Investment Inflow and Economic Stability: Evidence from Sub-Saharan Africa

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ABSTRACT

Scholars as well as policymakers have extensively explored the impact of Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) on economic stability, particularly in sub-Saharan African economies. The general assumption is that FDI and FPI, when effectively harnessed, can foster economic stability, especially when the economic environment is conducive. This study investigates the role of investment inflow such as FDI and FPI play in fostering economic stability in selected sub - Saharan African countries, including Nigeria, Kenya, South Africa, Ethiopia and Ghana, using annual data from 1990 to 2023 obtained from the World Development Index (WDI). The analysis employs Driscoll-Kraay (1998) and White (1980) robust standard errors estimates from fixed effect models. The findings reveal that FDI has a positive and significant effect on economic stability, while FPI does not show a significant impact. Based on these results, it is recommended that African economies prioritize improving their investment climates to attract and sustain FDI, while also focusing on strengthening institutional frameworks to enhance the overall economic environment for both domestic and foreign investors. This can be achieved by ensuring macroeconomic stability, encouraging infrastructure development, and fostering partnerships between foreign investors and local businesses to maximize the benefits of FDI.

Keywords: Foreign direct investment, Foreign portfolio investment, Economic stability, Sub-Saharan African economies.

INTRODUCTION

Economic stability remains a critical challenge in sub-Saharan Africa, where many nations experience volatility due to structural weaknesses, including low-income levels, inadequate savings, outdated technology, weak infrastructure, and widespread corruption (Ghosh & Postelnyak, 2021). These factors perpetuate economic instability and exacerbating poverty across the region. Classical economists argue that addressing these challenges requires policies that enhance resource mobilization and reduce vulnerability to shocks. They suggest that investment inflows, particularly Foreign Direct Investment (FDI), have the potential to stabilize economies by injecting capital, fostering development, and mitigating fiscal imbalances.

According to the World Investment Report (2023), FDI inflows to Africa surged by 113%, from US$39.0 billion in 2020 to US$83.0 billion in 2021, indicating increasing global investor confidence in the continent. This dramatic growth reflects the perception of Africa as a region rich in untapped opportunities. While FDI is widely acknowledged as a stabilizing force, its effectiveness in fostering economic stability varies across nations. Research by Babatunde (2011) highlights that FDI can significantly improve macroeconomic stability by addressing capital shortages, reducing reliance on volatile commodity revenues, and stimulating long-term stability in strategic sectors like manufacturing and infrastructure.

On the other hand, some studies suggest that FDI alone may not guarantee economic stability if accompanying domestic policies and governance structures are weak. For instance, Wang,Chibsah & Garti (2020) emphasize that while FDI can enhance economic well-being through employment generation, technology transfer, and productivity improvement, its impact depends on the recipient country's ability to effectively utilize these inflows. Without sound fiscal management and robust financial systems, FDI may exacerbate inequalities or contribute to external vulnerabilities, such as profit repatriation by foreign investors that drains local economies.

Moreover, the composition and management of capital inflows are crucial for ensuring stability. According to Kirabaeva and Razin (2010), capital flows such as portfolio investments, foreign aid, and remittances play complementary roles alongside FDI in stabilizing economies. Portfolio investments, for instance, provide liquidity to financial markets, while remittances offer household-level stability. However, over-reliance on any single source of capital inflow can increase exposure to global economic fluctuations, making it essential for sub-Saharan African nations to adopt a diversified and balanced approach to managing inflows. Furthermore, the inflow of capital to African economies will contribute to the development of local industries, as foreign investors from abroad bring with them advanced technologies, knowledge, and business practices that can be transferred to domestic firms (UNCTAD, 2021). This technology transfer enhances the skills and capabilities of the local labor force, fostering human capital development and improving productivity (Jumanne, & Keong, 2018).

Ultimately, the relationship between FDI and economic stability in sub-Saharan Africa is multifaceted. While FDI has been instrumental in improving infrastructure, boosting productive capacities, and fostering skills transfer (UNCTAD, 2021), its stabilizing effects depend heavily on a country's institutional capacity and policy environment. This seminar therefore will critically explore whether FDI has been effective in promoting stability in the region, examining evidence from multiple countries to highlight best practices, challenges, and actionable recommendations for leveraging investment inflows to achieve macroeconomic resilience and sustainable development.

Statement of the problem

Despite the significant inflow of Foreign Direct Investment (FDI) into African countries, its anticipated transformative impact on economic stability and development remains largely unrealized. The World Investment Report (2023) highlights a striking increase in FDI flows to Africa, rising from US$39.0 billion in 2020 to US$83.0 billion in 2022—a 113% surge within a single year. While this growth underscores the continent’s potential as a destination for global capital, tangible evidence of its developmental outcomes, particularly in promoting economic stability, remains limited.

Empirical studies have explored the impact of capital inflows on economic activities, with findings suggesting that both FDI and Foreign Portfolio Investment (FPI) can significantly contribute to economic development (Azam, 2010; Tiwari & Mutascu, 2011; Guru-Gharana, 2012; Musibau, Hussain, Suraya & Hammed, 2017; Gabriel, Orie & Igwe, 2019). However, other studies argue that the relationship between capital inflows and economic performance is context-dependent and influenced by political and economic shocks (Nyang’oro, 2017; Gabriel, John & Barryl, 2019). This has led to conflicting conclusions about the nature, magnitude, and direction of the link between capital inflows and economic stability, with some studies finding unidirectional impacts and others suggesting bidirectional interactions.

A critical gap in the literature lies in the tendency to analyze FDI and FPI separately, rather than examining their distinct and comparative effects on economic performance within the same framework. In addition, most studies focused on growth rather than stability. Also, FDI is often lauded for its long-term contributions to physical capital formation, technology transfer, and job creation, FPI is seen as a source of short-term liquidity for financial markets. The lack of integrated analysis prevents a comprehensive understanding of how these forms of investment interact to influence economic stability (Wako, 2018; Mahreen, 2019; Jumanne & Keong, 2018). Furthermore, existing studies often overlook the broader implications of these capital inflows for macroeconomic stability, such as their impact on exchange rates, inflation, and fiscal balance. These factors are critical for understanding whether FDI and FPI genuinely foster sustainable development or exacerbate vulnerabilities in African economies. The scarcity of research addressing these dynamics in a unified context limits policymakers’ ability to design strategies that optimize the benefits of foreign investment while mitigating potential risks.

This study aims to fill these gaps by providing a comprehensive analysis of the impact of FDI and FPI on economic stability in sub-Saharan Africa. By comparing and contrasting the effects of these two investment streams within a single framework, the research seeks to offer evidence-based insights that reconcile conflicting findings and inform policies for promoting sustainable economic development in the region..

Objectives of the Study

The main focus of the study is to examine the effect of FDI and FPI on economic stability in African countries. Specifically, the study intends to;

i. Examine the effect of FDI on economic stability in sub–Saharan African economies.
ii. Examine the effect of FPI on economic stability in sub–Saharan African economies.

Research Questions

To examine the effect of FDI and FPI on economic growth in sub–Saharan Africa, the following research questions will serve as a guide.

i. In what way has Foreign Direct Investment impacted economic stability in sub–Saharan African economies?
ii. To what extent does Foreign Portfolio Investment impact economic stability in sub–Saharan African economies?

Research Hypotheses

The following null hypotheses are formulated.

H_{01}: FDI does not have a significant effect on the economic stability in sub-Saharan African economies.

H_{02}: FPI does not have a significant effect on economic stability in sub-Saharan African economies.

Significance of the Study

Research on the influence of Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) on economic growth in African countries is critical for both policymakers and investors. For policymakers, understanding how FDI and FPI affect economic growth enables the formulation of targeted strategies to attract and optimize these investments. By identifying the specific channels through which these inflows contribute to economic development, governments can craft policies that amplify their benefits, such as increased capital formation, technology transfer, and job creation, while mitigating risks such as economic volatility and capital flight. This understanding also supports the creation of a favorable investment climate, fostering sustainable growth and development across the continent.

