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Nexus Between Foreign Divestment, Financial Development and Economic Growth in African Countries: GMM Approach

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Abstract:

This article is one of the first initial investigations to thoroughly examine the relationship between foreign divestment, financial development, and economic growth in African countries, providing empirical evidence to help policymakers align investment strategies and promote stable economic conditions in various African contexts. The objective of this paper is to examine the relationships between foreign divestment, financial development, and economic growth in African countries, emphasising the multifaceted socio-economic factors that affect these interactions. Employing a 2-step difference Generalised Method of Moments (GMM), we examine panel data from 35 African nations over a span of two decades. Data were sourced from the World Bank database, which facilitates a comprehensive analysis of economic indicators such as political stability, exchange rates, and trade openness. The findings demonstrate a negative correlation between foreign divestment and economic growth, while financial development exhibits a positive relationship with foreign divestment. These findings highlight the importance of economic policies that promote financial development while alleviating factors that lead to foreign divestment. Data constraints in specific African countries, especially in areas with limited financial disclosure, can affect the generalisability of the findings. Furthermore, economic and political factors in African countries are prone to instability, which can impact long-term forecast precision.

Keywords:

Economic Growth, Foreign Divestment, Financial Development, Africa, GMM

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Introduction

Buckley (2018) stressed that Multinational enterprises (MNEs) enter foreign markets for various reasons, chiefly to maximise shareholder value. According to Vanninen, Keränen, & Kuivalainen (2022), other motivations to enter foreign markets may be related to efforts aimed at expanding market penetration for their products or improving operational efficiency. This signifies their intention to ensure that the geographical sites of their product manufacturing are economically sustainable. Investments in these multinational corporations can involve the construction, acquisition, or enhancement of their business operations in the respective host countries. Foreign direct investment (FDI) is a vital element for developing countries, particularly in Africa, where numerous nations face sluggish economic growth, high unemployment rates, substantial poverty levels, and limited domestic savings.

Similarly, as these MNEs engage in foreign market investments through FDI, they may also opt to downsize, divest, or terminate certain subsidiaries. The actions of MNEs have led to a significant occurrence in recent years termed foreign divestment (FD), also referred to as divestiture (Ketkar, 2006). According to Kolev (2016), FD is characterised as the divestiture of an asset by MNEs via multiple methods, including the sale of affiliates, downsizing, exchange, and closure. Divestment or divestiture has consistently risen in the global economy, necessitating the attention of policymakers due to its effects on both MNEs and the economies of the host countries. This situation is particularly grave on the African continent, as many countries face elevated poverty levels, sluggish economic growth, and a predominant reliance on foreign direct investment for economic progress.

According to Steenhuis & de Bruijn (2009), there are two types of divestiture: those that are voluntary and those that are involuntary. The former includes nationalisations, and the latter is when organisations expropriate assets. In addition, the authors distinguished between proactive divestitures, which are based on future changes, and reactive divestitures, which are based on past changes. Furthermore, Yadav & Iqbal (2020) agreed with this differentiation and pointed out that voluntary divestiture is more prevalent than involuntary one.

Since there are a variety of factors that might influence MNEs' decisions to withdraw their investments from countries in which they had previously made a financial commitment, it is also relevant to examine the reasons behind divestment. The following are some of the reasons why companies divest: changes in technology, unsatisfactory performance of the subsidiary, the need to diversify after acquisitions or mergers, or to meet the requirements of competition authorities (Borga, Flores, & Sztajerowska, 2020). In the event of a significant political shift, unfavourable economic conditions, or a financial catastrophe, these MNEs may choose to divest for ethical, political or socioeconomic reasons (Borga et al., 2020).

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This paper seeks to provide academic clarity, substantiated by empirical evidence from the following African countries during the period from 2000 to 2020: Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Democratic Republic of Congo, Egypt, Eswatini, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Kenya, Madagascar, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, South Africa, Republic of Congo, Togo, Tunisia, Uganda, and Zambia. This period is notable because financial markets worldwide were affected by the global financial crisis (GFC), prompting an examination of the FD-FIN nexus. By establishing connections among foreign divestment (FD), financial development (FIN), and economic growth (EG), we improve the academic literature and offer a framework for refinement of policy development and evidence-based solutions for policy formulation in Africa. The remainder of the paper is organised as follows: Section 2 presents a summary of the pertinent literature regarding the fundamental concepts. The methodology is described in Section 3. The empirical findings of this study are presented and discussed in Sections 4 and 5, while Section 6 offers the conclusion and policy implications.

