

Original Article

Financial Openness, Financial Institutions and Domestic Investment: Does Credit Expansion consistently stifle domestic Investment in the West African Economic and Monetary Union?

¹Fantessi Amavi Agbélénko, ²Symon Kibet Kiprop

¹University of Kara, Department of Economics, Kara, Togo.

²Egerton University, Department of Economics, Egerton, Kenya.

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Abstract: Despite the impressive empirical research on the link between financial openness and economic growth, limited research has focused on the issue of financial openness, credit to the private and public sector, and domestic investment. This study therefore attempts to fill this gap in the existing literature by examining the impact of financial openness and credit to the private and public sector on domestic investment in the West African Economic and Monetary Union (WAEMU) from 1990 to 2020. Unlike previous empirical studies, this study employed both the Driscoll-Kraay standard errors method and the Common Correlated Effect Mean Group estimator, which account for cross-sectional dependence and heterogeneity issues, which are not adequately addressed in previous studies. The findings of the study revealed that financial openness and credit to the private sector have a positive and statistically significant influence on domestic investment in WAEMU countries. In contrast, credit to the public sector, though insignificant, undermines investment in the region. Further, inflation, gross domestic product growth, trade openness, and real exchange rate depreciation impact positively and significantly on investment in the countries under investigation. Moreover, the interaction term has a strong negative effect on domestic investment. This means a higher inflation rate dampens the positive effect of private credit on investment through a tight monetary policy channel, which in turn may undermine demand for credit and investment. This study therefore recommends that WAEMU countries develop strategies and policies that shield their economies from external shocks and influences of the credit market with a view to boost domestic investment in the region.

Keywords: Credit to Private And Public Sector, Domestic Investment, Driscoll-Kraay Standard Errors Method and Common Correlated Effects Mean Group Estimator, Financial Openness.

I. INTRODUCTION

Sustainable economic growth, development, and well-being of the citizens in a country have been the primary concern and societal challenges of both developed and developing countries. Thus, the use of foreign capital to boost domestic investment has become increasingly paramount for developing countries due to its economic benefits according to the neoclassical theory. This theory considers globalization as an essential means for poverty alleviation and country well-being through efficient resource allocation among developing and developed countries for economic convergence (Solow, 1956; Mankiw, 1995). Though financial globalization facilitates access to foreign financial markets, increases financial service efficiency, contributes to risk diversification, smooths consumption, and eases the transfer of technology by promoting trade and enhancing specialization (Ahmed, 2011), it increases interdependence between countries' economies around the world. Notably, the integration of financial markets has an implication on domestic lending, investment, and economic growth of most developing countries through cross-border linkage (Eberhardt & Teal, 2010). This interdependence has increased the potential economic and financial stability risks of countries in the world, and the effects are more severe in low-saving and weakened financial systems and institutions in a number of countries. These inherent drawbacks from financial openness may be among the reasons that explain the lack of convergence in economic growth rates between countries due to imperfect substitution between foreign and domestic savings in financing domestic investment, as suggested by the neoclassical theory.

The 2008 global financial crisis and the COVID-19 pandemic have revived the debate on globalization and renewed concerns about the role of foreign and domestic capital in financing domestic investment and economic growth. According to Huang *et al.* (2024), the international credit channel is an important channel through which US financial uncertainty spilled over internationally. Carvalho (2024) revealed that capital inflow, by financing a domestic credit boom, may lead to financial distress. Then, the economic crisis or shocks of one country are transmitted to other countries through cross-border linkages (Zhao *et al.*, 2023; Bonciani and Ricci, 2020). Singh and Salva (2025) indicated that countries with weak institutional and financial development experienced initial instability followed by stability, while countries with strong institutional and financial development declined as integration deepened. Wachtel and Rousseau (2007) brought to light that excessive financial deepening may be a result of widespread financial liberalizations in the late 1980 and early 1990s in countries that



lacked the legal or regulatory infrastructure to exploit financial development successfully. In the same light, Khan *et al.* (2019) affirmed that institutional quality is a significant prerequisite to financial development.

