Institutions, Governance Structure and Economic Performance Nexus in Nigeria

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Abstract

The objective of this paper had been to investigate the institutions, governance structure and economic performance nexus in Nigeria. The paper adopted Ordinal Least Squares estimation technique and factor analysis to draw out important institution and governance structure variables that should be the focus of policy. The results showed that government effectiveness, voice and accountability were not only significant but entered the regression line with the correct a priori signs. Applying factor analysis to the model the result showed that the two factors- government effectiveness, voice and accountability-loaded high. The result shows that effective governance structure and institutions are of utmost importance for enhanced economic performance. The paper argues that effective governance structure and institution would result in efficient and effective implementation of policies and programmes that attract the right value and yield higher pay-offs; create the legal and regulatory framework that allows private entrepreneurs to discover their full potentials with healthy competition. It ensures that policies and legal framework are not subject to manipulation by political gladiators and transient the basic character of political regimes.

Key words: Governance Structure, Institutions, Factor Analysis and Economic Performance

JEL Codes: H1, H7 and O1

1. Introduction

Institution and economic performance nexus has attracted considerable attention in economics literature in recent decades. This is because the neoclassical and other received theories available to the economics profession appear not to provide satisfactory explanation to poor performance of developing economies including Nigeria. In other words, these theories do not succinctly account why developing countries despite wide spread reforms failed to take the right actions or activities that help coordinate the market economy for optimal performance. The authors of this paper do admit however, that fundamental neoclassical assumption of scarcity and competition has help to shape certain outcomes in market economies, but the assumption of perfect mobility of capital and exchange have not provided economies with the right path.

Available data indicates that the performance of Nigeria economy had been mixed. Recording moderate gains in some macroeconomic indicators and poor performance in others. For instance, reforms introduced at the onset of civilian regime in 1999 have steadily increased per capita income from $2500 dollars at purchasing parity in 2010 to $2700 dollars in 2012. Albeit GDP growth rate was impressive at 8 and 7.4 per cent in 2010 and 2012 respectively but fall short of the target of 8.5 per cent set in the transformation agenda of the Federal Government. Overall macroeconomic management was not quite appealing. This is because inflation was double digit, 70 per cent of the population live below poverty income and unemployment persisted at 23.9 per cent in 2011 (www.cenbank.org).

This perhaps explains why scholars of development and neo-institutional economics extraction propelled by the poor performance of developing countries, who despite having embarked on various forms of reforms using tools and factors prescribed within the theoretical arguments of neoclassical and Keynesian schools of thoughts, have intensified the search for other appropriate tools and factors that could possibly explain the poor economic performance of developing countries. This exploration has taken them to the fields of political science and neo-institutional economics but still maintain much of the economic character. From political science, economists borrowed corruption, voice and accountability, political stability etc., and from neo-institutional economics, concepts such as property right, government effectiveness, rule of law etc are extracted. The economic character

of these variables is maintained because they are transformed into tractable mathematical models that could be used in econometric analysis to explain economic performance.

This exploration appeared justified given the nature of market economy. In a typical theatrical market economy, economic choices are made within certain constraints. These constraints could limit or alter the choices economic agents make and therefore their outcomes. One important constraint that inhibits market interactions and defines the incentive structure, choices agents make and hence economic performance is institutions. Norms of behaviour, conventions or self imposed code of conduct are some essential elements of institutions. Institutions are the rules of the game while economic agents are the players. To ensure optimal outcomes the players should play according to the rules of the game and the existing institutions should provide the right incentives or reward for good players and punitive measures for bad players.

In this market economy, each player plays and dance according to the rhythm of its objective function. Some are propelled by profit motive, winning elections or regulating businesses etc. Each player adopt different strategy or skills that will yield the highest payoffs, depending upon the degree of reward/incentives, punitive measures and or enforceability of existing or new rules guiding market interactions in the institutional matrix. If economic agents perceived that the highest payoffs are obtained from engaging in ventures that generate economic rents or illegal economy, then agents will adopt skills or strategy that will yield highest returns. If on the other hand, agents realize that the highest payoffs is by increasing productivity and playing according to the rules of the game, then investment will be skewed in favour of skills to achieve that objective.

