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GOVERNANCE QUALITY, FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

Economic growth is the most dominant instrument for reducing poverty and enhancing the quality of life in developing economies. The study investigates the impact of governance quality and financial development on economic growth in Nigeria using time series data from 1996 to 2021. It addresses a gap in previous research by employing all indicators of governance quality and financial development, as well as composite indices for both, to assess their influence on economic growth. The study is based on the endogenous growth model and uses the fully modified ordinary least square (FMOLS) method to tackle issues of endogeneity and reverse causality. Key findings indicate that both governance quality indicators and the composite governance index positively and significantly impact Nigeria's economic growth. Similarly, financial development indicators and the composite financial sector index have a significant positive effect on growth. Based on these results, the study recommends prioritizing the strengthening of government institutions through democratic principles, including political participation, freedom of speech, and leader accountability. Additionally, the government should focus on creating a favorable business environment by enforcing property rights, contracts, and maintaining a corruption-free system to enhance private investment confidence and promote trade and exports.

Keywords: Governance Quality, Financial Development, Economic Growth
JEL Classification Codes: G3, O16, O41.

1.0 INTRODUCTION

According to Appiah- Otoo and Song, 2020, economic growth is one of the most important criteria to evaluate the performance of an economy. Achieving higher and sustainable economic growth and development to improve social welfare is among the foremost socio-economic goals of every nation. Being one of the most focused objectives of macroeconomics as well as the barometer that evaluates the overall performance of any economy, achieving sustained economic growth remains a key priority for policymakers across the globe particularly in developing economies (Azam, 2021). Nigeria's economic growth exhibits profound features, for instance, the economy rose from recession in the early 1980s to a high growth of as much as 6.4% in the late 1980s. It, however, slowed down to an average of 2.6% between 1990 and 1999. The growth rate of the economy rose to an average of 7.9% between

2000 and 2014 with the highest values recorded in 2002 and 2004. Since 2015, economic growth has remained low: fell from 6.2% in 2014 to 2.8% in 2015 and -1.6% in 2016. Although the 2016 recession was adjudged to have ended in 2017 with a growth rate of 0.8%, the growth rate improved slowly as 2018 recorded 1.9% growth. The negative growth rate witnessed in 2016 could be attributed to a fall in oil prices which led to the economic recession of 2016. Sadly, the Nigerian economy witnessed a negative growth rate of -1.8% in 2020 attributed largely to the negative impacts of Coronavirus before increasing to 3.6% in 2021.

Achieving economic growth and the factors that stimulate it are the main drivers of many studies. These driving factors can strengthen economies, push toward comprehensive economic development and lead to improving living standards. Although economic growth has been widely researched, the traditional economic theories were not able to explain the differences in economic systems between countries beyond human capital, physical capital, labour, technology and natural resources (e.g. Giordano & Giugliano, 2015; Kurt & Kurt, 2015). Recent research in institutional economics has arisen as an attempt to provide explanation for those residual differences (Almeida, 2015, Chan, Koh, Zainir & Yon, 2015). Among these factors, the literature places a particular emphasis on the quality of governance (Bhattacharjee, 2016; Duodu & Baidoo, 2020). Kaufmann and Kraay (2008) view governance as the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. As documented by Luiz (2009), good governance is those that provide incentives for growth-enhancing activities by inducing productive behavior from economic players. In this line, good governance can enhance the economic outcome for numerous reasons. First, good governance safeguard investor privileges, provide a fitting atmosphere for inspiration and creation and boosts competition for opportunities (Du, Serrano & Vianna, 2017). Second, the enforcement of property rights for a broad section of society provided by the better quality of governance stimulates individuals' incentive to invest and partake in economic activities. Third, better governance quality provides mechanisms of conflict resolution that mitigate adverse shocks and provide resilience to the economy (Acemoglu, Gallego, & Robinson, 2014). By reducing information asymmetry, for example, better governance quality can induce cooperation and reduce Prisoners' Dilemmas situation in the market (Muja & Gunar, 2019). Fourth, good governance quality provides tools for macroeconomic stabilization. By ensuring, for example, better social redistribution, good governance quality reduces economic and social

risks and shields the economy from social pressures (Azam, 2021).

