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INTER- AND INTRA-RELIGIOUS TOLERANCE, SOCIAL STABILITY, AND ECONOMIC PERFORMANCE IN NIGERIA

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ABSTRACT

Religious diversity is a defining feature of Nigeria's social landscape, yet persistent sectarian tensions raise important questions about its implications for development. This study examines how inter- and intra-religious tolerance shape social stability and economic performance across Nigeria's 36 states and the Federal Capital Territory. Using Afrobarometer survey data, ACLED and UCDP conflict records, and state-level economic indicators, including GDP, poverty, and unemployment, for the period 1999–2024, the analysis employs two-way fixed effects, instrumental variables, and mediation frameworks to address potential endogeneity. The results indicate that higher inter-religious tolerance significantly reduces conflict incidence and improves economic performance, while intra-religious tolerance primarily strengthens social cohesion through conflict-mitigating institutional channels. Mediation evidence further shows that a substantial portion of tolerance's economic impact operates through reductions in violence and improved social stability, highlighting tolerance as a productivity-enhancing informal institution that lowers transaction costs and supports sustainable development in religiously plural societies.

*KEYWORDS: **Religious tolerance; Socio-economic development; Social stability; Economic performance; Conflict and development***

INTRODUCTION

Nigeria embodies a central paradox in development economics: it is the only country that ranks simultaneously among the ten largest Muslim and ten largest Christian populations globally, yet this demographic duality has not yielded the social cohesion or shared prosperity that pluralism theory would predict (Pew Research Center, 2025). Between 2010 and 2020, the Muslim population expanded by 32% and the Christian population by 25%, two rapidly growing faith communities coexisting within a polity of over 230 million people (Pew Research Center, 2025). Nevertheless, Nigeria remains one of only seven countries (Afghanistan, Egypt, Iraq, India, Pakistan, and Syria) classified as experiencing very high social hostilities involving religion under the Pew Research Center's Social Hostilities Index. This configuration is not merely sociological; it is macroeconomically consequential. Foreign direct investment averaged only 1.5% of GDP between 2019 and 2023, markedly below the sub-Saharan African average of 3.4%, with empirical evidence linking persistent religious insecurity and institutional fragility to subdued capital formation and growth (Orji et al., 2021; Majumdar & Roy, 2023; Anowor & Ukpere, 2025). The analytical question, therefore, is how variation in inter- and intra-religious tolerance conditions social stability and economic performance across Nigeria's subnational units.

The institutional foundations of this puzzle are historically embedded. Colonial indirect rule entrenched a politically salient north–south religious cleavage that subsequent military regimes and federal restructuring failed to reconcile (Suberu, 2001; Osaghae & Suberu, 2005; Eze, Anowor & Ukpere, 2025). Democratic transition in 1999 did not neutralize these tensions; rather, the adoption of full Sharia penal codes by twelve northern states between 2000 and 2002 intensified sectarian violence, claiming thousands of lives in Kaduna, Kano, and Jos (Human Rights Watch, 2003; Salawu, 2010). Since 2009, ACLED records nearly 53,000 civilian fatalities linked to targeted political violence with religious dimensions, while UNICEF (2020) estimates cumulative economic losses of US$150–200 billion in the northeast alone. Notably, despite 4.5% GDP per capita growth between 2010 and 2018, poverty increased, especially in northern regions, revealing a stark divergence between aggregate output and welfare distribution. These persistent regional disparities, rooted in longstanding structural inequalities, raise the possibility that religiously mediated social fragmentation constitutes an independent impediment to economic convergence.

Nigeria's persistent religious tensions, notwithstanding its deep ethno-religious heterogeneity, constitute a structural constraint on sustainable economic performance. Recurrent inter- and intra-religious conflicts, between Christian and Muslim communities and within sectarian factions, erode social stability, depress investor confidence, disrupt production, and generate substantial macroeconomic losses (Gbadeyan, 2023; Nwonye et al, 2023; Nwonye et al, 2020; Onodugo et al, 2019; Mercy Corps, 2015). Farmer–herder clashes, frequently overlaid with religious cleavages, are estimated to cost affected regions up to US$13.7 billion annually, reflecting destroyed agricultural output, population displacement, and declines in internally generated revenue averaging 47% in conflict-prone states (Mercy Corps, 2015). While diversity per se may be development-enhancing, the absence of tolerance, reciprocal trust, and inclusive institutional frameworks channels pluralism into fragmentation (Dowd, 2016; Agbarakwe & Anowor, 2018). Intolerance operates through capital destruction, investment deterrence, weakened market integration, and fiscal diversion toward security expenditures (Anowor & Nwanji, 2018; Oyetoro, 2023). Yet rigorous empirical analyses isolating the growth effects of tolerance, beyond conflict incidence, remain limited in Nigeria. This study addresses that lacuna by identifying tolerance as an institutional driver of social cohesion and economic performance.