In the empirical literature, a number of studies have supported the view that a strong and well-functioning financial sector mobilizes savings, allocates resources efficiently to productive investment, eases transactions and risk management, and exerts corporate control (Levine, 1997). However, the flow of foreign capital to developing countries may become a source of real exchange appreciation and inflation due to a weakened financial system and domestic institutions' quality (He and Yoo, 2024; Audit and Alam, 2022; Pradhan *et al.*, 2023). Even capital inflows may lead to investment in unproductive sectors such as land and housing purchase in developing countries, as domestic investors fear currency devaluation or depreciation due to an unstable macroeconomic environment. Apart from the low level of savings and financing constraints, getting access to bank credit in developing countries is not easy at all. This is why Freedman and Click (2006) revealed that banks in developing countries are extremely liquid and suggested that their increased lending to the private sector will significantly increase the growth rate per capita. These behaviors may increase the budget deficiency for domestic investment in developing countries: first, the potential capital for investment is flown to the land and housing market (Yousef & Arash, 2023), and second, the difficulties that borrowers and businesses face in accessing credit from financial institutions.

Thus, like other developing countries, the West African Economic and Monetary Union countries (Table 6) have a low production capacity and purchasing power, which undermine saving in the region. The annual average production capacity index and purchasing power from 2001 to 2020 were 24.21 and 798.28 USD, respectively, according to United Nations Conference on Trade and Development (UNCTAD) yearly statistics. Funding investment in WAEMU countries is dominated by financial institutions due to an underdeveloped financial market, which restrains resource mobilization for investment purposes. This means domestic investors not only experience liquidity shortages and bank financing problems, but they also face real exchange rate appreciation and inflation in the domestic economy when the foreign capital inflow is above the needs of the economy. The real exchange appreciation in the domestic country may be followed by sudden and dramatic outflow of resources when the domestic monetary-fiscal regime is inconsistent with a fixed exchange rate or when there is an increase in domestic investors' defaults that shifts the investors' attitude toward risk (Gita G. *et al.*, 2014). Thus, Audit and Alam (2022) confirmed this view by revealing that the accelerated financialization of the economy turns excess supply of credit into an increased likelihood of systemic banking crisis. In the same light, Cecchetti and Kharroubi (2019) pointed out that the more quickly borrowing grows over time, entrepreneurs turn to safer, hence lower return projects in lieu of risky projects which generate a higher return.

According to Bui (2019) and Cham (2023), Credit refers to financial resources provided by the financial sector, especially to the private sector and government-owned enterprises, and is a vital channel through which financial openness affects domestic investment. Financial sectors channel funds from those with financial resources, who lack the business investment ideas, to those with investment decisions but lack the resources to kick-start their investment ideas (Bui, 2019; Jammeh, 2022). So, financial sectors fuel domestic investment through efficient credit allocation and credit growth. A number of empirical studies question this paradigm, but the gap in economic convergence between developed and developing countries is growing wider over time, and developing countries still have financial constraints for their investment project (Chakamera and Pisa, 2020). Even the canal through which financial openness affected economic growth has been ignored or understudied in the literature.

In response to these issues, the study of financial openness, credit to the public and private sector, and domestic investment dwells on an interesting research topic that attracted different views from scholars and policymakers around the world. This is due to the controversy over the nature of the empirical results (Rapih 2021; Adegbite and Adetiloye, 2013; Ndikumana, 2003; Ndikumana and Blankson, 2015). Since the West African Economic and Monetary Union countries, like some developing countries, are experiencing financing constraints for their investment due to lower domestic savings, these countries found financial openness as an avenue to fulfill their investment financing constraint. Further, the monetary zone has been less investigated in the literature; particularly, WAEMU zone studies are scanty, while the monetary zone may raise the problems of both cross-sectional dependence and heterogeneity due to similar socio-economic characteristics, which may bias the research from a policy perspective. Moreover, financial openness raises the concern of limited effect of monetary policies in domestic countries for credit or lending control for investments. Thus, with this study, we attempt to overcome the limitations of previous studies by investigating: first, the influence of financial openness, credit to private and public sector on domestic investment while controlling for inflation and real exchange fluctuation; second the cross-sectional and heterogeneity issues which may arise from single monetary policy against different fiscal policies; third how credit to private sector react to change in inflation rate. Finally, the implications of this study are of utmost importance for WAEMU countries, with a view to developing policies and managerial strategies suitable for sustainable investment growth in the region.

