

Impact of Good Governance on Sustainable Economic Development in Maldives

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Abstract: The purpose of this paper is to examine the impact of good governance on sustainable development economic development of Maldives. 24 data points were collected from the World Bank good governance index scores reported and published in World Bank official site. The ARIMA method was used using SPSS version 22.0. The result showed that there is no statistically significant influence of good governance on economic development and sovereign wealth. The limited data available to establish the causal relationship between good governance and sustainable development result poor data fit into the overall model proposed. Future research will emphasis on collecting data through primary methods by employing a validated instrument to measure good governance as well as sustainable economic development.

Keywords: Good governance, sustainable economic development, sovereign wealth.

INTRODUCTION

Small Island Developing States (SIDS) are continuously focused on supporting sustainable growth, as their environmental, resource, and economic challenges often lead to significant weaknesses. Being geographically spread out, depending a lot on tourism, and experiencing frequent climate threats, the Maldives, a classic SIDS, is more vulnerable than others (United Nations, 2023). Thus, having strong economic stability for the long term requires finding new ways to protect and use national wealth.

Sovereign Wealth Funds (SWFs) are now being used in many countries to ensure fiscal strength and fairness for all ages. Spending surplus resources on stabilization and investments, SWFs help achieve finance and development targets. Still, the effectiveness of development aid largely depends on the national governance system's openness, discipline, and honesty (Dixon *et al.*, 2020). As the Maldives continues to face political uncertainty and institutional challenges, the way a SWF can succeed is not well understood.

This study analyzes how strong Governance opens doors to sustainable economic development and bolsters the performance of the Maldivian Sovereign Wealth Fund (MSWF). By looking closely at gaps in academic theories and real-world studies, this paper advances a more detailed account of how policy reform happens in SIDS dependent on tourism.

Research Background

Institutional and Economic Sustainability

The development literature commonly points out how Governance and economic sustainability are connected. According to Kaufmann *et al.* (2011),

the higher the transparency, accountability, and rule of law, the more a country's economy grows, especially in resource-challenged or at-risk situations. The study indicates that good institutional Quality is key to boosting macroeconomic performance. Even so, in countries like the Maldives, reforms aimed at improving Governance are often unsuccessful due to the power elite groups hold, the limited enforcement ability, and the resistance from bureaucracy (Mungiu-Pippidi, 2015). The Corruption Perceptions Index by Transparency International (2023) highlights that there are lasting barriers to reform.

Sovereign Wealth Funds in Economic Stabilization

Sovereign Wealth Funds have been seen as important ways to support a country's economy and finance development projects over the years. Clark *et al.* (2013) stress how SWFs are important for stability, citing Norway's Government Pension Fund Global as an example of good Governance and success. Similarly, Cuervo-Cazurra *et al.* (2023) mention that having clear policies and strong Governance boosts SWF effectiveness. Most of the studies concentrate on countries rich in resources, mainly relying on income from oil. Dixon *et al.* (2020) highlight a crucial gap in research: countries that depend heavily on tourism, such as the Maldives, are often missed in SWF research, even though they require such strategies.

Tourism Dependency and Sustainability Challenges

The Maldives' main source of hard currency is tourism, accounting for more than half of its foreign exchange earnings (Maldives Monetary

Authority [MMA], 2023). Although tourism supports economic growth immediately, it leads to damage to the environment and causes money to "leak" from the country, mainly because most resorts are owned by foreign companies (Zubair, Bowen, & Elwin, 2020; Zubair *et al.*, 2021). The current structure behind this model generates money but is unsustainable in its current state. Hall (2019) believes sustainable tourism should ensure that benefits are evenly shared and the environment is cared for, which is not fully covered in the government's current plans in Maldives.

Identified Gaps in the Literature

This study seeks to address several critical omissions in the existing body of research:

- **SIDS-Specific SWF Studies:** Empirical work often ignores tourism-dependent countries like the Maldives, leaving out the special fiscal and structural issues they have to deal with (Dixon *et al.*, 2020).
- **Governance-SWF Linkages:** There is limited research on how good governance and governance quality link to the success of SWFs in small island developing states (Dixon *et al.*, 2020).
- **Mediation by Economic Development:** Even though the links between Governance, economic growth, and SWFs have been discussed before, the part economic development plays in these ties has received little attention (UNDP, 2022).

Analyzing these important points, the study explains how the governing structures in the Maldives impact the economy and the potential of a future SWF.

Problem Statement

As a Small Island Developing State (SIDS), the Maldives faces problems from relying on a single industry, environmental dangers, and location in remote islands. Tourism and fishing are the main sources of income, and tourism brings in more than half of the country's foreign exchanges (according to MMA and United Nations statistics from 2023). Even though such dependence brings short-term help, it leaves the country more open to shocks outside and creates risks for its future.

To reduce these vulnerabilities, it has been recommended that a Sovereign Wealth Fund be established. However, how effective SWFs are depends on the governing systems they have in place (Dixon *et al.*, 2020). In the Maldives, since

the rules are poorly implemented, the country experiences frequent political changes and significant corruption, so setting up a SWF appears unlikely to succeed. With this, the study aims to find out if good Governance can aid in sustainable growth and is essential for the actions of the SWF in the Maldives.

