

INSTITUTIONAL QUALITY AND ECONOMIC PERFORMANCE ASSESSMENT: EVIDENCE FROM NIGERIA

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Abstract

The assessment of institutional quality and its influence on economic performance is highly relevant in Nigeria due to the country's constantly changing governmental institutions, dynamic market circumstances, and diversified socioeconomic atmosphere. Thus, the study aims to investigate the impact of institutional quality on the economic performance of Nigeria. This study employed ex post facto research, while time series data was used, which spans from 1996 to 2021, sourced from the Central Bank of Nigeria (CBN) and the Worldwide Governance Indicators (WGI). The study employed unit root tests, Johansen cointegration, and the Error Correction Model as estimation techniques. However, post estimation tests such as normality, serial correlation, heteroskedasticity and stability tests were carried to ascertain the level of statistical accuracy outcome of the variables used. The findings suggest that there is a sustained nexus between the quality of institutions and characteristics related to economic growth. Also, it was equally found out that political stability has a significant impact in the short run. This suggests that a unit increase in political instability would definitely amount to a decrease in economic performance in Nigeria during the period under investigation. The study suggests enhancing accountability, transparency, administrative efficiency, and law adherence to improve Nigerian institutions. This can be achieved through reform implementation, capacity building, and good governance mechanisms, while reducing political unrest and fostering stability.

Keywords: Institutional quality; economic performance assessment, JEL classification, E02; O40

Introduction

In the past few years, policymakers and researchers have recognised that the quality of a nation's institutions plays a crucial role in determining its economic performance. Institutions, such as the legal system, regulatory framework, structures of governance, and the public sector, provide support for economic activity. Several empirical research have

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investigated the association between institutional quality and economic growth, consistently demonstrating a significant nexus between the two variables. Nigeria's economy, which ranks among the largest in Africa, has experienced substantial growth during the past few decades. However, this increase has not led to enduring progress or improved living standards for all segments of society; instead, it has been characterised by fluctuations. Understanding the influence of institutional quality on Nigeria's economic performance is crucial for developing successful strategies and plans that encourage long-term development and stability.

The aim of this study is to assess the nexus between Nigeria's economic performance and the quality of its institutions. The study examines the impact of key institutional characteristics, such as credibility, administrative efficiency, political stability, and corruption, on affluence and economic advancement. This study contributes to the existing information by examining the distinctive conditions specific to Nigeria. Additionally, it provides valuable viewpoints for scholars, legislators, and economists with expertise in institutional development and economic policy formulation. We utilise a diverse range of academic literature, empirical research, and country-specific case studies to strengthen our analysis. Prior research has demonstrated the significant role that institutions play in promoting economic growth across different countries and regions (Acemoglu et al., 2001; North, 1990). In addition, studies conducted specifically in developing countries have emphasised the significance of well-established institutions in fostering economic progress (Keefer & Knack, 1997; Kaufmann et al., 2002).

On the other hand, corruption has been viewed as a complex multidimensional phenomenon with diverse causes and effects. It manifests itself in a variety of forms and functions in various situations. Nigeria, Africa's pulse and the continent's most densely inhabited black nations, has been thriftilly crippled for some time. The prior official announcement that the economy is in a downturn as of the second quarter of 2016, several things had gone wrong with the economy. The economy is mainly product-oriented, largely import-dependent, consumption-driven, and structurally unhedged from a structural aspect. Agriculture employs over 70 percent of the workers and generates 40 percent of GDP; crude oil accounts for around 90 percent of exports and foreign exchange earnings, whilst manufacturing contributes less than 1 percent of total exports. Despite possessing rich natural resources such as gas and oil, a significant majority of the nation's population, including 68% of its 206 million inhabitants, subsists on a daily income of less than \$1.25. Unemployment and inequality have become pervasive issues that significantly impact individuals' livelihoods in contemporary society (African Development Bank, 2014; Ministry of Budget and National Planning, 2017).

In Nigeria, the level of institutional quality plays a crucial role in determining the extent of economic advancement. Robust institutions are correlated with positive economic outcomes, as evidenced by several research. Ohaneme and Egwuonwu (2020) conducted an empirical study and found that the quality of institutions significantly influences the economic growth of Nigeria. They emphasised that attracting investments and fostering sustainable economic growth need the presence of solid institutions, such as transparent governance frameworks, strong legal systems, and efficient regulatory frameworks. Agba, Egwaikhide, and Ohiwerei (2016) examined the impact of Nigeria's institutional quality

on its economic growth. Their study reveals a strong and positive correlation between improved institutional quality and economic prosperity. They argued that establishing a hospitable business environment and attracting both domestic and foreign investments need robust governance, accountability, and openness. In a study conducted by Amah, Ovie, and Adebakin (2018), it was shown that many institutional factors, such as political stability, anti-corruption measures, and government effectiveness, significantly influenced Nigeria's economic development. They highlighted the necessity of a supporting institutional framework to enhance investment, enhance productivity, and foster sustainable economic growth.

