THE ROLE OF INSTITUTIONS'QUALITY IN ENHANCING FDI INFLOWS IN CENTRAL AND EASTERN EUROPE AND NORTH AFRICA

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***Abstract**:*
The aim of this paper is to assess the impact of institutions' quality on FDI inflows in two groups of countries in Central and Eastern Europe and North Africa. We test if the Worldwide Governance Indicators are significant factors that investors take into account when deciding their location's investment. In this respect, we use the panel data methodology for the period 2002-2015. We find that only regulatory quality has a significant impact for FDI inflows in both groups of countries, while traditional determinants, such as the GDP level, are still important for the European economies. For the countries in North Africa, it is possible that the harnessing of natural and capital endowment could be more attractive than the development level or the market dimension, once the agreement between the state and the foreign investor is made.

***Keywords**: foreign direct investment, institutions' quality, Central and Eastern European countries, North Africa*

***JEL codes**: F23, O43, O52, O55*

I. Introduction

Foreign direct investments (FDI) are seen, in general and especially in developing countries, as healthy and sure remedies for enhancing growth and positioning the economy on the way of economic development. Their benefits are due to the long-term commitment with the host country, the inflows of technology and know-how and the positive spillovers that pull up

the private business environment. Therefore, efforts are made for increasing these types of investments inflows.

There is no clear receipt as regards the specific factors that each country should enhance in order to attract more investments. We generally know that foreign investors are interested in either the abundance of resources, the dimension of the market, the economic development and the sophistication of the customers, the role of created assets, the quality of institutions and policies. The range of FDI determinants is broad and, equally important, it varies from period to period.

Our paper focuses on the role of institutions in attracting FDI – are institutional variables relevant in the actual context and during the last decade? In this case also, the literature does not provide a clear set of public policies that must be employed in order to increase the quality of institutions. We neither do have a strong set of determinants that shape each country's attractiveness for foreign investors – the variables that are significant in relation with FDI range from the corruption level to the economic freedom, the state fragility or the transition index. The only consensus in this area emphasizes the particularly negative impact of the lack of institutions' quality on FDI.

Still, the level of institutions' development is crucial for attracting FDI, especially for transition countries, which count on the contribution of foreign investments for catching up with the other developed economies. The pressure on institutions is even higher as precisely these institutions suffered important changes for adapting to the market economy [Bevan et al., 2004]. Institutional development, as an essential attribute of progress in the transition process, is the most important determinant of aggregate FDI [Grcic and Babic, 2003]. Dunning [2004] emphasizes the importance of the institutional framework as a necessary condition for attracting FDI, while for Kukeli [2007], its role is to accelerate the economic reform.

Countries in Central and Eastern Europe (CEE) benefited from high FDI inflows mainly starting with their EU adhesion. The period 2005-2008 was favorable for such type of inflows, while their positive impact on economic growth was experienced in the years to follow [Hlavacek and Bal-Domanska, 2016; Melnyk et al., 2014]. The crisis had a negative impact on these countries' attractiveness for FDI, some of them being also negatively affected by political instability (for example, Hungary and Romania). Investors are taking safety measures as regard countries in this area, the region being ranked as the fourth most attractive for establishing operations in 2015, after Western Europe, North America and China, according to the Ernst and Young European Attractiveness Survey [2015]. Its attractiveness continued to drop in the last years; the region was considered the second

most favorable destination for FDI in 2008, after China. The main issue that must be dealt with is regaining the confidence of investors.

The same importance of FDI for the economic development is supported by Soumare [2016], who points that FDI are vital for improving the economic growth in North Africa, having positive effects on the level of welfare and on reducing inequalities between countries. For this to happen there is a strong need in improving the quality of institutions and governance.

