

**FINANCIAL DEVELOPMENT, JUDICIAL CORRUPTION, AND
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Caleb University, Lagos**Mikailu, Ahmed Aminu,**Department of Economics, Kaduna State University,
Kaduna**Abstract**

This paper assesses the impact of financial development, institutions, and judicial corruption, on economic growth as well as causality among the variables in Nigeria over the period of 1980 to 2016 using Autoregressive Distributed Lag (ARDL) Model and Granger Causality Test. The former takes care of both long-run and short-run dynamic effects of financial development, institutions, and judicial corruption as they affect economic growth while the latter captures the flow of causality among the variables. The ARDL Bound test result reveals existence of cointegration among the variables. The short-run result shows that judicial corruption is negatively and significantly related to economic growth while in the long-run, a positive but insignificant relationship exists. It also reveals that exchange institutions have significant negative relationship with economic growth. However, the results of Granger causality test showed that there is unidirectional causality running from judicial corruption to economic growth. In all, the study concludes that justice delayed is growth denied. The study therefore recommends that the institution of justice be reformed, civil litigations be discharged on time and judicial independence be restored accordingly.

Keywords: financial development, Institutions, Judicial Corruption, Economic Growth, ARDL, Granger-Causality.

1.0 Introduction

Over the years, corruption undermines not only financial sector development but also the recovery of debts or enforcement of claims due to weak institutions. Therefore, corruption can be a pivotally foremost factor weakening the enforcement of claims and the recovery of debts. As it erodes trust on debts recovery and other related financial transactions, hence, dampens investment because banks and other financial institutions lost confidence in debts recovery. Thus, it pessimistically affects payment culture and

raises market distrust, sinking access to credit and mounting transaction costs (Muhammad and Saheed, 2019).

Moreover, corruption weakens financial development and stability. At the same time, corrupt lending practices, weak banking supervision, and regulatory forbearance can threaten the stability of the financial system. A rising share of nonperforming assets in the portfolio of the banking sector can diminish its ability to advance credit with a significant impact on growth and poses fiscal risks to the government budget. Certain forms of regulatory capture in advanced economies, such as an expectation of a future job for a regulator in a regulated firm, may have played a role in the systemic failures of oversight, regulation, and disclosure during the 2008 global financial crisis. More generally, through high-level bribery and influence peddling, powerful financial companies can bend the regulatory, policy, and legal institutions for their private benefit.

Furthermore, corruption in Nigeria has been a major problem militating against its economic progress, as it continues to frustrate the prospect for growth and development of the Nigerian economy. This single reason has accounted for the great interests shown by various researchers to unearth the causes of corruption and the magnitude of its effects on economic growth in general and the disastrous erosion it causes on foreign direct investment inflows and financial development at large. Today, despite the abundance of resource blessings, Nigeria as a nation is enjoying, it still finds it difficult to path its way to development. This is because corruption has eroded virtually all sectors of the Nigerian economy of which financial sector is inclusive, thereby making public officials as well as private individuals neglecting their official discharge on account of bribery, embezzlement, fraud, collusion, patronage, clientelism, and nepotism which are obvious manifestation of corruption in the public space and even private sector (Sani and Shaeed, 2019).

Attempts by previous studies such as Elliot, 1997; Rose-Ackerman, 1999; Gill, 1998; Girling, 1997; Human Development Cooperation (HDC), 1999; Kaufmann and Sachs, 1998; Mauro, 1995; Guhan and Paul, 1997; Schleifer and Vishny, 1993; Stapenhurst and Kpundeh, 1999; Vittal, 1999; World Bank, 1997 and the most recently, Farida and Ahmadi ΓÇô Esfahani, 2007) channel attention on the impact of corruption on foreign direct investment and also focused attention on identifying the pattern of relationship that exists between corruption and economic prosperity in Nigeria. But despite these attempts, some types of corruption that causes economic adversities have not been exhaustively explored and investigated. It is in the quest to fill this identified gap that this study becomes significant through empirical investigation. Furthermore, the main objective of this research work is to assess the impact of financial development, institutions, and judicial corruption on economic growth in Nigeria. However, in our attempt to unveil the magnitude of the relationship among the variables under examination, we set up the following research questions;

- i. What is the impact of financial development, institutions, and judicial corruption on economic growth?

- ii. What is the nature of causality among financial development, institutions, judicial corruption and economic growth?

However, the paper is organised as follows. Following this introduction is Section 2, which reviews the conceptual, theoretical and empirical literature. Section 3 explains the type and sources of data, empirical model and econometric methodology. Section 4 explains the data employed in the analysis and its interpretation. Section 5 reports and discusses the econometric results. Finally, Section 6 concludes, and recommends way-forward.

