

INSTITUTIONAL QUALITY, FINANCIAL INCLUSION AND PRIVATE SECTOR'S INVESTMENT IN ECOWAS: MEDIATING THE ROLES OF EXTERNAL ECONOMIC SPILLOVER

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Abstract

The objective of this study is to investigate the impact of institutional quality and financial inclusion on private sector investment in ECOWAS, spanning from 1995 to 2022. The study employed Pool Mean Group (PMG) as its technique for data analysis. Findings from PMG reveals that institutional quality positively influences private sector investment in the long run, while increased financial inclusion has a negative impact on private sector investment. Exchange rates do not significantly affect private sector investment over the long term, but interest rates are associated with a decrease in private sector investment, and inflation is positively related to private sector investment. The study concludes that there is a significant positive relationship between institutional quality and private sector investment, while financial inclusion shows a statistically significant negative impact in ECOWAS. Interest rates (INT) and inflation (INF) also impact private sector investment, albeit to a lesser extent. Recommendations include strengthening institutional frameworks, reassessing financial inclusion strategies and careful management of interest rates and inflation. While exchange rates have limited impact, regular evaluations are crucial. Vigilant tracking of short-term fluctuations, especially in variables like exchange rate, is essential for prompt policy adjustments. The study emphasizes coordination among monetary, fiscal and institutional policies for a synergistic approach fostering private sector investment in ECOWAS countries.

Keywords: Institutional Quality, Financial Inclusion, Private Sector Investment, PMG, ECOWAS