The remainder of the paper is organized as follows: Section 2 presents the literature review on the relationship between financial openness, credit to the private and public sectors, and domestic investment. Section 3 provides the model and estimation technique. Section 4 reports and discusses the results. Section 5 concludes the study and provides policy implications for the countries under investigation.

II. LITERATURE REVIEW

Financial development is a green light for domestic investment growth and economic welfare. Therefore, the correlation between financial openness, financial development, and domestic investment is an interesting research topic that has attracted scholars and practitioners since 1990. In this section, we briefly review relevant empirical research on the link between financial openness, credit and domestic investment.

According to the neoclassical theory, financial openness is an avenue to attain economic-welfare in the world through efficient resource allocation, which means resources are supposed to flow from countries with abundant savings to where there is a need and high return on investment. Following this, numerous empirical studies have been conducted in this area and have demonstrated that efficient resource allocation across countries depends on the quality of institutions and the strength of the financial system in recipient countries (Beji, 2007; Wei, 2018). Hence, the financial distress or crisis caused by financial openness is due to a weakened financial system and institutional default. Since the flow of capital might drive real currency appreciation due to inefficient resource allocation in the domestic market, which in turn causes inflation, financial distress, and currency depreciation in domestic countries when credit becomes unpaid due to low return on investment (Gita *et al.*, 2014).

Aytul & Cihan (2013) criticize the neoclassical view of perfect substitution of foreign saving for domestic saving in financing domestic capital and growth performance in 46 countries from 1993 to 2010. The authors suggest that increasing savings in financing domestic capital contributes to growth performance. Similarly, Philip (2013) examined the influence of financial globalization on credit dynamics to borrowers and from lenders in the context of foreign and domestic one in the selection of projects and funding sources. It was confirmed that financial globalization alters credit demand and credit supply for both borrowers and lenders in the context of the foreign and domestic options. The author further revealed that the alternative option was the cause of the rapid accumulation of large cross-border debt pre-2008 financial crisis.

Following this, Cao and Dinger (2022) suggested that favorable global funding conditions coupled with local currency appreciation encourage bank lending, leverage up, and risk-taking; isolating banks from domestic monetary policy. Cham (2023) confirmed the view of the limitations of developing countries' domestic monetary policies in globalization world. The author suggested that financial integration brought by globalization and advancement of science and technology raised: first the issue of interest and exchange rate which are influenced by global factors such as capital flow and international interest rate instead of domestic monetary policies such as changes in interest rates; second, the use of novel and advance technology in finance increased cross-border lending which is also beyond the domestic monetary policies control. This means that the domestic country's economic downturn and the financial crisis are beyond domestic policies' control.

Adegbite and Adetiloye (2013) examined the issue of financial globalization and domestic investment in Nigeria from 1970 to 2007 by raising concern of outflow or inflow view. The findings of their study confirmed the outflow view of financial globalization in Nigeria, which in turn undermined domestic investment in the country under investigation. Andreasen and Valenzuela (2015), in contrast, revealed that investors located in less financially developed economies benefit more from opening their accounts compared with investors in developed economies. The authors further indicated that the benefit decreases when there is improvement in the domestic financial market. Mesagan *et al.* (2016) also supported the positive and significant effect of globalization on financial sector development in their study of Nigeria. The authors confirmed that it even served as a stimulant for Nigeria's economy.

