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Resources Rents, Institutional Quality and Economic Growth in Resource-Based Economies in the Gulf of Guinea: A Panel ARDL Approach

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***Abstract**: The study investigated the relationship between resources rents, institutional quality and economic growth in resource-based economies in the Gulf of Guinea: A Panel ARDL Approach. The study used panel data covering the period from 1993 to 2023 based on data availability. The unit root properties of the variables were evaluated using two cross-sectional unit root tests – cross sectional augmented Im-pesaran-Shin (CIPS) test by Pesaran (2007) and the Levin, Lin & Chu test. The results showed a mixed order of stationarity among the variables. Furthermore, the Westerluud cointegration test was applied to verify the cointegrating relationship among the variables. Evidently, the results revealed the presence of cointegration in the model. Regarding the main analysis, the study applied the Pool Mean Group/panel ADRL model to investigate the long-run and short-run impacts and the main findings of the study indicated that; Natural resource rents has positive and statistically significant effect on economic growth of the selected resource-based economies in Africa in the long-run, while the effect is negative and statistically significant in the short-run. The study therefore, recommends that Government should promote institutional interventions with policies that and encourage good governance in natural resource management to generate more resource rents for long term growth. There should be a careful and discernable effort by government should to diversify the economy by investing in non-oil sectors that has significant and direct bearing on the economy in order to improve the value of gross domestic product.*

***Keywords:** Economic Growth, Institutional Quality, Resource Based Economies and Resources Rents*

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1.0 INTRODUCTION

Natural resource is regarded as an important contributor to global economic activities. Countries that are endowed with abundance of natural resources can have remarkable growth rates or slow growth rates depending on how the proceeds from the resources were channeled and utilized. Under the right circumstances, an increase in natural resource rent can be an important catalyst for growth and the transition to a stronger economy. Indeed, with the right robust policies, natural resources can be used to transformation the host countries from a low-value economy that relies on exports of primary commodities to one with a substantial manufacturing base that can promote long term growth. However, existing experiences across the globe have produced mixed and divergent scenarios, projecting natural resources as both a curse and blessing (Misheck, et. al., 2021).

Some resource-rich countries in other continents were able to transform their economies through efficient utilization of the significant part of the revenues from natural resources to generate wealth and improve economic growth while some in Africa could not. This is indicating a clear and strong negative relationship between a country's shares of total natural resources in GDP. (Uzokwe & Isreal 2020). In most countries in Africa, the expected positive impact of resource endowment remains elusive, despite the huge revenue that accrues in from exports of natural resources. The situation in the continent can best be described as poverty in the midst of plenty or at best a mixed blessings. Rather than living in opulence, natural resource endowed economies of some African countries who are blessed with enormous resources are plagued with fragile economic growth and underdevelopment.

Natural resources represent a mixed blessing for many resource-rich countries, offering immense economic potential while posing other economic challenges. Equatorial Guinea, Gabon and Nigeria stand as quintessential examples, endowed with abundant natural resources ranging from minerals to oil and timber (Hanson, 2024). The management of these resources and their associated rents holds paramount importance in shaping the economic trajectories of these nations. The exploitation of these resources holds immense economic potential, contributing to government revenue, export earnings, and employment opportunities (Mawejje, 2019). However, the effective management of natural resource rents is crucial to ensure that these benefits translate into sustained economic growth and development.

Quality of Institutions of governance plays a pivotal role in ensuring effective transmission of natural resource rents to promote and sustain economic growth (Qiang & Jian, 2020). Strong institutions characterized by transparency, accountability, rule of law, and effective governance mechanisms are essential for ensuring the prudent management and equitable distribution of resource revenues. Also, weak or corrupt institutions may lead to mismanagement, rent-seeking behavior thereby exacerbating the risks of the "resource curse" phenomenon (Berhe, 2020). The mediating role of institutional quality is crucial for formulating effective programmes, policy and laws for the scouting and exploitation of resources to promote long term economic growth. It is on the basis of these that the study intends to investigate the impact of natural resource rents on economic growth in resource-based economies of Equatorial Guinea, Gabon and Nigeria with a particular focus on the mediating role of institutional quality.