At the same time, there are also challenges of economic growth in Nigeria, as opined by the following scholars; Omodero (2019) emphasised Nigeria's place in Transparency International's corruption index and revealed that elevated levels of corruption significantly impede economic progress. This impedes investment prospects and undermines the country's global standing. In addition, Adegboyega (2017) also highlighted that Nigeria's institutional quality has been insufficient, resulting in negative long-term impacts on economic growth. This difficulty is exacerbated by inadequate governance, ineffectual regulatory organisations, and lax enforcement of laws. According to Thach et al. (2017), corruption impedes economic progress in Asian nations, particularly Nigeria. The absence of responsibility and openness in institutions fosters the flourishing of corrupt practises, hence producing an unfavourable climate for economic expansion. Danilo, Mladen, and Dusan (2016) highlighted the significance of infrastructure in fostering economic growth and advancement. Nevertheless, Nigeria has obstacles such as insufficient electricity provision, substandard transportation infrastructure, and restricted availability of essential amenities. The presence of these infrastructural shortcomings might weaken the overall quality of institutions and hinder the progress of economic growth. Political instability is a significant obstacle to both the quality of institutions and the economic progress of Nigeria. In their study, Ifere, Okoi, and Bassey (2015) concluded that Nigeria's economic progress was minimally influenced by domestic institutions. This can be ascribed, partially, to use frequently political fluctuations, which interrupt policy consistency and impede long-term economic strategizing. to this end, thus, the study's primary goals is to assess the impact of institutional quality on economic performance in Nigeria, with aim to answer these research questions; what is the effect of corruption on economic growth in Nigeria? What effect does government effectiveness have on Nigeria's economic growth? and what impact do voice and accountability have on Nigeria's economic growth? However, the rest of the paper, look at the related literature, Discussion of Results and Comparison with Previous Studies, Presentation and Discussion of Results, Data Description, Measurement and Justification, Model Specification, Theoretical Framework and Methodology and Conclusion and Policy Implication.

Literature Review

Identifying the link between institutional quality, corruption, and Nigeria's economic performance will reduce the prevalence of fraud and financial crimes in all areas of the economy. As a result, research and re-evaluation of institutional quality, corruption, and its impact on economic growth and development are required. This will assist

policymakers in re-educating themselves on the issues surrounding the effects of fraud, financial crimes, and imperfect institutions on the economy and developing methods to combat them. Likewise, theft and financial crimes are viewed as severe hindrances to any nation's socio-economic development and prosperity. It is a global phenomenon, but little attention has been paid to developing countries to combat the threat, such as Nigeria. The review has also demanded evaluating theories employed in other studies to gain a piece of more profound knowledge.

Numerous developing countries, like Nigeria, have recently placed greater emphasis on the influence of corruption on economic progress. Omodero (2019), for example, used Nigeria's position in Transparency International's corruption rankings and the rate at which corruption occurs in the country. To estimate the extent to which corruption has influenced the country's economic growth. Secondary data was sourced from World Development Indicators and TI between 2008 to 2018. It found that the country's corruption in the country rank has a very substantial adverse influence on economic growth. Therefore, the study concludes that Nigeria's international image has been marred due to high corruption levels, as it has been perceived abroad. As such, even though the economy improves, investment possibilities remain elusive due to the rate of corruption. However, the study suggests that non-governmental organizations (NGOs) and religious leaders should help reduce the threat of corruption by instilling ethical principles in the young, who should grow up to debunk the notion of corruption and its attractions. Moreover, of course, it will go a long way toward securing the country's reputation in the long run.

Adegboyega (2017) used secondary data spanning from 1982 to 2015 to evaluate the corruption in the economy's growth by adopting a fully modified ordinary least squares (FOLS) approach. The study demonstrated that corruption has a long-term adverse effect on economic growth. Mostly, the results revealed that poverty has risen, while investment that should lead to employment creation has been dampened. Thach et al. (2017) employed DGMM data processing technology and quantile regression to examine corruption and economic growth in nineteen Asian nations between 2004 and 2015. It was found that corruption hampered the development of the economy in Asian countries.

Danilo, Mladen, & Dusan (2016) analyzed the CPI and GDP nexus from countries acquired using a panel data model. The data were collected from 1995-2011 and divided into three times to highlight the short, medium, and long-term adverse effects corruption has on economic growth and development. According to the study's findings, corruption had the most significant impact on economic growth during zone two, the medium-term timeframe.

Simultaneously, Amaefule and Umeaka (2016) conducted a study into the frauds and dispositions of corruption in many public servants in Nigeria. To investigate the variables, the study used primary data and OLS multiple regression as an estimating approach. Our studies demonstrated a correlation between anti-graft agencies (CCB, ICPC, EFCC, among others) and the progress of the Nigerian economy. That is, these authorities have failed to reduce or eliminate the rate of corruption while justifying the government's massive financial allocation actions. Thus, the researcher suggests, for example, that

Nigeria's anti-graft authorities be constituted so that they have unrestricted power to prosecute any public official found guilty of any economic or financial wrongdoing, regardless of their position.