The market forces of demand and supply and the assumed flexible prices may not provide the incentives for agents to play according to the rules guiding market interaction in developing economies where institutions appear weak. Effective governance structure; voice and accountability; and property right may just be the required recipe. To formulate, implement and enforce social cum economic policies the existing governance structure is important. This is because they are capable of shaping the behaviour of private entrepreneurs, determine the sequencing of reforms and set the standard for all economic agents. The objective of this paper therefore, is to empirically investigate the institutions cum economic performance nexus in Nigeria in the past four decades. This is important because desired outcomes could be distorted if players do not play according to the rules governing market interactions.

2. Conceptual Framework

The nexus between governance structure, institutions and economic performance could be explained via a simple macro model that has three sectors and within the theoretical arguments of neo-classical, Keynesians and neo-institutional economics. These three sectors include determinants, macro economy and the outcomes. The determinants are the forces that acts to smoothen market interactions and comprises of internal market forces (private and public spending behaviour, innovations and inventions, population growth rate and quality of human resources); external shocks (internal conflicts, natural disasters, trade disruptions etc); policy levers (monetary and fiscal policies and regulations); institutions and governance structure (governance effectiveness, rule of law, property right, voice and accountability, democracy etc). The macro economy is where the forces of demand and supply meet to allocate resources, produce and distribute goods and services. The interactions that take place at the macro economy are determined by internal market forces, external shocks, policy levers and institutions. Market outcomes-output, employment generation, stable prices, growth rate of output and external balances-are the products of macro economy, which is a function of market determinants.

Economists of Keynesian extraction argue strongly for policy levers. They argue that business cycles are bound to experience bust and boom and internal market forces cannot regulate itself because of structural rigidities inherent in every market. Therefore, demand and supply cannot simultaneously equilibrate without policy levers. In other words, fiscal policy could equilibrate demand and supply when aggregate consumption and investment fall short of aggregate supply of goods and services in an economy. Aggregate demand in the Keynesian tradition is presented in equation 1, and is usually expressed as the Y_t (Gross Domestic product), which is the sum of domestic consumption (C), investment (I), government expenditure (G) and net export (Exports – Imports).

$$Y_t = C_t + I_t + G_t + X_t - M_t \text{-------- (1)}$$

If one takes one of the component of aggregate demand in equation I and assume that consumption is partly autonomous (Co) and induced by income (Yd), equation 2 can be written as follows; $C_t = C_o + c_1 Yd_t$ ---------------------------- (2)

Where $0 < c < 1$, and c in equation 2 is the marginal propensity to consume. If supplier of goods and services are willing to supply the market demand (Ys) such that aggregate demand creates its own supply, equilibrium national income Y is

$$Y_t = Ys = Y \text{ -- (3)}$$

Since c is the marginal propensity to consume then $1 – c_1 = s$ is the marginal propensity to save. Substituting equation 2 into 1 and noting that $Yd_t = t_0 + t_1 Y_t$ we have:

$$Y_t = c_0 + c_1(Y_t - t_0 - t_1 Y_t) + I_t + G_t + X_t – M_t \text{ ------------------------------------- (4a)}$$

$$Y_t = \frac{c_0 – c_1 t_0 + I_t + G_t + X_t – M_t}{s + c_1 t_1} \qquad 0 < s < 1 \text{ ------------------------------- (4b)}$$

Two important implications could be derived from equation (4b), namely, where aggregate demand is below full employment, government through its expenditure can fill the gap to increase income. Fiscal policy becomes the most effective tool in this circumstance in raising income and restoring full employment if the marginal propensity to save and consume approaches zero. One naira increase in government expenditure will, through the Keynesian multiplier increase national income by $1/(s + c_1 t_1)$ naira. However, what is missing in the Keynesian multiplier process is the impact of institutional infrastructure and governance structure that provide market preserving and enhancing incentives to both policy makers and private entrepreneurs.

