

INSTITUTIONAL QUALITY AND ECONOMIC PERFORMANCE: THE NIGERIAN EXPERIENCE

Mathias Mathew Madu¹, Waindu Apagu Paschal² and Suleiman Mijinyawa³

^{1&3}Department of Cooperative Economics and Management, Adamawa State
Polytechnic, Yola

²Department of General Studies, Federal Polytechnic, Kaltungo-Gombe State

ABSTRACT

This study investigates the role of institutional quality in fostering economic performance in Nigeria using time series data spanning from 1980 - 2025. The ex-post facto research design was adopted and the data used were sourced from the World Bank Development Indicator database and the Worldwide Governance indicators. The data were analysed using Autoregressive Distributed Lag Model (ARDL) bounds cointegration approach. The long-run result shows that institutional quality has a negative impact on economic performance in Nigeria for the period under review. The estimated model passed all the diagnostic tests including structural stability. The study recommends that the government should ensure fiscal discipline to reduce corruption and also adopt the policy of checks and balances to ensure good governance. Those found guilty of any offence especially public office holders should face the wrath of the law. Government should provide an enabling environment for budgetary allocation to be spent on the intended project for which it is actually made.

Keywords: *Institutional Quality; Economic Performance; Nigeria; Experience; ARDL*

1.0 Introduction

Institutional quality, encompassing governance structures, regulatory efficiency, rule of law, and anti-corruption mechanisms, plays a role in fostering growth. High institutional quality ensures transparency in procurement, accountability in spending, and effectiveness in policy implementation. In Nigeria, institutional weaknesses such as bureaucratic bottlenecks, corruption, and political interference have often compromised growth outcomes. Studies show that countries with better institutional settings experience higher returns on investments and growth (Asiedu & Lien, 2021).

For Nigeria, understanding how governance conditions influence the economic growth is essential. This necessitates a more integrated approach that considers both economic and institutional dynamics. Empirical evidence from other developing countries suggests that economic growth yields higher returns when coupled with robust institutions (Iwuoha & Aniche, 2021).

According to Uzochukwu and Ude (2022), countries like Rwanda and Botswana, which have implemented governance reforms, have achieved significant improvement in the growth of the economy. In contrast, Nigeria continues to grapple with poor growth due to weak institutional oversight and limited capacity for long-term planning. This has prompted scholars and policymakers to re-examine governance quality. Institutional quality acts as the enabling environment that determines whether the performance of the economy is optimal. Thus, Nigeria's growth must be analyzed within a framework that recognizes the importance of governance.

Moreover, Nigeria's economic growth trajectory over the past decade has been inconsistent, often undermined by oil price volatility, insecurity, and macroeconomic mismanagement. While expansion of the economy has been prioritized in successive national development plans, the country still ranks low on global governance indices. Similarly, Transparency International (2023) highlights persistent governance challenges that limit public sector efficiency. These indicators suggest that institutions must improve to achieve sustainable economic progress. Nigeria's institutional quality has often been ranked poorly in global governance indices, such as the Worldwide Governance Indicators (WGI) and Transparency International's Corruption Perceptions Index. Low scores in areas such as control of corruption, government effectiveness, and rule of law reflect the systemic challenges facing development efforts (Transparency International, 2023). These shortcomings negatively affect fiscal performance, public procurement processes, and the broader investment climate. Therefore, this paper seeks to assess the impact of institutional quality on Nigeria's economic performance.

2.0 Literature Review

2.1 Conceptual Issues

Economic Growth

Economic growth refers to the sustained increase in the productive capacity of an economy, typically measured by the rise in Gross Domestic Product (GDP) over time. It reflects improvements in a country's ability to produce goods and services, which directly impacts income levels, employment opportunities, and overall welfare (Romer, 1994). Growth can be driven by several factors, including capital accumulation, labor force expansion, technological progress, and improved productivity. In developing countries like Nigeria, economic growth is often seen as a crucial pathway to poverty reduction and structural transformation. However, the quality and inclusiveness of growth are just as important as its pace, especially in addressing regional and socio-economic disparities. Nigeria's growth performance has been characterized by periods of rapid expansion, particularly during oil booms, followed by contractions due to external shocks and domestic vulnerabilities. Therefore, sustainable growth requires diversification away from oil dependency and the strengthening of non-oil sectors such as agriculture, manufacturing, and services.

