

Economic Growth and Governance Challenges in Ghana: Insights from Tax Revenue, Foreign Direct Investment, Institutional Quality, and Corruption

Joseph Kofi Mensah^{1*}; David Kwashie Garr²; David Mensah Awadzie³

¹*Department of Business Administration, Accra Institute of Technology (AIT), Accra, Ghana.*

²*School of Business, Presbyterian University, Abetifi, Accra, Ghana.*

³*Wisconsin International University College (WIUC), Accra, Ghana.*

*Corresponding Author's Email: jomessacca@gmail.com

Abstract

The combination of external, governance and fiscal factors influence the economic growth of developing economies. The study examined economic growth in Ghana over the period 2000 to 2023 by analysing the relationship between various factors, such as tax revenue, institutional quality, corruption, and foreign direct investment (FDI). The integrated perspective on growth dynamic was provided by a quantitative time-series approach adopted by the study. The study's findings suggest that the negative long-run relationship between economic growth and both tax revenue and FDI is revealed. The findings suggest that increased financial resources do not automatically lead to improved economic performance. The country's economic growth was shaped by governance conditions linked to corruption and institutional quality. The weak institutions and persistent corruption limited the effectiveness of foreign investment and fiscal policy. The unified analysis of governance and economic factors influencing economic growth contributed to the development of the literature on the topic. The deeper insights of the study were provided by the integration of FDI, institutional quality, corruption, and taxation within a single framework, which provides determinants for sustainable economic growth.

Keywords: Economic Growth; Tax Revenue; Foreign Direct Investment; Institutional Quality; Corruption.

How to Cite: Mensah, J. K., Garr, D. K., & Awadzie, D. M. (2026). Economic Growth and Governance Challenges in Ghana: Insights from Tax Revenue, Foreign Direct Investment, Institutional Quality, and Corruption. *African Journal of Accounting and Financial Research*, 9(3), 151–170. <https://doi.org/10.52589/AJAFR-ZQKFCB>

INTRODUCTION

The existence of poor infrastructure, unemployment, limited resources, and low industrial development are major factors affecting the economic growth of developing countries, especially in sub-Saharan Africa. Additionally, the country's development was affected by governance issues, including political instability, weak leadership, and ineffective government policies. The overall growth and development of the country were severely impacted by economic and governance challenges (Omar Bakar et al., 2022). Over the last twenty years, the economic growth of the country from 2000 to 2010 faced challenges in assuring the steady progress of the country due to the existence of exposure to external shocks, fluctuations in output, and internal structural limitations impacts the long-term sustainability of Ghana (Yussif et al., 2024).

Moreover, the country's economic growth and progress improved by focusing on economic development and understanding the major roles of domestic and external financial drivers. The enhancement of infrastructure, development of strong institutions, and public services such as education and healthcare depend on the major role played by tax revenue in the country. The country's long-term development objectives and consistent economic stability were supported by an efficient and well-managed tax system (Judijanto et al., 2025). The development of developing countries depends on foreign direct investment (FDI), which is considered a main source of capital flows, particularly for economies facing challenges with domestic savings. The country's overall economic growth and development were supported by FDI, which helped improve productivity, create employment opportunities, and increase business efficiency (Qasim & Su, 2022).

The achievement of country enhancement through tax revenue, FDI, and economic growth remains far from conclusive in real-time scenarios but is assured by theoretical analysis. Economy's growth was promoted by focusing more on tax revenue, as supported by the evidence. In contrast, economic activities were slowed down by the implementation of an inefficient tax system in the country, which discourages investments and reduces economic activity (Balasoiu et al., 2023).

Recently, the country's economic performance has depended more on focusing on governance-related factors predicated by researchers and policymakers. The reduction of corruption and the development of institutional quality are the major factors focused for enhancing the country (Atuahene& Xusheng, 2024). The country's economic policies and financial resources were shaped by the major role played by institutional quality and the prevention of corruption, which help promote economic growth. The effective enhancement of the country depends on strong institutional and low corruption. The benefits derived from both foreign investment and domestic financial resources were affected by the presence of weak institutions, which caused challenges in the effective implementation of policies. The cost of doing business was reduced, as corruption reduced people's trust in the government and public institutions (Abaidoo & Agyapong, 2023).

The governance of the system and institutions in Ghana faces challenges. The quality of the institutions was initially considered strong but later became weak and continued to change over time (Andrijevic et al., 2020). The efficient use of tax revenue by the country was impacted in Ghana by the existence of corruption, which affects the enhancement of FDI. The consideration of governance-related factors plays a major role in providing a complete understanding of economic growth (Labidi et al., 2024).

In various ways, the existence of a relationship between tax revenue, FDI, and foreign growth was supported by the analysis of earlier studies. In contrast, the limited analytical approaches used by previous studies in analysing the relationship between various major financial factors. The direct influence of the tax system on economic growth was considered as major focus of few researchers. In a very limited manner, few studies focus on governance-related variables. The existing research did not provide a comprehensive understanding of how FDI, tax revenue, and governance factors interact to influence economic growth (Gurdal et al., 2021). The influence of economic growth, FDI, fiscal capacity, and governance conditions was analysed separately by previous studies, producing separate and disconnected findings.

A more comprehensive understanding of the study was provided by addressing the existence of gaps in the analysis of FDI, tax revenue, and institutional quality. The different economic factors, such as tax revenue, institutional factors like governance quality, FDI, and corruption, were analysed by the researchers using an integrated approach to influence the economic outcome and country development (Gurdal et al., 2021). Economic development in Ghana was influenced by the examination of various variables separately, such as FDI, tax revenue, corruption, and governance. The deeper insights of the study were provided by the adoption of an integrated approach, which helps achieve stable and long-term economic growth (Boamah et al., 2020).

Against this background, the present study investigates the interaction between tax revenue, FDI and other variables such as institutional quality, corruption and economic growth on Ghana for the period between 2000 to 2023. The aim of the study is to uncover their combined effects on the economic performance, rather than considering isolating effects. In doing so, this study offers a more complete and holistic approach to the analysis of growth dynamics, and helps bridge the gap in what is currently known about this topic in the literature.

This study is significant as it combines multiple strands in the literature into a one analytical framework. The study integrates insights on fiscal capacity, external investment and governance, and offers insights that are closer to the real complexity in economic issues. Moreover, the results have policy implications especially in making institutional frameworks stronger, as well as creating more efficient tax systems and improving the developmental effects of foreign investment. The study also contributes towards the formulation of more effective strategies to promote sustainable economic growth in Ghana.

LITERATURE REVIEW

Tax Revenue, Foreign Direct Investment, and Economic Growth

Both theories and real-world research help provide valuable information by analysing the existence of a connection between economic growth and tax revenue, as predicted by the economist. The proper functioning of modern economics depends on the theory of taxation, which helps the government retain funds, in turn enhancing transportation, security, infrastructure, and public goods and services in the country. Government-supported economic activities contribute to the country's economic growth and development (Sekianti & Nuraini, 2025). The importance of government spending in the country was explored using Classical and Keynesian perspectives, which support the growth of the economy. The assurance of enhanced human capital was confirmed, with the government focusing on education, healthcare, and infrastructure, predicated on the analysis of perspectives. Long-term economic development and productivity were improved by enhanced infrastructure, education, skill

development, and healthcare in the country. The development of the county needs to focus mainly on tax revenue, which helps the government collect taxes efficiently and use them properly (Arestis et al., 2021).