Iheonu *et al.* (2020) investigated the impact of financial sector development on domestic investment in selected ECOWAS countries from 1985 to 2017. Using the augmented mean group framework, the findings revealed that the impact of financial sector development on domestic investment depends on the indicator used in measuring financial sector development. Thus, domestic credit to the private sector impacted domestic investment positively, while banking intermediation efficiency and broad money supply had a negative effect on domestic investment. Ndikumana (2003) early acknowledged the importance of financial development and financial structure on domestic investment. The author argued that financial intermediation affects domestic investment by means of financial constraints alleviation, allowing firms to increase investment in response to an increase in output demand. Moreover, the author indicated that the financial structure has no independent effect on investment and finally suggested the implementation of policies that reduce transactions costs in financial intermediation and enforce creditors' and investors' rights. As well, Nwokoye *et al.* (2015) investigated the impact of bank lending on domestic investment in Nigeria from 1980-2012. Using an ordinary least squares method and cointegration technique, the findings indicated a positive and significant influence of bank credit on domestic investment in the short run, while an adverse effect was found in the long run. Gozgor (2014) examined the determinants of domestic credit levels in 24 emerging market economies. Using a dynamic panel data estimation technique, the findings provided evidence of a positive contribution from loose monetary policies in the domestic market, differences between domestic and global lending rates, and real trade openness to domestic credit levels. In contrast, external balance and perceptions of global tail risk had adverse effects on domestic credit levels.

Dinga *et al.* (2023) examined the effects of financial development, foreign direct investment, market size, and trade openness on domestic investment for 119 countries from 1995 to 2019. The empirical findings revealed a positive and significant impact of market size, trade openness, and financial development on domestic investment. He and Yoo (2024)

investigated the impact of financial development on domestic investment, using panel data of 152 countries covering a period from 1980 to 2021 and the System Generalized Method of Moments estimator and the Pooled Mean Group estimator. The results showed a positive influence of financial development on domestic investment up to a threshold of 0.5147, beyond which it becomes a deterrent.

The existing literature has gained significant attention on the impact of financial globalization on economic growth, whereas the channel whereby financial globalization affects economic growth has been ignored in the empirical literature. Therefore, it is crucial to carry out a study to determine the influence of credit to the private and public sectors on domestic investment during the period of financial openness of West African Economic and Monetary Union countries with a view to proposing policies that the policymakers in these countries may design or formulate in order to cushion them from the adverse effects of financial globalization.

III. DATA AND METHODOLOGY

A) Data

This study used annual data for WAEMU countries from 1990 to 2020, which were sourced from the World Bank (World Development Indicators), the External Wealth of Nations Database, and the United Nations Conference on Trade and Development (UNCTAD) database.

B) Methodology: Model Specification And Estimation Technique

Since countries under study share a single monetary policy but have different fiscal policies, and also possess similar cultures and languages, the appropriate empirical method should control for cross-sectional dependence and heterogeneity in order to avoid spurious regression results. This will then be followed by model specification and panel data estimator selection tests. The test results are meant to give the green light to use Driscoll-Kraay standard errors and the Common Correlated Effects Mean Group estimator. These estimation techniques enabled us to explicitly control for heteroskedasticity, autocorrelation, cross-sectional dependence, slope heterogeneity, and endogenous regressors.