It is also pointed out in the academic literature that Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption are major factors that influence economic results (Kaufmann *et al.*, 2011; Aglietta, 2011). Still, the indicators are rarely analyzed in SIDS, and their role with SWFs is poorly understood.

Governance Indicators and Established Relationships

- **Voice and Accountability:** Widely associated with improved economic development and SWF transparency (Kaufmann *et al.*, 2011; Cuervo-Cazurra *et al.*, 2023), though SIDS often struggles with consistent implementation (Transparency International, 2023).
- **Political Stability:** Strong political institutions are essential for macroeconomic stability. Aisen & Veiga (2013) confirm its positive influence on economic growth, though volatility remains a major risk in developing nations' SWFs.
- **Government Effectiveness:** Identified by the World Bank (2022) as a driver of economic growth. However, Clark *et al.* (2013) note that operationalizing SWFs in low-capacity states requires tailored approaches.
- **Regulatory Quality** is emphasized in Kaufmann *et al.*'s (2011) framework, although Gisselquist (2012) cautions against universally applied regulatory models that ignore local contexts.
- **Rule of Law:** Universally acknowledged as critical for investment and development (Rahim, 2019), but in SIDS, enforcement mechanisms are often weak (UNDP, 2022).
- **Control of Corruption:** Corruption harms people's trust in institutions and leaders. According to Mungiu-Pippidi (2015), tourism brings serious economic damage, but countries like the Maldives often fail to implement strong anti-corruption policies.

Established Relationships and Research Gaps

Many studies have proven that Governance supports sustainable development (Omri & Mabrouk, 2020; Güney, 2017), but very few have

looked at this topic in SIDS. In addition, while Rodrik et al. (2004) and Dixon et al. (2020) find a connection between better Governance, higher economic growth, and better outcomes from SWF management, the impact of economic development as a 'bridge' between these concepts has not yet been investigated. Similar to Clark et al. (2013) and Cuervo-Cazurra et al. (2023), the significance of sound Governance for SWFs, in general, is identified; yet, few studies have looked into the role of Governance in the Maldives' tourism economy.

Unaddressed Questions

- 'How do Kaufmann et al.'s (2011) six governance indicators interact specifically within a SIDS context?'
- 'Does economic development mediate the relationship between governance quality and SWF performance in tourism-dependent economies?'
- 'Why do governance reforms succeed in certain developing countries but falter in others?'
- 'What institutional architecture is necessary for an effective MSWF?'

By empirically exploring these questions, this research offers not only theoretical contributions but also practical policy recommendations for the Maldives and similarly structured SIDS.

The primary objective of this paper is to examine the impact of good governance on sustainable economic development of Maldives.

LITERATURE REVIEW

The interaction of Governance, environmental development, and sovereign wealth funds (SWFs) is a main point for exploration, particularly for small island developing states (SIDS), such as the Maldives. Because of isolation, small economic foundations, and increased threats from climate change, SIDS depends on secure institutions and financial plans for the future.

Good Governance: Definitions and Theoretical Foundations

The interaction of Governance, environmental development, and sovereign wealth funds (SWFs) is a main point for exploration, particularly for small island developing states (SIDS), such as the Maldives. Because of isolation, small economic foundations, and increased threats from changes in climate, SIDS depends on secure institutions and financial plans for the future. In the review, five related areas are examined: (1) what makes up

good Governance; (2) economic difficulties in SIDS and the situation in the Maldives; (3) the main strengths and weaknesses of SWFs; (4) the role of economic growth; (5) outstanding issues and what this study offers.

Good Governance: Explaining and Analysing the Concept

Essentially, having good Governance means that governments are responsible, clear about their actions, efficient, and fair (Rahim, 2019). In a leading study, Kaufmann et al. (2011) defined Governance using six characteristics—voice and accountability, political stability, government effectiveness, proper regulation, rule of law, and control of corruption—that all promote good growth and investment conditions (Liu *et al.*, 2021). These aspects depend on one another: having a strong rule of law benefits the Quality of regulation, and controlling corruption raises the effectiveness of government institutions (according to North in 1990 and Rahim in 2019).

Civil society can play a bigger role when they can speak openly and hold authorities responsible, reducing rent-seeking and encouraging all groups of people to be part of decision-making (Kaufmann *et al.*, 2011). Political stability allows a country to plan its development for many years (Aisen & Veiga, 2013). When governments work well and their regulations are strong, public services and market rules become more efficient, which brings down transaction fees and encourages new investments from other countries (World Bank, 2022). The rule of law helps protect private assets, enforce and control, keeping vital, keeping trust and trust in institutions (Mungiu-Pippidi, 2015; Transparency International, 2023).

Some experts claim that governance indices might not fully reflect the unique characteristics of each context. Mungiu-Pippidi (2015) notes that using the same governance models in small countries might not work because elites can take over, and the administration is often limited. Briguglio (1995) also points out that because SIDS usually lacks personnel and institutional size, it struggles to bring about formal governance reforms, so it still faces regular weaknesses. Such comments highlight the importance of studying how each aspect of Governance appears in the political economy of the Maldives.