Indeed, in an environment of weak institutions and ineffective governance structure economic agents behave in a way that could distort the smooth operation of the multiplier process, and government expenditure will not result in the desired outcome. For instance, as argued by Ajayi (2002) corruption misallocates human and material resources away from productive economic endeavours to economic rent. Weak institutions create an unfair competition where the new and old oligarchs earned tremendous profits from privatization of public enterprises and subsequently use such economic rent to create impediments to further market oriented reforms. This impedes the multiplier process from equilibrating aggregate demand to supply, and thus, the failure of government expenditure to raise national income to the desired threshold.

The argument of Goldsmith (1998) seems plausible for the multiplier process. The markets cannot operate in an efficient way without enforcement of contracts, and public administrators provide a fair and just mechanism that reward and punish fraud, collusion and other rent seeking behaviours that distort the multiplier process. The state has a critical role to play in ensuring that right institutions are put in place to influence market outcomes in the desired direction. Markets fail to function efficiently if there are perceived short and long-term uncertainties created by unclear and frequent changes in rules and procedures governing the operation of the market. Under this scenario, entrepreneurs not sure of what is legal and illegal will adopt strategy that circumvent and impedes the smooth operation of the multiplier process. This alters the structure of savings and investment in the economy and the resultant effect is slow economic performance. In the opinion of neoclassical economist any influence on macro outcomes is transmitted through demand and supply, and policy levers are not necessary in market interaction. This is because internal market forces are self regulating. The neoclassical theory failed to account for certain constraints that affect the choices economic agents make in the market economy.

Economic agents participate in markets for various reasons and objectives, profit is the most important. The marginalist principle makes it clear what will increase the profit of market participants-reduced marginal cost and increasing marginal revenue up to the point where they are equal. That is, the costs of production, distribution and allocation determine the payoffs. The neoclassical economists assume that this transaction takes place under the assumption that the participants are rational, prices are flexible, information flows are unhindered and best choices are made. If the market operates in such a costless manner, without political, social and economic constraints, then the postulate of rationality would approximate the actual character of the

operations of a market economy. However, the reality is that markets participants are constrained by the nature of governance, property right, corruption and political stability. These factors combine to influence market outcomes or economic performance.

Governance structure or government effectiveness, which is the ability of government to coordinate policies that smoothen and coordinate market interactions in such a manner that it yields higher payoffs and economic performance, appears to be a strong contribution of neo-institutional economics in the institution cum economic performance debate. Albeit the concept of governance structure has been subjected to debate mostly on definition, it has not lost its economic character in explaining economic performance. The World Bank (1992) attempted to define governance as the style of leadership and the method used in the management of a country's both human and material resources. This approach links governance with the ability of a country's leadership to manage its resources optimally.

Governance effectiveness may be categorized into three basic conceptual approaches. First, is the argument that effective governance structure could be equated to a democratic regime that ensures thin government and focuses on issues of economic growth and development rather than allowing politics to dominate core economic issues. In this conceptualization of governance structure, democratic institutions and processes are such that economic rents are discouraged while productivity is adored, and policies are well thought out, implemented and sustained.

The second and perhaps a more useful conception is one that seeks to introduce abstract, universal principles and rules, their enforcement mechanisms, as well as stable and transparent mechanisms of conflict resolution. This conception refrains from making any normative judgment concerning specific political regimes and rather follows Weber's (1972) notion of the modern state. Weber proposed that the operation of markets requires a high degree of calculability based on legal rationality, the rational administration of justice, and relatively insulated, professional, and political bureaucracy, the work of which is not only based on instrumental rationality, but essentially on the development and enforcement of universal legal norms. Similar to Weber, who conceived that his ideal-type of state is most conducive to the functioning of modem capitalist societies, this conception also suggests that its notion of governance is the key to creating an enabling environment for policy making and business activities.

The third conception worth noting complements the previous ones by adding the dimension of informal institutions (culture, habits, traditions), which shape individual behaviour and subjective perceptions, to the governance framework. The policy prescriptions resulting from this approach suggest that both transformation strategies and policies must be compatible with cultural characteristics and that effective governance needs to take the belief systems persisting in society into consideration (North 1995). This line of reasoning adds an important aspect to the discussion on governance, which has been usually neglected by the economics profession although not the focus of this study.

