# Does Foreign Direct Investments Affect All Share Index? The Sub-Sahara African Stock Market Experience, 1985 – 2015

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Abstract: This study examined the Effect of Foreign Direct Investments (FDI) on Stock Market Development (SMD) for All Share index (ASI) in Selected Sub-Saharan African (SSA) Countries from 1984 to 2015. The study used secondary data obtained from WBG, IMF, NBS and the Central Bank of selected countries; the research work selected Nigeria, South Africa and Kenya as its sample and used the OLS and Panel Data techniques, to test the Effect of the independent variables (FDI) on the dependent variable (ASI) at the 5% level of significance. The findings amongst others show that FDI had an insignificant effect on ASI in Nigeria and Kenya but, a significant effect for South Africa; while the SSA countries' pooled panel result indicate that FDI had a positive and significant effect on ASI. This result implies that 1% increase in FDI will result to 86.855% increase in ASI. The study concludes that FDI affects SMD indicators and hence, recommends among others that SSA countries should launder its image and create international awareness about environmental benefits of doing business in the region, to attract FDI and we urge apex monetary authorities including the World Bank, to consider the adoption of ASI as an SMD indicator.

Keyword: Foreign Direct Investment; Stock Market Development; All share index; Sub-Saharan Africa

## I. INTRODUCTION

Stock market Performance is an important index in economic development measurement of a country. It is also an important indicator of future economic activities and strength. Foreign Direct Investment as a key driver of international economic integration serves as a source of long term finance on a nation's stock market for economic activities (Desai, Foley & Hines, 2006). According to the World Bank (2015), Foreign Direct Investment refers to an investment made to acquire lasting or long-term interests in enterprises operating outside the economy of the investor. The investment is direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage or have significant influence over the foreign enterprise. The world financial body believes that Foreign Direct Investment is a major source of long term external finance and is regarded as finance beyond National Borders for Less Developed Countries (LDCs) from wealthier countries. The report further stressed that foreign direct investment and small business

growth are the two critical elements in developing the private sector stock markets in Lower-income economies and reduce poverty.

The review of literatures revealed that little attention has been paid on the Effect of Foreign Direct Investments on stock market development and there exist very limited comparative work on subject within the Sub-saharan African hemisphere. The very few studies in this regard include Adam and Tweneboah (2008) on Ghana, Al Nasser and Soydemir (2010) on Latin American countries, and Otchere, Soumare and Yourougou (2011) on Africa. Within the Nigerian economy, plethoras of studies have only focused on the relationship between stock market development and economic growth (Akinlo 2004; Mojekwu & Ogege, 2012; Ali & Abdullahi, 2015). Despite the quantum of studies, little attention has been paid to the effect of foreign direct investments on the individual stock market development components. This study considered stock market All Share market index development and foreign direct investment in the Sub-Saharan Africa with

emphasis on three major stock markets, namely: South-Africa, Kenya and Nigeria for the period 1984 to 2015.

The above scenario presupposes that an increase in foreign direct investment in the local economy will result to increase in availability of long term developmental funds on the stock exchange market and its implication is several including increase in market capitalization as the foreign investors will channel such funds to the acquisition of shares of existing profitable or prospective local enterprise or multinational companies. According to Farole and Winkler (World Bank, 2014), they held that in such a situation, local enterprises will be able to fund their operational, tactical and strategic projects and achieve their profit and capital appreciation goals while the foreign investors hold controlling influence in such businesses. Another implication of increase in foreign direct investment is that it results to increase in stock market liquidity and helps investors to trade in securities easily (Farole & Winkler, 2014). This will lead to increase in market turnover and enhance the long term prospects of Economic Growth of the country. The influx of capital into the stock market will also ginger the listing of more companies and securities on the stock exchange, creating more vibrancy and activities in the market. Increase in the number of companies and securities will result to greater market stability and breed confidence. The value of stock traded will also increase when trading capital on the stock market increases resulting to greater profitability, reduced risk and diversification of investments in the market. When there is available capital for long term investment, there will be increased product innovations and development of more and improved financial derivatives in the market as obtained in developed countries of the world. The all-share-index which shows the changing average value of the shares of all listed companies on the stock exchange, a measure of how well a market is performing will also increase because of increase in number of listed securities and market liquidity. Hence, in such an ideal situation, the World Bank (2015) posited that an increase in fixed capital (FDI) should cause an increase in stock market size and its development indicators mentioned above. The above position is further supported by Desai et al (2006), Henry (2000), Otchere et al (2011) and Adam and Tweneboah (2008) to mention but few.

It is observed however, that in reality the above painted scenario most often does not hold as the results of most research works particularly for Less Developing Countries (LDC) run at conflict in majority of cases when compared with the ideal position as established by the World Bank and a few erudite researchers such as Levine and Zervos (1998) that found a positive and significant relationship between FDI and Stock Market Development indicators in the long-run period; Adam and Tweneboah (2008) found a significant positive impact of FDI on Stock Market Development indicators; and, Soumare and Tchana (2015) that discovered a positive, significant and bi-directional causal relationship between FDI and Stock Market Development indicators, but other researchers such as Oke (2012) found a an insignificant effect on stock market development.

It is evident from above studies that there are inconsistencies and disagreements on the effects of FDI on stock markets All Share index developments; Hence, while some researchers argued that there exist significant relationship between the dependent and independent variables, others argued that such a relationship if it exists is insignificant.

It is thus our objective in this investigation to establish the effect of foreign direct investments on All Share Index of Selected Sub-Saharan African countries and the study is broken into; 1. Introduction; 2. Review of Related Literature; 3. Data and Methodology; 4. Presentation and Analysis of Data; and 5. Conclusion and Recommendations.

