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Rule of Law, Regulatory Quality and investment Growth in Nigeria: An Impact Analysis

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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ABSTRACT

This study focus on rule of law, regulatory quality and investment growth in Nigeria employing ordinary least square method of estimation. A time series data spanning from 1997 to 2019. The economic growth was proxied with investment growth, while other variables include rule of law, regulatory quality, consumer price index, premium lending rate, trade openness, financial deepening, investment, gross investment and gross fixed capital formation. The finding of the OLS result shows that there is significant positive relationship between rule of law, regulatory quality and economic growth. Also, the result of the ECM shows that the speed of adjustment of the investment

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growth in the long run would be accounted for in short run by the magnitude of 27% and 40%. In the robustness check, negative significant relationship exist between rule of law, regulatory quality, investment and gross investment. Findings from granger causality test shows that there is a unidirectional causality between rule of law and economic growth, and also a bidirectional causality between regulatory quality and economic growth. Thus, improvement in the governance and institutional framework in Nigeria is suggested as policy recommendation.

Keywords: Rule of law; regulatory quality; investment growth.

1. INTRODUCTION

The concept of rule of law gained prominence during the enlightenment periods – efforts aimed at evolving a viable systems to regulate inter-human relations, promote socioeconomic and investment growth. The Rule of law is seen as a key driver to investment growth and development [1-4] in both developed and developing economies. In the past, traditional economists such as Adam Smith, in his Wealth of Nations linked economic and investment growth to the sustained degree of legislation that ensures liberty of individuals in pursuit of exclusive economic interests. They asserted that the individual freedom in turn, leads to prosperity for the larger society [5]. Recently, the collapse of Berlin Wall in late 80s through regulation led to remodeling the concept and practice of rule of law [6]. The idea reflected the prevailing ideological struggles waged to widen investment destinations and market, which later assumed a major policy thrust to advance political and economic fronts [7] between capitalist and socialist economies.

Consequently, divergent theories and models were mooted to promote investments as seen in contemporary economic and related literatures. They agree that rule of law plays a prominent role in sustaining investment growth [8]. The fundamental question however, is the extent to which the laws and other regulations have pushed through the current of resistance in latent and obvious investment barriers to widen investor's space. These impediments results from poor regulatory framework and ineffectiveness of institutional environment to strengthen the market efficiency through a viable rule of law to promote investors' confidence, which ultimately leads to underperformance of the economy [9]. The inhibitions are equally expressive through socioeconomic, political and policy inconsistencies in harmonizing actors interests Gábor, [10], Daham, et.al. [11], Abubakar, [12], which discourages investors from possible investments. Evidently, there are indivisible connections between investment growth, and rule of law. In view of this, Asli, et al [13] noted that quality regulations are increasingly sensitive as the degree of investment significantly impacts the prevalent socio economic and political systems. And lack of regulatory quality or slow pace of reforms in business environment puts a lid on investment [14].

Rule of law in its entirety, lays the foundation and provides basic framework for regulating investment outlays, enhances quality control and cross border legal relations [15-17]. The illegal movement of funds and investment ideas to overseas due to weaknesses in Nigeria's regulatory institutions constitutes major reasons for the setback on investments growth [18,19]. This is largely due to the fact that viable regulations, investment and economic growth are relatively intertwined. Quality regulations assist in attaining increased investment and sustained growth which are expressed through institutional viability. Douglas North cited in Soludo [20], states that:

> "Successful development policy entails an understanding of the dynamics of economic change if the policies pursued are to have the desired consequences. And a dynamic model of economic change entails an integral part of that model analysis of the polity since it is the polity (institutions) that specifies and enforces the formal rules/law…. Development economists have typically treated the state as either exogenous or as a benign actor in the development process. In fact the state can never be treated as an exogenous actor in development policy and getting the prices right only has the desired consequences when you already have in place a set of property rights and enforcement that will then produce the competitive market conditions (North, DC: 1993: 5)".

Consequently, quality regulation becomes visible when it leads to resolving precarious situations

on investments occasioned by asymmetrical human relations, and ensures investors' confidence [13,8]. Empirical studies have shown that states with regulatory efficiency boost economic activities. Regulatory quality and institutional structures significantly accelerate high return on investments [21,9]. However, investment opportunities are sustain where the rule of law has gained momentum overtime - that is, environments less susceptible to frequent policy interference. The challenges of major economies in developing stage ranges from lack of capacity to evolving effective processes (regulatory quality) that leads to creation of investment capitals base on the principles of the rule of law [22] because creation of investment friendly environment facilitate over all development in the legal platform [13]. Andrew Natsios cited in Martin [3] noted that:

> "Without good governance, strong commitment to the rule of law and a genuine will to control corruption, all of which are essential for efficient governance, investment and development would be difficult if not impossible.

Therefore, keys to good governance are the operationalization of the rule of law and quality regulations that stimulates investment growth. Effective rules culminate to ideal environment for investment [23,24]. The inconsistent regulation highlighted above, limits the possible effects of investment and the accruable benefits. This is because, a well regulated economy profit more from investments, while countries with unfriendly laws are adversely affected [8]. Accordingly, there are divers' links between investment growth and quality regulations. While investment growth reflects the cumulative effect of entrenched competitive market [25,26], the increasing need to formulate and implement effective rules to check investment outlays becomes paramount. Sustainable investment growth in long-run requires effective regulations which can only be achieved through adherence to the rule of law. The paper seeks to establish the nexus between the rule of law, regulatory quality and investment growth in Nigeria.

2. REVIEW OF LITERATURE

2.1 Conceptual Framework

Rule of law denotes the supremacy of existing laws and their equal application to all persons and institution in the society [27]. Basically, it refers to equality of relations in such a way that the law shapes the activities of man and guarantees investment opportunities and socioeconomic stability [3,11]. However, laws are design to harmonize divergent interests in economic activities – as investment decisions are predicated on viable economic framework. The rule of law ensures that regulations are efficient, transparent and accountable [15,28]. It promotes quality of investment, economic performances, and enhances effective management of microeconomic indicators.