2.0 Theoretical framework

The paper reviewed relevant theories that establish the connections between corruption and the economic growth. These theories are:

Theory of Distributive Corruption

The theory of distributive corruption highlights the weakness of the state in its relationship with the society. This theory is based on empirical evidence in some countries like Russia or Bangladesh where state failure has gradually been caused by the power of patronage networks. This theory is characterized by the dominance of one social group (ethnic or regional) or economically powerful enough to challenge the state in all its authority. Through bribery, this class derives enormous benefits of their activities for example requiring officials to work towards their favor. Thus these groups may receive particular policy makers, public goods and services; advantages in terms of regulation. In return, the policymaker is guaranteed the political support of these powerful lobbies. At this level, the main beneficiaries of public resources are not diverted politicians or bureaucrats, but these resources are distributed to the powerful clans in social or economic consideration (hence the term distributive corruption) in the form of tax exemptions, grants, leases, pensions, health coverage and housing etc. However, these groups earn more than they bring in terms of investment or public projects, aid for internal development. Moreover, the loser is undoubtedly the state and its regulatory power. All its capacity to mobilize revenue, to implement consistent policies and priorities becomes eroded (Amundsen, 1997). Indeed, distributive corruption affects the poor, because the basic public services including education, health, social security... are allocated based on the ability of individuals to influence policy and to pay bribes. In the literature, the "*feudalization*" term is used to describe this state of powerlessness. This refers to the feudal system that was characterized by exploitation and manipulation of a majority by a minority group. If in short term, those in power may benefit from political support of the clans in terms of loyalty; in the long run, the unity of the state is jeopardized.

Theory of Extractive Corruption

Unlike the previous case, this theory postulates that the state is the strongest in its relationship with society. It is even considered too strong. This theory is based on the authoritarianism of the ruling class in some countries. At this level, the ruling elite use the state apparatus as a tool for extracting the wealth from society. This analysis refers to the famous quote that supports that *all power tends to corrupt but absolute power corrupts absolutely*. This is particularly the case in many African countries. Indeed, the powers that are trying to develop arrangements and sophisticated modifications to the image of the party system, the appointment of rivals to reduce the power-sharing. The lawlessness, violation of human rights and electoral fraud also become instruments on which dictatorship. Thus violence is taking over the charisma and persuasion. Political corruption is also becoming the preferred instrument of private appropriation of collective resources. Corruption in mining, the state is inefficient and resources are not distributed according to needs. Investments are not made in productive areas. Appointments and promotions in the public sector are not based on merit, but they depend on political and economic interests.

Corruption stems from the extractive neo-patrimonial system present in many African countries, Latin America and Asia. This concept is widely used in political science to describe undemocratic regimes characterized by assimilation of public ownership to private ownership, as well as a strong presence of the patron-client relation. In neo-patrimonial system, public resources are distributed in the form of employment, contracts, grants and other public resources to allies and friends. In some countries in sub-Saharan Africa, the neo-patrimonial and clientele practices are the foundation of the hegemony of the ruling class. Amundsen's survey (1997) shows that countries like Côte d'Ivoire and Cameroon, are led by a group of about 50 families who have control over public resources of the state. Many civil wars in Sierra Leone in particular, Liberia and Congo/Brazzaville originate from the grip of the ruling class on the collective resources.

Hedonistic Theory

Hedonistic theory posits that nature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we ought to do, as well as to determine what we shall do. The theory of hedonism holds that it is an essential aspect of human nature to seek pleasure and avoid pain; human beings cannot act in any other way. A human being will always act in a way that, to his understanding, will produce what he/she perceives as the greatest pleasure, or protect him/her from undesirable pain. Therefore, hedonistic theory views human being as rational, in other word, one who calculates his actions views the consequences before he/she acts. To describe the corrupt nature of the judiciary in Nigeria, this theory asserts that judges deliberately choose to act in a corrupt way in order to maximize pleasure and to avoid pains. To reduce corruption however, laws must be written and made known to all and punishments must slightly outweigh the advantage to be gained from the crime

perpetration. In addition, law enforcement system must be established in a way that guarantees punishment for any crime irrespective of one's status in the society. A strict adherence to these will result into strengthened conduct of economic activities and the market place will be devoid of unwarranted uncertainties.