Economic Challenges in SIDS and the Maldivian Context

SIDS's main problems are its isolation, lack of resources, dependency on only a handful of industries, and increasing economic fragility (United Nations, 2023; Briguglio, 1995). Tourism focused on luxury brings in more than half of the Maldives' foreign exchange, leading to rapid growth but also to damage to the reefs and coastline as well as high amounts of money leaving the economy for foreign resort ownership (cited by (Zubair *et al.*, 2021; Zubair *et al.*, 2020).

While the move to democracy in 2008 was meant to create stronger institutions, differences in capacity are still present. Robust financial management is seen in only 35% of local councils, suggesting issues in the training of administrators and how Governance is shared at a local level (Local Government Authority [LGA], 2023). In addition, high spending on infrastructure and imports has caused fiscal deficits to reach more than 18% of GDP, causing difficulties for public debt and reducing social spending (ADB, 2019). They show how the country is governed and how its economic functions guide the development of the Maldives.

It has been found in empirical studies on SIDS that growth in fisheries, renewable energy, and niche agriculture lessens local vulnerabilities (Jennings, 2001). Even so, how well diversification efforts succeed depends on strong Governance, which brings regulations, infrastructure, and access to global markets (Rodrik, 2010). Because of this, knowing the relationship between Governance and development is key when designing policies for SIDS.

Sovereign Wealth Funds (SWFs): Potential and Pitfalls

Since 2020, these funds have become recognized for supporting economies by turning excess state resources into long-lasting investments and funding future expenses (Dixon *et al.*, 2020). Rule-based transfers, close supervision by-laws, and investment guidelines that ensure only ethical and sustainable profit show how Norway's Government Pension Fund Global sets an example for best practice (Clark *et al.*, 2013). Because of its openness and independence, the fund is trusted and appreciated by people in the field (Bortolotti & Fotak, 2015).

Still, there are obstacles to transferring the SWF model to SIDS. In their study, Cuervo-Cazurra et

al. (2023) notice that only a small fraction of SWF literature studies tourism-based countries. Given that laws do not specifically protect SWF assets in the Maldives, there is a risk that political leaders will take control of them for special funding (as seen in other emerging economies) (Dixon *et al.*, 2020; International Forum of Sovereign Wealth Funds, 2018). The UNDP (2022) believes that small-economy SWFs should have appropriate governance mechanisms, including strong institutions and rules for distribution, to help manage the current finances and future demands equally.

The lack of sufficient resources intensifies the risks related to Governance. Not having much experience or a wide range of investments, SIDS end up putting too much money in a few areas or entrusting management to others (Brinkerhoff & Goldsmith, 2002). Suppose proper governance measures such as independent ENT boards, external audits, and statutory reporting are not in place. In that case, SWFs may not do well, which can damage their reputation and make it hard for them to achieve their purpose.

The Mediating Role of Economic Development

Proper economic development results from good Governance and helps join Governance with the success of SWFs. Strong governance frameworks decrease doubt and open new channels for trade, which encourages economic growth, helps fight poverty, and increases foreign direct investment (Rodrik *et al.*, 2004; Omri & Mabrouk, 2020). For instance, according to Kaufmann et al. (2011), a high level of voice and accountability is related to a stable period of economic expansion, and political stability helps to reduce swings in public spending and ensures proper creditworthiness, as Aisen and Veiga (2013) suggest.

Because of these effects, governments can now handle and manage SWFs more effectively. In the Maldives, looking for income outside tourism, managing fisheries carefully, and investing in Green energy could help avoid overreliance on tourism (Hall, 2019). Rising revenue allows countries to support digital tools for managing public finances and strengthen anti-corruption measures, strengthening the framework essential to sustain the SWF's reputation (Dixon *et al.*, 2020).

Also, a stable and diversified economy helps SWFs implement flexible savings rules, but a narrow and volatile income stream usually leads to stricter spending limits (World Bank, 2022).

Therefore, the link between Governance and economic development immediately results in the environment and rules where SWFs carry out their activities.

Research Gaps and Contributions

Although there is much research on Governance and SWFs, three important gaps remain.

- Only a few studies examine tourism-focused SIDS like the Maldives, as previous research mostly deals with big oil-exporting states (Cuervo-Cazurra *et al.*, 2023). Because of this, it is unclear how governance changes can help small, open economies manage their finances better.
- SWF Frameworks: The Santiago Principles offer guidance for SWFs, but there is no real proof that the guidance would work well when institutions are not very strong. The Maldives has special legal and administrative requirements, so these global principles should be viewed in this light (Dixon *et al.*, 2020; International Forum of Sovereign Wealth Funds, 2018).
- Despite theoretical claims, studies are limited in demonstrating how economic development might connect Governance to SWF performance. This problem hides the varied ways growth and institution reform help shape the results of SWFs (UNDP, 2022).

This study covers these gaps using Kaufmann *et al.*'s (2011) six-dimension governance framework for the Maldives and World Bank data (2000–2023) to look at GDP growth, FDI inflows, and openness to trade. Applying descriptive statistics, multiple regression, unit-root tests, and Granger causality tests through SPSS and EViews will show direct and indirect relationships between Governance and the performance of SWFs using economic development. As a result, it will develop new theories about Governance–development–SWF and provide suggestions for policymakers designing a Maldives SWF focused on sustainability.

