

ANALYSIS OF THE CAUSALITY BETWEEN GOVERNANCE INDICATORS AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT:

This study seeks to determine the causality between governance indicators and economic growth in Nigeria using time series data from 1970 to 2020. The key variables considered for estimation were economic performance (YG), physical capital (PK), human capital (HK), labour force (LAB), and government consumption expenditure (GCE), government effectiveness (GE). The governance indicators include; the percentage change in control of corruption (COC); the percentage change in government effectiveness (GE); the percentage change in political stability and absence of violence (PSV); the percentage change in regulatory quality (RGQ); the percentage change in rule of law (RLW); and the percentage change in voice of accountability are among the alternative measures of institutional quality considered (VAC). Hence secondary data were used for the study. The secondary data were obtained from World Development Indicator and World Governance Indicator database. Preliminary test of Augmented Dickey Fuller and Dickey Fuller GLS unit root tests were used to ascertain the order of integration. The choice of Toda Yamamoto Granger Causality is informed by the mixed order of integration. The result of causality show that there is evidence of significant causality running from PVS and RGQ to economic performance is an indication that political stability and the absence of violence as well as quality regulatory control have the potential to improve the performance of economic growth in Nigeria. The main implication of the findings of this study is that there is need for sustainability in the political climate in addition to strengthening of the existing regulatory mechanism that can ensure strict adherence to rule and order in the society. This study recommends that governance system should embrace quality institutional framework for sustainable economic performance.

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1. Introduction

One of the most critical things a country needs to put in place is effective institutional environment in the form of good governance (Kadhim, 2013). Thus, there has been growing emphasis in the literature that good governance is a crucial factor in boosting economic performances and development process of nations (Bayar, 2016; Pere, 2015; Petreski, 2014). The United Nations, for example, regards good governance as a fundamental component of its Sustainable Development Goals (SDG) because it establishes a framework for reducing poverty, inequality, and other shortcomings in any country (Omri & Mabrouk, 2020; Gaghman, 2019; Grass & Newig, 2019).

Nigeria has the potential to become one of the world's fastest growing economies, thanks to its wealth of both human and natural resources. However, this has not translated into economic progress; the country is currently ranked among the world's 60 poorest countries, with a purchasing power parity (PPP) per capita of \$5929. (Gregson, 2017). The alarming unemployment rate recorded by the National Bureau of Statistics (NBS, 2018) demonstrates this, with a rate of 7.54 percent in the first quarter of 2015, down from 23.90 percent in the fourth quarter of 2011. However, the value increased to 10.44% in the fourth quarter of 2015 and 14.23% in the fourth quarter of 2016. In the fourth quarter, its depth increased to 20.43 percent.

Unumen and Oghi (2016) and Unumen (2014) argue that Nigeria remains an underdeveloped country on all development indices, with approximately 68 percent of the population living below the international poverty line of \$1.25 per day (Anwana & Affia, 2018). The 2017-2020 document's economic recovery and growth plan emphasizes that the country's overall economic performance is seriously harmed by poor infrastructure, corruption, insecurity, and poor governance, or, more broadly, poor and ineffective institutional settings (Ministry of Budget and National Planning, 2017). Government effectiveness, regulatory quality, political stability, absence of violence/terrorism, voice and accountability, corruption control, and the rule of law are among the six basic dimensions of good governance and/or institutional qualities identified by Kaufmann et al. (2010). Several critical institutions that are necessary for economic performance may be influenced by these governance characteristics.

As a result, for decades, there has been a persistent argument that the Nigerian state, like its counterparts in Africa and other developing countries, underperforms due to a lack of state capacity to deal with contemporary governance complexities. Poor governance is widely acknowledged as one of the underlying causes of the continent's poor economic performance. Poor governance in Nigeria has resulted in poor economic performance, as evidenced by corruption, political instability, and ineffective rule of law and institutions (Udah et al., 2016). Despite increased efforts in terms of policies and reforms to reverse the country's poor economic performance, one challenge is the lack of institutional quality to accelerate improved economic performance. However, the quality of the governance structure available may influence the extent to which various economic policies/reforms pursued successive democratic governments translate into improved economic performance. This study therefore seeks to determine the causality between governance indicators and economic growth in Nigeria from 1970 to 2020.