Literature also considers financial development as one of the many factors propelling economic growth as finance represents the core of the modern economy, and is a major engine for promoting the economic development of a country (Abuduwali, Xianjing, Yu, & Yuchao, 2019). Development of financial system may be defined as the development of the size, efficiency and stability of financial markets along with increased access to the financial markets that can have multiple advantages for the economy. Since the pioneering works of Bagehot (1873), Schumpeter (1934), and Robinson (1952), the importance of financial development as a driver in the economic growth process has become very critical in the literature.

It has been argued that a well-developed financial system tends to increase the efficient allocation of resources through intermediation services which foster and sustain long-run economic growth (Adom, 2019; Khan, Ahmed, & Bibi, 2019; Olaniyi & Oladeji, 2020a; Olaniyi & Oladeji, 2020b). Thus, the financial sector builds the productive capacity of an economy by bridging the gap between financial and real sectors (Ehigiamusoe, Lean, & Lee, 2019; Guru & Yadav, 2019). This provides the needed steam which stimulates the growth-enhancing activities through mobilization and allocation of savings to finance productive activities of the real sector (Adom, 2019; Slesman, Baharumshah, & Azman-Saini, 2019).

Meanwhile, Lucas (1988) and Miller (1998) documented the importance of finance in the growth process. They regarded financial development as a badly overstressed factor of growth which does not deserve a serious discussion in the growth literature. This has not in any way diminished the crucial role of financial development in the growth process nor the place of financial development in endogenous growth theory rather it has continued to be increasingly discussed in theory and practice (Tayssir & Feryel, 2018). The financial system, through the services of financial intermediaries, transfers resources from surplus units to finance innovative and entrepreneurial ideas with a high rate of return on capital (Adom, 2019; Adusei, 2019; Ehigiamusoe et al., 2019).

Considering the criticality of good governance on economic outcomes, the federal government of Nigeria has initiated several reforms to improve transparency and accountability of public institutions, enforce strict regulations and prudential guides for business activities and combat corruption. For example, in 2000, the federal government established the Independent Corrupt Practices and Other Related Crimes Commission (ICPC) to investigate reports of corruption and in 2003 the Economic and Financial Crimes Commission (EFCC) was established as a law enforcement agency to investigate financial crimes and money laundering. In addition, in June 2009, the Association of Certified Anti-Money Laundering Specialists (ACAMS) was also

established. The commission works with other international bodies such as the United Nations Committee on Anti-Corruption (UNCAC), Transparency International and the African Union (AU) Convention against Corruption to control and prevent money laundering and terrorist financing. Hence, in 2010, the Asset Management Corporation of Nigeria (AMCON) was established, to address the problem of nonperforming loans in the Nigerian banking industry alongside with Consumer and Financial Protection Division, to provide a platform through which consumers can seek redress (Manasseh, Asogwa & Attama 2014). The success of these reforms in repositioning and strengthening the public sector as a veritable instrument for national development has not been so impressive.

The recent trends in the literature have shown that fruitful financial intermediations, quality and performance of a financial system require a sound institutional framework and environment (Haini 2019; Olaniyi & Oladeji, 2020a; Olaniyi & Oladeji, 2020b). This is premised on the argument that it is not just financial development that matters for growth but financial development that is well rooted within a sound institutional framework (Gazdar & Cherif 2015; Williams, 2017). On the positive side, strong and efficient institutions enhance the allocation of resources to productive activities while, on the other side, weak institutions tend to accommodate lapses and loopholes in a financial system which culminate in opportunistic behaviour and sharp practices that are capable of diverting credit and distorting the ability of financial intermediaries to channel resources to productive activities of the real sector (Slesman, Baharumshah & Azman-Saini, 2019). This implies that the positive effect of financial development on economic growth is conditional on the quality of institutions in the economy. It is also an indication that more finance without sound institutions may not succeed in delivering economic benefits which foster and trigger growth (Kacho & Dahmardeh, 2017).