For country-specific studies, Ifere, Okoi, and Bassey (2015) looked at the nexus between institutional quality, macroeconomic policy, and economic development in Nigeria. Data from the Central Bank of Nigeria was used in the research, covering 1995 to 2013. The OLS technique was used to estimate their model. Their findings revealed that domestic institutions had little impact on Nigeria's development metrics. Many studies indicate a favorable association between institutions and economic growth (Sobhee, 2012; Okoh & Ebi, 2013); yet, some studies show a robust negative relationship between the factors (such as Glaeser et al., 2004). On the other hand, further research shows no link between the variables (Commander & Nikoloski, 2011).

Based on the above review, there is still lack of research specifically examining the relationship between institutional quality and economic growth in Nigeria has been identified as a gap in the existing literature on institutional quality and economic performance in Nigeria, as indicated by the empirical assessment. Additional research is required to examine the correlation between institutional quality and economic performance specifically in Nigeria. Although previous studies have explored the connection between macroeconomic policy, economic development, and institutional quality in Nigeria (Ifere, Okoi, & Bassey, 2015), further investigation is necessary. In addition, although several studies have shown a positive association between institutions and economic growth (Sobhee, 2012; Okoh & Ebi, 2013), other research has yielded contradictory findings indicating a negative association (Glaeser et al., 2004) or no association at all (Commander & Nikoloski, 2011). Further research is necessary to examine and clarify the correlation between institutional quality and economic prosperity in Nigeria.

Theoretical Framework and Methodology

This study's framework was based on Solow's growth theory and public choice theory. Solow's Growth Theory, formulated by Robert Solow, is a prominent economic framework that centers its attention on the determinants of sustained economic growth over extended periods of time. Technological advancement is a pivotal determinant that can be subject to the effect of institutional quality. The examination of the relationship between institutional quality and economic performance evaluation might investigate the impact of various institutional elements, such as the protection of property rights or the presence of a robust rule of law, on the advancement of technology and subsequently on overall economic growth. In contrast, public choice theory is concerned with the analysis of how the self-interested actions of individuals impact the results of public policy. In the realm of evaluating institutional quality and economic performance, the use of public choice theory can offer insights into the prevailing nature of certain institutional arrangements. For instance, the research might investigate the influence of interest groups, lobbying activities, and rent-seeking behavior on institutional quality and their subsequent effects on economic performance. Also, it is because it views technological advancement as an endogenous element driving economic growth, the Solow growth theory is also

widely referred to as the endogenous growth hypothesis. This moniker comes from the theory's stance. Consistent rates of saving, unchanging returns to scale, and declining returns to labor in the context of a competitive market equilibrium make up the foundational tenets of the Solow model. According to the new growth theory, the rate of growth has an effect on long-term economic growth. This is because a higher rate of growth and savings encourages investments in human capital as compared to a lower rate of either. On the basis of the assumption, it is hypothesized that economic expansion would continue indefinitely due to the unending supply of fresh concepts for the development of new technologies. The exogenous growth hypothesis is used as the theoretical basis for examining the dynamic relationship that exists between economic development, institutional integrity, and corruption.

Methodology

This study examines institutional quality and economic performance in Nigeria, which spans from 1996 to 2021. Thus, to attain the study's first goal, the unit root test was employed as a preliminary test to ensure that the variables were stationary and that the prerequisites for the technique choice were met. However, both institutional theory and the neoclassical growth theory were developed by Solow and Swan constitute the two theories which serve as the basis for this inquiry for this study. Labour, capital, and technological innovation are the primary factors that determine the growth of the economy, according to the Solow-Swan hypothesis (Solow, 1956; Swan, 1956). This idea was expanded upon by Mankiw, Romer, and Weil (1992) with the addition of the accumulation of human capital. As regards to the theory of institutional quality, the way economic agents interact with each other in the economy has a significant impact on economic development, as stated by Alexiou, Tsaliki, and Osman (2014). The game's rule in society is determined by the dominance of both implicit and explicit behavioural norms, as well as their ability to provide suitable motives for necessary economic activity (Rodrik & Subramanian, 2003). Nevertheless, the study employed the error correction model (ECM) as a method of estimate. This is relevant in order to generate estimates for both the short-term and long run.