However, hedonistic theory implied an explanation of crime; people who commit a crime (corruption) do so because they gain more than they lose. The assumption that practically everyone is capable of committing a certain kind of crime sets Beccaria's explanation of crime apart from those of many other criminologists. Beccaria believes that a threat of legal punishment sufficient to deter one person would discourage most people as well. Therefore, the rampant cases of corruption exist because of the weak judicial system in the country

For the purpose of this research however, the hedonistic theory of judicial corruption is adopted. This decision is borne out of the consistency of the theory towards establishing the direct quest of judges in accruing greatest pleasure to themselves and protecting themselves against undesirable pain.

2.1 Empirical review

This section reviewed empirical literature on financial development, institutions, judicial corruption and economic growth. Using Autoregressive Distributed Lag (ARDL) Model and Granger-Causality Muhammad and Saheed (2019) juxtaposed the relationship among judicial corruption, financial development and economic growth in Nigeria over the period of 1980 to 2016. The result reveals existence of cointegration implying a long-run relationship among judicial corruption, financial development and economic growth. The short-run result shows that judicial corruption is negatively and significantly related to economic growth while in the long-run, a positive but insignificant relationship exists. It also reveals that rule of law is positively and significantly related to economic growth in the short-run. However, the results of the Granger-causality test show that there is unidirectional causality running from judicial corruption to economic growth.

Enrlich and Lui (1999) investigated the relationship between corruption, government and economic growth covering 1960-1992. It is found that corruption and per capita income are negatively related across different stages of economic development, owing to the dependence of corruption on investment in political capital as a ticket for entry to a bureaucratic rank. Furthermore, Mo (2001) estimated a direct and indirect effect of corruption on economic growth using a long term growth rates of per capital GDP from 1970 to 1985. The study identified three transmission channels namely, investment, human capital and political stability. The result indicates that one unit increase in the corruption index reduces the growth rate by about 0.545 percentage point. However, the direct effect of corruption becomes insignificant.

Ramello and Melcrane (2016) while examining the impact of judicial delay on economic growth in 175 countries over the period of 2004-2015 and found that judicial delay turns out to be a relevant and significant determinant of growth, as every extra year needed to dispose (on average) private litigation lowers growth rate by over 1%. Thus, Del Monte and Papagni (2001) studied the relationship corruption and economic growth (1963-1991) for 20 Italian regions. It is found a significant negative relationship between corruption and economic growth. However, Gyimah-Brempong (2002) examined the effect of corruption on economic growth in 21 African countries from 1993 to 1999. The finds indicated that corruption decreases economic growth directly and indirectly through decreased investment in physical capital. Also, Abed and Davoodi (2002) investigated the impact of corruption in 25 transition economies over the period of 1994-1998. It is found that higher economic growth is associated with lower corruption.

Furthermore, Pellegrini and Gerlagh (2004) investigated the direct and indirect transmission channels through which corruption affects economic growth levels. It is found that there is a negative relationship between corruption and economic growth. One standard deviation increase in the corruption index is associated with a decrease in investments of 2.46 percentage points, which in turn will decrease economic growth by 0.34 percent per year. Ozfolat, et al (2016) investigated the impact of institutional structure on economic growth in 20 countries over the period of 2002-2015. The study used Generalised Method of Moments (GMM) and found a significant positive relationship between institutional structure and economic growth.

In another study by Valeriani and Peluso (2011), the impact of institutional quality on economic growth was investigated in 181 countries over the period of 1950-2009. The study revealed that there is positive and significant relationship between the institutional quality and economic growth. More so, Egunjobi, (2013) examined the impact of corruption on economic growth in Nigeria from 1980 to 2009. The finds showed that corruption negatively influence workers' productivity as corruption per worker poses negative influence on output per worker directly and also indirectly on foreign private investment. Rotimi, et al (2013) investigated the causal relationship between corruption and the gross domestic product (GDP) and found a significant positive relationship between corruption and economic growth.

3.0 Methodology

Data and Variables Measurement

Examining the impact of financial development, institutions and judicial corruption on economic growth in Nigeria, secondary data will be used spanning the period of 1980-2016. The data will be sourced from the National Bureau of Statistics data bank, World Bank, Central Bank of Nigeria (CBN) and the International Country Risk Guide (ICRG). Economic Growth is the dependent variable measured as Gross Domestic Products at 2010 Constant Price (US \$). The independent variables are; Adjudgment of Court Cases

is the proxy adopted to measure judicial corruption in the context of this study; Financial Development is measured as the ratio of broad money (M_2) to GDP as used by Muhammad and Saheed (2019) and Ntim and Emilia (2014) and Ndebbio (2004); Institutional Quality: Rule of Law is proxy of institutional quality in conformity with the works of Muhammad and Saheed (2019) and Ntim and Emilia (2014).