The study is organised logically into five sections. Section 1 covered the introduction. Section 2 covers the review of relevant literature. Section 3 is about the methodology of the study. Section 4 talks about the analysis of the data. Finally, Section 5 presents conclusion.

2. Brief Literature Review

Governance is all about the concept or the rules and regulation framed by the elected representatives to take care of the administration and proper functioning of the country while Governance as a proxy for public administration or public management (Kettl, 2006; Salamon, 2001; Garvey, 1997; Peters & Pierre, 1998). Governance in this regard is broadly defined as “regimes of laws, rules, judicial decisions, and administrative practices that constrain, prescribe, and enable the provision of publicly supported goods and services” (Lynn et al., 2001). For Fukuyama (2013), governance is the “government’s ability to make and enforce rules, and to deliver services, regardless of whether that government is democratic or not”. De Ferranti et al. (2009) on the other hand, describes Governance as the overall manner in which public officials and institutions acquire and exercise their authority to shape public policy and provide public goods and services (Frederickson et al., 2015). The Organization for Economic Cooperation and Development (OECD) defined governance as the exercise of political authority and control in a society in relation to the management of its resources for social and economic development. This

broad definition includes the role of government in establishing the environment in which economic operators operate and determining how benefits are distributed, as well as the nature of the ruler-ruled relationship.

Todaro and Smith (2003) for example, see economic growth as increase in the capacity of an economy to produce goods and services compared from one period to another or a positive change in the level of production of goods and services by a country over a period of times also an increase in living standard, improvement in societal wellbeing. In real sense of the term, economic growth means a sustained increase in per capita national output or net national product over a long period of time (Dwevedi, 2009). The International Monetary Fund (2009) and CBN (2010) agree that economic growth is the increase in the amount of goods and services produced in an economy over time. According to Dewett (2015), economic growth implies an increase in the net national product in a given period. Growth is also advocated with rising living standard of the population overtime and increase in the wealth of the citizens (Oyejide, Soyede & Kayode, 2016). Ufoeze, Odimgbe, Ezeabalisi, and Alajekwu, (2018) sees economic growth as raising the standard of living of the people and reducing inequalities of income distribution. Furthermore Utile, Okwori and Ikpambese (2018) conceptualized economic growth as an increase in the per capital income of an individual in the economy. Ndife (2020) further conceptualize economic growth as the increase in the amount of goods and services in a country at a time resulting in increase in real per capita income of a country over time.

Economic literature measure economic growth using gross domestic product, which is the market value of all final goods and services produced in a country in a given time period. Barro and Sala-i-Martin (1995) measures economic growth through rate of real per capita GDP with the perception of inclusive growth that better maintenance of the rule of law, smaller government consumption, longer life expectancy, more male secondary schooling and higher levels of schooling, lower fertility rates, and improvements in the terms of trade are the determinants of economic growth. The most common way to measure the economy is real gross domestic product, or real GDP due to its simplicity in the analysis. Thus, the real GDP growth rate at market prices (constant 2010 US\$) from the World Bank indicators is used in this study.

Zouhaier and Karim (2012) looked examined the relationship between investment, democracy, and GDP growth for a group of 11 Middle Eastern and North African nations from 2000 to 2009. (MENA). The study established a substantial relationship between democracy and investment using a dynamic panel data model and empirical tests. Aisen and Veiga (2013) used the system-GMM estimator on a sample of 169 nations from 1960 to 2004 to investigate the impact of political instability on economic growth. Their findings show a robust link between political instability and lower GDP per capita. Political unrest has a detrimental impact on economic growth by slowing productivity growth and diminishing capital and human capital accumulation.

Using the panel co-integration technique, Han et al. (2014) investigate if nations with below-average governance grow slower than countries with above-average governance. Government efficacy, political stability, corruption control, and regulatory quality are all much more positively connected with economic growth than the rule of law and voice and accountability, according to their findings. The findings also show that Asian nations with above-average governance grow at a faster rate than countries with below-average governance. Beleiu et al. (2015) employed correlation analysis to investigate the impact of governance on economic growth in Romania between 1996 and 2013. The study discovered a strong link between the rule of law and economic growth, as well as a link between regulatory quality and economic growth. Over the period 1996–2008.