Literature Review

This study examines various fundamental theories that influence foreign divestment (FD) decisions made by multinational enterprises (MNEs). Dunning's (1980) eclectic paradigm theory posits that foreign direct investment (FDI) is driven by three primary advantages: competitive, internalisation, and ownership benefits. As these advantages wane, multinational enterprises are more inclined to divest. Boddewyn's (1983) divestiture, or "reverse" theory, posits that foreign direct investment (FD) transpires when any of the three specified conditions cease to be fulfilled. The resource-based view (RBV) asserts that multinational enterprises (MNEs) will maintain subsidiaries possessing valuable, rare, and inimitable resources, thus reducing the likelihood of divestment when these competitive advantages are pronounced (Wernerfelt, 1984). Nevertheless, as external conditions evolve, resources that previously provided an advantage may decrease in value over time, making the Resource-Based View an important but constrained framework for comprehending divestment (Pusa, 2025).

On the other hand, the institutional view (IBV) emphasises the influence of external regulatory and institutional contexts on multinational enterprise (MNE) decisions, indicating that political stability and strong legal frameworks reduce the likelihood of divestment, while unstable institutions increase the risk of divestment (Pusa, 2025). Ultimately, the real options theory posits that, under uncertain market conditions, multinational enterprises may postpone divestment as a strategic decision, acknowledging the potential future value of deferring action (Schmid, 2021). These theories collectively highlight the impact of internal resources and external macroeconomic factors such as institutional stability, regulatory frameworks, and market uncertainty on divestment decisions in Africa.

Moloi & Maduane-Komape (2024) examined the relationship between foreign divestment (FD), domestic investment, and economic growth in the Southern African Development Community during the Covid-19 Pandemic using the ARDL approach. Moloi & Maduane-Komape (2024) stressed that immediate economic circumstances can be negatively impacted by changes in foreign investment, thereby disturbing both domestic investment and overall economic performance. Unlike the research conducted by Djokoto, Hysa & Mansi (2024), the investigation by Moloi & Maduane-Komape (2024) recognised economic growth as the main determinant of foreign divestment but did not examine its effect on foreign divestment in both developing and developed nations. This paper addressed this gap by using the generalised method of moments to determine the relationship between FD, FIN, and economic growth in Africa.

In contrast to Moloi & Maduane-Komape (2024), Iqbal, Iqbal, Ojala, & Sousa (2024) examined foreign divestment and shareholder ` value creation using a large sample of international Nordic firms from 1999 to 2019. Furthermore, Iqbal et al. (2024) overlooked the wider economic and institutional factors that could affect foreign divestment choices. Although Iqbal et al. (2024) emphasise specific factors such as firm age, subsidiary age, and shareholder value creation, they neglected other significant determinants, including economic growth and financial development. Iqbal et al. (2024) found that subsidiary age plays a crucial role, as younger and older subsidiaries impact the parent firm's value differently.

In the same vein, in Africa, disregarding GMM, Maduane-Komape (2025), analysed the causal relationship between foreign divestment, economic growth, and financial development using Pairwise Dumitrescu Hurlin panel casualty tests comprising data ranging from 2000 to 2020. Maduane-Komape (2025) utilised Pairwise Dumitrescu Hurlin panel casualty tests with its limitation to assume cross sectional independence among variables, which can lead to biassed results when cross sectional dependence exists in the data. This paper used the GMM estimation technique, recognised for its capacity to address endogeneity and bias. Maduane-Komape (2025) revealed a unidirectional causal relationship between foreign divestment and economic growth in African countries.