## II. REVIEW OF RELATED LITERATURE

### A. CONCEPTUAL REVIEW

### a. FOREIGN DIRECT INVESTMENTS

According to the World Bank (2015), Foreign Direct Investment refers to an investment made to acquire lasting or long-term interests in enterprises operating outside of the economy of the investor. The investment is Direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage or have significant influence over the foreign enterprise. The world financial body believes that Foreign Direct Investment is a major source of long term external finance and is regarded as finance beyond National Borders for Less Developed Countries (LDCs) from wealthier countries.

The understanding of the mediating factors that shape the extent and nature of foreign direct investment spillovers, specifically the spillover potentials of foreign investors and the absorptive capacity of local firms and workers assists will largely help the host country's government in making policies that will aid the growth of FDI stock in its economy. The avenues through which FDI spillovers can be generated include labour turnover, supply chains, and changing market forces, and are influenced by characteristics of foreign and domestic firms, as well as host countries and the institutional framework (World Bank, 2014). Factors at the foreign investor level include degree and structure of foreign ownership, FDI motive, global production and sourcing strategies, technology intensity, FDI home country, entry mode and length of presence in the country. The domestic level factors that affect local firms and the stock market absorptive capacity include the technology and productivity gap, research and development (R and D), human capital, firm size and scale, firm location, exporting, sector dynamics, competition and type of ownership.

Farole and Winkler (World Bank, 2014), in their study of over 25,000 domestic manufacturing firms in 78 low and middle-income countries between 2006-2010, identified three types of mediating factors that influence productivity spillovers to domestic firms from FDI, namely – (i) foreign investor's spillover potential, (ii) domestic firm's absorptive capacity, and (iii) country's institutional framework. They held that these three mediating factors affect the extent and direction of FDI spillovers on domestic firm's productivity and the structure of foreign ownership, which in turn affect the growth and development of their stock markets. They concluded from above findings that spillovers from FDI in the short term are not necessarily positive in developing countries, due in part to competition over scarce skilled labour, yet over time, FDI can lead to a beneficial positive relationship and restructuring of the entire industry with its attendant impact on the development of its stock market.

## b. TYPES OF FOREIGN DIRECT INVESTMENTS

Essentially Foreign Direct Investments could comprise of any or all of the following types, namely:

*Horizontal Foreign Direct Investment:* arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.

*Platform Foreign Direct Investment:* Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.

*Vertical Foreign Direct Investment:* takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

#### c. STOCK MARKET DEVELOPMENT

Stock market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks etc and undertaken by participants such as individuals and institutions (World Bank, 2007). The market channels surplus funds from savers to institutions (deficit areas) which then invest them into productive use. This market provides long term finance for real sector developments (Desai, Foley & Hines, 2006). The primary function of stock markets is to serve as a mechanism for transforming savings into financing for the real sector. According to El-Wassal (2013), he noted that from a theoretical perspective, stock markets can accelerate economic growth by mobilizing and boosting domestic savings and improving the quantity and quality of investment. Better savings mobilization may increase the rate of saving and if stock markets allocate savings to investment projects yielding higher returns, the increasing rate of return to savers will make savings more attractive. Consequently, more savings will be channeled into the corporate sector. Efficient stock markets make corporations compete on an equal basis for funds and help make investment more efficient.

## d. STOCK MARKET DEVELOPMENT -THE ALL SHARE INDEX

This is a series of numbers which shows the changing average value of the share prices of all companies in a stock exchange, and which is used as a measure of how well a market is performing. An index is a calculated average of selected share prices, representing a particular market or sector. It is a basket of shares that provides a broad sample of an industry, sector or economy. The collective performance of these shares gives a good indication of trends in the overall market they represent. It enables investors to track changes in the value of a general stock market, indices also provides a useful benchmark to measure the success of investment vehicles such as mutual funds, savings, foreign direct investments etc.

#### The Nigeria Stock Exchange Market

The Nigerian Stock Exchange (NSE) was established in 1960 as the Lagos Stock Exchange. As of December 31, 2013, it has about 200 listed companies with a total market capitalization of about N12.88 trillion (\$80.8 billion). All listings are included in the Nigerian Stock Exchange All Shares index (World Bank, 2014).

*History:* The Nigerian Stock Exchange was founded in 1960 as the Lagos Stock Exchange, on September 15, 1960, the stock exchange council was inaugurated. Operations began officially on August 25, 1961 with 19 securities listed for trading but informal operations had commenced earlier in June, 1961. Operations were initially conducted inside the Central Bank building with the exchange having four firms as market dealers: Inlaks, John Holt, C.T. Bowring and ICON (Investment Company of Nigeria) The volume for August, 1961, was about 80,500 pounds and it rose to about 250,000 pounds in September of the same year with the bulk of the investments in government securities. In December 1977 it became known as The Nigerian Stock Exchange, with branches established in some of the major commercial cities of the country.

## The South African Stock Exchange Market

JSE Limited (previously the JSE Securities Exchange and the Johannesburg Stock Exchange) is the largest stock exchange in Africa. It is situated at the corner of Maude Street and Gwen Lane in Sandton, Johannesburg, South Africa. In 2003 the JSE had an estimated 472 listed companies and a market capitalisation of US\$182.6 billion (€158 billion), as well as an average monthly traded value of US\$6.399 billion (€5.5 billion). As of 31 December 2013, the market capitalization of the JSE was at US\$1,007 billion (World Bank, 2014).

#### The Nairobi Stock Exchange Market

The Nairobi Securities Exchange (NSE) was constituted as *Nairobi Stock Exchange* in 1954 as a voluntary association of stockbrokers in the European community registered under the Societies Act (World Bank, 2014).

*History:* In Kenya, dealing in shares and stocks started in the 1920s when the country was still a British colony. A stock exchange was first floated in 1922 at the Exchange Bar in the Stanley Hotel in Nairobi. However, the market was not formal as there did not exist any rules and regulations to govern stock broking activities. Trading took place on a 'gentleman's agreement.' Standard commissions were charged with clients being obligated to honour their contractual commitments of making good delivery and settling relevant costs. At that time, stock broking was a sideline business conducted by accountants, auctioneers, estate agents and lawyers who met to exchange prices over a cup of coffee. Because these firms were engaged in other areas of specialisation, the need for association did not arise.

