The Long-run Implications of Financial Development on Foreign Direct Investment Flow to Cameroon

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Abstract

This paperexamines the long term effects of financial development on foreign direct investment in Cameroon for the period 1980-2017based on data obtained from the World Bank Indicators (WBI) of 2019. The error correction modeland Johansen co-integration test were employed in analyzing the data, whose results revealed that broad money (M_2) and credits to the private sector has a long-run positive but insignificant impact on foreign direct investment inflows to Cameroon during this period, while bank deposits manifest aninverserelationship with Foreign Direct Investment inflows. However, the short run situation was different wherebybank deposits and credits to the private sector had a significant and direct effect,while that of broad money remained negative. Therefore, policies to encourage the growth of the financial system in the form of reduction in interest rate,lower tariffs and better custom services as well as a better control over broad money (creation of her own currency) are more likely to attract more Foreign Direct Investments into the country. It is therefore recommended that the state of Cameroon strategizes on such measures.

Keywords: Financial Development, Foreign Direct Investment, Broad money, Bank deposits, Domestic Private Sector Credits, Cameroon

1. Introduction

There has been a profound evolution ofthe literature and interest in the growing contributions of the role of the financial system, and financial system development on economic development. Research on the role of financial development on growth has been traced back at least to (Bagehot, 1873), who demonstrated that large and well organized capital market in England have enhanced resource allocation towards more productive investment. In the same historical context, we can make allusion to (Schumpeter, 1911) who emphasized the critical role of a country's banking system in achieving economic development through the mobilization of savings and encouraging productive investments. Hick in 1969 highlighted the crucial role of financial markets in the process of industrial revolution and observed that "the development of the financial system will facilitate the application of new technologies and innovations" considering that well-developed financial systemsare capable of attracting foreign direct investment into host countries, which carry or move with them new ideas, technologies, and innovations.

Financial development is takento meana set of factors, policies, and institutions that lead to effective financial intermediation and markets, as well as a deep and broad access to capital and financial services(WEF, 2012).So according to (Levine, 1997; King and Levine, 1993) a financial system is considered as developed if there is efficiency, stability, and competitiveness in the various sectors, as well as diversity in the range of financial services and financial institutions. An increase in the amount of money that is intermediated through the financial sector or the capital allocated to the private sector manifest or is anindicator of development in the financial markets. In a more global sense, financial development means the improvements in producing information about possible investments and allocating capital; the monitoring of firms and exerting corporate governance, trading, diversification, and management of risk; the mobilization and pooling of savings; easing the exchange of goods and services. Since many market frictions exist, and since laws, regulations, and policies differ across economies and over time, improvements along any single dimension may have different implications for resource allocation and welfare depending on the other frictions at play in the economy. So, each of these financial functions have the ability to influence savings and investment decisions, and hence economic growth.

Traditionally, two major components of the financial systems can be identified structurally-wise. These are known as the banking sector and the stock exchange market.In bank-basedfinancial systems such as in Germany and Japan, it is common to have long term finance being largely provided by banks, while in market-based financial systems such as in U.K and U.S.A, bonds and equity finance play a much greater role. The financial system in Central Africa is seen to be incompleteor underdeveloped considering that principally and to a large extent, only the banking sector is fully operational. This is undoubtedly true considering that the stock markets (Douala stock Exchange and La bourse de Libreville) are still in their developmental stageswhereby only three companies are listed. For instance,Cameroon Mineral Water Company (SEMC), African Agricultural and Forestry Company of Cameroon (SAFACAM) and Cameroon Palm oil Company (SOCAPALM) are the only companies listed in the Douala Stock Exchange Market,also characterized by a low capitalization and little diversity among market participants (Achamoh and Ngouhouo, 2016). This is also seen by (Singh et al., 2009) when they stated that "the banking sector though operational is not developed in most of the countries in Central Africa, and Franc Zone countries have more shallow financial sectors relative to their expected development given their structural characteristics".

Before the 1970s most developing countries had been financially repressed in the sense that their financial systemswere characterized with the imposition of discriminatory taxation in the form of low interest rate policies, high reserve requirements and directed credit controlsby their governments (Keynes, 1936; Tobin, 1956). Theseare among the various justifications for maintaining these policies of financial repression. The main task of the financial system is to channel funds from sectors that have surpluses to sectors experiencing shortages of funds. In doing so, the financial sector performs the important functions of reducing information asymmetry, transaction costs and facilitating trading, diversification and management of risks. Literature equally suggests that financial system development can reduce the cost of acquiring information and thus enhance resource allocation and accelerate growth (Ahmed and Malik, 2009). By assisting risks management, increasing liquidity and reducing transaction costs, financial system development encourages investments (Levine, 1997). And such investments are in the form of both local and foreign.Foreign direct investment gain entry into a host economy through one of the three mode of entry – Greenfield Foreign Direct investments, Mergers and Acquisition (M&A)Foreign Direct investments, and expansion Foreign Direct investments.

