, or investment opportunities that continued to attract foreign investors despite rising prices.

The overall results indicate that Political Stability is the most influential determinant of FDII, operating negatively in both the short-run and long-run, while REER and Inflation contribute positively to investment inflows. HDI have a consistent negative influence, suggesting structural constraints in translating human development gains into investment attraction. GDP growth, on the other hand, does not significantly influence FDII in either horizon, highlighting the limited role of output expansion alone in attracting foreign capital in the study period.

Table 4.5: ARDL Cointegration Bounds Test Result

Test Statistic	Value	Significance	I(0)	I(1)	Decision
F-statistic	4.929236	10%	2.08	3.00	Cointegration exists
		5%	2.39	3.38	Cointegration exists
		2.5%	2.70	3.73	Cointegration exists
		1%	3.06	4.15	Cointegration exists

Source: Author's Computation (2026)

The computed F-statistic (4.929) exceeds the upper bound critical values at all significance levels. This confirms the

existence of a long-run relationship among the variables in the model. Hence, the null hypothesis of no cointegration is rejected.

Table 4.7: Granger Causality Results

Causal Direction	F-Statistic	Prob.	Decision
PS → FDII	2.79028	0.0832	Weak causality
FDII → PS	—	0.0000	Strong causality
GDPGR → FDII	0.49148	0.6180	No causality
FDII → GDPGR	3.71445	0.0400	Causality exists
HDI → FDII	4.04041	0.0313	Causality exists
INF ↔ FDII	Weak	>0.05	No strong causality

Source: Author's Computation (2026)

The Granger causality results indicate a mixed pattern of short-run predictive relationships among the variables. For Political Stability (PS) and Foreign Direct Investment Inflow (FDII), the results show a weak but suggestive causality running from PS to FDII ($F = 2.79028$, $p = 0.0832$), implying that political conditions have some predictive influence on investment inflows, although not strongly significant at the 5 percent level. In the opposite direction, $FDII \rightarrow PS$ shows strong causality ($p = 0.0000$), indicating that increases in foreign direct investment significantly contribute to improvements in political stability. Economically, this suggests a feedback relationship where political stability attracts investment, and increased investment in turn strengthens governance conditions.

For Gross Domestic Product Growth Rate (GDPGR) and Human Development Index (HDI), the results show clearer unidirectional effects. There is no evidence of causality from

GDPGR to FDII ($F = 0.49148$, $p = 0.6180$), indicating that economic growth does not significantly predict foreign investment inflows in the short run. However, $FDII \rightarrow GDPGR$ causality is significant ($F = 3.71445$, $p = 0.0400$), suggesting that foreign direct investment inflows contribute to economic growth through capital accumulation and productivity improvements. Similarly, $HDI \rightarrow FDII$ is statistically significant ($F = 4.04041$, $p = 0.0313$), indicating that improvements in human capital development attract foreign investment, reflecting the importance of education, health, and workforce quality in investment decisions.

The INF results show no strong causal relationship in either direction ($p > 0.05$), implying that inflation does not significantly predict FDII nor does it influence it within the study period. Overall, the findings suggest that FDII is influenced by structural factors such as political stability and also serves as a driver of macroeconomic performance through GDP growth.

Table 4.8: Wald Test for Joint Significance of Regressors

Test Statistic	Value	df	Probability
F-statistic	5.624140	(5, 7)	0.0213
Chi-square	28.12070	5	0.0000

Null Hypothesis: $C(2) = C(3) = C(4) = C(5) = C(6) = 0$

Alternative Hypothesis: At least one coefficient $\neq 0$

Normalised Restriction Estimates: $C(2) = 0.448581$ (0.267724), $C(3) = -1.447785$ (1.307332), $C(4) = -2.581802$ (1.440327),

$C(5) = -4.376693 (1.121978)$, $C(6) = -2.555507 (0.925859)$

Source: Author's Computation (2026)

The Wald test is employed to examine the joint statistical significance of the explanatory variables in explaining their variations in the dependent variable. The null hypothesis assumes that all slope coefficients are equal to zero, implying that the regressors have no joint explanatory power in the model. The results reveal that the F-statistic is 5.624140 with a probability value of 0.0213, while the Chi-square statistic is 28.12070 with a probability value of 0.0000. This indicates that the explanatory variables are jointly statistically significant and collectively explain changes in the dependent variable. The result confirms that the model is well specified and that the included macroeconomic variables exert a meaningful combined influence on the dependent variable. This supports the robustness of the estimated ARDL model and validates the explanatory relevance of the regressors in capturing the underlying economic relationships within the study framework.

5 | CONCLUSION

This study examined the impact of political stability on FDI inflows in Nigeria using an ARDL framework that captures both short-run dynamics and long-run relationships among the variables employed. The findings indicate that political stability (PS) and the Human Development Index (HDI) exhibit a stable long-run relationship with foreign direct investment inflows (FDII), as confirmed by the bounds test. This suggests that persistent institutional weaknesses and governance challenges continue to erode investor confidence and hinder foreign investment inflows within the study area. In contrast, REER and inflation exhibit positive effects, indicating that exchange rate conditions and price dynamics

play an important role in shaping investment decisions. The causality results further confirm that FDII is both influenced by and contributes to macroeconomic conditions, particularly political stability, GDP growth, and human development.

Based on the findings, the study recommends that policymakers prioritise strengthening political stability through improved governance and security reforms, as this remains the most critical to FDI performance in the study area. Exchange rate management policies should also be designed to maintain macroeconomic stability that can sustain investor confidence. Furthermore, investment in human capital development should be complemented with structural economic reforms that translate educational and health improvements into productive capacity capable of attracting investment inflows and foreign capital to Nigeria.

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