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Islamic Financing and Economic Growth in Nigeria: The Moderating Role of Corruption

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ABSTRACT

This study examined the relationship between Total Islamic Financing and Economic growth of Nigeria, with a particular emphasis on the role of governance, proxied by control of corruption indicator of the Worldwide Governance Indicator's Institutional Quality Index, which moderates the link. The growing significance of Islamic finance in developing nations has generated interest in its effectiveness under various institutional contexts, especially in economies marked by not a very strong governance and institutions. Notwithstanding the increasing prevalence of Islamic financial institutions in Nigeria, empirical research incorporating institutional quality remains scarce. This research aims to evaluate the extent to which total Islamic financing (TF) significantly impacts economic growth and whether governance quality, as indicated by control of corruption (CORR), affects this relationship. The research uses quarterly time series data from the first quarter of 2014 to the first quarter of 2024 and implements the Autoregressive Distributed Lag (ARDL) bounds testing method to identify both short-term and long-term relationships. Real GDP functions as the dependent variable, whereas TF, CORR, the exchange rate (EXR), and foreign direct investment (FDI) act as explanatory factors. Research indicates that Islamic finance significantly helps long-term economic growth, especially when corruption is adequately managed. In the short term, however, the impacts are ambiguous and contingent upon the lag structure of the variables. The interaction term (TF × CORR) is statistically significant alone in the long term, highlighting the significance of governance quality. The findings indicate that institutional reforms are crucial for optimizing the developmental impact of Islamic finance in Nigeria.

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1. INTRODUCTION

The relationship between financial development and growth has been a major topic in economic writing for a long time. Islamic finance is getting more popular as a practical and moral alternative to traditional financial systems, which have long been the most common in global financial markets. Islamic finance follows the rules of Shariah law, which stress sharing profits and losses, financing backed by assets, and not charging interest (riba) (Abdul-Rahman & Nor, 2016). This unique financial model has the ability to promote inclusive growth and lower inequality through investments in the real economy and ethical financial practices.

Islamic financial assets around the world were worth more than $3.06 trillion in 2021, and the market is expected to keep growing (IFSB, 2022). Its growth has been particularly strong in nations involving two banking systems, such as Indonesia, Malaysia, and Pakistan. In these nations, real-world data reveals that Islamic finance has a statistically significant effect on economic growth (Chowdhury et al., 2018; Boukhatem & Moussa, 2018).

The Nigerian Central Bank (CBN) set up rules for Non-Interest Financial Institutions (NIFIs) in 2011, which was a big change in policy (CBN, 2011). The creation of Jaiz Bank and other Islamic banks is a strategic move to get more individuals involved in the financial system, especially Muslims who don't have bank accounts. As of 2023, Nigeria's Islamic banking assets have increased to more than ₦300 billion (IFSB, 2023).

But Nigeria still has a lot of problems with governance. In 2023, Nigeria was ranked 24th out of 100 on the Corruption Perceptions Index (Transparency International, 2024). Studies have found that high levels of corruption negatively impact economic growth and financial development by draining funds and making people less probable to invest (Law & Azman-Saini, 2012; Kaufmann & Kraay, 2002).

As Islamic banking grows in Nigeria and corruption continues to be a problem, it is important to look into how the positive impacts of Islamic money can be seen in a corrupt environment. Islamic finance is thought to be linked to the real economy and to promote growth, but studies done in Nigeria have shown diverse results. Also, most of the research that has been done so far doesn't look at how the quality of institutions affects this link. Specifically, not enough research has been done on how corruption affects the connection between Islamic finance and growth. If you don't take governance into account, policy recommendations might not work or be correct.

So, the goal of this study is to look into how Islamic finance affects Nigeria's economic growth. It looks into whether following Shariah-compliant financial practices helps the economy grow, and it also looks at how the success of Islamic finance is affected by the quality of institutions, especially their ability to stop corruption. In doing so, it also looks at the functions of important macroeconomic control variables, such as the rate of exchange and FDI, which may have impact on economic performance together.