Following the reviewed empirical literature and study objectives, we specify the following generic function and econometric model for the empirical investigation.

a. Generic Function

$$dinvest = f(ifi, crep, creg, inf, gdpgr, rexch, op)$$

Where:

- Dinvest = domestic investment proxy by gross fixed capital formation as percentage of gross domestic product (GDP);
- Ifi = international financial integration proxy by the sum of gross stocks of financial assets and liabilities as a ratio of GDP;
- Crep = domestic credit to private sector (% of GDP);
- Creg = Credit to government and state-owned enterprises to GDP (%);
- Inf = Annual inflation rate from consumer price index;
- Gdpgr = Annual Growth rate of GDP;
- Rexch = real exchange rate between USA dollars and franc CFA (obtained by multiplying the nominal exchange rate with the USA's Consumer Price Index and then divided by the domestic Consumer Price Index), variable introduced to capture the effect of the franc CFA depreciation;
- Op = Trade openness (exports plus imports as % of GDP).

b. Econometric Model

$$dinvest_{it} = \beta_0 + \beta_1 \log ifi_{it} + \beta_2 crep_{it} + \beta_3 creg_{it} + \beta_4 inf_{it} + \beta_5 gdpgr_{it} + \beta_6 \log rexch_{it} + \beta_7 op_{it} + \beta_8 (crep_{it} * inf_{it}) + \varepsilon_{it}$$

Where:

$$crep_{it} * inf_{it} = \text{moderation variable (interaction term);}$$

$$\varepsilon_{it} = \text{error term.}$$

IV. RESULTS AND DISCUSSION

A) Descriptive Analysis

In order to gain an understanding of the trends and relationships of the variables selected for this study, summary statistics and correlation analysis were conducted, and the results are presented in Table 1 and Table 2, respectively.

Table 1: Summary statistics of the variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Dinvest	247	18.41361	5.89135	5.885067	48.39674
Ifi	248	0.1724732	0.1857055	-0.0051237	1.141499
Crep	248	14.80203	7.73919	0	40.163

Creg	247	3.897551	3.578857	0.005252	21.10756
Inf	244	4.442834	10.09912	-7.796642	69.58363
Gdpgr	248	3.857579	4.100766	-28.09998	15.37624
Op	247	53.60915	14.2958	26.09894	112.761
Rexch	246	582.8554	267.6453	301.6404	3561.452

Table 1 presents the summary statistics for the variables used in this study, particularly the mean, standard deviation, minimum and maximum values of variables. The average domestic investment, financial openness, credit to private sector, credit to public sector, inflation rate, gross domestic product growth rate, trade openness and real exchange rate over the study period are 18.41; 17.25%; 14.8; 3.90; 4.5; 3.86; 53.61 and 582.86, respectively. The standard deviation of domestic investment, financial openness, credit to the private sector, credit to the public sector, and gross domestic product growth are very low, even less than two figures, while the inflation rate, trade openness, and real exchange rate present a high volatility signaling high risk. Further, the minimum and maximum values of inflation and gross domestic product growth are more marked, 7.80 and 28.10, and 69.58; 15.38, respectively. This means that these countries may be lacking stable macroeconomic policies, which are essential for promoting sustainable economic growth in the region. This is not surprising because it is common in most African countries due to corruption issues and an unstable political climate, and it has been well documented in the reviewed literature.

Table 2: Correlation Matrix

	dinvest	Ifi	crep	Creg	Inf	gdpgr	op	rexch
dinvest	1							
Ifi	0.4004*	1						
Crep	0.2832*	0.5675*	1					
Creg	0.2592*	0.7447*	0.6215*	1				
Inf	0.2447*	-0.1981*	-0.1574*	-0.2132*	1			
Gdpgr	0.2549*	0.1092	0.0144	0.1492*	0.0724	1		
Op	0.1902*	0.3866*	0.5479*	0.3874*	-0.0022	0.0299	1	
Rexch	0.2632*	-0.0717	-0.0507	-0.0890	0.5137*	0.0630	-0.0393	1

Table 2 presents the correlation between the variables of the model. The correlation matrix shows a significant link between the dependent variable and the regressors, and there is no evidence of multicollinearity problems between the regressors.

B) Inferential Analysis

Table 3: Model specification tests

Ramsey test	Link test for single-equation estimation		
H ₀ : model has no omitted variables	H ₀ : no model misspecification		
F(3, 229) = 1.90	_hat	t = -0.34	0.735
P-value = 0.1311	_hatsq	t = 1.97	0.050

Table 3 reports the Ramsey RESET test and Linktest for model specification. From the probability values of these tests, it is evident that the model is well specified and there is no evidence of variable omission bias, which may render the findings of this study unreliable.