This conceptualization of government effectiveness implies that governance is the channel through which policies are transmitted and enforced. Therefore the effectiveness of existing governance structure determines to a large extent its ability to promote the transition toward a market-oriented economic order that would yield the highest payoffs or lead to adverse economic performance. The nature of governance structure in an economy affects the incentives of politicians, legislators, bureaucrats, and private economic agents alike and determines the terms of exchange among citizens and between them and government officials. Thus, the capacity of a governance structure plays a critical role concerning the formation, implementation, and enforcement of economic and social policies as well as development projects; and private sector development and coordination. With respect to problems of initiating, implementing and sustaining government policies, the political institutions of a country's governance structure play a dominant role, because they determine how different actors are involved in political processes, what kinds of economic reforms are politically feasible, and how the behaviour of individual actors is shaped. Indeed, Instead of imposing additional formal constraints on administrative units, as it is often observed in government bureaucracies (Wilson 1989), effective governance need to rely on more sophisticated institutional arrangements with powerful incentive schemes and screening, signalling, and monitoring mechanisms, which imply a fusion of interests of politicians, bureaucrats, business, and non-elites.

Literature on the determinants of economic performance has shifted emphasis from the traditional physical and human capital accumulation, total factor productivity, technological innovation and diffusion, knowledge creation and openness to institutions and governance structure in the 1990s as important determinant of the growth process in developing countries (Helpman 2004). Knack and Keefer (1995) and Mauro (1995) path

breaking works revolutionized the effect of institutions on economic growth. Whereas Knack and Keefer (1995) test the impact of institutions on economic growth using data from 97 countries for the period 1974-89 to argue that the quality of institutions measured as security of property rights and the level of contract enforcement are important determinants of economic growth and investment, Mauro (1995) in his paper submitted that subjective indexes of corruption have an inverse relationship with economic growth and investment. Alesina (1998) supports the findings of Knack and Keefer (1995), and Mauro (1995) when he demonstrated that institutional quality measured as bureaucratic efficiency, absence of corruption, protection of property rights and the rule of law are important for economic growth.

Perhaps, a more interesting dimension of the argument is the direction of causation between institutions and economic growth and development. Kaufmann and Kraay (2003) had argued that there exists a strong positive correlation between quality of institutions and growth across countries. However, reverse causality is always an issue in growth regressions. Therefore, problem may arise not only because causality may run from income to institutions, but also because several institutional variables are measured at the end of the growth period. In order to minimize the causality issue, Mauro (1995) used two-stage estimations technique. Chong and Calderon (2000) used a more rigorous approach to show a strong evidence of bi-directional causality, running from institutions and economic growth, and from economic growth to institutional quality. Their findings indicate that the poorer a country is, the stronger the influence of institutional quality on economic growth. Addison and Baliamoune-Lutz (2003) argued that property right is especially important when a country is implementing macroeconomic reforms. This is because in the early stage of reform, property and contract rights determine the extent to which investments responds to reform incentives. This agrees with the findings of Acemoglu et al (2003) that countries with weak institutions tend to pursue poor macroeconomic policies. Kaufman and Kraay (2003) building on a new data set and non sample information found no positive relationship between institutions and economic growth and development. This finding shows that good governance is not a luxury good, poorer countries can also afford it.

Barro (1991) contribution to the growing literature on analysis of institution in a macroeconomic context was a novelty. He used proxies for political stability to establish that number of coups, political assassination and property rights are important for a country's long term economic growth. Similar studies such as those conducted by Brunetti et al (1997b and 1997c) strongly showed that institutions that protect property rights will promote investment and economic growth. Nugent (1999) and Kaufmann et al (1999) investigated the concept of governance proposed by World Bank. Both studies attempted to link their concept of governance to various development objectives such as GDP per capita, illiteracy and infant mortality.

The effectiveness of government in providing sound policies and delivering quality public goods is important for economic performance. The literatures on government effectiveness and economic performance have produced mixed results. Devarajan et al (1996) found negative relation between component of public investment and economic growth for a group of developing countries. This, they attribute to misallocation of public funds, which result in low supply of required infrastructure. Pritchett (1996) incorporated an investment efficiency coefficient in his model and argued that public investment may not create productive capital in developing countries because of inappropriate use of these investments. However, Aschauer (2000) investigated both the quantity and efficiency of public capital on economic growth and concluded that both factors contribute to economic growth. Similarly, Easterly and Rebelo (1993) found a positive relation between public investment in transport and communication on economic growth.