Institutional Quality

Institutional quality refers to the effectiveness of a country's legal, political, and administrative frameworks in shaping economic performance and social outcomes. High-quality institutions are characterized by attributes such as accountability, transparency, the rule of law, property rights protection, and efficient public service delivery (North, 1990). In the context of Nigeria, institutional weaknesses especially corruption, policy inconsistency, weak enforcement of laws, and bureaucratic inefficiency have significantly constrained economic growth and development (Iwuoha & Aniche, 2021). These deficiencies limit investor confidence, distort market incentives, and reduce the efficiency of public investments. Moreover, poor institutional quality undermines regulatory environments and fosters rent-seeking

behavior, leading to resource misallocation and economic inefficiency. A strong institutional framework not only ensures better project execution but also enhances public trust and policy effectiveness. Furthermore, weak institutions hinder policy coordination among government tiers, complicating national development strategies. Hence, institutional quality acts as a filter through which investments translate into economic performance, and strengthening it is a prerequisite for meaningful progress.

The World Bank and other international development agencies have emphasized that building strong institutions is central to achieving the Sustainable Development Goals (SDGs). For Nigeria, this involves enhancing the capacity of public institutions, reducing corruption, and reforming regulatory and legal frameworks to support investment and innovation (World Bank, 2023).

Strengthening institutional quality requires long-term strategies including civic education, judicial reforms, public sector accountability, and inclusive political processes. Institutions are not just technical mechanisms but also reflect social norms, power relations, and historical legacies, which means reform efforts must be context-specific and participatory. In summary, institutional quality is both an enabler and a constraint to economic development, especially in Nigeria where governance challenges have long hindered the translation of policy inputs into economic outcomes.

2.2 Theoretical Framework

This paper is anchored on Institutional theory championed by North (1990), it asserts that the quality of institutions rules, norms, and enforcement mechanisms plays a critical role in economic outcomes. Institutions influence the efficiency of markets, reduce uncertainty, and shape the incentives for investment and innovation. According to this theory, economic growth will only be effective if there is institutional capacity to manage resources, enforce contracts, and curb corruption. In the Nigerian context, weak institutions often result in project delays, inflated

costs, and poor growth outcomes. Countries with strong institutions are more likely to achieve higher returns from growth than those with weak governance structures, provides a critical perspective on the role of governance and institutions in economic outcomes, emphasizing how formal rules, norms, and enforcement mechanisms affect development processes. According to North (1990), institutions shape economic performance by influencing the incentives and constraints faced by economic actors. Strong institutions ensure accountability, transparency, and effective project delivery. In contrast, weak institutions may foster corruption, inflate costs, or lead to abandoned projects. This theory is particularly relevant in Nigeria, where institutional weaknesses have historically impeded economic growth (Uzochukwu & Ude, 2022). The theory has the assumptions of legitimacy as currency because it is acceptable within social and cultural norms, where they resist change and create high level of stability. However, it has the limitations of underemphasizing human agency, ignores power struggle, and focuses more on stability and huge gap in practice. Overall, this theory is more accepted for this study because it explains why organisations adopt practices for social legitimacy rather than economic efficiency, outperforming traditional-choice models.

2.3 Empirical Review

Institutional quality has emerged as a critical determinant of economic growth, particularly in developing economies where governance structures are often weak or evolving. Studies such as those by Acemoglu and Robinson (2019) highlight those inclusive institutions those that support the rule of law, property rights, and accountable governance are positively associated with long-term growth. Using cross-country regressions and historical case studies, they argue that institutional differences explain much of the variation in income levels across nations. Their analysis demonstrates that extractive institutions, which concentrate power and limit broad participation, hinder innovation and productivity. Moreover, the persistence of institutional legacies means that reforms often take time to manifest in economic outcomes. This study lays the foundation for understanding why some

nations prosper while others struggle. It also emphasizes that economic policies are only effective when anchored by strong institutions.