Bayar (2016) used the panel cointegration technique to look at the impact of six public governance indicators on economic growth in the European Union's transitional economies from 2002 to 2013. All governance measures, with the exception of regulatory quality, had a statistically significant beneficial impact on economic growth, according to the study. Heshmati & Kim (2017) employed static and dynamic panel data models on data from 144 countries to find that democracy has a significant beneficial effect on economic growth in a study that studied the nexus between democracy and economic growth. Samarasinghe (2018) used data from 145 nations to investigate the impact of governance on economic growth. The study used fixed effects and random effects methodologies to discover that corruption control is a significant element for economic growth.

Chuku (2014) used a panel of 43 African countries to investigate the determinants of growth

drivers and transformation in Africa from a governance perspective. The six governance indicators were extracted from the World Bank's WGI dataset for the years 1996 to 2012. The study concluded that only regulatory quality, rule of law, and corruption control affect growth in Africa, using a consistent and non-parametric panel regression technique to estimate a structural model of growth and the measures of governance. Akinwunmi (2017) examines the trajectory of economic growth in Nigeria since independence, spanning the years 1960 to 2015. The Autoregressive Distributed Lag (ARDL) model was used in this study. The study discovered that, in the long run, the level of investment has a considerable impact on economic growth, whereas political stability and political freedom have a negative minor impact on the Nigerian economy's growth rate.

Anwana and Affia (2018) used a multiple regression model to demonstrate that economic and regulatory institutions have a major impact on economic growth in Nigeria. Governance, legal/security, and political institutions all have a negative impact on economic growth and development, according to the study. Between 1981 and 2016, Umar et al. (2019) looked into the contributions of the military and democratic political systems to the growth of the Nigerian economy. The study found that the military government contributed much more to the growth of the Nigerian economy than the democratic government, using OLS and cointegration tests. Between 1980 and 2018, Bakare et al. (2020) questioned the governance outcomes for the factors of industrial performance in Nigeria. The autoregressive distribution lag (ARDL) estimate approach was used to demonstrate that Nigerian governance has a considerable impact on the country's industrial performance. During the military era, a one percent increase in the exchange rate and money supply resulted in an increase in industrial production, according to the projected long-run equation. Despite this, an increase of 1% in both oil and FDI reduces industrial production by 0.54 percent.

There is quite a good number of studies on governance and economic growth nexus. Apart from attributing the inconclusiveness of the literature to the structural characteristics of the countries studied, their developmental stage, the econometric methods used, and the fact that the time frame studied is different remains unresolved. The current study's originality is in providing evidence-based insights into the extent to which governance quality is projected to effect economic performance using Toda-Yamamoto Granger Causality Test

low-Swan neoclassical growth model emphasis centres on technological change, labour, and

capital (Solow, 1956; and Swan, 1956) in boosting economy output. Mankiw, Romer, and Weil, (1992), later modified this with the inclusion of accumulation of human capital. However, this no longer prevail as there several driving forces to sustainable development and one of which is institutional quality and has taken centre stage in the midst of other determinants (Sule, 2020). The ‘institutions’ quality hypothesis’ contends that the institutional framework within which economic agents interact with each other in an economy affects economic development (Alexiou, Tsaliki & Osman (2014). According to this view, what matters most are the ‘rules of the game’ in a society, which are defined by the prevailing explicit and implicit behavioural norms and their ability to create appropriate incentives for desirable economic behaviour (Rodrik and Subramanian, 2003). The earlier studies attention was on the relationship between economic development and political institutions (Wittman, 1995; Clague et al. 1999; Wu and Davis, 1999), however as time evolve, the development of new measures has led to a number of different institutional issues being discussion (Butkiewicz and Yanikkaya, 2006; Kostevc et al. 2007). For instance, studies by Dawson (2003), Adkins and Savvides (2002) showed that institutions that promote economic freedom have a positive effect on economic performance. In a similar vein, studies by Bourguignon and Verdier (2000), Sylwester (2002), and Easterly and Levine (2003), report that countries with high level of civil liberty experience equality in per capita income. In addition, Stiglitz (2001) in revised Washington Consensus is one of the leading in supporter for good governance for countries to experience rapid development. Currently, the bulk of the research on the determinants of economic performance concentrates on the role of institutions in the discussion and its focus has shifted from macroeconomic variables to the quality of institutions (Alexiou, Tsaliki & Osman, 2014), thus reasons for this study exploit. To put it another way, this study's analytical framework for examining the causal relationship between governance and economic performance using Toda-Yamamoto Causality technique.