For investors, the findings provide insights into the relative advantages of FDI and FPI in driving growth, enabling informed decision-making based on risk appetite and long-term objectives. If FDI is shown to have a substantial impact on economic stability, it could encourage long-term investments in critical sectors, such as infrastructure and manufacturing. Conversely, if FPI emerges as more effective, it might attract greater participation in financial markets, enhancing liquidity and stimulating economic activity. The study's dual focus on policymaking and investment strategies ensures it offers practical guidance for fostering economic resilience and growth in African economies, addressing both immediate and long-term development goals..

Scope of the Study

The study focuses on the relationship between investment inflow and economic stability in sub-Saharan Africa economies. Sub-Saharan Africa encompasses a diverse range of countries situated south of the Sahara Desert, each with distinct cultural, social, and economic contexts. To provide a representative analysis, the study selects the five largest economies within the region, offering a focused yet insightful examination of the FDI-economic stability nexus. These countries serve as a lens through which broader regional trends and patterns can be understood.

The analysis spans the period from 1990 to 2023, providing a comprehensive temporal framework to capture long-term trends and dynamics. This timeframe enables the study to account for significant global and regional

economic events, such as structural adjustments, financial crises, and the rise of globalization, which have influenced the flow of FDI and its implications for economic stability in sub-Saharan Africa. By narrowing the scope to key economies and an extended timeline, the study seeks to offer meaningful insights into the role of FDI in fostering stability and development in the region.

LITERATURE REVIEW

Conceptual Review of Investment Inflow

Investment inflows, particularly foreign direct investment (FDI) and foreign portfolio investment (FPI), play a pivotal role in shaping the economic trajectory of developing regions such as sub-Saharan Africa. These inflows serve as crucial sources of external capital that can stimulate economic stability, enhance productivity, and improve overall economic stability (Makoni, 2016), ultimately contributing to poverty reduction and economic stability.

Foreign Direct Investment (FDI)

The term foreign direct investment (FDI) describes a variety of investments made by foreign investors with the intention of gaining long-term control over a company's management. According to the Organization of Economic Community Development (OECD), in this situation, the investor usually purchases at least 10% of the voting shares in a company that is based in an economy that is distinct from the investor's own. According to Lee and Lee (2018), multinational corporations (MNEs) engage in foreign direct investment (FDI) for a variety of reasons, including accessing new markets, obtaining strategic assets, and reducing costs. By establishing a presence in a foreign market through FDI, MNEs can avoid trade barriers, gain access to local resources, and take advantage of economies of scale. Additionally, FDI allows MNEs to diversify their operations and reduce risks associated with political instability or economic downturns in their home countries.

Foreign Portfolio Investment (FPI)

FPI refers to the passive ownership of foreign securities such as stocks, bonds, or other financial assets, where the holdings constitute less than 10% of the voting stock. FPI can encompass equity investments, including shares, stocks, participation, and similar instruments that typically represent ownership (World Bank, 2013). Unlike Foreign Direct Investment (FDI), FPI can be relatively easily divested by selling off securities, making it a somewhat volatile form of foreign capital inflow. In addition, a number of factors such as the reduction of corruption, foreign exchange, interest rates, and economic stability can have an impact on changes in economic stability in Africa. For example, corruption control plays a significant role in attracting foreign investment to Africa. Countries with high levels of corruption are often seen as risky investment destinations, as investors fear their investments may not be protected or that they may have to pay bribes to operate. Foreign exchange rates also impact investment decisions, as fluctuations in the exchange rate can affect the value of investments. Interest rates are another important factor, as higher interest rates can make borrowing more expensive for businesses, potentially slowing economic stability (Yap & Saha, 2013).

Inflation rate

Inflation is defined as the sustained increase in the general price level of goods and services in an economy over a period of time, which leads to a reduction in the purchasing power of money. It is typically driven by two main factors: demand-pull inflation, where demand exceeds supply, and cost-push inflation, where rising costs of production lead to higher prices. Inflation is measured using various indices such as the Consumer Price Index (CPI) or the Producer Price Index (PPI), which provide a snapshot of price changes in a basket of goods and services. According to the International Monetary Fund (IMF), moderate inflation is often linked to economic stability, while hyperinflation, if unchecked, can lead to economic instability and erode savings (IMF, 2023). Central banks typically manage inflation through monetary policies, adjusting interest rates to either encourage spending or saving, depending on whether inflation is too high or too low (Mishkin, 2016).

Exchange rate

The exchange rate is the price at which one country's currency can be exchanged for another's. It reflects the value of a currency relative to others and is influenced by a variety of factors, including interest rates, inflation rates, political stability, and economic performance. Exchange rates can be classified into two main types: fixed exchange rates, where a country's currency value is pegged to another currency or a basket of currencies, and floating exchange rates, where the value of the currency is determined by market forces based on supply and demand. The exchange rate plays a crucial role in international trade, investment, and economic stability, as it affects the cost of imports and exports, the competitiveness of domestic goods in foreign markets, and the balance of payments. According to the World Bank (2023), fluctuations in exchange rates can have significant impacts on an economy, influencing inflation, foreign debt, and the broader financial markets.

Economic Stability

Economic stability describes a macroeconomic environment where prices move predictably, exchange rates remain reasonably steady and financial and fiscal systems function without persistent disruption. It reflects an economy's ability to absorb shocks and prevent temporary disturbances from becoming deeper crises, thereby allowing firms and households to plan with confidence. Stable inflation and a manageable exchange rate strengthen investor trust and reduce uncertainty, which supports long term development (IMF 2023; World Bank 2022). Stability does not imply a complete absence of fluctuation but rather the presence of conditions that keep volatility within levels that do not threaten the overall functioning of the economy. It forms the groundwork upon which productive activity, investment decisions and sustainable policy outcomes can flourish.

Theoretical Framework

There are several theories that link FDI, FPI, and economic stability. The study reviewed two of these theories that are relevant to the current study: Neoclassical growth theory developed by Robert Solow and Trevor Swan in 1956 and Dependency theory developed by Raúl Prebisch in 1950 and Andre Gunder Frank in 1967.

Neoclassical Growth Theory (1956)

The Neoclassical growth theory posits that FDI and FPI can lead to economic growth by promoting capital accumulation and technological progress. FDI can bring in new technology and knowledge, while FPI can provide access to capital markets and facilitate the transfer of financial resources. The neoclassical growth theory suggests that both FDI and FPI can contribute to economic growth by promoting capital accumulation and technological progress. For instance, FDI involves the direct investment of capital by companies or individuals from abroad in local businesses, which leads to increased capital stock, infrastructure development, and job creation. FDI also brings advanced technologies, production techniques, and managerial expertise, which can enhance productivity, efficiency, and innovation in the recipient country. On the other hand, FPI provides access to international capital markets, allowing countries to attract foreign capital and access additional financial resources. This capital can be utilized for investment projects, business expansion, and stimulating economic growth.

The neoclassical growth theory, developed by Robert Solow and others, focuses on how the accumulation of capital, labor, and technological progress drive economic growth. The fundamental equation of the Solow-Swan model, a key part of this theory, is represented below;

$$Y=A.K^{\alpha}.\ L^{1-\alpha}. \qquad \text{eqn 2.1}$$

where Y represents total output (GDP), A is the level of technology, K is the capital stock, L is the labor force, and α is the output elasticity of capital. This equation illustrates that output is a function of capital, labor, and technology, with the model emphasizing diminishing returns to capital and labor, meaning that as more capital or labor is added, the additional output produced from each additional unit decreases. This theory highlights the importance of technological progress in sustaining long-term economic growth.