Model Specification

The research used Solow's economic development model, which was proposed in 1956. According to this idea, the entire economy's production is attained through the aggregation of both labor and capital, assuming continuous returns to scale. The model integrates both short-run and long-run adjustments in the context of the expansion of capital. Whereas the model indicates that an economy that accumulates capital quicker would have greater production level, the marginal efficiency of capital goes to zero as the economy accumulates more capital. The pace of growth is then determined by technical advancement and workforce expansion.

$$GDP = AK_i^\alpha L_j^{1-\beta} \quad (1)$$

Where, GDP implies gross domestic product, A denotes the total factor of production, K means capital stock, L denotes labor, while α implies the elasticity of capital concerning

output. For the sake of simplicity, we postulate that the economy is symmetric, meaning that each production unit uses the same amount of capital and labor. Conversely, the total production equation operates as follows:

$$GDP = AK^{\alpha}L^{\beta} \quad (2)$$

The effects of governance structure and institutions on total factor productivity (TFP) or technological efficiency enter equation two. David (1997) stated that institutions have an essential role in boosting technical efficiency. Thus, the quality of institutions and the current governance structure impact technological efficiency. This, in turn, has an impact on investment efficiency. This article aims to look into the effects of institutions and governance structures on Nigeria's economic performance. The following is the model used for the variable measurement. The Effectiveness of Government (GE), Political Stability and Absence of Violence (PS), Regulatory Quality (RQ), Law's Rule (RL), Voice and Accountability to fulfill the study's stated goal (VA) will portray institutional quality. Control of Corruption (CC) represents corruption, whereas Nominal Gross Domestic Product (GDP) represents economic performance.

The functional relationship is written below as

$$GDP = f(GE, PS, RL, RQ, VA, CC) \quad (3)$$

This ECM is the adjustment process, that is, the speed of deviation from the short-run dynamic disequilibrium is adjusted to the long-run equilibrium annually. Therefore, (3) above will be modified as follows:

$$\Delta GDP_t = \beta_0 + \sum \beta_1 GE_{it} + \sum \beta_2 PS_{it} + \sum \beta_3 RL_{it} + \sum \beta_4 RQ_{it} + \sum \beta_5 VA_{it} + \sum \beta_6 CC_{it} \pi + e \quad (4)$$

Where Δ denotes change, π is the coefficient of the adjustment parameter,

GDP = Nominal gross domestic product, and by economic performance

GE = Government Effectiveness characterised by institutional quality

PS = Political stability and absence of violence/terrorism defined by institutional quality.

RL = Rule of Law, represented by institutional quality.

RQ = Regulatory Quality characterized by institutional quality.

VA = Voice and accountability represented by institutional quality.

CC = Control of Corruption represented by corruption

β_0 = Constant term or intercept

$\beta_1 - \beta_6$ = Slope of the parameter estimates or coefficient

e = Stochastic error term.

Table – 1
Data Description, Measurement and Justification

Dependent Variable:	Explanatory Variables	Expected Sign (A priori Expectation)	Justification
GDP	CC	$\frac{\partial GDP}{\partial CC} > 0$ Positive	An increase in the effectiveness of control of corruption would bring about a spontaneous positive growth in the economy.
GDP	RL	$\frac{\partial GDP}{\partial RL} > 0$ Positive	When there is an increase in the rule of law, it will bring more sanity and, of course, affect the growth of the economy positively.
GDP	RQ	$\frac{\partial GDP}{\partial RQ} > 0$ Positive	An increase in regulatory quality in the economy would lead to a positive impact on economic growth
GDP	GE	$\frac{\partial GDP}{\partial GE} > 0$ Positive	An increase in government effectiveness would bring a positive impact on economic growth
GDP	PS	$\frac{\partial GDP}{\partial PS} < 0$ Positive	A reduction in political stability and absence of violence/terrorism, defined by institutional quality, would have a positive impact on economic growth
GDP	VA	$\frac{\partial GDP}{\partial VA} > 0$ Positive	Increased voice and accountability in the fight against corruption will help the economy flourish.

Presentation and Discussion of Results

Table - 2
Estimation of Descriptive Statistics Test

Variables	Description	Mean	S.D.	Max	Min	Skn	Obs
GDP	Nominal gross domestic product	6.90	3.30	7.84	-8.92	-4.65	26
CC	Control of corruption	-1.18	0.18	-0.89	-1.87	-2.04	26
RL	Rule of law	-1.11	0.23	-0.27	-1.42	1.60	26
RQ	Regulatory quality	-0.88	0.17	-0.65	-1.35	-1.18	26
GE	Government effectiveness	-1.05	0.19	-0.89	-1.87	-3.29	26
PS	Political stability and absence of violence/terrorism	-1.81	0.64	-0.58	-3.98	-0.92	26
VA	Voice and accountability	-0.71	0.32	-0.32	-1.55	-1.22	26

Note: S.D = Standard Deviation, Max = Maximum, Min = Minimum, Skn = Skewness, Obs=Observations.

Table - 2 presents the descriptive statistics for variables. The mean value of GDP and numerous indicators of institutional quality fall between the maximum and minimum values. GDP came in first with a score of 7.849, while Voice and accountability came in last with -1.55. With a standard deviation of 0.32, it is also the most volatile variable.