Greenfield FDIis when firms initially invest abroad by establishing a new foreign affiliate; while the acquisition of an existing local firm by a foreign agglomeration is considered as M & A FDI. The last category concern investments meant to expansion existing foreign capital.

The role of the financial system in an economy therefore is to attract attention both in academia and among policy makers, putting a well-functioning financial system in place that will direct funds towards their most productive uses is a prerequisite to attract foreign direct investment and for economic development. According to DfID (2004), the financial system of an economy plays the following role:

- It mobilizes savings for productive investment, and facilitates capital inflows and remittances from abroad, stimulates investment in both physical and human capital, and hence increase productivity;
- It reduces transaction costs, facilitates inward investment, and provides capital for investment in better technologies;
- It enables the poor to carry out reasonable savings and / or borrow to investors in income-enhancing assets (including human assets for instance, through health and education) since a wider access to financial services generates employment, increases income and reduces poverty.

To King and Levine (1993), a developed financial system fulfill three financial institutions' functions that are necessary to speeding up economic growth: evaluation and selection of investment projects, risk-management simplification and reduction of aggregate risks in economy, and cut down the cost of capital attraction. Also an effective financial system increases the return on innovation, alleviates the problem of moral risk, and disciplines the activities of researchers and venture companies (Stolbov, 2008).

According to the Department for African Development Report, aggregate indicators of financial development have either stagnated or declined in the sub-region as a whole since the 1980s; andthe average size of the financial system (as measured by total liquid liabilities of financial intermediaries) and credit supply, considered as proxy to financial development were lower in the 1990s when compared with those of the 1980s. However, the 1990s has been characterized

by financial sector reforms in Central African countries following the structural adjustment programs proposed by the International Monetary Fund (IMF) and the World Bank (WB). This was aimed at liberalizing the economies of developing countries in order to encourage growth and contribute significantly to the development and efficiency of their financial systems with emphasis on their banking systems. Consequently, commercial banks' capital bases were strengthened and their risk management practices improved upon. Credit to the private sector also increased, and most of their banking systems proved resilient to the events of global financial stress of 2007-2009.

One of the long term adjustment policies under the Structural Adjustment Programs (SAP)was to increase the stability of investments by encouraging Foreign Direct Investment (FDI) into the countries concerned, and Cameroon being the case in point.This meant and required the opening of domestic stock markets. In line with this prescription, the Cameroon stock market known as the Douala Stock Exchange Market (DSX) saw the light of day on December 1st 2001 and was aimed at revamping the Cameroonian economy from the crises it faced in the 1980s and 1990s such as the oil crisis, the debt crisis, and multiple economic depression and stagflation. Unfortunately, and as noted above the Douala Stock Exchange Market is still at an infantry stage many years after its creation.Loans were provided by the International Monetary Fund (IMF) and the World Bank (WB) to developing nations that experienced these crises in the late 1980s. Cameroon signed the first Structural Adjustment Program with IMF and World Bank in September 1988 and by 2006, only two companiesSEMC and SOCAPALM were quoted in the Douala Stock ExchangeMarket and as of 2014, only three enterprises out of a total of 93969 were quoted (very small size, small and medium size, and large enterprises) in Cameroon according to sources from theMinistry of Small and Medium-sized Enterprises, Social Economy, and Cottage Industry.

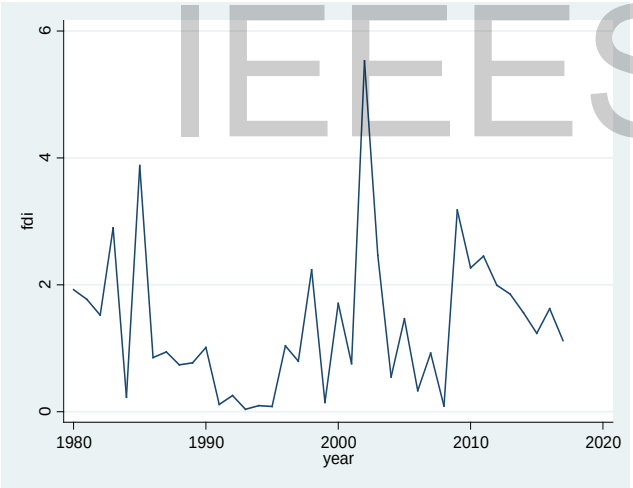
Despite the availability of natural and human resources not forgetting how politically stable Cameroon is, the flow of foreign direct investments to Cameroon in particular remains marginal.For instance, in 2003 the volume of FDI inflows to Cameroon stood at 215billion USD representingbarely 1.43% of total foreign direct investment flows to Africa (Fouda, 2005). Moreover, the authorities in Cameroon are making enormous efforts towards attracting more FDI into the country, policy-wise. These include investment policy reforms such as the National

Investment company (NIC) created in 1963 (Forgha, 2009), and the formation of joint ventures with private companies under NIC.Can the fact that the financial system (especially the stock exchange market) of Cameroon (considered not developed) partly justifies the marginal and declining rate of FDI inflows to Cameroon? Or can we say the long term effect of low level of FDIinflows is explained by the weak development of the financial market in Cameroon? The answer to this question justifies the need for this paper.