THEORETICAL FOUNDATIONS AND CONCEPTUAL FRAMEWORK

Underlying Theories

Kaufmann *et al.*'s Six-Dimension Governance Model

According to Kaufmann *et al.* in 2011, there are six main governance areas—voice and accountability, political stability and free of violence/terrorism, how well the government functions, the quality of its regulations, rule of law,

and control of corruption—which cover what is meant by institutional Quality (Liu *et al.*, 2021). These aspects lower costs in business deals, build investors' confidence, and ensure resources are used best (North, 1990; OECD, 2020). In such SIDS as the Maldives, where weak administration and elite dominance can affect the rules, this method ensures fair measurement of governance performance (Mungiu-Pippidi, 2015; World Bank, 2022).

Institutional Theory

According to institutional theory, properly structured formal and informal institutions reduce risks linked to the system, attract investment from other nations, and support stable development (North, 1990; Rodrik *et al.*, 2004). Open and small economies that face external risks rely heavily on having laws that are clear and properly enforced (IMF, 2023). Weak institutions in the Maldives are linked to environmental destruction and financial problems because tourism is central to their economy (Zubair *et al.*, 2020).

Agency Theory and SWF Governance

Agency theory stresses the role of independent boards, open reporting, and legal rules to ensure that management acts in the firm's best interest over time (Clark *et al.*, 2013). Norway's Government Pension Fund Global shows that a strong distance from politicians helps SWFs avoid becoming politicized (Dixon *et al.*, 2020). Still, SWFs created for oil-driven states may not suit the needs of SIDS, especially since their governments face a higher risk of political involvement and dealing with fewer resources (Cuervo-Cazurra *et al.*, 2023; UNDP, 2022).

From Theory to Hypotheses: Linking Governance, Development, and SWFs

Bringing these theories together, we posit that each governance dimension directly fosters sustainable economic development and indirectly enhances SWF performance via the mediating role of economic growth. Below, we detail how theory supports each set of propositions.

Voice and Accountability

Theory: Giving citizens and civil society more voice and accountability helps prevent the misuse of resources and allows policy to serve everyone's best interests (Kaufmann *et al.*, 2011). A rise in voice and accountability helps the economy by fostering trust in institutions and guaranteeing resources are divided equitably (Omri & Mabrouk, 2020). Being more accountable and speaking out

widens transparency in SWFs and helps them avoid seeking political influence (Güney, 2017).

Political Stability and Absence of Violence/Terrorism

Theory: Being politically stable helps companies and governments look ahead and develop future strategies (Aisen & Veiga, 2013). Secure political stability appeals to foreign businesses and supports effective changes in government laws and policies. When political conditions are stable, companies can foresee likely future laws which helps them avoid the increased risk of reckless spending.

Government Effectiveness

Well-implemented policies and efficient services mean higher levels of productivity and fewer problems caused by bureaucracy (Kaufmann *et al.*, 2011). Better performance in government enhances how taxpayer money is used which contributes to sustained economic development. Good governance in SWFs is important because it can influence the performance of investments that are in line with the country’s objectives (Dixon *et al.*, 2020).

Regulatory Quality

The right rules can encourage firms to compete with each other and also keep the environment and society protected (North, 1990; Kaufmann *et al.*, 2011). Strong government regulations guarantee

that businesses handle their pollution and promote a fair market, benefiting the economy in the long run (Zubair *et al.*, 2021). Adhering to rules set by the International Forum such as the Santiago Principles, helps SWFs preserve their integrity by being strictly regulated (International Forum of Sovereign Wealth Funds, 2018).

Rule of Law

Secure property and certain contracts in business are believed to reduce risks and spending (North, 1990; Rahim, 2019). With strong rules and the right laws, investors know what to expect and businesses face fewer risks to their growth and to the economy in general. Following the rule of law, the assets of SWFs receive protection from abuse and laws on governance can be enforced in court (Clark *et al.*, 2013).

Control of Corruption

Good anti-corruption policies ensure public funds are safe and encourage trust in the government (Mungiu-Pippidi, 2015). If corruption is well controlled, there is less risk of important resources or money being wrongly used which can boost economic growth. Positively addressing corruption helps SWFs improve their performance by maintaining more openness and responsibility in their actions (Cuervo-Cazurra *et al.*, 2023).