In fact, North Africa is the only African region that saw a major decrease of FDI inflows between 2010 and 2014, while investments increased in all the other regions. The attractiveness of this region suffered following the Arab spring and the unrests in Libya. Still, FDI inflows entered an upward trend since 2015, once Egypt recovered in terms of FDI inflows, sawing an increase with USD 1.9 billion in 2015 as compared to 2014. Each country has its own specific: investments in Egypt are focused on the construction sector, the real estate and the hospitality industry, while Morocco receives mostly FDI in services (61% of total FDI stocks in 2014), according to KPMG [2016]. Given all the turmoil in the recent years, North Africa still manages to gather 51% of FDI capital in Africa in 2014, according to the Africa Attractiveness Survey 2015, provided by Ernst&Young.

In fact, Egypt is the second most attractive country in Africa for foreign investments in 2014 (with a score of 96%), followed by Morocco on the second place (94%) and Tunisia (87%). Libya is near the middle in this ranking, while Sudan and South Sudan are at the bottom of the ranking, according to RMB report [2015].

We focus our analysis on the impact of several variables encompassing the quality of institutions on FDI inflows in several former transition countries in CEE and several economies in NA. The comparison between the two groups of countries is reasonable: CEE countries have a history of transition, while among the states in NA there are some countries in transition (Egypt, Morocco, Tunisia and Libya), according to the OECD classification. In some cases, similar European companies are investing in different countries in the two regions, as it is, for example, the case of the Renault group, which has investments in production lines in both Romania and Morocco. We are interested if there are similarities between the institutional variables that are FDI determinants in the two groups of countries. The rest of the paper is organized as follows: in section II we provide the results of several studies in the literature pointing to the relationship between FDI and institutional variables in the analyzed countries. In section III we describe the data and track the progress of FDI inflows and institutional variables in these countries. We also deal with

explanations as regards the methodology we apply. In section IV we present and discuss the results, while in the last section we draw several conclusions.

II. Literature review

The need for well-equipped institutions, that provide qualitative and coherent policies for the development of the business environment, is already tested in practice, once with the experience of CEE transition countries. The incorporation of institutional variables (such as the protection of property rights or the political risk) in FDI theories, especially as regards the locational determinants of foreign inflows, is already acknowledged [Meyer and Jensen, 2005]. Although the literature has reached consensus on the positive impact of institutional quality on the attractiveness of a country for FDI, there are still divergences regarding its definition and measurement in empirical studies.

Kaufmann, Kraay and Zoido-Lobaton [2000, p.10] understand that institutions' quality implies a good governance, which refers, among other things, to "the capacity of the government to effectively formulate and implement sound policies; and the respect of the citizens and of the state for the institutions that govern economic and social interactions among them".

Rodrik and Subramanian [2003] divide institutions into four categories. The first one is composed by the institutions which create a clear legal basis and a legal system which guarantee the protection of property rights and a low level of corruption. The second group is composed by institutions which regulate the competitive framework and ensure the reduction of distortions in sectors such as transport, telecommunications and financial services. In the third group, there are institutions dealing with measures for a stable macroeconomic environment, while the last group is composed by institutions which create favorable socioeconomic conditions, such as the welfare or education system).

Empirical studies also support the increasing importance of institutions quality. The variables used for quantifying institutions and their quality tend to become even more important than the market dimension, factor endowment or internationalization level – also known as traditional determinants – according to the study of Pournarakis and Varsakelis [2004]. Globerman and Shapiro [2002] have a similar result, pointing the superiority of governance infrastructure over the quality of the environment or the social aspects in a sample of developed and developing countries in the period 1995-1997. Focusing on the transition economies in CEE, Kinoshita and Campos [2006] find that institutions are more important for the foreign investors than the market dimension or the labor cost. Their proxies for institutions include the economic openness and low restrictions as regards FDI inflows.

Still, we must take into account that institutions have a different capacity of attracting investments, depending on the level of development and the region where the country is located, and is frequently influenced by the local institutional arrangement [Dunning, 2006; Fabry and Zeghni, 2010].