From the problem raised, this researchpaperattempts an analysis of the long term impact of financial development in terms of broad money, bank deposits, and domestic credits to the private sector on foreign direct investmentinflowto Cameroon for the period 1980-2017. The long term impact is relevant considering that previous studies have centered on short term analysis.

1.1 Trend Analysis of Variables of Study

Fig. 1(a): Foreign Direct InvestmentFig. 1(b):Broad Money



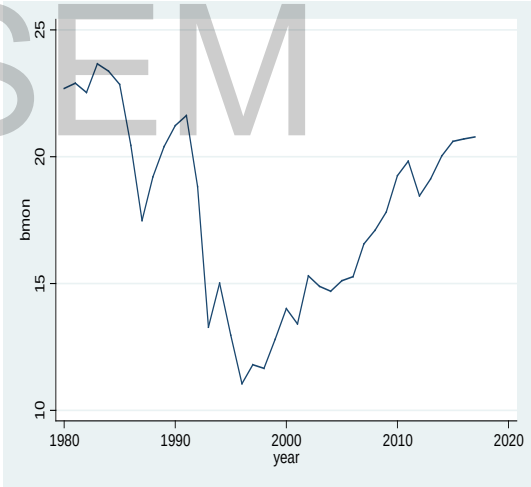


Fig. 1(c): Bank Credits to Private Sector

Fig. 1(d): Bank Deposits

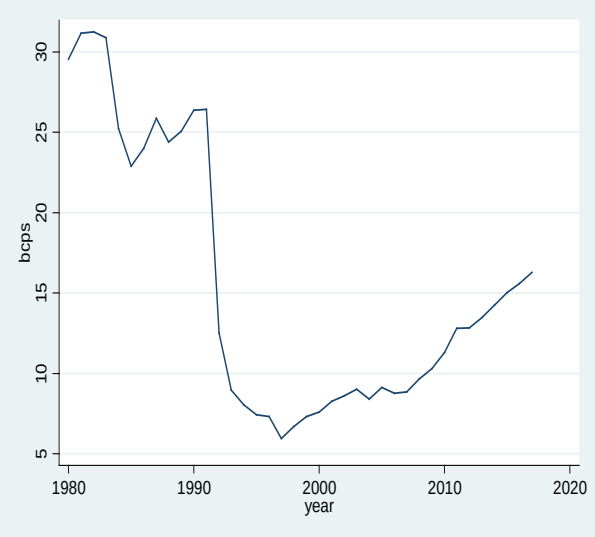


Fig. 1(e): Returns on Investment

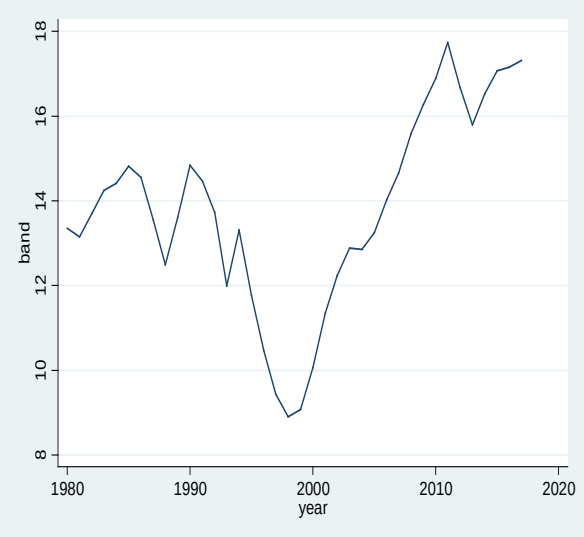
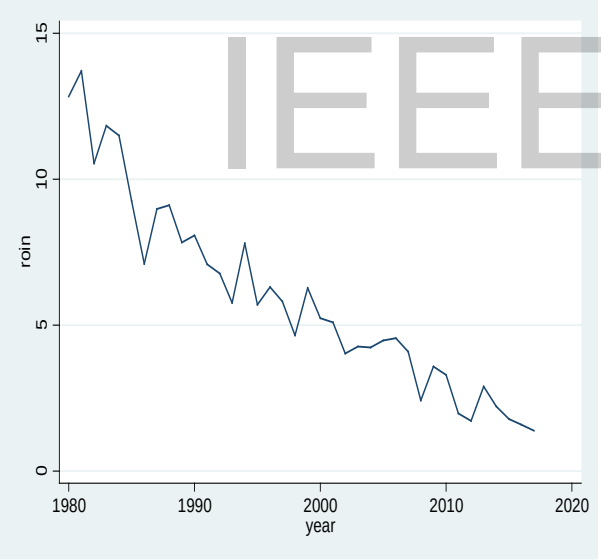