Consequently, both positive and negative skewness can be found in the data. Every other variable is negatively skewed, except political stability, which is favorably skewed. Peakedness is a blend of platykurtic and leptokurtic factors. Since all variables are insignificant at a 5% significance level, the Jarque-Bera statistics indicate their normality.

Table - 3
Correlation Matrix Estimate Result

Variables	GDP	CC	RL	RQ		PS	VA
GDP	1.000000						
CC	0.087778	1.000000					
RL	-0.699840	-0.270190	1.000000				
RQ	0.039302	0.352222	0.345107	1.000000			
GE	0.081484	0.027075	-0.009696	0.101945	1.000000		
PS	0.055531	0.420721	-0.065658	-0.203232	0.067417	1.000000	
VA	-0.122624	-0.034158	0.532662	0.152971	0.196507	-0.576302	1.000000

Table 3 displays the correlation matrix's findings. The test is carried out to establish the degree of causality among the variables used for this research and establish the type of

link between them. This is very important to prevent the challenges that may occur owing to the very strong correlation that occurs among the variables, that is between the dependent and explanatory variables during the course of the estimation. Thus, it was also observed that there is no reason for the strong correlation among the independent variables in terms of the degree of causation. Moreover, the outcome of the degree of causality, however, because there is only a modest connection between the multicollinearity problems, as there is suggested that our study is not affected by the explanatory factors. The relationship GDP and as well other independent variables, which has the highest degree of nexus between explanatory variables and estimated to be 0.039, is not ideal because the correlation coefficient is not 1, which additionally shows that there is no optimum relationship between the explanatory factors.

Unit Root Test

The ECM component is based on the time-series qualities. This ensures that the stationary integration order is consistent across series, which is critical to avoid false, unreliable, and inconsistent results. To determine the stationarity status of the variables, this study used the Augmented Dickie Fuller (ADF) and the Phillips-Perron (PP) methods. It is worth noting that the variables in both tests have unit roots.

Table - 4
Unit Root Test

<i>Variables</i>	ADF Unit Root Test			Phillip-Perron (PP)		
	<i>Levels</i>	<i>1st Difference</i>	<i>Order</i>	<i>Levels</i>	<i>1st Difference</i>	<i>Order</i>
GDP	-1.241	-4.302*	I1	-1.111	-3.342**	I1
CC	-1.771	-6.603*	I1	-2.528	-9.406*	I1
RL	-1.441	-4.803*	I1	-1.124	-5.732*	I1
RQ	-2.565	-5.297*	I1	-2.587	-5.614*	I1
GE	-1.274	-4.246*	I1	-1.274	-4.237*	I1
PS	-2.641	-4.788*	I1	-2.685	-4.792*	I1
VA	-1.823	-4.576*	I1	-2.016	-4.576*	I1

<i>Critical Values</i>	<i>ADF z(t)</i>			<i>PP z(rho)</i>		
	-3.769	-3.005	-2.642	-3.769	-3.005	-2.642
	1%	5%	10%	1%	5%	10%

Table 4 presents the unit root test. After the first differencing, it became stationary. This supports this study's analysis in the long run impact estimation methods using Johansen cointegration and error corrective modelling component. However, the ECM method of the estimate is used.

Co-integration Test

The subsequent analysis aims to meet the study's first goal by determining whether the variables under investigation have any long-run convergence. Table 5 below shows the outcome. It displays the long-term results of two test statistics: trace and Max Eigen statistics. The outcome of this analysis is reported in the discussion of the findings.

Table - 5
Unrestricted Cointegration Rank Test (Trace and Max-Eigen Value)

Trace Test k = 2				Max. Eigenvalues Test k =2	
Ho	HA	(λ trace)	Critical values (5%)	(λ Max)	Critical values (5%)
$r \leq 0$	$r > 0$	307.1977	125.6154	86.43722	46.23142
$r \leq 1$	$r > 1$	220.7605	95.75366	70.65479	40.07757
$r \leq 2$	$r > 2$	150.1057	69.81889	62.11864	33.87687
$r \leq 3$	$r > 3$	87.98707	47.85613	31.35342	27.58434
$r \leq 4$	$r > 4$	56.63365	29.79707	29.70708	21.13162
$r \leq 5$	$r > 5$	26.92657	15.49471	15.63418	14.26460
$r \leq 6$	$r > 6$	11.29239	3.841466	11.29239	3.841466

In the unconstrained cointegration test, r stands for the total number of cointegrating vectors, and k stands for the total number of lags. The null hypothesis was rejected at the 5% level ().*

As it can be observed from Table 5 above, there is a long-run nexus among the variables used for this study. This was established by the help Engle ganger cointegration tests that there is a long run relationship among variables after estimation. This is owing to the fact that the model features four co-integrating vectors from both trace max-eigenvalues. Thus, according to this research, institutional quality, corruption, and economic development in Nigeria have all been more closely related over time.