The study asks three main questions to help conduct the study: How does Islamic financing affect Nigeria's economic growth? Does controlling corruption have significant impacts on this relation? Also, how do the rate of currency exchange and FDI affect the way Islamic finance and economic growth perform? We answer these questions by testing hypotheses in the context of reality. The study specifically tests the null hypotheses that Total Islamic financing does not have a significant effect on Nigeria's economic growth, that controlling corruption does not have a significant impact on this relationship, and that exchange rates and foreign direct investment do not have a significant impact on the link between Islamic finance and growth.

There exists a lot of academic literature on Islamic finance, but studies in Nigeria often don't look at how governance affects it. They don't often use interaction terms or strong econometric models to look at how corruption affects matters. This study fills in these gaps by clearly including institutional

variables in its empirical framework and using a method that can show both short- and long-term effects.

The paper is based on the ideas of institutional economics (North, 1990) and the literature on financial development and growth (King & Levine, 1993), which say that long-term economic results are determined by both financial systems and governance institutions. Islamic finance is meant to work with real-world activities, but its effects may be limited by problems with institutions, such corruption.

The study's importance comes from the fact that it could provide policymakers and researchers with insights based on real-world data. For policymakers, it shows how Islamic finance may be used strategically to boost economic growth, especially when the rules of governance are different. The study adds to the existing conversation in the academic community by include governance in the Islamic finance–growth equation.

This study offers three key novelties: First, it looks at how control of corruption affects the relationship between Islamic finance and growth, which is not examined within the ontext of Nigeria. Second, it employs a formal interaction term (TF × CORR) to show how the quality of governance affects the impact of Islamic financing in Nigeria. Third, it uses the ARDL bounds testing method, which can handle mixed integration and looks at both short- and long-term effects using quarterly data, which is perfect for developing countries.

This study uses quarterly time-series data from 2014Q1 to 2014Q1. The analysis looked at real GDP (RGDP), total Islamic financing (TF), the exchange rate (EXR), foreign direct investment (FDI), and the control of corruption (CORR). The ARDL model is used to figure out how these factors affect economic growth directly, indirectly, and through their interactions. The rest of the study is set up like this: Chapter Two looks at important theoretical and empirical literature. Chapter Three explains the methodology employed. Chapter Four shows and talks about the empirical results. Finally, Chapter Five wraps up the study with a summary of the results, policy comments, and ideas for future research.

Literature Review

This chapter examines current empirical studies on Islamic finance, economic growth, and governance, with a focus on the role of the quality of institutions (control of corruption). The purpose is to combine studies from across the world and studies that are specific to Nigeria to create a solid base of evidence supporting the study. There are three main themes that the review is based on: (1) how Islamic finance affects economic growth, (2) how corruption and bad governance affect financial development, and (3) how Shari'ah governance helps to strengthen institutions

Hypotheses Development

The Role of Islamic Finance on Economic Growth

There is a growing body of research that looks at how Islamic finance may help the economy grow. Chowdhury et al. (2018) used an ARDL model on Malaysian data and discovered a long-term link between Islamic banking growth and GDP that was both positive and statistically significant. Boukhatem and Moussa (2018) used panel data from 15 MENA countries to show that Islamic finance development boosts economic growth, especially in places where governance is good.

Empirical are mixed in Nigeria. Tasiu and Abduh (2020) used the Toda-Yamamoto causality model to show that Islamic finance and GDP have a two-way relationship, meaning that they affect each other over time. Tabash et al. (2022), on the other hand, used a VECM and found no statistically significant link between Islamic financing and economic growth in Nigeria. This could be due to contextual or institutional restrictions.

Based on stakeholder surveys, Oladapo et al. (2022) found that the quality of governance, compliance with Shari'ah, and clarity of regulations are important factors that affect people's faith in

Islamic financial services. Maruf (2021) used comparative legal approaches to show that Islamic economic principles are good for ethical finance, but they don't work as well in Nigeria because the rules aren't always followed. Zubair and Muha (2022) gave more proof that making Islamic debt rules fit with regular financial rules will help make debt more sustainable and include more people in the financial system.

Corruption, Governance and Financial Performance

Research has consistently shown that good governance is essential for turning financial growth into long-term economic growth. Law and Azman-Saini (2012) used a panel threshold model to show that financial growth only leads to significant development and growth when the quality of institutions is high enough. Kaufmann and Kraay (2002) showed with real-world data from around the world that corruption makes investments less efficient, wastes money, and lowers economic output.