3. Methodology

Dating back to the works of Solow-Swan neoclassical, this study empirically examines the causal relationship between governance indicators and economic growth in Nigeria using Toda Yamamoto Granger Causality test. This analytical technique was employed after ascertaining the order of integration among the variables using Augmented Dickey Fuller Unit Root test. This is in addition to the adoption of descriptive statistics to examine the characteristics of the variable under

consideration. It is in line with that that this study adopts an ex-post facto research design that obtains time series data from secondary sources of the Central Bank of Nigeria, World Governance Indicators, the National Bureau of Statistics for the period from 1970 to 2020.

Model Specification

The model specification for this study is derived from the neoclassical growth model, which is then extended to include the extra components indicated by endogenous growth theories. As a result, the neoclassical model discussed here is based on the Solow and Swan (1956) model of economic growth, which has been well recognised in the literature as useful for different applications, including governance, which is the study's focus. In terms of capital growth, the model has short-run and long-run variants. As a result, our baseline model is stated in equation (1), in which economic performance is hypothesised as a function of a combination of labour (L) and capital (K) under constant returns.

$$YG = K^{\alpha} (AL)^{\beta} \quad (1)$$

Where YG denotes the total amount of output produced in a given economy. In the context of this study, this is a measure of economic performance. A symbolises the factor(s) that influence a country's technological level, whereas K defines the country's total capital stock (both physical and human), and L denotes the economy's total productive labour force. The parameters (α & β) represent elasticity of capital and labor with respect to national output, respectively. The model in equation (1) could be re-specified in an estimable and log linear form with K disaggregated into physical and human capital as shown in equation (2).

$$\log YG = \delta + \alpha_{PK} \log PK + \alpha_{HK} \log HK + \beta \log LAB + \varepsilon_t \quad (2)$$

Where λ is log of A with K partitioned into physical capital (PK) and human capital (HK) and both expressed in logarithm form. Theoretically, the economic growth is predicted to respond positively to both physical and human capital as well as labour ($\alpha_{PK} > 0, \alpha_{HK} > 0$, and $\beta > 0$). Intuitively, governance structure under any regime is expected to cause increasing economic growth. Thus, equation (3) is further extended to capture the relevant quality of governance on the performance of the Nigerian economy under the military and civilian regimes, respectively.

$$\log YG = \delta + \alpha_{PK} \log PK + \alpha_{HK} \log HK + \beta \log LAB + \lambda POL + \psi X_t + \varepsilon_t \quad (3)$$

Equation (4) is in line with the objective of the study, where X denoting quality of governance is a vector of different measures of institutional qualities to determine the extent to which the quality or otherwise of institutional settings in Nigeria matters in the performance of the Nigerian economy. However, to avoid considering the inclusion of the X term as merely controlling for another variable in the model, then we modified the model to capture the potential influence of the quality of governance (X) on the economic performance.

3.3 Variable Description

Economic performance, for example, is a crucial variable of relevance to us. It is calculated as the log of GDP in constant 2010 US dollars, corrected for inflation, to reflect the real value of all locally produced products and services in Nigeria. Many of the existing research on the subject have likewise favoured this method of calculating economic growth. The analysis adjusts for physical capital (PK), human capital (HK), and labour in the variables that measure the traditional causes of economic growth (LAB). The log of gross fixed capital formation (formerly gross domestic fixed investment) is used as a proxy for capital in the PK, which includes land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and other similar structures, such as schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Human capital (HK) is calculated as a ratio of secondary school enrolment to gross school enrolment, whereas labour (LAB) is calculated as the log of the total labour force, which includes those aged 15 and up who fulfil the ILO's definition of the economically active population. In the growth model, this is utilised as LAB.

More notably, the quality of governance was proxied using a rule of law index from the World Governance Indicators (WGI). The percentage change in control of corruption (COC); the percentage change in government effectiveness (GE); the percentage change in political stability and absence of violence (PSV); the percentage change in regulatory quality (RGQ); the percentage change in rule of law (RLW); and the percentage change in voice of accountability are among the alternative measures of institutional quality considered (VAC). Institutional quality based on these factors, according to Zang (2016), ranges from around -2.5 (poor institution quality) to 2.5 (strong institution quality), with a higher estimated value indicating better institutional quality.