Economic growth is the most dominant instrument for reducing poverty and enhancing the quality of life in any economy. Both cross-country research and country case studies provide overwhelming evidences that rapid and sustained growth is critical to making faster progress towards sustainable development (Adusei, 2019; Yousaf, 2021). Recognizing the importance of sustained economic growth, efforts have been made by both monetary and fiscal authorities to put in place measures that tend to promote economic growth. Some of the efforts include the trade liberalization policy of the 1990s, the creation of export processing zones to boost exports, the privatization of publicly owned enterprises to achieve efficiency in operation, aggressive campaign towards attracting foreign direct investment (FDI) as enshrined in various development plans, most especially the National Economic Empowerment Development Strategy (NEEDS), the Vision 20:20, the 7 points Agenda and the Transformation Agenda, among others (Adeleye

et al., 2017). Despite these efforts, the Statistics from the World Bank show that Nigeria's growth rate has been relatively unimpressive. For instance, in 2019 before the devastating effects of COVID-19 on the global economy, Nigeria's growth rate was 2.2% which is lower than the SSA average of 2.6%, low and middle-income average of 4% as well as the world's average of 2.6% (World Bank, 2020). Regrettably, in the wake of COVID-19, it has been projected that Nigeria will experience economic crises which will negatively affect economic growth. However, the disturbing issue is that low economic growth is harmful to developing economies like Nigeria as it is linked to unemployment, rising crimes, and poverty among other vices. It is against this backdrop that this paper examines impact of governance quality and financial development on economic growth in Nigeria.

Based on the observed unimpressive growth rate of the economy, the objective of this paper is: To assess the impact of governance quality on economic growth in Nigeria and to determine the impact of financial development on economic growth in Nigeria. In other words, it wants to examine how governance quality influences economic growth in Nigeria and whether financial development impacts economic growth in Nigeria.