Kaufmann and Kraay (2020) extended this discussion by developing and applying the Worldwide Governance Indicators (WGI) to assess the impact of six key governance dimensions on economic performance. Their empirical analysis, covering over 200 countries from 1996 to 2019, found that regulatory quality, government effectiveness, and control of corruption were all positively correlated with GDP per capita growth. Their study employed panel data regressions and robustness checks to establish a significant link between governance and development. The authors noted that improvements in governance, even if incremental, can substantially raise productivity and investment levels. They also observed that weak institutions often lead to misallocation of resources and reduced investor confidence. These findings support the argument that institutional reform should be central to any economic development strategy. Their work remains influential among international development organizations.

Rodrik, Subramanian, and Trebbi (2021) provided additional empirical support through a study that compared institutions, trade openness, and geography as determinants of economic growth. Their results showed that institutions have a more significant and lasting effect on economic outcomes than either geography or trade policies. The study used the instrumental variable method to isolate the effect of institutional quality and found it to be the most robust predictor of income levels. Countries with effective legal systems, civil liberties, and political accountability demonstrated higher economic performance. The authors suggested that while geography and trade may play roles in development, they are mediated by the quality of institutions. This reinforces the notion that institutional reform can catalyze growth regardless of a country's natural endowments. Their findings continue to shape policy debates in emerging economies.

North and Weingast (2023) examined the historical foundations of institutions and their long-term implications for economic performance. Their research traced the

evolution of legal and constitutional frameworks in post-colonial states and assessed their influence on modern governance. Using historical institutional analysis and regression modeling, they concluded that early institutional choices have persistent effects on today's economic structures. Countries with colonial legacies of inclusive institutions tend to have stronger rule of law and more stable economic systems. In contrast, nations with extractive colonial institutions struggle with weak governance and low economic resilience. The study underscores the importance of institutional path dependency in shaping development trajectories. This has profound implications for designing reform strategies in countries with entrenched institutional weaknesses.

In a regional study, Boko and Akpan (2021) explored the moderating role of institutional quality in infrastructure-led growth in sub-Saharan Africa. Using panel data from 2000 to 2020, they examined how governance interacts with infrastructure investment to influence GDP. Their results indicated that institutional quality significantly enhances the effectiveness of public investments, particularly in infrastructure. In countries with weak institutions, projects suffer from cost overruns, poor maintenance, and corruption, ultimately diminishing their economic impact. Conversely, countries with strong institutions demonstrated more efficient use of public resources and higher returns on investment. The study recommends that infrastructure development must be complemented by institutional reforms to achieve meaningful growth. These findings are especially relevant for countries like Nigeria, where infrastructure gaps and institutional weaknesses coexist.

Okonkwo and Eze (2023) conducted a Nigeria-specific study that assessed the relationship between institutional quality and economic growth from 1996 to 2021. Using the ARDL bounds testing approach, they found that indicators such as government effectiveness, control of corruption, and rule of law had significant long-run impacts on GDP growth. In the short term, however, the effects were less consistent due to political instability and fluctuating policy implementation. Their findings highlighted the importance of consistent and sustained reforms to

institutional frameworks. They also noted that high levels of corruption and weak law enforcement continue to constrain economic development in Nigeria. The authors recommended decentralization, judicial reform, and improved accountability mechanisms as potential solutions. Their work provides valuable insights for policymakers seeking to enhance institutional capacity in Nigeria.

Hall and Jones (2020) focused on the concept of "social infrastructure," which includes institutions, norms, and governance systems that shape economic interactions. Their cross-country regression analysis showed that variations in institutional quality explain much of the disparity in labor productivity and income levels across countries. The study found that institutions that support property rights, reduce transaction costs, and promote innovation lead to higher total factor productivity. These institutions also encourage the efficient allocation of resources and reduce uncertainty for investors. The authors emphasized that human capital and physical capital accumulation are more effective when supported by strong institutions. Their conclusions align with other empirical findings on the centrality of institutional quality. This further validates the need for governance-focused development strategies.