The growth impact of taxation, however is not always positive. Excessive taxation, according to some theories, can lead to a distortion of economic incentives, a reduction in both financial investment and labor supply. High taxes might constrain the growth of the private sector due to the cost of doing business and the decline of profits. Furthermore, poor tax design, due to particular administrative flaws, inequity or complexity can cause tax evasion and reduced compliance. It is important to note here that the relationship between taxes and growth depends on the design, the efficiency and the regime for tax collection (Rumasukun & Noch, 2023).

Given the consideration of various countries and the existence of situations, the relationship between economic growth and tax revenue is not consistent, predicated, or assured by empirical evidence. Countries with strong institutional frameworks were associated with higher tax revenue and higher economic growth, as predicted by some studies. The infrastructure development, education, and health services in the country were supported by tax revenue, which contributed to enhanced productivity and economic expansion. The overall economic growth and development of the country were assured by investment, which helps enhance productivity and supports business (Erdoğan et al., 2020).

In contrast, a few studies suggest that taxation can lead to negative economic outcomes and limited economic growth. The effectiveness of fiscal policies impacts the governance problem, corruption, and weak institutions. Moreover, the use of tax revenue was not properly utilised with the existence of governance problems in the country reduces the benefits provided by the tax revenue. The country's overall economic conditions and institutional environment (Islam et al., 2024).

In developing countries, economic growth was affected by FDI. Domestic investment, including FDI, helps support the country's economic development. The implementation of new technology, innovation, and knowledge into the county was achieved through FDI, which helped improve productivity and was predicated on theories such as endogenous growth theory. The advanced technologies invented by foreign multinational companies help to provide better management skills and connection to global markets (Ciftci & Durusu-Ciftci, 2022).

The development of human capital and the creation of more employment opportunities in the country were considered major benefits of FDI. The long-term economic development of the country was assured by the creation of jobs, and providing training opportunities helps enhance the skills of the local workforce. The development of supporting industries was sustained by FDI inflows, which stimulated domestic investment and created linkages with local firms (Henok & Kaulihowa, 2022).

The empirical relationship between FDI and economic growth helps to provide potential economic growth, but extent to which it remains ambiguous. The existence of a positive association between economic growth and FDI was supported by analyses of additional studies. In contrast, some studies find that the implementation of FDI weakens economic growth. The ability of the host country helps determine the impact of FDI in the country. The country supported by strong institutions, good infrastructure, and skilled human resources helps in the enhancement of FDI, which produces a positive impact on the country's economic growth.

Nevertheless, countries with limited technological capacity may be unable to fully benefit from

FDI, thereby reducing its overall contribution to broad-based and sustainable economic growth (Akisik & Mangaliso, 2020). Given various situations, the use of FDI produced a negative effect. Most home countries receive benefits from multinational companies, rather than the host country, reducing the actual financial benefit to the host country. The local business was negatively impacted by strong competition from foreign companies, which affects the growth of domestic enterprises. The environmental damage to the country was caused by certain foreign investment, which impacted the sustainable development of the country. In the context of economics, society, and institutions, the existence of complexities needs to be highlighted (Yimer, 2023).

The country's economic growth faces challenges due to the relationship between FDI and tax revenue was impacted by the existence of corruption. The foreign investors were strongly influenced by government tax policies, which deterred foreign investment in the country. To attract FDI, many governments offer lower tax rates. The amount of tax revenue collected by the government was impacted by the improper implementation of policies, which creates a conflict between foreign investment and maintaining stable government finances. Government revenue increased as higher FDI led corporations to pay corporate taxes and generate additional economic activity that contributed to the tax base (Euler et al., 2024).

The existence of a relationship between FDI, tax revenue, and economic growth plays a major role in developing countries like Ghana. To attract foreign investment and promote the country's economic growth, Ghana focuses on introducing various kinds of policies and reforms. The outcome of implementing various tax reforms by the government of Ghana was unable to produce continuous positive results; at times, it either increased or decreased government revenue and FDI, depending on the situation (Kamasa et al., 2025).

Institutional Quality and Corruption in Growth Dynamics

The country's economic development and growth were influenced by institutional quality. The occurrence of economic activities depends on institutions such as regulatory bodies, the legal system, and governments. Effective governance, transparency, and accountability were assured in the country through the adoption of strong institutions. The stable and practical business environment in the country is assured by strong institutions, which help enhance smooth market operations, investor confidence, and the efficient use of resources (Singh & Pradhan, 2022).

The effectiveness of economic policies is influenced by the principles of institutional economics and, in turn, by the quality of a country's institutions. The credibility of government policies was improved by good governance and strong institutions, which help enhance the confidence of foreign and domestic investors. The country's economic growth and investment were supported by strong institutions. In contrast, the country's economic performance was affected by weak institutions, increased transaction costs, and lower investor trust (Ogbonna et al., 2022).

The country's economic development and growth were severely impacted by corruption. The trust in government and institutions was affected by the improper use of resources and reduced efficiency. Public expenditure was distorted by corruption, leading to unproductive, self-serving activities rather than focusing on the development of infrastructure, education, and healthcare. Government spending became less effective, and the contribution to the country's economic growth was reduced (Spyromitros & Panagiotidis, 2022).

The government's ability to collect revenue was weakened by corruption, which encouraged

tax evasion and reduced taxpayer compliance. The positive impact of FDI was reduced as corruption increased, increasing uncertainty among investors and business costs. The less efficient investment decisions were taken due to the high level of corruption, which limits the country's economic growth by reducing the benefits of FDI (Khaltar, 2024).

A complex and highly interconnected relationship exists between economic growth, corruption, and institutional quality. The negative impact of corruption was reduced by strong institutions that help promote accountability, transparency, and effective governance. The country's economy was severely harmed by corruption. The country's economic performance was influenced by two major factors such as institutional quality and corruption. The quality of the governance and institutional environment helps to evaluate the ability of tax revenue and FDI (Ozegbe & Kelikume, 2022).

The country's economic performance was shaped mainly by governance factors, as empirical research provides strong evidence. The long-term economic growth and stability of the country were assured by countries with lower corruption and institutional quality (Xu et al., 2021). The poor economic diversification and inefficient public expenditure were mainly caused by countries with weak governance and high corruption. Moreover, each country unique political environment and economic situation help determine the influence of governance factors (Ibrahim, 2021). Over time, the institutional quality and corruption in Ghana changed over time. To strengthen the governance system and reduce corruption, the government of the country took steps to prevent it, but progress was not consistent (Asamoah, 2021).

