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Financial Inclusion Institutional Quality and Economic Growth in Asia

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Abstract: *This study intends to investigate the impact of Financial Inclusion, Institutional Quality on economic growth, using a sample of 23 countries from 2006-2017. The role of financial inclusion and institutional quality is subsequently estimated through static and dynamic panel models. A composite indicator of financial inclusion is constructed via principal component analysis (PCA). We document that financial inclusion and institutional quality are positively associated with economic growth. This piece of work provides a base for policy formulators to streamline their efforts towards reformative processes in financial sectors for promoting financial inclusiveness and taking necessary steps to regulate and strengthen the institutional quality in ensuring sustainable economic growth.*

Key Words: Financial Inclusions, Institutional Quality, Economic Growth, GMM

Introduction

Financial accessibility and usage are the main determinants of economic growth (Anarfo, Abor, Osei, & Gyeke-Dako, 2019). Inclusive finance ensures the funds flow from savers to borrowers and develops liquidity in the sector that needs those funds, and efficient allocation of these funds also stimulates economic growth. Hence, inclusive finance reshapes the financial system of any country and stimulates economic growth (Sharma, 2020).

Four expected hypotheses that elaborate the nature of the causal link. Khan and Hossain (1994) claim that expansion in financial services and mitigating financial market division stimulate the steady upward movement of capital formation. Second is the demand following hypothesis, which is vice versa of the first hypothesis. Arestis and Demetriades (1997) identify the financial system in two spectrums: bank-oriented and market-oriented. They endorsed that only a market-based system is concerned with short-term performance and identifies causality from growth to finance. Third is the two directions of linkage between Financial Development and Economic Growth. Luintel and Khan (1999) examine a cluster of underdeveloped nations to enquire existence of a relationship between these two variables. As a consequence, bi-directional linkage exists. Fourthly, Economic growth is possible through financial assets and makes a contribution in the real term. Financial inclusion is a crucial factor in the UN SDGs and term as global challenge.

Digital inclusive finance brings easiness to life by supporting to reduction of crime and poverty and tackling the issue of unemployment. Exclusion creates more vulnerability in the long term. Inclusive finance may provide an opportunity for long-term planning. Being a part of the financial net, it is easy to minimize the risk through hedging portfolio investment. There are multiple reasons for exclusion, such as digital unawareness and financial illiteracy. Further, inclusive finance makes it possible to increase financial resources, which results in economic growth. Financial digitalization enhances infrastructure and is also supportive of to inclusive economy, which, in turn, unearths the UNO goals. People should be included in the financial net through the opening of accounts by following simple and cheap procedures.

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In the meanwhile, exclusion is defeated by mobile companies through offering mobile wallet accounts in the least developing countries. However, it exerts pressure on the regulatory framework due to weak documentation. Mobile money spread rapidly due to its procedural easiness. The regulatory needs may also be developed quickly in line with mobile wallets. This way, a shift from the commercial sector may be observed. VO, Van, VO, and McAleer (2019) explained that inclusive finance creates coherent financial flow in the state. Easy to avail all financial products like credit, deposit, and payment, social, financial security schemes and help to meet their demand in effective and efficient manners inclusive economy. Non non-regulatory financial system exerts financial risk in the broadness of credit. Technological advancement in the Global age made it possible to include the unbanked segment in the financial net. Such financial systems eradicate discriminatory wealth distribution and steady economic growth.

However, Policymakers have shown special concern for an inclusive economy. From a broad perspective, this meant a system that covers the whole society and provides easy access to basic financial services. These services are not only commercial instruments/products besides other beneficiary products such as remittances, etc., at a reasonable. More emphases on financial inclusion are due to two factors. First, the feeble financial organization could risk steady growth. Second, the Policy formulator has pointed out that the decrease in poverty is due to a strong financial system.

Asia will be the fastest-growing economy for decades to come, and the average growth rate is expected to grow at 6.3% over the next two years (Le, Chuc, &Taghizadeh-Hesary, 2019). The Global economy is growing, and policy formulators must focus on financial services and institutional quality to ensure equitable growth. Moreover, the role of inclusion in finance and the quality of institutions in emerging nations is very stunning. These factors contribute positively to economic growth. However, developing countries are facing hindrances in developing a system of financial services and implementing institutional quality. Resultantly, the absence of these factors paves the way to money laundering and the destruction of the corporate sector.

