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Effect of IFRS Adoption and Institutional Quality in FDI Attraction in MENA Countries

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Abstract. This study investigates how the adoption of International Financial Reporting Standards (IFRS) affects FDI Attraction in MENA economies and investigates the moderating role that institutional quality plays in the relationship between IFRS accreditation and FDI attraction. Using panel data from 22 MENA countries from the period 2002 to 2022, the study presents and discusses regressions Diagnostics: The study reviews the empirical results of the variables using the panel Ordinary Least Squares (OLS), DOLS, and FMOLS and employs the generalized methods of moment (GMM) and a bias-corrected Least Square Dummy Variable (LSDVC). The study found that IFRS adoption is positively related to increasing FDI flows, but there are other factors that must be taken into consideration in conjunction with the adoption of IFRS, including institutional quality indicators. This study enhances knowledge of the IFRS-FDI nexus by analyzing the influence of institutional quality on the relationship. It offers a deeper understanding of how global accounting standards influence economic outcomes across various governance contexts, providing fresh insights into policy and economic growth. The results of this study indicate to decision makers that adopting IFRS should not be done as a stand-alone strategy aimed at increasing FDI flows. Rather, it should be taken as a specific measure for institutional reforms aimed at improving institutional quality levels. MENA countries that have adopted or are planning to adopt International Financial Reporting Standards (IFRS) should focus on implementing comprehensive institutional reforms to enhance the effectiveness of the adoption decision.

Keywords: MENA countries; IFRS Adoption, Institutional quality, FDI.

1. INTRODUCTION

The International Financial Reporting Standards, commonly called IFRS, are bookkeeping guidelines issued by the International Accounting Standards Board (IASB). The adoption of IFRS shows an organization's critical position so that the financial summaries of the organization are justified and practically identical across global borders (Posner, 2013). IFRS is characterized by transparency, which enhances this by highlighting the most important advantages of IFRS adoption in the countries of the world, especially developing countries, as this transparency enhances confidence in the global financial markets, as the IFRS adoption is very important for companies that are interested in foreign investments and that work to keep abreast of developments surrounding the accounting side. The consolidation of the financial statements helps investors analyze companies by facilitating comparisons between one company and another and making it easier for basic analysis of their performance. (Bertrand et al. 2021; De George et al. 2015).

The adoption of IFRS at the international level is important and has an impact on the results of the financial statements, as it has become necessary for the financial statements to provide more accurate and reliable accounting information (Zaidi & Huerta, 2014, AL-Tuwaijari et al., 2024). Through this accounting information, it can be considered that this is what IFRS offers as a product that can provide more quality information to its users (Doç & Özcan, 2016). The quality of financial data plays a major role in influencing investors' future decisions and investment plans, as it provides more accurate and transparent financial data through which investment opportunities can be created in different countries (Nejad et al., 2018). Thus, it is considered that the quality of the financial statements represented by the IFRS adoption has economic consequences and the movement of the money market in the countries that adopt the IFRS (Akisik and Gal, 2019).

Many factors and variables play a role in the size and efficiency of foreign investments, as well as the size of economic growth. Among these are political, social, and cultural factors. In general, institutional quality indicators express many of these variables that have on investors' decisions as well as on the efficiency of the financial market and thus are important factors for increasing FDI flows as well as economic growth (Duenya & Tsegba, 2020; Owusu et al., 2017). Several past studies have examined the impact of institutional quality indicators on attracting FDI by country (Cieślik & Hamza, 2022; Kurul, 2017; Owusu et al., 2017). From the results of these studies, we can say that institutional quality role in attracting FDI flows because investors are very interested in political stability in the countries in which they wish to invest, as well as the political relationship of these countries with neighbouring countries, the level control of corruption and law enforcement, and the level of education and democracy in these countries. Therefore, there is great interest by governments to give a good picture of institutional quality indicators to attract more FDI, which in turn works to increase economic growth and manage resources in a way that can be used as best as possible (Gossel, 2018; Kapuria & Singh, 2019; Nassour et al., 2020).

The MENA region is considered one of the regions with an abundance of natural resources and diversity in economic levels and provide an interesting background to revisit these issues (Mameche & Masood, 2021;

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Siriopoulos et al., 2021). however, very limited studies have been carried out in MENA countries (Mameche & Masood, 2021). Thus far, previous studies show that MENA countries suffer from a low economic level, high levels of unemployment, inflation, poor infrastructure, and scarcity of effective investments (Mameche & Masood 2021; Siriopoulos et al. 2021). Therefore, this study is concerned with finding accurate results to explain the relationship between the IFRS adoption and FDI.

2. RELATED LITERATURE AND HYPOTHESES DEVELOPMENT

This study attempts to examine the effect of IFRS adoption on FDI, which in turn is expected to increase economic growth. Since institutional quality is an important factor in attracting FDI, IFRS adopting countries with better institutional quality are expected to be able to attract more FDI therefore institutional quality is expected to moderate the relationship between IFRS adoption and FDI. developed seven hypotheses the first is a major study of the relationship between IFRS adoption and FDI attraction and six hypotheses to determine the role of the moderating variable for institutional quality indicators.

2.1. IFRS Adoption and FDI

One of the longstanding challenges for foreign investors has been the inconsistency in accounting information, which hinders their ability to make informed investment decisions. The adoption of IFRS addresses this problem by improving the quality and comparability of financial information, which is critical for reducing information asymmetry. Information asymmetry is a significant determinant of FDI, as investors require clear, reliable, and comparable data to assess risks and opportunities effectively. IFRS adoption enhances transparency, allowing investors to have a broader and clearer vision when making investment decisions (Abad et al., 2018; Wolla, 2017). This reduction in uncertainty is expected to positively impact FDI flows.