Abdullahi et al. (2023) employed dynamic panel estimation in Nigeria and discovered that corruption makes the financial system far less stable. Using ARDL bounds testing, Odi (2022) found that there is a long-term negative link between corruption and economic growth. This is because corruption lowers investment and public trust. Efayena and Olele (2022) came to the same conclusion: corruption and the decline of institutions make Nigeria's development programs much less successful.

Aliyu and Elijah (2022) used causality and impulse response methods to show that corruption not only slows down the flow of capital, but also hurts the banking sector by damaging its reputation and making credit allocation less efficient. Abu et al. (2021) originate that FDI has a less long-term effect on domestic investment in Nigeria when there is a lot of corruption. This shows that governance has a moderating influence.

Bougatef (2015) employed GMM estimation in 15 Islamic nations and found that corruption makes Islamic banks less stable by hurting their systems for sharing risk and providing inclusive finance. Danlami (2023) built on this by utilizing a NARDL framework to show that corruption's effect on growth in Nigeria is not linear. This means that even small changes to how the government works could lead to big economic benefits.

Sharia'h Governance and Strengthening Institutions

It's necessary to have good macro-level governance, but internal Shari'ah governance processes are also very crucial for the success and legitimacy of Islamic financial organizations. Grassa (2015) used panel regression methods to show that Islamic banks with stronger Shari'ah oversight frameworks do better financially. Mollah and Zaman (2015) also found that having both corporate and Shari'ah governance makes risk management better and gives investors more faith.

Nomran and Haron (2020) used structural equation modelling on Malaysian Islamic banks to show that strong Shari'ah boards are necessary to make sure that operations follow Islamic rules and to build confidence among stakeholders. Smaranda and Jafaru (2022) said that in Nigeria, unclear laws and regulations around Islamic banking make it hard to enforce Shari'ah law and hurt the credibility and growth of the Islamic finance sector.

In general, the empirical evidence shows that Islamic finance can help the economy grow, especially when it is part of a solid system of governance. But research from Nigeria shows that institutional problems, especially corruption and not certain laws, weaken this potential. Using strong econometric tools, existing research don't often look at how Islamic finance and governance quality affect one other. This study fills that vacuum by employing an ARDL framework to investigate the moderating influence of corruption in real life. This adds new insight to the empirical discussion on finance, growth, and institutional quality in Nigeria

2. METHOD

Research Design

This study uses a quantitative time-series design to investigate how Total Islamic Financing affects Nigeria's economic growth, with control of corruption as a moderating factor. Based on institutional economics (North, 1990; Acemoglu & Robinson, 2012), the study focusses on how the quality of governance affects financial outcomes. We use the Autoregressive Distributed Lag (ARDL) bounds testing method (Pesaran, Shin, & Smith, 2001) because it works well with small samples and can handle variables with mixed integration orders, I(0) and I(1). ARDL also looks at both short- and long-term changes and takes into account lag structures. This is especially helpful for quarterly macroeconomic data. The analysis uses data from the first quarter of 2014 to the first quarter of 2024, which comes from trusted sources such the NBS, CBN, IFSB, and the World Governance Indicators.

Variables Definition and Sources

Table 1. Variables sources and description

Variable	Description	Source
Real GDP (RGDP)	Measured in constant Naira terms; proxy for economic growth	Nigerian Bureau of Statistics (NBS)
Total Islamic Financing (TF)	Total financing by licensed Islamic banks; main independent variable	Islamic Financial Services Board (IFSB)
Control of Corruption (CORR)	Indicator of institutional quality and governance	World Governance Indicators
Exchange Rate (EXR)	Quarterly average exchange rate (Naira/USD); reflects macroeconomic stability	Central Bank of Nigeria (CBN)
Foreign Direct Investment (FDI)	Net quarterly FDI inflows in USD	Nigerian Bureau of Statistics (NBS)
TF × CORR (Interaction Term)	Product of Islamic financing and corruption control; tests moderating effect	Constructed by the researcher using TF and CORR

(Source: Author's compilation)

Theoretical Basis of Variables

Real GDP (RGDP), the dependent variable, is a measure of economic growth that is often employed in finance–growth research (King & Levine, 1993; Hassan et al., 2011). Total Islamic Financing (TF) is the main explanatory variable. It is a Shariah-compliant metric that does not include interest (riba) and encourages ethical, asset-backed, and risk-sharing financing (Farahani & Dastan, 2013; Boukhatem & Moussa, 2018). This concept tightly ties Islamic finance to investment in the real economy, which promotes an inclusive economic growth and development.