Fig.1 (f): Trade Openness



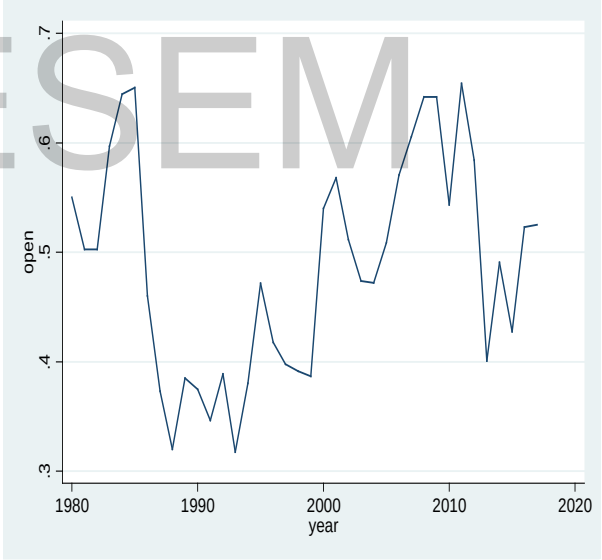
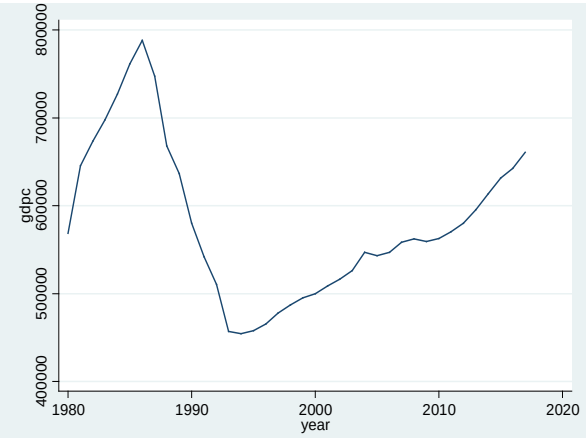


Fig. 1(g): Gross Domestic Product per Capita



Source: Computed by Authors

Amongst all the variables used in this study, the foreign direct investment of Cameroon as a percentage of GDP variable is the most stochastic. Thus, it generally possesses no particular trend as observed from fig. 1(a) above. However since 2010, it has been on a downward trend confirming the Global Competitiveness Report of 2017, where it is reported that Cameroon has not made significant efforts in increasing its ease of doing business as compare to peer countries in sub-Saharan Africa.

The graph of Broad Money (fig. 1b) clearly distinguishes two sub periods characterised by a falling trend between 1980 and 1996. This period coincides with the period of economic marasmus which was characterised by a down turn of the quasi totality of Cameroon's economic aggregates. Conversely the second sub period saw an increasing trend of broad money after the 1994 FCFA devaluation.

Looking at the graph of Banks Deposits (BD) we notice that this variable experienced a downward and fluctuating movement from 1980 to 1999. This coincides with the crisis period characterized by bank liquidation difficulties, drastic fall in the households' income especially in the public sector through a cut in civil service wages/salaries by up to 70 per cent. However, since 1999, bank deposits have been on a steady upward trend. This is demonstrated in fig. (1d).

Fig. (1c) show the trend of domestic credit made to the private sector. The rate had been considerably high before the 1990s. But due to the liquidation of most commercials banks in the economy (First Investment Banks, Meridien BIAO bank, Credit Agricole du Cameroon, Standard Chartered Bank, BICIC now BICEC and the SGBC) BCPS experienced a drastic fall

thereafter, that is from 1991 right up to around 1997. However, from 1998 there has been a remarkable increase in BCPS though marked with slight fluctuations.

With respect to trade openness, there has been a series of fluctuations, and which makes future prediction extremely difficult (fig. 1f). The highest value ever attained (0.65) by trade openness was in 1985 explained partly by the fact that Cameroon became a signatory to the Seoul Convention of 11 October 1985 to set up the Multilateral Investment Guarantee Agency (MIGA) aimed at safeguarding non-commercial risks and secondly the OHADA treaty that deals with the legal provisions of drafting business laws in Africa. The rate attained in 2002 can be attributed to the investment charter of April 2002 which made provisions for the state to be a party to bilateral and multilateral agreements guaranteeing investments. This permit a country to be signatory to both the New York Convention on the Recognition and Enforcement of International Arbitral Awards, concluded under the auspices of the United Nations and the Washington convention to set up the International Centre for Settlement of Investment Disputes (ICSID).

On a general note, return on investment has been on a downward trend, but with slight stochastic evolution. It ranged between 12.84 per cent in 1981 to 1.38 per cent of total capital in 2017 (fig. 1e) above.

2. Empirical and Theoretical Review

The Keynesian Theory of “Financial Repression” defines financial repression as a set of restrictive measures imposed on the financial systems, including interest rate controls, high reserve requirements and directed credit programs.The Keynesians and Neo-Keynesians emphasize the role of direct state intervention in correcting market failures caused by information asymmetry problems that characterize financial markets. According to them, the imperfection of financial markets is a potential source of instability and the initial cause of financial crisis especially if allowed to directly affect financial resources. The financial crisis of 2007 is a clear case where more credits flowed into an existingliberalized system (United States) infested with information asymmetryconstituting a typical case of imperfection.