The extant literature on religion and economic development largely conceptualizes religious heterogeneity as a unidimensional construct, commonly proxied by fractionalization indices capturing the probability that two randomly selected individuals belong to different faiths (Alesina et al., 2003; Montalvo & Reynal-Querol, 2005). This aggregation obscures a critical analytical distinction central to this study: inter-religious versus intra-religious tolerance. Inter-religious tolerance denotes the disposition of adherents of one faith to accept and engage constructively with members of another, particularly across Nigeria's Muslim–Christian divide. Intra-religious tolerance, by contrast, concerns accommodation of doctrinal and sectarian differences within the same tradition, including Sunni–Shia–Salafist–Sufi dynamics in Islam and Catholic–Pentecostal–Protestant cleavages in Christianity (Shahzad et al., 2022). Evidence from Indonesia shows these dimensions may diverge: inter-religious interaction enhances tolerance, whereas participation in insular intra-religious circles reduces broader social openness (Prasetyo & Halimatusa'diyah, 2024). In Nigeria's Twelve-Sharia-implementing northern states, low inter-religious openness coexists with intra-

Islamic contestation (Loimeier, 2012; Thurston, 2016). Collapsing these into a composite index masks distinct causal pathways through which each dimension shapes institutional cohesion, trust formation, and economic performance.

This study interrogates the nexus between religious tolerance, social stability, and economic performance in Nigeria through three interrelated questions. First, to what extent does inter-religious tolerance, understood as mutual respect and equitable coexistence across faiths, mitigate the incidence and intensity of ethno-religious violence and communal disruption in a deeply pluralistic society? Second, does intra-religious tolerance, reflecting acceptance of doctrinal and sectarian diversity within Islam and Christianity, exert independent and measurable effects on social cohesion and economic outcomes distinct from inter-faith dynamics? Third, through which institutional and behavioural channels, enhanced generalized trust, reduced insecurity that crowds out investment, preservation of human and physical capital, and fiscal reallocation from conflict management to productive expenditure, does tolerance translate into improved macroeconomic indicators such as GDP growth, foreign direct investment inflows, and poverty reduction? These questions frame intolerance driven instability as a foregone growth problem and position tolerance as a foundational institutional determinant of sustainable development.

This study advances the religion–economics literature by reconceptualizing religious diversity from a static demographic attribute into a dynamic institutional variable. Whereas existing research largely relies on fractionalization indices to proxy heterogeneity (Alesina et al., 2003; Montalvo & Reynal-Querol, 2005; Onodugo et al, 2017; Okorie & Anowor, 2017; Anowor & Okorie, 2016), such measures capture composition but not the quality of interaction within and across faith communities. We distinguish and empirically model inter- and intra-religious tolerance as separable institutional dimensions operating through distinct causal mechanisms, responding to calls for micro-foundations linking social fragmentation to growth (Nunn, 2020; Tabellini, 2010). Substantively, the paper shifts Nigeria and West African scholarship from episodic violence toward tolerance as a continuous determinant of subnational divergence, against a backdrop of persistently high religious hostilities (Pew Research Center, 2023) and substantial conflict-related losses in Northeast Nigeria (UNDP, 2021). Methodologically, we construct a two-dimensional tolerance index integrating attitudinal, conflict, and institutional indicators, offering a replicable framework for estimating tolerance as a latent institutional driver of economic performance.