Lastly, Alguacil, Cuadros, and Orts (2022) examined how institutional quality affects the productivity of foreign direct investment (FDI) in emerging markets. Using data from 40 countries, they found that effective regulatory frameworks, legal certainty, and low corruption levels increased both the volume and economic benefits of FDI. The study used fixed effects models and interaction terms to show that institutional quality moderates the impact of FDI on growth. Poor institutional environments were associated with capital flight, low reinvestment rates, and limited technological spillovers. In contrast, strong institutions amplified the positive effects of FDI on industrial development and employment. The authors recommended governance reforms to attract and retain high-quality investment. These findings highlight the broader macroeconomic advantages of building institutional capacity.

From the foregoing literatures above, existing studies tend to treat institutions as a broad variable without delving into specific institutional factors, such as regulatory frameworks, governance structures, and corruption levels that directly affect economic growth. This oversight creates a gap in understanding the precise channels through which institutions either enhance or hinder economic growth.

3.0 Methodology

3.1 Research Design

This study examines the role of institutional quality in fostering economic growth in Nigeria from 1980 to 2025, adopt the ex-post facto research design. This design is relevant for secondary data. Ex-post facto investigation provides a solution to research problem by using data which are already in existence. This is used because it applies to real life situation, cost effective and cannot be manipulated. However, this design is limited in some cases due to unclear cause and effect, hidden extra factors and the researcher has no control over the variables.

3.2 Source of Data

The paper used secondary data covering the period 1980-2025 from World Bank Development Indicators (WDI) such as the GDP, INF, POP and FDI while ISQT proxied by corruption index was from Worldwide Governance Indicators (WGI).

3.3 Model Specification

The functional form of the study's empirical model was specified as follows

$$GDP = f (ISQT, FDI, INF, POP) \quad (1)$$

$$\Delta GDP_t = y_0 + y_1 ISQT_t + y_2 FDI_t + y_3 INF_t + y_4 POP_t + \mu_t \quad (2)$$

Where GDP is a proxy for Economic growth

ISQT is Institutional quality proxied by Corruption Index

FDI is Foreign Direct Investment

INF is Inflation

POP is Population Growth

Long Run Model

$$\begin{aligned}\Delta GDP_t = & \lambda_0 + \sum_{i=1}^p \lambda_{1i} \Delta GDP_{t-i} + \sum_{i=1}^{q1} \lambda_{2i} \Delta ISQT_{t-i} + \sum_{i=1}^{q2} \lambda_{3i} \Delta FDI_{t-i} + \sum_{i=1}^{q2} \lambda_{4i} \Delta INF_{t-i} \\ & + \sum_{i=1}^{q4} \lambda_{5i} \Delta POP_{t-i} + \lambda_{6i} GDP_{t-i} + \lambda_{7i} ISQT_{t-i} + \lambda_{8i} FDI_{t-i} + \lambda_{9i} INF_{t-i} \\ & + \lambda_{10i} POP_{t-i} + \epsilon_t\end{aligned}\quad (3)$$

Short Run Model

$$\begin{aligned}\Delta GDP_t = & \lambda_0 + \sum_{i=1}^p \lambda_{1i} \Delta GDP_{t-i} + \sum_{i=1}^{q1} \lambda_{2i} \Delta ISQT_{t-i} + \sum_{i=1}^{q2} \lambda_{3i} \Delta FDI_{t-i} + \sum_{i=1}^{q3} \lambda_{4i} \Delta INF_{t-i} \\ & + \sum_{i=1}^{q4} \lambda_{5i} \Delta POP_{t-i} + KECM_{t-i} + \epsilon_t\end{aligned}\quad (4)$$

3.4 Method of Data Analysis

Both descriptive and econometric data analysis techniques were applied in this investigation. While the latter used Pesaran, Smith, and Shin's (2001) autoregressive distributed lag (ARDL) and cointegration approaches to investigate the relationships among the variables of interest, the former presented basic statistics, tabulations, and graphical representations of the data. The study can ascertain the immediate and long-term impact of institutional quality on economic growth in Nigeria using the ARDL approach. The ARDL methodology was particularly chosen for its acknowledged advantages over other techniques. It can capture variables integrated of order 0 and 1, estimate long-run relationships, and capture short-run dynamics. However, before estimating the parameters of the models, it was necessary to verify the data-generating process for each variable. The variables

were found to be stationary either at level, $I(0)$, or at first difference, $I(1)$, but not at second difference, $I(2)$, using the augmented Dickey-Fuller (ADF) unit root test.