As an institutional quality variable, Control of Corruption (CORR) is included. Governance is better when the numbers of control of corruption are higher, which is important for financial systems to work well (Kaufmann & Kraay, 2002). The exchange rate (EXR) is a macroeconomic control that shows how stable a currency is. Depreciation might boost exports, but volatility can make people less likely to invest (Hassan et al., 2011). Foreign Direct Investment (FDI), which is money coming in from outside the country from investors, is another control variable. Its effect on growth may depend on how well it works with local financial development in the country. The study introduced also an interaction term (TF × CORR) to see if the impact of Islamic financing on economic growth depends on how good the government is (control of corruption within the system). This fits with the idea of

institutional economics, which says that the way institutions are set up affects how well they allocate money (North, 1990).

Model Specification

The functional form of the model is expressed as:

$$RGDP_t = TF_t, CORR_t, FDI_t, TF * CORR_t = \text{Eq1}$$

Where $RGDP_t$ = Real Gross Domestic Product at time *t* (proxy for economic growth), TF_t = Total Islamic Financing at time *t*, $CORR_t$ = Control of Corruption index at time *t*, EXR_t = Exchange Rate at time *t* (Naira/USD), FDI_t = Foreign Direct Investment inflows at time *t*, $TF_t * CORR_t$ = Interaction term: effect of governance on Islamic finance

This leads to the econometric formulation within the ARDL bounds framework:

$$\Delta RGDP_t = \propto_0 + \sum_{t-1}^{p} \Delta\, \beta_i RGDP_{t-i} + \sum_{j=0}^{q} \Delta\, \theta_j TF_{t-j} + \sum_{k=0}^{r} \Delta\, \phi_k CORR_{t-k} + \sum_{l=0}^{s} \Delta\, \gamma_i EXR_{t-l} + \sum_{m=0}^{u} \Delta\, \delta_m FDI_{t-m} + \sum_{n=0}^{v} \Delta\, \mu_n (TF * CORR)_{t-n} + \lambda ECM_{t-1} = Eq2$$

Where;

∑βi = Coefficients of lagged differences in RGDP, ∑θj = Coefficients of lagged differences in TF, ∑ϕk = Coefficients of lagged differences in CORR, ∑γl = Coefficients of lagged differences in EXR, ∑δm = Coefficients of lagged differences in FDI, ∑μn = Coefficients of lagged differences in the interaction term TF×CORR, ECM_{t-1} = Error Correction Term lagged by one period; measures speed of adjustment and Λ = Speed of adjustment coefficient toward long-run equilibrium

3. RESULTS AND DISCUSSION

This chapter displays the study's actual findings and explains what they mean in terms of the research goals, theoretical frameworks, and previous application findings. First, the summary statistics and diagnostic tests are examined at. Then, the short-run and long-run dynamics extracted from the ARDL model are shown and expressed about. We also look at how corruption control affects the connection between Islamic finance and growth.

Summary Statistics

The summary statistics results show that real GDP (RGDP) and foreign direct investment (FDI) fluctuates, which is a sign of changes in economic activity and capital inflows. The average value of control of corruption (CORR) is still negative, which shows that there are still problems with governance in Nigeria. The exchange rate (EXR) also exhibits a lot of variation, which is in line with Nigeria's history of exchange rate volatility. Total Islamic financing (TF) doesn't change much, which means it will probably increase slowly. The data show enough variation for econometric analysis.