Dependency Theory (1950 &1967)

The dependency theory was developed by scholars like Raúl Prebisch (1950) and Andre Gunder Frank (1967) to explain the structural inequalities that perpetuate underdevelopment in the global economic system. The theory posits that developed nations (the core) maintain their economic dominance by exploiting developing nations (the periphery), such as those in sub-Saharan Africa (SSA) through unequal trade, investment, and aid relationships. These relationships prioritize the interests of developed countries, limiting the ability of SSA nations to achieve self-sufficient growth. This dependency is evident in how SSA countries often rely on exporting raw materials and importing finished goods, which creates trade imbalances and stifles local industrialization.

For instance, foreign direct investment (FDI), while providing needed capital, often exacerbates this dependency. Investments are frequently directed toward resource extraction, with profits repatriated to the developed nations rather than reinvested in the local economy.

This is expressed in the equation form below:

$GDP_{periphery=}FDI_{Core}+(X_{periphery}-M_{periphery})-P_{repatriation}$ eqn 2.2

Where FDI corerepresents investment inflows, X peripheryand M periphery are the exports and imports of the periphery, and P repatriation is the repatriation of profits to the core. This equation highlights how trade imbalances and capital outflows limit the long-term developmental benefits of foreign investments.

Empirical Review

Numerous studies have investigated the intricate relationship between FDI, FPI, and economic stability in Africa, offering valuable insights but also highlighting gaps that the current study aims to address.

The empirical evidence on the relationship between foreign investment and economic performance in Sub Saharan Africa is still mixed especially with regards to whether the benefits associated with external capital are uniform across countries and forms of investment . For example, Jaiblai and Shenai (2019) investigated the determinants of FDI in ten Sub Saharan African economies using data from 1990 to 2017. The findings point to the fact that the FDI inflows are positively related to the level of infrastructure, openness, less market, income and exchange rate depreciation but the results of the openness and exchange rate depreciation are statistically insignificant. The study is useful in showing that FDI reacts to country specific structural and macroeconomic conditions, but it focused on the determinants of FDI rather than the consequences of FDI for economic stability. This is an important distinction, because the factors that attract investment are not necessarily the factors that will lead to improved economic performance from that investment. The study also analysed FDI alone and therefore provides limited evidence on the different implications of different types of foreign capital for economic outcomes.

Country specific studies also provide conflicting conclusions. Dukuly and Huang (2020) found positive correlations between exports and capital inflows with economic development, but a negative relationship between imports and GDP growth in their analysis of Liberia using World Bank data from 2000 to 2019. The findings imply that external economic activity can be growth supporting . The study focused on trade and capital inflows, and did not distinguish between FDI and FPI or evaluate macroeconomic stability as a wider outcome. Likewise, Tessema (2019) used a VAR framework for Ethiopia and found a long run relationship among FDI, GDP and export performance but reported a negative effect of FDI on exports with a two year lag. This finding is particularly significant in that it challenges the assumption that positive spillovers are created automatically by FDI. This implies that the impact of foreign investment might depend on the time horizon and the channels through which investment flows into the domestic economy. The fact that there is evidence of positive growth but a negative lagged export effect suggests that the effects of foreign investment may not be homogenous across outcomes or over time.

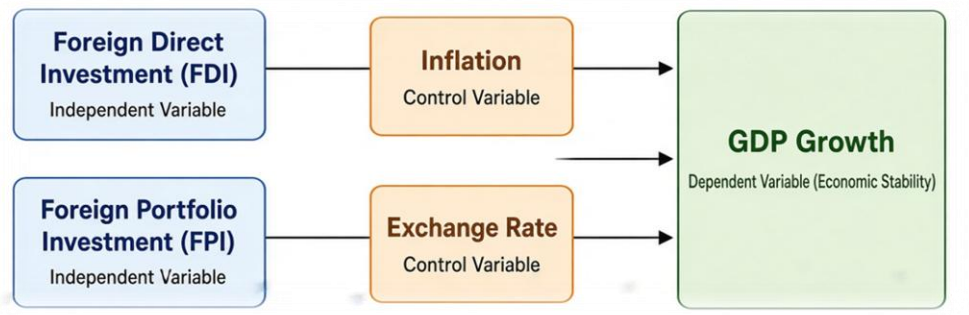
This inconsistency is also evident in the wider Sub Saharan African evidence. Using dynamic panel methods that account for parameter heterogeneity and non stationarity, Wako (2018) found that economic growth, institutional quality and natural resources attracted FDI. But the paper also notes that FDI can be a source of corruption, undermine the rule of law and bring about premature deindustrialization in some parts of the region. This is of particular importance for the present study because it indicates that the FDI-development relationship cannot be confined only to the measure of its immediate growth effect. A capital inflow can boost output, but can also generate institutional or structural problems that may threaten longer term economic stability. In contrast, Jugurnath, Chuckun and Fauzel (2016) employed static and dynamic panel estimations for 32 Sub Saharan African countries during the period 2008–2014 and concluded that FDI has a positive and significant effect on economic growth. Their results remained positive even taking into account the Eurozone crisis which points to some resilience of FDI during an external shock. The divergent results suggest that the effect of FDI may depend on institutional conditions, the composition of investment, the period considered and the specific measure of economic performance used.

Evidence on portfolio investment further complicates the relationship between external capital and economic performance. Toyin and Oludayo (2020) in a study of Nigeria from 1980 to 2018 using an autoregressive distributed lag approach found that foreign portfolio investment had a stronger effect on economic growth in the long run than in the short run. Their result suggests that portfolio investment need not be seen as uniformly destabilising or beneficial, as its effect can depend on the time horizon and domestic financial conditions. More recent cross-country evidence also suggests that the relationship between foreign financial inflows and economic growth varies across countries and types of capital. This further adds to the argument that the aggregation of all foreign investment in a single homogenous class may mask important differences of the impact of FDI and FPI on the recipient economies.

Overall, the empirical literature does not demonstrate a consistent positive or negative relationship between foreign investment and economic performance in Sub Saharan Africa. A number of studies found positive effects of FDI on growth, while others found negative effects through institutional deterioration, deindustrialization, export performance or other structural channels. The differences may be due to country specific characteristics, institutional quality, composition of investment, estimation technique, sample period, treatment of endogeneity and choice of dependent variable. Significantly, most of the earlier studies have concentrated on economic growth or determinants of investment rather than the impact of both FDI and FPI on economic stability. Further, FDI and FPI are often analysed separately, though they are fundamentally different. FDI is usually associated with longer-term productive investment. FPI is more financially mobile and potentially more sensitive to shifts in investor expectations and international financial conditions. The existing evidence does not address the important empirical question: do different forms of foreign investment foster sustained economic stability or do they make Sub-Saharan Africa more vulnerable to macroeconomic shocks?

Conceptual Framework of FDI and FPI on Economic Stability

The conceptual framework exemplifies how FDI and FPI impact economic stability in African countries. These include the relative effect of the components of FDI, FPI, inflation and exchange rate on the changes that occurred in economic stability in sub-Saharan economies. The components used in this study include FDI and FPI, representing the independent variables, inflation and exchange used as the control variables while GDP growth is the dependent variable.



Source: The Author, 2025

Figure 1: The conceptual framework of Foreign Direct Investment, Foreign Portfolio Investment, and economic stability in sub-Saharan Africa.

RESEARCH METHODS-RESEARCH DESIGN

The study adopted a quantitative longitudinal research design because the central questions demand an approach capable of tracing how external capital flows shape economic stability across time rather than at a single point. Economic stability responds to investment movements in ways that are not immediate but unfold gradually due to policy adjustments, market expectations and institutional reactions. By working with a design that follows the same countries across several decades, the study was able to detect persistent trends and short-lived fluctuations as well as the lingering effects of shocks. The design provided a coherent way to observe how Foreign Direct Investment and Foreign Portfolio Investment behave during macroeconomic reforms, global recessions and commodity price swings. The use of longitudinal data also strengthened the internal validity of the study by allowing the models to control for country specific influences that do not change over time. Since the study relied on secondary macroeconomic indicators, the design created a reliable platform for exploring the dynamic interactions among the variables over the period under review.