## B. THEORETICAL FRAMEWORK

This research work is anchored on one basic theories, namely:

Theory of Foreign Direct Investments (Dunnings Electic theory)

The justifications for the selection of these theories for our study is that;

Dunning unlike other FDI proponents effectively captured all the major microeconomic reasons for foreign capital flows such as ownership-specific advantages, Location-specific advantages and Internalization-advantages, that when religiously applied by LDCs will make their stock markets highly liquid, very strong and well developed.

#### a. THEORY OF FOREIGN DIRECT INVESTMENT

Numerous theories have been developed in FDI literature. These theories have been classified as microeconomic theories and macroeconomic theories of FDI. Microeconomic theories focus on the characteristics of a firm that influence its decision making processes. These include market imperfections, market power and investment location theories. Macroeconomic theories of FDI seek to investigate on a country's characteristics that explain FDI inflows within and across countries. Examples include internalization and product cycle theories. FDI literature has also reviewed theories that focus on FDI motives.

This section deals with one of the microeconomic theories of FDI on which we have anchored our research work: The Dunning's eclectic theory.

## b. THE ECLECTIC THEORY

The eclectic theory points out that for a foreign firm to be competitive in a foreign country, it must have some kind of unique advantages that can help them overcome the cost associated with operating in the new country. These advantages are called ownership or firm specific advantages (FSAs) or core competencies and they help the foreign firm in generating high revenues for the same cost, or lower costs for the same revenues compared to domestic firms. Dunning (1997) identified three main types of ownership advantages for multinational enterprises. These include; Knowledge/technology defined to include all forms of innovative ideas.; Economies of large size include economies of scale, scope, learning and broader access to financial capital and diversification of assets and risks.; and Monopolistic advantages occur in the form of privileged access to input and output markets through patent rights and ownership of scarce natural resources.

#### C. EMPIRICAL REVIEW

The All Share index is a Performance indicator which is used to measure how well a market is performing. All Share Index is a series of numbers which shows the changing average value of the share prices of all companies in a stock exchange. Existing empirical studies have indicated a triangular or Tri-directional relationship between FDI, economic growth and stock market development (Oseni & Enilolobo, 2011). This indicates that FDI will granger cause economic growth, which in turn will granger cause stock market development. Deductively, FDI will affect stock market variables including All share index, which in turn will affect economic growth.

To the best of the researcher's knowledge from reviewed literatures, there were no direct empirical work that studied the short or long-run relationship between FDI and All-share index in Sub-Saharan African countries except for Asaolu and Ogunmuyiwa (2011), who focused only on Nigeria between 1985 and 2010 and could not establish a significant relationship. This we considered a very strong gap to be filled and the theoretical expectations from such a relationship would be a positive and significant relationship consistent with the World Bank (2015) report on expected stock market development indicator index. Additionally, we shall review and rely on literatures that studied the relationship between All-share index and economic growth since studies have established a triangular relationship between FDI, stock market development and economic growth (Oseni & Enilolobo).

Olowe, Mathew and Fasina (2011), in their study of the efficiency of the Nigeria stock exchange between 1979 and 2008 using multiple regression technique in considering the relationship between economic growth and selected capital market variables. They observed a positive significant relationship between economic growth (GDP) and All-share index and concluded from their studies that All Share index for evaluating capital market performance is vital to the economic growth of Nigeria.

Olweny and Kimani (2011) studied the performance of stock market in relation to economic growth in Kenya from 2001 to 2010 using cointegration, VAR model and granger causality test methods. The variables employed in the study include GDP (dependent variable), Inflation and All-Share index. The study revealed the existence of a positive and significant long run relationship between GDP and All Share index in Kenya.

Echekoba, Ezu and Egbunike (2013), studied the impact of stock market on the Nigerian economy during democratic rule between 1999 and 2011 using multivariate regression model. Their investigation revealed a positive significant effect of All-Share index on economic growth (GDP).

Ifionu and Omojefe (2013), studied the Performance of the capital market in the Nigerian economy between 1985 and 2010 using the time series analysis comprising of ordinary regression model and error correction model, and discovered a positive and significant relationship between All-Share index and economic growth (GDP). The study used the cointegration analysis technique to establish a strong positive correlation between All share index and economic growth and recommended the pursuit of policies that focus on improving the depth and breadth of the capital market.

A study conducted by Oke (2013) on the impact of capital market operations on economic growth in Nigeria from 1985 to 2011 showed a positive significant relationship between the operation of capital market and economic growth. While the market capitalization and number of dealing showed a negative relationship with economic growth. The All-Share index showed a positive impact on the long-term economic growth (GDP) and FDI.

Also, Shaibu, Osemwengie and Oseme (2014), studied the effect of capital market activities on economic growth (GDP) in Nigeria from 1975 to 2010 using Var methodology. The study revealed that there exists a positive significant relationship between the All-share index and economic growth in Nigeria. Also, that there exist a significant long-run relationship between the dependent and independent variables.

Popoola (2014), studied the effect of stock market on Economic growth and Development of Nigeria using data covering from 1984 to 2008. The study employed the ordinary least square method of analysis and discovered a positive significant effect of All-Share index on Economic growth and advised that policy makers should focus more on policies that will improve the activities of the stock market such as tax incentives, legal and regulatory concessions.

Akpan and Chukwudum (2014), studied the behaviour of the Nigerian Stock Exchange All Share Index (NSE ASI) to the changes in the central bank of Nigeria's (CBN) interest rate over a period of 25 years (1986 - 2011). The study used the Bivariate and Multivariate regression analysis models on All Share Index as dependent variable, while interest rate, inflation rate, Unemployment and GDP were the independent variables. The study discovered an insignificant relationship between ASI and macroeconomic variables (GDP).