The specified ARDL models were estimated using E-Views econometric software based on the following steps:

1. Getting a feel for the nature of the data.
2. Ensuring all variables were integrated of order $I(d)$ with $d < 2$.
3. Specifying how deterministically to enter the ARDL model. Choosing $DGP_i = 1, \dots, 5$ from those outlined.
4. Determining the appropriate lag structure of the model selected in Step 3.
5. Estimating the model in Step 4 using Ordinary Least Squares (OLS).
6. Ensuring that residuals from Step 5 are serially uncorrelated and homoskedastic.
7. Performing the Bounds Test.
8. Estimating the speed of adjustment, if appropriate (E-Views, 2017).

The above procedures are illustrated in Figure 3.1.

Thereafter, post-estimation tests were carried out to ensure that the classical OLS

Results and Discussions

Descriptive Statistics

Table 1 presents the summary of the descriptive statistics of the variables employed in the study. It shows the mean, the maximum, the minimum and the standard deviation of the data

Table 4.1: Descriptive Statistics

	FDI	GDP	INF	ISQT	POP
Mean	0.234	2.941	21.843	0.011	1.398
Maximum	1.812	15.327	219.028	0.111	12.288
Minimum	-0.192	-13.129	0.686	0.002	7.376
Std. Dev.	0.330	5.351	33.912	0.025	4.689

Source: Author's Computation, 2026 using E-Views 10.

Foreign direct investment has a mean of 0.234, maximum of 1.812, minimum of -0.192 and a standard deviation of 0.330 surrounding the mean. Economic growth has a mean of 2.941, maximum of 15.327 with minimum value of -13.129 and standard deviation of 5.351 far away from the mean. Inflation has a mean value of 21.843 with maximum and minimum values of 219.028 and 0.686 while the standard deviation is far away from the mean with a value of 33.912. Institutional quality has a mean of 0.011, maximum of 0.111, minimum of 0.002 and a standard deviation clustered around the mean. Population has a mean of 1.398, maximum of 12.288, minimum of 7.376 and a standard deviation of 4.689.

Table 2: Augmented Dickey Fuller Test

VARIABLES	ADF	C/VALUES	P.VALUES	ST. LEVEL	REMARK
INF	-6.160850	-2.931404	0.0000	I(0)	Stationary
RGDP	-11.76365	-2.933158	0.0000	I(1)	Stationary
FDI	-4.243930	-2.931404	0.0017	I(0)	Stationary
ISQT	-3.505330	-2.931404	0.0125	I(0)	Stationary
POP	-7.650932	-2.933158	0.0000	I(1)	Stationary

Source: Author's Computation, 2026 using E-Views 10.

The result of the Augmented Dickey Fuller (ADF) test showed that economic growth and population growth are stationary at first difference I(1) while institutional quality, foreign direct investment and inflation were stationary at level, I(0) which confirms the use of ARDL. This indicates that variables integrated of order 0 shows temporary shock observation and mean reversion while those integrated of order 1 suffer from permanent structural shift which requires differencing to avoid spurious regression.

4.5 Optimal Lag length selection result

The lag length selection was based on the Akaike Information criterion because it has the minimum values among all the selected criteria. Based on the results on Table 3. With maximum lag of 2, the selected Model was: ARDL (2, 0, 0, 2, 1, 1). This is

because the lag 2 was selected by most of the criterion. This selection balances goodness of fit with the model by confirming absence of structural instability.

Table 3: Lag Length Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-991.9919	NA	2.86e+14	47.47581	47.68267	47.55163
1	-712.7491	478.7021	1.59e+09	35.36900	36.61020	35.82395
2	-627.7989	125.4027*	96719201*	32.51423*	34.78975*	33.34830*

Source: Author's Compilation, 2025 Using E-Views 10.