Estimation Technique

The study's third goal is to look into the possibility of reverse causality between governance and economic performance. To do so, we use a Toda-Yamamoto-based Granger causality testing approach to supplement our ARDL econometric model. However, Yamada and Toda's (1998) simulation results imply that the technique is more stable than these other causality procedures. The idea behind TYDL is to use d_{\max} extra lags to artificially augment the right VAR order, say k , where d_{\max} is the most likely order of integration of the series in the system. However, we use the Toda-Yamamoto framework and the supplied lag augmented VAR ($k + d_{\max}$) for the economic growth-governance nexus in this study.

$$\begin{aligned}
 YG_t &= \alpha_0 + \sum_{i=1}^k \alpha_{1i} YG_{t-i} + \sum_{j=k+1}^{k+d_{\max}} \alpha_{2j} YG_{t-j} + \sum_{i=1}^k \beta_{1i} X_{t-i} + \sum_{j=k+1}^{k+d_{\max}} \beta_{2j} X_{t-j} + \varepsilon_{1t} \\
 X_t &= \beta_0 + \sum_{i=1}^k \beta_{1i} X_{t-i} + \sum_{j=k+1}^{k+d_{\max}} \beta_{2j} X_{t-j} + \sum_{i=1}^k \alpha_{1i} YG_{t-i} + \sum_{j=k+1}^{k+d_{\max}} \alpha_{2j} YG_{t-j} + \varepsilon_{2t} \\
 Z_t &= \lambda_0 + \sum_{i=1}^k \lambda_{1i} Z_{t-i} + \sum_{j=k+1}^{k+d_{\max}} \lambda_{2j} Z_{t-j} + \sum_{i=1}^k \alpha_{1i} YG_{t-i} + \sum_{j=k+1}^{k+d_{\max}} \alpha_{2j} YG_{t-j} + \sum_{i=1}^k \beta_{1i} X_{t-i} + \sum_{j=k+1}^{k+d_{\max}} \beta_{2j} X_{t-j} + \varepsilon_{3t}
 \end{aligned} \tag{4}$$

The multivariate VAR model in equation (4) would be considered where the series under consideration have different orders of integration says I(0) and I(1). The VAR specification can be further represented in matrix form as follows:

$$\begin{aligned}
 \begin{bmatrix} YG_t \\ X_t \\ Z_t \end{bmatrix} &= \begin{bmatrix} \delta_{10} \\ \delta_{20} \\ \delta_{30} \end{bmatrix} + \sum_{i=1}^k \begin{bmatrix} \delta_{11,i} & \delta_{12,i} & \delta_{13,i} \\ \delta_{21,i} & \delta_{22,i} & \delta_{23,i} \\ \delta_{31,i} & \delta_{32,i} & \delta_{33,i} \end{bmatrix} \begin{bmatrix} YG_{t-i} \\ X_{t-i} \\ Z_{t-i} \end{bmatrix} \\
 &+ \sum_{j=1}^{d_{\max}} \begin{bmatrix} \delta_{11,k+j} & \delta_{12,k+j} & \delta_{13,k+j} \\ \delta_{21,k+j} & \delta_{22,k+j} & \delta_{23,k+j} \\ \delta_{31,k+j} & \delta_{32,k+j} & \delta_{33,k+j} \end{bmatrix} \begin{bmatrix} YG_{t-k-j} \\ X_{t-k-j} \\ Z_{t-k-j} \end{bmatrix} + \begin{bmatrix} \varepsilon_{YG} \\ \varepsilon_X \\ \varepsilon_Z \end{bmatrix} \tag{5}
 \end{aligned}$$

To accommodate our variables of interest, the aforementioned Toda-Yamamoto VAR technique modified the original bivariate form of Toda and Yamamoto (1995), where k denotes the best lag length found using SIC and d_{\max} is the maximum order of integration. Rejecting the null hypothesis of no causality, which requires finding the significance of the Modified Wald (MWald) statistics for the group of lagged independent variables identified above, can establish the direction of causality running from governance or institutional quality indicators (X) to economic growth

(GY), and from economic growth (YG) to economic governance (X), and so on.