Aigbovo and Izekor (2015) investigated the nexus between stock market development and economic growth in Nigeria from 1980 to 2011 using co-integration, error correction mechanism and granger causality tests techniques. The variables employed include GDP, market capitalization. Market turnover ratio, Total value of stock traded and All Share Index. The investigation revealed a a short run negative and significant relationship between economic growth and All Share index.

Gumus (2015), studied the relationship between foreign investment and major economic and financial indicators in Turkish economy from 2003 to 2013 using Granger causality analytical technique. The data employed include FDI, FPI, interest rate, Exchange rate and Istanbul All-Share index. The results showed that Istanbul All-Share index Granger causes both FDI and FPI while the FDI Granger causes Istanbul All-Share index significantly.

#### **III. DATA AND MEHODOLOGY**

The study adopts the ex post facto research method which is a very common and ideal method in conducting research in business and social sciences. It is mostly used where variables are drawn from already concluded events and there is no possibility of data manipulation.

The data for this work are secondary data drawn from the World Bank statistical data bank, International Monetary Fund (IMF), the data base of the National Bureau of Statistics of the various study country, the statistical bulletin of the Central Bank of Nigeria, statistical bulletin of the Central Bank of South Africa and the Central Bank of Kenya for the range of years under study.

#### A. MODEL SPECIFICATION AND VALIDITY

This research work adopts the model of Adam and Tweneboah (2008), Adaramola and Obisesan (2015), Desai, Foley and Hines (2006), Issourma and Tchana (2015) and Nwosa (2015) with slight modifications (for example; removal of non-variable of interests such as Inflation rate, Treasury bills and Exchange rates etc and inclusion of stock market development variables only). The researchers expressed stock market development indicators as a function of FDI with GDP acting as a moderating variable (to help moderate the output from this study in line with parameter ratios used). To examine the effect of FDI on All Share index, the multivariate model is hereby estimated below:

The independent variable in above equation is FDIR, is the gross of all foreign direct investment types. The Stock Market Development indicator, All Share index (ASII)) is the Dependent variable. The essence of the GDP in the model is to act as a moderating variable since most of the dependent variables are expressed as a ratio of the GDP. We introduce National security, NS as a dummy variable in above model to carter for impact of security concerns in attracting FDI into the stock markets and utilized when analyzing our panel data.

Thus;  $\log ASI_t = \alpha_0 + \alpha_1 \log FDIR_t + \alpha_2 \log GDP_t +$  $\alpha_3 logNS_t + U_t \ \dots \dots 2$ 

ASI= All Share Index is a series of numbers which show the changing average value of the share prices of all companies in a stock exchange, and which is used as a measure of how well a market is performing. (Roza et al, 2012)

FDIR =Foreign Direct Investments and refers to the volume of foreign capitals inflowed into a domestic company by foreign investors and institutions for investment activities to ratio of GDP (Otchere et al. 2011)

*GDP* = Gross Domestic Products and it refers to the level of economic and financial activities or transactions brought into an economy through the activites of the stock market and domestic foreign investments. (Desai et al, 2006)

NS =National Security included as dummy variable (Oriakhi & Osemwengie, 2012)

A PRIORI EXPECTATION: ASI, FDIR, NS, GDP <0 Model

 $\log ASI_{it=} \alpha_0 + \beta_1 \log FDIR_{it} + \beta_2 \log GDP_{it} + \beta_3 \log NS + GO_{it}$ ;  $GD_{it} = \bigoplus_{I} + V_{it} \dots 3$  (random effect model)

Where:

 $\alpha_0$  = Intercept term

 $\beta$  = Vector of parameters to be estimated on the explanatory variables

GD = Composite error term

 $\mu = error term$ 

 $V_{it}$  = Individual observation error term

It = Panel data variables

NS = National Security = Dummy variable of 0 or 1.

