

Political Leadership, Financial Efficiency and Investment Growth in Nigeria

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ABSTRACT

The study examines the influence of political leadership, financial efficiency, trade, FDI and urbanization in Nigeria, using ARDL technique of estimation from 1980 to 2022. The stationarity test outcome shows that all the variable are found stationary and also the bound test found the variable fit for the long run analysis, since they have long run link. The result of the short run estimated outcome illustrates that political leadership, financial efficiency, trade and urbanization rise the level of investment growth in the country. However, FDI is not significant in explaining investment growth in the nation. The long run result reveals political leadership, financial efficiency, trade, FDI and urbanization have significant positive relationship with investment growth in Nigeria. Hence, the study suggest that good governance and promotion of the financial strength through innovative policies, planning and coordination for sustainable investment growth in Nigeria.

Keywords: Political leadership, financial efficiency, trade, ARDL, Nigeria

INTRODUCTION

In recent years, the global nations have focused more on all strategies for the growth in investment (Kalu et al., 2019). It is stressed that over 30 % rise in the level of employment had facilitates the increase in investment, human welfare and development of the citizens of several world's nations (World Bank, 2020). The GDP growth in the countries of the world has given a good signal of innovations, investment and development through planning and good strategies (World Bank, 2020). In this development, political leadership and governance have taken significant roles in attaining growth and development of the world's nations (Zahirah & Sidek, 2020). Similarly, it is argued that financial stability, management, investment performance, security and development were the main targets of the political leaders in the world in the past decades (Nanda and Kaur, 2016). An estimate reveals that over 90 % of political leadership wills are focused on investment growth, development and humanitarian issues (Yu, Zhou, & Zhu, 2016).

In this regard, developing nations, especially African countries have come up with the various approaches for good investment growth and development through good governance, less corruption, transparency and financial efficiency strategies (Nondo, Kahsai, & Hailu, 2016). In Nigeria, the level of investment is growing significantly (CBN, 2022). The rate of investment and GDP growth in the nation has reached almost 2% annual growth rate in the last decade (National Bureau of Statistics, 2020). Moreover, financial efficiency and stability have also accelerated towards positive direction. Despite, this development the level of human development, poverty, security and domestic investment are poor and in deteriorating conditions. Hence, this situation might be linked with the poor political leadership and financial in efficiency in the country. Therefore, the study examines the influence of political leadership and financial efficiency on investment growth in Nigeria. This study is different from the other past studies in the respect of

measurement of the financial efficiency, which has not been investigated in line with the political leadership and investment growth in Nigeria. Hence, the study contributes to the existing literature of political leadership and investment growth.

LITERATURE REVIEW

The association among political leadership, good governance, financial efficiency and investment has been studied in the literature. For instance, Yu, Zhou, and Zhu (2016) studied the influence of political leadership on growth performance in China. The study found that rule of law positively influence investment growth in the nation. Hence, the study suggest good leadership among communities yield positive outcome on investment. Similarly, An, Chen, Luo, and Zhang (2016) investigate the influence of governance on investment growth in China. The study found that political leadership influence positive investment growth and promote firms efficiency. Bokpin (2017) examine the effect of governance and institutions on investment growth performance, using panel data of African nations from 1990 to 2013. The outcome of the study reveals that good governance and strong institutions promote the level of investment growth in Africa. Beer et al. (2019) analyze the performance of political leadership on growth of investment in Australia, Finland, Germany, USA and UK. The result of the study shows that political leadership accelerates the level of investment growth. However, Ductor and Grechyna (2015) analyze the effect of financial performance on real sector and investment in 101 nations of the world from 1970 to 2010. The finding of the study indicates that financial efficiency increase the level of real sector business and investment. Durusu-Ciftci, Ispir, and Yetkiner (2017) emphasized that financial efficiency promotes the level of investment performance in 40 countries of the world, using AMG and CCE approach of analysis. Moreover, Guru and Yadav (2019) investigate the effect of financial development on investment growth in Brazil, Russian, India and China from 1993 to 2014, using system GMM approach of estimation. The study outcome reveals that financial progress accelerate the level of investment growth in these nations. Yahaya, Mohd-jali, and Raji (2020) examine the impact of financial performance on investment growth in Sub Saharan African nations, using panel data approach. The outcome of the study reveals a positive link among financial efficiency and investment in these nations. Erdoğan, Yıldırım, and Gedikli (2020) studied the impact of financial and natural resources on investment level in 11 nations of the world from 1996 to 2016, using non-linear technique of estimation. The study finds that financial resources increase the level of investment by almost 45%. Wang, Zhang, & Zhang (2021) utilized ARDL technique of estimation to analyze the influence of financial progress on investment growth in China from 1997 to 2017. The result shows that financial progress positively influence growth performance in China.