Population & Sample Size

The study population comprised the fifty-four African countries recognised by the United Nations in 2020. A narrowed sample was required because many countries lack consistent long term data on FDI, FPI and macroeconomic stability indicators. To maintain analytical credibility and avoid gaps that compromise estimation, the study focused on five economies that not only dominate regional output but also maintain reliable annual data. Nigeria, South Africa, Kenya, Ethiopia and Ghana collectively represent the largest and most influential economic blocs in the region. Their markets attract a substantial share of the continent's foreign capital inflows, making them ideal for examining the relationship between external investment and economic performance. The study period—1990 to 2023—spans years marked by structural adjustment reforms, transition to democratic governance, globalisation, commodity booms, financial crises and the post-COVID recovery. This period offers a rich timeline through which the interaction between foreign investment and economic stability can be meaningfully analysed. With annual observations across thirty-four years, the dataset produced one hundred and seventy usable country-year observations. The variables studied include FDI, FPI and GDP growth, with inflation and exchange rate acting as control variables due to their crucial influence on investment decisions and macroeconomic health.

Variable Measurement and Sources of Data

All the data used in the study were obtained from the World Bank's World Development Indicators (WDI). The variables include economic stability, FDI inflows, FPI inflows, inflation and exchange rate. The dependent variable, economic stability (GDPgr), is measured by the annual percentage change in real GDP. Net FDI inflows (FDI) are measured as a percentage of GDP, while net portfolio investment inflows (PFI) are also measured as a percentage of GDP. Inflation (INFR) is measured by the annual percentage change in consumer prices, while the official domestic currency exchange rate against the US dollar is used to measure the exchange rate (EXR) (World Bank, 2026). These indicators provide comparable measures of economic performance, external capital inflows and important macroeconomic conditions across the sampled Sub Saharan African economies.

The theoretical relevance of these variables is based principally on Neoclassical Growth Theory and Dependency Theory. Neoclassical Growth Theory, associated with Solow (1956), argues that investment contributes to an increase in the capital stock and productive capacity of an economy, thereby promoting economic growth. Thus, FDI and FPI may contribute to improved economic performance. On the other hand, Dependency Theory emphasises the potential vulnerability associated with reliance on external capital, particularly when such capital is highly mobile or susceptible to external shocks. Inflation and exchange rate are included as control variables because price and currency instability may influence investment decisions and

economic performance. The selected variables therefore provide a basis for examining whether investment inflows contribute to economic stability or increase macroeconomic vulnerability in Sub Saharan Africa.

Previous studies, including Jumanne and Keong (2018), Wako (2018), Mahreen (2019), and Wang, Chibsah and Garti (2020), have employed similar datasets and variables, further supporting their suitability for analysing the effects of external investment flows on macroeconomic outcomes.

Method of Analysis

The study employed the Panel Spatial Correlation Consistent estimator proposed by Driscoll and Kraay (1998) along with the Threshold Regression technique developed by Hansen (1999). These estimators were chosen because the dynamics of foreign investment and economic stability often extend beyond a country's borders. Exchange rates, investor sentiment, commodity prices and financial market movements tend to spill over from one country to another, creating a setting where observations are not independent. The Driscoll-Kraay estimator corrects for such cross-sectional dependence and for heteroskedasticity and serial correlation, making it suitable for macro panels that involve countries with shared regional linkages. Threshold Regression was incorporated because the impact of FDI and FPI may not be linear across all economic conditions. Investors respond differently during inflationary episodes, currency volatility or periods of political uncertainty. Threshold modelling therefore allows the study to detect the specific points at which the influence of foreign investment begins to strengthen or weaken, giving a clearer picture of how stability conditions mediate the effect of investment inflows.

Model Specifications

The model is derived from the neoclassical growth framework which treats investment flows as key drivers of productive capacity and long-run output. Building on the spatial extensions applied in Wang, Chibsah and Garti (2020), the present study incorporates spatial dependence because African economies share trade corridors, investment channels and regional shocks that often influence one another. The generalised PSCC model is given as;

$$y_{it} = \alpha + \beta' X_{it} + \delta W y_{it} + \gamma' W X_{it} + \epsilon_{it} \qquad 2.3$$

Where α is the constant term while β represent the coefficients for the independent variables. X_{it} represent the vector of independent variables. δ is the spatial autoregressive coefficient for the dependent variable while Wy_{it} is the spatial lag of the dependent variable. γ is the coefficients for spatial lags of the independent variables while WX_{it} is the spatial lags of the independent variables. Lastly, ϵit represents the Error term, which may include spatial and temporal dependence.

Integrating the model into the current study requires the introduction of the study variables. Thus, the study model becomes;

$$GDPgr_{it} = \alpha + \beta_1 FDI_{it} + \beta_2 FPI_{it} + \beta_3 EXR_{it} + \beta_4 INFR_{it} + \delta \sum_{j=1}^{N} W_{ij}\, GDPgr_{jt} + \gamma_1 \sum_{j=1}^{N} W_{ij}\, FDI_{jt} +$$

$$\gamma_2 \sum_{j=1}^{N} W_{ij}\, FPI_{jt} + \gamma_3 \sum_{j=1}^{N} W_{ij}\, EXR_{jt} + \gamma_4 \sum_{j=1}^{N} W_{ij}\, INFR_{jt} + \varepsilon_{it}. \qquad 2.4$$

Equation 2.4 examines how the growth rate of output responds to foreign direct investment, foreign portfolio investment, movements in the exchange rate and inflation while accounting for the spatial linkages among neighbouring countries. The coefficients $\beta_1$to $\beta_4$measure the direct domestic effects of the variables. The term $\delta \sum_{j=1}^{N} W_{ij}\, GDPgr_{jt}$captures the influence of surrounding economies on domestic growth, reflecting the reality that regional shocks, investment cycles and policy spill overs are common in Africa. The spatially lagged regressors, represented by the γcoefficients, show whether changes in investment behaviour, inflation

or exchange rate in neighbouring countries carry implications for the country under study. Furthermore, the The spatial weight matrix W_{ij}reflects the intensity of connection between country $i$and country j. It allows the model to treat economic performance not as an isolated phenomenon but as something shaped by shared borders, economic partnerships and cross-country financial exposure. The error term ε_{it}gathers the unobserved factors that vary across time and space.

By combining the PSCC estimator with the structure of Equation 2.4, the study is able to measure not only the domestic impact of FDI and FPI on economic stability but also the spill-over effects that move across the region. This is central to understanding foreign investment in Africa, where shocks in one country often echo through neighbouring economies due to market integration, investor networks and regional economic agreements.

DATA ANALYSIS & RESULTS

The descriptive statistics of the variables were analyzed to determine the nature, characteristics and patterns in the distribution of the variables overtime.