Additionally, IFRS adoption reflects a country's commitment to aligning with global accounting standards, signaling institutional strength and economic reform. For foreign investors, such alignment reduces the costs of interpreting financial information prepared under diverse local accounting systems, making the investment process more seamless. This harmonization of accounting standards facilitates cross-border investments, particularly for multinational corporations already operating in IFRS-compliant jurisdictions. Empirical studies, such as those by Alhassan Musah, 2020; Duenya & Tsegba, (2020); Nejad et al., (2018), have consistently reported a positive relationship between IFRS adoption and FDI flows, reinforcing the expectation that adopting these standards is beneficial for attracting foreign investment.

Although some studies, such as Nnadi & Soobaroyen, (2015); Zouita et al., (2019), have identified negative relationships between IFRS adoption and FDI, these findings are typically influenced by specific contextual factors. Implementation challenges, weak institutional frameworks, or the absence of complementary reforms may limit the positive impact of IFRS in certain cases. However, in contexts where governance is relatively robust and the adoption process is well-managed, the benefits of IFRS in enhancing transparency and comparability are more likely to translate into increased FDI flows.

Finally, although (Mameche & Masood, (2021), highlighted a negative relationship between IFRS adoption and long-term FDI inflows in GCC countries, they also noted short-term positive impacts. This indicates that the relationship may depend on specific country characteristics, the implementation process, and the institutional environment. Overall, the hypothesis that IFRS adoption positively influences FDI flows remains valid, particularly in contexts where the adoption process is effectively implemented and supported by broader economic reforms.

Based on the above discussion this study expects a positive relationship between IFRS adoption and FDI flows as stated in the following hypothesis:

H_1: IFRS adoption is positively associated with FDI.

2.2. Institutional Quality as a Moderating Variable between IFRS Adoption and FDI

Institutions are considered the basis of economic activities in any country because they create the operational environment that enhances the economic activities that governments compete to develop in order to reach their economic goals. They also help in organizing the foundations of social, economic and financial transactions within any country (Zaidi & Huerta 2014).

These factors within the organization are called indicators of institutional quality. Past studies have identified various institutional quality indicators. The most widely used institutional quality indicators are political stability and the absence of violence, voice and accountability, control of corruption government effectiveness, , the rule of law, and regulatory quality (Zehri & ABDELBAKI, 2013). Through these indicators, an idea can be given about the level of government effectiveness in managing economic and financial activities, the extent of government intervention in controlling corruption, and the impact of political stability and law enforcement in protecting investors and providing the latest financial systems for the purpose of economic growth (Zaidi & Huerta 2014).

On this basis, the tendency of most governments to develop the institutional and accounting side in order to reach the best levels of economic growth, and since previous studies show that the institutional system has a greater impact on the financial system, the tendency of most countries with weak institutional quality to adopt

IFRS in order to get rid of the inaccuracy of information that was provided by the previous financial systems, on the other way, accreditation of IFRS alone is not sufficient for a country to achieve any economic result unless it is supported by a strong institutional framework through which the best economic results can be reached (Owusu et al. 2017).

Most previous studies used institutional quality as control variables, only one study by Owusu et al. (2017) examined institutional quality indicators as moderating variable between IFRS adoption and FDI, the results of this study showed that the relationship between IFRS adoption and FDI is not significant, but institutional quality indicators are positively associated with FDI.

According to Jayeoba et al., (2016), the difference in the results of the relations was due to the fact that the adoption of IFRS alone is not enough to attract FDI under certain conditions. Studies (Jayeoba O O et al., 2016; Owusu et al., 2017; Uchenna & Matthias, 2016), found that institutional quality such as political stability, voice and accountability, regulatory quality, government effectiveness, control of corruption, and the rule of law are important in attracting FDI (Matthew Yaw Owusu et al., 2021a; Saha et al., 2022a). IFRS adopting countries with better institutional quality are more likely to attract more FDI. Therefore, the third hypothesis examines the moderating role of institutional quality as follows:

H_{2} The positive association between IFRS adoption and FDI is stronger (weaker) if a country has high (low) institutional quality.

H_{2a} The positive association between IFRS adoption and FDI is stronger (weaker) if a country has high (low) political stability.

H_{2b} The positive association between IFRS adoption and FDI is stronger (weaker) if a country has high (low) voice and accountability.

H_{2c} The positive association between IFRS adoption and FDI is stronger (weaker) if a country has high (low) voice and accountability.

H_{2d} The positive association between IFRS adoption and FDI is stronger (weaker) if a country has high (low) government effectiveness.

H_{2e} The positive association between IFRS adoption and FDI is stronger (weaker) if a country has high (low) regulatory quality.

H_{2f} The positive association between IFRS adoption and FDI is stronger (weaker) if a country has high (low) rule of law.

H_{2g} The positive association between IFRS adoption and FDI is stronger (weaker) if a country has high (low) control of corruption.

3. RESEARCH DESIGN

The research design determines the study variables and the analytical techniques that will be used in the study. The main objective of this study is to investigate the effect of IFRS on FDI inflows, specifically assessing whether institutional quality indicators play a moderating role in the relationship between IFRS adoption and FDI. Given that the research focuses on examining relationships between variables, it adopts a quantitative approach and utilizes a panel data design.