This theory waschallenged by (McKinnon, 1973; Shaw, 1973) on the bases that financial repression poses barrier to external capital inflows and thus, restricting trade openness and international capital flows. This hampers the establishment of foreign activities, constituting the

breathing ground for local monopolies. Sucha closed environmentwill encourageindustrial groups to reinvest their monopolistic profits and have a limited need for funds, which can be satisfied by local financial intermediaries. On the other hand, the removal of barriers to external capital inflows will generally impose macro-prudential constraints on the government, and force her to abandon financial repression and the directed credit policies. According to Rajan and Zingales (2003), a greater financial sector development directly depends on an economy's openness to trade and international capital flows and these short comings have resulted to the fact that:

- What is termed a regulated financial sector also referred to as "financial repression" was the cause of the poor growth performances of developing economies that adopted such policies.
- Suchdistortionary policies were popular only in developing countriesthat usedthem as a way to finance fiscal deficits without increasing taxes or inflation. Suchmeasures weaken the incentive to hold money and other financial assets, and therefore reduce credit availabilityto investors. Hence, financial repression curtails the size of the banking system and suppresses financial intermediation, leading to the under-development of the system. Consequently, the under-development of the financial system of a host country can adversely limit its economy's ability to take advantage of potential FDI spillovers.
- Furthermore, and in respect to the notion of capital control, (Desai et al, 2006) argued that capital controls may negatively affect FDI absorption,firstly because Capital controls are commonly thought to increase the interest rate. Since local affiliates of foreign investors often finance a considerable portion of their investment from local loans, increased interest rate means higher capital cost for them. Secondly, capital controls often accompany profit repatriation restrictions, andthe consequences of increased capital cost and profit repatriation restrictions are likely to discourage foreign investors.

On the other hand the"theory of financial liberalization"founded on (Gurley and Shaw, 1955; Goldsmith and Hicks, 1969; McKinnon, 1973; Shaw, 1973) and the weaknesses of the Neo-Keynesian model poses that financial liberalization was the best policy that will permit the development of a "better" financial sector that will ensure greater attraction of foreign investments. Their argument was based on the fact that distortions in the financial systems in the

form of loans issued at an artificially low interest rate, directed credit programs, and high reserve requirements are both unwise and unnecessary, considering that they can both individually and or combinablereduce saving, retard capital accumulation, and prevent efficient resource allocation.

This model concludes that government repressive policies such as interest rate ceilings, high reserve requirements, and credit controls towards the financial system will retard financial development, foreign direct investment, and hence economic growth. While financial liberalization would stimulate financial development and favor productive investment and growth.

The Haussmann and Fernández-Aria's Conception on its part considers FDI as an alternative way of financing the economy,a means different from capital markets and therefore should be higher in countries with weak financial systems than order wise. They explain and argue that FDI inflow is normally higher in countries which are financially under-developed and at the same time having weak institutions. According to this viewpoint, FDI directly substitutes financial market development, since it overcomes the difficulties of investing through the capital markets, considering that shareholders' rights are hardly protected in the latter case. It is therefore expected that FDI relates negatively with financial development.

They maintain that although the share of FDI in total liabilities tends to be higher in countries that are safer, more promising, and having better institutions and financial markets, this share of FDI in total flows cannotbe an indication of a healthy economy. On the contrary, countries that have greater risks, though with less financially developed markets and weaker institutions will attract less capital; even though most of it is usually in the form of FDI.Razin, (2003) equally demonstratesthat the share of FDI in total inflows is higher in riskier countries.

However, (Claessens et al., 2001) contradicts the impression in that more FDI is attracted by countries with good institutional and fundamental framework, and help develop the domestic financial system. This is in line with (Soumaré and Tchana, 2011) that investigated the relationship between financial development and FDI, and concluded that FDI inflow may develop local financial markets through two channels.Firstly, it is believed that an increase in FDI inflows will increase the funds available to local financial markets (stock market and

banking sector), and these funds will contribute to the development of the financial market. The increase in FDI net inflows will boost the host economy andlead to an increase in available funds.The final result would be an increasedfinancial intermediation through available financial markets or the banking system. Secondly, from the point of view of political economy, more FDI may decrease the political elites' relative power and encourage them to pursue market friendly regulations such as investors' protection and better governance regulations that would improve the financial development of host country.

The relationship between financial development and FDI can be complementary (Hermes and Lensink, 2003) in harnessing the benefits of economic growth of aneconomy. In such situations, the development of the financial system is likely toincrease FDI inflow, and thenbring aboutbetter growth rates. Literature equally suggests that financial system development can reduce the cost of acquiring information and thus enhance resource allocation and accelerate growth by improving on risk management, liquidity and reducing transaction costs, all of which impacts onencouraging investments (Levine, 1997).