$H_{01} : \delta_{12,1} = \delta_{12,2} = \dots = \delta_{12,k} = 0$, Implies that governance (X) does not granger cause YG.

$H_{02} : \delta_{21,1} = \delta_{21,2} = \dots = \delta_{21,k} = 0$, Implies that YG does not granger cause governance (X).

$H_{03} : \delta_{13,1} = \delta_{13,2} = \dots = \delta_{13,k} = 0$, Implies that variable Z which is vector of the control variables such as PK, HK and LAB does not granger cause YG/X.

$H_{04} : \delta_{31,1} = \delta_{31,2} = \dots = \delta_{31,k} = 0$, Implies that YG/X does not granger cause Z.

4.0 Results and Discussion

Table 1 descriptive statistics results are intended to resolve this question. Starting with the mean, a quick glance at the table reveals that Nigeria's average economic growth, measured in real GDP, was 234.984 billion dollars between 1971 and 2020. Physical capital, human capital, and labour account for 45.393 billion dollars, 26.41 percent, and 37,121,115 dollars, respectively, in terms of variables that measure the traditional determinant of economic activity. Other growth variables like government consumption expenditure and trade availability, for example, average 3.35 percent and 33.40 percent of GDP, respectively.

It's worth noting that the magnitude of government spending doesn't necessarily indicate efficiency or output. The fact that the mean value for governance indicators - COC, GE, PSV, RGQ, RLW, and VAC – was reported as negative is a significant finding from the summary data. Between 1971 and 2020, the country had a negative governance indicator of -1.18, -0.70, -1.55, -1.17, -1.44, and -2.79, indicating that the country had poor governance across all of its institutions. The values reported in the Table 1 for descriptive statistics for economic growth (YG), physical capital (PK), human capita (HK), labor force (LAB) and government consumption expenditure (GCE) are 0.57, 0.68, 0.49, 0.39, 0.83, 1.36, -0.08, -0.58, -0.26 and -0.31. Corruption control (COC), government effectiveness (GE), political stability without violence (PSV), regulatory quality (RGQ), rule of law (RLW), and voice and accountability are some of the others (VAC). All of the predictors of growth appear to have a positive skewness statistic. The Kurtosis statistics, on the other hand, appear platykurtic for certain variables and leptokurtic for others. Economic growth, human capital and labor force for example, were all between 2.0 and 2.5, whereas physical capital is 4.85.

Table 1
Descriptive/Summary Statistics

	GDP	PK	HK	LAB	GCE	COC	GE	PSV	RGQ	RLW	VAC
Mean	234.98	45.39	26.41	37.12	3.35	-1.18	-0.70	-1.55	-1.17	-1.44	-2.79
Maximum	502.94	147.02	56.21	63.23	9.45	-0.89	0.16	-0.59	-0.66	-0.83	-0.32
Minimum	113.09	12.34	4.79	12.60	0.91	-1.43	-1.21	-2.21	-1.89	-2.16	-7.95
Std. Dev.	133.82	30.83	12.99	14.61	2.78	0.09	0.41	0.40	0.37	0.38	2.50
N_Std. Dev.	0.57	0.68	0.49	0.39	0.83	-0.08	-0.58	-0.26	-0.31	-0.26	-0.89
Skewness	0.96	1.51	0.10	0.01	1.05	0.32	0.73	0.27	-0.42	-0.29	-0.69
Kurtosis	2.34	4.85	2.27	1.83	2.61	5.06	2.16	2.18	1.94	1.99	2.01
Jarque-Bera	8.66	26.00	1.19	2.86	9.57	9.67	5.92	1.99	3.86	2.81	6.00
Probability	(0.01)	(0.00)	(0.55)	(0.24)	(0.01)	(0.01)	(0.05)	(0.37)	(0.14)	(0.25)	(0.05)

Source: *Extract from E-view 10 Output*

Table 1 shows summary statistics for the variables, with each series expressed in terms of their relative degrees of significance. Standard deviation is denoted by the phrase Std. Dev., while N-Std. Dev. is the normalised variation of the standard deviation statistic, which is calculated as standard deviation/mean. The probabilities associated with the reported Jarque-Bera (JB) statistics are shown in parenthesis.