Technique of Data Analysis

The study intends to use secondary data in the form of time series spanning thirty-seven (37) years as earlier stated, time series macroeconomic data are notably not stationary due to changes in their time trend. As such, this study tends to apply Augmented Dickey-Fuller (ADF) and Phillips Peron (PP) tests for stationarity to investigate the unit root. This is to find out whether the series used are stationary or not. In order to investigate the impact of judicial corruption on economic growth, this study employs the Autoregressive Distributed Lag (ARDL) model as developed by Pesaran *et al.* (2001). The model is a more robust econometric technique for estimating the level of relationship between a dependent variable and a set of independent variables that may not necessarily be integrated of the same order. Autoregressive distributed lag (ARDL) model provides consistent estimation in the presence of a mixture of stationary and non-stationary series (Pesaran *et al.* 2001). This model is superior to other approaches such as VAR and Johansen co-integration models because it allows mixture of I(0) and I(1) variables as repressors thereby making pretest for unit root become unnecessary. Furthermore, the model can differentiate dependent and independent variables and allow testing for the relationship between them and also allows different variables with different number of lags. Finally, ARDL model is not only suitable for estimating small or finite sample size but also capable of estimating both short-run and long-run parameters of the model simultaneously Pesaran *et al.* (2001). The Johansen's Test for Cointegration was used to ascertain the impact of judicial corruption on Foreign Direct Investment in Nigeria.

Model Specification

The basic model for this study is specified in equations (i) and (ii) below.

$$\log\text{RGDP}_{t-1} = \beta_0 + \beta_1 \log\text{ADJCAS}_{t-1} + \beta_2 \log\text{FIN_DEV}_{t-1} + \beta_3 \log\text{RoL}_{t-1} + \mu \dots\dots\dots 1$$

Where:

β_0 = Constant parameter

$\beta_1 - \beta_{10}$ = Coefficient of independent variable

$\log\text{RGDP}_{t-1}$ = log values of Real Gross Domestic Product

$\log\text{ADJCAS}_{t-1}$ = log values of Adjournment of Court Cases

$\log\text{FIN_DEV}_{t-1}$ = log values of Financial Development

$\log\text{RoL}_{t-1}$ = log values of Rule of Law

t_{-1} = Lag Value of other determinants of Economic Growth

4.0 Data analysis and interpretations

This chapter presents the data estimation, analysis of findings and discussion of results. It consists of stationarity and unit root test, Autoregressive Distributed Lag Bound Test approach to co-integration Test, post estimation diagnostic test and discussion of results.

Descriptive Statistics

This sub-section presents the descriptive statistics of the variables used in the conduct of this research. The measure of central tendencies and dispersion were both presented under this sub-section.

Table 1: Descriptive Analysis

Variables	GDP	Adjourned Cases	Financial Development	Rule of Law
Mean	11.2757	10.2962	16.8269	3.2669
Median	11.1727	10.2868	16.4529	2.0000
Maximum	11.6668	12.0316	37.9569	7.0000
Minimum	11.0061	7.5286	8.5771	1.5000
Std. Dev.	0.2183	1.1827	5.8812	1.8344
Skewness	0.6353	-0.1334	1.6666	0.6546
Kurtosis	1.8233	2.2827	6.8448	1.8851
Probability	0.0991	0.6367	0.0000	0.1024
Sum	417.2006	380.9577	622.5953	120.8750
Observations	37	37	37	37

Source: Author’s computation Using E-view, Version 9.0

Table 1 presents the result of the descriptive analysis of the data used in this research in a bid to uncover the characteristics of the variables used over the years. From the table, it is obvious that Financial Development has the highest mean value of 16.8269. Judicial Corruption proxied by Adjournment of Court Cases and Rule of Law have mean values of 10.2962 and 3.2669 respectively. It is also observed from the table that all variables are fairly distributed over the years except Rule of Law whose standard deviation is greater than its mean.

The coefficient of the skewness is positive for Real Gross Domestic Product, Financial Development, and Rule of Law respectively implying that these variables are positively skewed to the right. Meanwhile, the Adjourned Cases is skewed to the left implying a negative.

Unit Root Test

Order of Integration of both dependent and independent variables were determined adopting Augmented Dickey Fuller (ADF) and Phillips Perron tests. Stationarity tests were carried out on intercept, trend and intercept at both level and first difference. From table 4.2a using Augmented Dickey-Fuller technique, the unit root tests indicate that all the variables are not stationary at level i.e. 1(0) but at the first difference.