Table 2. Result of Summary Statistics

Variables	RGDP	CORR	EXR	FDI	TF	INTERM
Mean	17702621	-1.105366	369.7489	257.7937	17.99867	-19.87936
Median	17719335	-1.1000000	306.9200	211.3800	17.61404	-19.87173
Maximum	21773263	-1.040000	1330.760	768.8600	19.84508	-18.04718
Minimum	154386780	-1.280000	155.7300	47.60462	16.24157	-22.22649

Std. Dev.	1472933	0.044242	221.2177	171.9216	0.996260	1.077375
Observations	41	41	41	41	41	41

(Source: "Author's computation using E-views 13")

Stationarity Test

The ADF and PP Unit root tests indicate that the majority of variables exhibit non-stationarity at the level, but achieve stationarity following first differencing, suggesting that they are integrated of order one, I(1). The exception is control of corruption (CORR). The ARDL bounds testing approach is appropriate for analyzing both short-run and long-run relationships, given the mixed order of integration

Table 3. Unit Root Test

Variables	**ADF**		**PP**	
	At level I(0)	First Difference I(1)	At level	First Difference
RGDP	0.4406	-2.0217**	-5.2131***	-10.8459***
LOGTF	0.0929	-2.3881**	-0.0210	-2.8004***
CORR	-3.5716**	-2.8188***	-4.7186***	-2.7829***
EXR	1.6178	2.6145	4.8507	-2.6707***
FDI	-4.3460***	-4.8170***	-4.3995***	-17.0267***

"*significant at 10%; **significant at 5%; significant at 1%. Lag length=4, based on SIC"
(Source: "Author's Computation using E-views")

Determination of Optimal Lag Length

The best lag length was selected at four, using measures such as the "Akaike Information Criterion (AIC) and the Schwarz Criterion (SC)". This lag structure equilibrates model complexity and explanatory efficiency, used in both ARDL and ECM estimations for reliable conclusions.

Table 4. Optimal Lag Length Selection

Lag	**LogL**	**LR**	**FPE**	**AIC**	**SC**	**HQ**
0	-569.5447	NA	1.91+e12	31.1105	31.3717	31.2026
1	-569.5376	0.011624	2.01e+11	31.1641	31.4689	31.2716
2	-552.7487	26.31766	8.60e+11	30.3107	30.6590	30.4335
3	-549.4111	5.051456	7.60e+11	30.1843	30.5762	30.3225
4	-525.9427	34.25116*	2.26e+11*	28.96988*	29.40526*	29.12337*

* Indicates the lag order selected by the criterion. (Source: Author computation based on E-views)

Bounds Test for Cointegration Analysis

The bounds test of cointegration yielded an F-statistic value of 8.60, which is greater than the upper critical value at the 1, 5, 10 percents level of significance. This indicates a long-run equilibrium between the dependent variable (RGDP) and the explanatory variables, such as Islamic financing, Exchange rate, FDI and control of corruption. Hence, it is appropriate to estimate the short-run and long-run dynamics by using the ARDL model.

Table 5. F-Cointegration Test and Bound Test Critical Values

Bound Critical Values			
F-statistics	**Significance level**	**Lower bound**	**Upper bound**

8.603946*	10%	2.331	3.417
	5%	2.804	3.900
	1%	3.900	5.419

*Denotes that the computed Fstatistics is higher than the upper bound values."
(Source: "Author's computation based on E-views 13)

Table 6. Results of Error correction model (ECM) and short-run co-efficient

Variable	Coefficient (×10⁶)	Std. Error (×10⁶)	Prob.
COINTEQ*	-0.936295	0.097048	0.0000
D(RGDP(-1))	-0.237656	0.084217	0.0117
D(RGDP(-2))	-0.486611	0.057524	0.0000
D(RGDP(-3))	-0.741452	0.053851	0.0000
D(CORR)	-85.42463	8575.108	0.3331
D(CORR(-1))	255.0000	103.0000	0.0239
D(CORR(-2))	93.99210	120.0000	0.4399
D(CORR(-3))	443.0000	103.0000	0.0002
D(EXR)	-0.160903	0.653649	0.8085
D(FDI)	-0.252544	0.456796	0.5876
D(FDI(-1))	-0.548979	0.403069	0.1910
D(FDI(-2))	-0.715744	0.306557	0.0321
D(LOGTF)	0.507843	0.536196	0.3568
D(LOGTF(-1))	-1.713036	0.618140	0.0131
D(LOGTF(-2))	-0.455962	0.735093	0.5433
D(LOGTF(-3))	-30.67615	6.804307	0.0001
D(INTERM)	4.529669	0.836946	0.3492
D(INTERM(-1))	-14.88875	5.582805	0.0153
D(INTERM(-2))	-9.738247	6.421880	0.8813
D(INTERM(-3))	-24.30282	6.535396	0.0005