3.1. Sample Selection and Data

The Middle East and North Africa countries or in short MENA countries, are generally known as the part that extends between the continents of Asia and Africa. It has an area of 9571108 km² and consists of 22 countries which are Iraq, Egypt, Saudi Arabia, Jordan, Algeria, Tunisia, Djibouti, Bahrain, Morocco, Israel, UAE, Libya, Oman, Mauritania, Yemen, Sudan, Syria, Kuwait, Palestine, Lebanon, Qatar, and Iran; which represent approximately 6% of the world's population (Bank 2004; Dimitrova & Triki 2018). This study focuses on MENA countries because the level of FDI flows is weak compared to the rest of the world despite all the natural resources that this region possesses. Figure 1, which provides a summary of FDI flows to MENA countries compared to the rest of the world. shows that this raises many questions.

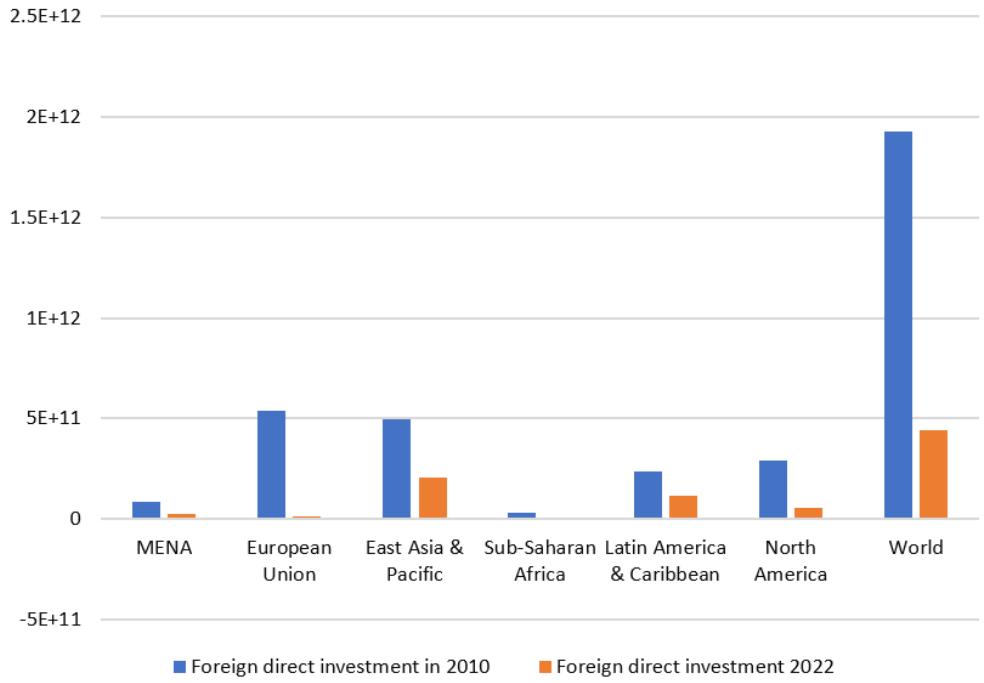

Figure 1: Summary of FDI flows in MENA countries and the world.

IFRS was globally adopted following the establishment of the (IASB) in 2001. A significant milestone occurred in 2002 with the Norwalk Agreement between the IASB and the U.S. Financial Accounting Standards Board (FASB), aiming to harmonize IFRS with U.S. Generally Accepted Accounting Principles (GAAP). This collaboration underscored a global commitment to converging accounting standards (Hail et al., 2009).

Given that institutional quality data from the World Bank's Worldwide Governance Indicators (WGI) project became available annually starting in 2002 (Kaufmann et al., 2011). this study conducts a twenty-year analysis from 2002 to 2022 for each country. This timeframe aligns with the availability of institutional quality data and the period following the pivotal developments in IFRS adoption.

This study focuses on all MENA countries, Consequently, 22 countries were included in the final empirical analysis. This study relies on secondary data sources for the analysis. Data on countries' IFRS adoption status were obtained from the Internet database of IFRS (*IFRS - The Use of IFRS® Accounting Standards around the World*, n.d.). Data on the FDI was sourced from the World Development Indicators (WDI) database published by the World Bank.

Data on institutional quality indicators, political stability, control of corruption, voice and accountability (a measure of democracy), government effectiveness, regulatory quality, and the rule of law, are sourced from the Worldwide Governance Indicators (WGI) project. The WGI database, accessible at www.govindicators.org, is a respected tool for measuring governance performance globally. It aggregates data from multiple sources, offering a robust framework for evaluating various countries' institutional quality and governance practices. Table 1. summarizes all variables for the study, their measurement, and data sources. All financial data are stated in USD for comparability and consistency.

Table 1: Variable description, measurement, and source of data.