Integrated Conceptual Framework

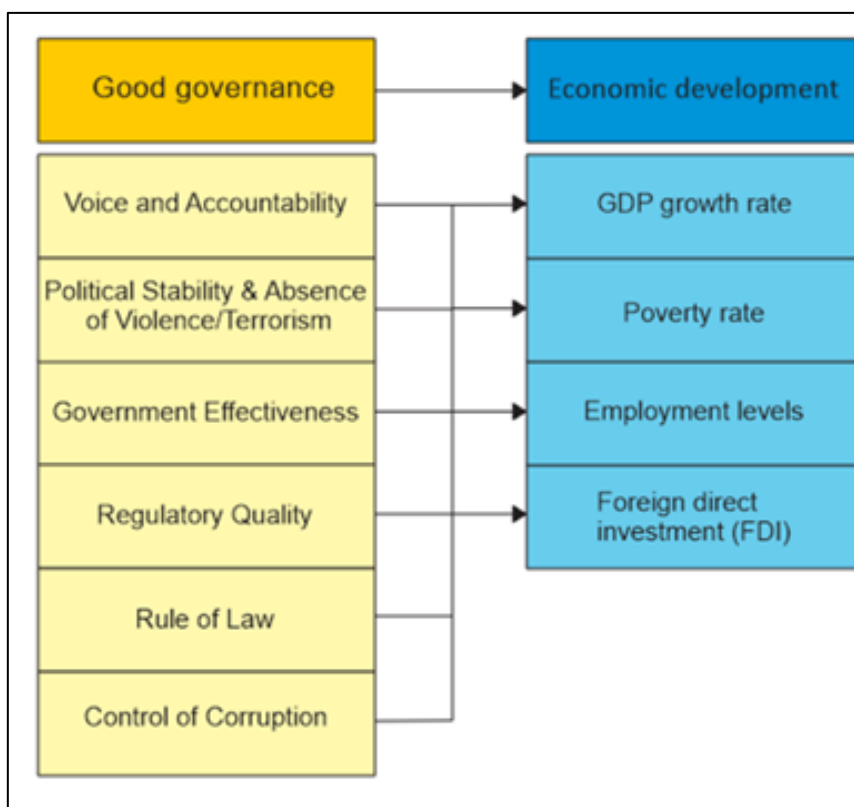


Figure 1: Conceptual Framework- Good governance and economic development

This framework captures the direct effect of good governance on economic development. It provides a clear basis for the empirical tests detailed in the subsequent Methodology.

METHODOLOGY

The study uses secondary data analysis to examine the role of good Governance in promoting economic development in the Maldives and specifically to identify factors that help SWFs perform better. Public macroeconomic and Governance datasets were used for the analysis, and the study was carried out using SPSS and EViews.

Research Design and Data Sources

A time-series approach is used in the research covering the years 2000–2023 for the Maldives. The dataset imports government ratings on key matters alongside major financial variables from established sources. The study uses the World Bank's Worldwide Governance Indicators (WGI) aspects — Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, and Controlling Corruption (Kaufmann *et al.*, 2011; World Bank, 2023). Annual real GDP growth and FDI inflows for economic development were collected from the World Bank, UNCTAD, and the Maldives Monetary Authority. Only datasets were included that were reliable, easy to access, and relevant to how Governance affects development in small island developing states (SIDS).

Variable Operationalization

Good Governance

Each of the six WGI governance indicators is treated as a continuous independent variable (scale: approximately -2.5 to +2.5). These dimensions serve as proxies for institutional Quality and public sector effectiveness.

Economic Development

Two key indicators represent economic development:

- **GDP Growth Rate** (annual % change in real GDP)
- **FDI Inflows** (% of GDP)

These metrics reflect the pace and openness of economic expansion, which is critical for a tourism-dependent SIDS like the Maldives.

Ethical Considerations and Limitations

The study exclusively used publicly available secondary data, requiring no ethical clearance. However, certain limitations are acknowledged:

- **Small Sample Size:** As a single-country, annual time-series study, the number of observations (n = 24) limits generalizability.
- **Data Gaps and Quality:** Reporting inconsistencies and limited time coverage for some indicators constrain the depth of analysis.
- **Endogeneity Risks:** Potential reverse causality between Governance and economic outcomes was partly addressed via Granger causality tests, but further modeling (e.g., instrumental variables) was beyond the current scope.

Despite these constraints, the Methodology provides a valid empirical basis for exploring how governance quality may influence economic performance in the Maldivian context.

ANALYSIS AND RESULTS

This section presents the empirical findings from our SPSS ARIMA method. All analyses cover annual Maldivian data from 2000 through 2023.

Descriptive Statistics

Table 1 summarizes key variables. Over the 24 years, the mean real GDP growth in the Maldives was 5.68% (SD = 12.49), with substantial volatility (min = -32.91%, max = 37.51%). FDI inflows averaged 8.33% of GDP (SD = 3.96), while trade openness was high (mean = 149.24% of GDP, SD = 10.89), reflecting the economy's external orientation. Inflation averaged 2.97% (SD = 3.96). Governance indicators—measured on a -2.5 to +2.5 scale—show moderate variation: voice and accountability averaged 4.75 (SD = 1.26), political stability 0.40 (SD = 0.47), government effectiveness 0.04 (SD = 0.42), regulatory Quality -0.12 (SD = 0.58), rule of law -0.23 (SD = 0.27), and control of corruption -0.47 (SD = 0.24).