This study is different from previous studies for Nigeria because it explicitly investigates the effect of different dimensions of governance structure on economic performance. These different dimensions of governance help to isolate the basis for consistent and coherent institution building and governance reforms. Campos and Nuggent (1999) and Kaufmann et al (1999) attempted to explore the influence of governance structure on economic performance for different regions of the world based on governance indicators provided by the World Bank. Both studies link their dimensions of governance to several development objectives namely, GDP per capita, illiteracy and infant mortality. Campos and Nuggent focused on the relevance of individual dimensions of governance structure on different regions of the world. This paper uses five indicators of governance structure developed by the World Bank. These include voice and accountability, political stability, government effectiveness, regulatory quality and control of corruption. Whereas data for voice and accountability, political stability and regulatory quality are from Economic Intelligence Unit, government effectiveness and corruption data are from Global Insight Business Conditions and Risk indicators.

3. **The Model**

The model adopted for this study is anchored on Solow (1956) model of economic growth. The thesis of Solow model is that output in an economy is produced by a combination of labour (L) and capital (K), under constant returns. The model has short-run and long-run variants with respect to the growth of capital. Whereas in the short-run the model assumes that the economy that accumulates capital faster will enjoy a higher level of output, long-run prediction is that as the economy accumulates more and more capital, the marginal efficiency of capital approaches zero and the growth rate is subsequently determined by technical progress and growth in labour force.

$$GDP = AK_i^{\alpha} L_i^{1-\alpha} \dots\dots\dots\dots\dots\dots \qquad (1)$$

where

GDP = real GDP

A = total factor productivity

K = Capital Stock

L = Labour

α = elasticity of capital with respect to output.

We assume symmetry across the economy for simplicity, so that each productive unit will use the same level of capital and labour. Then, we have the aggregate production function as

$$GDP = AK^{\alpha} L^{\beta} \quad --- (2)$$

Governance structure and institutions enter equation two through their effects on total factor productivity (TFP) or technical efficiency. David (1997) had argued for the role institutions play in increasing technical efficiency. Thus the level of technical efficiency is affected by the quality of institutions and existing governance structure. This in turn affects the efficiency of investment. Since the objective of the paper is to investigate the impact of institutions and governance structure on economic performance, we assume therefore, that TFP is a function of quality of institutions and governance structure (corruption, government effectiveness and rule of law). Thus

$$A = Y_t = \alpha_o + \alpha_1 X_t + \alpha_2 CIM + \text{\euro}_t --- (3)$$

Combining equations 2 and 3, we get

$$GDP = C_t K_t^{\alpha} , L^{\beta} , X_{t}^{d}, CIM^{\Omega} --(4)$$

where α, β, d, and Ω are elasticity coefficients. From equation 4 an explicit estimation function is specified, ignoring labour and capital and taking the natural logs of both sides as follows

$$LogGDP_t = a_0 + a_1 X_t + \alpha_2 CIM + E_t --- (5)$$

X_t = is a vector of explanatory variables including

- Voice and Accountability (vaccountr)
- Political stability and absence of violence (psviolenctr)
- Governance effectiveness (geffectr)
- Regulatory quality (regulatr)
- Control of corruption (corruptr)

CIM = Contract intensive money (contrintr)

E_t = stochastic error term with the usual normality assumptions

$$LogINVTR_t = a_0 + a_1 X_t + \alpha_2 CIM + E_t --------------------------------------- (6)$$

Equation six addresses issues raised in the literature when structural Solow (1956) growth model is adopted. The argument is that since investment is included in the growth equation as an explanatory variable, any effect governance structure and institutional variables may have on economic performance through an increase in the volume of investment are indicative of indirect effect (Aron, 2000). Therefore a separate investment equation is required to find out the direct effect of governance structure and institutional variables on the volume of investment.