Earlier studies identify that productivity and employment could be impacted by individual access to financial services and cause poverty reduction. Ghosh, Gillis, Levkov, Vitkin, & Golberg (2020) Tinder suggest that delegation in the banking system brings a reduction in equal income. Aghion and Bolton (1997) and Mehrotra and Yetman (2015) argue that when people are part of the banking segment in the financial institutions. Resultantly, instigated the flow of money and upward GDP per capita and showed steady economic growth. Jeanneney and Kpodar (2011) Ganti and Acharya (2017) described that mitigating poverty and increase in income is only possible due to the availability of financial services and, which ultimately impact their living standard. Subrahmanyam and Acharya (2017) elucidate that faster growth is done through financial setup.

This contribution is different in two ways. First, a multidimensional Indexing of included financial services and Indexing of quality of institution is used that is consistent in the sense of mode. Second, a few study is held to Interpret the indexing of these two variables on positive economic change in the long run among sample countries. The amalgamation of these two indicators, quality of institutional and financial inclusion, to investigate their combined effect on the economy. Contribution of this literary piece of work in the following ways. First, the combined effect of inclusion in financial services and the quality of institutions on economic growth has been investigated. Second, Difference GMM, System GMM, and fixed and random effect econometric models are implemented to define the linkage between the inclusion of financial services and the quality of institutional on such a vast data set.

Literature Review

Financial Inclusion and Economic Growth

De Gregorio and Guidotti (1995) scrutinize the financial increase and Economic Growth using different data set and put forward that finance have an impact on growth. Khan and Hossain (1994) claim that expansion in financial services and mitigating financial market division stimulate the steady upward movement of capital formation. Second is the demand following hypothesis, which is vice versa of the first hypothesis. Arestis and Demetriades (1997) identify the financial system in two spectrums: bank-oriented and market-oriented. Its study endorsed that only a market-based system is concerned with short-term

performance and identifies causality from growth to finance. Third is the two directions of linkage between Financial Development and Economic Growth. Similarly, Lucas Jr. (1988) argues that finance is not a key element of growth and is called a steady state economy, and an increase in capital is not followed by economic growth at this stage. Atindéhou, Gueyie*, and Amenounve (2005) determine a feeble relationship of these two factors.

Further, these two variables have been considered in different studies. However, these studies focus on a single country and could not grab much attention in the literature. Other studies like Sharma (2016), Dixit and Ghosh (2013), Andrianaivo and Kpodar (2011) have also observed the positive contribution of variables on each other. Furthermore, Sarma (2008) has pointed out that the use of broad dimensions is most suitable for investigating the effect. Underpins the reality that could not be possible from individual indicators (Sarma, 2008).

Becker and Knudsen's (2002) study reveals that well well-organized financial framework gave birth to innovative ideas in the industrial sector and supported entrepreneurs in utilizing these funds for economic development. If we spotlight Institutional quality, then we determine the linkage between the quality of the institution and the rule of law and economic growth (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997).

Exclusive finance is the inability to reach different financial aspects in a reasonable way. This state comes due to tough circumstances, hiked prices, and approachable services for this satisfied attitude towards these services (Carbo et al., 2005); similarly, I have confined the definition to the inability of some segment of society to avail the services exclusive and inclusive economy is worthwhile because the noninclusive system has a harmful effect on society to avail credit from the formal setup is not easy due to non-availability of financial services, Oppositively, non-formal system offer to land at high prices which ultimately shown in lower investment the ignorant segment of society and small businesses face troublesome when availability or excess to finishing products are not at ease point (Beck, Demirgüç-Kunt, & Maksimovic, 2004). (Sarma, 2008) Different approaches have been implemented to measure financial inclusion as used multidimensional index approach to capture the inclusive process. The operational layer has been used to determine excess such as accessibility, availability, and use of banking services.