This study performs a unit root test on all variables as a pre-condition for analysing time-series data. The purpose of the test is to determine the order of integration of the variables, which is one of the methods required to confirm the accuracy of the chosen estimating technique. The study looked at both the basic Augmented Dickey-Fuller (ADF) test and its extended variants, such as the Dickey-Fuller GLS test, for robustness and consistency.

Table 2
ADF Unit Root Test Results

Variable	Model with Constant			Model with Constant & Trend		
	Level	First Difference	I(d)	Level	First Difference	I(d)
YG	-2.633	-3.891***	I(1)	-3.891	-4.440***	I(1)
PK	-1.621	-4.876***	I(1)	-2.071	-4.607***	I(1)
HK	-1.491	-7.097***	I(1)	-4.343***	-7.138***	I(0)
LAB	-4.649***	-3.049*	I(0)	-3.881*	-2.973	I(0)
GCE	-0.708	-6.029***	I(1)	-1.866	-5.999***	I(1)
COC	-2.230	-6.736***	I(1)	-2.843	-6.644***	I(2)
GE	-2.684*	-9.362***	I(0)	-0.935	-10.184***	I(1)
PSV	-0.978	-6.389***	I(1)	-1.789	-6.521***	I(1)
RGQ	-1.792	-7.956***	I(2)	-2.690	-8.003***	I(1)
RLW	-1.035	-5.926***	I(1)	-3.099	-5.873***	I(1)
VAC	-2.921*	-2.630*	I(0)	-0.105	-4.319****	I(1)

Source: *Extract from E-view 10 Output*

Note: The exogenous lags are chosen based on SIC, and the symbols ***, **, and * denote that the series is stationary at 1%, 5%, and 10%, respectively. An observable time series is not stationary, which is the null hypothesis for ADF.

Table 3
DF-GLS Unit Root Test Result

Variable	Model with Constant			Model with Constant & Trend		
	Level	First Difference	I(d)	Level	First Difference	I(d)
YG	-1.948971	-0.620084	I(1)	-2.585203	-5.649387***	I(1)
PK	-1.848760*	-12.35029***	I(0)	-2.838126	-11.88190***	I(1)
HK	-0.431254	-7.150037***	I(1)	-1.773128	-7.261698***	I(1)
LAB	0.810104	-6.158593***	I(2)	-0.352529	-3.484147**	I(1)
GCE	-0.450180	-5.972380***	I(1)	-1.890058	-5.872163***	I(1)
COC	-2.169157	-6.825760***	I(1)	-2.778253	-6.828437***	I(2)
GE	-0.080828	-9.399374***	I(1)	-1.276166	-10.37619***	I(1)
PSV	-1.026953	-6.417512***	I(1)	-1.399748	-6.658066***	I(1)
RGQ	-0.490136	-7.985309***	I(1)	-2.608133	-8.148495	I(1)
RLW	0.832798	-5.950054***	I(1)	-2.418473	-5.987065***	I(1)
VAC	-0.547098	-2.499794**	I(1)	-0.889948	-4.307924	I(1)

Source: *Extract from E-view 10 Output*

Note: The exogenous lags are chosen based on SIC, and the symbols ***, **, and * denote that the series is stationary at 1%, 5%, and 10%, respectively. An observable time series is not stationary, which is the null hypothesis for DF-GLS.

Unit root results obtained from the ADF unit root test are presented in Table 2, where the null hypothesis of unit root, particularly for individual variables representing economic performance, appears to be rejected only at a 10% level of significance even when the ADF test was performed with both constant and constant and trend. A further look at the ADF results in table 2 shows that the null hypothesis of unit root was also rejected for the physical capital (PK) variable irrespective of whether the ADF test was performed with the option of constant or constant and trend.

The ADF unit root testing results also show that the null hypothesis of unit root was rejected at 10% for the HK variable when the test was performed with the option of both constant and constant and trend and at 5% for the labour force (LAB) variable but only when the ADF test was performed with the option of constant while constant and trend with ADF at 10% only. The other determinants of economic performance—GCE and CPI—show that the null hypothesis of unit root was also rejected at the 10% significance level for both constant and constant and trend. The null hypothesis of unit root was all rejected at 10% for the governance indicators – COC, PSV, RGQ, RLW – even when the ADF test was performed with both constant and constant and trend. GE and VAC series

achieve stationarity at 10% for ADF with constant and 1% with constant and trend, respectively.