The paper also measure performance in terms of the ability of the economy to attract foreign direct investment (FDI). The paper elects to use FDI as second indicator of macroeconomic performance because FDI alleviate shortages of savings, promote the transfer of technology and diversification of the economy to enhance economic performance. To investigate the effect of institution and governance on macroeconomic performance (FDI) the paper specifies equation 7 as follows:

$$FDITR = b_0 + b_1 X_t + b_2 CIM + E_t \text{ --- (7)}$$

3.1 Methodology and Data

There are varied governance structure variables, some observable and others are unobservable. Therefore to measure governance structure one needs to rely on proxy variables to measure efficiency of the country's governance structure. For this purpose the paper relies on five indicators developed by the World Bank that has been explained previously. These indicators are required for efficient management of public resources, create the atmosphere for private sector to thrive and a mutually beneficial partnership between them, which do not degenerate into collusive oligopoly and hence adversely affect economic performance.

The paper tests the hypothesis that effective governance structure and institutions would facilitate the coordination of public and private sector to enhance economic performance using time series data from 1970 to 2011. The measures of economic performance are GDP per capita and foreign direct investment. First, the paper tests using Ordinary Least Squares whether or not our five indicators of governance structure do indeed have a positive effect on economic performance. Next, using factor analysis, the paper investigated the possibility of identifying independent component of governance using the five indicators. Factor analysis allows us to isolate which indicators of governance structure best promote economic performance in Nigeria. Since we could not obtain time series data from 1970 1994, we extended the same data for 1995 to 1970. Given this gap, the paper abstain from setting up a parsimonious model

4. Presentation and Discussion of Results

Table 4.1: Regression Results

	RGDPTR (equation 5)	FDITR (equation 7)	GDITR (equation 6)
Constant	0.100479 (0.34)	-0.593361 (1.61)	-0.5017164 (0.45)
Cimtr	0.129108 (0.64)	0.565779 (2.24)	0.7150099 (3.74)
Corruptr	0.115484 (9.21)	0.470538 (3.01)	0.2895428 (2.45)
Geffectr	0.976628 (3.06)	0.976040 (2.45)	0.1979762 (0.65)
Psviolentr	-0.101413 (-2.99)	-0.802358 (-1.90)	-0.2693884 (-0.84)
Rulawtr	0.192055 (0.61)	0.596425 (1.51)	0.445960 (0.15)
Vaccountr	0.521209 (3.97)	0.545894 (3.34)	0.2090284 (1.69)
R^2	0.91	0.80	0.64
D.W.	1.64	0.99	0.81

Source: Research output computed by Authors

N/B: Values in parenthesis are the t-statistics

The regression results for equation five indicates that out of the six institutions and governance structure variables included in the regression line, four have the correct a priori signs and were statistically significant. These include corruption, government effectiveness, absence of violence and voice and accountability. Contract intensive money variable which is a proxy for property rights was positive and significant for FDI and investment equations. This suggests that a one per cent improvement in property right leads to 59 and 50 per cent increase in the inflow of foreign direct investment and domestic investment respectively. This implies that domestic investments and inflow of FDI will improve significantly if investors have confidence that their investments will be protected and is consistent with the argument that investment more closely approximate economic decision making. Entrepreneurs enter into a transaction in the present and received payoffs in the future and in most cases with policy makers that are unknown to them and to sustain such transactions there should be element of trust.

Corruption variable surprisingly entered the regression line with a positive sign and was significant with respect to output equation, FDI and investment equations. The results strongly suggest that corruption appear to boost output, investment and FDI. This probably explains why most of the country's FDI is in oil and gas and that corruption is a major source of accumulating capital for investment in the country. This finding agrees with Left (1964) and Hutington (1968) who argued that in the presence of slow bureaucracy, corruption would be beneficial to investment and growth. This indicates weakness of institutions to check corruption. The diagnostic statistics show a good fit and the absence of serial auto-correlation. This allows confidence to be placed on the inference made.

Given that most of the institutions and governance structure variables are significant and correctly signed, it is important to trace independent sources of performance in these variables. To do this, we carried out factor analysis or factor extraction on the basis of Kaiser-Criterion. The results based on table 4.2 showed that the Velicer's minimum average partial (MAP) method load on one factor F1. A brief examination of the un-rotated loading indicates that government effectiveness and voice and accountability loaded high. The next section in table 4.2 provides summary information on the total variance and proportion of common variance accounted for by each of the factors, derived by taking column norms of the loading matrix. First, we note that the cumulative variance accounted for by the only factor is 1.91, which is close to 38.2 per cent (1.91/5) of the total variance. The results also showed that the loaded factor had p-values of over 0.75, which indicates that the factor adequately explain the variation in the data.