(Source: Author's computation based on E-views 13)

The Error Correction Model (ECM) shows the short-run results. It examines on how changes in the independent variables impact RGDP immediately after they occur. The error correction term's coefficient (−0.936) is negative and statistically significant at the 1% level. This indicates that there is a strong adjustment, the process that returns the system back to equilibrium after a shock. Notably, 93.6% of deviations from the long-run equilibrium are fixed within a quarter.

Some lagged terms of LOGTF (Islamic financing) are statistically significant and have a negative sign. This means that Islamic financing negatively impacts economic growth of Nigeria in the short-run. There may be lag effects because it takes time for financial contracts to turn into real sector investments or because Shariah-compliant enterprises take longer to get off the ground. This result is in line with what Tabash et al. (2022) found: that Islamic finance has no major short-term consequences in Nigeria.

The interaction term (INTERM), which shows the combined effect of Islamic financing and control of corruption, has a negative effect in the short term. This means that even if some success is made in fighting corruption, institutional weaknesses may still make Islamic finance less effective at fostering growth in the short term. Profit- and loss-sharing contracts and other Shariah-compliant financial instruments rely greatly on trust in governance systems, enforcement of contracts, and openness. Without these institutional foundations, these tools may not work as well or may not work

at all (Grassa, 2015; Mollah & Zaman, 2015). Islamic finance also usually puts money into investments in the real sector that take longer to mature, which makes it take even longer to reflect in the GDP (Farahani & Dastan, 2013). This result is in line with the Institutional Economics paradigm (North, 1990), which says that financial systems can only perform well when there are strong formal institutions to back them up. It also backs up the institutional threshold theory (Law & Azman-Saini, 2012), which says that financial development only helps the economy thrive when the quality of institutions is above a particular level. Even if there have been some changes to the way the government works, Nigeria's ongoing problems with institutions make it hard for Islamic finance to help the economy expand in the short or medium term.

Table 7. Long-run ARDL model estimation results Dependent Variable (RGDP)

Variable	Coefficient (×10⁶)	Std. Error (×10⁶)	Prob.
RGDP(-1)	-0.174000	0.09000	0.0802
RGDP(-2)	-0.249000	0.09600	0.0251
RGDP(-3)	-0.255000	0.09600	0.0224
RGDP(-4)	0.741000	0.10100	0.0000
CORR	-8544.263	15000.0	0.5814
CORR(-1)	98.01700	268.000	0.7216
CORR(-2)	-254.0000	301.000	0.4165
CORR(-3)	442.8000	270.000	0.1291
CORR(-4)	-443.0000	171.000	0.0248
EXR	-0.161000	1.70500	0.9265
EXR(-1)	-3.264000	2.71500	0.2545
FDI	-0.253000	0.82700	0.7659
FDI(-1)	-1.673000	0.73100	0.0430
FDI(-2)	-0.167000	0.55700	0.7703
FDI(-3)	0.716000	0.53300	0.2065
LOGTF	5.078000	9.58400	0.6607
LOGTF(-1)	-5.681000	16.8640	0.7426
LOGTF(-2)	12.57300	183.880	0.5083
LOGTF(-3)	-26.11600	169.818	0.1523
LOGTF(-4)	30.67700	112.294	0.0195
INTERM	4.530000	8.31800	0.5969
INTERM(-1)	-57.86200	150.050	0.7071
INTERM(-2)	139.149	164.242	0.4149
INTERM(-3)	-233.290	145.186	0.1364
INTERM(-4)	243.028	96.1320	0.0281
C	-276.000	107.000	0.0259

(Source: Author's computation based on E-views 13)

The fourth lag of the long-run ARDL model in the table 6, shows that Islamic financing (LOGTF) has a positive and statistically significant coefficient. This is an indication that Islamic finance helps the economy grow in the long-run. This backs with the supply-leading concept in financial development theory and is in line with what Hassan et al. (2011) and Farahani and Dastan (2013) found: Islamic financial systems have a big effect on growth.