IV. PRESENTATION AND ANALYSIS OF DATA

# A. TABULAR DATA PRESENTATION FOR SELECTED VARIABLES

	NGN	NGN	NG N	NG N	SAF R	SA FR	SAF R	SA FR	KEN	KE N	KE N	KE N
Year	ASI	NS	GD	FDI	ASI	NS	GD	FDI	ASI	NS	GDP	FDI
			(%)	(%)			(%)	к (%)			(70)	ĸ
1984	570.65	0	- 1.80	0	386.5 5	0	2.50	0.11	100	0	-4.6	1.64
1985	810.32	0	0.60	0.02	420.2 8	0	- 3.50	0.02	127.3	0	5.4	1.69
1986	1,263.2	0	3.50	2.88	505.3	0	- 2.20	0.01	163.8	0	-11.3	2.03
1987	1,208.9	0	2.30	4.99	729.4	0	- 0.10	0.12	190.9	0	-13.3	2.52
1988	1,387.8	0	2.60	4.09	856.5	0	2.00	0.17	233.6	0	4.5	1.23
1989	2,160.9	0	1.10	5.58	814.9	0	0.20	0.23	325.3	0	3.4	6.88
1990	2,271.1	0	1.10	-	895.7	0	- 2.60	0.67	513.8	0	9.6	1.98
1991	2,981.4	0	-	0.21	959.9 7	0		0.23	783.0	0	-0.7	4.51
1992	2,945.6	0	- 2.00	2.51	1,246.	0	-	0.08	1,107	0	0.4	4.96
1993	2,886.7	0		8.43	2,207.	0	-	2.53	1,543	0	2.0	4.71
1994	3,542.0	0	0.40	0.27	4,559.	0	0.80	0.10	2,205	0	0.8	6.86
1995	3,853.7	0	1.30	0.81	3,468.	0	1.00	0.47	5,092	0	-0.5	3.09
1996	4,215.9	1	1.10	0.55	3,114.	1	2.40	0.90	6,992	1	4.7	4.45
1997	4,026.2	1	-	2.50	3,115.	1	0.90	0.47	6,440	1	2.5	4.81
1998	3,623.6	1	0.00	0.40	2,953.	1	-	0.19	5,672	1	2.3	2.93
1999	5,850.3	1	0.80	1.24	2,303.	1	0.90	0.40	5,266	1	0.0	2.17
2000	5,850.3	1	-	0.84	1,913.	1	2.60	0.87	.4 8,111	1	4.8	2.58
2001	7,564.4	1	1.20	4.15	1,355.	1	1.20	0.04	.0 10,96	1	4.2	2.01
2002	6,952.6	1	-	0.65	1,363.	1	3.60	0.21	12,13	1	4.0	2.77
2003	8,072.0	1	0.20	0.30	2,738.	1	1.70	0.55	20,12	1	8.9	2.28
2004	10,122.	1	1.80	0.26	2,946.	1	3.00	0.29	23,84	1	5.9	1.67
2005	38 14,910.	1	2.80	2.18	3,973.	1	3.90	0.11	24,08	1	5.8	3.43
2006	20	1	3.00	0.22	5,646.	1	4.20	0.20	33,18	1	5.4	2.92
2007	25,095.	1	4.00	2.22	5,445.	1	3.90	2.28	57,99	1	6.1	2.90
2008	19,273.	1	- 2 50	2.63	3,521.	1	1.80	0.26	31,45	1	5.1	4.84
2009	25,460.	1	0.50	1.83	3,247.	1	- 2.90	0.29	20,82	1	6.1	2.32
2010	31,543.	1	6.10	0.89	4,433.	1	1.50	0.42	24,77	1	7.0	1.63
2011	31,985. 62	1	3.40	1.04	3,205.	1	1.70	0.33	20,67	1	2.1	2.15
2012	39,385. 04	1	1.50	1.26	4,133.	1	0.70	0.32	28,98	1	1.5	1.53
2013	45,735.	1	2.90	2.25	4,927.	1	0.60	0.68	41,12	1	2.6	1.08
2014	49,770.	1	2.40	1.64	5,113. 00	1	0.00	1.55	31,63	1	3.5	0.82
2015	50,693. 76	1	2.70	1.67	4,041. 00	1	- 0.50	2.28	27,72 7.77	1	-0.1	0.85

Source: World bank data 2016; Nigeria Stock Exchange, 2016; National Bureau of Statistics, 2016; Index Mundi (Standard and Poor's, Global stock market factbook and Supplemental, International Monetary Fund, International Financial Statistics), 2016.

Table 4.1: Selected FDI and Development data between1984 – 2015

## A. DATA ANALYSIS

## a. DESCRIPTIVE STATISTICS AND TEST FOR NORMALITY

The descriptive statistics will be done using the Jarque-Bera Normality test, which requires that for a series to be normally distributed; the histogram should be bell-shaped and the Jarque-Bera statistics would not be significant. This implies that the p-value given at the bottom of the normality

	FDIR	GDP	ASI
Mean	1.755319	1.342553	10343.85
Median	1.250000	1.500000	4033.625
Maximum	8.430000	9.600000	57990.20
Minimum	-0.070000	-13.30000	100.0000
Std. Dev.	1.772078	3.455072	13529.60
Skewness	1.404476	-1.107006	1.665928
Kurtosis	4.887663	6.873088	4.952915
Jarque-Bera	44.85946	77.95206	58.41762
Probability	0.000000	0.000000	0.000000
Sum	165.0000	126.2000	972321.7
Sum Sq. Dev.	292.0441	1110.190	1.70E+10
Observations	94	94	94

Source: Computation by author using E-view 7 Table 2: Panel Descriptive Statistics



Source: Computation by author using E-view 7 Figure 1: Panel Data Test For Normality

The histogram in figure 3, shows a bell-shape but the

Jarque-Bera and the p-value of the panel series is significant at the 5% level of significance showing strong Normality in the distribution.

## b. DIAGNOSTIC TESTS

The aim here is to carry out various diagnostic tests to ensure that our data and model used in this research work conforms to the basic assumptions of the classical linear regression.

#### Test For Stationarity

The test for stationarity requires that the variables in the series model must be stationery at a given level and p-value must be significant at that level. Stationerity is attained where the test statistics is most negative and greater than the critical value of the chosen level of significance.

Variables	LLandC	Critical	P-value	Order of		
	Test	Values		Integration		
	Statistics	@5%				
D(ASI)	-10.8777	-11.250	0.0000	I(1)		
D(FDIR)	-7.01822	-7.258	0.0000	I(1)		
D(GDP)	-7.2267	-7.532	0.0000	I(1)		
Source: Author's E-view 7 Computation						

Table 3: Panel Unit Root Result

The Table 3 shows the stationerity tests for the panel data series following the Levin, Lin and Chu (LLC) statistics. All the panel variables were found to be stationery at first difference level (1). At first difference levels as reported, the

variable p-value were all 0.0000 and less than the 5% chosen significance level and thus we reject the Null hypothesis of the presence of Unit root and accept the alternative that there is no unit root and stationerity is attained by all the variables at the first difference levels.

## Test For Serial Correlation – Breusch-Godfrey (BG) Tests

The Breusch-Godfrey tests is used to test for the presence or absence of serial or autocorrelations in the model with the Null hypothesis stating that there is No autocorrelation. This holds if p-value is greater than the chosen level of significance otherwise reject.

Breusch-Godfre				
F-statistic	1.382660	0.2750		
		Prob. Chi-		
Obs*R-squared	3.557447	Square(2)		0.1689
Test Equation: Ec				

Source: Author's E-view 7 computations

Table 4: Breusch-Godfrey Serial Correlation Test – Nigeria

From table 4, the p-value is greater than the chosen level of significance of 5%, indicating the absence of autocorrelation in the model. This is further enhanced with a Durbin-Watson statistics of 1.653. Hence, we do not suspect any violation of the assumptions of classical linear regression. The applicable treatment was to lag the variables by minus four (-4) periods.