Table 2a: Unit Root Test Result: Augmented Dickey Fuller

Variables	Levels 1(0)		First Difference 1(1)	
	Intercept	Trend and Intercept	Intercept	Trend and Intercept
Lgdp	1.3520	-3.0357	-4.8386***	-5.0632***
Ln_adjcas	-1.1296	-4.9923*	-11.9683***	-11.7852***
LFin_Dev	-2.2891	-2.5794	-5.7401***	-5.6525***
LRol	-0.8861	-1.6756	-9.4832***	-9.3258***
	Critical Value	Critical Value	Critical Value	Critical Value
	1%=-3.632900	1% = -4.234972	1%=-3.626784	1% = -4.243644
	5%=-2.948404	5% = 3.540328	5%=-2.942542	5% = 3.544284
	10%=-2.612874	10% = -3.202445	10%=-2.611531	10% = -3.204699

Significance at 1%(***), 5%(**) & 10%(*)

Source: Author's computation Using E-view, Version 9.0

Table 2b presents the Phillips-Perron Test of unit Root at first difference 1(1) which shows that all the variables are not stationary at level. However, all variables become stationary after the first differences, which implies that they are all integrated of order one i.e. 1(1) using Phillips-Perron Unit Root Test. Hence, the result suggests that we can now proceed to run our regression.

Table 2b: Unit Root Test Result: Phillips-Perron

Variables	Levels 1(0)		First Difference 1(1)	
	Intercept	Trend and Intercept	Intercept	Trend and Intercept
Lgdp	1.0896	-2.9745	-4.8349*	-5.0141***
Ln_adjcas	-2.2712	-5.1443***	-15.1439***	-14.394***
Lfdi	-1.1209	-4.1413**	-11.16060***	-10.993***
LRol	-1.4582	-3.0615	-8.9343***	-8.8076***
	Critical Value	Critical Value	Critical Value	Critical Value
	1%=-3.632900	1% = -4.234972	1%=-3.626784	1% = -4.243644
	5%=-2.948404	5% = 3.540328	5%=-2.942542	5% = 3.544284
	10%=-2.612874	10% = -3.202445	10%=-2.611531	10% = -3.204699

Significance at 1%(***), 5%(**) & 10%(*)

Source: Author's computation Using E-view, Version 9.0

Autoregressive Distributed Lag Model (Model I)

This section presents the cointegration test using Autoregressive Distributed Lag (ARDL) bound test.

Table 3: Auto-Regressive Distributed Lag (ARDL) Bounds Test

Test Statistics	Value	K
F-Statistic	3.621131	7
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.03	3.13
5%	2.32	3.5
2.5%	2.6	3.84
1%	2.96	4.26

Source: Author’s Computation using E-view 9.0

Table 3 presents the Auto-Regressive Distributed Lag (ARDL) Bound Test Approach to cointegration estimation result for Model 1. The Bound Test F-statistics is 3.621131. This clearly exceeds 5% critical value for the upper bound, suggesting that we reject the null hypothesis of no long-run relationship. Thus, there exists cointegration among the variables incorporated into the model.

Error Correction Mechanism (ECM)

Table 4: Error Correction Mechanism (ECM)

Dependent Variable: GDP			
Variables	Coefficient	t-statistics	
Constant	0.0121	1.9017*	
$\Delta(LGDP(-1))$	0.4658	2.3886**	
$\Delta(LAdjourned\ Cases\ (-1))$	-0.0131	-1.2005*	
$\Delta(LFinancial\ Development(-1))$	0.0009	0.8829	
$\Delta(LRule\ of\ Law)$	0.0126	1.8989*	
ECM(-1)	-0.7855	-2.3026**	
R-squared	0.433882	D.W. stat	2.038367
F-statistic	2.043775		
Prob(F-statistics)	0.078435		

Significance at 1%(***) , 5%(**) & 10%(*)

Source: Author’s Computation using E-view 9.0

Table 4 presents the short-run results for Model 1. In the analysis, it is clear that the Error Correction Mechanism (ECM) is properly signed with negative value (-0.7855) and it is statistically significant at 5 percent. This implies that there is relatively high adjustment mechanism from disequilibrium. Precisely, it connotes, in case of any disequilibrium, about 78.55 percent of disequilibrium is corrected annually because of converse adjustment in explanatory variables.

It is also clear from the table that Rule of Law is positive and significant predictor of the dependent variable i.e. economic growth at 10% level of significance respectively. This

implies that unit increase in the coefficient of the variable will translate into about 13% increase in the level of economic growth.