Batsakis, Mohr, Konara, & Koritos (2024) examined the effect of foreign divestment on subsequent firm performance by moderating the role of spatial and temporal dispersion of prior divestment experience using annual data from 1997 to 2016. Batsakis et al. (2024) posited that firms with a low level of spatial dispersion of divestment will not have the opportunity to draw on a varied level of learning, although with an inverse performance effect of foreign divestment that is effectively mitigated by the' previous divestment experience of retailers in spatially diverse and temporally dispersed settings. Furthermore, in contrast to Maduane-Komape (2025), the feasible generalised least squares methodology was employed to examine the effect of foreign divestment. Therefore, this paper is distinctive as it has used

a greater variety of econometric methods (GMM, FGLS, pooled effect, random effect, and fixed effect) to reach a thorough conclusion.

Maduane-Komape & Tshehla (2024) investigated the relationship between foreign divestment, financial development, and economic growth in selected African countries using the Autoregressive Distributed Lag (ARDL) approach. The study addressed a critical gap in the literature, noting that most previous research on foreign divestment (FD) focused on single-country or firm-level analyses, whereas their study adopted a multi-country continental perspective, covering 35 African nations from 2000 to 2020.

Unlike Moloi & Maduane-Komape (2024), who analysed the impact of foreign divestment within the Southern African Development Community (SADC) during the Covid-19 pandemic, Maduane-Komape & Tshehla (2024) broadened the scope to encompass the entire African continent, thus providing a more generalised insight into the long- and short-term dynamics between FD, financial development (FIN) and economic growth (EG).

Maduane-Komape & Tshehla (2024) revealed a long-term positive association between foreign divestment and financial development, suggesting that FD may contribute to deepening financial markets over time, possibly through the reallocation of domestic resources and restructuring of financial systems. Unlike Batsakis et al. (2024), who focused on firm-level divestment experience and its performance effects using the Feasible Generalised Least Squares (FGLS) method, Maduane-Komape & Tshehla (2024) employed the ARDL approach to explore both short- and long-term macroeconomic interactions, offering policy-relevant insights rather than firm-level implications. Furthermore, their study diverged from that of Iqbal et al. (2024), who emphasised shareholder value and subsidiary characteristics, by instead focussing on macroeconomic determinants and consequences of FD in Africa.

In essence, Maduane-Komape & Tshehla (2024) advanced the literature by integrating financial development and economic growth into the divestment discourse within the African context, distinguishing their work through a continental scope, robust ARDL estimation, and policy-orientated analysis, thus complementing and extending prior studies such as Moloi & Maduane-Komape (2024) and Maduane-Komape (2025).

In contrast, using data from 2010 to 2019, Jonsson (2024) examined foreign direct divestments (FDD) in Africa and Colonial Ties, investigating how historical colonial legacies influence divestment decisions across African countries. Jonsson (2024) revealed that, contrary to expectations, there were no significant differences in divestment probabilities between former British and French colonies. Unlike Maduane-Komape & Tshehla (2024), who explored the financial and economic dimensions of divestment using the Autoregressive Distributed Lag (ARDL) approach, Jonsson (2024) integrated historical and institutional perspectives, focusing on colonial heritage as a structural determinant of

divestment. Similarly to Moloi & Maduane-Komape (2024), the study recognised the importance of macroeconomic dynamics but diverged by situating these within a historical-political framework rather than purely economic relationships.

Jonsson (2024) emphasised the need for more refined methodologies, particularly instrumental variable approaches, to address endogeneity concerns and ensure causal robustness, an aspect overlooked in prior studies such as Iqbal et al. (2024). Similar to Djokoto et al. (2022), Jonsson (2024) is constrained by the application of a single methodological approach, which limits the generalisability and robustness of its findings.

Although Matekenya & Moyo (2023) and Jonsson (2024) provide insight into the determinants of divestment, the former focused on economic growth and development within a single-country context (South Africa), while Jonsson (2024) broadened the scope to include historical and institutional influences across multiple African nations. Consequently, this paper identifies a gap in the existing literature by extending beyond economic and historical determinants to examine the comprehensive interaction between foreign divestment (FD), financial development (FIN) and economic growth in Africa through multiple econometric techniques (ARDL, GMM, FGLS, pooled, random and fixed effects).