Over the years, there are increasing inquiries in economic literatures on investment growth. But these researches have been conducted with less emphasis on the quality of regulatory institutions and the rule of law as determining factors in explaining investment growth and how it translates to sustainable development in Nigeria. Studies of Ata and Akça [21]; OECD, ;1'; Asli et al [3] noted that sustained levels of equilibrium in investment growth are sustained by the rule of law. Therefore, an investment decision takes root from quality of regulatory institutions as dictated by the currency of rule of law (Mohammed and Mahfuzu [5]. According to the neo classical proponents, investment and economic growth are based on factors of supply and the level of technology prevalent in the economy [29,30]. These key growth determinants as stated by these scholars however, cannot solely guarantee investments growth in isolation to quality regulatory framework as reflected in the rules that guide investment lines. This is because; the rule of law promotes investment opportunities, innovation, market openness and sustainable growth, [31]. This is why countries with significant compliance rate to standard regulations; achieve higher investment growth and business returns with the same quantity of resources Mohammed and Mahfuzu [5] than those that do not.

David, et al. [32], posted that contemporary policies have increasingly emphasized rule of law as a necessity to investment and development strategy. Their studies revealed enormity of financial supports from donor agencies for enhancing, entrenching the rule of law and encouraging investments growth in developing economies. However, classical writers such as Max Weber cited in David et. al [32], argues for a strong relationship between quality regulation and investment growth. But Yildirim and Gokalp [33] on the other hand, holds that the prevailing law in developing economies mainly emphasizes redistribution activities without encouraging

investments through quality regulations. This however, affects law process and government effectiveness Epaphra & Kombe, [19] which retards investment growth. The Studies of Izilein and Mohammed [34] noted that among many factors that hinder investment growth in Nigeria are weak institutional structure and decrepit state capacity. They submitted that the structures of socioeconomic and political activities are rooted in the operations of rule of law - quality and effectiveness of regulatory institutions are imperative for the acceleration of investment growth. Over the past few decades in Nigeria, there are increases in her revenue profile attracted by policy framers. However, these revenues have not translated to quality living standard amongst Nigerian citizens due to poor regulatory framework in economic activities resulting to capital flights formations [35,36]. Quality regulation ensures competitive advantage and provides incentives for investment opportunity and serve as basis why certain destinations are preferred by investors over another. The works of Koeniger and Silberberger [8]; Buccirossi, P.et. al [37] explained that growth effect of rule of law and regulation depends on a country's level of economic integration. This point is further buttressed by McKenzie, [38] which noted the confinement of regulatory capacities of most states to a smaller segment of that society, with reforms that only contributes to certain patterns of investment that ultimately undermines state-society relations. The action reinforces conditions that promote institutional plurality, because environments where institutions better protects and enforces rights of investors, experience high levels of investment growth and development.

The UNCTAD, [16,17], stated that world investment declined up to 23 per cent in 2017 in developed and transition economies, while the underdeveloped ones is said to have recorded almost zero investments during the same period. This trend revealed the essentialities of rule of law and quality of regulation that institutionalizes the process which drives investment opportunities in different environments [20,39]. It shows that destinations with the prevalence of rule of law serves as investment havens [16,17] and well regulated environments features transparent and non-discriminatory investment policies. In the same vein, World Bank Report (2014) also noted that investments declined long before notable economic down turn in Nigeria, and substantially reduced investor's confidence (CBN, 2016). Their reports however, underscore the lack of regulatory quality in key macroeconomic indicators amongst financial managers. Therefore, harnessing investment growth opportunities in African is contingent on the relative stability of socioeconomic and political environment [40-42] as poor governance is implicated in the unstable policy framework in most African countries that impede investment growth over the years [2]. Consequently, the paper seeks to investigate how rule of law and regulatory quality enhances investment growth in Nigeria. However, the challenge revolves around the extent to which institutional structures ensures the application of the law which significantly impact on investment growth.

2.2 Empirical Studies

Issues of investment growth and legal framework have attracted wide discourse on economic and related studies over time. The bulk of these studies discussed it about accruable benefits to investor undertakings. The challenge, however, is how opportunities are enhanced through institutionalizing the process of rule of law and regulation to command investors' confidence. However, empirical studies carried out by Ubi, et.al [43] revealed that quality regulatory frameworks provide models and establish structures by which investment decisions rest. It ensures the development of efficient investment policies that drive societal progress [44,13] as a prone environment results in a loss of investment opportunities. In furtherance to this, examinations of Godwin and Ajose [45] and Kalu and Mgbemena [46] empirically applied the co-integration test to establish the nexus between investment and the rationale for stunted growth in recent times. The study aimed to find out the precondition for investment growth in Nigeria. Their analysis, however, shows a long-run relationship between the variable examined, that is, poor regulatory framework, corruption and violation of investment laws. It generally exposes the interconnectedness of the rule of law and investment growth in developing countries.

Lubna, [47] on the other hand, empirically analyzed the rule of law and quality procedures as indisputable factors to sustainable development through investment growth. His work depended on what he referred to as a domestic garnered mandate. The study shows a correlation between investment growth due to shortcomings arising from inconsistencies and poor regulatory framework of investment laws and policies. Studies by Koeniger and Silberberger [8] and Jalilian et al. [48] also

revealed that regulation, trade and investment have a significant impact on growth, while the adverse effects are more visible in countries that have poor regulatory quality, particularly in developing environments. Izilein and Mohammed [34] empirically studied investment growth and quality of institutional structures by employing the Generalized Method of Moments (GMM) estimation techniques on annual time series. The finding however shows that the quality of the legal process based on the rule of law constitutes a major variable for driving investment growth in Nigeria. It further noted that efficient regulations and consistent macroeconomic policies encourage investment in both developed and developing economies.