2. REVIEW OF RELATED LITERATURE

Conceptual Framework

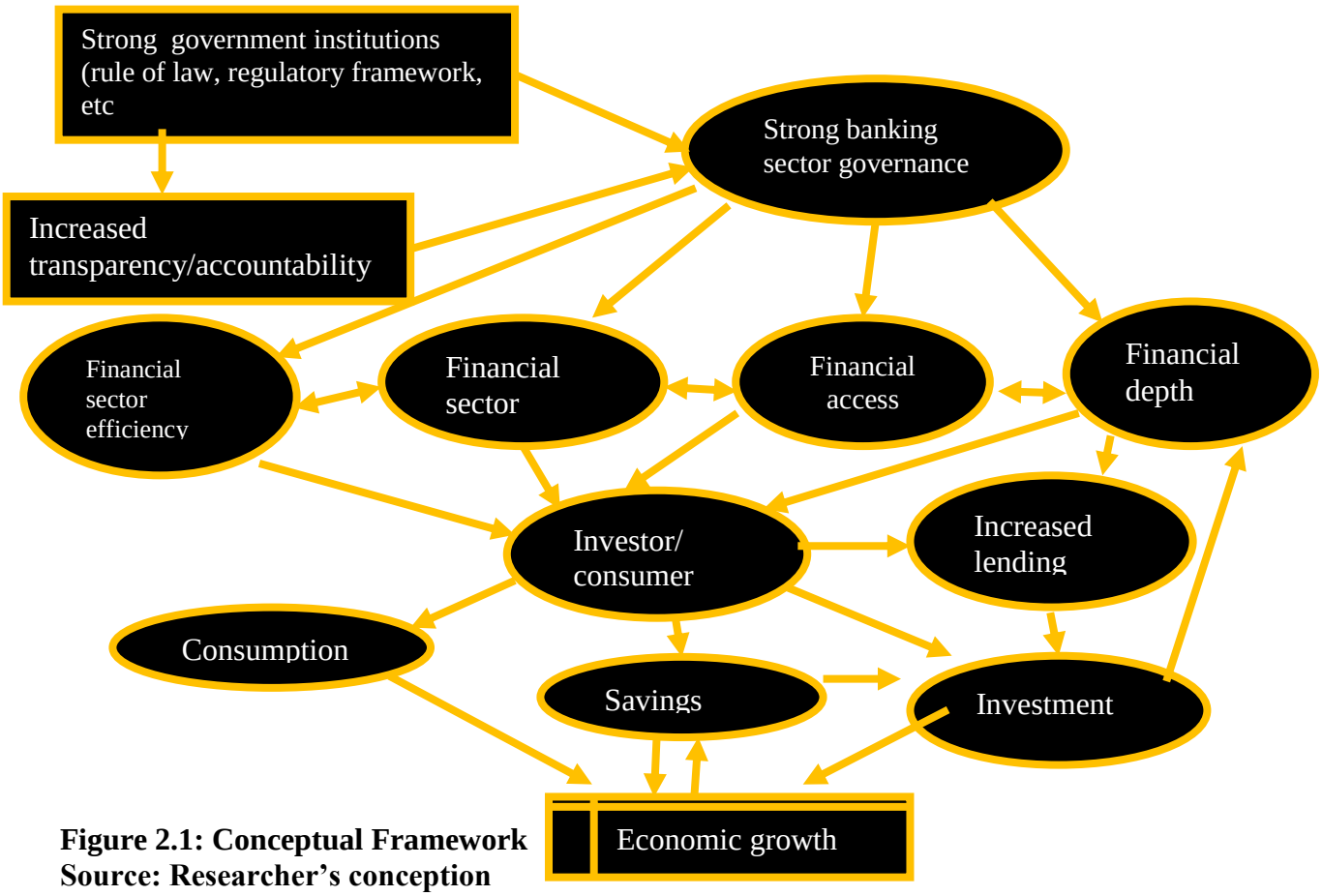


Figure 2.1: Conceptual Framework
Source: Researcher's conception

The conceptual frameworks show that the governance quality and financial development indicators work together to impact economic growth;

Governance Quality or Institutional Quality

There is a plethora of definitions for the governance concept. According to Fukuyama (2013), the concept of governance can be consolidated by the comprehension of four principal approaches to state quality namely: capacity indicators which encompass professionalism and resource levels, political measures and output indicators. Following Tusalem (2015), governance is a phenomenon that embodies: the rule of law, regulation quality, bureaucratic effectiveness and the reduction of corruption. The World Bank (1992) believes that governance is how power is exercised in the management of a country's economic and social resources for development. While the UNDP (1997) describes governance as the exercise of economic, political and administrative authority to manage a country's affairs at all levels. It comprises mechanisms, processes and institutions, through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences.

Similarly, Kaufmann and Kraay (2008) view governance as the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. Our study adopts this definition by Kaufmann and Kraay (2008).

To measure the governance quality, we employed six main indicators namely corruption-control, government effectiveness, political stability, and regulatory quality, rule of law, and voice and accountability taken from World Governance Indicators. According to Asongu and Nwachukwu (2016), these six proxies captured the three main aspects of governance including political, economic, and institutional governance.

2.1 Theoretical Review

An essential component of emerging development theory is the endogenous growth theory, also known as the new growth theory. Paul Romer developed this theory in a seminal work on the contemporary revitalization of growth theory published in the journal of political economy in 1986. Other advocates of this theory include Lucas (1988), Rebelo (1991), Ortigueira and Santos (1997) as well as Harrod and Domer. The theory is an expansion and modification of the traditional growth theory. It surfaced in the mid-1980s, following a group of growth theorists' discontent with prevailing accounts by neoclassical theories which states that exogenous factors determine long run growth. Hence, the new growth theories disagreed with the neoclassicists and clearly justified why long run growth can be positive and different among countries and also why capital tends to flow from the poor to the

wealthy nations despite the fact that the poor countries have a low capital ratio. The theory also explains the factors that determine the level of GDP growth left unexplained (Solow residual) and exogenously determined in the Solow Neoclassical growth equation (Acemoglu, 2009). The endogenous growth theories posit that economic growth is a product of internal factors and not external. They argued that increased investment in human capital and knowledge through Research and Development will generate the needed steam for the economy to grow.