1. LITERATURE REVIEW

Conceptualizing religious tolerance as an informal institution in the Northian framework provides a coherent bridge between Nigeria's religious heterogeneity and its macroeconomic outcomes. Institutions, defined as humanly devised constraints structuring interaction, comprise formal rules and informal norms that shape incentives and performance (North, 1990). Religious tolerance operates within this informal domain, influencing whether economic actors transact across faith boundaries or retreat into segmented enclaves, with path-dependent implications for growth. Where intolerance prevails, it erodes generalized trust, the core of social capital (Putnam, 2000). Crucially, bonding capital that strengthens intra-group solidarity without corresponding bridging capital across religious divides fosters fragmentation and instability. Conflict economics shows that religious polarization heightens civil war risk and depresses growth (Collier & Hoeffler, 2004), while endogenous growth theory underscores how human capital spillovers raise aggregate productivity (Lucas, 1988). By reducing barriers to intergroup exchange, tolerance enlarges the domain of such spillovers. Thus, tolerance emerges as a productivity-enhancing institution with distinct inter- and intra-religious economic effects.

Religious tolerance influences economic performance through a multi-channel institutional architecture that reduces transaction costs and enlarges productive capacity. Consistent with North's view that institutions structure incentives and shape transaction costs (as cited in Williamson, 2009), tolerance mitigates uncertainty, opportunism, and enforcement burdens in cross-community exchange. Where sectarian hostility prevails, contracting becomes costlier, risk premiums on investment rise, and markets fragment along religious lines, dampening aggregate efficiency (Williamson, 1985). These frictions scale into macroeconomic underperformance. Empirical evidence shows that religious restrictions deter civilian investment, constrain labour access, and weaken marketplace diversity (Klocek & Bledsoe, 2022), while greater religious freedom is associated with stronger foreign direct investment and growth (Baig et al., 2022). Tolerance also broadens human capital formation and labour market participation by reducing minority exclusion (Osei-Tutu & Adjei, 2024), enhances innovation through expanded knowledge spillovers (Cinnirella & Streb, 2018, as cited in Becker et al., 2024), and improves fiscal allocation in fragmented settings (Alesina et al., 1999; Collier & Hoeffler, 2004).

Cross-national growth scholarship consistently links diversity to economic performance yet leaves the operative mechanisms insufficiently specified. Easterly and Levine (1997) and Alesina et al. (2003) document a negative association between fractionalization and GDP per capita growth, but diversity is frequently conflated with inequality and rarely disentangled from tolerance. Conflict research further clarifies that civil war suppresses investment and output (Collier & Hoeffler, 2004), while Fearon and Laitin (2003) demonstrate that insurgency risk reflects poverty and weak state capacity rather than diversity per se. Institutional theory underscores the primacy of informal norms (North, 1990) and inclusive institutions (Acemoglu & Robinson, 2012) in shaping long-run prosperity. In Nigeria, persistent North–South disparities in poverty and human development (Center for Global Development, 2018; Suberu, 2001) coexist with recurrent ethno-religious violence (Salawu, 2010). Yet, as synthesized, tolerance remains analytically undifferentiated from diversity and untested at the subnational level.

Parallel traditions in religion–economics reinforce this gap. Weber (1905/1930) established the behavioural mechanism linking belief to economic conduct, later extended empirically by Barro and McCleary (2003) and formalized within rational choice frameworks by Iannaccone (1998). Social capital theory differentiates bonding from bridging ties (Putnam, 2000), while Dowd (2016) shows that diversity yields positive outcomes in Nigeria only under integrative conditions. Nigeria's institutional history, federal restructuring, and recurrent sectarian unrest (Osaghae & Suberu, 2005; Human Rights Watch, 2003), provides the structural context. Survey infrastructures such as the World Values Survey (2022) and Afrobarometer (2024) now permit granular measurement of tolerance. However, no study jointly disaggregates inter- and intra-religious tolerance and estimates their independent effects on stability and economic performance within Nigeria's federal architecture, a gap this study systematically addresses.