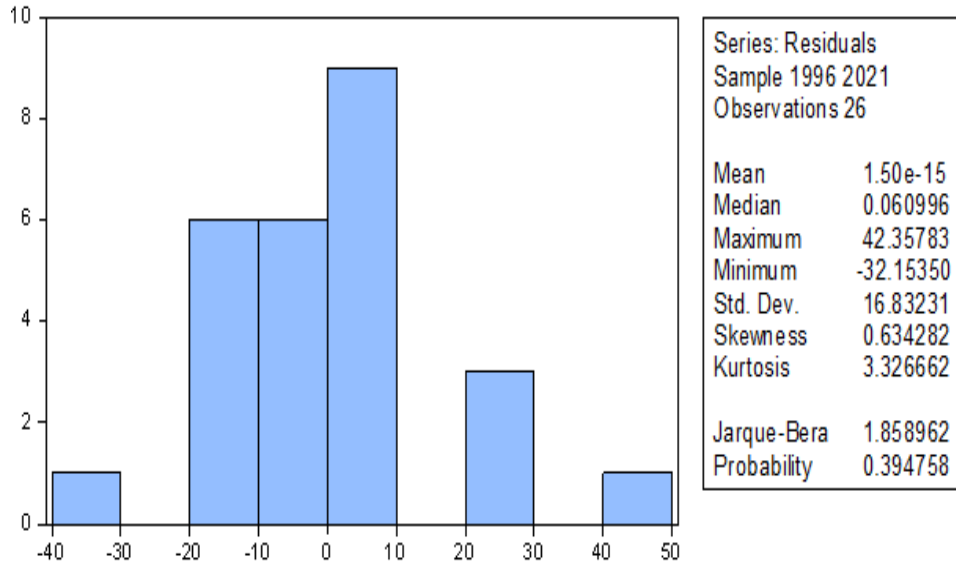
Table - 6
Estimation of ECM Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.012745	0.009730	1.309850	0.2113
D(GE(-1))	-0.247557	0.131383	-1.884249	0.0805
D(PS(-1))	-0.223732	0.089570	-2.497856	0.0256
D(RL(-1))	0.127175	0.118779	1.070689	0.3024
D(RQ(-1))	0.033365	0.044075	0.756994	0.4616
D(VA(-1))	-0.047945	0.044660	-1.073570	0.3012
D(CC(-1))	0.078360	0.110770	0.707417	0.4909
D(ECM(-1))	0.518851	0.243826	2.127953	0.0516
R-squared	0.422533			
Adjusted R-squared	0.133800			
SE of regression	0.031287			
Durbin-Watson stat.	2.042858			
F-statistic	1.463404			
Prob(F-statistic)	0.257365			

The result of the analysis indicated that only political instability could adjust significantly during the period under review in Nigeria. This implies that a one per cent change in the value of political instability retards growth significantly by -0.223%. Note that the restoration of a system's equilibrium is observed when the coefficient of the Error Correction Mechanism (ECM) exhibits a positive polarity. Econometric models utilize the Error Correction Model (ECM) to capture the short-term dynamics and adjustment mechanism that ultimately leads to long-run equilibrium. The metric measures the speed at which any deviations from the equilibrium level of the system are rectified.

There also an inverse and negative effect of voice of accountability and government effectiveness on the growth of the economy in Nigeria. Thus, corruption as well as the rule of law indicates a favourable but insignificant impact on growth of the economy during the period under investigation. However, the adjustment towards the long-run equilibrium is truly captured by the ECM coefficient. This ECM coefficient shows the percentage of the differenced dependent variable that is out of equilibrium in one period and is rectified in the subsequent period. The outcome shows that adjustments are made quickly since 0.518(51%) of the mistake is fixed in a single period.

Post Diagnostic Estimation Normality Estimate result



The test demonstrates that the errors are normally distributed during the time period under investigation, that it dissipates against the mean, and that the item distribution is asymmetrical. The Jarque-Bera normality test, with a value of 1.858962 and a probability of 0.394758, suggests that the null hypothesis that the residuals are normally distributed is validated. Thus, the model for this investigation is found to be fit for estimation.