Breusch-Godfrey			
F-statistic	0.524342	Prob. F(2,21)	0.5995
		Prob. Chi-	
Obs*R-squared	1.426867	Square(2)	0.4900
Test Equation: Ec	uation 3.11		

Source: Author's E-view 7 computation

 Table 5: Breusch-Godfrey serial correlation Test for South

 Africa

From table 5, the p-value is greater than the chosen level of significance of 5%, indicating the absence of autocorrelation in the model for South Africa. This was arrived at after treating the variables with a one (1) period lag.

Breusch-Godfr				
F-statistic	0.303660	03660 Prob. F(4,19)		
Obs*R-squared	1.802615	Prob. Chi-Square(4)		0.7720
Test Equation: Equ				

Source: Author's E-Views 7 computation

Table 6: Breusch-Godfrey Serial Correlation Test – Kenya

From table 6, the p-value is greater than the chosen level of significance of 5%, indicating the absence of autocorrelation in the model. This was arrived at after treating the variables with a one (1) period lag.

## Test For Heteroskedasticity (Arch)

The treatment method adopted here is the Autoregressive conditionally Heteroscedastic test known as ARCH. The Null hypothesis states that there is no Heteroscedasticity if the pvalue is greater than the level of significance (Brooks, 2014).

Heteroske				
F-statistic	2.655278	Prob. F(1,28)		0.1144
Obs*R-squared	2.598520	Prob. Chi-Square(1)		0.1070
~				

Source: Author's E-View 7 computations

#### Table 7: Heteroskedasticity Table Result for Nigeria

The null hypothesis states that there is No heteroskedasticity if p-value is not significant and is greater than the chosen level of significance of 5%. Hence, in this case we accept the Null hypothesis that there is no evidence of heteroskedasticity since p-value is greater than 5% significance level.

Heterosked	ARCH		
F-statistic	1.275092	Prob. F(1,26)	0.2691
Obs*R-squared	1.308981	Prob. Chi-Square(	1) 0.2526
γ .1 I T		•	

Source: author's E-view 7 computations

Table 8: Heteroskedasticity table Result for South Africa From table 8 for South Africa, we accept Null hypothesis that there is No heteroskedasticity since p-valueis greater than the chosen level of significance of 5%. This was arrived at after one (1) period lag treatment.

Heteroskedasticity Test: ARCH				
F-statistic	0.194578	Prob. F(2,23	)	0.8245
Obs*R-squared	0.432595	Prob. Chi-Square(2)		0.8055

# Source: Author's E-view 7 Computation

Table 9: Heteroskedasticity Table Result for Kenya

In table 9 for Kenya, we accept Null hypothesis that there is No heteroskedasticity since p-value is greater than the chosen level of significance of 5%.

	ASI	FDIR	GDP
ASI	1.000000	0.054143	0.384220
FDIR	0.054143	1.000000	0.107318
GDP	0.384220	0.107318	1.000000

Source: Author's E-views computation

#### Table 10 - Panel Correlation Matrix

Table 10, shows a positive panel correlation of a maximum of 22.12% between FDIR and the stock market development indicator. This implies that changes in FDI could result to positive changes changes in key stock market development indicators. The key indicators that will be mostly affected by major FDI changes will include All Share Index (5.4%).

Tests For Cointegration

Pedroni Residual Cointegration Test						
Series: FDIR GDP MCR NLS TUNR VSTR ASI						
Sample: 1984 20	15					
Included observa	tions: 96					
Cross-sections in	cluded: 3					
Null Hypothesis:	No cointeg	gratio	n			
Newey-West aut	omatic band	dwidt	h selection	and Bartlett ke	ernel	
Alternative hypo	thesis: com	mon .	AR coefs. (	within-dimens	sion)	
				Weighted		
	Statis	tic	Prob.	Statistic	Prob.	
Panel v-Statistic	1.6622	252	0.0482	1.293912	0.0978	
Panel rho-Statistic	-1.449	140	0.0736	-1.669227	0.0475	
Panel PP-Statistic	-4.795	043	0.0000	-4.878976	0.0000	
Panel ADF-Statistic	-0.313	898	0.3768	-0.771467	0.2202	

Source: Author's E-views computation

Table 11: RESULT – Residual Panel Cointegration Test

From table 11, Panel V-statistics confirm a positive and significant long-run relationship having a statistic of 1.6623 and a p-value of 0.0482 while Panel rho weighted statistics (statistic of -1.6692 and p-value 0.0475) and Philip Peron (statistic of -4.7950 and p-value of 0.0000) both confirm a negative and significant long-run relationship (cointegration)

between foreign direct investments and stock market development indicators.

*Decision rule:* We reject null hypothesis of the cointegration relationship to accept the alternative that there is Cointegration. We thus, conclude that the foreign direct investments have long-run equilibrium effect on stock market development indicators.

## B. TEST OF HYPOTHESIS

#### a. RESTATEMENT OF HYPOTHESIS

Ho<sub>5</sub>: Foreign direct investment has no significant effect on All Share Index of the selected Sub-Saharan African countries.

H<sub>i5</sub>: Foreign direct investment has significant effect on All Share Index of the selected Sub-Saharan African countries.