Theoretical and Conceptual Framework

This study is theoretically grounded in Taxation Theory and Endogenous Growth Theory, which provide complementary explanations for the relationships examined in the study. Taxation Theory provides the basis for understanding how tax revenue mobilisation and the associated allocation of public resources can influence economic activity and growth. Endogenous Growth Theory explains how investment and capital accumulation, including FDI, can contribute to economic growth through productivity enhancement, knowledge transfer, and other growth-enhancing mechanisms.

The conceptual framework integrates these theoretical perspectives with the governance dimensions of corruption and institutional quality. Tax revenue and FDI constitute the two independent variables, while economic growth represents the dependent variable. Corruption and institutional quality are incorporated as moderating variables, reflecting the possibility that governance conditions may influence the strength and direction of the relationships between tax revenue, FDI, and economic growth.

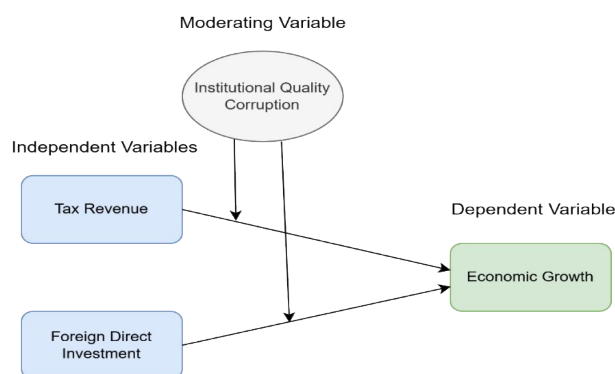


Figure 1: Conceptual Framework (Source: The Author, 2026)

Figure 1 presents the proposed relationships among the five study variables. Tax revenue and FDI are expected to influence economic growth, while corruption and institutional quality may condition these relationships. The framework therefore provides the conceptual basis for empirically examining how fiscal resources and foreign investment interact with governance conditions to shape economic growth in Ghana.

Research Gap

Most research adopting the fragmented approach, predicated on the analysis of existing literature on economic growth, creates a major gap by focusing on individual determinants rather than combined factors. The role of FDI considered by the studies does not focus on analysing tax revenue and growth. Moreover, a few studies focus more on the domestic fiscal system without considering the role of FDI (Smidt & Jokonya, 2022).

The existence of capturing complex interactions integrated with the real-world economic system was affected by the adoption of a fragmented approach in previous studies. Multiple factors impact the economic growth and dynamically interact with one another. The complete understanding of various factors related to the economic system, such as tax revenue, FDI, institutional quality, and corruption were not provided by the examination of factors independently (Nguyen& Liu, 2023).

The understanding of the full complexity of growth dynamics was addressed through the adoption of an integrated analytical framework. The influence of multiple variables interacting to influence economic outcomes was accurately predicted by an integrated analytical framework that helped provide a more comprehensive and realistic perspective (Rabbi, 2025). The need to implement the integrated perspective was considered mandatory in the case of Ghana. The combination of domestic policies, external factors, and governance conditions helps shape the country's economic performance. The valuable insights into economic growth were provided by the analysis of previous studies; however, the lack of a comprehensive analysis creates a gap that needs to be addressed by considering multiple determinants simultaneously (Bukari et al., 2025).

The combined influence of tax revenue, institutional quality, FDI, and corruption on economic growth within a unified framework is examined to address the existence of a gap in the study. The fragmented approach was framed in the study by integrating these variables into a single analysis, which helps provide a more holistic understanding of growth dynamics.

METHODOLOGY

Research Design and Data

This study adopts a quantitative time-series research design to examine the relationships between tax revenue, FDI, institutional quality, corruption, and economic growth. The quantitative approach is appropriate since the analysis relies on numerical macroeconomic indicators observed over time and aims to identify both statistical relationships and dynamic interactions among variables. A time-series design is particularly suitable for capturing temporal variations in economic performance and governance conditions, allowing for a deeper understanding of how these factors evolve and influence growth within a specific national context.

The study focused on a comprehensive understanding of Ghana's economic and institutional developments over more than 20 years, from 2000 to 2023. The occurrence of important structural changes, such as economic reforms, changes in governance conditions, and variations in FDI, is captured by choosing the time period 2000 to 2023. The consistency of analysis was assured by the use of annual data, which helps identify both long-term development trends and short-term economic fluctuations.

For all the variables included in the analysis, the data used are secondary. The World Bank and the International Monetary Fund (IMF) are considered major sources of data on economic growth, tax revenue, and FDI, which help ensure the reliability of the information used in the study. The detailed country-specific information related to Ghana was retrieved from the Ghana Statistical Service (GSS) and the Ghana Investment Promotion Centre (GIPC). The study cross-checks information from multiple sources, which helps assure data accuracy and consistency and reduces measurement discrepancies.

Variables and Measurement

The five important variables commonly used in empirical economic growth research were analysed by the study. The annual percentage growth rate of gross domestic product (GDP) was measured to help represent the overall expansion and performance of the economy. The main outcome of the study was examined using an economic growth variable. The government's ability to generate domestic financial resources, as represented by tax revenue, helps evaluate the percentage of GDP. The promotion of economic growth and stability was assured by measuring the insights into fiscal capacity and the role of taxation.

The net flow was represented by using FDI to express the percentage of GDP, which predicated the amount of foreign capital entering the economy. The contribution of external investment to economic activities was explored using the FDI variable, considered a major indicator of a country's level of international economic integration. The composite governance index was used to measure the Institutional quality, considering various dimensions such as government effectiveness, rule of law, and regulatory quality. The efficiency, strength, and effectiveness of public institutions in supporting economic activities were measured by FDI and institutional quality.

The Corruption Perceptions Index (CPI) was used to evaluate corruption in the public sector. The lower level of corruption in the country was represented by a higher CPI value. The transparency in governance was assured by a higher CPI value. Institutional effectiveness and governance quality were measured using the widely used CPI. The standardized format was used to assure

Econometric Model and Estimation Strategy

The multivariate time-series framework was used to examine the relationship between the variables used in the study, which helps capture short-run dynamics and long-run equilibrium. Various factors, such as tax revenue, FDI, institutional quality, and corruption, that impact the country's economic growth are examined together in the study rather than examined separately.

Given the time-series nature of the data, the analysis begins with testing for stationarity using the Augmented Dickey–Fuller (ADF) test. Stationarity is an important requirement for time-series analysis, as non-stationary variables may lead to misleading or spurious results. The

ADF test is used to determine the order of integration of each variable, ensuring that appropriate econometric techniques are applied.

Following the stationarity analysis, the Johansen cointegration test is conducted to examine the existence of long-run relationships among the study variables (GDP, tax revenue, FDI, institutional quality, and corruption). Cointegration indicates that, despite short-term fluctuations, the variables move together over time, reflecting a stable equilibrium relationship. The presence of cointegration justifies the use of advanced econometric models that can capture both long-term and short-term dynamics. The primary estimation technique used in the study was the Vector Error Correction Model (VECM), based on integration. The integrated variables used in the study were accurately analysed using VECM, which helps integrate short-term adjustments with long-run equilibrium relationships. The system converges toward a long-run equilibrium was assured by negative and statistically significant toward long-run equilibrium following short-term shocks.