Nasser and Soydemir (2010) examined the relationship between FDI and financial development in 14 Latin American countries from 1978 to 2007.Their Granger causality test results revealed a unidirectional relationship between FDI and financial development as well as banking sector development and FDI. The result proves that a better functioning of the financial market is critical for determining the amount of FDI inflows to these countries. The authors argue that FDI could initially enhance stock market development because of the investment opportunities that FDI-related spillover effects usually generate, and as such stock market development could attract more FDI into a country.

In a paper titled "Causality between FDI and Financial Market Development: Evidence from Emerging Markets", (Soumaré and Tchana, 2011) used panel data from 29 emerging markets over the period 1994-2006. They equally employed a VAR system as well as a system of simultaneous equations to assess the Granger-causality between FDI and FMD.Resultsreveal a bidirectional causality relationship between FDI and stock market development indicatorswhilethat with banking sector development indicators were ambiguous and inconclusive.

In a similar note, a study on Financial Development and FDI was carried out in Greece and Neighboring Countries using Panel Data Analysis by (Serkan andIlhan, 2015) for the period 1996-2012 and usingthe Bootstrap causality analyses. The empirical results indicated that FDI has a predictive power to forecast financial development in all of the countries except for Macedonia. In addition, the finding indicates that there was bidirectional causality in Turkey.

Studies on financial development in Cameroon have mostly focused on the link between financial development and economic growth (Tabi et al, 2011)). In this respect this paper attempts an investigation into the long run impact of financial development on foreign direct investment in Cameroon passing through the short run.

3. Methodology

3.1 Data

Theanalyses of this study arebased on time series data which was collected from secondary sources such as the World Bank data base (World Development Indicators) for 2019. The data covers the period running from 1980 to 2017.

3.2 Model Specification

The model used for this study has been adapted from the neo-classical production function based on the dynamic behaviour of an economy, to express the relationship between financial development and foreign direct investment inflows in Cameroon. This model is specified in the form:

$$Y_t = A_t L_t^{\alpha} K_t^{\beta} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

Where Y represents the total foreign direct investment inflow in Cameroon; L, a vector of financial development variables such as broad money, bank deposits and credits made to the private sector; while K, a vector of other variables likely to influence foreign direct investment in Cameroon (control variables) such as gross domestic product, trade openness, and returns on capital. A, is a constant, t time and α, β, the elasticity of the respective variables (L and K).

This foreign direct investment function can be re-written as:

$$FDI = f(BM, BD, TO, PSBC, GDP_C, RIN) \quad \ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Here FDI relates with broad money (BM), bank deposits (BD), Private Sector Bank Credits (PSBC), Gross Domestic Product per capita (GDP_C), Trade Openness (TO) and Returns on Investment or capital (RIN). To permit the estimation of variables, we therefore transform equation (2) into an econometric model and introducing the stochastic term (μ) in the form:

$$\ln FDI_t = \beta_0 + \beta_1 \ln BM_t + \beta_2 \ln BD_t + \beta_3 \ln TO_t + \beta_4 \ln PSBC_t + \beta_5 \ln GDP_{Ct} + \beta_6 \ln RIN_t + \mu \quad \ldots\ldots\ldots (3)$$

Where β_0, β_1, β_2, β_3, β_4, and β_5 are the parameters of the model to be estimated.

Table 1: A Summary Description of Variables

Variables	Definition	Expected sign
Foreign Direct Investment	Foreign direct investment inflow as a percentage of GDP	/
Broad Money	Monetary aggregate (M2) as a percentage of GDP	Positive
Bank Deposit	Total bank deposits as a percentage of GDP	Positive
Private Sector Bank Credits	Sum of bank credits to the private sector as a percentage of GDP	Positive
Economic Growth	Per capita Gross Domestic Product	Positive
Trade Openness	Sum of imports and exports over GDP	Positive
Returns on Investment	Net income minus dividends, divided by total capital	Positive

4. Results and Analysis

Table 2 below presents a summary of descriptive statistics for the variables used in the model.

Table 2: Summary of Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Fdi	38	1.380819	1.173768	0.0378413	5.530867
Bmon	38	17.86507	3.730319	11.05116	23.66621
Band	38	13.79445	2.347633	8.90212	17.7415
Bcps	38	15.45851	8.422457	5.938795	31.24235
Gdpc	38	580718.6	89086.83	454276.1	788218
Open	38	0.487944	0.0998186	0.31745	0.654087
Roin	38	5.943684	3.283778	1.38	13.72

Source: Computed by the Authors.

Results from Table 2 indicates that the average level of foreign direct investment inflow in Cameroun as a percentage of GDP over the period of study was 1.38 per cent, which indicates that Cameroon still face lots of difficulties in convincing foreign investors.This can be seen through a poor business/investment climate in terms of administrative bottlenecks, corruption

and poor institutional framework. The standard deviation is 1.17 which shows a very low variation across the mean value over time with values ranging from 0.04 to 5.53. In terms of broad money measured as a ratio of M2 aggregate to GDP, the average value is 17.86 with a standard deviation of 3.73 indicating moderate variability around the mean value. Values of broad money (money supply) range from 11.05 to 23.67.