Meanwhile Financial Development at lag one exerts positive and insignificant impact on economic growth. While the leading variable in this model however, at lag one exerts negative and significant impact on the level of economic growth; implying that an increase in level of judicial impunity will translate into about 13% decline in the level of economic growth. This is so logical to believing that the more justice is delayed, the sluggish the conduct of economic activities and the lower the rate of growth becomes.

Table 5: ARDL Long-Run Result

Dependent Variable: GDP		
Variables	Coefficient	t-statistics
Constant	1.0638	2.1309*
LGDP(-1)	0.9025	15.9406***
LAdjourned Cases(-1)	0.0089	0.9266
LFinancial Development(-1)	0.0006	0.7139
LRule of Law	-0.0052	-1.7531*
R-squared	0.9927	
F-statistic	43.6498***	
Durbin-Watson stat	2.1449	
Significance at 1%(***), 5%(**) & 10%(*)		

Source: Author's Computation using E-view 9.0

Table 5 presents the long-run coefficients for where it is clear that out of the four variables incorporated into the model, only two are statistically significant. The two statically significant variables are lag GDP and the rule of law. However, it is clearly depicted in the table that judicial corruption has a positive but insignificant impact on economic growth which disputes the short-run result of the same model and defies the *a priori* expectation. The justification of this as mostly noted in administration in succession is the fight against corruption which the current administration has taken with utmost priority. This could be used to mean that in the long-run, if government efforts towards restoring normalcy and efficiency back to the judiciary is sustained, positive result would be achieved. However, the coefficient of financial development is positive but statistically insignificant. Given that this variable captures the degree at which financial services are available to users, it connotes that in the long-run, the effect of financial development on economic growth is positive. The coefficient of rule of law at lag one indicates that increase in disobedience to the rule of law has an amplifying negative impact on economic growth in the long-run. This is obvious from the negative coefficient of (-0.0052) which is statistically significant at 10%.

Granger Causality Test

This sub-section presents the Granger Causality Test for Model I. In this section, the flow of causality between and among variables will be revealed.

Table 6: Granger Causality Test (Model I)

Null Hypothesis	F-Statistic	Prob.	Status Significant	Remarks Causality exists
LN_ADJCAS does not Granger Cause LGDP	8.91583	0.0053***		
LGDP does not Granger Cause LN_ADJCAS	22.9055	3.E-05	Not significant	No causality
LFIN_DEV does not Granger Cause LGDP	1.49654	0.2299	Not significant	No causality
LGDP does not Granger Cause FFIN_DEV	2.62819	0.1145	Not significant	No causality
LGDP does not Granger Cause LREXR	0.14804	0.7029	Not significant	No causality
LROL does not Granger Cause LGDP	0.25213	0.6189	Not significant	No causality
LGDP does not Granger Cause ROL	2.45791	0.1265	Not significant	No causality

Significance at 1%(***) , 5%(**) & 10%(*)

Source: Author’s Computation using E-view 9.0

Table 6 presents the granger causality test results where the direction of relationships among variables under examination are clearly depicted. It is clear from the table that there is granger causality between judicial corruption as proxied by adjournment of court cases and Economic growth. It also depicts that the flow of causality is from judicial corruption to economic growth. This implies that judicial inefficiency can explain in part, the level of growth a nation attains. Aptly, it can be put that the lower the rate of unnecessary delay in civil litigation, the smoother the conduct of economic activities and the higher the level of economic growth. More so, it is clear from the table that there is no causality between financial development and Economic growth and vice-versa. This implies that the availability of financial services in a country like Nigeria has not been contributing to the level of economic growth.

4.3 Post-Estimation Diagnostic Test

The post-diagnostic tests confirm the statistical adequacy of the model and hence, the statistical properties of the estimated model. The model was tested for normality, serial correlation, heteroskedasticity, specification error, and stability test as follows;

Table 7: Breusch-Pagan Heteroskedasticity Test

F(8,26)	0.8517
Prob. Chi-square	0.8004

Source: Author’s Computation using E-view 9

The prob. Chi-square (χ^2) value of 0.8004 implies an insignificant value which indicates that the model is devoid of heteroskedasticity problem.

Table 8: Breusch-Godfrey Serial Correlation LM Test

F-statistic 1.464942 Prob. F(2,24) 0.2510
 Obs*R-squared 3.807886 Prob. Chi-square 0.1490
 Source: Author's Computation using E-view 9

Table 8 tests for serial correlation and the probability value obtained indicating an insignificant value of 0.1490 implies the rejection of the null hypothesis of the presence of autocorrelation or serial correlation and acceptance of the alternative hypothesis.