Impulse response analysis and variance decomposition techniques are used to examine the dynamic interactions among the variables. The effect of a shock in one variable on another over time is predicted by impulse response functions, which help trace the effect of the shock. The deeper understanding of the study was provided by the variance decomposition, which quantifies the contribution of each variable related to the study. All estimations are carried out using statistical software such as Stata 17 and Eviews 12, which are widely used for econometric analysis. Stata was selected for data management and statistical analysis, while EViews was used for time-series econometric procedures, including unit-root, cointegration, VECM, impulse response, and variance decomposition analyses. These tools ensure robust estimation and facilitate the interpretation of results in a systematic and reliable manner.

RESULTS

Descriptive Trends

The descriptive analysis provides an initial overview of the behavior of key variables over the study period, offering important insights into the economic and governance environment in Ghana. Table 1 presents the summary statistics for economic growth, FDI, tax revenue, corruption, and institutional quality.

Table 1: Descriptive Analysis

Variables	N	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
GDP	24	5.580	2.827	0.514	14.047	0.989	4.634
FDI	24	4.619	2.686	0.956	9.466	0.271	1.808
Tax Revenue	24	14.100	3.181	10.672	21.752	1.129	3.235
CPI	24	23.625	20.460	3.300	48.000	0.021	1.029
IQ	24	-0.107	0.084	-0.284	0.013	-0.233	2.183
Income Tax	24	1.641	0.425	0.89	2.32	-0.336	1.952
Corporate Tax	24	2.028	0.834	1.03	3.32	0.339	1.641
Value Added Tax	24	3.081	0.539	2.04	3.96	-0.550	2.467

Source: The Author, 2026

The descriptive analysis in Table 1 explored moderate variability, reflecting fluctuations in GDP performance over time. The occurrence of instability in foreign investment flows was predicated on considerable dispersion in FDI. The existence of moderation variation was explored by the tax revenue predicted in the above Table 1 indicates the fluctuations in fiscal capacity. The occurrence of changes in governance conditions over time was predicated on the reflection of the corruption index. The occurrence of persistent structural changes in the governance system was assured by the relatively weak institutional quality.

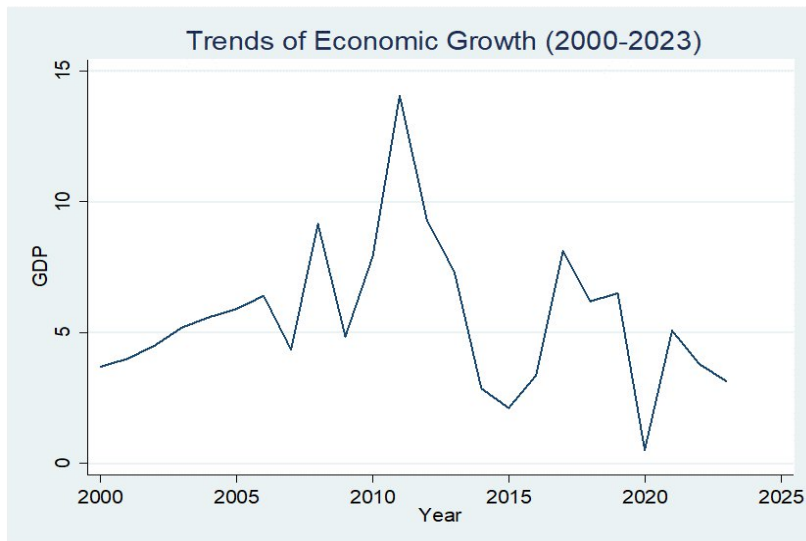


Figure 2: Trends in Economic Growth (GDP) in Ghana (2000–2023)
(Source: The Author, 2026)

The trend in GDP growth from the year 2000 to 2023 is illustrated in Figure 2. The stability of the growth trajectory was assured in Figure 2. In 2010, a significant peak was observed in the decline in subsequent years. The impact of global economic disruptions reflected the contraction of growth in 2020. The occurrence of both domestic and external shocks was considered the main reason for the variation in Ghana's economic growth.

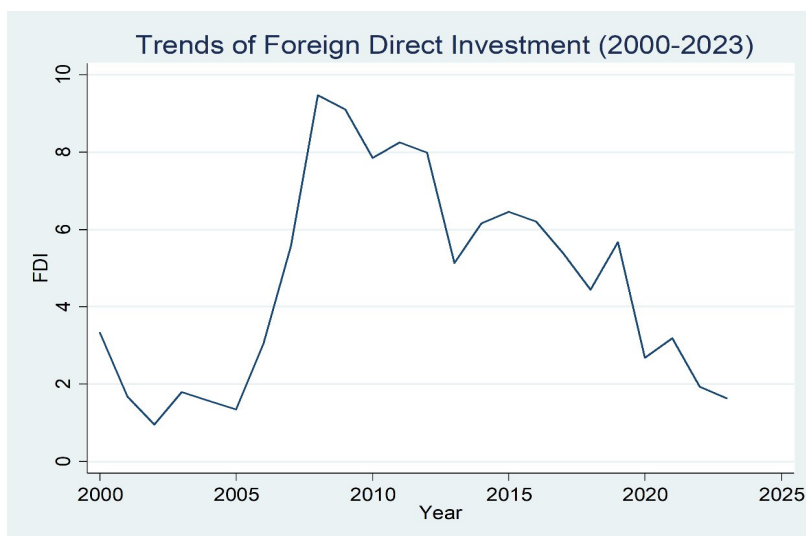


Figure 3: Trends in FDI in Ghana (2000–2023)
(Source: The Author, 2026)

The trend in FDI inflows was represented in Figure 3. During the early years, the gradual increase in FDI was followed by a significant increase in the mid-2000s. The volatile inflow of FDI caused inconsistent growth, which, which started to decline after the early 2010s. The sensitive changes in global economic conditions, indicated by a sharp decrease in FDI, were visible around 2020. The long-term sustainability of economic growth was not assured due to the instability of FDI.