Sarma & Pais (2011) attempt to address the inquiry according to the connection between development and inclusiveness. Based on the indexing, these researchers experimentally discover what elements cause the diverse levels of inclusiveness in different countries. It is evident from different studies that the extent of inclusiveness is dependent on human development and credited to such socioeconomic elements as unjust income discrimination, level of literacy, urbanization, and actual framework.

Institutional Quality and Economic Growth

From an institutional quality perspective, Williamson (1989) ascertained that elements of GDP grow this strong organizational quality. Acemoglu and Robinson (2010) have argued that Institutions chalk out and impose organizational controls to maintain/run rules and regulations in society. In general, the quality of institutions is concerned with the policy framework for socio-economic activities.

Different theories propounded by different researchers, such as Marxist, transaction cost, and imperfect information schools. These theories have some similarities as well as shared weaknesses. Some concerns and gaps lie in Marxist, and subsequent theories addressed these concerns or gaps. Marxist theory paves the way for other theories to build a micro foundation for their theories. Marxists had views that the economic structure of society consists of property relations and, latterly, the development of productive forces. Coase (1988) and North (1990b) propounded the transaction cost and lumps together called CDAWN that evolve around to minimize the cost and key driver of performance of economics. These costs are information, negotiation, monitoring, enforcement of contracts, and coordination. (Akerlof, 2002) propounded the theory of imperfect information. The subject theory is consistent with transaction costs and is an important part of transaction costs. But the former theory is usually cost in a more rigorous framework, clearly spelling out assumptions and equilibrium. In other studies, such as Anwar and Cooray (2012), Good governance and quality of institutions articulate a financial network, which resulted in economic growth. Further, financial development flourishes in the environment of political and civil

liberties. According to North (1990a) quality of institutions ensures constitutional framework, rule of law, and their behavior towards development and growth. In addition, Knack and Keefer (1995) describe the role of quality institutions and their impact on financial development. Effective institutions determine the efficacy of socioeconomic and political environments and are supportive of capital and economic development (Salvatore, 2009).

This study gave attention to the importance of institutes; furthermore, it gave a point of view regarding different qualities that an institute can provide with the best of its resources, and it also discusses the nexus of institutional quality and economic growth. Essentially, Tun, Azman-Saini, & Law (2012) have additionally added that the quality of the institutions and stock market advancement are interdependent. They have brought into being powerful consequences of institutional markers of two widths. Moreover, Tun et al. (2012) elaborate that trade and a well-connected system of finance bring development to the financial system, and feeble and fragile institutions impact growth in a negative way. Similarly, Raza, Shah, & Arif (2019) have considered the connection between FDI and development within the sphere of effective governance as having a positive relationship among the factors in OECD nations. Gondo (2009) analyzed that credit delay in the securities exchange liquidity and private area generously affects growth execution. Rana et al. (2019) analyzed the impact of institutional climate on FDI inflow in developing economies and tracked down a positive effect of institutional climate on FDI inflow in the example nations. In another investigation by Przeworski & Limongi (1993) decentralized and active political system stimulates growth processes and outcomes, and its strength absorbs the shocks. Bardhan (2017) recommends that effective governance in the democratic period is not as stable as compared to authoritarian regime because they perform well during crushing economic periods. Chowdhurie-Aziz (1997) tracks down a positive relationship between the level of non-world-class investment in legislative issues and financial development. Tavares & Wacziarg (2001), who gauge a system of synchronous conditions, and Güney (2017) track down a constructive outcome of popular government on development through the channels of upgraded schooling, diminished disparity, and lower government utilization.

Methodology

Measurement of Variables

Construction of Financial Inclusion Index

The financial inclusion was constructed via Principal Component Analysis (PCA). The data results derived from PCA are present in tabulated form in Table 01. The first principle components have the highest variance and quality of an orthogonal linear transformation convert and prepare the data into a coordinate system (Jollife, 2002). KMO favorable values lie from 0.5 to 1 as scores higher than lower value endorsed the factor analysis suitability. The results of 57% point towards a positive selection. Hence, Component I is included in our study.