The results showed that albeit the existence of element of trust or property right, absence of corruption and stable political leadership are important in promoting economic performance, governance structure captured by government effectiveness, voice and accountability represent a set of fundamental mechanism that determines the outcomes in the economy and the path of overall economic performance in Nigeria. Sustained economic performance cannot be achieved if government is not effective in coordinating interaction that takes place in the market economy and individuals have no voice and public business is not transparent and accountable. It appears the country's slow economic performance could be tied to failure of governance structure. This is obvious from the fact that markets in Nigeria do not operate strictly under the assumption of perfect rationality and perfect information as assumed by the neoclassical theory. Noticeable imperfection exists in the market; these imperfections are created by monopolistic or oligopolistic political gladiators, who create dead weight loss as a result of transfer of scarce resources away from productive entrepreneurship to rental income.

The failure of governance structure to enforce contract, reward and punish those who do not play according to rules governing markets interactions, and effectively coordinate the markets affect adversely market outcomes (growth rate of GDP, growth of employment, low inflation etc). This is because it allows corruption to thrive, misuse of public funds and poor policy implementation and coordination among various MDAs. Ignoring effective governance structure means that economically efficient or structural adjustment programmes or reforms may turn out a failure in practice. This explains why Bretton Woods's institutions are beginning to have a re-think of the Washington Consensus and focus more on effective governance structure.

In particular Stiglitz (1996 and 1998b) because of the slow growth of most developing countries despite various reforms prescribed by World Bank and its cohorts, argues that there is need for World Bank and other donors to be less prescriptive in policy agenda they sale to developing countries. This is because according to him development agenda that is less prescriptive and lay more emphasis on promoting efficient governance structure is one that will promote economic performance. For governance structure to be effective and promote economic performance, political decision making processes should be one that enlist the support of stakeholders, perceived

to be open and less secretive, promote competition and acts as an impartial arbiter in the market arena. This builds confidence and attracts both domestic and foreign investors.

5. Conclusion

This paper had attempted to investigate the institutions, governance structure and economic nexus in Nigeria using time series data from World Bank and Central Bank of Nigeria. The paper adopted Ordinal Least Squares estimation technique and factor analysis to draw out important institution and governance structure variables that should be the focus of policy. The result was interesting and revealing. Government effectiveness and voice and accountability were not only significant with the correct a priori signs but they loaded high using factor analysis. The paper shows that effective governance structure and institutions are of utmost importance for enhanced economic performance. This is encouraging because it allows us to conclude that impediments to enhance economic performance in Nigeria are surmountable. However, this requires that policy-makers should be transparent and honestly take advantage of available options to strengthen governance structure and existing institutions. The paper showed that to attract the right domestic and foreign investments, governance must be seen to be effective and trustworthy in the conduct of its business.

As already pointed out in the conceptual framework of this paper, indeed, a governance structure that is transparent, accountable, can be predicted and grants individual citizens the liberty to participate in its affairs, would provide the enabling environment for a productive partnership between the public and private sector that does not degrade into closed circles of influence and privilege. Such a governance structure would change transaction costs, reduce information asymmetries, stabilize expectations, and prompt political authorities to act in a manner that improves economic performance. Relatively low political transaction costs are necessary in order to facilitate legislative exchange, to better monitor bureaucratic behaviour, to improve public sector management as well as the interaction of the various branches of government, business representatives, and social groups. In other words, government effectiveness is a governance mechanism which discourages or prevents opportunistic behaviour by policy-makers and prohibits arbitrary state action which could influence the existing rule of law, provide a strong mechanism for institutional checks and balances through horizontal and vertical separation of powers, and an independent judiciary.