2.2 Empirical Review

Studies on Governance Quality and Economic Growth

Siddiqui and Ahmed (2013) examined how institutional indicators influence economic growth in a theoretical framework proposed by North (1981). Thirty-one indicators each covering 84 countries over a span of 5 years was used to extract factors based on principal component analysis. Factors based on these indicators were classified as institutional and policy rents, political rents and risk-reducing technologies. These institutional factors were then used in a formal growth model employing panel OLS and GMM-based estimation methodologies. The study found that favourable institutions positively affect economic growth. The study also shows that for a developing country the institutional and policy rent is more important than other two indices that curb political rents and those that reduce transaction risks.

Similarly, Bhattacharjee (2016) estimated the role of institutions in conjunction with physical capital stock, human capital stock, openness and liberalization on economic growth of the four major economies of South Asia. The study found that voice and accountability and regulation quality has positive and significant influence on economic growth while government effectiveness and rule of law has negative and significant influence on economic growth.

Salman, Long, Dauda and Mensah (2019) explored the impact of institutional quality on economic growth in a panel of three East Asian countries over the period from 1990 to 2016. The study employed Fully Modified Ordinary Least Squares (FMOLS) and Dynamic Ordinary Least Squares (DOLS) methods and the study found that institutional quality stimulates economic growth.

Hayat (2019) explored the role of governance quality on economic growth of 104 countries between 1996 and 2015. The variables of interest include governance efficiency, control of corruption, rule of law, regulatory quality, population growth, inflation, domestic investment, and trade. Applying the Generalised Method of Moments (GMM) estimation method, the study found that institutional quality causes stronger economic growth. Although Nigeria was included in the panel, country specific results for Nigeria was not reported.

Sule (2020) employed OLS to assess the impact of institutional quality on economic growth in

Nigeria over the period 1979 to 2018. The major variables include RGDP, contract intensive money, gross fixed capital formation, foreign direct investment, government expenditure and governance index and the study reported that institutional quality significantly influences economic growth. The major difference between the former work and this present study is the method of analysis. While the former used OLS, the later used a more robust Bayesian Multivariate regression framework to side step the shortcomings of OLS.

Tran, Le and Nguyen (2021) investigated the impact of institutional quality on economic growth in 48 Asian countries between 2005 and 2018. By using the quantile regression methods with panel data, institutional quality was found to be a key factor of economic growth. However, in the lower-income Asian countries, the institution with better quality appears to promote the growth more effectively than in the higher-income ones. Moreover, the study also reported a nonlinear relationship between institutions and economic growth. The results showed that there is an institutional threshold for economic growth to reach its highest level. If the institution indicator exceeds the threshold, it causes the reverse effect on the growth.

Azam (2021) explored the impact of governance indicators (corruption, government effectiveness, and political stability) along with some other macroeconomic variables (inflation, trade openness, worker remittances, direct foreign investment, and population growth rate) on economic growth of 14 countries located in Latin American and Caribbean (LAC) region between 2002Q1 and 2018Q4. The panel autoregressive distributed lag (ARDL)/pooled mean group (PMG) estimation techniques were used for the empirical investigation. The PMG results disclose that corruption has a significantly inverse effect on growth, while both political stability and government effectiveness have positive impacts in the long run. These results indicate that increasing corruption discourages growth, while political stability and government effectiveness encourage the process of economic growth.

Studies on Financial Development and Economic Growth

Verma and Giri (2020) examined the interrelation of ICT diffusion and financial development with economic growth in South Asian Association for Regional Cooperation (SAARC) economies, by employing data for the time period 2000 to 2017. The empirical analysis was carried out using granger causality and cointegration techniques. Applying the fully modified ordinary least squares and dynamic ordinary least squares method, the study found that financial development, ICT diffusion, and trade openness increase the growth rate while inflation exhibited negative impact on economic growth. Both short-run and long-run causality were examined using panel granger causality test which revealed unidirectional causality running from ICT diffusion and financial sector development to economic growth. However, the

result of causation between financial sector development and the ICT diffusion was statistically insignificant.