The regulating capacity should be firstly assessed in order to reveal the quality of institutions. There are several indicators that try to capture this capacity, mainly focused on the economic freedom, regulation burden (where bureaucracy is included) or economic and structural reforms.

The investors' preference for free market remained unchanged in the transition economies at the beginning of this process [Brenton et al., 1998] and subsequently [Tintin, 2010]. For Bellak, Leibrecht and Stehrer [2008], a one percentage increase in the institutional barriers for the CEE countries leads to a decrease of 0.4% in FDI. Globerman and Shapiro [2002] conclude that open economies, with free market, attract more FDI than those where competition is discouraged. This fact is available regardless the stage of development of a country, and the burden of regulation is the most important factor in the investors' process of location decision making.

The bureaucracy level shows if the implementation capacity of a country is efficient or flawed. There is no such thing as "good" or "bad" bureaucracy, because a dense bureaucracy can be associated with a clear framework of rules and laws that must be respected, while the legislation complexity can be linked to a good level of predictability for investors. The role of the governments is, therefore, to enforce an efficient bureaucratic system that creates the preconditions for attracting FDI [Pournarakis și Varsakelis, 2004]. Otherwise, bureaucracy could become a serious obstacle for investors [Garibaldi et al., 2002]. This, associated with the lack of transparency, is another problem for investors [Drabek and Payne, 2001]. The postponement of FDI inflows is due to an increase in risk and incertitude. According to the two authors, a one place increase in the transparency ranking would mean an increase of 40% in FDI flows.

In particular, the definitions of institutions focus on the role of property rights and compliance with laws [Fischer and Sahay, 2004]. As a result of the analysis of empirical studies, Fabry and Zeghni [2010] retain three main aspects that describe the quality of institutions: the quality in managing the public affairs, the enforcement of laws protecting private property and the limits imposed by political leaders.

Empirical studies point to a positive correlation between FDI and the level of democracy, which encompass the rights and freedom protection [Addison and Heshmati, 2003; Busse and Hefeker, 2007]. The study of Kostevc et al. [2007] notes that, of the indicators that give the degree of institutional quality, the regulation and protection of property rights have

the greatest impact on FDI. The composite index used by Disdier and Mayer [2004], formed by proxies expressing the political rights, other civil liberties and the liberalization of the economy, has a significant impact on FDI. Benassy-Quere et al. [2007] use the term of public efficiency in describing institutions and find evidence for its significant impact on FDI. The authors include here the taxation system, the ease of establishing a company, the lack of corruption, the transparency level, the property rights security, the justice and efficiency of prudential standards.

Also, the impact of corruption is frequently tested in empirical studies in relation with FDI. A high level of corruption is the reason for a substantial reduction in FDI inflows. Countries in CEE have a similar behavior, according to Wei [2000], Habib and Zurawicki [2002] or Popovici and Calin [2013]. Moreover, Goodspeed et al. [2009] signal a greater impact of corruption for the investors in developing countries than in the developed ones.

The assessment of risk is frequently linked to the quality of institutions. Generally, a low level of risk is perceived as a climate of stability and predictability.

The study of Busse and Hefeker [2007] points to the fact that investors are strongly sensitive to the changes in political arrangement and the government framework. The result is reinforced by Daude and Stein [2007], who mention that the improvement of the institutional framework as regards the economic measures and their implementation is a way to increase FDI inflows.

Alonso [2016] provides strong results as regards the negative impact of political risk over FDI inflows in Egypt, especially for the period 2010-2014. The risks are emerging due to the policy of controlling capitals, terrorism, civil and social turmoil, breaches in ensuring property rights, as seen in the multiple expropriation cases or breaches of contracts.

The necessity for the stability and predictability in the host country is underlined by the long term interest in that economy, which is carried out by the FDI activity in itself [Barolli et al., 2009]. According to Barolli et al. [2009], there are two main types of risk: the instability of the host country given by civil wars or international conflicts and the political volatility, which generate currency volatility.