Dependent Variab				
Method: Least Squ				
Date: 03/11/17 T	ime: 16:39			
Sample (adjusted)	: 1985 2012			
Included observati	ons: 28 after ac	ljustments		
Variable	Coefficient	Std. Error	t-Statistic	Prob.
С	229.1870	4457.599	0.051415	0.9594
FDIR(2)	-162.5714	1015.491	-0.160091	0.8741
GDP(3)	897.3815	545.4939	1.645081	0.1130
ASI(-1)	0.830768	0.117774	7.053903	0.0000
R-squared	0.735582	Mean dep	endent var	12636.25
Adjusted R-squared	0.702530	S.D. depe	endent var	14103.44
S.E. of regression	7692.134	Akaike in	Akaike info criterion	
Sum squared resid	1.42E+09	Schwarz criterion		21.05566
Log likelihood	-288.1149	Hannan-Quinn criter.		20.92353
F-statistic	22.25510	Durbin-Watson stat		2.116927
Prob(F-statistic)	0.000000			
C ( 1 ) )	G · 7			

Source: Author's Eview 7 computation

Table 12: Regression Result for Nigeria

Table 12 shows an  $R^2$  and Adjusted  $R^2$  of 73.56% and 70.25% respectively, and indicates that the chosen regression model best fits the data. Hence, the goodness of fit regression model is 73.56% and implies that chosen explainatory variables explains variations in the dependent variables to the tune of 73.56%. Also, with an Adjusted  $R^2$  (70.254%) implies that the model can take on more variables conveniently without the  $R^2$  falling beyond 70.25%, which is considered good. The F-statistics of 22.2551 is considered good, probability (F-statistics) of 0.000000 and Durbin-Watson Statistic of 2.11693 (Showing absence of autocorrelation) are considered very impressive being positive and significant.

From table 12, the Nigeria FDIR(2) at lead 2, has a tstatistic value of -0.16009 and a p-value of 0.8741, was found to have a negative and statistically insignificant effect on All share index at 5% level of significance since its p-value is well above 0.05. Therefore, we accept null hypothesis to reject the alternative. Equally, the GDP(3) at lead 3, has a t-statistic value of 1.64508 and p-value of 0.1130 (acting as a moderating variable in the model) is found to have a positive and statistically insignificant effect at the 5% level. This result shows that future levels of FDIR is depressive to All share index and a 1% increase in FDIR will result to a 162.57% decline in All share index in Nigeria.

Dependent Variable: ASI	
Method: Least Squares	
Date: 03/11/17 Time: 16:56	

Sample (adjuste	d): 1985 2013			
Included observations: 29 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
С	-26.55352	837.6787	-0.031699	0.9750
FDIR(2)	114.2853	249.8078	0.457493	0.6513
GDP(2)	-260.8638	225.6372	-1.156120	0.2586
ASI(-1)	1.157894	0.048467	23.89026	0.0000
R-squared	0.964978	Mean dependent var		11587.30
Adjusted R-squared	0.960775	S.D. dependent var		12733.21
S.E. of regression	2521.843	Akaike info criterion		18.63081
Sum squared resid	1.59E+08	Schwarz criterion		18.81940
Log likelihood	-266.1467	Hannan-Quinn criter.		18.68987
F-statistic	229.6118	Durbin-Watson stat		2.394348
Prob(F-statistic)	0.000000			

Source: Computation by author using E-view 7 Table 13: Regression Result for South Africa

The output in Table 13 is noteworthy and shows an  $R^2$  and Adjusted  $R^2$  of 96.50% and 96.08% respectively, and indicates that the chosen regression model best fits the data. Hence, the goodness of fit regression model is 96.50% and implies that chosen explainatory variables explains variations in the dependent variables to the tune of 96.50%. Also, with an Adjusted  $R^2$  (96.08%) implies that the model can take on more variables conveniently without the  $R^2$  falling beyond 96.08%, which is considered very good. The F-statistics of 229.2551 is considered high and very encouraging, probability (F-statistics) of 0.000000 and Durbin-Watson Statistic of 2.39435 (Showing absence of autocorrelation) are considered very impressive being positive and significant.

From table 13, South Africa FDIR(2) at lead 2, has a tstatistic value of 0.45749 and a p-value of 0.6513, was found to have a positive and statistically insignificant effect on All share index at 5% level of significance since its p-value is well above 0.05. Therefore, we accept null hypothesis to reject the alternative. Equally, the GDP(2) at lead 2, has a t-statistic value of -1.15612 and p-value of 0.2586 (acting as a moderating variable in the model) is found to have a negative and statistically insignificant effect at the 5% level. This result shows that future levels of FDIR will positively affect All share index and a 1% increase in FDIR will result to a 114.29% rise in All share index in South Africa.

Dependent Varia	blo: ASI			
Dependent Variable: ASI				
Method: Least Squares				
Date: 03/11/17 Time: 15:36				
Sample (adjusted): 1984 2012				
Included observations: 29 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
С	361.5582	336.6894	1.073863	0.2931
FDIR(3)	-217.1057	250.0215	-0.868348	0.3935
GDP(3)	-47.41612	76.93812	-0.616289	0.5433
ASI(1)	0.867318	0.112955	7.678451	0.0000
R-squared	0.709496	Mean dependent var		2498.447
Adjusted R-squared	0.674635	S.D. dependent var		1543.096
S.E. of regression	880.1933	Akaike info criterion		16.52560
Sum squared resid	19368506	Schwarz criterion		16.71419
Log likelihood	-235.6212	Hannan-Quinn criter.		16.58467
F-statistic	20.35242	Durbin-Watson stat		1.883855
Prob(F-statistic)	0.000001			

Source: Author's E-views 7 computations

### Table 14: Regression Result for Kenya

The table 14 shows an  $R^2$  and Adjusted  $R^2$  of 70.95% and 67.46% respectively, and indicates that the chosen regression model best fits the data. Hence, the goodness of fit regression model is 70.95% and implies that chosen explainatory variables explains variations in the dependent variables to the

tune of 70.95%. Also, with an Adjusted  $R^2$  (67.46%) implies that the model can take on more variables conveniently without the  $R^2$  falling beyond 67.46%, which is considered good. The F-statistics of 20.3524 is considered good, probability (F-statistics) of 0.000001 and Durbin-Watson Statistic of 1.88386 (Showing absence of autocorrelation) are considered very impressive being positive and significant.