The study attempted to provide answers to the following research questions:

i. What impact does Resources Rents has on Economic Growth of the selected economies in the Gulf of Guinea?
ii. How has Institutional Quality impacted on Economic Growth of the selected economies in the Gulf of Guinea?
iii. What impact does the interaction of Resource Rent and Institutional Quality has on Economic Growth of the selected economies in the Gulf of Guinea?

1.1 OBJECTIVES OF THE STUDY

The main objective of the study is to investigate the impact of natural resource rent and institutional quality on economic growth of resource-based economies of, Equatorial Guinea, Gabon, and Nigeria. Specifically, the study seeks to:

1. Examine the extent of the impact of natural resources rents on economic growth of the selected economies in the Gulf of Guinea.
2. Evaluate the extent of the impact of institutional quality on economic growth of the selected economies in the Gulf of Guinea.
3. Ascertain the impact of the interaction of natural resources and institutional quality on economic growth in the selected economies in the Gulf of Guinea.

1.2 RESEARCH HYPOTHESES

The study attempted to test the following hypotheses:

H_0: Natural resource rents has no significant impact on economic growth of the selected economies in the Gulf of Guinea.

H_0: Institutional quality has no significant impact on economic growth of the selected economies in the Gulf of Guinea..

H_0: The interaction of natural resources and institutional quality does not have significant impact on economic growth in the selected economies in the Gulf of Guinea.

2.0 LITERATURE REVIEWS

2.1.1 Theoretical Review

2.1.2 The Resource Curse Theory

The Resource Curse theory, often associated with economists such as Richard Auty and Jeffrey Sachs, (1993) argues that countries rich in natural resources often experience slower economic growth, higher levels of corruption, and increased political instability. This theory suggests that the abundance of natural resources can lead to a phenomenon where countries become overly reliant on their resource sectors, neglecting other sectors of the economy, leading to economic imbalances and stunted development. Additionally, the influx of resource wealth can create

incentives for rent-seeking behavior among political elites, leading to corruption, weak governance, and institutional deficiencies.

In the context of the study on the Impact of Natural Resources Rents on Economic Growth of Equatorial Guinea, Gabon and Nigeria the Resource Curse theory underpins the investigation by providing a theoretical framework to understand the potential effects of resource abundance. The countries under study are rich in natural resources, particularly minerals and oil respectively, yet they have struggled with economic diversification, governance challenges, and underdevelopment. By examining the mediating role of institutional quality, the study aims to explore how the quality of governance institutions can influence the relationship between natural resource rents and economic growth. It suggests that weak institutions may exacerbate the negative impacts of resource abundance, while stronger institutions could mitigate these effects by ensuring more efficient resource management and distribution of benefits.

2.2 Conceptual Review

2.2.1 Natural Resources Rents

Natural resource rents refer to the revenue generated from the extraction and sale of natural resources, such as minerals, oil, gas, forests, and agricultural products, above the cost of production (Fu & Liu, 2023). This surplus revenue is often referred to as economic rent, which is the difference between what it costs to produce a good and the price it can fetch in the market due to its scarcity or inherent value. Asiegbu, Ikeanyibe, Abang, Nwosu and Ugwu (2024) affirmed that natural resource rents can accrue to governments through taxes, royalties, and other forms of revenue-sharing arrangements with extractive industries.

The concept of natural resource rents is crucial in understanding the economic dynamics of resource-rich countries. Auty and Furlonge (2019) suggested that the presence of abundant natural resources can lead to the generation of significant rents, which can have both positive and negative effects on the economy. On the positive side, natural resource rents can provide substantial revenue streams for governments, which can be used to finance public services, infrastructure development, and social welfare programs. Moreover, they can contribute to foreign exchange earnings, spur investment in related industries, and stimulate economic growth (Sahu, 2021).