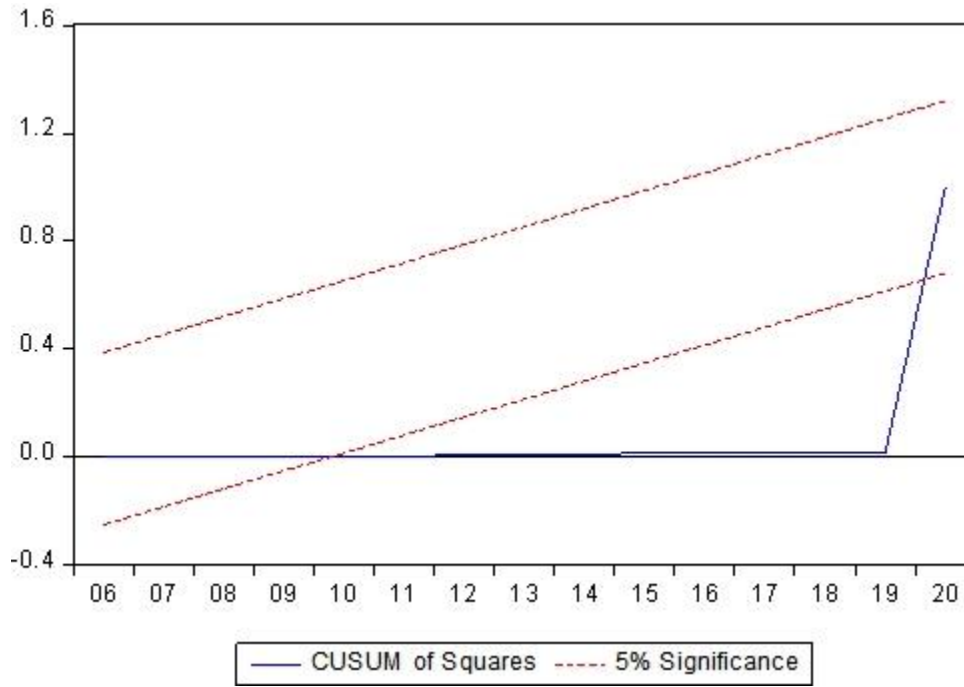
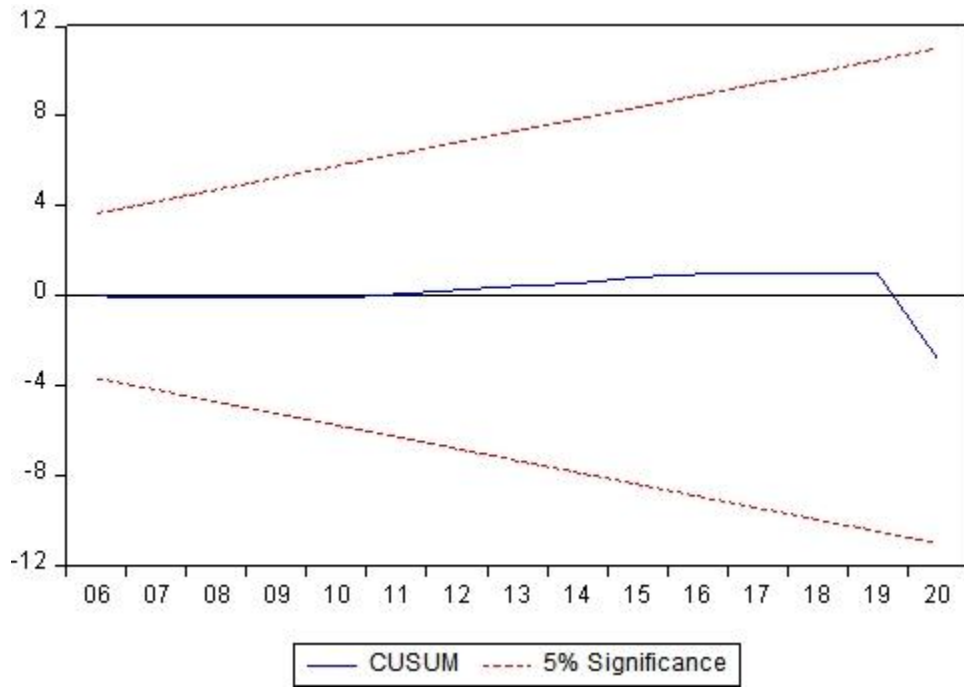
Table - 7
Estimation Test for Serial Correlation and Heteroskedasticity

Breusch-Godfrey Serial Correlation LM Test			
F-statistic	0.087188	Prob. F(2,16)=0.	0.9169
Obs*R-squared	0.269525	Prob. Chi-Square(2)=0.	0.8739
Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.249588	Prob. F(6,18)=0.	0.9532
Onbs*R-squared	1.920149	Prob. Chi-Square(6)=0.	0.9269
Scaled explained SS	2.274282	Prob. Chi-Square(6)=0.	0.8928

According to Table 7's correlation results, it is not significant. This suggests that because there are only 26 years in the study, we accept the null hypothesis that there is no association between the study's variables (26 years). The lack of correlation demonstrates that the study's data is accurate and suitable for estimation. Data must be devoid of correlation because if correlation occurs in the data used for the analysis, the outcome could be erroneous.

On the other hand, Table 7 above also shows the estimation of the heteroskedasticity outcome of the study's variables. It is therefore noted that the model does not show even the slightest hint of heteroskedasticity. This merely implies that the estimate is reliable and appropriate for the analysis.

Stability Test



The stability tests using CUSUM and CUSUM of squares are displayed in the tables above. The fact that the curves remain within the boundary lines indicates that the model's data is stable. Thus, it demonstrates that the residuals are stable and have not affected the model's predictions because the cumulative total (CUSUM) is contained inside the 0.05 threshold lines on each side. Additionally, the cumulative sum of squares (CUSUM of squares) stands on either side of the 0.05 threshold lines, indicating that the residuals are strongly stable and have not affected the model's outcome.