Table 1

Principal component analysis

Component	Eigen Value	Difference	Proportion	Cumulative
Comp 1	2.27438	1.3252	0.5686	0.5686
Comp 2	.949185	.383953	0.2373	0.8059
Comp 3	.565232	.35403	0.1413	0.9472
Comp 4	.211202	.	0.0528	1.0000

Table 2

Results of Bartlett test of sphericity and kaiser-Meyer-Olkin measure of sampling adequacy

Barlett test of Sphericity		Kaiser-Meyer
Chi-square	DF	p-value
369.936***	6 0.000	0.619

A Keiser Meyer Olkin test (KMO Test) is done to decide among proxies for their suitability in the construction of PCA for inclusive finance. The KMO analysis explores the percentage contribution of

common variance that could be caused by underlying factors (Renzhi and Baek, 2020). KMO favorable values lie from 0.5 to 1 as scores higher from lower values endorsed the factor analysis suitability. The results of 0.619 point towards a positive selection. Bartlett's test of sphericity tests that your correlation matrix is an identity matrix (Le et al., 2019), and this is an indication of the irrelevance and unsuitability of subject variables for structure detection. PCA is considered suitable in the case of a significant test value lower than 0.05.

Base Line Equation

$$Ln\ PC\ GDP_{i,t} = \beta_{oi} + \beta_{1i} IFI_{i,t} + \beta_{2i} IQI_{i,t} + \beta_{3i} X_{i,t} + \varepsilon_{i,t}$$

Where GDP represents real per capita GDP for all the number of countries at time t; IFI& IQI measures financial inclusion and institutional quality across the groups at the time $X_{i,t}$ stands for control variables. $\varepsilon_{i,t}$is the error term. The IFI and IQI are composite indexes consisting of different layers included in financial services and variants of institutions.

Data Collection

In this study, secondary data has been collected from GFDD and WDI official websites. 23 Asian countries are considered for subject study for the period of 2006-2017.

Analysis and Discussion

The contemporary study uses a causal statistical estimation technique to capture the link between Inclusive finance and Institutional quality on economic growth. Nguyen, Locke, and Reddy (2014) advise handling the problem of endogeneity with the use of dynamic panel estimation. Past studies explore that growth in the economy is possible with financial inclusion and Institutional quality. (Diamond & Rajan, 2009) Growth can be ensured through financial inclusion in the following ways. First, services at a cheap cost could reduce the toughness of the economically ignorant segment and also brings a wave of prosperity to their life. Additionally, Panayotou (1997) stated that uncontrolling increases in carbon emission and changes in environmental attitude (hazards) damage the smooth process of development. These conditions pointed out the feeble quality of institutions because vice versa situation brings positive change even in underdeveloped countries. This proves that strong organizations can help in steady economic growth and decreasing environmental costs by enabling countries to alleviate environmental hazards. Resultantly, the improved institutional quality can provide a broad way out for the improvement of economic growth and upward mobility of the environment (Prasad, Rajan, & Subramanian, 2007).

Table 3

Descriptive statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
L_gdp	276	8.529	1.438	6.013	11.007
FI	276	0.387	1.508	(2.098)	5.311
Gov. effective	276	.186	.873	-1.115	2.437
CO2/MT	276	5.836	6.762	0.2225	24.627
Renewable energy consumption)	276	9.885	20.205	0.0059	89.605
Population (annual %)	276	1.862	1.856	-.185	15.177
Trade(% of GDP)	276	101.687	70.068	24.491	437.327
Net inflow(% of GDP)	276	24.678	46.516	-37.155	168.929
Industry	276	33.405	12.65	13.809	74.113

*Errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*

The analysis of subject variables in terms of descriptive statistics is presented in tabulated form. After taking the log for normalizing the value, the positive mean of 8.529 GDP is recorded for all under consideration observations, and this finding is consistent with the study of (Dahiya & Kumar 2020; Nizam et al., 2020). The average value of GDP shows stability and growth among observed countries during the

last 10 years. It is evident from descriptive values of mean and median, which differ and show that data is skewed at all levels.