Chauvet et al [49], cited in Elijah and Ayodele, [50] examined to ascertain the causes, failure and weak capacity for investment growth amongst developing states. Applying the Ordinary Least Squares (OLS) and the Generalized Method of Moment (GMM) as techniques for estimations, it empirically established that a failing state at peace substantially reduces investment growth rate relative to those at peace with the quality regulatory framework. This is because of the inevitable nexus between the rights of persons Watson, [51], the rule of law and overall economic prosperity. In the same vein, Sule [52] investigated the effect of the quality of regulatory institutions and investment opportunities adopting both the Johansen Co integration and the Ordinary Least Square (OLS) approach. The estimated co-integration test revealed a joint relationship among the variables, while the OLS model shows that investment and growth respond positively due to the quality of regulatory institutions and the rule of law. There are myriad studies concerning investigations on the implication of regulations, investment and policy framework. Consequently, Asante [53] analyzed the determinants of investment growth using a time series analysis. The results established that variables which have a significant positive relationship with investment include but are not limited to; interest and real exchange rate, lagged investment, public investment, and private sector credit etc. The behaviours of these variables, however, are ultimately determined by the quality of the regulatory framework in alignment with the rule of prevalent laws. Established laws for governing, economic, private and group relations adequately articulated significant impacts on investment as well as promoted overall economic growth by orchestrating socio-political order (Martin 2008' Godwin and Ajose [45]; Dennis and Paul [54], Orobosa [55]. However, regulating the ever-increasing dynamism of the business environment for investment growth justified undertaking this study.

3. DATA, VARIABLES DESCRIPTION AND METHODS

The data used in this study is time series data obtained from World Bank's world development indicators (WDI) and World governance indicators (WGI) data bank for the period of 1997 to 2019. The dependent variable is investment growth (INVgrt) – a measure of gross domestic investment (annual % growth). The independent variables are: rule of law, regulatory quality, consumer price index, premium lending rate, trade openness, financial deepening ratio of (M2/GDP), investment, gross investment and gross fixed capital formation. A time series data analysis was used and the study focused on Nigerian economy in the sample period. The notation for the main variables and their statistics are presented in Table 1.

Table 1. Statistical description of the variable

Variable	Symbol	Average	Deviations	Minimum	Maximum
Investment growth	INVgrt	0.034	0.029	0.000	0.077
Rule of Law	ROL	0.985	0.429	0.000	1.430
Regulatory Quality	REQ	0.761	0.258	0.000	1.350
Consumer Price Index	CPI	2.070	2.138	0.296	7.664
Premium lending rate	PLR	6.956	3.026	2.473	15.20
Trade Openness	TOP	144.5	56.22	43.85	224.77
Financial Deepening	FD	0.290	0.146	0.138	0.563
Investment	INVT	425.4	236.2	145.2	745.7
Gross Investment	GINVT	0.042	0.023	0.014	0.074
Gross Fixed Capital Formation	GFCF	2.435	14.12	-23.74	40.38

Source: Data from the World Bank's World Development Indicators (WDI) and World Governance Indicators (WGI)

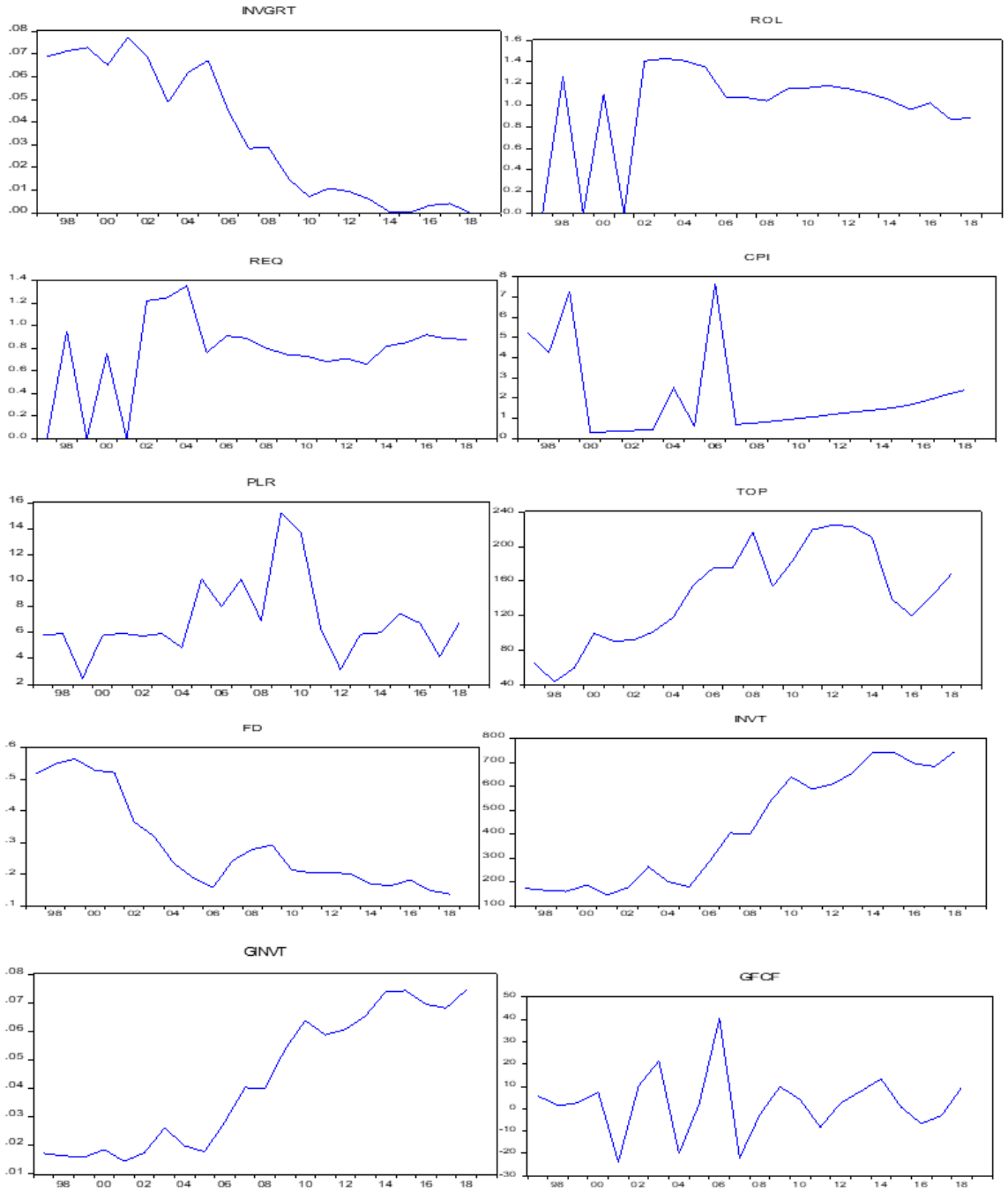

Fig. 1. Plots of the variables

Source: Data from World Bank's World Development Indicators (WDI) and World governance Indicators (WGI)