* 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

4.6 Bounds Cointegration Test

The calculated Fisherian statistic of the normalized equation as shown in Table 4 is 7.48 and is greater than both the lower bound critical values and upper bound critical values at 10% and 5% levels of significance. Hence, the null hypothesis of no long-run relationship was strongly rejected, meaning that long-run relationship exists among the variables used in the model. This is important because of the mixed order of integration to avoid classification errors and combines short run adjustment with long run multiplier framework.

Table 4: Bound Test

Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	7.484827	10%	2.2	3.09
K	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

Source: Author's computation, 2026 Using E-views 10

Table 5: Long Run Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FDI	-0.1506	2.2338	-0.0674	0.9467
INF	-0.0532	0.0436	-1.2206	0.0309
ISQT	-11.8177	44.7947	-2.5855	0.0143
POP	-1.1411	3.9556	-2.8801	0.0069
C	2.3782	3.4474	0.6898	0.4951

$$EC = GDP - (-0.1506*FDI - 0.0532*INF - 11.8177*ISQT - 1.1411*POP + 2.3782)$$

Source: Author's computation, 2026 Using E-views 10.

The result in table above showed that institutional quality is negatively related to economic growth with a coefficient of -11.8177 and statistically significant at 5% level with probability value of 0.0143 which is in line with theoretical underpinning. This means that 1% increase in institutional quality will decrease economic growth by 115%. This is likely due to the fact that corruption and bad governance has not help in promoting growth in Nigeria. Foreign direct investment is not in line with apriori expectation with a coefficient of -0.1506 and it is not significant at the conventional 5% level with a probability value of 0.9467 which means that 1% increase foreign direct investment will contribute negatively to the growth of the economy by 0.15% which is against theoretical underpinning. Inflation is negatively related to economic grow and is statistically significant with a coefficient of -0.0532 and a probability value of 0.0309 which obeys theoretical underpinning and it is also significant at the 5% conventional level. This means that 1% increase in inflation will decrease economic growth by 0.05%. . Population growth is negatively related to growth with a coefficient of -2.692 and a probability value of 0.0021 which is because of the fact that the population are mostly poor and unemployed.

Table 6:Short Run

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(FDI)	-2.419766	1.386968	-1.744645	0.0904
D(INF)	-0.042434	0.010527	-4.030954	0.0003
D(ISQT)	2.830218	35.54606	0.079621	0.9370
D(POP)	4.92E-06	7.01E-07	7.022951	0.0000
CointEq(-1)*	-0.942915	0.131121	-7.191199	0.0000
R-squared	0.693563			
Adjusted R-squared	0.661307			
Durbin-Watson stat	2.331181			

Source: Author's computation, 2026 Using E-views 10.

While corruption impacted growth negatively in the long run, it impacted growth positively in the short run. This likely by bypassing red tape but erodes institutions in the long run which distorts investment and reducing public trust .In the short run, the analysis further showed that the coefficient of the error correction term (ECT) was statistically significant with the expected negative sign. The coefficient showed a convergence to equilibrium and suggested that about 94 % of the disequilibrium in the previous year was corrected in the current year. The coefficient of determination was good which is 0.69. It means that about 69% of the variation in economic growth in Nigeria was explained or accounted for by the explanatory variables included in model of the study while 31% variation were accounted for by other variables not captured in the model and were represented by the stochastic variable (error term).

4.7 Diagnostic Tests

Various diagnostic checks were conducted to ensure that the estimated model is efficient and consistent. The output from the tests are summarized in Table 4.7. The Breusch- Godfrey serial correlation test shows the absence of serial correlation in the model as clearly indicated by the F-statistics of 0.7225 with a probability

value of 0.4935. The Breusch-Pagan- Godfrey test shows the absence of heteroskedasticity in the model as indicated by the F-statistics of 0.3860 with a probability value of 0.9334. The Ramsey RESET test indicates that the model is correctly specified as shown by the values of the F-statistics of 1.1867 with probability values of 0.2841 while the Normality test has F-statistic of 4.8497 with probability value of 0.0884. Generally, the calculated probability values for all test statistics were found to be greater than 0.05 significant levels. This shows that the model estimated is free from serial correlation, heteroskedasticity.