The findings of this study is ad variant with the submission of Sach et al (2004), who argued that governance reforms should not be the priorities of African countries. According to them, to trigger economic growth and development in Africa, a 'big push' is needed. This requires massive investment in support infrastructure and health care. While this argument is tenable in Nigeria where massive infrastructural investment is required to grow businesses, the paper argues that ineffective governance structure, which is incompetent bureaucracy and poor public service delivery, corrupt public officials, cannot provide the platform for investment to incubate to the desired value. Also if citizens both foreign and domestic do not trust the available policy options, have no voice and public servant are not accountable to citizens, then any amount of investment to grow infrastructure will not yield the right returns.

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Appendices

Table 4.2: Factor Analysis

Factor Method: Maximum Likelihood

Date: 05/15/13   Time: 20:09

Covariance Analysis: Kendall's tau-b

Sample: 1970 2010

Included observations: 41

Number of factors: Minimum average partial

Prior communalities: Squared multiple correlation

Convergence achieved after 4 iterations

	Loadings F1	Communality	Uniqueness
CIMTR	0.265932	0.070720	0.929280
CORRUPTR	0.019457	0.000379	0.999621
GEFFECTR	0.886471	0.785831	0.214171
PSVIOLENTR	-0.797188	0.635509	0.364493
VACCOUNTR	0.647410	0.419140	0.580859

Factor	Variance	Cumulative	Difference	Proportion	Cumulative
F1	1.911578	1.911578	---	1.000000	1.000000
Total	1.911578	1.911578		1.000000	

	Model	Independence	Saturated
Discrepancy	0.088232	1.279866	0.000000
Chi-square statistic	3.617518	52.47451	---
Chi-square prob.	0.6057	0.0000	---
Bartlett chi-square	3.338116	49.27484	---
Bartlett probability	0.6480	0.0000	---
Parameters	10	5	15
Degrees-of-freedom	5	10	---

Table 4.3: Goodness of Fit Table

Goodness-of-fit Summary

Factor: Untitled

Date: 05/15/13   Time: 20:11

	Model	Independence	Saturated
Parameters	10	5	15
Degrees-of-freedom	5	10	---
Parsimony ratio	0.500000	1.000000	---

Absolute Fit Indices

	Model	Independence	Saturated
Discrepancy	0.088232	1.279866	0.000000
Chi-square statistic	3.617518	52.47451	---
Chi-square probability	0.6057	0.0000	---
Bartlett chi-square statistic	3.338116	49.27484	---
Bartlett probability	0.6480	0.0000	---
Root mean sq. resid. (RMSR)	0.065384	0.352981	0.000000
Standardized RMSR	0.065384	0.352981	0.000000
Akaike criterion	-0.155670	0.792061	0.000000
Schwarz criterion	-0.364643	0.374117	0.000000
Hannan-Quinn criterion	-0.231766	0.639869	0.000000
Expected cross-validation (ECVI)	0.576037	1.523769	0.731707
Generalized fit index (GFI)	0.967177	0.667386	1.000000
Adjusted GFI	0.901531	0.002158	---
Non-centrality parameter	-1.382482	42.47451	---
Gamma Hat	1.072315	0.325529	---
McDonald Noncentralilty	1.017002	0.595722	---
Root MSE approximation	0.000000	0.321864	---

Incremental Fit Indices

	Model
Bollen Relative (RFI)	0.862123
Bentler-Bonnet Normed (NFI)	0.931061
Tucker-Lewis Non-Normed (NNFI)	1.065097
Bollen Incremental (IFI)	1.029121
Bentler Comparative (CFI)	1.000000

Kaiser's Measure of Sampling Adequacy
Factor: Untitled
Date: 05/15/13   Time: 20:14

	MSA
CIMTR	0.525785
CORRUPTR	0.345435
GEFFECTR	0.659939
PSVIOLENTR	0.705478
VACCOUNTR	0.703455
Kaiser's MSA	0.674219

Partial Correlation:

	CIMTR	CORRUPTR	GEFFECTR	PSVIOLENTR	VACCOUNTR
CIMTR	1.000000				
CORRUPTR	0.022726	1.000000			
GEFFECTR	0.212926	0.070070	1.000000		
PSVIOLENTR	-0.137437	0.022814	-0.519943	1.000000	
VACCOUNTR	-0.237357	-0.069309	0.376896	-0.241529	1.000000