This paper aims to investigate the relationship between FD, FIN, and economic growth in Africa, contrasting with previous studies. Moreover, the limited studies conducted on this subject have concentrated on specific industries within a singular country or regional context in developed countries, neglecting developing countries, particularly Africa. The findings of the empirical studies conducted are also challenging to generalise. Previous discussions on FD underscore the need to further examine the status of FD in African countries, thereby justifying the need for this study. These African economies may produce results that diverge from those of other developed countries.

Drawing from the theoretical and empirical literature reviewed, this study formulates the following testable hypotheses:

HO1: Economic growth has a significant relationship with foreign divestment in Africa.

HO2: Financial development has a significant relationship with foreign divestment in Africa.

HO3: Foreign divestment, financial development, and economic growth are jointly and dynamically related in Africa.

HO4: The relationship between foreign divestment, financial development, and economic growth in Africa differs across econometric estimation techniques and between the short run and the long run.

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Methods and Data

This paper adopts a quantitative, explanatory research design based on secondary panel data to analyse the dynamic relationships between foreign divestment, financial development, and economic growth in Africa. The data were collected from the World Bank's World Development Indicators (WDI), ensuring consistency, comparability, and reliability across countries and over time. Data analysis was conducted using dynamic panel estimation techniques, primarily the 2-step difference GMM, complemented by diagnostic and robustness tests to validate the empirical results.

A panel data analysis is conducted to evaluate the relationship among foreign divestment, financial development, and economic growth in 35 African countries, which were randomly selected from the World Bank's database of world development indicators (WDI) for the period 2000-2020. The samples are Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Democratic Republic of Congo, Egypt, Eswatini, Gabon, Gambia, Ghana, Guinea, Guinea Bissau, Ivory Coast, Kenya, Madagascar, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, South Africa, The Republic of Congo, Togo, Tunisia, Uganda, and Zambia.

The 2-step difference, Generalised Method of Moments (GMM), denotes a methodology comprising two separate stages to attain a particular outcome. This method is frequently employed in numerous technical applications to ensure clarity and precision in implementation. The GMM model functions as an estimation technique utilised for dynamic panel data analysis. In addition, the GMM methodology for panel data is used to mitigate endogeneity concerns between dependent and independent variables (Wehncke, Makoni, & Marozva, 2022). Furthermore, the GMM estimation method employs the Arellano-Bond approach, which assumes that there is no serial correlation in the errors. It must integrate all linear moment restrictions derived from this assumption into an equation that encompasses individual effects, lagged dependent variables, and omits strictly exogenous variables (Arellano & Bond, 1991).

The study examines the relationships between variables that have become more significant due to new insights obtained during research on different economic periods. The model will demonstrate the degree of variation among the variables and their fluctuations in relation to various economic conditions.

This study used the 2-step difference GMM to effectively resolve the endogeneity problem concerning the dependent and independent variables, along with the instrumental variable lags in both differences and levels. This statistical methodology enables the isolation of endogeneity in both dependent and independent variables by using additional instruments within the model, similar to the approach used by Moloi (2023). The equation for the 2-step difference GMM is delineated as follows:

$$FD_{it} = \alpha FD_{it-1} + \beta_1 FIN_{it} + \beta_2 EG_{it} + \sum_{n=1}^{i} \beta Xit + \mu_i + \varepsilon_{it} \quad \textbf{(1)}$$

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where, FD_{it} is foreign divestment, FIN_{it} is financial development, and EG_{it} is economic growth. FD_{it-1} is the first lag of the dependent variable for country i at a t-1 time period. The X_{it} is a vector of explanatory variables. The time invariant country specific effects are captured by whilst ε_{it} is the error term.

Magwedere (2019) emphasised that GMM models are typically straightforward to estimate when N>T, and become distorted when N<T. This paper has conducted all necessary pre-test diagnostics, including tests for stationarity, serial correlation, multicollinearity, and heteroskedasticity. Pesaran & Shin (1998) emphasised that the assumption of homogeneity regarding the slope coefficients of the lagged dependent variable is likely to yield unreliable long-run estimates in the presence of heterogeneous slope coefficients. Consequently, to address the problem of over-identification, we employed the Sargan and Hansen tests, with the results presented in Table 2. The Sargan test results are satisfactory for the one-step option when H1 is accepted, indicating that H0, which asserts the presence of over-identification restrictions, is rejected. The Hansen test is employed to assess whether a dataset exhibits significant over-identification within a heteroscedastic matrix. Both tests recognise the over-identification problem, and to address this limitation, the quantity of groups must consistently exceed the quantity of instruments. In this study, the number of instruments in the model was limited by constraining the lags to one period to mitigate the risk of over-identification.