No	Indicators	Explanation	Measurement	Source
1	IFRS (DUMMY)	International Financial Reporting Standards	The dummy variable equal to 1, if a country has adopted IFRS; 0, otherwise	The IASB's webpage (http://www.ifrs.org)
2	IFRS(LEVEL)	International Financial Reporting Standards	A score measured on a 0–6 scale	Based on characteristics defined by IASB (2016)
3	FDI	Foreign direct investment	-Natural logarithm of Foreign direct investment, net inflows	World Development Indicator (WDI) by the World Bank
4	Political stability	Reflects the extent of security and political stability within the country also reflects foreign policies and the levels of violence and terrorism within the country	Measured in units ranging from −2.5 to 2.5	World Bank's Worldwide Governance Indicators (WGI)
5	Voice and accountability	Reflects freedom of expression and the extent of the citizen's ability to participate in choosing the government	Measured in units ranging from −2.5 to 2.5.	World Bank's Worldwide Governance Indicators (WGI)
6	Government effectiveness	Reflecting the effectiveness of the government is the government's ability to manage its tasks and responsibilities with high efficiency and excellence, which greatly benefits its citizens.	Measured in units ranging from −2.5 to 2.5	World Bank's Worldwide Governance Indicators (WGI)
7	Regulatory quality	Reflects the overall strength and effectiveness of state institutions, including the legal framework, governance structures, and regulatory environment.	Measured in units ranging from −2.5 to 2.5	World Bank's Worldwide Governance Indicators (WGI)
8	The rule of law	Reflects the extent of trust that agents have in the rules and laws approved by the government	Measured in units ranging from −2.5 to 2.5	World Bank's Worldwide Governance Indicators (WGI)
9	Control of corruption	Reflects the levels of corruption found in large and small administrations and the extent of public authority's ability to achieve private gains	Measured in units ranging from −2.5 to 2.5	World Bank's Worldwide Governance Indicators (WGI)

Source: (Matthew Yaw Owusu et al. 2021; Saha et al. 2022).

4. CONTROL VARIABLES

There are many factors affecting FDI and economic growth, previous studies have dealt with many of these factors, The most important of these factors, are Inflation, Trade openness, level of Development, Level of education, and Savings according to a study (Abdul Bahri et al., 2019; Emalereta & Akandu, 2017; Matthew Yaw Owusu et al., 2021b; Nejad et al., 2018b; Oppong & Aga, 2019; Zaidi & Huerta, 2014b). Theoretically, the dependent variable is affected by the control variable, and this effect must remain constant to test the relative effect of the independent variables.

Table 2: Summary of Control Variables.

Variables	Measurements	Data sources
INFLATION	Natural Logarithm of Inflation	World Development Indicator (WDI) by World Bank
TRADEOPEN	The absolute value of exports plus imports	World Development Indicator (WDI) database published by the World Bank
Tardeoppn	It is the literacy rate in a given country.	World Development Indicator (WDI) database published by the World Bank
Level of development (LOD)	Based on GNI per capita.	World Development Indicator (WDI) database published by the World Bank
Labor force	Represent gross domestic Labor force to GDP	World Development Indicator (WDI) database published by World Bank

5. MODEL SPECIFICATIONS

The main objective of this study is to examine the role of IFRS adoption in increasing FDI flows in MENA countries and the moderating role of institutional quality indicators in the relationship between IFRS and FDI flows. This study developed several hypotheses that will be tested through the regression models specified below.

The first hypothesis of this study, H1, examines the relationship between IFRS and FDI inflows in MENA countries. To test H1, this study uses Model 1a (IFRS dummy) and Model 1b (IFRS level) as follows:

Model 1a

$$FDI_{i,t} = \beta_0 + \beta_1 IFRS\ Dummy_{i,t} + \beta_2 TO_{i,t} + \beta_3 Inf_{i,t} + \beta_4 LOD_{i,t} + \beta_5 Labfor_{i.t} + \beta_6 Tardeoppn_{i,t} + \varepsilon_{i,t}$$

Model 1b

$$FDI_{i,t} = \beta_0 + \beta_1 IFRS\ Level_{i,t} + \beta_2 TO_{i,t} + \beta_3 Inf_{i,t} + \beta_4 LOD_{i,t} + \beta_5 Labfor_{i.t} + \beta_6 Tardeoppn_{i,t} + \varepsilon_{i,t}$$

The second hypothesis of this study, H2, examines the moderating role of institutional quality on the relationship between IFRS and FDI. Indicators of institutional quality are political stability, voice and accountability, control of corruption, regulatory quality, the rule of law, and government effectiveness. In order to test H2 the study uses Model 2a (IFRS dummy) and Model 2b (IFRS level) as follows:

Model 2a

$$FDI_{i,t} = \beta_0 + \beta_1 IFRS\ Dummy_{i,t} + \beta_2 VOICE_{i,t} + \beta_3 PSTAB_{i,t} + \beta_4 GOVT_{i,t} + \beta_5 REGQUA_{i,t} + \beta_6 RULELAW_{i,t} + \beta_7 CORRUPT_{i,t} + \beta_8 TO_{i,t} + \beta_9 Inf_{i,t} + \beta_{10} LOD_{i,t} + \beta_{11} Labfor_{i.t} + \beta_{12} Tardeoppn_{i,t} + \varepsilon_{i,t}$$

$$FDI_{i,t} = \beta_0 + \beta_1 IFRS\ Dummy_{i,t} + \beta_2 VOICE_{i,t} + \beta_3 PSTAB_{i,t} + \beta_4 GOVT_{i,t} + \beta_5 REGQUA_{i,t} + \beta_6 RULELAW_{i,t} + \beta_7 CORRUPT_{i,t} + \beta_8 IFRS\ Dummy_{i,t} * VOICE_{i,t} + \beta_9 IFRS\ Dummy_{i,t} * PSTAB_{i,t} + \beta_{10} IFRS\ Dummy_{i,t} * GOVT_{i,t} + \beta_{11} IFRS\ Dummy_{i,t} * REGQUA_{i,t} + \beta_{12} IFRS\ Dummy_{i,t} * RULELAW_{i,t} + \beta_{13} IFRS\ Dummy_{i,t} * CORRUPT_{i,t} + \beta_{14} TO_{i,t} + \beta_{15} Inf_{i,t} + \beta_{16} LOD_{i,t} + \beta_{17} Labfor_{i.t} + \beta_{18} Tardeoppn_{i,t} + \varepsilon_{i,t}$$