Despite its breadth, the literature on religion and development in Nigeria exhibits three interrelated analytical limitations. First, much of the conflict-oriented scholarship adopts an event-driven perspective, documenting discrete episodes of sectarian violence, such as the Maitatsine uprisings, Sharia riots, Jos crises, and the Boko Haram insurgency, while treating these manifestations as the primary unit of analysis (Salawu, 2010; Agbiboa, 2013). Although this literature shows that religion often becomes an instrument of protest against deprivation and marginalization, its focus on observable violence obscures the underlying attitudinal variation in tolerance that exists across Nigerian states even in the absence of conflict. Second, existing studies rarely disaggregate inter-religious from intra-religious tolerance. While Dowd (2016) identifies significant subnational variation and shows that religious observance promotes tolerance in more integrated settings, the analysis does not distinguish tolerance between faiths from tolerance within them. Third, the Nigerian evidence base remains dominated by qualitative case studies rather than econometric analyses capable of identifying how tolerance shapes investment, labour participation, and economic performance (Tar & Shettima, 2019; Vinson, 2017; Anowor, Ukwueni & Ezekwem; Onodugo, Ikpe & Anowor; Onodugo, Kalu & Anowor, 2013;).

2. THEORETICAL FRAMEWORK

The causal model underlying this study unfolds through three sequential stages, tolerance formation, network expansion, and economic performance, drawing on transaction cost economics, social capital theory, and endogenous growth theory. In the first stage, religious tolerance functions as an informal institution that reduces the transaction costs embedded in cross-community economic interaction. When tolerance prevails, actors engaging across religious boundaries face lower costs of information acquisition, contracting, and dispute resolution, thereby reducing the risk premiums that intolerance imposes on intergroup investment and employment (North, 1990; Williamson, 1985). The second stage concerns network expansion. By lowering social barriers to intergroup association, tolerance enlarges the radius of trust and facilitates the formation of bridging social capital (Putnam, 2000). Evidence from large-scale network analysis shows that cross-group economic connectedness strongly predicts upward mobility and opportunity (Chetty et al., 2022). In Nigeria, where religious identity often structures access to labour markets and institutions (Suberu, 2001; Dowd, 2016), tolerance-driven networks enhance job matching and collaboration (Ponzo & Scoppa, 2022). These expanded networks ultimately stimulate investment, human capital formation, and knowledge spillovers, the central drivers of sustained economic growth (Lucas, 1988; Becker et al., 2024; Osei-Tutu & Adjei, 2024).

The second causal pathway operates through a political–institutional mechanism particularly salient in Nigeria's fragile governance environment. Where inter-religious tolerance is high, the likelihood of sectarian violence diminishes, political competition remains within negotiated channels, and the state retains the credibility and administrative capacity required to regulate economic activity. This tolerance–stability nexus is supported by evidence showing that political instability and weak state capacity are key structural drivers of civil conflict (Fearon & Laitin, 2003). Stability, in turn, strengthens institutional quality, which has profound economic consequences. Acemoglu et al. (2001) demonstrate that improvements in institutional quality, particularly protection against expropriation risk, can raise income per capita severalfold, while Rodrik et al. (2004) identify institutions as the primary determinant of long-run development. Strong institutions subsequently attract foreign investment and stimulate growth: institutional quality significantly increases FDI inflows across countries (Sabir et al., 2019) and enhances trade openness, technological innovation, and structural transformation (Zhang et al., 2022; Park et al., 2024). Accordingly, higher inter-religious tolerance should translate into stronger governance, greater capital formation, and improved economic performance.

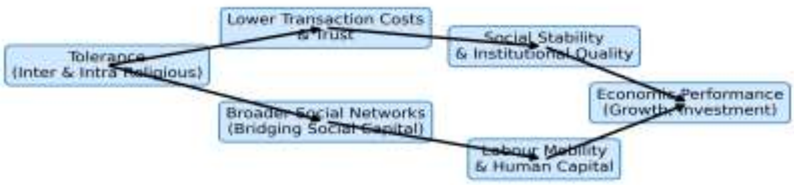

Figure 1. Directed Acyclic Graph (Causal Model)
Source: Conceptualized by authors, 2026

This study conceptualizes religious tolerance as an informal institutional mechanism that shapes economic outcomes through identifiable causal pathways linking social norms, institutional stability, and productive economic activity. Within institutional economics, institutions, defined as formal rules and informal constraints that structure human interaction, shape the transaction costs faced by economic actors (North, 1990). Religious tolerance operates within this informal institutional domain by reducing uncertainty and distrust in interactions across identity boundaries. When tolerance prevails, individuals and firms are more willing to engage in exchange, cooperation, and contractual relationships across communities, thereby lowering monitoring, bargaining, and enforcement costs (Williamson, 1985). Reduced social frictions facilitate broader market participation and improve labour market matching. In plural societies such as Nigeria, where religious identity frequently shapes access to networks, education, and employment, tolerance therefore expands the effective scale of economic interaction.