Figure 1: Cumulative Sum (CUSUM)

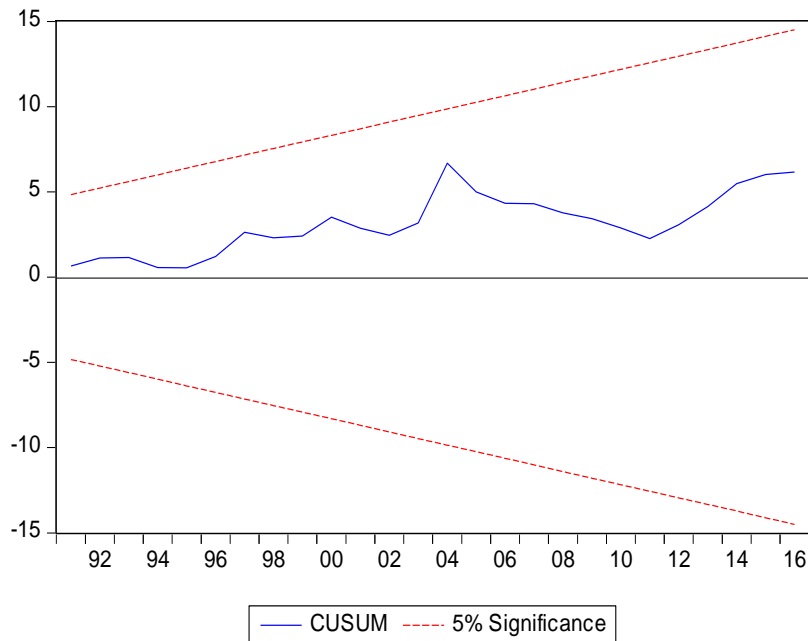
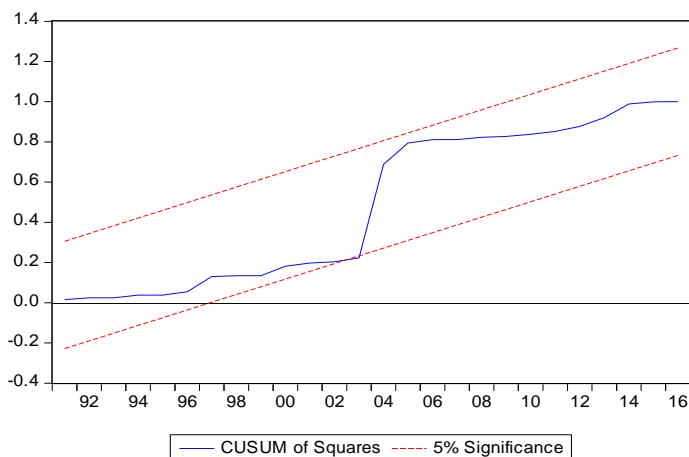


Figure 2: Cumulative Sum of Squares (CUSUMSQ)



Figures 1 and 2 present the Cumulative Sum (CUSUM) and Cumulative Sum of Squares (CUSUMSQ) graphs for the model at a 5% level of significance. The decision rule is that the pair of graph line should be within the confidence band, otherwise, the null hypothesis of parameter stability is not rejected. Therefore, the two figures above indicate that the graphs are within the confidence bounds, hence, the null hypothesis of stability are not rejected.

4.1 Findings and discussion of results

This study examines the impact of financial development, institutions, and judicial corruption on economic growth in Nigeria. The objective is to investigate both the long-run and the short-run relationships among the variable under study using Auto-Regressive Distributed Lag Approach and also to examine the causal relationship among the variables.

The bound test result revealed that all the variables in the model are cointegrated; hence, the rejection of the null hypothesis of no significant link among financial development, institutions, judicial corruption, and economic growth. In furtherance, the Error Correction Terms of 0.78 in table 4.2.2 which is statistically significant at 5 percent shows that there is a quick adjustment mechanism to long-term path. It is therefore concluded that there is long-run relationship among financial development, institutions, judicial corruption, and economic growth in Nigeria. Ascertaining the trend of the relationship, however, the result of our findings reveals a significant negative relationship between judicial corruption and economic growth in the short-run. This conclusion is in consistence with the work of Ramello *et al.* (2016) and Laeven *et al.* (2012) who arrived at a similar conclusion that judicial corruption significantly impact negatively on economic growth. This assertion negates the conclusion drawn by Rock *et al.* (2004) unfolding a positive and significant relationship between corruption in aggregation and economic growth. But in the result of our long-run analysis, a point of convergence was established as the result shows that judicial corruption exerts positive but insignificant impact on economic growth. This could be as a result of government's

efforts towards creating viable judiciary and strengthening its democratic functions. The implication of this result however is that if government efforts towards nipping corruption in Nigeria to the bud is sustained, judicial reform would be birthed, unnecessary delay in adjudication of court cases would be wiped out to be replaced by judicial efficiency and consequently, the institution of justice would contribute positively to Nigeria's economic growth.