Taking into account the recent evolutions in North Africa, we might be tempted to suppose that risk is a threatening especially for these countries. Still, Brada et al. [2005] emphasize that the progress of economic transition and political instability (either domestic, either due to international tensions) significantly affect the volume of FDI, by comparing transition economies with their neighbors that were not implied in such a process.

Also, investors need to correctly forecast the evolution of the business environment, which requires a stable and predictable investment climate, therefore political instability should be avoided at all costs [Pajunen, 2008]. Political stable countries are more attractive for foreign investors, according to Kukeli [2007] and Rihab and Lotfi [2011], while an increased potential of expropriation, repatriation of profits and payment delays are deterring for FDI.

In Egypt, major steps in opening the economy and creating a favorable business environment was hindered by sudden and rapid changes in laws affecting the business development, which led to questions about their credibility [Louis et al., 2004]. The progress done until recently in this regard is not enough, while the volatility of the social unrests is still putting pressure on the business environment.

As a brief conclusion given the above, the role of government is important in improving efficiency and business regulation, cutting red tape and reducing the tax burden.

III. Data and methodology

a) Data description

Our empirical analysis focuses on two groups of countries: five European Union member states in CEE that have a common transition history (Bulgaria, the Czech Republic, Hungary, Poland and Romania) and five countries in North Africa (Egypt, Libya, Morocco, Sudan and Tunisia). Due to data constraints, the empirical analysis is developed, in both cases, for the period starting with 2002 until 2015.

We use the FDI stocks (FDI) in these countries as the dependent variable, expressed in millions US dollars. As independent variables, we use two of the FDI traditional determinants, the GDP volume (GDP) in US Dollars at constant prices (2005) in millions and the trade openness (TRD) expressed as the sum of total imports and exports in goods and services as percentage of GDP. Given that our analysis is focused on the impact of institutions' quality in attracting FDI, the rest of independent variables are retrieved from the Worldwide Governance Indicators provided by World Bank's database. These indicators are computed based on the perceptions of enterprises and citizens on the quality of governance in their countries. In order to avoid potential overlapping information and to achieve the goals of this paper, we use the following indicators:

- Voice and accountability (VOC), expressing the freedom of citizens to choose their government and to express themselves;

- Government effectiveness (GEF), which covers the quality and independence of the public service and the government credibility in implementing sound policy measures;
- Regulatory quality (RGQ), which regards the quality in the formulation and implementation of policies for the private sector;
- Rule of law (RLW), for expressing the degree of compliance with the law;
- Control of corruption (COR), to give an overview of the corruption phenomenon.

All these indicators are ranged on a scale from -2.5, expressing the lowest governance performance, to 2.5, which is the best performance in terms of governance quality.

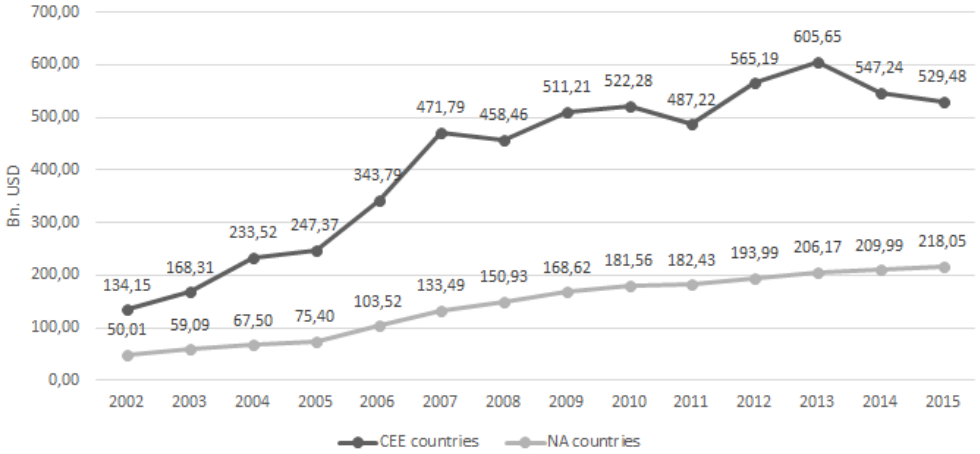
The data for FDI, GDP and TRD were provided by UNCTAD statistics, while the source of the governance indicators (VOC, GEF, RGQ, RLW, COR) is the World Bank's database.