Model 2b

$$FDI_{i,t} = \beta_0 + \beta_1 IFRS\ Level_{i,t} + \beta_2 VOICE_{i,t} + \beta_3 PSTAB_{i,t} + \beta_4 GOVT_{i,t} + \beta_5 REGQUA_{i,t} + \beta_6 RULELAW_{i,t} + \beta_7 CORRUPT_{i,t} + \beta_8 TO_{i,t} + \beta_9 Inf_{i,t} + \beta_{10} LOD_{i,t} + \beta_{11} Labfor_{i.t} + \beta_{12} Tardeoppn_{i,t} + \varepsilon_{i,t}$$

$$FDI_{i,t} = \beta_0 + \beta_1 IFRS\ Level_{i,t} + \beta_2 VOICE_{i,t} + \beta_3 PSTAB_{i,t} + \beta_4 GOVT_{i,t} + \beta_5 REGQUA_{i,t} + \beta_6 RULELAW_{i,t} + \beta_7 CORRUPT_{i,t} + \beta_8 IFRS\ Level_{i,t} * VOICE_{i,t} + \beta_9 IFRS\ Level_{i,t} * PSTAB_{i,t} + \beta_{10} IFRS\ Level_{i,t} * GOVT_{i,t} + \beta_{11} IFRS\ Level_{i,t} * REGQUA_{i,t} + \beta_{12} IFRS\ Level_{i,t} * RULELAW_{i,t} + \beta_{13} IFRS\ Level_{i,t} * CORRUPT_{i,t} + \beta_{14} TO_{i,t} + \beta_{15} Inf_{i,t} + \beta_{16} LOD_{i,t} + \beta_{17} Labfor_{i.t} + \beta_{18} Tardeoppn_{i,t} + \varepsilon_{i,t}$$

6. DESCRIPTIVE STATISTICS AND CORRELATION ANALYSIS

The IFRS Dummy variable is a binary indicator of whether an entity has adopted IFRS. The average value of 0.457 indicates that approximately 45.7% of the observations have adopted IFRS, while the remaining 54.3% have not. The standard deviation of 0.499 suggests a nearly equal split between IFRS adopters and non-adopters. This variable is important for understanding the extent of global convergence in accounting practices and the potential impact of IFRS adoption on financial reporting and transparency.

The IFRS Level variable quantifies the degree of IFRS implementation, with values ranging from 0 to 7. The average value of 3.16 indicates a moderate level of IFRS adoption across the dataset, while the standard deviation of 3.48 suggests significant variation in the extent to which IFRS is implemented. Some entities may fully comply with IFRS, while others may have adopted only certain aspects or none at all. This variability highlights the different stages of IFRS adoption and its influence on financial reporting practices.

FDI Net Inflows (% of GDP) measures the net inflows of foreign direct investment as a percentage of GDP, reflecting the level of international investment relative to the size of the economy. The average value of 2.98% suggests that, on average, economies in the dataset attract a moderate level of FDI. However, the standard deviation of 4.02% indicates considerable variability in FDI attraction. The minimum value of -11.19% represents cases where there were net outflows, possibly due to capital flight or disinvestment, while the maximum value of 27.65% reflects significant FDI inflows, indicating strong investor confidence or strategic investment opportunities in certain economies.

This variable represents the net inflows of FDI in current U.S. dollars, as recorded in the balance of payments. The average FDI net inflow is $9.43 billion, with a substantial standard deviation of $9.71 billion, indicating wide disparities in the levels of FDI received by different countries or regions. The range extends from a negative value of -$1.02 billion, signifying net outflows, to a positive $10.60 billion, highlighting the significant FDI inflows some economies have attracted. This variability reflects differing levels of attractiveness to foreign investors and the relative size of the economies involved.

The Voice and Accountability variable evaluates how freely citizens of a country can engage in choosing their government, express their opinions, form associations, and access independent media. The average score of -1.01 suggests that, on balance, the countries or regions observed tend to have limited democratic freedoms. The standard deviation of 0.58 indicates variability in these freedoms across the dataset, with the lowest score being -2.05, indicating very restrictive environments, and the highest being 0.79, pointing to relatively open and participatory political systems.

Political Stability indicates the probability of a government being disrupted or overthrown through unconstitutional or violent actions, including political violence and terrorism. The average score of -0.80 suggests a general tendency toward instability, with a standard deviation of 1.06 indicating significant variation across the dataset. The minimum score of -3.18 highlights environments with extreme instability, while the maximum score of 1.22 indicates relatively stable political situations. This variable is crucial for understanding the risk factors related to governance and the potential impact on economic development.

Regulatory Quality evaluates the government's capacity to develop and enforce effective policies and regulations that support and encourage private sector growth. The average score of -0.38 suggests that, on average, the observed entities face challenges in regulatory efficiency. The standard deviation of 0.85 points to substantial differences across the dataset, with scores ranging from -2.30, indicating poor regulatory quality, to 1.31, suggesting strong regulatory frameworks. This variability underscores the differing capacities of governments to support economic activity through effective regulation.