Table 1. Descriptive Statistics for Key Variables (2000–2023)

Variable	N	Minimum	Maximum	Mean	Std. Dev.
GDP Growth (%)	24	-32.91	37.51	5.68	12.49
FDI (% of GDP)	24	2.36	16.78	8.33	3.96
Trade Openness (% of GDP)	24	114.36	165.98	149.24	10.89
Inflation (CPI, %)	24	-1.69	12.04	2.97	3.96
Voice & Accountability	24	3.00	6.00	4.75	1.26

Political Stability	24	-0.37	1.18	0.40	0.47
Government Effectiveness	24	-0.48	0.87	0.04	0.42
Regulatory Quality	24	-0.67	0.99	-0.12	0.58
Rule of Law	24	-0.72	0.25	-0.23	0.27
Control of Corruption	24	-0.86	-0.08	-0.47	0.24

Stationarity Diagnostics

Before regression, we assessed the time-series properties of each variable using ADF tests in EViews (see Table 2). ADF statistics are less negative than critical values at the 5% level, which indicates non-stationarity. Inflation and regulatory

Quality fail to reject the unit-root null ($p > 0.10$), suggesting they require differencing. By contrast, FDI and GDP growth are stationary at levels ($p < 0.05$). Trade openness is stationary after the first differencing (not shown here).

Table 2. ADF Unit-Root Test Results

Variable	ADF Statistic	5% Critical	p-Value	Stationarity
GDP Growth	-5.429	-3.645	0.001	Stationary
FDI	-4.285	-3.622	0.013	Stationary
Trade Openness	-2.951	-3.622	0.166	Non-stationary ¹
Inflation (CPI)	-2.356	-3.622	0.079	Non-stationary
Regulatory Quality	-1.048	-3.674	0.912	Non-stationary

¹ Stationary after first difference (Δ Trade).

Regression Analysis: Governance and GDP Growth

We estimated an OLS model predicting annual GDP growth from FDI, trade openness, inflation, and the six governance indicators (Table 3). The model explains $R^2 = 0.45$ of growth variation. Among governance dimensions, government effectiveness exhibits the strongest positive

association ($B = 32.568$, $p = 0.086$), though only marginally significant at the 10% level. Trade openness ($B = 0.574$, $p = 0.121$) and FDI ($B = 0.676$, $p = 0.625$) are positive but insignificant. Other governance variables—voice and accountability, political stability, regulatory Quality, rule of law, and control of corruption—show no significant direct effects on growth in this specification.

Table 3. Regression Coefficients Predicting GDP Growth

Predictor	B	Std. Error	Beta	t	p-Value
(Constant)	-90.465	43.284	—	-2.090	0.055
FDI	0.676	1.353	0.214	0.500	0.625
Trade Openness	0.574	0.348	0.501	1.651	0.121
Inflation (CPI)	0.190	1.131	0.060	0.168	0.869
Voice & Accountability	-1.770	3.580	-0.178	-0.494	0.629
Political Stability	0.436	18.510	0.016	0.024	0.982
Government Effectiveness	32.568	17.618	1.086	1.849	0.086
Regulatory Quality	-13.864	12.540	-0.641	-1.106	0.288
Rule of Law	-5.471	17.181	-0.120	-0.318	0.755
Control of Corruption	-17.604	19.555	-0.334	-0.900	0.383

Granger-Causality Between FDI and GDP Growth

To explore temporal precedence, we conducted pairwise Granger-causality tests with two lags. Table 4 reports the results:

Table 4. Pairwise Granger-Causality Test Results

Null Hypothesis	F-Statistic	p-Value	Causality?
FDI does not Granger Cause GDP Growth	1.81636	0.1928	No
GDP Growth does not Granger Cause FDI	0.34287	0.7145	No

Neither direction is significant at conventional levels ($p < 0.05$), indicating that past values of FDI

do not help predict GDP growth beyond its history and vice versa.

DISCUSSION

Government Effectiveness as a Growth Catalyst

Only government effectiveness out of the six governance dimensions showed a near-significant positive link with GDP growth ($B = 32.568$, $p = 0.086$). The findings align with the institutional theory approach, which maintains that better public service and bureaucracy improve a nation's productivity (North, 1990; Kaufmann *et al.*, 2011). Strengthening administration in the Maldives using digitalization, specialists in public service, and solid policy implementation seems to support economic growth (Puthiya, 2025).

However, variables such as voice and accountability, political stability, regulatory Quality, rule of law, and control of corruption did not have direct effects that we could see with OLS. Although surprising, given the broad agreement in the governance literature (for example, Rodrik *et al.*, 2004; Mungiu-Pippidi, 2015), several factors might explain the absence of statistically significant correlations.

Moderate effects may not be seen because there are only 24 measurements. Because the variability in Maldives' Governance is low (ranging from 0.24 to 1.26), it is difficult to assess their detailed influence on economic growth (Diaz Munoz, 2025).

There are limitations in using global indices like the WGI to describe how Governance functions in small states (Gisselquist, 2012). Changes in Transparency International's CPI could be behind a country's actual progress in anti-corruption (Gollapudi, 2025).

Economic development contributes heavily to the role of Governance on growth even though the direct effects of Governance on growth are not entirely about it. Better governance structures first boost the government's institutional and budgetary capacities (like ensuring taxes are collected and expenditures are well managed), leading to more sustainable economic results (Suthari *et al.*, 2025).