The averages, deviations, and minimum and maximum levels of the variables in the study are shown in Table 1. For Nigeria, the average Investment growth (INVgrt) is 0.034 naira, and the standard deviation is 0.029 naira, with minimum and maximum of 0 naira and 0.077 naira. The average, standard deviation, minimum and maximum values of the role of law (ROL) are 0.985, 0.429, 0.000 and 1.430 respectively. In the like manner, the average, standard deviation, minimum and maximum values of the regulatory quality (REQ) are 0.761, 0.258, 0.000 and 1.350 respectively. In the same vein, the average, standard deviation, minimum and maximum of the consumer price index (CPI) are 2.070, 2.138, 0.296 and 7.664 respectively. The average,

standard deviation, minimum and maximum premium lending rates (PLR) are 6.956, 3.026, 2.473 and 15.20 respectively. Also, the average, standard deviation, minimum and maximum values of trade openness (TOP) are 144.5, 56.22, 43.87 and 224.7 respectively. The average, standard deviation, minimum and maximum values of financial deepening (FD) include 0.290656, 0.146997, 0.138 and 0.563 respectively. Similarly, the average, standard deviation, minimum and maximum values for investment (INVT) are 425.4, 236.2, 145.2 and 745.7 respectively. Gross investment (GINVT) have its average, standard deviation, minimum and maximum respectively as follows 0.042549, 0.023, 0.014 and 0.074. Finally, the average, standard deviation, minimum and maximum of gross fixed capital formation (GFCF) are 2.435, 14.12, -23.74 and 40.38.

However, from the literature reviewed, most of the theories and studies concerning the examination of the nexus between the rule of law, regulatory quality and economic growth relationship predict positive correlation exists between them. The following graphical statistical analysis, shown in Fig. 1 reinforces the argument.

3.1 Model Specification

This study adopted the ordinary least squares (OLS) estimation method to estimate the aforementioned variables. For better understanding, the ordinary least square (OLS) estimation method is referred to as a statistical estimation method which estimates the relationship between one or more dependent variables and a dependent variable. However, our rationale for choosing the ordinary least squares (OLS) model over other estimation methods like Two-stage least squares (TSLS) and Stepwise linear models (STEPLS) was due to its special features which include: the fact that it produces residuals that have a zero mean, have a constant variance, and are not correlated with themselves or other variables. It also produces estimates that have the best linear unbiased estimator (BLUE) property. Finally, it allows the sample size to increase to infinity, the coefficient estimates converge on the actual population parameters. Thus, the OLS model is ruled by the following assumptions: The regression model is linear in parameters; the values of the explanatory variables are assumed to be non-stochastic; the conditional mean value μ_i is zero. There is homoscedasticity or equal variance of μ_i; there is no autocorrelation between the disturbances; the disturbance μ_i and explanatory variable X are uncorrelated; the number of observation (n) must be greater than the explanatory variables; there is variability in X values; that is var (x) must be a finite positive number; the regression model is correctly specified; and there is no perfect multicollinearity among the explanatory variables.

Based on the research variables, we specify our model as in below:

$$Y = \pi_0 + Щ_1G_1 + Щ_2G_2 + Щ_3G_3 + Щ_nG_n + Ц \text{ --- (1)}$$

Where: Y denotes the dependent variable as a proxy of investment growth (INVgrt). Furthermore, G represents the vector of the explanatory variables, π is a slope parameter, which explains the status of the unobserved random variables in the absence of the explanatory variables; Щ represents the intercept parameter, which explains the magnitude and direction of the linear relationships, and Ц represents the unobserved random variable or disturbance term. It also captures the amount of variables which is unpredicted by intercepts and slope parameters.

The OLS model further suggests that investment growth (INVgrt) be the dependent variable or predictor variable, while, rule of law, regulatory quality, consumer price index, premium lending rate, trade openness, financial deepening, investment, gross investment and gross fixed capital formation be the independent or explanatory variables. So, the OLS model for the study is specified as follows:

$$INVgrt = \pi_0 + Щ_1ROL_1 + Щ_2REQ_2 + Щ_3CPI_3 + Щ_4PLR_4 + Щ_5OPEN_5 + Щ_6FD_6 + Щ_7INVT_7 + Щ_8GINVT_8 + Щ_9GFCF_9 Ц\text{-------} \quad (2)$$

Where INVgrt denotes investment growth, ROL refers to the rule of law, REQ is the regulatory quality, CPI captures the consumer price index, PLR represents the premium lending rate, OPEN denotes the trade openness, FD represents the financial deepening, INVT connotes investment, GIVNT represents gross investment and GFCF represents gross fixed capital formation, Ц symbolizes the error term, π is the slope parameter, and $Щ_1$ to $Щ_9$ represents the coefficients of the explanatory variables. The vector of the coefficients of the explanatory variables (Щ) further explains the performance of the explanatory variables (rule of law, regulatory

quality, consumer price index, premium lending rate, trade openness, financial deepening, investment, gross investment and gross fixed capital formation).

In continuance, the OLS model has a null hypothesis which assumes that the explanatory variables (rule of law, regulatory quality, consumer price index, premium lending rate, trade openness, financial deepening, investment, gross investment and gross fixed capital formation) do not have a relationship with the dependent variable investment growth (INVgrt). The alternative hypothesis assumes that the explanatory variables have a relationship with the dependent investment growth (INVgrt). The null hypothesis is stated below:

H_0: $Щ_1 = Щ_2 = Щ_3 = Щ_4 = Щ_5 = Щ_6 = Щ_7 = Щ_8 = Щ_9 = 0$

H_I: $Щ_1 \neq Щ_2 \neq Щ_3 \neq Щ_4 \neq Щ_5 \neq Щ_6 \neq Щ_7 \neq Щ_8 \neq Щ_9 \neq 0$

If the P-value is greater than 5%, then the study fails to reject the null hypothesis, implying that there is no impact of the explanatory variables on the dependent variable. On the other hand, if the P-value is less than 5%, then the study rejects the null hypothesis, implying that there is an impact of the explanatory variables on the dependent variable.

3.2 Robustness Check

In order to critically ascertain the existence of a long-run relationship between the rule of law, regulatory quality and economic growth, we remodelled and interchanged the dependent variable investment growth (INVgrt) with investment (INVT), gross investment (GINVT) and gross fixed capital formation (GFCF).