The Rule of Law variable assesses the degree of confidence in and adherence to societal rules, focusing on the quality of contract enforcement, property rights, law enforcement, judicial systems, and the prevalence of crime and violence. The average score of -0.36 indicates that, on average, the rule of law is weakly enforced in the observed entities. The standard deviation of 0.79 suggests significant variation, with scores ranging from -2.10, indicating a very weak rule of law, to 1.13, reflecting stronger legal systems. This variability highlights the differences in legal institutions and the implications for governance and economic stability.

Control of Corruption reflects perceptions of the extent to which public power is misused for personal gain, encompassing petty and grand corruption, as well as the influence of elites and private interests on state affairs. The average score of -0.36 suggests a moderate level of corruption across the dataset, with a standard deviation of 0.77 indicating variability in corruption levels. The minimum score of -1.80 reflects high corruption, while the maximum score of 1.56 indicates relatively effective control of corruption. This variability is crucial for understanding the governance environment and its impact on economic and social outcomes.

Government Effectiveness evaluates the quality of public services, the competence and independence of the civil service, the effectiveness of policy formulation and implementation, and the government's reliability in upholding its commitments to these policies. The average score of -0.34 suggests moderate challenges in government effectiveness across the observed entities. The standard deviation of 0.82 points to significant variation, with scores ranging from -2.36, indicating very low effectiveness, to 1.50, reflecting highly effective government performance. This variable is key to understanding the capacity of governments to deliver public services and implement policies.

Table 3: Descriptive Statistics of Variables of the Study (After cleaning and outlier treatment).

Variable	Obs.	Mean	Std. Dev.	Min.	Max.	Skewness	Kurtosis
IFRS Dummy	391	0.457	0.498	0	1	0.173	1.030
IFRS LEVEL	391	3.158	3.481	0	7	0.198	1.041
FDI net inflows (% of GDP)	391	2.982	4.017	-11.191	27.652	2.213	11.138
FDI net inflows (BoP, current US$)	391	9.429	9.710	-1.02	10.596	0.511	1.239
Voice and Accountability	391	-1.009	0.578	-2.050	0.786	0.946	4.423
Political Stability	391	-0.799	1.056	-3.180	1.223	-0.088	2.199
Regulatory Quality	391	-0.382	0.853	-2.302	1.311	-0.045	2.075
Rule of Law	391	-0.356	0.790	-2.096	1.131	-0.161	2.112
Control of Corruption	391	-0.357	0.768	-1.798	1.558	0.234	2.253
Government Effectiveness	391	-0.341	0.823	-2.361	1.501	0.130	2.584
Level of development	391	4.126	4.234	2.643	4.959	0.272	0.801
Inflation	391	12.154	28.979	-10.067	359.093	6.016	56.332
Trade openness	391	90.703	45.757	24.006	347.996	2.322	11.422
Labor force	391	6.814	6.873	5.237	7.513	0.253	0.749
Level of education	391	9.816	20.003	-30.199	235.515	5.184	48.365

6.1. Association of IFRS and Foreign Direct Investment Inflows (H1)

Table 4: Regression results of testing the relationship between IFRS and FDI net inflows (% of GDP).

IFRS Dummy (Model 1a)					**IFRS level (Model 2b)**		
Variable	**Predict**	**Coefficient**	**t-statistics**	**Prob**	**Coefficient**	**t-statistics**	**Prob**
IFRS	-	-0.302	-0.62	0.535	-0.043	-0.62	0.535
Level of development	-	-0.00003	-1.59	0.112	-0.00003	-1.59	0.112
Inflation	-	-0.015	-1.29	0.197	-0.015	-1.29	0.197
Trade openness	+	0.019	2.58	0.010	0.019	2.58	0.010
Labor force	-	-7.11	-1.96	0.050	-7.11	-1.96	0.050
Level of education	+	0.014	0.94	0.345	0.014	0.94	0.345
R^2		0.317			0.317		
Wald chi2		17.72			17.72		
Prob > chi2		0.007			0.007		
N		391			391		

Table 5: Regression results of testing the relationship between IFRS and FDI net inflows (BoP, current US$).

IFRS Dummy (Model 1c)					**IFRS level (Model 2d)**		
Variable	**Predict**	**Coefficient**	**t-statistics**	**Prob**	**Coefficient**	**t-statistics**	**Prob**
IFRS	-	-8.28	-0.32	0.752	-7.44	-0.32	0.752
Level of development	+	5.07	4.15	0.000	5.07	4.15	0.000
Inflation	-	-7.32	-1.12	0.261	-7.32	-1.12	0.261
Trade openness	+	7.30	1.89	0.058	7.30	1.89	0.058
Labor force	+	158.82	1.85	0.064	158.82	1.85	0.064
Level of education	+	7.19	0.85	0.397	7.19	0.85	0.397
R^2		0.26			0.26		
Wald chi2		26.50			26.50		
Prob > chi2		0.0002			0.0002		
N		391			391		

6.2. The Moderating Role of Institutional Quality between IFRS Adoption and FDI (H2)

Table 6: Regression result of Moderating role of Political stability.

IFRS Dummy (Model 1a)					**IFRS level (Model 2b)**		
Variable	**Predict**	**Coefficient**	**t-statistics**	**Prob**	**Coefficient**	**t-statistics**	**Prob**
IFRS	+	0.148	0.29	0.769	0.021	0.29	0.769
Political stability	+	0.130	0.45	0.654	0.130	0.45	0.654
IFRS* Political stability	+	0.589	1.48	0.139	0.084	1.48	0.139
Level of development	-	-0.00004	-3.51	0.001	-0.00004	-3.51	0.001
Inflation	-	-0.023	-2.11	0.036	-0.023	-2.11	0.036
Trade openness	+	0.023	4.69	0.000	0.023	4.69	0.000
Labor force	-	7.179	-2.70	0.007	7.179	-2.70	0.007
Level of education	+	0.024	1.72	0.086	0.024	1.72	0.086
R^2		0.141			0.141		
N		391			391		

Table 7: Regression result of the Moderating role of Control of corruption.