To ascertain the robustness of the ADF unit root test results, reported in table 1, this study further considered an extended variant of the test, for instance, DF-GLS unit root test whose results were represented in Table 2. Same as the ADF unit root test results, the unit root test results obtained from DF-GLS also show that the null hypothesis of unit root was also rejected for physical capital (PK) and consumer price index (CPI) variables when the test option was with constant only at 5% and 10% levels. However, when the DF-GLS unit root test was performed with the option of constant and trend, this then implies that the probability values associated with the Augmented Dickey Fuller-GLS statistic suggest that the null hypothesis cannot be rejected.

*Table 4
Lag length selection using AIC for model with governance indicators in the VAR system*

0	-19.11861	NA	1.63e-12	1.239090	1.632738	1.387222
1	484.9496	772.1895	6.09e-20	-15.95530	-11.62517	-14.32584
2	646.6817	178.9377	7.93e-21	-18.58220	-10.31558	-15.47142
3	965.9427	217.3692*	5.06e-24*	-27.91245*	-15.70935*	-23.32035*

* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

Source: Extract from E-view 10 Output

*Table 5
TY-based Granger causality testing result*

Variable	The Null Hypothesis of No Causality					
	Governance indicators is not Granger Causing economic growth			Economic growth is not Granger Causing governance indicators		
	Chi-sq	P-value	Remark	Chi-sq	P-value	Remark
PK	10.16907	0.0062	Yes	4.226325	0.1209	No
HK	2.141573	0.3427	No	0.519866	0.7711	No
LAB	4.196125	0.1227	No	3.371910	0.1853	No
GCE	5.048874	0.0801	Yes	2.797462	0.2469	No
COC	1.220991	0.5431	No	0.239525	0.8871	No
GE	3.798407	0.1497	No	2.123992	0.3458	No
PSV	6.348772	0.0418	Yes	3.254527	0.1965	No
RGQ	5.826011	0.0543	Yes	0.148314	0.9285	No
RLW	1.259432	0.5327	No	5.223639	0.0734	Yes

VAC	1.356707	0.5075	No	1.203790	0.5478	No
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Source: *Extract from E-view 10 Output*

On the potential of reverse causality between governance and economic performance. The TY-based Granger causality test reported in Table 5 demonstrates that governance, particularly when measured in terms of political stability—no violence (PSV), regulatory quality (RGQ), and rule of law (RLW), exhibits significant causality with economic performance at the 5% and 10% significance levels, respectively. However, while the causality runs from governance to economic performance in the cases of PVS and RGQ, the reverse seems to be the case when governance is measured as RLW. Intuitively, the nature of the causality between governance and economic performance, as evident in the findings of this study, is mainly unidirectional in the context of the Nigerian economy. More importantly, the fact that there is evidence of statistically significant causality running from PVS and RGQ to economic performance is an indication that political stability and the absence of violence as well as quality regulatory control have the potential to improve the performance of economic growth in Nigeria. In another development, the evidence of statistical significance of causality running from economic performance to RLW seems to suggest that improved economic performance is capable of fostering quality rule of law.

5. Conclusion and Policy Remarks

This study seeks to examine the potential of reverse causality between governance and economic performance relationship in Nigeria using Toda Yamamoto causality test. Empirical finding demonstrates that the nexus between governance and economic performance is most evident when the measure of good governance is the rule of law. For example, when the indicators of good governance are measured as government effectiveness (GE) and regulatory quality (RGQ), we find that causality primarily runs from governance to economic performance. Thus, the hypothesis that improving economic performance as a function of good governance may also depend on the extent to which good governance is also a function of the size of the economy holds primarily in the context of Nigeria in terms of the rule of law, which is the only instance in which we found a causality running from economic performance to governance. The Nigerian government requires strong institutional mechanisms capable of containing any form of sharp practises across all cadres and being proactive in maintaining good governance standards across various government agencies/ministries and parastatals. Transparency and accountability in the discharge of

government duties can only be seen with effective institutions in place, resulting in improved economic performance. According to the study, because political stability and a sound regulatory framework influence the causal direction of the impact of governance on economic performance, the most appropriate thing for relevant government stakeholders to do is to ensure that democratic tenets are fully pursued to avoid political agitation and that various economic agents can go about their socioeconomic activities based on the existing rules and regulations.

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