We processed the data for obtaining stationary time series and, for the governance indicators, we added 2.5 to each observation in order to have positive data for using the logarithm and the first difference in the empirical analysis.

b) The evolution of FDI inflows and institutions' quality

According to the Figure 1, the stocks of FDI in the NA countries had a steadily positive evolution during 2002-2015, more significant after 2005. At the beginning of our analysis, the stocks in CEE countries were 2.7 times higher than those in NA countries; although there was a significant increase in CEE FDI stocks starting with 2006, the crisis affected the inflows in these countries, therefore, in 2015, the difference between the stocks of the two countries is almost the same (the stocks in CEE countries are surpassing those in NA states by 2.4 times).

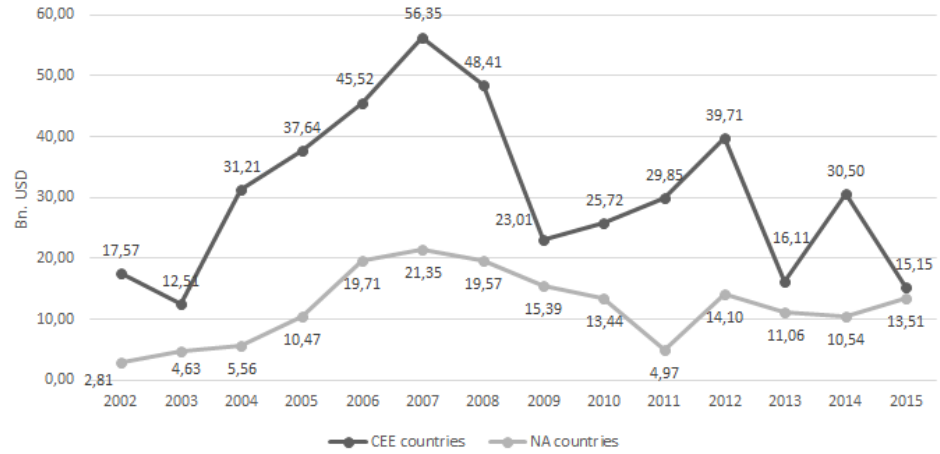
Figure 1. Evolution of FDI stocks



Source: authors' own computation based on UNCTAD statistics

The substantial increase in FDI stocks for the countries in CEE was mainly given by the EU adhesion in 2004 for the Czech Republic, Hungary and Poland and in 2007 for Bulgaria and Romania. Fluctuations are specific to the CEE countries, on which the crisis had a stronger impact. The recovery is not yet restored for FDI stocks, although there were increases in the stock of FDI in 2009-2010 and 2012-2013. The actual level of FDI (529.5 bn. USD) is lower than in 2012 and there is a decreasing tendency in the last two years. The NA countries improved yearly their FDI stocks, the highest value being registered in 2015, of 218.05 bn. USD.