However, natural resource rents also pose challenges, particularly in resource-dependent economies. Charles (2020) said that the over-reliance on resource rents can lead to economic distortions, known as the "resource curse," where countries become vulnerable to commodity price fluctuations, experience slower economic diversification, and suffer from governance issues such as corruption and rent-seeking behavior. Moreover, the mismanagement of resource rents can exacerbate income inequality and hinder sustainable development efforts.

2.2.2 Economic Growth

Economic growth is a fundamental concept in economics that refers to the increase in a nation's production of goods and services over time (Stern, 2019). It is commonly measured by the growth rate of a country's Gross Domestic Product (GDP), which reflects the total value of all goods and

services produced within its borders within a specific period, typically a year. Economic growth is essential for improving living standards, reducing poverty, and enhancing overall prosperity within a society.

2.2.3 Institutional Quality

Institutional quality refers to the effectiveness, efficiency, and integrity of a country's institutions, including its legal, regulatory, and governance frameworks (Abubakar, 2020). These institutions form the foundation of a society's economic and political systems and play a crucial role in shaping its social, economic, and political outcomes. Muriu, (2020) maintained that high-quality institutions are characterized by attributes such as transparency, accountability, rule of law, property rights protection, and absence of corruption. They provide a conducive environment for economic activities, investment, innovation, and societal well-being.

Good institutional quality is essential for fostering economic development and growth. Lashitew (2021) maintain that transparent and accountable governance institutions help to reduce uncertainty and risk for investors, facilitating business activities and promoting entrepreneurship. Strong property rights protection ensures that individuals and businesses have the security to invest in assets and engage in productive activities without fear of expropriation or arbitrary interference. Additionally, effective regulatory frameworks and rule of law promote fair competition, consumer protection, and efficient resource allocation, leading to higher levels of productivity and competitiveness in the economy (Brown & Marsden, 2023).

2.2.4 Impact of Natural Resources Rents on Economic Growth

The impact of natural resources rents on economic growth is a topic of significant interest and debate in the field of economics. Moti (2019) supported that the abundant natural resources hold the potential to fuel economic development and prosperity, they can also present challenges that may hinder long-term growth. The influx of revenues from natural resource extraction can initially stimulate economic activity, leading to increased investment, job creation, and government revenue. However, reliance on resource rents can create economic distortions, such as currency appreciation and Dutch Disease effects, which may weaken other sectors of the economy, such as manufacturing and agriculture (Charles, 2020). Moreover, the volatility of commodity prices can expose resource-dependent economies to external shocks, leading to economic instability and uncertainty, which can impede sustained growth over time.

2.2.5 Impact of Institutional Quality on Natural Resources Rents

The impact of institutional quality on natural resources rents is profound and multifaceted. High-quality institutions characterized by transparency, accountability, and the rule of law are crucial for ensuring that natural resource rents are effectively managed and allocated for the benefit of society (Adebanjo & Adeoye, 2022). Strong governance institutions help to prevent corruption, rent-seeking behavior, and mismanagement of resources, ensuring that revenues from natural resource extraction are used efficiently and equitably to promote sustainable development. Moreover, institutions that protect property rights and enforce contracts provide investors with the confidence and security needed to engage in productive activities, leading to increased investment and economic diversification beyond the resource sector.

2.2.6 Impact of Institutional Quality on Economic Growth

The impact of institutional quality on economic growth is profound and far-reaching (Knox, 2019). High-quality institutions, characterized by transparency, accountability, and the rule of law, provide a conducive environment for economic activities to thrive. Effective governance institutions ensure fair competition, protect property rights, and enforce contracts, which encourages investment, innovation, and entrepreneurship. Schmidt and Wagner (2019) spotted transparent and accountable governance mechanisms reduce uncertainty and transaction costs, fostering confidence among investors and stimulating economic activity. Additionally, strong institutional frameworks promote efficient resource allocation and mitigate the risks of corruption and rent-seeking behavior, which can hinder productivity and impede long-term growth prospects.