Table 1: Descriptive Statistics

	GDPgr	***FPI***	***FDI***	***EXR***	***INFR***
Mean	0.163181	8.679266	-3.0608	0.987973	1.169130
Median	0.588767	8.926916	8.9118	1.340166	1.065357
Maximum	1.185518	10.19839	10.609	2.835703	3.617536
Minimum	-23.98300	5.995635	-7.4009	-7.524067	-0.692030
Std. Dev.	2.125970	0.928421	1.2209	1.644192	0.540904
Skewness	-9.281392	-0.836410	-4.4988	-2.861502	1.598710
Kurtosis	102.9180	3.119373	23.160	13.70150	8.449225
Jarque-Bera	71006.29	19.33645	3350.8	1012.514	274.4332
Probability	0.000000	0.000063	0.0000	0.000000	0.000000
Sum	26.92487	1432.079	-5.0610	163.0156	192.9064
Sum Sq. Dev.	741.2390	141.3624	2.4320	443.3520	47.98266
Observations	170	170	170	170	170

Source: Author's computation 2026

The descriptive statistics in Table 1 provide insights into the distributional properties of key economic indicators, including GDP growth (GDPGR), Foreign Portfolio Investment (FPI), Foreign Direct Investment (FDI), Exchange Rate (EXR), and Inflation Rate (INFR). The mean GDP growth rate is 0.163%, with a standard deviation of 2.126%, indicating substantial variability in economic stability across observations. The negative skewness (-9.281) and high kurtosis (102.918) suggest extreme leftward skewness and leptokurtic behavior, supported by the significant Jarque-Bera statistic ($p<0.01$), confirming non-normality. Meanwhile, Foreign Portfolio Investment has a mean of $8.679 billion, with relatively low variation (standard deviation = 0.928). Its distribution shows slight negative skewness (-0.836) and moderate kurtosis (3.119), indicating a near-normal shape, although the Jarque-Bera test (19.34, $p<0.01$p) rejects normality. Foreign Direct Investment has an average of -$306 million, reflecting net outflows, with extreme variability (standard deviation = $1.22 billion). The strong negative skewness (-4.499) and high kurtosis (23.161) highlight outliers, confirmed by the Jarque-Bera statistic ($p<0.01$).

Moreso, the exchange rate exhibits a mean value of 0.988 (relative to 1 dollar), with a standard deviation of 1.644. It is heavily negatively skewed (-2.862) and leptokurtic (kurtosis = 13.702), indicating infrequent but extreme deviations, with normality strongly rejected (Jarque-Bera = 1012.51, $p<0.01$). The inflation rate has an average of 1.169%, moderate variability (standard deviation = 0.541), and positive skewness (1.599), reflecting a rightward tail. Its high kurtosis (8.449) indicates the presence of extreme values, and the Jarque-

Bera test ($p<0.01$) confirms non-normality. These statistics emphasize the diverse characteristics and non-normality of the economic variables, reflecting underlying structural dynamics and external shocks.

Table 2: Correlation Matrix

	GDPGR	***FPI***	***FDI***	***INFR***	***EXR***
GDPGR	1.000000				
FPI	-0.047033	1.000000			
FDI	0.039709	0.075699	1.000000		
INFR	-0.325589	0.089134	-0.038805	1.000000	
EXR	0.383097	-0.258758	-0.197791	-0.480708	1.000000

Source: Author's computation, 2026

The correlation matrix provides insights into the relationships between GDP growth (GDPGR), Foreign Portfolio Investment (FPI), Foreign Direct Investment (FDI), Inflation Rate (INFR), and Exchange Rate (EXR). The analysis reveals a weak positive correlation between GDPGR and FDI (0.0397), suggesting that higher economic stability is associated with increased foreign direct investment. However, GDPGR has a weak negative relationship with FPI (-0.0470), indicating negative relationship between economic stability and foreign portfolio investment inflows possibly due to repatriation of profit of hight debt repayment.

From the finding, GDPGR exhibits a stronger negative relationship with INFR (-0.3256), highlighting that higher inflation rates could undermine economic growth by eroding purchasing power and increasing production costs. Conversely, GDPGR shows a moderate positive correlation with EXR (0.3831), suggesting that currency appreciation may have a favorable impact on economic stability.

These findings underscore the complex interplay between macroeconomic variables, highlighting areas for further policy consideration to support economic stability and growth..

Cross Sectional Dependence Test

The Cross-Sectional Dependence Test was conducted to assess the presence of cross-sectional dependence among the variables in the panel data. The test is essential for determining whether the residuals across the countries are correlated, which could impact the reliability of the results. The null hypothesis of no cross-sectional dependence is assumed.

Table 3: Cross-Section Dependence Test Results

Variable	***BP LM Statistic***	***PS LM Statistic***	***BCS LM Statistic***	***Decision***
GDPGR	29.53732^{***}	4.368677^{***}	4.292920^{***}	Reject
FPI	27.65111^{***}	3.946908^{***}	3.871151^{***}	Reject
FDI	76.10430^{***}	14.78137^{***}	14.70561^{***}	Reject
EXR	291.9791^{***}	63.05244^{***}	62.97669^{***}	Reject
INFR	33.53881^{***}	5.263437^{***}	5.187679^{***}	Reject

Source: Author's Computation, 2026

The results from the Cross-Sectional Dependence Test indicate that all variables (GDPGR, FPI, FDI, EXR, and INFR) exhibit significant cross-sectional dependence. This is evidenced by the Breusch-Pagan LM (BP LM), Pesaran Scaled LM (PS LM), and Bias-Corrected Scaled LM (BCS LM) statistics, all of which are highly significant ($p < 0.01$), leading to the rejection of the null hypothesis of no cross-sectional dependence for each variable. These results imply that the variables are interrelated across different cross-sections, underscoring the need to apply econometric techniques that adequately address cross-sectional dependence in subsequent analyses.

Panel Unit root Test

To evaluate the stationarity of the panel data and ensure the reliability of subsequent econometric analyses, a Panel Cross-Sectional Dependence Unit Root Test was conducted. This approach integrates traditional unit root testing with considerations for cross-sectional dependence, accounting for potential correlations among cross-sections. By addressing both non-stationarity and cross-sectional correlations, the test enhances the robustness of the econometric models, mitigating biases and improving the validity of the results.

Table 4: Cross-Sectionally Im-Pesaran and Shin (CIPS) Unit Root Test Results

Variable	*CIPS Statistic*	*Critical Value (5%)*	*Conclusion*
GDPGR	-5.04881	-2.33	I(0)
FPI	-2.50274	-2.33	I(0)
FDI	-8.15557	-2.33	I(0)
EXR	-1.91836	-2.33	I(1)
INFR	-3.13218	-2.33	I(0)

Source: Author's Computation, 2026
Note: **Significance at 1%, **5%, and ***10% levels*.

The results from the Cross-Sectionally Im-Pesaran and Shin (CIPS) unit root test in Table 4 reveal the stationarity properties of the variables under study. The CIPS values for GDPGR (-5.04881), FPI (-2.50274), FDI (-8.15557), and LINFR (-3.13218) are all less than the critical value of -2.33 at the 5% significance level, indicating that these variables are stationary at levels and integrated of order zero, I(0). This means they do not require differencing for stationarity. In contrast, the CIPS value for EXR (-1.91836) is greater than the critical value of -2.33, indicating it is non-stationary at levels but becomes stationary after first differencing. Hence, EXR is integrated of order one, I(1). These findings suggest that GDPGR, FPI, FDI, and INFR can be included in the analysis in their current form, while EXR must be differenced to achieve stationarity.

Slope Heterogeneity Test

The slope homogeneity test was conducted to assess whether the relationships among the variables are consistent across different cross-sections in the panel data.

Table 5: Slope Heterogeneity Result

	Delta	**p-value**
	-0.609	0.543
Adj. Delta	-0.673	0.501

Source: Authors Computation, 2026

The results of the slope heterogeneity test indicate that there is no significant difference in the slopes across the groups. The Delta value of -0.609, along with a p-value of 0.543, suggests that the null hypothesis of slope homogeneity cannot be rejected. Similarly, the adjusted Delta value of -0.673, with a p-value of 0.501, further supports this conclusion, indicating that the differences in slopes are not statistically significant. Therefore, the relationship between the independent and dependent variables appears to be consistent across the groups, and there is no evidence of significant slope heterogeneity. This suggests that homogeneous panel methods can be used for further analysis, as the impact of the independent variables on the dependent variable is similar across all entities in the panel.