Bank deposits as a percentage of GDP vary between 8.90 and 17.74 with an average value of 13.79 and a standard deviation of 2.37. Though bank deposits experienced a significant drop during the crisis period, the volume of deposits in banks is gradually increasing, accompanied by the opening of new banks on the national territory. In terms of domestic credit to the private sector by banks, the mean value stands at 15.45, indicatinga low rate oflocal banks financing. The mean value of GDP per capita is 580718.6with a standard deviation of 89086.83. This indicates a high variability across the mean with a minimum value 454276.1 and a maximum of 788218. It should be noted that the mean value is skewed towards the minimum value indicating poor performance over the period of study. The mean value of trade openness was estimated at 0.487944 while that of return on investment, 5.943684.There is a very low dispersion around the mean of trade openness and a moderate one for return on investment.

From the Table 3 below, it can be observed that all the variables were stationary at the same level. More precisely, all the variables achieve stationarity after differentiating the variable once which therefore implies that all the variable are integrated of first order (I(1)). In such a situation we can presume there is a long run equilibrium relationship among the variables (co-integration) and consequently the error correction mechanism is suitable for estimating the model.

Table 3: Summary of ADF Test Results

Variables	Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value
LFDI	-2.245	-3.675	-2.969	-2.617
D(LFDI)	-4.778	-3.682	-2.972	-2.618
LBMON	-1.568	-3.675	-2.969	-2.617
D(LBMON)	-3.941	-3.682	-2.972	-2.618
LBAND	-1.385	-3.675	-2.969	-2.617
D(LBAND)	-3.411	-3.682	-2.972	-2.618
LBCPS	-1.873	-3.675	-2.969	-2.617
D(LBCPS)	-3.314	-3.682	-2.972	-2.618
LGDPC	-2.201	-3.675	-2.969	-2.617

D(LGDPC)	-5.074	-3.682	-2.972	-2.618
LOPEN	-2.277	-3.675	-2.969	-2.617
D(LOPEN)	-4.703	-3.682	-2.972	-2.618
LROIN	-0.238	-3.723	-2.989	-2.625
D(LROIN)	-8.045	-3.730	-2.992	-2.626

Source: Computed by the authors

On the other hand, the Johansen Co-integration pre-test presented in table below reveals a long run equilibrium relationship among the variables. This was confirmed by the Engle and Granger procedure of co-integration, with the predicted residual of the long run model being stationary at level.

Table 5: Johansen Co-integration Test Result

Maximum Rank	Parms	LL	Eigen Value	Trace Statistic	[5 % Critical Value]
0	154	293.52838		3373.5906	124.24
1	167	863.43139	1.00000	2233.7846	94.15
2	178	1414.6072	1.00000	1131.4330	68.52
3	187	1952.6667	1.00000	55.3140	47.21
4	194	1967.777	0.59979	25.0935*	29.68
5	199	1976.9303	0.42578	6.7869	15.41
6	202	1978.9788	0.11676	2.6897	3.76
7	203	1980.3237	0.07827		

Source: Computed by the authors

Following this short run and long run equilibrium relationships, the error correction model estimation has been adopted to obtain the results presented on Tables 6 and 7 below.

Table 6: Long-run Regression Results

Variables	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
lnBM	0.9617104	3.414644	0.28	0.780	-6.002502	7.925923
lnBD	-3.942191	2.477427	-1.59	0.122	-8.994937	1.110555
lnPSBC	0.7308124	1.443434	0.51	0.616	-2.213091	3.674716
$lnGDP_C$	2.940802**	1.2409	2.37	0.026	-2.891346	6.937579
lnTO	2.287424*	1.157705	1.98	0.057	-0.0737306	4.648578
lnRIN	1.000868*	0.5554537	1.80	0.081	-2.133724	0.1319869
_cons	-18.05987	32.53156	-0.56	0.583	-84.40843	48.28868
R-square		0.7586		R-square Adj.		0.7118
F(6, 31)		16.23		Prob> F		0.0000
Breusch-Pagan Chi2		0.02		P-Value		0.8871

Source: Computed by the author ***p<0.01, **p<0.05, *p<0.1

Table 7: Short-run Regression Results

Variables	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]	
D(lnBM)	3.805613	2.413266	1.58	0.126	-1.130069	8.741295
D(lnBD)	-3.529744*	1.969315	-1.79	0.083	-7.541108	0.4816194
D(lnPSBC)	2.426058**	1.032664	2.35	0.025	0.3225902	4.529526
D(lnGDP$_C$)	3.911367**	1.625211	2.41	0.022	0.6048511	7.217882
D(lnTO)	0.505037	1.325385	0.38	0.706	-2.205679	3.215753
D(lnRIN)	0.371535	0.836722	0.44	0.660	-2.082822	1.339753
ECT$_{t-1}$	-1.2115***	.181675	-6.67	0.000	-1.583092	-0.839958
_cons	0.0385715	.1746145	0.22	0.827	-0.318555	0.3956983
R-square		0.6423		R-square Adj.		0.5560
F(7, 29)		7.44		Prob> F		0.0000
Breusch-Pagan Chi2		1.46		P-value		0.2273