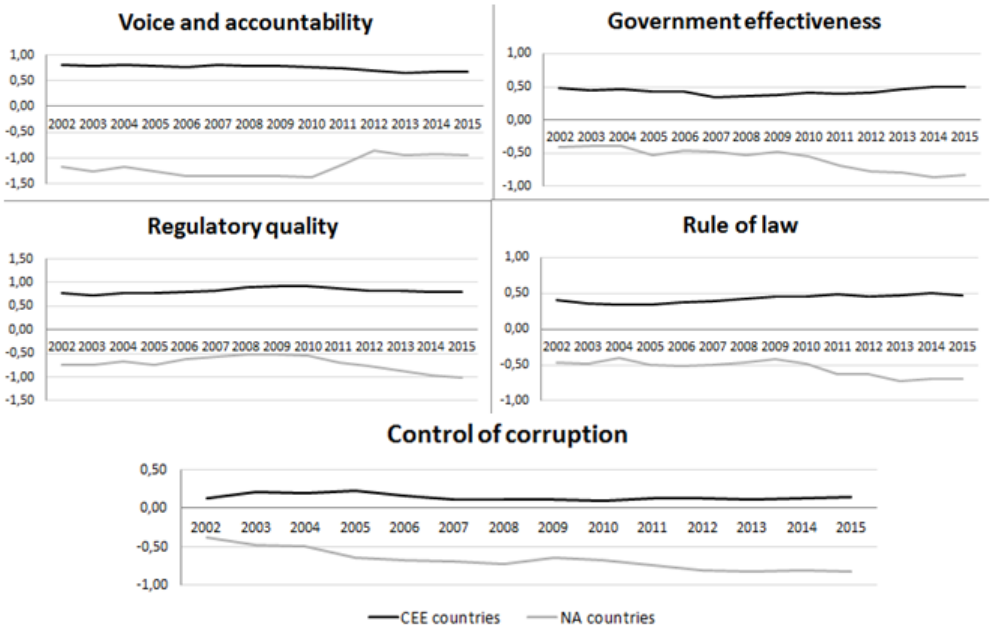
Figure 2. Evolution of FDI flows



Source: authors' own computation based on UNCTAD statistics

The evolution of FDI flows is more volatile from year to year for the two groups of countries. There is a substantial increase in FDI flows during 2003-2007, followed by a sharp decrease in the crisis' years. The last four years show the indecision of foreign investors as regards choosing the CEE countries as host location for their investments. A more stable situation in the FDI inflows is pictured for the NA countries; although there could be noticed the impact of the crisis, there is a smoother decline than for the CEE countries. In fact, the most important impact is the one given by the events in NA countries starting with the end of 2010, also known as "the Arab Spring", which continued in 2011. As a result, FDI inflows in 2011 were by 63% lower than in 2010. The last two years brought a slight increase in FDI inflows in these countries. Another interesting aspect as regards the two groups of countries is the difference between the volumes of FDI inflows. If at the beginning of the period, FDI flows in CEE countries were 6.3 times higher than those in NA region, in 2015, based on the decline in Europe, almost the same volume of FDI is invested in both countries.

Figure 3. Evolution of governance indicators



Source: authors' own computation based on UNCTAD statistics

Figure 3 presents the evolution of the governance indicators, calculated as the average for the two groups of the countries.

There is a clear tendency as regards the governance indicators for the NA countries. Except for the Voice and accountability, there is a clear decrease of the governance quality in the last years, mainly driven by the

Arab Spring. The lowest value (-1.02) is registered for the Regulatory quality in 2015, followed by Voice and accountability (-0.95). The CEE countries have a better situation for the governance quality, with positive values for the analyzed variables. A positive evolution is observed for Government effectiveness and Rule of law, while Voice and accountability and Regulatory quality registered decrease of quality. The evolution of corruption is quite stable.

c) Methodology

We use the panel data analysis due to its several advantages: the control of unobservable or unmeasurable variables, the possibility to obtain solid results even for shorter periods of time (due to lack of data availability), more complex observations (Baltagi, 2005; Hsiao, 2006). The panel data methodology allows for the estimation of fixed or random effects.