On the other hand, control of corruption (CORR) is still a significant negative factor for RGDP in the long run. This backs up what Kaufmann and Kraay (2002) and Law and Azman-Saini (2012)

found: that bad governance hurts the economy by making it harder to allocate resources and lowering investor confidence.

The long-run model's interaction term (INTERM) is positive and statistically significant, meaning that Islamic financing boosts economic growth when corruption is reduced. Good governance improves Shariah-compliant finance's contract enforcement, transparency, and risk-sharing (Farahani & Dastan, 2013; Boukhatem & Moussa, 2018). It supports Law and Azman-Saini (2012), who found that money only boosts growth in well-governed nations. Islamic financing boosts growth in low-corruption environments.

It's interesting that FDI has a significant negative coefficient in the long run. This could be because capital flows in Nigeria are not unstable. Foreign investment is frequently short-term and speculative, which causes macroeconomic instability instead of productive investment. This finding is in line with what Joseph et al. (2020) said about the nature of FDI in poor and developing countries.

Diagnostics Tests

Normality Test

The Jarque-Bera statistic (8.50, p = 0.014) shows that the data are not normally distributed. It has significance for small-sample inference that residuals are normal, but it is not as important for large-sample or time-series instances like ARDL. As long as other criteria are met (for example, no autocorrelation and homoscedasticity), the estimators stay accurate and useful.

Table 8. Normality Test

Normality Test	**Value**
Jarque-Bera	8.501483
Probablity	00.014254

(Source: "Author's computation using E-views 13")

Serial Correlation Test

The Breusch-Godfrey test is showing F-statistic of 0.49 (p = 0.63) which denotes that no evidence of serial correlation is seen. It indicates that the model does effectively portray time dynamics, and that it is still possible to make inference basing on standard errors.

Table 9. Serial Correlation T-test

Breusch-Godfrey "serial correlation" Test			
F-statistics	0.494503	Probability of F (2,20)	0.6255
R-squared Obs*	3.663349	Probability of Chi-Square (2)	0.1601

(Source: "Author's computation using E-views 13")

Heteroscedasticity Test

White's test yields an F-statistic of 0.73 (p = 0.75), confirming homoscedasticity. The residual variance is stable, supporting the efficiency of the ARDL estimates.

Table 10. Heteroscedasticity Test Result

Heteroscedasticity test			
F-statistics	0.733078	Prob. F (25,11)	0.7504
R-squared Obs*	23.12198	Prob. Chi-Square (25)	0.5704
Scale explained SS	3.958696	Prob. Chi-Square (25)	1.0000

(Source: "Author's computation using E-views 13")