*Source: Computed by the Author****p<0.01, **p<0.05, *p<0.1

In fact, our model was significant at 1 per cent given that the probability value of the Fischer statistics (0.0000) is far lower than 0.01, and at the same time portrays convergence considering that theerror correction term or coefficient (ECT) was negative and significant. Thus, the dependent variable will always converge to its long run equilibrium trajectory after a short run shock or what we call a disequilibrium. In fact, an error correction term of -1.2115 implies that 121.15% of a disequilibrium in foreign direct investment inflow observed at period t as a result of a shock will be restored at period t+1, everything being equal.

Broad money (BM) defined as narrow money (M1)comprises transferable deposits and currency outside money deposited in banks, plus quasi money comprising time savings and foreign currency deposits of banks. In this study the Ratio M2 to GDP will be used and it provides a measure of the real size and depth of the financial sector and financial development. The results from tables 6 and 7 show that broad money relates positively with foreign direct investment inflows into Cameroon both in the short and long run periods,and suggests that the higher the value of money in circulation, the higher will be the inflow of Foreign Direct Investment into the country. For instance, a percentage increase in broad money will result to a 0.96 per cent increase in Foreign Direct Investment. However, these resultsshow that broad money does not affect foreign direct investment significantly since the p-value is greater than the 0.1 (10%). These resultsare in contradiction with the findings of (Otchere et al., (2011) who found a significant positive effect of six indicators of financial development including money supply on Foreign Direct Investment inflow in Africa.This outcome can be attributed to the fact that Cameroon has very little control over its monetary policy and therefore broad money since the

country belongs to the Central Africa Monetary Union (UMAC) and use a common currency called the Communauté Française d'Afrique (CFA) francs. This indicator measures the degree of monetization of an economy, and is usually considered as a standard measure of financial development(King and Levine 1993a, b).In developing countries, a large component of the broad money stock is currency held outside the banking system.

On the other hand, bank deposits relates negatively with FDI both in the short and long run periods, meaning that an increase in the former will lead to a reduction in the flow of Foreign Direct Investment into Cameroon during the studied period, all things being equal. Whereas the impact is significant in the short run at 10 per cent level of significance, the reverse is true in the long run. So higher bank deposits do not necessarily translate into higher credit to foreign investors especially in the long run. These findingsare in totalconformity with the idea that the intermediation coefficient of banks in Cameroon is very low. The results further contradicts the findings of Ghasemi and Mehregan (2014) that claimed that there was a positive effect of financial development indicators such as the size of banking sector activities on Foreign Direct Investment inflows in Middle East and Northern Africa (MENA) countries.

Finally, ourthird component of financial development considered in this study (private sector bank credits) relates positively with Foreign Direct Investmentin both periods (short and long run)but was statistically significant only in the short run periodand only at 5 per cent.

Going by the control variablesincluded inour study (non-financial development variables), the results show that of the three, only per capita GDP had a significant impact on Foreign Direct Investment inflows into Cameroon between 1980 and 2017 in the short run and at 5 per cent level of significance. Interestingly and as expected, all three had a positive relationship with Foreign Direct Investment flows to Cameroon in both periods and again, all three (trade openness, per capita GDP, and returns on capital) exert each a significant impact on FDI flows to Cameroon thoughat different levels of significance.

5. Conclusion

The results show that the three components of financial development used and investigated in this study even though affects foreign direct investment positively in both short run and long run periods; none was statistically significant in the long run. In a nutshell, we can draw two

majorconclusions from this.Firstly, there was no significant impact of financial development on foreign direct investment inflow to Cameroon in the long run.So,the statistical significance of the positive impact of financial development on foreign direct investment to Cameroon was limited to the short run period.Secondly, although there was a significant impact of per capita GDP which is a proxy for economic growth on foreign direct investment at 5 per cent level,the absence of a direct impact of financial development on FDI in the long run may mean that there will be no significant impact on the growth of the economy. This is true considering that the latter directly and highly depends on investment (FDI) especially in a developing economy like Cameroon, where actual savings are short of planned savings.

However, the relationship between FDI and financial development in Cameroon is inclusive in both the short run and long run periods. The results of the regression analysis confirm conclusions of other studies.Secondly, financial development and FDI inflow in most studied countries are not substitutes but complementary. A developed financial system will pave the way for attracting more FDI (Bayar and Ozel, 2014), Korgaonkar (2012) and (Desbordes and Wei, 2014).

Based on this conclusion, wethus recommend policies encouraging growth in the size of the financial system such as reduction in interest rates to permit the use of the available deposits, a reduction in tariffs and better custom services to allow for a more trade openness. The creation of a national currency will permit a better management of broad money and its impact on foreign direct investment inflows as well as a better vision of the impact of financial development on foreign investment and other policies.

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