The fixed-effect are recommended to be used when the interest of the analysis is on the impact of the variables that are varying over time, as the model is used for controlling the time-invariant differences between the individuals. The equation for describing a fixed-effects model is presented in (1):

$$Y_{it} = \alpha_i X_{it} + \beta_i + u_{it} \qquad (1)$$

where Y_{it} is the dependent variable, X is a vector of k independent variables, α is the coefficient of each independent variables, β_i is the intercept for each country (i=1, …, 5) and u_{it} is the error term.

In the random effects model, there is assumed the existence of constant and unique individual attributes that occur as a result of random variations and are not correlated with individual regression coefficients. Namely, the dependent variable is also influenced by the differences across entities. The equation for the random effect panel model is described in (2):

$$Y_{it} = \alpha_i X_{it} + \beta_i + u_{it} + \varepsilon_{it} \qquad (2)$$

As compared to (1), the error term is composed by u_{it} expressing the between-entity error and ε_{it} expressing the within-entity error.

We use the Hausman test for deciding between fixed or random effects models. The null hypothesis of the Hausman test states that the coefficients of both types of model are consistent, but those of the random effects model are more efficient than the ones for the fixed-effects model. If

the null hypothesis is accepted, then the random effects model is the most appropriate.

IV. Results

We started our analysis by applying the panel data estimation procedure for the two group of countries and then we compare and discuss the results.

a) CEE countries panel data estimation

The result of the Hausman test (see Tabel 1) points to the random effects panel model as being the most appropriate for our empirical analysis.

Table 1. Hau
sman test result for CEE countries panel data estimation

	Coefficients			
	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
D.lnvoc	.1432092	.149376	-.0061668	.2955994
D.lngef	-.9647616	-.9368231	-.0279385	.1725841
D.lnrgq	1.594375	1.72827	-.1338952	.2772429
D.lnrlw	-.9609856	-.8473102	-.1136753	.4017192
D.lncor	-.6315822	-.6384989	.0069167	.1570687
D.lngdp	2.426833	2.518153	-.0913203	.1898713
D.lntrd	-.2834426	-.318698	.0352555	.065545

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(7) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 0.73
Prob>chi2 = 0.9981

Source: authors' own computation

The results of the random effects panel data analysis for the group of CEE countries are presented in Table 2. Only one indicator out of the five used for expressing the quality of governance is significant for FDI stocks, namely the Regulatory Quality. This means that an increase in the quality of regulation imposed by the government to promote the private sector will have a positive effect on investors, which will direct their investment in the CEE countries. The rest of the governance indicators are not significant and for some of them, we obtain a different sign than expected (GEF, RLW, COR). The variable used for expressing the trade openness (TRD) is also not significant and has a negative sign; further research is needed in order to gain an in-depth explanation of such a result. The present empirical analysis could be extended by taking into account several other variables seen as

specific for the CEE countries, such as the labor cost or the educational attainment level.

In accordance with the literature, we found a positive and significant coefficient for the GDP level in this group of countries. Investors are favorably influenced by the perspectives of economic development. Also, the CEE countries could be seen as markets for their products, therefore an increase in the GDP will generate more investment.

Table 2. Random effects panel data estimation for CEE countries

```
Random-effects GLS regression                   Number of obs      =        65
Group variable: country                         Number of groups   =         5

R-sq:  within  = 0.3003                         Obs per group: min =        13
       between = 0.7296                                        avg =      13.0
       overall = 0.3140                                        max =        13

                                                Wald chi2(7)       =     26.09
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0005
```

D.lnfdi	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
lnvoc						
D1.	.149376	1.158309	0.13	0.897	-2.120868	2.41962
lngef						
D1.	-.9368231	.7633837	-1.23	0.220	-2.433028	.5593815
lnrgq						
D1.	1.72827	.9168434	1.89	0.059	-.06871	3.52525
lnrlw						
D1.	-.8473102	1.158604	-0.73	0.465	-3.118133	1.423512
lncor						
D1.	-.6384989	.7146057	-0.89	0.372	-2.0391	.7621025
lngdp						
D1.	2.518153	.716543	3.51	0.000	1.113755	3.922552
lntrd						
D1.	-.318698	.3072738	-1.04	0.300	-.9209436	.2835476
_cons	.0587544	.0285972	2.05	0.040	.0027048	.1148039
sigma_u	0					
sigma_e	.1670729					
rho	0	(fraction of variance due to u_i)				