Huang, Kale, Paramati and Taghizadeh-Hesary (2020) investigated the impact of financial inclusion and trade openness on the economic growth of 27 European Union (EU) nations by classifying the nations into low-income, high-income, old-EU, and new-EU members. Employing annual data from 1995 to 2015 as well as fully modified least squares (FMOLS), the study showed that access, depth, efficiency, and the overall development of financial institutions have significant positive impact on economic growth in both the full sample and sub-samples. They also found that capital, labour, energy consumption and trade openness play an important role in driving economic growth across these panels. Moreover, the impact of financial inclusion on economic output is more significant in low-income and new-EU member countries than in high-income and old-EU countries.

Nguyen, Le, Ho, Nguyen and Vo (2021) employed the panel Granger-causality test and advanced dynamic common correlated estimator (DCCE) to investigate the effect of financial development on economic growth covering 22 emerging markets between 1980 and 2020. The study established that financial development positively influenced economic growth in the countries studied. Regarding the direction of causality, the study found a bidirectional Granger causality between financial development and economic growth.

Rehman and Hysa (2021) examined the effect of financial development and remittances on economic growth across six Western Balkan countries (WBC) using panel data from 2000 to 2017. Based on system GMM analysis, the study found that financial development (broad money stock ratio) and remittances show positive impact on economic growth across WBC. However, the interaction of financial development and remittances provide a significant and negative effect on economic growth.

3. Method and Procedure

The paper investigates both the direct effects of governance quality and financial development on economic growth. Specifically, (Aron, 2000) and Acemoglu (2008) identified that capital formation (CAP) is a key element in growth estimations. In the same vein, Akinleye, Olowookere and Fajuyagbe (2021), opined that oil revenue (OILR) is also critical in growth accounting in Nigeria. Accordingly, the relational form of our model of the impact of governance quality is specified as:

$$y = f(TEC, LAB, VA, PS, GE, RQ, RL, CC, CAP, OILR) \quad 1$$

where y = economic growth, TEC = technological factor, LAB = labour, VA = voice and accountability, PS= political stability, GE = government effectiveness, RQ = regulatory quality, RL = rule of law, CC = corruption control, CAP = capital formation and OILR = oil revenue.

Using a fully modified ordinary least square (FMOLS) procedure, the estimation model is respecified as:

$$y_t = \Omega_0 + \Omega_1 TEC_t + \Omega_2 LAB_t + \Omega_3 VA_t + \Omega_4 PS_t + \Omega_5 GE_t + \Omega_6 RQ_t + \Omega_7 RL_t + \Omega_8 CC_t + \Omega_9 GQ_t + \Omega_{10} CAP_t + \Omega_{11} OILR_t + \varepsilon_{1t} \quad 2$$

Where all variables are as earlier defined, GQ refers to a composite measure of governance quality, Ω_i are parameter estimates, ε_{1t} is the stochastic error term. The error is assumed to be independent and identically distributed (iid) with an expected value of zero and a constant variance σ^2 .

As argued by Okonji (2018), financial development could be expressed in four broad measures in line with World Bank financial development indicators matrix. These indicators include financial depth (FD), financial efficiency (FE), financial stability (FS) and financial access (FA). Using the FMOLS framework, the empirical model is specified as:

$$y_t = \Psi_0 + \Psi_1 TEC_t + \Psi_2 LAB_t + \Psi_3 FD_t + \Psi_4 FE_t + \Psi_5 FS_t + \Psi_6 FA_t + \Psi_7 FDEV_t + \Psi_8 CAP_t + \Psi_9 OILR_t + \varepsilon_{3t} \quad 3$$

Where y, TEC, LAB and OILR are as earlier defined. FD, FE, FS and FA are also as earlier defined. FDEV is the composite measure of financial development and ε_{2t} is the stochastic error term which based on the Gauss-Markov theorem is assumed to be independent and identically distributed (iid) with an expected value of zero and a constant variance σ^2 .