Results and Discussion

The results of our regression analyses are displayed here.

Variable	Obs	Skewness	Kurtosis	Jarque-Bera	Prob	Median	Mean	Std. Dev.	Range	Min	Max
FD	735	10,24	162,15	788485,60	0.00	0,26	0,70	1,75	32,70	0,00	32,70
FIN	735	1,58	5,09	440,25	0.00	15,05	22,54	19,79	106,26	0,00	106,26
EG	735	0,97	4,95	232,28	0.00	4,45	4,70	2,77	18,30	0,03	18,33

Table 1: Descriptive statistics output summary (2000-2020).

Table 1 shows that the variables with the lowest mean values below the overall average of 9.31 (calculated as the sum of the mean values divided by the number of variables) include net FDI outflows as a percentage of GDP (proxy for foreign divestment) and annual GDP growth (proxy for economic growth).

In addition, Table 1 indicates that financial development (FIN) ranges from 0.00 to 106.26. At the upper threshold of 106.26, several economies included in the sample exhibit signs of financial instability. Weak

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financial development suggests that efforts to close the financial gap and reduce poverty have not sufficiently translated into sustained poverty reduction or employment creation in many African countries.

Table 1 also reveals that foreign divestment (FD) ranges from 0.00 to 32.70 over the period 2000–2020. Notably, African economies largely avoided global foreign divestment in 2018, as reported by the OECD (2019). This outcome was mainly driven by rising prices of selected commodities and an increase in non-resource-seeking investment in certain countries. While South Africa, a major African economy, was largely insulated from global divestment trends, countries such as Nigeria and Egypt were not (OECD, 2019).

Descriptive statistics further indicate that economic growth in African countries, measured as a percentage of GDP, remained relatively modest during the study period. The average economic growth rate was 4.70, with a standard deviation of 2.77, and values ranging from a minimum of 0.03 to a maximum of 18.33.

Based on the descriptive statistics presented in Table 1 and the preceding discussion, the data show no evidence of significant errors or outliers; therefore, the study proceeds with the main empirical analysis.

Below are the results of the 2-step difference Generalised Method of Moments (GMM) that was used to analyse the relationship between foreign divestment and the other key concepts of financial development (FIN) and economic growth (EG) as independent variables, along with the other control variables that were specified in the model.

Variables	**Pooled Effects** FD	**Fixed Effects** FD	**Random Effects** FD	**2 Step Diff GMM** FD	**FGLS** FD
Lag. Foreign Divestment	0.3242 (0.000)	0.1821 (0.000)	0.3242 (0.000)	0.4830 (0.344)	0.3242 (0.000)
FIN	0.0019*** (0.655)	0.0210** (0.059)	0.0019*** (0.655)	0.4804 (0.487)	0.0019*** (0.652)
EG	0.0181** (0.630)	0.0391** (0.317)	0.0181** (0.630)	-0.9482*** (0.347)	0.0181** (0.627)
_constant	-0.3183*** (0.226)	0.4020 (0.482)	-0.3183*** (0.226)		-0.3183*** (0.222)

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Variables	**Pooled Effects** FD	**Fixed Effects** FD	**Random Effects** FD	**2 Step Diff GMM** FD	**FGLS** FD
N	700	700	700	665	700
R^2		0.0144			
Instruments				20	
Groups				35	
AR1				-1.11	
AR2				0.03	
Sargan				1.68	
				(0.989)	
Hansen				5.14	
				(0.742)	

Table 2: Relationship between FD, FIN, and Economic Growth – GMM

**P< 0.05; **P<0.01; ***P<0.001* denotes the levels of significance. Standard errors in parentheses

Based on the findings in Table 2 above, the lagged dependent variable in the model (lag of FD) indicates that there is positive persistence or accumulation in foreign divestment over the full analysis period (2000-2020). FD is a substantial global phenomenon that influences the economies of both the host and the home countries, as well as their financial development (Borga et al., 2020). Financial development is crucial for a nation's economic development, as it addresses the financial gap, generates employment, and alleviates poverty (OECD, 2019). Matekenya & Moyo (2023) illustrated that financial development is adversely affected by FD.