Source: authors' own computation

b) NA countries panel data estimation

For the group of the countries in North Africa, only two variables are significant, both of them being among the group of the governance indicators. For the VOC variable, we obtain a negative significant coefficient, contrary to expectations. It seems that freedom of citizens in selecting the government and the freedom of expression or associations are

obstacles for investments. This is understandable, given that investments mainly focus in rich natural-resources sectors. As a result, corruption and political instability could be overlooked by foreign investors if the benefits resulting from investing in these sectors are considerable.

The second significant indicator is the regulatory quality. More exactly, investors appreciate the government's concern for providing a favorable environment for the private sector, ensure its openness for foreigners and promote the private business activities. The situation in this group of countries is rather interesting: investors count on the activity of the government but tend to be adversly affected by the citizens initiative.

Table 3. Random effects panel data estimation for North Africa countries

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Random-effects GLS regression                   Number of obs      =        65
Group variable: country                         Number of groups   =         5

R-sq:  within  = 0.4638                         Obs per group: min =        13
       between = 0.5207                                        avg =      13.0
       overall = 0.2994                                        max =        13

                                                Wald chi2(7)       =     24.36
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0010
```

D.lnfdi	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
lnvoc						
D1.	-.2812304	.1422942	-1.98	0.048	-.560122	-.0023388
lngef						
D1.	-.5035872	.3383568	-1.49	0.137	-1.166754	.1595798
lnrgq						
D1.	.8763079	.2282873	3.84	0.000	.4288731	1.323743
lnrlw						
D1.	-.3091919	.3671597	-0.84	0.400	-1.028812	.4104279
lncor						
D1.	-.3282807	.339887	-0.97	0.334	-.9944469	.3378855
lngdp						
D1.	.0404879	.1131048	0.36	0.720	-.1811935	.2621693
lntrd						
D1.	.0468194	.1744244	0.27	0.788	-.2950462	.388685
_cons	.1510836	.0204862	7.37	0.000	.1109315	.1912357
sigma_u	0					
sigma_e	.12101362					
rho	0	(fraction of variance due to u_i)				

Source: authors' own computation

Traditional FDI determinants are not significant in this group of countries, neither the GDP level, nor the trade openness, although they have the expected sign. This result is also explained by the type of FDI in these

countries, which are more resource-seeking than market or efficiency-seeking. Investments that harness the natural or factors endowments could take place no matter the development level or the market dimension, once the agreement between the state and the foreign investor is made.

V. Conclusions

Although the two groups of countries have undergone or are undergoing a transition period, they face different obstacles and must overcome different barriers. CEE countries did not face the social unrests that NA countries are still facing, but their vulnerabilities at present are given by the macroeconomic fissures or the political instability.

While regulatory quality and economic development are the main FDI determinants in CEE countries, investors in NA countries are more interested in the regulatory quality and the capacity of government to deliver sound policies for improving the business environment. Still, there are not as many institutional variables significant in relation to FDI as expected. We only found one significant variable for the group of the CEE countries and two institutional variables for the NA countries. A diversification of institutions' quality variables would be appropriate for future research. Another significant result emphasizes that traditional determinants, such as economic development, is still among the main factors attracting FDI, expecially for CEE countries. Their lack of importance in the NA economies could be explained by the interest of investors in harnessing the natural resources and gaining advantages through the use of low labor cost. All in all, the results of our paper certify again the need for pursuing policies measures that enable the increase of institutions'quality. It is one of the methods of attracting more FDI inflows and improving the economic growth.

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