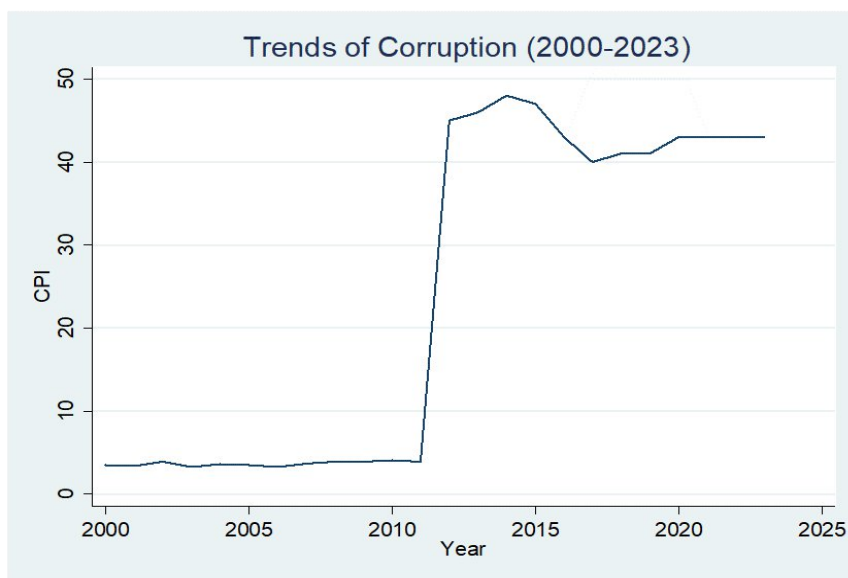


Figure 4: Trends in Corruption Perception Index (CPI) in Ghana (2000–2023)
(Source: The Author, 2026)

The trend in CPI was explored by using Figure 4. The significant enhancement of the index was assured by the occurrence of structural shift around 2012, as indicated by Figure 4 below. The occurrence of methodological changes in the measurement was assured through the shift, reflecting governance reforms or methodological changes. The improvement in perceived corruption levels was indicated by the stabilization of the CPI. The persistence of corruption indicated the existence of governance challenges.



Figure 5: Trends in Institutional Quality in Ghana (2000–2023)
(Source: The Author, 2026)

The trend in institutional quality was illustrated in Figure 5. Throughout the study period, Figure 5 above shows weak institutional quality, with predominantly negative values and noticeable fluctuations. The overall trend reflects instability and limited progress in strengthening governance structures, which were predicated on the brief period of improvement. This suggests that institutional weaknesses constrain the effectiveness of economic policies.

The characterization of volatility, as represented by the descriptive analysis, highlights fiscal performance, economic growth, and foreign investment. The econometric results were interpreted in terms of the occurrence of patterns, which helped provide the foundation for the pattern.

Stationarity and Cointegration Results

The time-series properties of the variables were examined to help ensure the reliability of the econometric analysis. At all levels, the existence of a non-stationary variable was indicated by the results of the Augmented Dickey–Fuller (ADF) test, suggesting the presence of trends over time. The constant mean indicates the existence of non-stationary variables lead to spurious regression results.

The integration of order one, I(1) was indicated by the fact that, after first differencing, the variables became stationary. The necessary conditions for conducting the integration analysis were represented by the findings of the study, which suggest that stable sharing of variables indicates a long-run relationship between short-term fluctuations.

The integration relationship among variables was explored using Johansen's integration test. In the long run, the results of the Johansen integration indicate that economic growth is associated with tax revenue, FDI, institutional quality, and corruption. The strong justification of the Vector Error Correction Model (VECM) is indicated by the presence of integration, which allows for the estimation of both short-run and long-run dynamics.

VECM Estimation Results

Standard errors in () & t-statistics in []

Cointegrating Eq:	CointEq1	CointEq2				
GDP(-1)	1.000000	0.000000				
CP(-1)	0.000000	1.000000				
FDI(-1)	-1.842250 (0.17835) [-10.3295]	0.160527 (0.04615) [3.47857]				
FDI CP(-1)	0.020211 (0.00651) [3.10336]	-0.013909 (0.00169) [-8.25376]				
TAXREV CP(-1)	-0.016017 (0.00379) [-4.22121]	-0.078035 (0.00098) [-79.4804]				
TAXREVENUE(-1)	-1.332281 (0.17611) [-7.56525]	0.384728 (0.04557) [8.44316]				
C	24.06257	-5.491029				
Error Correction:	D(GDP)	D(CP)	D(FDI)	D(FDI CP)	D(TAXREV...	D(TAXREV...
CointEq1	-0.476897 (0.35146) [-1.35692]	1.164040 (1.06086) [1.09726]	0.185096 (0.16874) [1.09692]	9.724765 (10.0880) [0.96400]	20.06604 (16.1313) [1.24392]	0.411027 (0.28774) [1.42845]

CointEq2	-0.078683 (1.10307) [-0.07133]	2.644447 (3.32956) [0.79423]	0.065746 (0.52960) [0.12414]	31.29220 (31.6617) [0.98833]	59.40472 (50.6292) [1.17333]	0.262111 (0.90310) [0.29023]
D(GDP(-1))	-0.235457 (0.30433) [-0.77369]	1.121449 (0.91861) [1.22082]	-0.197491 (0.14611) [-1.35161]	6.517714 (8.73526) [0.74614]	16.78415 (13.9683) [1.20159]	-0.183191 (0.24961) [-0.73523]
D(CP(-1))	-0.532176 (0.30488) [-1.74551]	0.849811 (0.92027) [0.92343]	0.030719 (0.14638) [0.20986]	7.593099 (8.75112) [0.86767]	9.210409 (13.9936) [0.65819]	-0.069249 (0.24961) [-0.27742]
D(FDI(-1))	-0.574140 (0.67576) [-0.84962]	0.271141 (2.03976) [0.13293]	0.595566 (0.32445) [1.83563]	8.799556 (19.3966) [0.45366]	4.326197 (31.0166) [0.13948]	0.124116 (0.55326) [0.22434]
D(FDI CP(-1))	-0.016740 (0.02944) [-0.56860]	0.016535 (0.08887) [0.18607]	-0.017350 (0.01414) [-1.22744]	-0.352887 (0.84505) [-0.41759]	0.186209 (1.35130) [0.13780]	0.000652 (0.02410) [0.02704]
D(TAXREV CP(-1))	0.031718 (0.02745) [1.15549]	0.007557 (0.08286) [0.09121]	0.004402 (0.01318) [0.33402]	0.270267 (0.78789) [0.34302]	0.447400 (1.25990) [0.35511]	0.003953 (0.02247) [0.17591]
D(TAXREVENUE(-1))	-0.290201 (0.47250) [-0.61419]	1.156284 (1.42621) [0.81074]	0.025323 (0.22686) [0.11162]	8.574559 (13.5622) [0.63224]	16.95187 (21.6869) [0.78166]	0.242726 (0.38684) [0.62745]
C	0.197691 (0.85106) [0.23229]	0.312563 (2.56890) [0.12167]	-0.050681 (0.40861) [-0.12403]	-12.99654 (24.4283) [-0.53203]	-1.475102 (39.0625) [-0.03776]	-0.122844 (0.69678) [-0.17630]
R-squared	0.452386	0.313002	0.435767	0.318484	0.408687	0.300703
Adj. R-squared	0.115393	-0.109766	0.088547	-0.100910	0.044802	-0.129634
Sum sq. resids	124.7878	1136.954	28.76555	102810.4	262888.2	83.64562
S.E. equation	3.098235	9.351898	1.487526	88.92969	142.2047	2.536588
F-statistic	1.342418	0.740364	1.255018	0.759391	1.123122	0.698761
Log likelihood	-50.30794	-74.61237	-34.16615	-124.1622	-134.4895	-45.90766
Akaike AIC	5.391631	7.601124	3.924195	12.10566	13.04450	4.991605
Schwarz SC	5.837967	8.047460	4.370531	12.55199	13.49084	5.437941
Mean dependent	-0.039087	1.800000	-0.001937	2.941708	21.48230	-0.220116
S.D. dependent	3.294118	8.877366	1.558108	84.75608	145.5014	2.386608
Determinant resid covariance (dof adj.)	8711156.					
Determinant resid covariance	370851.3					
Log likelihood	-328.3590					
Akaike information criterion	35.85082					
Schwarz criterion	39.12395					
Number of coefficients	66					