The 2-step difference in GMM in Table 2 shows that there is a positive and insignificant relationship between FD and FIN. In theory, FIN encourages economic growth through capital accumulation and advanced technology by raising the rate of return, mobilising and accumulating investments, processing investment opportunity data, enhancing and promoting foreign capital inflows and improving capital distribution. Although emerging economies are the focus, they attract significant foreign capital flow if they need financing. The limited effect of FD on FIN suggests that improving FIN may not be enough to affect FD in African countries. To stabilise investment, policy makers should consider extensive interventions that address structural and institutional factors such as governance, political risk, and legal frameworks. Boosting innovation, access to financial services, and financial systems could further boost the impact of financial development on foreign divestment.

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Matekenya & Moyo (2023) examined foreign divestment, economic growth, and development in South Africa from 1991 to 2019. Their study found that foreign divestments harmed economic growth. Table 2 shows that FD had a statistically significant but negative relationship with EG in Africa from 2000 to 2020. The results show that FD is driving EG away from Africa. To retain foreign investment, policy makers should reduce regulatory burdens, improve infrastructure, and ensure political and economic stability. To stabilise investment flows and mitigate foreign divestment's effects on EG, authorities must diversify economies and reduce dependency on volatile industries. Given that foreign investors would receive little return on investment, an economy with low economic growth potential is unlikely to attract FDI over time. Simionescu (2016) found that infrastructure shortages discourage EG and promote FD.

Conclusions

The study underscores the substantial and complex influence of foreign divestment (FD) on economic growth (EG) and financial development (FIN) in African countries from 2000 to 2020. The analysis indicates that FD negatively affects economic growth and intensifies unemployment, while the minimal impact on financial development highlights the inadequacy of existing financial systems to mitigate divestment risks. In light of these findings, the paper advises policymakers to adopt comprehensive strategies to alleviate the negative impacts of foreign divestment. Measures must encompass the reduction of regulatory burdens, the assurance of political and economic stability, and the investment in infrastructure to cultivate a more appealing environment for investors. In addition, structural reforms are crucial to improve governance, refine legal frameworks, and alleviate political risks. Developing human capital through education and digital literacy initiatives can cultivate a more proficient workforce, improving employment and economic resilience. Ultimately, diversifying economies beyond their dependence on resources and promoting trade openness through stable and predictable trade policies can improve growth and diminish the susceptibility of the continent to foreign divestment.

The findings of this study provide actionable information for policymakers, financial regulators, and business professionals operating in African economies. The significant interaction between foreign divestment, financial development, and economic growth highlights the importance of strengthening domestic financial systems to improve economic resilience. Regulatory authorities and financial institutions should prioritise financial market deepening, improved access to credit, and stable policy environments to mitigate the adverse effects of foreign divestment and support sustained economic activity. From a business and investment perspective, foreign divestment should not be viewed solely as an economic failure; rather, it can serve as an opportunity for domestic firms and investors to reallocate resources, acquire divested assets, and strengthen local ownership structures. Investment promotion agencies should therefore adopt adaptive strategies that manage divestment risks while leveraging potential long-term benefits for domestic investment and economic growth.

From a theoretical point of view, this study contributes to the applied business and management literature by extending foreign divestment theories through the integration of financial development and economic growth within a dynamic African context. By employing robust panel estimation techniques, particularly the Generalised Method of Moments (GMM), the study demonstrates that foreign divestment is influenced not only by firm-level or ownership advantages but also by broader macroeconomic an employing conditions, thus reinforcing and extending frameworks such as Dunning's eclectic paradigm, the institutional view, and the theory of real options. These findings suggest that traditional divestment theories require contextual adaptation when applied to developing economies. Future research may build on this study by incorporating institutional quality, governance indicators, or political risk variables, as well as by conducting firm-level or sector-specific analyses to better capture managerial decision-making processes. Further empirical work using alternative methodologies or extended datasets would also enhance the robustness and generalisability of the findings.

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