4. RESULTS AND DISCUSSION

All estimations are implemented using fully-modified OLS (FMOLS) developed by Phillips and Hansen (1990). The FMOLS estimator employs preliminary estimates of the symmetric and one-sided long-run covariance matrices of the residuals which guarantees that the estimator is asymptotically unbiased. The FMOLS was estimated with Bartlett kernel and Newey-West fixed bandwidth of 4.0. In addition, available time series for governance quality series spans for a period of 26 years. This could pose a problem of dimensionality and asymptotic inconsistency. To circumvent this, we employed Chow-Lin frequency technique to convert the annual data into quarterly data which yields 104 observations points per series instead of 26. Chow-Lin method allows for multiple indicator series giving greater flexibility and accuracy when interpolating high frequency data.

1. Impact of governance quality on economic growth

Table 1: Summary of estimates for the impact of governance quality on economic growth

	Model 1				
	Coef	std error	**t-stat**	**Prob**	Remark
CAP	0.100***	0.033	3.044	0.002	SS1
LAB	0.467***	0.114	4.098	0.000	SS1
TEC	0.002***	0.001	3.027	0.003	SS1
VA	0.002**	0.001	2.523	0.012	SS1
PS	0.001***	0.000	2.789	0.005	SS1
GE	0.009**	0.004	2.014	0.044	SS5
RQ	0.002***	0.000	5.113	0.000	SS1
RL	0.001**	0.000	2.441	0.015	SS5
CC	0.004***	0.001	2.931	0.003	SS1
GQ	0.173***	0.048	3.609	0.000	SS1
OILR	0.008*	0.004	1.794	0.072	SS10
R-square	0.768				
Obs	104				
C	0.025		0.887	0.377	NSS

Source: Regression Results Obtained by the Researcher. ***SS1 = statistically significant at 1% significance level. SS5 = statistically significant at 5% significance level. SS10 = statistically significant at 10% significance level. NSS = not statistically significant.***

(a). Impact of Governance Quality on Economic Growth

Table 1 presents the results of estimates of the impact of governance quality on economic growth. Model 1 shows that the coefficients of CAP, LAB and TEC are 0.100, 0.467 and 0.002 respectively. This indicates that raising CAP, LAB and TEC by one unit respectively will lead to 0.100 unit, 0.467 unit, and 0.002 unit respectively. This outcome aligns with the neoclassical prediction that capital, labour and the efficiency factor (technology) are the fundamental drivers of growth. Also note the low level of TEC's coefficient. This could suggest that the contribution of technology to economic growth in Nigeria is still undermined by technical and economic inefficiency as well as limited of capabilities.

Model 1 also shows that the coefficients of VA, PS, GE, RQ, RL and CC are 0.002, 0.001, 0.009, 0.002, 0.001 and 0.004 respectively. Notice the alignment of the coefficients with the apriori of positive relationship. Also notice that the coefficients indicate that the contributions are significant but low. This is indicative of poor quality of the governance architecture and institutional framework in Nigeria. However, the result shows that the combined effect of all the dimensions is more substantial than the horizontal summation of the individual effects. The result shows that raising the index of governance quality by one unit will lead to 0.183 unit increase in economic growth.

2. Impact of Financial Development on Economic Growth

Again, to ascertain the impact of financial sector development on economic growth, we estimated model.