Structural Break Test

The structural break test was conducted to determine whether there are significant changes in the relationship

between the variables over time. Using Bai and Perron's (2003) technique, the study employed the sequential test in this investigation for numerous breaks at unknown breakpoints.

Table 6: Structural Break Test Result

	Test Statistic	*Bai & Perron Critical Values*		
		1%	**5%**	**10%**
F(1|0)	0.28	5.06	4.05	3.56
F(2|1)	0.19	5.49	4.53	4.03
F(3|2)	0.16	5.70	4.73	4.33
F(4|3)	0.16	5.76	4.91	4.50
F(5|4)	0.07	5.94	5.05	4.0

Source: Authors Computation, 2026

The results from the structural break test in Table 6 reveal that there is no significant evidence of structural breaks in the data over the examined periods. The F-statistics for all break tests (F(1|0), F(2|1), F(3|2), F(4|3), and F(5|4)) are consistently much lower than the critical values at the 1%, 5%, and 10% significance levels, suggesting that no substantial changes occurred in the underlying process of the variables during the tested time intervals. Specifically, the F(1|0) statistic of 0.28 is well below the critical values of 5.06, 4.05, and 3.56 at the 1%, 5%, and 10% significance levels, respectively. Similarly, the F(2|1) statistic of 0.19 is lower than the critical values of 5.49, 4.53, and 4.03 at the corresponding significance levels. Also, the results for F(3|2), F(4|3), and F(5|4) are also below the critical values, indicating no significant breaks in these periods either. For instance, the F(3|2) statistic of 0.16 is lower than the critical values of 5.70, 4.73, and 4.33 at the 1%, 5%, and 10% levels, respectively. Likewise, the F(4|3) statistic of 0.16 is smaller than the critical values of 5.76, 4.91, and 4.50 at the same significance levels. Finally, the F(5|4) statistic of 0.07 is below the critical values of 5.94, 5.05, and 4.0 at the 1%, 5%, and 10% levels.

These results suggest that the null hypothesis of no structural breaks in the data is not rejected at any of the tested points. Therefore, the relationship between the variables in the dataset remains stable over time, with no significant shifts in the underlying processes during the analyzed periods. Consequently, there is no indication that external factors caused a structural break in the data, implying that the trends and relationships in the dataset can be considered consistent throughout the timeframe examined.

Co-integration Test

The Westerlund co-integration test was performed to assess the long-term relationships among the variables in this study. This test is especially suitable for panel data, as it accounts for both cross-sectional dependence and heterogeneity across individual units. The results of the test are presented in Table 7.

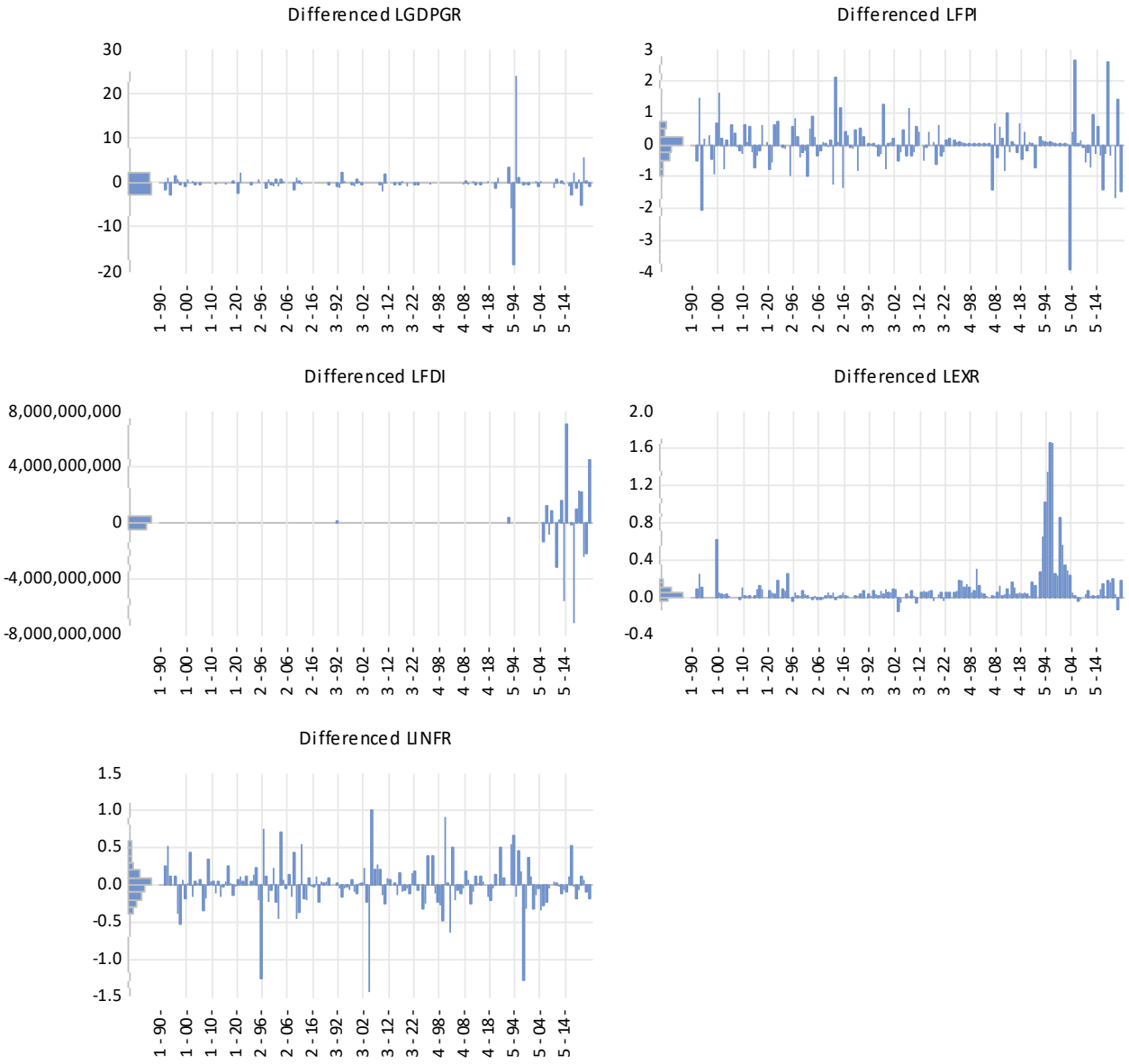
Table 7: Westerlund Co-integration Test Result			
Statistics	**Value**	**Z value**	**P-value**
Gt	-2.352	-0.810	0.209
Ga	-5.698	1.315	0.906
Pt	-4.165	-0.434	0.332
Pa	-3.943	0.664	0.747

Source: Authors Computation, 2026

The results from the Westerlund cointegration test presented in Table 7 indicate no evidence of a long-term equilibrium relationship among the variables. The Gt statistic of -2.352, with a z-value of -0.810 and a p-value

of 0.209, fails to reject the null hypothesis of no cointegration. Similarly, the Ga statistic of -5.698, with a p-value of 0.906, also supports the absence of cointegration. The Pt statistic of -4.165, with a p-value of 0.332, and the Pa statistic of -3.943, with a p-value of 0.747, further confirm the lack of long-term relationships among the variables. These results suggest that the variables do not share a common stochastic trend, and therefore, no significant long-term relationships exist between them. As a result, econometric models should take this lack of cointegration into account when analyzing the relationships among these variables.

Time Series Plot



Source: Author's representation using data from WDI, 2023

Figure 4: Bar graph plot of Investment Inflow and Economic Stability indicators.