3.1 METHODOLOGY

This study adopts the causal research design also known as explanatory research design. This type of research design essentially involves the assessment of cause-and-effect relationship among variables (Kothari, 2004). It focuses on the analysis of a situation or a specific problem in explaining the patterns of relationships among variables of interest. This study employs a panel regression analysis in other to conduct a cross country analysis of the impact of natural resource endowment on economic growth, accounting for the role of institutional quality as a transmission mechanism in the selected resource-based economies of Angola, DR Congo and Nigeria. The motivation for the use of panel regression analysis was based on its ability to exploit both the time series and cross-sectional dimensions of the data, which proved to provide efficient estimations of parameters by considering wider sources of variations as it is the case with this study.

The data for this study is a panel or longitudinal data which is a secondary type of data from 1993 to 2023 for all the variables in this study. Secondary sources are often more readily accessible and must have undergone background work of reliability and validity tests. Also, the rationale for selecting this period was based on availability of data, the growth in the sector and democracy within the period in the selected economies in the Gulf of Guinea. Economic growth, as the dependent variable, is proxied by RGDP (measured at constant basic prices) as adopted from Timothy, Adoo and Victor (2020); natural resource endowment (NR) is proxied by revenue from oil and gas, institutional quality (INS) will be measured using corruption index, rule of law, government effectiveness via a principal component analysis. The data for the variables will be sourced from the World Bank Databases. Specifically, the data on RGDP, NR will be obtained from the World Development Indictors database, and the data on INS will be sourced from Worldwide Governance Indicators for the period under study. The World Bank Global Governance Indicators (WGI) have been used by several scholars such as Abubakar, (2020), Kuncic (2013), and Fabro and Aixalá (2013).

The model for the study was adapted which follows the specification of Jalloh (2013) with modifications by replacing corruption with institutional quality index. This is because institutional quality include corruption and other good governance indicators such as rule of law and effective regulatory control which make it more encompassing and robust. This was supported by the

development of World Bank Global Governance Indicators (WGI) on institutional quality and good governance, which is in use by scholars and organizations. This modified model can also be adopted and be used in subsequent studies.

The functional form of the model is stated as;

RGDP= f(NR,INS)---------- (1)

Where:

$RGDP$ is real gross domestic product (economic growth)

NR is a measure of Natural Resource Rent in terms of revenue from oil and gas

INS is institutional quality indicators

Accounting for the interactive term (NR*INS) to check the effect of institutional quality as a transmission mechanism, or as the mediating role of institutional quality, the stochastic or explicit form of the panel regression model is specified as;

$$RGDP_{it} = \alpha + \beta_1 NR_{it} + \beta_2 INS_{it} + \beta_3 (NR_{it} * INS_{it}) + \varepsilon_{it} \text{---------- (2)}$$

Where:

(NR*INS) is the interactive term, and the other variables remain as defined above.

α is the constant or intercept term.

β_1 – β3 are the parameter estimates and ε is the error or disturbance term.

i is the cross-sections (number of countries) and *t* is the number of years.

The study used Panel ARDL to test the study objectives. Panel ARDL is an econometric model that combines autoregressive and distributed lag models for panel data. This model is used to analyse the dynamic relationship between variables, taking into account both short-run and long-run effects in a panel (cross-sectional and time-series) dataset. It considers both cross-sectional (variation across units or individuals) and time-series (variation over time) dimensions simultaneously. This helps to capture individual-specific effects and time-specific trends, providing a comprehensive analysis (Emeka & Aham, 2016).

4.1 RESULTS AND DISCUSSIONS

The empirical estimation starts with the assessment of the descriptive properties of the variables followed by the examination of the unit root properties, and then the cross-sectional dependence of the variables used in the study. Further, the study evaluated the cointegrating relationship among the variables, and the actual ARDL model estimation to examine the long-run and short-run impact.