The study constructs the financial inclusion index based on proxies such as Automated Teller Machines (ATMs) per 100,000 adults, Branches of commercial banks per 100,000 adults, Institutions of commercial banks, Outstanding deposits with commercial banks (%of GDP), and Outstanding loans with commercial banks(% of GDP) and development of composite indicators of financial inclusion which includes all influential dimension through principal component analysis (PCA) for 23 nations for the year 2006-2017. The value of the Financial Inclusion Index is .387, and the SD value is 1.058. Generally, countries having higher means of financial inclusion indicate that the economy is inclusive. However, its minimum is below zero, indicating that the sample contains countries having the least inclusive system. The mean value of IFI is moderate and shows that there are more efforts needed to bring the economy into an inclusive process. Similarly, Inclusive finance stimulate more economic activities resultantly, brings progress and harmony in the standard of living among all segment of society (Dahiya & Kumar, 2020)

From the quality of institutions perspective, the mean value of government effectiveness is 18.6 percent with the dispersion of value of, and its value ranges from a minimum 0 percent to a maximum of 100. This mean value indicates a moderate level of effective governance and has the highest volatility among other variables, which indicates the instability in terms of effectiveness from 2006–2017. This study demonstrates that effective and efficient public institutions stimulate economic growth. This means that dispersion or volatility is consistent with the study of (Salman, Long, Dauda, & Mensah, 2019; and Omri & Mabrouk, 2020). His study purview is that well-organized political and governance institutions are important and through which any government brings harmony and stability among the economic, environmental, and social components of sustainable development (Omri & Mabrouk, 2020).

Correlation coefficients are listed in tabulated form in Table 4. In coefficient analysis, most of the variables have shown statistical significance, and multicollinearity factors are absent, and it is evident from the VIF values as all values are below 10 and also consistent with the study of (Cabeza-García, Del Brio, & Oscanoa-Victorio, 2019; Kleinbaum, Kupper, Nizam, & Rosenberg, 2013). This table consists of a correlation matrix among GDP, financial inclusion, institutional quality, CO2/MT, Renewable (% of total final energy consumption), Population (annual %), trade (% of GDP), Net inflow (% of GDP), and Industry. The correlation coefficient of IFI is positive and significant at a 0.01% confidence interval. The positive value of the coefficient projected that IFI is positively correlated with GDP, with a value of 0.59. These results are consistent with the values of (Jiang & Ma 2019; Kleinbaum et al., 2013 Salman et al., 2019). Thus, effective governance ensures the smoothness of economic, political, and social factors of sustainable development or growth. Not surprisingly, all control variables are positively correlated with GDP and authenticated the existing literature in terms of GDP growth.

Table 4

Correlation matrix

Variable	L_gdp	FI	Gov. effectiveness	CO2/metric ton	Renewable energy	Population growth (annual %)	Trade (% of GDP)	Net inflows (% of GDP)	industry	VIF
L_gdp	1.00									
FI	0.59***	1.00								1.94
Gov.effectiveness	0.85***	0.56***	1.00							4.07
co2	0.75***	0.23***	0.48***	1.00						2.59
Renewable energy	-0.35***	-0.24***	-0.26***	-0.33***	1.00					1.17
Population growth (annual %)	0.13*	-0.02	-0.0003	0.25***	-0.11	1.00				1.25
Trade(% of GDP)	0.29***	0.05	0.45***	0.17**	-0.13*	0.17**	1.00			1.53
Net inflows (% of GDP)	0.57***	0.53***	0.66***	0.20**	-0.19**	-0.22***	0.19**	1.00		2.84
Industry	0.39***	-0.13*	0.26***	0.65***	-0.13*	0.13*	0.05	-0.19**	1.00	2.83