Table 4: Panel Data estimator selection tests

Breusch-Pagan test for heteroskedasticity	Wooldridge test for autocorrelation	Pesaran and Yamagata test for slope Heterogeneity	Hausman test for Fixed or Random Effect selection	Pesaran's CD test for cross-sectional Independence
H ₀ : constant variance	H ₀ : no first-order autocorrelation	H ₀ : Slope coefficients are Homogenous	H ₀ : difference in coefficients not Systematic	H ₀ : cross-sectional Independence
Chi2 (1) = 11.07	F(1, 7) = 197.647	Delta = 9.468 Adj. = 11.584	Chi2 (8) = 70.46	Pesaran's CD test = 3.807
P-value = 0.0009	P-value = 0.000	P-value = 0.000	P-value = 0.00	P-value = 0.0001

Table 4 presents the most important test to select the appropriate estimation technique with a view to avoiding spurious regression results. According to the test results, it reveals the presence of heteroskedasticity, autocorrelation, heterogeneity, and cross-sectional dependence, which allow us to select Driscoll-Kraay standard errors and the Common Correlated Effects Mean Group estimator.

Driscoll-Kraay standard errors method controls for the error structure when it is assumed to be heteroskedastic, autocorrelated, and possibly correlated between the groups (panels) and is efficient in large T dimensions. The Common Correlated Effects Mean Group estimator allows for heterogeneous slope coefficients across group members and is also concerned with correlation across panel members cross-sectional dependence.

C) Regression Results and Discussion

The regression results are presented in Table 5.

Table 5: Regression results

	(1)	(2)
VARIABLES	Dinvest	dinvest
Logifi	2.162***	0.788
	(0.380)	(2.157)
Crep	0.135**	0.192*
	(0.0562)	(0.108)
Creg	-0.0424	-0.0201
	(0.128)	(0.347)
Inf	0.314***	0.426***
	(0.0713)	(0.121)
Gdpgr	0.144*	0.136*
	(0.0829)	(0.0762)
Logrexch	5.647***	8.559
	(1.936)	(7.794)
Op	0.0841*	0.158**
	(0.0479)	(0.0730)
crepinf	-0.0100	-0.0377***
	(0.0107)	(0.00904)
Constant	-20.07	8.946
	(12.17)	(16.98)
R-squared	0.4367	
Observations	241	241
Number of groups	8	8

Source : Standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 5 reports the regression results of the model according to the appropriate estimation technique retained from the statistical tests. Closer inspection of the results shows that the significance and sign of coefficients are quite similar. Financial openness and credit to the private sector have a positive and statistically significant impact on domestic investment in the region. While credit to the public sector, though insignificant, harms domestic investment in the countries under investigation. This difference may come from: first, financial openness creates competition in the domestic financial market, which lowers credit costs, enhances credit availability, and optimizes credit allocation to the private sector, spurring domestic investment. Second, the efficient management of private companies compared to public ones, where management may be influenced by politics and corruption, increases credit risk, reduces their profitability, and jeopardizes their performance on domestic investment. The findings support, first, the study of Kassie (2021), who suggested that improving institutional quality, such as government stability, rule of law, and corruption, is fundamental to reap the benefits of financial development. Second, the study of Sassi and Gasmi (2014) indicated that the enterprise credit market positively affects economic growth while credit to households has an adverse effect on economic growth. We note, however, that credit to households is supposed to increase household demand, which in turn may drive domestic investment. Moreover, the studies of Ndikumana and Blankson (2015), Kayode *et al.* (2022), and Iheonu *et al.* (2020) underscore the positive impact of credit to the private sector on domestic investment in West Africa and ECOWAS countries, respectively. Even He and Yoo (2024) confirmed the positive influence of financial development on domestic investment up to a threshold of 0.5147, beyond which it becomes an impediment.