IFRS Dummy (Model 1c)					**IFRS level (Model 2d)**		
Variable	**Predict**	**Coefficient**	**t-statistics**	**Prob**	**Coefficient**	**t-statistics**	**Prob**
IFRS	-	-0.153	-0.36	0.721	-0.022	-0.36	0.721
Control of corruption	+	0.603	1.46	0.146	0.603	1.46	0.146
IFRS* Control of corruption	+	1.592	2.79	0.006	0.227	2.79	0.006
Level of development	-	-0.00007	-4.78	0.000	-0.00007	-4.78	0.000
Inflation	-	-0.018	-1.73	0.085	-0.018	-1.73	0.085
Trade openness	+	0.021	4.27	0.000	0.021	4.27	0.000
Labor force	-	-8.02	-2.48	0.013	-8.02	-2.48	0.013
Level of education	+	0.026	1.82	0.070	0.025	1.82	0.070
R^2		0.168			0.168		
N		391			391		

Table 8: Regression result of the Moderating role of Voice and accountability (Democracy).

IFRS Dummy (Model 1e)					**IFRS level (Model 2f)**		
Variable	**Predict**	**Coefficient**	**t-statistics**	**Prob**	**Coefficient**	**t-statistics**	**Prob**
IFRS	+	0.485	0.69	0.490	0.069	0.69	0.490
Voice and accountability (Democracy)	+	0.756	1.91	0.057	0.756	1.91	0.057
IFRS* Voice and accountability (Democracy)	+	1.051	1.75	0.081	0.150	1.75	0.081
Level of development	-	-0.00003	-3.07	0.002	-0.00003	-3.07	0.002
Inflation	-	-0.028	-2.65	0.008	-0.028	-2.65	0.008
Trade openness	+	0.029	6.06	0.000	0.029	6.06	0.000
Labor force	-	-8.13	-1.65	0.099	-8.13	-1.65	0.099
Level of education	+	0.033	2.30	0.022	0.033	2.30	0.022
R^2		0.165			0.165		
N		391			391		

Table 9: Regression result of the Moderating Role of Government effectiveness

IFRS Dummy (Model 1g)					**IFRS level (Model 2h)**		
Variable	**Predict**	**Coefficient**	**t-statistics**	**Prob**	**Coefficient**	**t-statistics**	**Prob**
IFRS	+	-0.309	-0.76	0.450	-0.044	-0.76	0.450
Government effectiveness	+	0.973	2.58	0.010	0.973	2.58	0.010
IFRS* Government effectiveness	+	1.331	2.57	0.010	0.190	2.57	0.010
Level of development	-	-0.00008	-5.44	0.000	-0.00008	-5.44	0.000
Inflation	-	-0.015	-1.45	0.148	-0.015	-1.45	0.148
Trade openness	+	0.019	4.11	0.000	0.019	4.11	0.000
Labor force	-	-8.02	-3.37	0.001	-8.02	-3.37	0.001
Level of education	+	0.026	1.90	0.059	0.026	1.90	0.059
R^2		0.184			0.184		
N		391			391		

Table 10: Regression result of the Moderating role of Regulatory quality.

IFRS Dummy (Model 1i)					**IFRS level (Model 2j)**		
Variable	**Predict**	**Coefficient**	**t-statistics**	**Prob**	**Coefficient**	**t-statistics**	**Prob**
IFRS	-	-0.677	-1.60	0.110	-0.096	-1.60	0.110
Regulatory quality	+	1.276	3.53	0.000	1.276	3.53	0.000
IFRS* Regulatory quality	+	0.338	0.71	0.477	0.048	0.71	0.477
Level of development	-	-0.00006	-4.85	0.000	-0.00006	-4.85	0.000
Inflation	-	-0.016	-1.50	0.135	-0.016	-1.50	0.135
Trade openness	+	0.021	4.45	0.000	0.021	4.45	0.000
Labor force	-	-8.47	-2.00	0.046	-8.47	-2.00	0.046
Level of education	+	0.026	1.91	0.057	0.026	1.91	0.057
R^2		0.184			0.184		
N		391			391		

Table 11: Regression result of the Moderating role of the rule of law.

IFRS Dummy (Model 1k)					**IFRS level (Model 2l)**		
Variable	**Predict**	**Coefficient**	**t-statistics**	**Prob**	**Coefficient**	**t-statistics**	**Prob**
IFRS	-	-0.327	-0.77	0.442	-0.046	-0.77	0.442
Rule of law	+	0.715	1.78	0.076	0.715	1.78	0.076
IFRS* Rule of law	+	1.715	2.97	0.003	0.245	2.97	0.003
Level of development	-	-0.00007	-5.17	0.000	-0.00007	-5.17	0.000
Inflation	-	-0.019	-1.78	0.076	-0.019	-1.78	0.076
Trade openness	+	0.021	4.56	0.000	0.021	4.56	0.000
Labor force	-	-8.15	-2.41	0.016	-8.15	-2.41	0.016
Level of education	+	0.026	1.86	0.064	0.026	1.86	0.064
R^2		0.180			0.180		
N		391			391		

Table 12: Summary of Findings.