4.1.1 Descriptive Statistics

Table 1 presents results of the descriptive statistics on the study variables.

Table 1: Descriptive Statistics of the Study Variables

	RGDP	NR	INQ	REN
Mean	24.13235	2.555153	-0.144509	4.025676
Median	23.76394	2.979430	0.036938	4.400171
Maximum	27.00616	4.419922	5.078320	4.588431
Minimum	19.36563	-1.181807	-4.622300	1.302913
Std. Dev.	1.534057	1.348881	2.009931	0.881441
Skewness	-0.149788	-1.046621	0.030670	-2.048079
Kurtosis	3.602980	3.109391	2.430484	5.642642
Jarque-Bera	2.833320	27.46019	2.050693	148.5130
Probability	0.242523	0.000001	0.358672	0.000000
Sum	3619.852	383.2730	-21.67631	603.8514
Sum Sq. Dev.	350.6464	271.1023	601.9338	115.7637
Observations	150	150	150	150

Evident from the table 1, is that RGDP as a measure of economic growth had the highest mean value, followed by REN, then NR and INQ. All the variables have moderate standard deviation of less than three which suggest that the absence of outliers. Rather, the data can be said to cluster around the mean. Both the skewedness and the kurtosis with the corresponding Jague Bera showed that two of the variables are normally distributed. However, this finding did not affect the main analysis given that normality is not a problem of panel data studies.

The unit root properties of the variables were evaluated using two cross-sectional unit root tests – cross sectional augmented Im-pesaran-Shin (CIPS) test by Pesaran (2007) and the Levin, Lin & Chu test. The results showed a mixed order of stationarity among the variables. Furthermore, the Westerluud cointegration test was applied to verify the cointegrating relationship among the variables. Evidently, the results revealed the presence of cointegration in the model. Regarding the main analysis, the study applied the Pool Mean Group/panel ADRL model to investigate the long-run and short-run impacts and the main findings of the study are as follows:

4.1.2 Long-Run and Short-Run Impact of Natural Resource Rent and Institutional Quality on Economic Growth of Equatorial Guinea, Gabon, and Nigeria

To properly capture the long-run and short-run impact of the independent variables (NR, INQ and NR*INQ) on the dependent variable (RGDP), the study estimated the PMG/ARDL panel technique, and the results are shown in Table 5.

Table 5: Long-Run and Short-Run Impact of natural resources rents, institutional quality, renewable energy and the interaction of natural resources and institutional quality on economic growth

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
	Long Run Impact			
NR	5.672942	0.366065	15.49711	0.0000
INQ	-5.586817	1.467975	-3.805798	0.0002
NRINQ	1.567633	0.425162	3.687146	0.0003
	Short Run Impact			
D(NR)	-0.026324	0.004583	-5.743415	0.0000
D(INQ)	0.068697	0.068488	1.003047	0.3178
D(NRINQ)	-0.020725	0.020859	-0.993581	0.3224
ECM(-1)	-0.011308	0.004665	-2.424009	0.0027

Source: Author's computation using Eviews 12 output

The results showed that natural resources rents (NR), the interaction term of natural resource rent and institutional quality (NRINQ) have positive and statistically significant impact on economic growth in the long-run among the selected countries. For the NRINQ, the coefficient of 1.567633 indicates that the interaction between natural resource rent and institutional quality positively affects economic growth. The positive interaction suggests that improving institutional quality can enhance the economic benefits derived from natural resource rents. Effective management of natural resource revenues, coupled with high institutional quality, can lead to sustainable economic growth. This can involve transparent governance, reducing corruption, and ensuring that resource rents are invested in long-term development projects.