From table 8, the Kenya FDIR(3) at lead 3, has a tstatistic value of -0.86835 and a p-value of 0.3935, was found to have a negative and statistically insignificant effect on All share index at 5% level of significance since its p-value is well above 0.05. Therefore, we accept null hypothesis to reject the alternative. Equally, the GDP(3) at lead 3, has a t-statistic value of -0.61629 and p-value of 0.5433 (acting as a moderating variable in the model) is found to have a negative and statistically insignificant effect at the 5% level. This result shows that future levels of FDIR is depressive to All share index with a negative coefficient of 217.106 and implies that a 1% increase in FDIR will result to a 217.106% decline in All share index in Kenya.

### b. RESTATEMENT OF HYPOTHESIS

Ho<sub>5</sub>: Foreign direct investment has no significant effect on the All Share Index on the stock market of selected Sub-Saharan African countries.

 $H_{i5}$ : Foreign direct investment has significant effect on the All Share Index on the stock market of selected Sub-Saharan African countries.

Dependent Variable: ASI				
Method: Panel EGLS (Period weights)				
Date: 07/23/	17 Time: 22:27	7		
Sample (adju	isted): 1986 201	5		
Periods inclu	ided: 30			
Cross-section	ns included: 3			
Total panel (balanced) observations: 90				
Linear estimation after one-step weighting matrix				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
С	57.08097	106.0179	0.538409	0.5917
FDIR(-2)	86.85486	41.69950	2.082875	0.0403
GDP(-2)	5.875002	14.80223	0.396900	0.6924
NS	371.6674	323.9556	1.147279	0.2545
ASI(-1)	1.029904	0.029345	35.09618	0.0000
a 1.1	· <u> </u>	7		

Source: Author's Eviews Computation

# Table 15: Result – All Share Index – Panel Egls Test

From table 15, FDIR(-2) at lag 2, has a t-statistic value of 2.08288 and a p-value of 0.0403, was found to have a positive effect on All share index and this effect is statistically significant at 5% level since its p-value is well below 0.05. Therefore, we reject null hypothesis to accept the alternative.

However, we observed that the GDP(-2) at lag 2, has a tstatistic value of 0.39690 and p-value of 0.6924 while the impact of national security (NS) within the sub-region shows a t-statistic 1.14728 with a p-value of 0.2545 and these effects are statistically not significant at the 5% level, though GDP acts as a moderating variable in the model. The implication of this result is that a 1% rise in the level of FDIR will result to 86.86% increase in the All share index level. The coefficient of the past levels of FDIR has a positive sign and is significant at the 5% level. *Decision Rule:* We reject the null hypothesis and accept the alternative that foreign direct investment has a positive and significant effect on All Share Index.

The reviewed literatures indicate that All Share Index is fast becoming a development tracking indicator on stock markets of most sub-saharan African countries. The result of the panel data regression studies show that foreign direct investment has a positive and statistically significant effect on All share index in selected Sub-Saharan Africa. The study showed that past levels of foreign direct investment has a positive (t-statistic of 2.08288) and statistically significant effect (p-value of 0.0403) on All share index at the 5% level of significance. The implication of this result is that a 1% rise in the level of FDIR will result to 86.8549% increase in the All share index level. The coefficient of the past levels of FDIR has a positive sign and is significant at the 5% level while the impact of national security appear not to be significant on all share index (p-value = 0.2545). The result of this study is consistent with the findings of Olweny and Kimani (2011), Echekoba, Ezu and Egbunike (2013), Popoola (2014) and Soumare and Tchana (2015), who also found a statistically significant and positive relationship between GDP and ASI; while Gumus (2015) using Turkey as study area discovered a positive and significant effect of FDI on ASI. In the Sub-Saharan African region, the available study to the researcher's best knowledge on FDI effect on ASI was done by Asaolu and Ogunmuyiwa (2011) using Nigeria as a case study and discovered an insignificant relationship. This study however, extends our knowledge with the expected sign for the Sub-Saharan African region and discovered positive and significant effect of FDI on ASI. This finding further lays credence to Dunnings electic theory and our apriori expectation of a positive and significant relationship (World Bank, 2015; Gumus, 2015; Soumare & Tchana, 2015). A plausible direct interpretation of this result could be attributable to the region's improving transparency international ratings and the government is encouraged to further pursue policies of foreign direct investment in Sub-Saharan African countries through international foreign media campaign to woo more foreign investors and develop regional global markets.

It is also imperative to mention that in the individual country analysis, while only Nigeria and Kenya showed no significant effect of FDI on All Share index, South Africa however, showed positive and significant effect of FDI on All Share index.

## V. CONCLUSION AND RECOMMENDATIONS

The findings from this study shows that foreign direct investment has positive and significant effect on the All Share Index of the selected Sub-Saharan African countries.

## A. CONCLUSION

The results emanating from our study proved that foreign direct investment has positively significant effect on stock market development. A long-run negative significant effect was also established and documented appropriately. In conclusion, based on the outcome of our Study, we affirm that foreign direct investments has significant positive effect on stock market development in Sub-Saharan African countries in the short-run and significant negative effect in the long-run equilibrium periods.

### B. RECOMMENDATIONS

In line with the objective of this study, we recommend that;

- The various governments through their ministry of trade and investments be concouraged to create financial market awareness activities to expose the benefits of the Sub-saharan African economic environments in the international markets and launder its image to both local and foreign investors alike. This will help improve the volume of FDI sourced into the region as well as the number of listed securities and market liquidity in the Sub-saharan Africa stock markets.
- ✓ The apex monetary authorities such as world Bank, Central Banks and Stock Exchanges consider the adoption of All Share index as a measurement criterion for stock market development.

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