4. EMPIRICAL FINDINGS AND DISCUSSIONS

We analyze the results obtained in the cause of examining the relationship between rule of law, regulatory quality and economic growth in Nigeria in this section. Bearing in mind that time series data in most cases gives spurious results if not properly checked, we employed Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) to check the stationarity status of the variables. We estimated our models using ordinary least squares (OLS) regression analysis while observing the assumptions of the classical linear model.

4.1 Unit Root Test

Unit root tests are used to check if the variables of the model are stationary or not and also to ascertain the level of stationarity of the variables in the model to avoid spurious results. We employed the Augmented Dickey-Fuller (ADF) unit root and Philips-Perron (PP) tests in this study. Our choice of complementing the two tests originates from the fact that ADF assumes that the error term is homoscedastic, while the Phillps-Perron test makes a no –no-parametric correction of the statistic when compared to the Kwiatkowski–Phillips–Schmidt–Shin (KPSS) test. This test was based on the assumption that variables are either stationary at level i.e. I(0) or at first difference i.e. I(1) and not at second difference I(2) to avoid spurious results, because at I(2) the result will be boosted. The decision rule is that we reject the null hypothesis “has a unit root” if the P-value if less than (0.05) 5% level of significance, otherwise, we do not reject the null. Thus, as shown in Table 2, the result of the unit root tests of both ADF and PP test shows that the null hypothesis has a unit root be rejected since all the p-values are statistically significant at 1% level of significance except FD at ADF test. In the Augmented Dickey-Fuller test, the rule of law, regulatory quality, financial deepening and gross fixed capital formation are integrated of I(0), while investment growth, consumer price index, premium lending rate, trade openness, investment and gross investment are integrated of order I(1). Correspondingly, in the Phillips-Perron (PP) test, the investment growth, the role of law, regulatory quality, consumer price index and gross fixed capital formation were found to be integrated of order I(0), while premium lending rate, trade openness, financial deepening, investment and gross investment are integrated of order I(1). However, once the variables are found to be stationary, we move to predict further if there is an existence of the cointegration between the variables.

4.2 Residual Cointegration Test

To ascertain if there is cointegration between the variables, we generated the residual of the models and carried a unit root test using (Augmented Dickey-Fuller – ADF). The null hypothesis is “there is no cointegration among

the variables", with an alternative "there is cointegration among the variables". The decision rule for the test is that if the p-value of the ADF-Statistic is less than 0.05, it implies that there is cointegration between the variables, otherwise do not reject. Therefore, since the p-values are less than 0.05, we conclude that there exist cointegration between the variables. Table 3, a summary of the residual cointegration for all the models. We will reject the null hypothesis and accept the alternative. And therefore conclude that there is long run cointegration between the variables.

4.3 Correlation Matrix

To ascertain the strength of relationships that exist between the variables of the model, we carried out a correlation test and the result is presented in Table 4.

From Table 4, there is a weak correlation between investment growth, rule of law and regulatory quality. This result could be attributed to weak governance and institutional quality in Nigeria which results to poor effects of the governance indicators, political instability, insecurity, low per capita income, high rate of unemployment, corruption, and tribal and religious crises which dents the image of the country in the global perspective and limits the willingness of the nations to join trading with Nigeria thus hindering her investment growth.

4.4 Estimated OLS Results

Effective governance, in the form of rule of law and regulatory quality, upholds economic growth. Empirically, tudies have disclosed that countries with efficient governance environments have better economic growth, since regulatory quality and institutional structures accelerates high return on investment [9]. The Rule of law is seen as a key driver to investment growth and development in both developed and developing economies. Adam Smith, in his Wealth of Nations linked economic and investment growth to the sustained degree of legislation that ensures liberty of individuals in pursuit of exclusive economic interests [5]. However, employing investment growth, rule of law, regulatory quality, consumer price index, premium lending rate, trade openness, financial deepening, investment, gross investment and gross fixed capital formation, we estimate the impact of rule of law and regulatory quality on Nigerian economic growth. Haven ascertained that the variables have no unit root and integrated at order I(0) or I(1), the models were estimated and the assumptions of OLS was observed. Pre and post OLS estimation test (Normality test, Breusch Godfrey serial correlation LM test, Ramsy reset test and White's Heteroscedasticity test) for all the model was carried (see Table 5). In model 1, the study found positive relationship between rule of law, regulatory quality and economic growth. This findings are in line with discoveries of earlier scholars. For instance, Mohammed and Mahfuzu [5], Iheonu and Onwuanaku [23], Koeniger and Silberberger [8] opined that an investment decision takes root from quality of regulatory institutions. In the like manner, in the context of neo classical, investment and economic growth are based on factors of supply and level of technological prevalent in the economy Gwartney, R. et al [29], Doucouliagnos and Mehmet [30]. Thus, this connotes that growth determinants cannot solely guarantee investment growth without governance and institutional framework. Other variables – CPI, PLR, and TOP also have positive influence on investment growth. Their cefficients 0.250881, 0.214454 and 0.038247 suggests that all other things being equal, their percentage changes would lead to about 25%, 21% and 03% changes in the investment growth, while financial deepening portrays negative but significant influence on investment at the rate of -1.013116. Contrary to these findings, in model 2, ROL, REQ, INVT*PLR and IVNT*CPI have negative influence on investment growth. Their coefficient suggests that any unit changes in the variables would result to decreases in the investment growth at the rate of -0.002436, -0.004300, -0.045768 and -0.012476. Furthermore, we generated the residuals of the models and subjected them to unit root test to account for the short run dynamics. The coefficients of the error correction (-0.277667 and -0.408808) suggest that the speed of adjustment of the investment growth in the long run would be accounted for in the short run by the magnitude of 27% and 40% respectively for models 1 and 2. The measure of goodness of fit (R-square) suggests that 69% and 27% of the economic growth was explained INVgrt. However, these findings tally with the findings of Halliday and Shaffer [15], Morral [28], Soludo [20], Kazeem [40] and Ajide and Lawanson [41] who contended that a good institutional framework promotes economic growth.