Table 7:Diagnostics Test Results

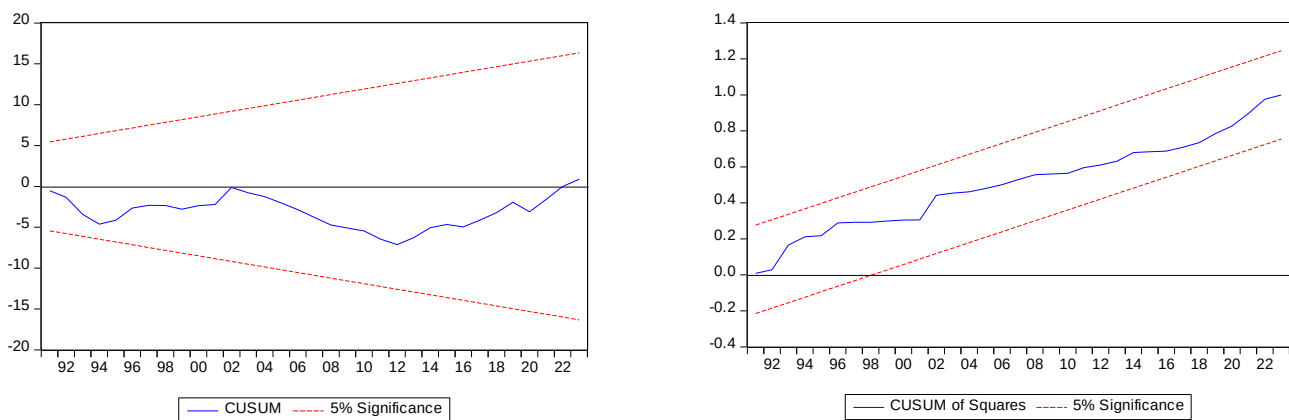
Test	F- statistic	Degree Freedom	of Prob.
Serial Correlation (Breush-Godfrey LM Test)	0.7225	F(2,31)	0.4935
Heteroskedasticity (Breush-Pagan Godfrey)	0.3860	F(9.33)	0.9334
Model Specification(Ramsey RESET Test)	1.1867	F(1, 32)	0.2841
Normality Test (Jarque-Bera Statistics)	4.8497	Na	0.0884

Source: Author's Compilation, 2026 Using E-Views 10.

4.8 Stability Test Results

The study also confirmed the structural stability of the model using both cumulative sum of square residuals (CUSUM) and cumulative sum of squared recursive residuals (CUSUMSQ) tests. The blue lines in both the CUSUM and CUSUMSQ plots dwelled within the critical bounds at the 5% level of significance (see Figures 1 and 2). This is an evidence that the mean relationship is stable for forecasting

Figure 1: Cumulative sum of square residuals (CUSUM) and CUSUM Square



Source: Author's computation, 2026 Using E-views 10.

Conclusion and Recommendations

In conclusion, institutional quality underscore the importance of robust governance structures in maximizing the potential benefits of economic growth. The quality of institutions manage and oversee governance. Research indicates that strong institutions facilitate the efficient allocation of resources, enhance the sustainability of e projects, and improve their overall impact of economic development. In Nigeria, improving institutional quality could significantly increase the effectiveness and sustainability of economic growth. Policymakers must consider the role of institutions in their development strategies, ensuring that it is strengthened to achieve the desired outcomes. The following recommendations were made; the government should ensure fiscal discipline by holding individuals responsible for their own action to reduce corruption and also adopt the policy of checks and balances to reduce corruptions, those found guilty of any offence especially public office holders should face the wrath of the law. Government should provide an enabling environment for budgetary allocation to be spent on the intended project for which it is actually made for.

Decentralization and autonomy of local governments can also improve service delivery and ensure that development initiatives reflect local needs and priorities. However, institutional reform is often politically sensitive and requires commitment from both leadership and civil society to drive change. Civil service reform, judicial independence, and anti-corruption enforcement are key components of such efforts. Additionally, digital governance tools can help promote transparency and accountability by reducing human discretion in public service processes. These institutional innovations are essential for fostering an environment where infrastructure investment effectively contributes to inclusive economic growth.

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