With regards to the contribution of financial development to economic growth, our findings reveal an insignificant positive cointegration, revealing the weakness and underdeveloped nature of our financial institutions and their inability to meeting the investment demands of financial assets which continues to undermine its contributions towards achieving economic prosperity. This conforms to the study of Muhammad and Saheed (2019) and Mohammed *et al.*, (2006) who found a weak relationship between financial sector deepening and economic growth. The result of this study however contests the conclusion drawn by Sghaier and Abida (2013); Khalil (2014); Caldeon *et al.*, (2003); Ndebbio (2004); and Johannes *et al.* (2011) that financial development exerts positive impact on economic growth. More so, Financial Development in Nigeria has significant negative impact on Foreign Direct Investment which is in consistence with the work of Nwosa *et al.* (2017) and Wei and Kong (2017) who found a negative relationship between financial development and foreign direct investment.

Efficient institutional structure resolves the uncertainties in the market and the problem of asymmetric information, and thus creates a positive exogeneity, ensures the efficient distribution of the resources and makes a positive impact on the functioning of the economy. In addition to this, especially rule of law forms the basis of the socio-economic development (Ozzolat *et al.*, 2016). This conclusion corroborates with the short-run result of our findings wherein rule of law is significantly and positively related to economic growth. While in the long-run, Rule of Law which measures institutional quality assumes negative coefficient implying that the declining rate of obedience to Rule of Law in Nigeria would in the future exerts negative influence on the level of economic growth.

5.0 Conclusion and recommendations

This study focuses on examination of the impact of financial development, institutions, and judicial corruption on economic growth in Nigeria. The study employed Autoregressive Distributed Lag (ARDL) techniques to estimate the model using Nigeria's dataset over the period of 1980-2016. In addition to the ARDL model of estimation, granger causality test was carried out to ascertain the flow of causality among the variables under investigation.

Unveiling the relationship among financial development, institutions, judicial corruption, and economic growth in Nigeria, the study found a long-run relationship among the variables but only lag GDP and rule of law are statistically significant

unveiling a quick adjustment mechanism from disequilibrium. As judicial corruption has a positive but insignificant impact on economic growth which disputes the short-run result of the same model and defies the *a priori* expectation. The justification of this as mostly noted in administration in succession is the fight against corruption which the current administration has taken with utmost priority. This could be used to mean that in the long-run, if government efforts towards restoring normalcy and efficiency back to the judiciary is sustained, positive result would be achieved. Furthermore, the results reveal that financial development is insignificant predictor of economic growth.

In the light of the research findings, this study recommends the following:

Since it is clear from the results of our findings that institutions play a fundamental role in economic development; however, even the most well-designed regulatory environment might turn out to be (at best) ineffective if not properly enforced. The need of an effective justice sector is not only related to the necessity of keeping civil litigation under control (and thus help preserve social cohesion), but is equally essential for economic growth. Therefore, Government officials at all levels should accentuate the need to strengthen and create viable judiciary.

More so, the consensus among economic scholars that corruption has been a cog in the wheel of economic progress in Nigeria, government should therefore strengthen the activities of the anti-corruption agencies in Nigeria such as the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices and Related Offences Commission (ICPC).

Upholding the rule of law must also be accorded utmost attention and recognition so that sanity in the administration of justice can be ensured. Equal treatment of corrupt officials is a necessity. There should be no exceptions to the rules as the law is no respecter of any body. Nigerians should put in leadership positions honest individuals who would serve as role models to minimize the negative consequences of corruption with its negative impact on inward FDI.

Nigeria's legal and judicial system should be reviewed and restructured to handle swiftly the cases of people that are engaged in corrupt practices. There is a need for the introduction of measures that will make both the means and rewards of corruption unprofitable for the perpetrators by applying strict sanctions.

Developing the financial institution across the country should also top priority's list of government officials owing to the pertinent role deepened financial sector plays in securing foreign direct investment and consequently economic growth.

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