Table 2. Test for Stationarity (Unit Root Test)

Variables	ADF	Order of Integration		PP	Order of Integration	
		Level	First Difference		Level	First Difference
INVGRT	-4.576713***	-	I(1)	-2.122898**	I(0)	-
ROL	-5.757280***	I(0)	-	-5.421161***	I(0)	-
REQ	-6.247418***	I(0)	-	-4.847274***	I(0)	-
CPI	-8.136078***	-	I(1)	-4.234446***	I(0)	-
PLR	-5.290438***	-	I(1)	-7.185379***	-	I(1)
TOP	-4.218726***	-	I(1)	-4.172822***	-	I(1)
FD	-2.086795**	I(0)	-	-3.213190***	-	I(1)
INVT	-4.044788***	-	I(1)	-4.577083***	-	I(1)
GINVT	-4.332773***	-	I(1)	-4.911083***	-	I(1)
GFCF	-8.218780***	I(0)	-	-12.13773***	I(0)	-

*Source: Author's computation. ***, ** and *: represents 1%, 5% and 10% levels of significance*

Table 3. Residual Cointegration Result

	Dependent Var.	ADF-Statistic	1%	5%	10%	Prob.
MODEL 1	INVgrt	-3.328376	-3.808546	-3.020686	-2.650413	0.0271
MODEL 2	INVgrt	-6.901144	-3.831511	-3.029970	-2.655194	0.0000
		ROBUSTNESS CHECK				
MODEL 1	INVT	-2.419522	-2.685718	-1.959071	-1.607456	0.0184
MODEL 2	INVT	-4.963019	-2.692358	-1.960171	-1.607051	0.0000
MODEL 3	GINVT	-5.294885	-3.808546	-3.020686	-2.650413	0.0004
MODEL 4	GINVT	-12.16334	-4.532598	-3.673616	-3.277364	0.0000
MODEL 5	GFCF	-5.185577	-3.808546	-3.020686	-2.650413	0.0005
MODEL 6	GFCF	-5.471517	-3.808546	-3.020686	-2.650413	0.0003

Source: Author's conception

Table 4. Correlation Matrix for model 1

	INVGRT	ROL	REQ	CPI	PLR	TOP	FD
INVGRT	1						
ROL	-0.265737	1					
REQ	-0.236275	0.903167	1				
CPI	0.274501	-0.440269	-0.319079	1			
PLR	-0.232759	0.282975	0.119760	-0.280046	1		
TOP	-0.730556	0.375647	0.193246	-0.336360	0.240147	1	
FD	0.782738	-0.514166	-0.512125	0.238068	-0.259250	-0.762758	1

Author's computation

Table 5. Summary of OLS Results

Model 1: DEPENDENT VARIABLE: INVgrt				
VARIABLE	**COEFFICIENT**	**STD. ERROR**	**T-STATISTIC**	**PROBABILITY**
ROL	2.152867	0.542688	3.967043	0.0014
REQ	4.828226	0.987533	-4.889178	0.0002
FD	-1.013116	1.062024	-0.953948	0.3563
D(CPI)	0.250881	0.156425	1.603836	0.1311
D(PLR)	0.214454	0.071441	3.001835	0.0095
D(TOP)	0.038247	0.012692	3.013475	0.0093
ECM(-1)	-0.277667***			
Constant	-0.049297			
R-Squared		0.698605		
Adjusted R-Square		0.223322		
Durbin-Watson Stat		1.057240		
NORMALITY TEST		17.15769 (0.0000046)		
SERIAL CORRELATION TEST		0.002410 (0.9615)		
RAMSEY RESET TEST		-33.35591 (0.0271)		
HETEROSCEDASTICITY TEST		2.693117 (0.0594)		
Model 2: DEPENDENT VARIABLE (INVgrt)				
VARIABLE	**COEFFICIENT**	**STD. ERROR**	**T-STATISTIC**	**PROBABILITY**
ROL	-0.002436	0.001216	-2.002382	0.0615
REQ	-0.004300	0.001800	-2.388686	0.0288

DLOG(INVT)*DLOG(PLR)	-0.045768	0.012690	-3.606584	0.0022
DLOG(INVT)*DLOG(CPI)	-0.012476	0.006554	-1.903730	0.0740
ECM(-1)	-0.408808***			
Constant	-0.005999			
R-Squared		0.271085		
Adjusted R-Square		0.142453		
Durbin-Watson Stat		2.064118		
NORMALITY TEST		19.33170 (0.000082)		
SERIAL CORRELATION TEST		2.139904 (0.1522)		
RAMSEY RESET TEST		-162.4752 (0.0314)		
HETEROSCEDASTICITY TEST		1.885436 (0.1622)		
ROBUSTNESS CHECK				
Model 1: DEPENDENT VARIABLE (INVT)				
VARIABLE	**COEFFICIENT**	**STD. ERROR**	**T-STATISTIC**	**PROBABILITY**
ROL	2.260585	0.649812	3.478829	0.0034
REQ	-0.905885	0.768120	-1.179354	0.2566
LOG(FD)	-2.484089	0.366739	-6.773447	0.0000
DLOG(CPI)	-0.494744	0.198578	-2.491441	0.0249
DLOG(PLR)	-1.099562	0.594555	-1.849388	0.0842
D(TOP)	-0.013178	0.005534	-2.381284	0.0309
ECM(-1)	-0.446852**			
Constant	-			
R-Squared		0.635944		
Adjusted R-Square		0.314593		
Durbin-Watson Stat		2.833171		
NORMALITY TEST		22.11703 (0.000005)		
SERIAL CORRELATION TEST		0.000659 (0.9799)		
RAMSEY RESET TEST		0.001911 (0.0094)		
HETEROSCEDASTICITY TEST		2.462150 (0.0735)		
Model 2: DEPENDENT VARIABLE (INVT)				
VARIABLE	**COEFFICIENT**	**STD. ERROR**	**T-STATISTIC**	**PROBABILITY**
ROL	23.68878	5.879471	4.029067	0.0009
REQ	5.128620	4.172361	1.229189	0.2357
DLOG(CPI)*DLOG(PLR)	3.433981	4.111468	0.835220	0.4152
DLOG(INVT)*D(PLR)	24.72666	8.596232	2.876453	0.0105