The findings highlight the importance of a balanced approach where both natural resources and institutional frameworks are developed in tandem to achieve optimal economic outcomes. This finding also resonate with the resource curse theory which suggests that resource-rich countries often experience slower growth due to poor governance and corruption. Improving institutional quality can mitigate these negative effects, allowing resource rents to contribute positively to growth. This findings aligned with the findings of Torben, et al. (2013), Talassa, et al. (2021) and Bensola et al (2021) who showed that natural resource rents improves economic performances. Similarly, the short-run findings agreed with the studies of Yahuza, et al. (2022) and Cyriaque et al. (2021) and Elyas, (2019), Sukvisan, (2017), Oluwomi, et. al (2018) which indicated a slow growth due to natural resources rent and as well provided evidence in support of the existence of resource curse or Dutch disease.

Pertaining to the long-run negative impact of institutional quality as a standalone variable on economic growth, the coefficient of -5.586817 suggests that negative relationship exist between

the variables. That is counterintuitive, as higher institutional quality is generally expected to foster growth. The negative relationship might be related to the "resource curse," where resource wealth leads to poor economic outcomes due to factors like corruption and rent-seeking. Improving institutions could initially expose and disrupt these practices, leading to short-term economic downturns. More so, improving institutional quality might initially disrupt existing economic activities and entrenched interests in resource-rich countries, leading to a temporary decline in growth. Over time, the economy might adjust, and the long-term benefits of better institutions could become apparent. However, these effects may not be strong enough to be statistically significant within a short timeframe. Indeed, the negative and statistically significant long-term effect of institutional quality on economic growth, contrasted with the positive but insignificant short-term effect, highlights the complex and transitional nature of institutional reform in resource-based economies in Africa. While initial reforms may generate optimism and small positive effects, the significant adjustments and disruptions associated with long-term institutional improvements may slow economic growth before sustainable benefits can be experienced. This finding is inconsistent with the findings of Puruwate (2017), Wafila and Samuel (2021), Moga and Jelinga (2017), Kas (2019) and Marie (2010) who in their separate studies found significant positive impacts of institutional quality on economic growth.

Concerning INQ, the results showed a positive but statistically not significant impact on economic growth in the short-run. The short-run negative impacts of natural resource rent and the interaction between natural resource rent and institutional quality on economic growth in oil-rich countries highlight the complexities of managing resource wealth. For the natural resource rent, the phenomenon suggests that countries rich in natural resources, especially oil, often experience slower economic growth due to factors like corruption, rent-seeking, and economic mismanagement. Large inflows of resource rents can increase opportunities for corruption, leading to inefficiency and misuse of resources. Similarly, an over-reliance on resource extraction can lead to an appreciation of the local currency, making other export sectors less competitive.

More so, the dependence on resource rents exposes the economy to global commodity price fluctuations, leading to economic instability. However, these effects may not be strong enough to be statistically significant within a short timeframe. Indeed, the negative and statistically significant long-term effect of institutional quality on economic growth, contrasted with the positive but insignificant short-term effect, highlights the complex and transitional nature of institutional reform in resource-based economies in Africa. This finding is inconsistent with the findings of Puruwate (2017), Wafila and Samuel (2021), Moga and Jelinga (2017), Kas (2019) who in their separate studies found significant positive impacts of institutional quality on economic growth.

5.0 Conclusion and Recommendations

From the findings the study conclude that the positive impact of the interaction between natural resource rent and institutional quality on economic growth in resource-based economies can be justified the significant role that strong institutions play in managing resource wealth effectively. By improving governance, transparency, and regulatory quality, these countries can mitigate the adverse effects of the resource curse, promote economic diversification, and ensure that oil revenues contribute to sustainable and inclusive economic growth. These improvements can

create a virtuous cycle where enhanced institutional quality leads to better resource management, which in turn supports further economic development

The study recommends that it is imperative for governments to improve transparency, accountability and encourage good governance in mineral management to stifle embezzlement of mineral resource rents. Also, Government should promote institutional interventions with policies that and encourage good governance in natural resource management to generate more resource rents for long term growth. There should be a careful and discernable effort by government should to diversify the economy by investing in non-oil sectors that has significant and direct bearing on the economy in order to improve the value of gross domestic product.

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