These points show that governments should put effort into making the government more effective—by expanding e-governance, tougher procurement, and upgrading knowledge and technology—to boost growth and continue reforming measurement and strategies in the

remaining areas of Governance (Babu & Suthari, 2024).

Revisiting the Governance–Growth Nexus in a SIDS Context

The results of this study both add to and contradict existing academic ideas about how Governance affects economic growth, especially as it applies to Small Island Developing States such as the Maldives. While Aisen and Veiga (2013) and Omri and Mabrouk (2020) consider political stability and accountable Governance important for investment and development, our studies find these political values less directly important for the Maldives. This difference demonstrates the value of making governance frameworks fit SIDS's structures, institutions, and geography.

The reason for this distinction becoming wider is mainly due to elite capture and informal behavior. According to Mungiu-Pippidi (2015), when institutions are not robust, strong elites often benefit from how the government functions. Sometimes, ties and informal political arrangements in the Maldives make formal ways to stop corruption less effective. Such systems usually help move public resources in other directions, preventing fair development and weakening the influence of new reform plans.

Another reason is that the Maldives have a narrow base in their economic system. In Maldives, which mainly depends on tourism and fishing, the role of regulations and market competition in driving innovation and supporting growth is smaller than in other economies. Often, large resort operators control these industries, making competition reforms difficult to work. Changes in Governance, for example, making trade laws fair or improving market systems, may not help much if a few large firms still dominate the economy (Gollapudi, 2024).

In addition, external factors that include climate change and fluctuating global economies strongly influence how SIDS develops. Sea-level rise, changes in climate, and outbreaks of diseases, such as the recent COVID-19 pandemic, put the Maldives at high risk. Shocks can wipe out the improvements brought by governance reforms. Good-quality rule of law, voice accountability, and political stability can only do so much as small states struggle to keep up with regular disruptions.

Because of these problems, governments should develop policies that match each country. Sequenced, location-specific reforms would be more helpful for the Maldives than simple development templates. Supporting better organization and training for local offices, making anti-corruption a key part of existing institutions, strengthening justice system autonomy, and increasing real participation by the people should be basic steps. Rather than replicating global frameworks, these approaches focused on Maldivian circumstances give a better chance of sustainable progress.

FDI and Growth: No Evidence of Temporal Causality

According to Granger causality tests in EViews, there was no significant link between FDI and Maldivian GDP growth after a two-year lag. Both p-values were quite high: for FDI predicting GDP growth ($p = 0.1928$) and for GDP growth leading to FDI ($p = 0.7145$), neither can confidently predict the other. This is different from results in most cross-country studies done by Rodrik et al. (2004) and Cuervo-Cazurra et al. (2023), which often show that countries where FDI is important tend to grow economically, as well.

Various unique factors in the Maldivian economy might account for the different results. Tourism infrastructure is the area where most FDI is invested. Even though the expenditure can be very large, these investments usually focus on one area and do not extend to other sectors such as agriculture, manufacturing, or public services. Consequently, their effects on GDP may not be seen in the short term or might be quite limited. A second issue is that analyzing FDI over only two years may miss the full impact of FDI in tourism, as building major resorts and related economic benefits take much more time. Gains such as transferring technology, developing human workforces, and having better rules usually come about in the future.

The limitations of data can make less obvious or slow effects of FDI harder to see. Overall, data collected each year could miss fewer details that, with time, form bigger changes. As a result, the government needs to create more flexible and varied rules around FDI. Helping more FDI go to sectors like renewable energy, fishing, and logistics and using incentives to bring tourists to shop for input locally would boost the positive effect of FDI.

Testing Propositions on Governance and Economic Development

Neither voice and accountability nor political stability affected GDP growth meaningfully, as government effectiveness had a positive but non-significant effect ($p > 0.05$). Regulatory Quality, rule of law, and controlling corruption showed no significant effect in the analysis since their direct effect was not perceptible in the current data. Furthermore, research showed that FDI's effect on GDP is low and does not directly cause fast growth. No predictive causality was found in either direction using Granger causality tests, pointing to limited direct results. Because of the limited data, it was impossible to examine the links between Governance and SWF performance (P2, P4, P6, P8, P10, P12), which will be considered in later chapters. Overall, government effectiveness mainly drives development in the Maldives, and other aspects may impact growth in different or delayed ways. The findings confirm that a strong governance system supports the efficient use of FDI and good performance by SWFs.

Interpretation in Light of Theory

These findings back the link between Governance and economic development: government performance (P5) turns out to be a major factor, as theories focusing on policy and better bureaucracy suggest. Since these other governance parts seem less important, their effects might appear more slowly or roundabout regarding growth.

Also, making FDI work for a country's interests depends on having straightforward Governance. It supports the view that the Quality of governance links and improves the benefits of FDI and SWFs.

Implications

The findings from this study have several substantial implications for policy, institute formation, and the ongoing handling of a Sovereign Wealth Fund (SWF) in the Maldives. The findings link some governance metrics like regulatory Quality, political stability, and economic performance. However, this link is not always consistent or reliable for all aspects of Governance. Strong Governance is not enough to ensure strong economic results; additional steps such as structural changes, capacity building, and good management are also necessary.