Investment Inflow on Economic Stability in Sub-Sahara African Economies

In this study, the Driscoll and Kraay (1998) Panel Cross-Sectionally Correlated Effects (PCSCE) and Arellano, (1987) robust standard error approaches were used to account for general forms of cross-sectional dependence, heteroskedasticity, and serial correlation. This approach is particularly suited for panel data with a large time dimension (T) and a smaller cross-sectional dimension (N), in contrast to the CCEMG method, which requires a larger number of cross-sectional units (N). The findings are presented in Table 8.

Table 8: Panel Cross-Sectionally Correlated Effects Estimates. DV: GDPgr. Full Panel

Variables	Driscoll-Kraay Statistics	Sig.	Robust Statistics	Sig.
lfpi	0.4229	0.406	0.0796	0.343
lfdi	2.2110	0.022	1.8410	0.004
linfr	1.3328	0.710	-0.5645	0.008
lexr	0.3265	0.021	0.5719	0.002
_cons	4.2779	0.895	-0.3942	0.595
Country	5			
Prob > F	0.0064		0.0000	
Hausman	11.37	0.0099		
Number of Obs.	170			
sigma_u	0.000		0.6191	
sigma_e	3.9689		1.8696	
rho	0.0000		0.0988	

Source: Author's computation, 2026.

The results from the Driscoll-Kray and threshold regression analyses in Table 8 provide valuable insights into the effect of financial integration on economic stability in sub-Saharan Africa. The Driscoll-Kraay analysis indicates that foreign direct investment (FDI) significantly and positively impacts GDP growth (β=2.2110, p=0.022), while the robust estimates reaffirm this positive relationship (β=1.8410,p=0.004). This suggests that a 1% increase in FDI is associated with approximately 2.21% and 1.84% increases in GDP growth, respectively, under the two estimation methods. These findings underscore the signifcant role of FDI in promoting economic stability by contributing to capital formation, technology transfer, and job creation. However, the Driscoll-Kraay model reports no significant relationship (β=1.3328, p=0.710), implying the need for further investigation to account for potential contextual differences. In contrast, Foreign Portfolio Investment (lfpi), however, does not show a significant effect on GDP growth under either estimation approach (β=0.4229,p=0.406\beta = 0.4229, p = 0.406β=0.4229,p=0.406 for Driscoll-Kraay and β=0.0796,p=0.343\beta = 0.0796, p = 0.343β=0.0796,p=0.343 for robust estimates). This result implies that general improvements in financial performance alone may not directly translate into higher GDP growth, highlighting the need for targeted policy interventions.

Furthermore, the analysis also reveals mixed results for inflation (linfr). The robust estimation highlights a negative and significant effect (β=−0.5645, p=0.008), suggesting that a 1% increase in inflation reduces GDP growth by 0.56%. This indicates that high inflation may undermine economic stability by reducing purchasing power and creating investment uncertainties. Meanwhile, the exchange rate (lexr) exhibits a positive and significant effect on GDP growth under both methods. The Driscoll-Kraay results indicate that a 1% appreciation in the exchange rate increases GDP growth by 0.33% (β=0.3265, p=0.021), while the robust estimates suggest a larger impact of 0.57% (β=0.5719,p=0.002). These findings emphasize the importance of maintaining exchange rate stability to foster economic growth by enhancing trade competitiveness and attracting foreign investments.

The results indicate robust model fit, with significant F-statistics (Prob> F = 0.0064 for Driscoll-Kraay and Prob>F=0.0000 for robust estimates), confirming that the included variables explain variations in economic stability. The Hausman test ($\chi2(3)$ =11.37, p=0.0099) favors the fixed-effects model, highlighting the importance of accounting for country-specific factors. Furthermore, the rho value (ρ=0.0988) under the robust model suggests that approximately 9.9% of the variation in GDP growth stems from unobserved factors, such as country-specific dynamics.

Post-Estimation Test

A post-estimation evaluation was undertaken to assess the appropriateness, overall importance, and stability of

the estimated model. A Wald test was performed to determine the significance of the explanatory variables in the model.

Table 9: Wald Test Result: RGDP			
Test Statistic	Value	df	Probability
F-statistic	3.983087	(2, 160)	0.0205
Chi-square	7.966175	2	0.0186
*Null Hypothesis: C(1)=0, C(3)=2*C(4)*			
Null Hypothesis Summary:			
Normalized Restriction (= 0)		Value	Std. Err.
C(1)		0.084841	0.104202
*C(3) - 2*C(4)*		0.851354	0.326705

Source: Author's Computation, 2026

The outcome of the Wald Test in the RGDP model is displayed in Table 9. The probability of the F-distribution ($p < 0.0000$) and chi-square distribution ($p < 0.0000$) are both below 5%. This implies that the explanatory variables have a combined and substantial influence on economic stability in Sub-Saharan Africa. Consequently, the null hypothesis is rejected, suggesting that the explanatory variables have a substantial influence on economic growth in Africa.

Table 10: Residual Cross-Section Dependence Test			
Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	11.86567	10	0.2941
Pesaran scaled LM	0.417176		0.6765
Pesaran CD	0.341418		0.7328

Source: Authors Computation, 2026

Table 10 presents the results of the residual cross-section dependence tests, assessing whether the error terms in the model are correlated across entities. The Breusch-Pagan LM test ($\chi2=11.86567, p=0.2941$) and the Pesaran scaled LM test ($z=0.417176, p=0.6765$) indicate no significant cross-sectional dependence. Similarly, the Pesaran CD test ($z=0.341418, p=0.7328z = 0.341418$, $p = 0.732828$) confirms the absence of significant residual correlation. These results suggest that cross-sectional dependence is not a concern in the panel dataset, supporting the validity of the model's assumptions.

DISCUSSION OF FINDINGS

The study investigates impact of investment inflow on economic stability: evidence from sub-Saharan Africa. Prior to main the estimations, rigorous assessments were performed to ensure the reliability and stability of the results. Generally, the analysis revealed that Foreign Direct Investment (FDI) has a positive significant effect on economic stability in sub-Saharan Africa. However, Foreign Portfolio Investment (FPI) was found to have a positive insignificant effect. The control variables: Inflation rate (INFR) and Exchange rate (EXR) were significant in influencing investment inflow on economic stability in sub-Saharan Africa.

Analysis of hypothesis 1 shows that FDI has a positive significant effect on the economic stability of sub-Saharan Africa economies. The finding can be attributed to several factors. FDI provides essential capital inflows, which are crucial for economic development, infrastructure, and industrial expansion (Owusu-Manu, Edwards, Mohammed, Thwala & Birch, 2019). This capital enhances the productive capacity of African economies, contributing to long-term growth and stability (Kurtishi-Kastrati, 2013). Additionally, FDI facilitates the transfer of technology and managerial expertise, improving productivity and efficiency in domestic industries. This not only supports economic stability but also increases global competitiveness, leading to a more stable economic environment. Furthermore, FDI often leads to job creation, higher incomes, and reduced unemployment, all of which strengthen the overall economic foundation.

Moreover, FDI helps diversify economies that are heavily reliant on sectors like agriculture or natural resources, reducing their vulnerability to external shocks and price fluctuations (Essers, 2013). By promoting growth in other sectors such as manufacturing and services, FDI fosters a more resilient and stable economy. It also encourages improvements in governance, legal frameworks, and institutional quality, which enhance investor confidence and further contribute to economic stability (Herrera-Echeverri, Haar & Estevez-Bretoneta, 2014). These factors combined show how FDI plays a critical role in supporting economic growth, reducing volatility, and enhancing long-term stability in African economies.

The finding is well-supported by empirical literature, confirming the crucial role of FDI in fostering economic growth and stability in the region. A key study by Jaiblai and Shenai (2019) using a panel autoregressive distributed lag (ARDL) model highlighted that countries with better infrastructure, greater openness, lower income levels, and currency depreciation tend to attract higher levels of FDI, which can positively impact their economic stability. This aligns with the current study, which not only focuses on FDI but also compares it to Foreign Portfolio Investment (FPI), providing a nuanced understanding of how both forms of capital inflows interact with various factors to influence economic stability. The empirical literature consistently finds that FDI can contribute to economic growth through technology transfer, infrastructure development, job creation, and increased productivity. For example, research by Wako (2018) also found that FDI contributes positively to economic growth in Sub-Saharan Africa, suggesting that the current study's findings reflect broader trends in the region.