Hypotheses	Specified Model	Estimation Technique	Result
Association of IFRS Dummy and FDI net inflows (% of GDP) (H1a)	Model (7)	Random Effect	Not supported
Association of IFRS Level and FDI net inflows (% of GDP) (H1b)	Model (8)	Random Effect	Not supported
Association of IFRS Dummy and FDI net inflows (BoP, current US$) (H2a)	Model (9)	Random Effect	Not supported
Association of IFRS Level and FDI net inflows (BoP, current US$) (H2d)	Model (10)	Random Effect	Not supported
Moderating role of Political stability (H3a)	Model (17)	OLS	Not supported
Moderating role of Political stability (H3b)	Model (18)	OLS	Not supported
Moderating role of Control of corruption(H4a)	Model (19)	OLS	Supported
Moderating role of Control of corruption(H4b)	Model (20)	OLS	Supported
Moderating role of Voice and accountability (H5a)	Model (21)	OLS	Supported
Moderating role of Voice and accountability (H5b)	Model (22)	OLS	Supported
Moderating role of Government effectiveness(H6a)	Model (23)	OLS	Supported
Moderating role of Government effectiveness(H6b)	Model (24)	OLS	Supported
Moderating role of Regulatory quality(H7a)	Model (25)	OLS	Not supported
Moderating role of Regulatory quality(H7b)	Model (26)	OLS	Not supported
Moderating role of the rule of law(H8a)	Model (27)	OLS	Supported
Moderating role of the rule of law(H8b)	Model (28)	OLS	Supported

Table 12 provides a comprehensive examination of how the adoption of IFRS and various political and institutional factors on FDI inflow

explain the relationship between IFRS adoption and FDI inflows, revealing that neither the IFRS Dummy nor the IFRS Level has a significant impact on FDI net inflows, whether measured as a percentage of GDP or in absolute terms (BoP, current US$). These findings, derived from Random Effect models, suggest that the adoption of IFRS alone does not directly attract more FDI, challenging the notion that IFRS adoption is a key driver of foreign investment.

Table 4.28 also highlights the moderating effects of political and institutional factors on the relationship between IFRS adoption and economic outcomes. Specifically, factors such as Control of Corruption, Government Effectiveness, Voice and Accountability, and the Rule of Law are found to significantly moderate these relationships, as supported by OLS models. This implies that the effectiveness of IFRS adoption in driving economic performance is heavily influenced by the quality of governance and institutional frameworks in a country. For instance, countries with better control of corruption or higher levels of government effectiveness are likely to see more pronounced economic benefits from IFRS adoption.

7. CONCLUSION AND RECOMMENDATIONS

This study was conducted aims to bridge the gap and enhance the scope of scientific research on the economic effects of IFRS adoption on FDI in MENA countries, from 2002 to 2022, considering the moderating role of institutional quality. In summary, this study advances the literature by presenting empirical evidence on how IFRS adoption affects FDI.

Most governments are very interested in knowing the impact of IFRS adoption on FDI flows by region (Cieślik and Hamza 2022; Lungu et al. 2017; Nejad et al. 2018). Therefore, this study covers a gap, due to the lack of previous studies that directly shed light on the impact of IFRS adoption on FDI in MENA countries, for more understanding of the effects of IFRS adoption, this study compares the level of increased FDI flows before and after IFRS adoption in MENA countries. previous studies indicate that institutional quality indicators are the main key affecting the effectiveness of the economic results of IFRS adoption (Cieślik and Hamza 2022; Owusu et al. 2021; Owusu et al. 2017). Therefore, this study examines the effect of institutional quality indicators as a moderating variable on the relationship between IFRS and FDI. The study findings, derived from Random Effect models, suggest that the adoption of IFRS alone does not directly attract more FDI, challenging the notion that IFRS adoption is a key FDI. also highlights the moderating effects of political and institutional factors on the relationship between IFRS adoption and economic outcomes. Specifically, factors such as Voice and Accountability, Government Effectiveness, Control of Corruption, and the Rule of Law are found to significantly moderate these relationships, as supported by OLS models. This implies that the effectiveness of IFRS adoption in driving economic performance is heavily influenced by the quality of governance and institutional frameworks in a country. For instance, countries with better control of corruption or higher levels of government effectiveness are likely to see more pronounced economic benefits from IFRS adoption.

This study makes notable contributions to the accounting and economics literature. Firstly, it demonstrates that the advantages of IFRS adoption extend beyond firm-level improvements in reporting quality. At the country level, the IFRS adoption can significantly enhance FDI inflows. Secondly, the study emphasizes the critical role of institutional quality in assessing the economic consequences of IFRS adoption. The findings reveal that IFRS adoption alone may not suffice for achieving expected economic benefits unless supported by robust institutions. This underscores the interdependence between a country's accounting framework and the quality of its institutions.

The results have vital implications for policymakers in MENA countries. While IFRS adoption can aid in attracting FDI, it is insufficient on its own to achieve this objective without accompanying institutional improvements. Consequently, the adoption of IFRS should not be seen as a standalone strategy but rather implemented alongside institutional reforms aimed at enhancing institutional quality. MENA countries, whether they have adopted or are planning to adopt IFRS, should prioritize rigorous institutional reforms to maximize the benefits of IFRS adoption. Likewise, countries that have not adopted IFRS or are in the process of adopting it should develop clear plans through which they work to improve the level of institutional quality and adopt IFRS at the same time to obtain the best results in increasing FDI flows.

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