ECM(-1)	-0.501054***			
Constant	0.484645			
R-Squared		0.112404		
Adjusted R-Square		-0.044231		
Durbin-Watson Stat		1.983243		
NORMALITY TEST		91.16837 (0.000000)		
SERIAL CORRELATION TEST		1.381754 (0.2795)		
RAMSEY RESET TEST		-0.261927 (0.0000)		
HETEROSCEDASTICITY TEST		0.601809 (0.6668)		
Model 3: DEPENDENT VARIABLE (GINVT)				
VARIABLE	**COEFFICIENT**	**STD. ERROR**	**T-STATISTIC**	**PROBABILITY**
ROL	-0.836038	0.164369	-5.086355	0.0001
REQ	-0.668204	0.262480	-2.545733	0.0224
FD	-6.464127	0.178953	-36.12195	0.0000
D(CPI)	-0.104465	0.020459	-5.106102	0.0001
D(PLR)	-0.040840	0.021340	-1.913787	0.0749
D(TOP)	-0.006884	0.003723	-1.849399	0.0842
ECM(-1)	-1.099006***			
Constant	-0.126711			
R-Squared		0.422120		
Adjusted R-Square		0.229493		
Durbin-Watson Stat		1.945347		
NORMALITY TEST		90.151287 (0.000000)		
SERIAL CORRELATION TEST		0.088565 (0.9158)		
RAMSEY RESET TEST		0.147445 (0.0000)		
HETEROSCEDASTICITY TEST		0.945282 (0.4943)		
Model 4: DEPENDENT VARIABLE (GINVT)				
VARIABLE	**COEFFICIENT**	**STD. ERROR**	**T-STATISTIC**	**PROBABILITY**
ROL	-1.797323	0.220129	-8.164859	0.0000
REQ	-1.059181	0.298590	-3.547277	0.0025
D(CPI)*DLOG(PLR)	0.442981	0.039657	11.17024	0.0000
DLOG(INVT)*DLOG(PLR)	1.484315	0.988366	1.501786	0.1515
ECM(-1)	-0.758164***			
Constant	0.758180			
R-Squared		0.800034		

Adjusted R-Square		0.470628		
Durbin-Watson Stat		2.331941		
NORMALITY TEST		19.7715 (0.000005)		
SERIAL CORRELATION TEST		1.466884 (0.2619)		
RAMSEY RESET TEST		-27.45929 (0.0017)		
HETEROSCEDASTICITY TEST		1.324351 (0.3010)		
Model 5: DEPENDENT VARIABLE (GFCF)				
VARIABLE	**COEFFICIENT**	**STD. ERROR**	**T-STATISTIC**	**PROBABILITY**
ROL	-1.094259	12.87479	-0.084992	0.9334
REQ	17.58469	13.53256	1.299436	0.2134
LOG(FD)	12.83063	20.47440	0.626667	0.5403
D(CPI)	4.399129	1.326076	3.317405	0.0047
D(PLR)	2.316134	0.543096	4.264685	0.0007
DLOG(TOP)	29.85696	11.43970	2.609942	0.0197
ECM(-1)	-1.206619***			
Constant	-0.904141			
R-Squared		0.550082		
Adjusted R-Square		0.400110		
Durbin-Watson Stat		2.528078		
NORMALITY TEST		60.28156 (0.000000)		
SERIAL CORRELATION TEST		1.657333 (0.2188)		
RAMSEY RESET TEST		-0.036090 (0.0065)		
HETEROSCEDASTICITY TEST		1.876528 (0.1556)		
Model 6: DEPENDENT VARIABLE (GFCF)				
VARIABLE	**COEFFICIENT**	**STD. ERROR**	**T-STATISTIC**	**PROBABILITY**
ROL	1.820055	1.037108	1.754933	0.0973
REQ	7.808698	2.717730	2.873243	0.0105
DLOG(INVT)*DLOG(PLR)	45.97504	20.76151	2.214436	0.0407
DLOG(INVT)*DLOG(CPI)	35.32301	3.119007	11.32508	0.0000
ECM(-1)	-0.235843***			
Constant	-0.062025			
R-Squared		0.676167		
Adjusted R-Square		0.619019		
Durbin-Watson Stat		2.379313		
NORMALITY TEST		77.499657 (0.000001)		

SERIAL CORRELATION TEST	1.384183 (0.2556)
RAMSEY RESET TEST	0.176112 (0.0017)
HETEROSCEDASTICITY TEST	1.095887 (0.3902)

*Source: Computed by Author aided by Eviews 10 and ***, ** and *: represents 1%, 5% and 10% levels of significance*

Table 6. Grange causality causality links between investment growth, rule of law and regulatory quality

Model 1: Grange Causality Causality Links Between Investment Growth, Rule Of Law And Regulatory Quality						
Variables			**F-Statistic**	**OBSERVATION**	**PROB.**	**STATUS**
LnROL	→	LnINVGRT	5.20854		0.0008	UNIDIRECTIONAL
LnINVGRT	≠	LnROL	0.16980	20	0.8454	CAUSALITY
LnREQ		LnINVGRT	3.40677		0.0029	BIDIRECTIONAL
LnINVGRT	↔	LnREQ	7.33094	20	0.0000	CAUSALITY
ROBUSTNESS CHECK						
MODEL 2: INVT ROL REQ						
LnROL	→	LnINVT	3.11565		0.0116	UNIDIRECTIONAL
LnINVT	≠	LnROL	0.16782	20	0.8471	CAUSALITY
LnREQ	→	LnINVT	4.19480		0.0025	UNIDIRECTIONAL
LnINVT	≠	LnREQ	0.09237	20	0.9123	CAUSALITY
MODEL 3: GINVT ROL REQ						
LnROL	≠	LnGINVT	0.11565		0.8916	
LnGINVT	≠	LnROL	0.16782	20	0.8471	NO CAUSALITY
LnREQ	→	LnGINVT	6.19480		0.0000	UNIDIRECTIONAL
LnGINVT	≠	LnREQ	0.09237	20	0.9123	CAUSALITY
MODEL 4: GFCF ROL REQ						
LnROL	→	LnGFCF	2.89797		0.0282	UNIDIRECTIONAL
LnGFCF	≠	LnROL	0.82364	20	0.4577	CAUSALITY
LnREQ	→	LnGFCF	3.78961		0.0020	UNIDIRECTIONAL
LnGFCF	≠	LnREQ	0.40084	20	0.6767	CAUSALITY