Figure 6: VECM Estimation Results for GDP, Tax Revenue, FDI, and Corruption
(Source: The Author, 2026)

The VECM estimation results, derived from the study's core empirical findings, help provide a long-run relationship among governance variables, FDI, tax revenue, and economic growth. In Figure 6, the VECM estimation results are summarized. In the long run, the existence of a negative relationship between FDI and tax revenue indicates the estimated coefficient. The increase in tax collection was associated with a negative coefficient, indicating that tax revenue was not translated into improved economic performance. The effectiveness of fiscal policy was affected by inefficiencies in public expenditure, weak institutional frameworks, and the misallocation of resources.

The lack of FDI contribution to economic development was explored through the existence of a negative relationship. The concentration of FDI in sectors with limited linkage to the domestic economy, as predicted by the study. The growth of the country does not depend solely on the presence of foreign investment, as indicated by the results of the study, even in the absence of supportive institutional conditions.

The existence of a relationship between the various factors associated with the study was affected by corruption. The effectiveness of both FDI and tax revenue was influenced by corruption, as indicated by the study's results. The presence of a stable long-run equilibrium relationship was confirmed by the negative and statistically significant error correction term (ECT). The deviations in speed from equilibrium were corrected by the magnitude of the ECT, suggesting that the system was adjusting gradually over time following the short-term shock.

Dynamic Analysis

The variance decomposition analysis and impulse response functions are used to examine the interactions among variables. The varying responses to GDP were generated by the cause of the shock to the variable, as indicated by the results, reflecting the complexity of the relationship. The findings from the long-run analysis indicate that GDP-to-FDI shocks are initially negative. The mixed responses were produced by the shock to tax revenue, suggesting the impact of fiscal policy. The impulse analysis was presented in Figure 7.

Response of GDP:						
Period	GDP	CP	FDI	FDI CP	TAXREV CP	TAXREV...
1	3.098235	0.000000	0.000000	0.000000	0.000000	0.000000
2	1.559773	-1.181628	-1.133456	0.092008	0.462068	0.279673
3	2.167954	-1.855140	-0.540198	0.429668	0.534801	0.528383
4	1.666435	-2.011793	-0.176563	0.211896	0.464105	0.350796
5	1.954794	-1.576888	0.219524	0.034669	0.293852	0.155518
6	1.995888	-1.649516	0.041989	-0.146294	0.241565	0.105981
7	1.915016	-1.690195	-0.050400	-0.032931	0.286688	0.145273
8	1.903970	-1.736956	-0.092781	0.028353	0.342726	0.216408
9	1.915831	-1.757165	-0.031419	0.036408	0.343163	0.221370
10	1.918987	-1.724917	0.019729	-0.003306	0.313981	0.183628

Response of CP:						
Period	GDP	CP	FDI	FDI CP	TAXREV CP	TAXREV...
1	-2.069126	9.120127	0.000000	0.000000	0.000000	0.000000
2	2.540478	10.71630	-1.335745	-0.468211	-0.370657	0.553192
3	0.364450	10.67683	-3.121693	-0.003871	-0.280816	0.288467
4	0.804314	11.46343	-3.826597	0.819917	0.085821	0.781062
5	0.766713	10.67628	-4.492393	1.113014	0.441607	1.299587
6	0.569853	10.71600	-4.036814	1.334911	0.435912	1.251820
7	0.710912	11.00072	-3.823164	1.069474	0.288304	1.079825
8	0.779484	11.05500	-3.897780	0.957966	0.215800	0.999362
9	0.711440	11.00854	-4.057903	1.022498	0.260710	1.043852
10	0.695911	10.95122	-4.108372	1.114445	0.323214	1.122413

Response of FDI:						
Period	GDP	CP	FDI	FDI CP	TAXREV CP	TAXREV...
1	0.906361	0.196933	1.162954	0.000000	0.000000	0.000000
2	0.949104	-0.585135	1.422143	-0.634242	-0.184699	-0.174066
3	0.776225	-0.434155	1.883486	-0.731907	-0.373591	-0.473015
4	0.851214	-0.325070	1.774723	-0.864071	-0.382446	-0.482259
5	0.872755	-0.471065	1.680808	-0.789327	-0.326960	-0.400445
6	0.804543	-0.521965	1.716892	-0.741864	-0.301562	-0.379129
7	0.834343	-0.479928	1.791564	-0.766570	-0.320502	-0.399922
8	0.849915	-0.464473	1.804704	-0.807917	-0.344317	-0.427299
9	0.844091	-0.458042	1.786503	-0.810704	-0.347726	-0.433600
10	0.840366	-0.467952	1.763981	-0.796771	-0.336482	-0.419787

Response of FDI CP:						
Period	GDP	CP	FDI	FDI CP	TAXREV CP	TAXREV...
1	-4.917234	81.01793	27.10491	24.20185	0.000000	0.000000
2	29.95209	63.23753	7.464414	5.335201	-3.111371	6.801054
3	3.892918	70.58727	7.898808	15.95869	-3.579220	0.318427
4	13.89060	80.83132	2.336134	16.21393	-1.740767	3.946594
5	14.01331	71.72652	-3.277611	18.02265	0.278641	7.336544
6	10.24696	72.56499	-0.229000	20.36404	0.441763	6.701325
7	12.34124	74.88486	0.996949	18.76688	-0.215357	6.156820
8	12.69160	74.45070	0.548445	17.98823	-0.674509	5.701655
9	12.04025	74.53007	-0.016300	18.34384	-0.556991	5.698358
10	12.15238	74.35401	-0.441063	18.73576	-0.221058	6.150193

Response of TAXREV CP:							
Period	GDP	CP	FDI	FDI CP	TAXREV CP	TAXREV...	
1	-26.13409	139.4523	-5.912798	6.310209	4.178474	0.000000	
2	52.63501	114.2948	-33.99721	-10.51565	-3.374193	11.61091	
3	-5.850973	111.2540	-50.68291	5.354436	-0.350562	4.125849	
4	11.42269	132.5048	-54.89569	15.18615	5.532496	13.23575	
5	13.39277	115.2016	-63.63549	15.20016	8.956369	19.64063	
6	7.305296	118.2561	-54.63402	17.89994	7.277050	16.04647	
7	10.80146	123.7891	-53.54451	13.56779	5.415782	14.06268	
8	11.60715	122.4584	-56.14907	13.05801	5.226993	14.09169	
9	9.899242	121.4963	-57.72062	14.66926	6.133618	14.92957	
10	10.11245	121.2336	-57.60516	15.51740	6.738299	15.74500	