Based on the reviewed literature, it is confirmed that relationship among political leadership, financial efficiency and investment growth exist. Nonetheless, the measurement of financial efficiency in terms of total credit efficiency given to public was not been investigated in Nigeria. Therefore, examining this indicator would add to the existing knowledge in the literature.

METHODOLOGY

This segment explains the data on the variables used and the technique of estimation for the study. In this regard, annual time series data (1980 to 2022) on political leadership (governance), financial performance (financial efficiency total credit to public ration to GDP), investment growth (GDP growth rate), Trade (total exports and imports), FDI (net inflows), Urbanization (rate of urban population) are used for the analysis. Similarly, Autoregressive lag model (ARDL) is employed in estimating the empirical model of the study.

Model specification

The study used a modified version of empirical model from Dogan and Turkekul (2015) for the relationship between investment growth and other independent variables as expressed below:

$$ING = f(POL, FE, TR, FDI, UBR) \tag{1}$$

In equation 1, ING represent investment growth, POL means political leadership, TR trade, FDI illustrate foreign direct investment and UBR is urbanization. All the variables are in their natural log for easy interpretation.

The empirical model of the study is specifically more detailed in equation (2)

$$ING = \alpha + \beta_1 POL + \beta_2 FE + \beta_3 TR + \beta_4 FDI + \beta_5 UBR + \varepsilon_i$$

In equation 2 β_1, \dots, β_n are the variable coefficient, α is the intercept and ε_i represent the error term. This model estimates and shows the association and influence among the study variables.

Hence, the ARDL model of estimation is illustrated in the following equation:

$$\Delta ING = \beta_0 + \sum_{j=1}^n \beta_1 LING_{t-j} + \sum_{j=0}^n \beta_2 LPOL_{t-j} + \sum_{j=0}^n \beta_3 LFE_{t-j} + \sum_{j=0}^n \beta_4 LTR_{t-j} + \sum_{j=0}^n \beta_5 LFDI_{t-j} + \sum_{j=0}^n \beta_6 LUBR_{t-j} + \sum_{j=0}^n \beta_7 LING_{t-j} + \alpha_1 LPOL_t + \alpha_2 LFE_t + \alpha_3 LTR_t + \alpha_4 LFDI_t + \alpha_5 LUBR_t + \varepsilon_t \tag{3}$$

$$\Delta LING = \beta_0 + \sum_{j=1}^n \beta_1 LING_{t-j} + \sum_{j=0}^n \beta_2 LPOL_{t-j} + \sum_{j=0}^n \beta_3 LFE_{t-j} + \sum_{j=0}^n \beta_4 LTR_{t-j} + \sum_{j=0}^n \beta_5 LFDI_{t-j} + \sum_{j=0}^n \beta_6 LUBR_{t-j} + v_0 ECT_{t-1} + \varepsilon_t \tag{4}$$

$$LING = \alpha_0 + \alpha_1 LING_t + \alpha_2 LPOL_t + \alpha_3 LFE_t + \alpha_4 LTR_t + \alpha_5 LFDI_t + \alpha_6 LUBR_t + \varepsilon_t \tag{5}$$

Where represent the error term, t indicates the time trend and Δ represents the first difference operator.

RESULT

This segment illustrates the estimated outcome of the study. The estimates was based on ARDL technique of analysis and the variables were subjected to unit root test to ascertain the stationarity of the variables of the model, using Augmented Dickey-Fuller.