Stability Test

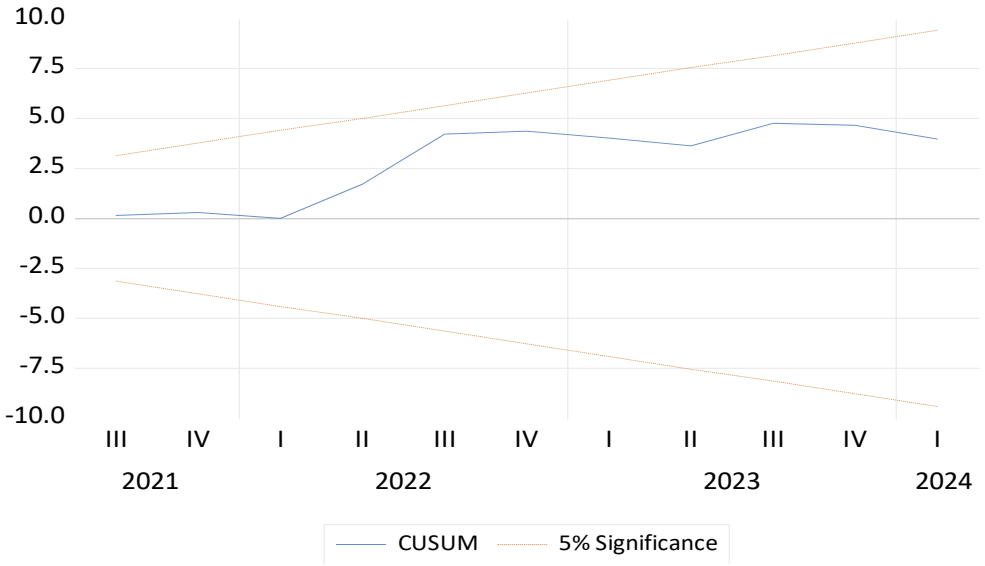

Figure 1: Cusum Test

The graphs of CUSUM test indicate that the cumulative sum line is lying between the 5 confidence intervals. It implies that the coefficients of the model do not change during the study period and thus the study does not demonstrate the instability of the parameters.

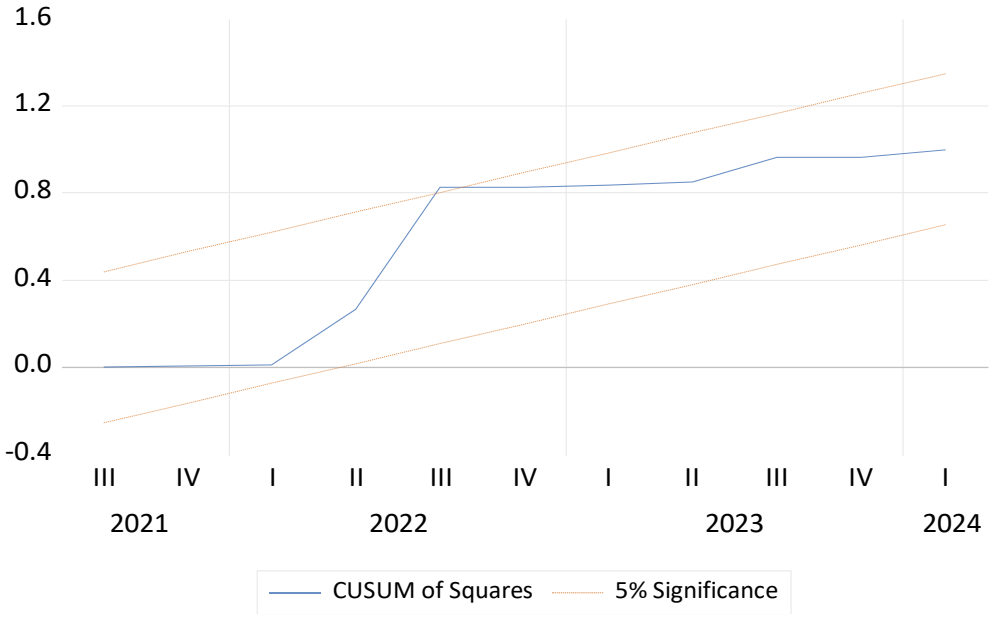

Figure 2: Cusum of Square Test

The plot CUSUMSQ is also located within the necessary limits and, thus, the variance of the residuals is steady. Therefore, ARDL model does not show structural breaks, which further confirms the reliability of the model filled in both short- and long-run inferences.

4. CONCLUSION

This study reveals via empirical evidence that Islamic finance has significant impact on Nigeria's economic growth in the long run, especially when the control of corruption is minimal. Short-term

benefits were shown to be uneven and dependent on lag structures, while long-term results show that Shariah-compliant finance is structurally important for boosting activity in the real sector. The interaction term between Islamic finance and corruption control shows that the quality of institutions makes the growth effect of Islamic financial instruments even stronger. These results show how important Islamic finance is to economies that use both Islamic and conventional banking, especially in emerging countries.

Policy Implications: Policymakers should make laws and rules stronger to promote openness and reduce corruption. This will help Islamic finance work better. Also, raising awareness, getting support from institutions, and creating a financial infrastructure that works for Islamic banking can help it become part of national development goals. Ethical finance could help bring in more money from both foreign and domestic sources, which could lead to more growth for everyone.

Limitation: The study only looked at a small number of quarterly observations (n=41), which may make time series inference less reliable and leave out any outside shocks or structural fractures. Subsequent studies may include the full institutional quality index for better understanding of the role of institutions in the implementation of Islamic finance in Nigeria and its role in economic growth of the country.

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