Table 5

Regression results based on static panel estimation models

Variable	OLS	Random-GLS with Robust Cluster ID
FI	0.160***	0.404***
	(0.0257)	(0.0671)
gov_effectiveness	0.826***	0.556***
	(0.0641)	(0.113)
co2	0.0913***	0.0176***
	(0.0066)	(0.00548)
Renewable energy	(0.00114)	0.00234***
	(0.00148)	(0.000803)
population_growth	0.0378**	0.0262***
	(0.0167)	(0.00656)
trade___gdp	(0.00102**)	(0.00243*)
	(0.00049)	(0.00144)
net_inflows___gdp	0.00283***	0.0049
	(0.00101)	(0.00316)
Industry	0.00208	0.0177**
	(0.00369)	(0.00842)
Constant	7.748***	7.786***
	(0.142)	(0.24)
F Statistics	302.67	
F Statistics(P Value)	0.000	
Wald Test		344.13
Wald Test (P Value)		0.000
Observations	276	276
R-squared	0.901	0.7611
Number of ids	23	23

Table 6

Regression results based on dynamic panel estimation models

Variable	AB	BB
L.L_gdp	0.855***	0.872***
	0.0316	0.0298
FI	(0.110**)	(0.135***)
	(0.048)	(0.0484)
Gov. effectiveness	0.138***	0.134***
	(0.0368)	(0.0508)
CO2/metric ton	(0.00733***)	(0.00925***)
	(0.000727)	(0.000914)
Renewable energy	0.00149***	0.00206***
	(0.000181)	(0.000247)
Population growth (annual %)	(0.0160***)	(0.0176**)
	(0.00583)	(0.00761)
Trade (% of GDP)	(0.000869)	0.000124
	(0.000829)	(0.000536)
Net inflows(% of GDP)	0.00238**	0.00267***
	(0.00108)	(0.00084)
Industry	0.0178***	0.0132***
	(0.00334)	(0.0032)
Constant	0.787***	0.674***

	(0.239)	(0.24)
Wald Test	5382.12	3412.43
Wald Test (P Value)	0.0000	0.0000
AR2(P value)	0.633	0.1038
Sargan Test(P Value)	0.97	0.81
Observations	276	276
Number of ids	23	23

GMM dynamic panel model, a method contributed by (Arellano & Bover, 1995; Blundell & Bond, 1998), is used to evaluate statistical data. The variance and coefficient biases of any weak tool could be handled by this dynamic panel model. Multiple techniques are carried out to measure the model having endogeneity problems, and the most preferable is GMM.In addition, the Lag of variables is used to deal with the endogeneity in the GMM model. The issue of heteroskedasticity and autocorrelation could easily be mitigated, and efficient, unbiased, and consistent coefficients produced in static and dynamic panel models. The validity of the model with respect to autocorrelation is confirmed through the Arellano Bond test, and no autocorrelation exists and assured the estimated results of the dynamic panel model and admitted the absence of (AR2) and support to reject the null hypothesis of over-identification restrictions (H. Khan, Khan, & Zuojun, 2020).

Regression Results Based on Static Panel Estimation Models.

The estimated outcomes from OLS and Random-GLS indicates that financial inclusions have a positive impact on economic growth, with coefficient value of 0.104 and 0.404 for inclusive finance. Hence, the first hypothesis is accepted. These results endorsed the previous discussions. One unit increase in the value of financial inclusion will increase the value of 0.104 and 0.404, respectively, for economic growth. Thus, through expanding banking infrastructure and services, long-run sustainable growth could be achieved. Efficient and healthy financial services spur economic growth by utilizing savings in a productive manner, allocating funds effectively, and mitigating risks. These results are consistent with the study (Sethi & Acharya, 2018). Contradictory to our study findings, (VO et al., 2019) point out the negative relationship between inclusive finance and growth nexuses due to increasing financial risk or unstable macroeconomic factors. Credit in terms of microfinance without any collateral and regulatory security may increase the risk in the financial setup.

This model includes the role of the quality of institutions in economic growth. The results indicate that the quality of the institution has a positive significant coefficient of 0.826 and 0.556, respectively, for OLS and Random-GLS, indicating that an increase in institutional quality will lead to an increase in economic growth. These results are in accord with previous studies (Nedić et al., 2020). The continuous improvement and development of institutional quality boost economic growth and are one of the most important areas of government activity.

Regression Results based on dynamic panel estimation model AB and BB.