Discussion of Results and Comparison with Previous Studies

The results indicate the existence of a long-run relationship between institutional quality and growth variables. In the short run, our findings suggest that political stability has significant impact on the growth of the economy in Nigeria during the period under investigation. This implies that when there is no unit change in the value of other exogenous variables, a unit change in the value of political stability results in a decline in economic performance.

Our result of R^2 offers suggestions that the explanatory variables can explain a considerable change in the changes in growth in Nigeria. The model is dependable according to f-statistics. The only rule of law and corruption incidence show a positive but insignificant effect on growth in the short run. However, the findings contradict a priori expectations existing between corruption incidence and economic growth nexus in Nigeria. This perspective clarifies our earlier conclusion that economics and corruption have an inverse relationship. This means that for economic growth to improve significantly, corruption levels must have been reduced by large percentages.

While it is assumed that increasing the rule of law will decrease corruption, government effectiveness does not influence corruption. This could reflect the political class's selective corruption probes and the lengthy procedure of convicting corruption cases.

Other institutional variables show an insignificant and inverse effect on growth. This provides support for the idea that factors such as administrative efficiency and accountability have a role in impeding short-term growth. Conversely, there exists a notable impact on the growth of the economy during the course of temporal progression. The growth and prosperity of Nigeria are contingent upon the presence of strong regulatory frameworks, together with efficient systems for voice and responsibility.

This research has found that institutional quality, corruption, and economic growth have strong links. The negative impact of corruption on economic growth can be mitigated by improving institutional quality. This means that institutional quality in Nigeria can help to prevent the harmful spread of corruption. The rule will prosecute culpable violators of financial and other corruptible economic activities, promoting proper allocation and monitoring of economic operations.

This finding is consistent with the result reached by Swaleheen (2011), which states that corruption in Bangladesh has a direct and negative influence on the country's GDP per

capita. According to the findings of Zawojcka and Suidek (2013), who investigated the association between institutions and economic growth in eight countries located in Central and Eastern Europe, the relevance of institutional characteristics is consistent with their findings. According to the study's results, institutions have a considerable impact, both positively and negatively, on economic development. According to Valeriani and Peluso's (2011) theory, the quality of an economy's economic institutions has a significant beneficial impact on the rate of that economy's growth. Researchers Tamilina and Tamilina (2014) performed a research that demonstrated the evolution of economic institutions over the course of time has a substantial impact on the degree of the growth of the economy as evaluated by quality ratings. This was discovered as a result of the study's findings. Strong economic institutions aided growth. Both political institutions and institutional quality have a beneficial influence on investment-driven growth and economic growth, according to Zouhair (2012) and Valeriani and Peluso (2011).

Conclusion and Policy Implication

The empirical findings show that institutional quality has an impact on Nigeria's economic performance. This implies that conditionality is essential. According to this finding, our results indicate that substantial correlations exist between GDP, corruption, government effectiveness, and the rule of law as a measure of institutional quality. These variables are also in line with what theorists predicted. A robust regulatory agency and a compelling voice and accountability are vital for growth of the economy are required indicators. However, corruption has a significant negative association with growth. In other words, a 1% rise in corruption decreases GDP in the short run. Thus, if the level of corruption persists, increasing GDP to achieve the requisite economic growth becomes a distant reality.

Based on the above findings, the study therefore makes the following policy recommendations:

Enhance Institutional Quality: Focus on elevating the overall level of Nigerian institutions by enhancing accountability, transparency, administrative efficiency, and adherence to the rule of law. To achieve this, implementing reforms, enhancing capacity building, and employing efficient governance procedures are all effective strategies.

Addressing Political Volatility: Implement measures to mitigate political turmoil and cultivate a stable political environment. This might involve strengthening democratic processes, promoting smooth transitions of power, and ensuring the effectiveness and stability of political establishments.

Combatting Corruption: To discourage corruption in an organizational, establish robust anti-corruption efforts and enforce stringent legislative frameworks. Enhance the organizational frameworks for the investigation, legal action, and sanctioning of individuals involved in corrupt activities. In order to promote responsibility and deter dishonesty, it is advisable to enforce openness measures, such as publicly disclosing the financial records and assets of public officials.

Promote the establishment and implementation of strong regulatory frameworks that prioritise consumer protection, equitable competition, and a conducive business environment to foster economic growth. These factors may enhance market efficiency, entice investment, and promote entrepreneurship, all of which can contribute to the expansion of the economy.

Focus on Strategic Planning: Prioritise sustainability of the growth of the economy activities and recognise their importance. In order to cultivate an environment that promotes continuous economic expansion and success, it is necessary to allocate resources towards the development of infrastructure, healthcare, education, and technology.

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