Response of TAXREVENUE:							
Period	GDP	CP	FDI	FDI CP	TAXREV CP	TAXREV...	
1	0.650519	0.114135	-1.646477	1.323787	0.863679	0.888165	
2	0.866096	-1.055247	-1.717353	1.036620	0.591001	0.706948	
3	0.178312	-1.023632	-1.637861	1.039678	0.448568	0.388521	
4	0.309169	-0.753493	-1.860322	1.168094	0.588426	0.560497	
5	0.391281	-1.068349	-1.984390	1.267808	0.699462	0.741816	
6	0.280240	-1.078375	-1.788303	1.291790	0.671705	0.686064	
7	0.343825	-0.937169	-1.691292	1.187626	0.605980	0.606621	
8	0.371861	-0.933799	-1.747309	1.143774	0.586291	0.587485	
9	0.339579	-0.962638	-1.806020	1.182297	0.609532	0.611383	
10	0.333443	-0.982326	-1.815995	1.215387	0.632528	0.640165	

Cholesky One S.D. (d.f. adjusted)
Cholesky ordering: GDP CP FDI FDI CP TAXREV CP TAXREVENUE

Figure 7: Impulse Response Functions of GDP to Shocks in TAX, FDI, and Corruption.
(Source: The Author, 2026)

Variance Decomposition of GDP:							
Period	S.E.	GDP	CP	FDI	FDI CP	TAXREV CP	TAXREV...
1	3.098235	100.0000	0.000000	0.000000	0.000000	0.000000	0.000000
2	3.874675	80.14298	9.300165	8.557340	0.056387	1.422136	0.520992
3	4.918974	69.15095	19.99391	6.515610	0.797974	2.064445	1.477110
4	5.606706	62.06105	28.26485	5.114376	0.757052	2.274245	1.528430
5	6.156531	61.55260	30.00214	4.368804	0.631040	2.113986	1.331430
6	6.685813	61.10451	31.52695	3.708416	0.582961	1.923072	1.154096
7	7.164570	60.35539	33.01964	3.234310	0.509767	1.834766	1.046124
8	7.625410	59.51508	34.33778	2.869997	0.451396	1.821707	1.004042
9	8.066846	58.82007	35.42732	2.566003	0.405382	1.808751	0.972468
10	8.477296	58.38634	36.21997	2.324081	0.367092	1.775021	0.927499

Variance Decomposition of CP:							
Period	S.E.	GDP	CP	FDI	FDI CP	TAXREV CP	TAXREV...
1	9.351898	4.895245	95.10475	0.000000	0.000000	0.000000	0.000000
2	14.53265	5.083059	93.75839	0.844808	0.103799	0.065051	0.144898
3	18.30935	3.241970	93.07286	3.439160	0.065398	0.064506	0.116109
4	21.98231	2.382974	91.76332	5.416148	0.184491	0.046275	0.206798
5	24.92182	1.948633	89.74498	7.463181	0.342990	0.067401	0.432818
6	27.49708	1.643673	88.90960	8.285987	0.517437	0.080499	0.562800
7	29.91020	1.445645	88.66913	8.636745	0.565163	0.077325	0.605988
8	32.16514	1.308784	88.48522	8.936698	0.577400	0.071364	0.620534
9	34.27769	1.195511	88.22877	9.270555	0.597404	0.068624	0.639140
10	36.26098	1.105143	87.96246	9.567877	0.628299	0.069268	0.666951

Variance Decomposition of FDI:							
Period	S.E.	GDP	CP	FDI	FDI CP	TAXREV CP	TAXREV...
1	1.487526	37.12556	1.752703	61.12173	0.000000	0.000000	0.000000
2	2.438254	28.96996	6.411451	56.76882	6.766308	0.573812	0.509646
3	3.344042	20.78953	5.094124	61.90385	8.387578	1.553160	2.271758
4	4.035834	18.72168	4.146175	61.83781	10.34243	1.964327	2.987581
5	4.581154	18.15927	4.275172	61.45351	10.99543	2.033889	3.082730
6	5.063543	17.38870	4.562015	61.79906	11.14676	2.019508	3.083960
7	5.534069	16.83051	4.571316	62.21740	11.25060	2.026104	3.104064
8	5.981207	16.42734	4.516422	62.36677	11.45590	2.065885	3.167680
9	6.391782	16.12866	4.468365	62.42387	11.64015	2.104964	3.233986
10	6.768751	15.92361	4.462469	62.45599	11.76536	2.124151	3.268427

Variance Decomposition of FDI CP:							
Period	S.E.	GDP	CP	FDI	FDI CP	TAXREV CP	TAXREV...
1	88.92969	0.305737	82.99821	9.289711	7.406339	0.000000	0.000000
2	113.7749	7.117239	81.60000	6.105914	4.744745	0.074784	0.357322
3	135.1755	5.124999	85.07605	4.667059	4.755111	0.123090	0.253692
4	159.0158	4.466539	87.31762	3.394136	4.475853	0.100932	0.244923
5	176.1152	4.274437	87.77200	2.801681	4.696142	0.082534	0.373208
6	191.9559	3.883029	88.17395	2.358497	5.078490	0.070004	0.436029
7	207.3602	3.681751	88.60186	2.023410	5.171071	0.060098	0.461810
8	221.4929	3.555235	88.95430	1.774048	5.191795	0.053600	0.471022

9	234.7937	3.426809	89.23749	1.578746	5.230627	0.048262	0.478070
10	247.3729	3.328488	89.42705	1.422583	5.285822	0.043559	0.492497
Variance Decomposition of TAXREV CP:							
Period	S.E.	GDP	CP	FDI	FDI CP	TAXREV CP	TAXREV...
1	142.2047	3.377436	96.16643	0.172885	0.196906	0.086339	0.000000
2	193.5678	9.216904	86.76685	3.178061	0.401397	0.076984	0.359804
3	229.1174	6.643842	85.50890	7.161722	0.341115	0.055182	0.289240
4	271.3535	4.913776	84.80635	9.198446	0.556392	0.080910	0.444124
5	303.0346	4.135374	82.45306	11.78541	0.697737	0.152230	0.776190
6	330.8830	3.517314	81.93113	12.61140	0.877884	0.176052	0.886219
7	358.0533	3.094762	81.92128	13.00636	0.893295	0.173226	0.911079
8	383.2520	2.792906	81.71243	13.49868	0.895777	0.169796	0.930406
9	406.8769	2.537181	81.41543	13.98912	0.924756	0.173376	0.960135
10	429.1866	2.335781	81.15036	14.37406	0.961836	0.180469	0.997495
Variance Decomposition of TAXREVENUE:							
Period	S.E.	GDP	CP	FDI	FDI CP	TAXREV CP	TAXREV...
1	2.536588	6.576892	0.202458	42.13193	27.23555	11.59324	12.25993
2	3.629171	8.908263	8.553508	42.97500	21.46395	8.315488	9.783798
3	4.285579	6.561473	11.83912	45.42467	21.27781	7.058822	7.838108
4	4.951279	5.305604	11.18551	48.14806	21.50655	6.700674	7.153605
5	5.691600	4.487757	11.98826	48.59303	21.23738	6.581182	7.112387
6	6.278882	3.886715	12.80023	48.03986	21.68310	6.552084	7.038015
7	6.739954	3.633365	13.04223	47.98882	21.92283	6.494662	6.918093
8	7.175474	3.474263	13.20064	48.26996	21.88321	6.397807	6.774118
9	7.611456	3.286695	13.33122	48.52857	21.86086	6.327163	6.665499
10	8.037122	3.119895	13.45037	48.62969	21.89337	6.294090	6.612582
Cholesky One S.D. (d.f. adjusted)							
Cholesky ordering: GDP CP FDI FDI CP TAXREV CP TAXREVENUE							