Table 2: Summary of estimates for the impact of financial development on economic growth

	Model 2				
	Coef	Std error	**t-stat**	**Prob**	**Remark**
CAP	0.960***	0.142	6.764	0.000	SS1
LAB	0.937***	0.356	2.634	0.008	SS1
TEC	0.009***	0.003	3.375	0.001	SS1
FD	0.560***	0.097	5.777	0.000	SS1
FE	0.134***	0.043	3.132	0.002	SS1
FS	0.177***	0.031	5.653	0.000	SS1
FA	0.063***	0.023	2.727	0.006	SS1
FDEV	0.683***	0.178	3.840	0.000	SS1
OILR	0.083	6.134	1.814	0.069	SS10
R-square	0.781				
Obs	104				
C	0.298		0.071	0.949	NSS

Source: Regression Results Obtained by the Researcher. ***SS1 = statistically significant at 1% significance level. SS5 = statistically significant at 5% significance level. SS10 = statistically significant at 10% significance level. NSS = not statistically significant.***

Model 2 shows that economic growth is a positive function of capital, labour and technology. The coefficients of capital, labour and technology are 0.960, 0.937 and 0.009 respectively. The coefficients of FD, FE, FS and FA are 0.560, 0.134, 0.177, and 0.063 respectively. This indicates that raising FD, FE, FS and FA by one unit will raise economic growth by 0.560 unit, 0.134 unit, 0.177 unit, and 0.063 unit respectively.

The findings of this study show that governance quality is a key growth enhancer. Kaufmann, Kraay and Zoido-Lobatón (1999) argue that the ability of the state to implement social change and pursue a voluntary policy of economic development cannot operate without the establishment of efficient institutions in relation to the distribution of political power in such countries. According to Ivanyna and Salerno (2021), poor governance can severely hamper the government's ability to deliver sustainable growth. Dozens of empirical studies show that poor governance is associated with lower economic growth, lower investment, and lower tax revenue (IMF, 2018). For IMF (2019) noted that an improvement in the control of corruption index by one-third of a standard deviation is associated with an increase of 1.2 percentage points in government revenues as a share of GDP. Poor governance is also associated with higher income inequality (IMF, 2018).

The findings of this study also indicate that financial sector development is a growth enhancer. The idea that financial sector development is a growth enhancer was popularized by McKinnon (1973) and Shaw (1973). They argue that an economy with a developed financial services sector would experience economic growth. Our findings also corroborate Carter (2019). The results obtained show that financial deepening has a significant positive impact on economic growth. This finding corroborates the empirical findings of Dornbusch and Reynoso (2009) and Patrick

(2016). Financial deepening is an indication of financial liberalization and reduction of financial repression. In particular, McKinnon (1973) and Shaw (1973) argue that unrepressed financial markets facilitate savings mobilization, investment allocation, and fostering of economic growth.

5. CONCLUSION, RECOMMENDATION AND POLICY IMPLICATION

The main objective of this study is to find answers to the following: Whether governance quality has a positive significant impact on economic growth and whether financial development has a significant positive impact on economic growth. From the results obtained the following conclusions could be made. First, the dimension of governance quality as well as the composite governance quality index has a significant positive effect on economic growth in Nigeria. Second, financial sector development as well as the composite index of financial sector development has a significant positive impact on economic growth. In view of the above findings, the following recommendations are made: Since governance quality was found to be important for growth, high priority should be given to strengthening political institutions through the application of democratic principles including more political participation, freedom of speech, and accountability of leaders, strict regulatory quality and adequate protection of citizens property rights.

The result we obtained showed that if financial development improves, growth would also improve. This implies that worsening financial development could precipitate an economic crisis in Nigeria. Thus, the regulatory institutions should focus on further strengthening the financial institutions in a manner that reinforces stability.

Recommendations

Based on the outcome of the study, the following recommendations are made.

- Government of Nigeria should step – up checks on its public service and ensure that the dividends of good governance is delivered to the people. This can be done through adequate provision of public goods and services as inadequate provision of these can go to a large extent to hinder government effort at sustainable growth.
- Public resources should be allocated to activities where political gains can be easily extracted. For instance, public funds get diverted from current expenditure to public investment. This can increase public investment in unproductive project as noted by Gupta, Davoodi, & Alonso – Terme, (1998) and hinder core services such as the provision of health and education (IMF, 2019)
- The government should ensure that any public officer convicted of corruption should be made to refund all hat he has looted and be prosecuted for real.

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