Table 1 Stationarity outcome

Variables	ADF (level)		ADF (first dif)	
LING	-4.793161*	(0.0005)	-	
LPOL	-6.193425*	(0.0001)	-	
LFE	-2.462427	(0.1341)	-4.931001*	(0.0004)
LTR	-1.414574	(0.8365)	-7.012676*	(0.0000)
LFDI	-1.437033	(0.5541)	-5.995694*	(0.0000)
LUBR	-1.347801	(0.3451)	-6.865021*	(0.0000)

Notes: * Shows statistical significant at 1 percent level

Table 1 shows the result of stationarity of the model variables, it is clearly indicates that some variables are stationary at level while others are in the first level. Therefore, it valid to conduct the bound test for the long

run analysis. The bound test result confirms the existence of long-run relationship since the value of F-statistic 7.971706 is higher than the upper-bound test critical values of I(0) 3.74 and I(1) 5.06 at 1 percent level of significance

Table 2: estimated outcome

S.R Regressors	Coefficients	SD Errors	t-Statistics	Prob
Δ LPOL	1.484847*	0.408317	-3.636506	0.0020
Δ LFE	1.830118*	0.427574	-4.280234	0.0005
Δ LTR	0.259677**	1.317385	-0.197116	0.0241
Δ LFDI	0.376519	1.109257	-0.199367	0.4784
Δ LUBR	1.301274**	1.2953091	-0.164109	0.0078
ECT(-1)	-0.723840*	0.161743	-4.475251	0.0003
L.R Regressors				
LPOL	2.066781*	0.844719	0.079057	0.0000
LFE	0.353295**	0.368904	-0.957690	0.0016
LTR	1.244602**	1.446998	1.551213	0.0039
LFDI	1.704301	1.865231	1.690156	0.0618
LUBR	1.095616*	1.286401	1.290167	0.0005
C	-31.076964	15.773345	-1.970220	0.0653

Notes: * and ** represents statistically significant at 1 and 5 percent levels

Table 2 shows the estimated outcome of the short and long run results. The estimate of the short run reveals that political leadership, financial efficiency, trade and urbanization are significant in explaining the growth of investment in Nigeria. Similarly, it reveals that a percent increase in political leadership, financial efficiency, trade and urbanization result to rise in investment in the country by 1.4, 1.8, 0.2 and 1.3 percent respectively. However, FDI is not significant in determining investment growth. The speed of adjustment towards long-run equilibrium is about 72.38 percent, and it is significant at one percent.

Moreover, the long run estimate illustrates that political leadership, financial efficiency, trade and urbanization are positively influence investment growth in Nigeria. The outcome further elaborate that political leadership accelerate the level of investment growth by 2 percent. This signifies that annual governance increase the level of investment by 2 percent annually. This outcome is justified by the result of Zahirah and Sidek (2020). Similarly, the result also shows that financial efficiency, trade, FDI and urbanization increase the level of investment in Nigeria by 0.3, 1.2, 1.7 and 1.0 respectively.

Table 3 Post Estimation Checks

Test Type	F-statistics	Probability	Result
Breusch-Pagan Test.	1.235454	0.3367	No Heteroskedasticity
Breusch-Godfrey Test	0.570058	0.5773	No Serial Correlation
Jarque-Bera	1.354824	0.5079	Normally Distributed

Table 3 illustrates the post-estimation checks. The estimated model indicates that there is no Heteroskedasticity, serial correlation and the errors are normally distributed.

CONCLUSION

This study examines the influence of political leadership, financial efficiency, trade, FDI and urbanization in Nigeria, using ARDL technique of estimation from 1980 to 2022. The stationarity test outcome shows that all the variable are found stationary and also the bound test found the variable fit for the long run analysis since they have long run link. The result of the short run estimated outcome illustrate that political leadership, financial efficiency, trade and urbanization rise the level of investment growth in the country. However, FDI is not significant in explaining investment growth in the nation. The long run result reveals political leadership, financial efficiency, trade, FDI and urbanization have significant positive relationship with investment growth in Nigeria. Hence, the study suggest that good governance and promoting financial strength through innovative policies, planning and coordination for sustainable investment growth in Nigeria. Nonetheless, the study is limited by not incorporating some important variables such corruption, continuity in government due lack of data. Therefore, future studies should incorporates these variable to elaborate the analysis and recommendations.

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