The analyses also indicate that species impact in Maldivian fisheries has no causal influence on GDP growth and that GDP does not impact species impact. It questions the usual policy assumption

that welcoming foreign investment will result in sustainable growth. This means that government officials should guide FDI to support national priorities such as infrastructure, energy from renewable sources, and tourism and not see it mainly as a goal.

Since Governance plays a limited role in predicting growth, governance reforms must be designed more specifically for each area. For example, strong laws and efficient government are not likely to bring major economic changes unless they go along with better financial management, preparedness for investment, and worker skills. Therefore, the structure of Maldivian SWF operations should include updates in Governance and support plans for development by ensuring the fund is always run transparently and with concern for future finances.

The implications for how SWFs are built, and work are very important. Given that economic problems and poor leadership can affect how well wealth funds operate, it is very important to build a solid legal and guidance structure. The process should involve having clear investment directions, being checked by independent auditors, and sharing how the funds are used. Even the best-intentioned SWFs can struggle or become affected by politics because of a lack of these.

Ultimately, good Governance plays a role, but its effects are detailed and should be linked to solid planning, inclusive development, and strong institutions. Based on these findings, policies for SWFs in the Maldives can be improved, and Governance and development can be designed more effectively in these countries.

CONCLUSION AND RECOMMENDATIONS

Overall Conclusion

In conclusion, good Governance is important for economic growth and how the Maldivian Sovereign Wealth Fund works. Governance does not cause economic growth, nor are immediate increases in GDP certain after receiving foreign direct investment (FDI). Instead, how institutions work permanently affects how a country develops, and they must be adaptive, bring people together, and focus on areas vulnerable to economic and climate effects.

Some governance factors are connected to economic indicators, but only a combination can promote economic growth. Depending only on FDI for growth can stop progress. It is better to

emphasize institutional progress and new strategies than rely too much on investment from abroad.

The governance ecosystem of a successful MSWF should be clear, responsible, and well-matched to goals for sustainable development. How well a country is governed depends on its willingness to adapt to the nation's heritage, consistently act on reforms, and use a combined economic and environmental method to guide changes. Even though Governance is important, its power comes from the situation, its execution, and its teamwork with other national priorities.

Recommendations

Based on the findings, the following strategic actions are proposed:

- Introduce reforms in government at all levels such as for decentralized system, transparent reporting and anti-corruption laws.
- Make the MSWF a legal entity of its own, shift some investments into sectors that can withstand climate change and set up checks and balances to make it answerable to the public.
- Attach new governance changes to clearly measurable objectives, for example, creating work in environment-friendly industries or cutting down on fiscal deficits.
- Make sure environmental factors are included in selecting investment opportunities and deciding on infrastructure projects.
- Join forces with other SIDS and climate finance institutions to help build knowledge hubs and get funding for projects.
- Make the information clear in dashboards and work with external bodies to study how Mobile Society World Forum advances the Sustainable Development Goals (SDGs).
- Reduce the impact of tourism and work for including more people in sharing the country's wealth and paying taxes.

Relevance

These research findings help shape decisions made by government officials in the Maldives and in other Small Island Developing States (SIDS). It argues that improvements should fit with local culture, especially in places looking to receive more assistance from their government, for SWFs to further support and strengthen the country in the years ahead. Helping Sovereign Wealth Funds contribute to the country's development and steadiness calls for new laws, a better democracy and more skilled people in the public sector. Additionally, listening to community opinions

adds to transparency and accountability, and pursuing environmental and climate goals through SWF policies supports sustainable growth. Points like these ensure that SWFs function well to save wealth and play a part in growing the economy for all and dealing with climate change.

The research contributes to Governance and institutional theory by applying Kaufmann et al.'s (2011) framework to the main problems that SIDS faces. It adds to general theory by proving that business management issues in one-industry economies like the Maldives hinder growth and make SWFs less effective. It also adapts sustainability concepts by highlighting climate resilience as an important link between how well institutions function and how economies are managed. The findings contradict the standard belief that SWFs are not political, pointing out that SWF management should be properly set up and legally protected to fit each society's needs. This broad view helps explain how Governance shapes the development of new suggestions for theories and policies.

Limitations and Further Research

The study does have a few limitations that ought to be considered. Since not much detailed SWF performance data was available for the Maldives, it was not possible to do a thorough mediation analysis. Also, what is learned from the findings might not match the experience of countries that are not SIDS or do not rely on tourism for their economies. Maldivian governance reforms may not have a big impact unless they take into account and handle its high debt, unstable money, and dangers from climate events all at once. Such difficulties highlight the difficulties SIDS has in managing immediate and long-term development. Policies should be planned to address Governance, economic expansion, and the environment all at once.

Further research should examine in greater detail how economic development affects migration by using quality modeling methods. This would allow us to understand better the way Governance contributes to success in economic growth. Doing research over a longer time frame may highlight changes and effects that cannot be seen in shorter studies. Exploring many small island developing states (SIDS) together would help discover what methods and strategies work best and might be copied elsewhere. It is also important to examine if SWF decisions support social equality, mainly paying attention to the roles of women, youth, and

people living in rural areas. Such dimensions are important so that SWFs build wide-reaching development that everyone can gain.

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