Further, inflation, GDP growth rate, trade openness, and real exchange rate have a positive and statistically significant effect on domestic investment in the region. Since these countries are developing, the growth prospect of their economies may attract foreign investors who are looking for a high rate of return on investment according to neoclassical theory. Moderate inflation may increase demand for goods and services in the marketplace, which in turn may motivate firms to increase their investment for profit purposes. Likewise, GDP growth rate and domestic currency depreciation are a green light for potential economic growth and export growth, respectively, and may increase demand for credit for investment projects in the domestic country. The study of Nyinawumuntu *et al.* (2022) confirmed this positive impact of trade openness on domestic investment in Sub-Saharan Africa. Moreover, the interaction term shows a strong adverse effect on domestic investment. This is in line with economic theory, which says that a high inflation rate deters investment through the channel of a higher real interest rate. This result is consistent with those of Bandura and Leshoro (2022), who employed a dynamic panel threshold approach to study the impact of inflation on financial development in Sub-Saharan Africa and found strong evidence of a negative effect of inflation on financial development when inflation is increasing. Our results, however, differ from the study of Nwokoye *et al.* (2015), who obtain a negative impact of Bank credit to the private sector on domestic investment in the long run. This is due to the indicators and the approach used in their study. On the contrary, the authors point out evidence of a significant and positive effect of Bank credit to the private sector on domestic investment in the short

run. One reason behind this difference may be due to default on credit that depends on creditor rights reinforcement. Finally, our conclusion diverges from the study of Adegbite and Adetiloye (2013), which showed a negative influence of financial openness on domestic investment in Nigeria. The authors argued that financial openness causes more capital outflows than inflows for Nigeria. This may be due to a weak financial system and low institutional quality in the domestic countries, as confirmed in the empirical literature.

V. CONCLUSION

In this study, we have employed the Driscoll-Kraay standard errors method and the Common Correlated Effects Mean Group estimator to investigate the influence of credit to the private and public sectors on domestic investment in the West African Monetary Union from 1990 to 2020 during the period of financial openness. The study's objective was to contribute to the existing literature on whether financial openness and credit to the private and public sectors drive domestic investment in developing countries, particularly in WAEMU countries which are experiencing an unstable political and macroeconomic environment. By controlling for higher inflation and real exchange appreciation issues which may stifle domestic investment, the outcome of the study underscores the positive and strong impact of financial openness and credit to the private sector on domestic investment, while credit to the public sector, though insignificant, impedes domestic investment in the region. Moreover, moderate inflation, gross domestic growth rate, real exchange rate depreciation, and trade openness increase domestic investment in the WAEMU countries.

However, we note that previous studies have neglected, when estimating the link, the eventual presence of contemporaneous correlation and heterogeneity in the data, though these countries are neighboring countries, sharing almost similar socio-economic characteristics and culture, which may be a source of spatial correlation and heterogeneity. Hence, in this paper, we performed all the relevant statistical tests, and we affirm that our results are consistent with economic theory. Our findings reveal the presence of cross-sectional dependence and heterogeneity, which, if not adequately accounted for in the regression framework, may result in spurious estimates and biased policy recommendations. Future research could also extend the model by incorporating key monetary and fiscal variables, such as interest rates, broad money growth, and fiscal taxation, in order to assess their interaction effects. However, this is beyond the scope of this study and will be addressed in future research. In addition, future studies can consider investigating the impact of monetary and fiscal policy on domestic investment in the context of financial globalization.

Interest Conflicts

The author declares no conflicts of interest.

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Appendix

Table 6: List of WAEMU Countries

N°	Countries
1	BENIN
2	BURKINA FASO
3	COTE d'IVOIRE
4	GUINEA-BISSAU
5	MALI
6	NIGER
7	SENEGAL
8	TOGO