Haven found that there is a positive relationship between the rule of law, regulatory quality and economic growth, we conducted a robustness check by remodelling models 1 and 2 – changing the investment growth with INVT, GINVT and GFCF. However, findings from model 1 in the robustness check section shows that there is a negative and significant of ROL, REQ, FD, CPI, PLR and TOP on investment (INVT). In model 2, there is a positive impact of the rule of law and regulatory quality on investment. The coefficients of the R-squared (0.635944 and 0.112404) implies that about 63% and 11% variations of the investment are being explained by the models. The coefficients of the error correction model (-0.446852 and -0.501054) suggest that the speed of adjustment of investment in Nigeria in the long run would be account accounted for at the rate of 44% and 50% in the short run. The result of model 3 shows that the variables are negatively related to gross investment (GINVT). In like manner, the coefficients of ROL and REQ in model 4 are negatively related to gross investment (GINVT). The coefficients of the goodness of fit R-squared (0.422120 and 0.800034), suggests that about 42% and 80% of the variations in gross investment account for overall performance of the models. The ECM -1.099006 and -0.758164 implies the long run dynamics are being account for in the short run by the magnitude of 10% and 75%. Similarly, in model 5 and 6, there positive relationship between rule of law, regulatory quality and gross fixed capital formation (GFCF). The coefficients of the R-square (0.550082 and 0.676167) suggests that about 55% and 67% of the variations gross fixed capital formation account for overall performance of the models. The result of the error correction model shows that the long run impact of the model are being accounted for in the short run by the magnitude of 90% and 23% (see Table 5). Without good governance, a strong commitment to the rule of law and a genuine will to control corruption, all of which are essential for efficient governance, investment and development would be difficult if not impossible. Thus these findings align with the findings of Iheou and Onwuanaku [23], Obadan and Odusola [25], Oaham, et al [25], Kazeem [40] and Ajide and Lawanson [41] proposed that regulatory quality and the rule of law promote economic growth.

4.5 Granger Cusality Test

We employed pairwise granger causality test to check if rule of law and regulatory quality cause economic growth or economic growth cause regulatory quality and rule of law. Findings from the result, shows that there is unidirectional directional causality running from rule of law to investment growth. Also, bidirectional causality exist between regulatory quality and investment growth. Thus, in line with the literature, which posit that good governance, and strong commitment to the rule of law are all essential for investment growth and economic development (see: Iheou and Onwuanaku [25], Obadan and Odusola [25], Oaham,S. et al (2019), Kazeem [40] and Ajide and Lawanson [41]. Again, we conducted a robustness check to ascertain if there is causality between the investment, gross investment, gross fixed capital formation, rule of law and regulatory quality (see Table 6) [56,57]. In model 2, unidirectional causalities exist between rule of law, regulatory quality and investment. In the model, there is no causality between rule of law and gross investment, but a unidirectional causality exists between regulatory quality and gross investment [58,59]. And in model 4, unidirectional causality exists between rule of law and gross fixed capital formation and also between regulatory quality and gross fixed capital formation.

5. SUMMARY, RECOMMENDATION AND CONCLUSION

This study focus on investigating the impact of rule of law, regulatory quality on investment growth in Nigeria from 1997 to 2019. The Ordinary least squares (OLS) method of estimation was employed and a time series data which was sourced from World bank's world development indicators (WDI) and world governance indicators (WGI) was used for the study. The following variables was used which includes investment growth (INVgrt) – a measure of gross domestic investment (annual % growth); rule of law (ROL), regulatory quality (REQ), consumer price index (CPI), Premium lending rate (PLR), trade openness (TOP), financial deepening (FD), investment (INVT), gross investment (GINVT), and gross fixed capital formation (GFCF). The descriptive statistics of the variables was taken and it was discovered that there is evidence of serial correlation between the variables, thus the New-wey West Hac procedure was used to in the process of estimation to correct any presence of autocorrelation. The stationarity test was done by employing Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests and it was discovered that all the variables are stationary at 1%

significance level but they are integrated of either at level order I(0) or first difference (order I(1)). We carried out correlation test to check the strength of relationship between the variables of the model. The result informed us that there is there is weak correlation between investment growth, rule of law and regulatory quality. The residual cointegration result suggests that there is existence of cointegration between the variables since the p-value of the ADF-statistics are less than 0.05 for all the models. The estimated coefficients of the ordinary least squares (OLS) result shows that rule of law and regulatory quality have great positive impact on economic growth. The outcome of the OLS result suggests that the null hypothesis "no relationship between the dependent variable and the explanatory variables" be rejected and the alternative be accepted. Thus, the result of the OLS suggest there is existence of long run relationship between investment growth, rule of law, regulatory quality, consumer price index, premium lending rate, trade openness, financial deepening, investment, gross investment and gross fixed capital formation. The result of the ECM shows that the speed of adjustment of the investment growth in the long run would be accounted for in short run by the magnitude of 27% and 40%. Furthermore, our findings from the robustness check suggests that there is negative relationship between rule of law, regulatory quality and investment in model 1 and 2; between rule of law, regulatory quality and gross investment in model 3 and 4; while positive relationship exists between rule of law, regulatory quality and gross fixed capital formation. The result of causality shows the effective governance and institutional quality and rule of law promotes economic growth. Thus, based on these findings, we join Iheou and Onwuanaku [23], Obadan and Odusola [25], Oaham,S. et al (2019), Kazeem [40] and Ajide and Lawanson [41] to conclude that efficient regulatory quality and rule of law promotes economic growth.

Based on these findings, we recommend the following as a way of enhancing Nigerian investment growth:

a. Government should embark on investment, infrastructural and developmental policies to enhance her production and manufacturing sectors of the economy.
b. Buttress her links with other international economies by breaking all forms of international trade bottlenecks that are unfavourable to international country.
c. Maintain peace and order by shunning any form of insecurity and violence in the country.
d. There should be a checkmate of rule of law, regulatory quality, control of corruption, and political stability and absence of violence by the government.

Viewed in this manner, the investment growth in Nigeria will be enhanced for the good of her citizens.

DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Author(s) hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc) and text-to-image generators have been used during writing or editing of this manuscript.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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