Figure 8: Variance Decomposition of GDP

(Source: The Author, 2026)

Further insights into the contribution of each variable were explored by the variance decomposition results shown in Figure 8. The economic performance of Ghana was shaped by the extent to which GDP variance was explained by various factors, such as corruption, FDI, and tax revenue.

The key findings of the study were explored by dynamic analysis. Fiscal policy, governance conditions, and external investment help shape economic growth in Ghana. During the analysis of growth dynamics, the study's results highlight the importance of adopting an integrated perspective.

DISCUSSION

The important insights related to the complex relationships among governance conditions, FDI, tax revenue and economic growth in Ghana are based on the findings of the study. In the long run, the study identified a negative relationship between FDI and tax revenue, which contrasts with conventional expectations. The broader governance environment was shaped by the effectiveness of the institutional and governance-related variables considered in the study. The findings suggest that an increase in financial resources alone does not necessarily enhance economic performance, particularly when institutional effectiveness is weak. Previous empirical evidence similarly emphasizes the importance of institutional quality and effective governance in determining economic performance (Singh & Pradhan, 2022; Spyromitros & Panagiotidis, 2022).

The negative relationship between economic growth and tax revenue suggests the existence of potential inefficiencies in public and fiscal management. Taxation can support the development of financing infrastructure and the efficient allocation of resources through the provision of public services. However, the productive benefits expected from increased tax revenue may not be fully realized when institutional capacity and governance effectiveness are weak. The conditional nature of the taxation-growth relationship is consistent with evidence emphasizing

the importance of institutional quality and governance in translating fiscal resources into improved economic outcomes (Singh & Pradhan, 2022). Therefore, the findings suggest that increasing tax revenue alone may not be sufficient to generate stronger economic growth without improvements in public-sector effectiveness and resource allocation.

The country's economic growth does not depend solely on FDI. The country's capital investment, new technology, job opportunities, and business knowledge were enhanced through FDI. The efficient use of FDI in Ghana provides many advantages (Yimer, 2023). The overall economic growth of Ghana was limited due to the extractive industries' use of limited local labor, weak connections with other domestic industries, and the purchase of fewer local products. Instead of reinvesting in Ghana, most foreign countries repatriate profits to their home countries. To achieve the full benefits of FDI, Ghana needs to focus on addressing the shortage of skilled labor, infrastructure, strong institutions, and technological capabilities.

The exploration of the role of governance focuses mainly on institutional quality and corruption, and the study's key contribution is in shaping the country's economy. The study's findings indicated the impact of FDI on economic growth and the influence of tax revenue on governance conditions. The effectiveness of both variables, FDI and tax revenue, altered by corruption, weakened the potential benefits. The study's main findings on the Ghana economy provide additional evidence from statistical and dynamic analyses. Over time, major variables associated with the study, including economic growth, FDI, and tax revenue, may fluctuate rather than remain stable. The findings suggest that unstable structural conditions, policy inconsistency, governance challenges, and dependence on external economic sectors may contribute to fluctuations in Ghana's economic performance. Evidence from Ghana on exchange-rate and international-trade volatility further highlights the country's exposure to external-sector instability (Yussif et al., 2024). Moreover, variations in corruption and weaknesses in institutional quality can undermine confidence and reduce the effectiveness of economic policies. Overall, tax revenue, governance conditions, and FDI are closely interconnected with Ghana's economic growth, indicating the need to consider these factors jointly rather than independently.

The major role of institutional quality in shaping economic relationships was emphasized by the findings, which were supported by previous studies. The positive effects of FDI and taxation were enhanced by a low level of corruption, effective institutions, and a strong governance system (Singh & Pradhan, 2022; Spyromitros & Panagiotidis, 2022). Weak institutions and poor governance reduced the benefits of FDI and taxation. The existing literature was supported by the study's findings, which provide a comprehensive analysis integrating governance conditions within a single framework with foreign investment, and fiscal factors (Xu et al., 2021).

From a policy perspective, the focus should not be limited to increasing tax revenue or attracting foreign investment but should also emphasize improving the institutional conditions under which these resources operate. Sustainable economic development was achieved by focusing on strengthening the institutional framework, reducing corruption, and improving transparency. The efficiency of public spending was improved by better governance, which helps create a supportive environment for productive investment activities. The long-term economic growth of the country was impacted by a lack of focusing on governance activities presents potential benefits from fiscal and external resources (Singh & Pradhan, 2022; Spyromitros & Panagiotidis, 2022; Xu et al., 2021).

The interaction of multiple economic and institutional factors helps shape Ghana's economic growth and highlights the interdependencies involved in achieving sustainable economic outcomes. The findings emphasize the importance of adopting a holistic approach to economic development in which FDI, taxation, governance, institutional quality, and economic growth are considered as interconnected components of the development process. Rather than treating these factors independently, policymakers should strengthen the institutional environment, improve the efficiency of public resource allocation, promote productive domestic linkages with foreign investors, and reduce corruption. Such an integrated approach can help Ghana obtain greater and more sustainable benefits from both domestic fiscal resources and foreign investment.

CONCLUSION, LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

From 2000 to 2023, the study examined the relationship between FDI, institutional quality, economic growth, corruption, and tax revenue in Ghana. The study's findings explored the existence of a negative long-run relationship between economic growth and both tax revenue and FDI. The improved economic performance in the country was not achieved by focusing solely on enhancing financial resources, but rather by considering various significant variables identified for the study. The economic outcome was shaped by the roles of corruption and institutional quality, as highlighted by the study's results. Weak institutional frameworks undermined the potential benefits from external investment and fiscal capacity. The country's economic growth was contributed to by focusing more on establishing governance predicated on the findings of the study.

From a policy perspective, strengthening institutional capacity, improving transparency, reducing corruption, and enhancing public expenditure efficiency should accompany efforts to increase tax revenue and attract FDI. The study is subject to several limitations. Its focus on Ghana restricts the generalisability of the findings to other economies, while the use of annual secondary data and a relatively limited set of variables may not capture all factors influencing economic growth. Future research could therefore undertake cross-country comparative analyses, extend the study period where data permit, and incorporate additional macroeconomic and institutional variables. Future studies may also apply alternative econometric approaches to test the robustness of the relationships identified in this study.

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