The coefficient of Inclusive finance depicts the value of 0.110 and 0.135 for AB and BB models, respectively, at a significance level of 0.01%. Positive contribution is deduced from financial inclusion towards economic growth. Our findings are in line with the studies of (Kurtz & Schrank, 2007; D.-W. Kim et al., 2018). Thus, in the presence of inclusive finance, the economy is flourishing through the support of small and medium-sized businesses and has also become a reason for positive stimulation and development in health and education and mitigating the unjust wealth and root of the menace of poverty. In addition, the results of the subject study are contradictory to the findings of (P. J. Morgan & Pontines, 2018) explained that inclusive finance expands a wide range of borrowers, minimizing lending standards and conditions and resulting in increasing economic and financial risks. Increasing lending facilities to micro-financial institutions without any reasonable checks and balances could impair the efficiency and effectiveness of rules and regulations in a country and cause to destabilize the financial system, and raise risks.

Both model, AB and BB, indicates that effective governance has a positive impact on economic growth, with coefficient value of 0.855 and 0.048 at a significance level of 0.01%. Hence, the second hypothesis is

accepted and consistent with the results of also consistent with results of (Azam, Liu, & Ahmad 2021; Alam et al., 2017 H. Khan et al., 2020; Omri & Mabrouk, 2020). These studies clearly stated that no economic development is possible in the presence of weak and feeble institutions. Our results are contradictory to the measure of (Kurtz & Schrank, 2007), who fail to provide any significant impact of government effectiveness on economic growth and weak market environment diffuse the positive contribution of effective governance and confirm the H2 hypothesis.

Discussion on control Variables

In both model Static Panel Estimation and Dynamic panel estimation, most of the control variables have a positive impact on economic growth, and the results are consistent with the studies of (H. Khan et al., 2020) in both tools. Amongst other control variables, population growth (annual %) and trade (% of GDP) have a negative coefficient with a confidence interval of 0.01 for economic growth. There are several reasons behind the negative contribution of trade in respect of GDP. First, there is a lack of competitive edge in the production process as compared to the internal environment. Second, lack of government support in fiscal policy incentives. Third, technological and efficient capital goods instead of consumption pattern goods should be focused. Last, policies related to trade must be targeted and focused on domestic and export needs and should be planned for the short and long term, and these findings are consistent with study of (Rahman, Saidi, & Mbarek, 2020).

Conclusion

The main objective of the study is to examine the effect of the quality of institutions and financial inclusions on economic growth. To deal with these objectives, this study will investigate selected countries for the following reason: Economic growth is taking the attention of researchers for many hidden potentials. First, so much unearthed potential has been taken attention from intellectual and probability of continuity in upcoming years as well. Second, many dimensions or facets are present in economic growth. It deals with the reorganization of the economy from society to the globe in demographic and geographic structure. Thirdly, in Western Europe economy has been in the globe through rapid colonialism and industrialization during the previous two centennial periods. During this period, other economies of the globe were facing discontinuation in development.

Our main finding for the Asian panel projected that inclusiveness and quality of institutions are the main drivers of financial and economic development, and without effective governance and inclusiveness, it could not be materialized. Results of this research show that the impact of financial inclusion and institutional quality is positively associated with economic growth, and results are also consistent with previous studies. Regulatory authorities may ensure and focus on the affordability for customers and sustainability for providers, which resulted in surpassing the informal sector and including the low-income segment of society. For developing nations, this study provides a foundation to articulate strategies to widen the scope of inclusive economy to nip the bud of poverty via development financing and get positive results in lowering poverty. This study highlighted that policymakers should focus on those countries where high taxes and lack of support from the government for the free and fair market can discourage new entrants in the market and also become a reason for brain drain institutions and introduced reformative processes as per emerging needs and changing bring harmony in economics and also supportive for untapped market and emerging technologies.

This study uses data from 2006 onwards due to the non-availability of recommended and authentic data, which limit our finding and utilization to the selected period and onward. Secondary data is used. First, there are no institutional controls in the growth model. Countries with different institution frameworks may target different levels of financial inclusion, and thus, it may affect the magnitude of the link between financial inclusion on economic growth.

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