However, the relationship between FDI and economic stability is not always straightforward. Dukuly & Huang (2020), in their study on Liberia, emphasized the positive influence of capital inflows, including FDI, on economic development but did not address how other factors such as inflation or exchange rates interact with these inflows. The current study goes a step further by exploring these interactions, suggesting that FDI's impact on economic stability could be influenced by macroeconomic conditions such as inflation and exchange rate volatility. Tessema (2019), who studied Ethiopia, revealed that FDI could also have delayed effects, indicating that its influence on economic stability is not always immediate. This highlights the complexity of the relationship between FDI and economic stability and underscores the importance of considering other structural factors that could moderate FDI's effectiveness. Additionally, Toyin and Oludayo (2020) found that corruption levels could influence the effectiveness of FDI and FPI, with FDI being more effective in low-corruption environments. The current study extends this understanding by investigating how political factors, such as corruption, infrastructure quality, and governance, can affect the impact of FDI on economic stability. Therefore, while FDI is undoubtedly a critical driver of economic stability in sub-Saharan Africa, its effectiveness is contingent upon the broader political, economic, and institutional contexts in which it is deployed. The findings underscore the need for comprehensive policies that not only attract FDI but also ensure its positive impact through improved governance, institutional quality, and macroeconomic stability.

Hypothesis 2 shows that FPI does not have a significant effect on economic stability in sub-Saharan Africa economies. The finding could be attributed to several factors that limit the effectiveness of FPI in the region. One possible explanation lies in the volatility and risk perceptions associated with African markets, which can deter sustained foreign portfolio inflows (Collier & Pattillo, 2000). Studies, such as those by Ohiaeri (2016), highlight that capital inflows, including FPI, tend to have a more transient nature, especially in markets with weak financial systems, limited liquidity, and political instability. Unlike Foreign Direct Investment (FDI), which is typically long-term and often involves tangible assets, FPI is more sensitive to market fluctuations and investor sentiment. Thus, investors may pull out their funds rapidly in response to political or economic instability, which could explain why FPI has a limited and often insignificant impact on economic stability in African economies. Additionally, African economies often face challenges related to underdeveloped financial markets and infrastructure, which are crucial for the efficient absorption of FPI, potentially limiting its contribution to economic stability (Makoni, 2016).

Furthermore, the lack of significant impact from FPI on economic stability may also be linked to the structural weaknesses within many African economies. The study by Dukuly and Huang (2020) indicates that while capital inflows can stimulate growth, factors such as inflation, exchange rates, and a lack of robust financial institutions often mitigate their positive effects. Given FPI's relatively short duration and higher propensity for

capital flight, these macroeconomic difficulties may frequently outweigh its beneficial contributions to economic stability. Additionally, other more significant factors like domestic investment, FDI, and government policies might overshadow the contribution of FPI to improving economic stability. As Toyin and Oludayo (2020) suggest, the interaction of FPI with factors like corruption, governance, and institutional quality could further diminish its effectiveness in African economies. Thus, FPI's lack of significant impact on economic stability might stem from its vulnerability to external shocks, structural weaknesses, and macroeconomic instabilities in the region.

The finding could be explained by several factors, as supported by the empirical literature. One important consideration is the role of governance and institutional quality. For instance, Zakharov (2019) highlights the detrimental effects of corruption on fixed capital investment in corrupt countries, emphasizing how bribery and violations of journalists' rights negatively affect investment inflows. While Zakharov's study focuses on fixed capital investment, it underscores the broader impact of poor governance on economic stability. If corruption levels are high, FPI may be particularly vulnerable, as investors may be discouraged by the uncertainty surrounding the effective use of funds and the potential for exploitation. This suggests that the lack of significant impact from FPI in the current study could stem from high corruption levels in certain African economies, which undermine the potential of FPI to contribute to economic stability.

Additionally, Jugurnath, Chuckun & Fauzel (2016) explored the impact of FDI on the economic growth of 32 Sub-Saharan African countries, finding a positive and significant effect of FDI on growth even during the Eurozone crisis. However, the study did not differentiate between the roles of FDI and FPI in fostering economic stability. The current study, by comparing FDI and FPI, provides a more nuanced understanding of how these two inflows impact economic stability. It is possible that FDI, being more tangible and often linked to long-term investments, has a stronger stabilizing effect compared to FPI, which can be more volatile and short-term in nature. The findings of the current study suggest that, despite the potential for FPI to support economic growth, its influence may be weakened by factors such as political instability or economic volatility, which often characterize many African economies. Therefore, the lack of a significant effect of FPI could

reflect these challenges, underscoring the need for improved governance and economic stability to maximize the benefits of both types of capital inflows.

CONCLUSION AND RECOMMENDATION

In conclusion, the findings of this study suggest that Foreign Direct Investment (FDI) plays a significant role in enhancing economic stability in African economies, highlighting its positive contribution to growth and stability. However, the study also reveals that Foreign Portfolio Investment (FPI) does not have a significant impact on economic stability, likely due to factors such as political instability, corruption, and economic volatility, which hinder the effective utilization of FPI. The study underscores the importance of improving governance, institutional quality, and economic conditions to better harness the potential of both FDI and FPI. Future policies should focus on creating a conducive environment for stable and sustainable capital inflows to ensure that these investments contribute meaningfully to economic development and stability across the continent.

Based on the findings and insights gathered from the analysis, the followings are recommended for policymakers and stakeholders to consider:

- To attract and sustain FDI and mitigate the challenges associated with FPI, African governments must focus on improving governance structures, reducing corruption, and enhancing transparency in the public sector. Government can achieve this by implementing stronger anti-corruption measures, improving the judicial system, and ensuring that investment-related laws and policies are clear, predictable, and consistently enforced.

- Addressing issues such as inflation, exchange rate volatility, and fiscal deficits will create a more stable environment for FPI while Governments should focus on macroeconomic policies that maintain

inflation at moderate levels, stabilize exchange rates, and manage debt sustainably, which will increase investor confidence and encourage FPI flows.

POLICY IMPLICATION

The policy implications of this study highlight the importance of creating a conducive environment for both FDI and FPI to foster economic stability in sub-Saharan Africa economies. Governments should focus on improving macroeconomic stability by implementing policies that manage inflation, exchange rates, and fiscal policies. This would provide a more favorable investment climate, attracting both FDI and FPI. Additionally, promoting infrastructure development and enhancing market openness can be key drivers in attracting FDI, as seen in previous studies.

To further improve the effectiveness of FPI, policymakers should focus on creating a robust financial market that encourages private sector participation and investment. This includes strengthening financial institutions, improving regulatory frameworks, and increasing investor protection. By diversifying their economies and ensuring sound policy frameworks, sub-Saharan Africa governments can better integrate both types of capital inflows into their economic structures, enhancing overall economic stability and fostering sustainable growth..

Contribution to Knowledge

This study contributes to the body of knowledge by providing a detailed analysis of the roles of Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) in fostering economic stability in sub-Saharan Africa economies. It offers empirical evidence that FDI has a significant positive effect on economic stability, emphasizing its crucial role in stimulating growth and development in the region. In contrast, the study finds that FPI does not have a significant impact on economic stability, suggesting that its influence might be more volatile and less conducive to long-term economic resilience. By distinguishing between the two types of capital inflows, the study offers valuable insights for policymakers, highlighting the need for targeted strategies to attract and harness FDI while addressing the challenges associated with FPI to ensure sustained economic stability in Sub-Saharan Africa.

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