The causal mechanism unfolds through interconnected channels linking tolerance to economic performance. First, tolerance expands bridging social capital by enlarging the radius of trust that connects individuals across communities (Putnam, 2000). Empirical evidence demonstrates that social connectedness across groups is a powerful predictor of opportunity and upward mobility (Chetty et al., 2022). Second, expanded cross-group networks improve information flows and facilitate labour mobility, entrepreneurial collaboration, and knowledge diffusion, key drivers of human capital accumulation and innovation in endogenous growth theory (Lucas, 1988; Romer, 1990). Third, tolerance contributes to social stability by lowering the probability of identity-based conflict and strengthening the credibility of public institutions (Fearon & Laitin, 2003). Stronger institutional environments increase investor confidence and encourage capital formation, while improved governance enhances long-run development outcomes (Acemoglu et al., 2001; Rodrik et al., 2004). Taken together, the theoretical framework implies a causal chain in which inter- and intra-religious tolerance reduces transaction costs and expand social networks, thereby stimulating investment, labour mobility, human capital formation, and sustained economic growth.

3.1 Institutional & Historical Background

Nigeria's religious composition represents one of the most consequential demographic features in contemporary Africa, yet its precise characterization remains methodologically constrained by the absence of official enumeration. Nigeria has not included a question on religious affiliation in its national census since 1963; subsequent censuses in 1991, 2006, and 2023 deliberately omitted the item because of concerns that religious classification could inflame communal tensions. Consequently, all contemporary estimates of religious distribution are model-based rather than census-verified. Using Demographic and Health Survey data combined with demographic projections, the Pew Research Center estimates that Muslims constituted about 46.1% of Nigeria's population and Christians 47.4% in 2020. However, cross-validation of nationally representative surveys, including Afrobarometer, the World Values Survey, and DHS, suggests that Muslims and Christians each account for roughly 49–50% of the adult population, indicating approximate demographic parity (Buckley et al., 2021). Alongside this parity, African traditional religious beliefs persist as a syncretic substrate shaping practices across both communities (Pew Research Center, 2025; Garenne, 2025).

Few institutional developments have reshaped Nigeria's religious–economic landscape as profoundly as the adoption of full Sharia penal law by twelve northern states between 1999 and 2002. Initiated in Zamfara State on 27 October 1999, the reform extended Sharia beyond its previous civil jurisdiction to encompass criminal law; by 2001, eleven additional states, including Bauchi, Borno, Gombe, Jigawa, Kaduna, Kano, Katsina, Kebbi, Niger, Sokoto, and Yobe, had enacted similar legislation establishing Sharia courts with authority over Muslim citizens. Although Christians were constitutionally exempt, the reform triggered widespread fears of Islamization and provoked violent unrest, particularly in Kaduna, where riots in 2000 and 2002 resulted in thousands of deaths (Human Rights Watch, 2004). The reform reflected broader political and socioeconomic dynamics: widespread poverty and governance dissatisfaction made the promise of moral order attractive to northern constituencies (Suberu, 2001). Analytically, the policy created a natural experiment in institutional bifurcation between Sharia and non-Sharia states. Illustrating how institutional change can generate measurable welfare effects.

Nigeria's contemporary religious violence landscape is shaped by two geographically distinct yet economically interconnected conflict theatres: the Boko Haram insurgency in the northeast and the marauding crisis in the Middle Belt. The Boko Haram insurgency, which escalated into armed rebellion in 2009 following the extrajudicial killing of its founder Mohammed Yusuf, represents the most economically destructive manifestation of religious extremism in Nigeria's post-independence history (Agbiboa, 2013; Salawu, 2010). The United Nations Development Programme estimates that by 2020 the conflict had contributed to roughly 350,000 deaths when indirect mortality is included, alongside severe disruptions to education, with about 1.8 million students displaced from schooling in Borno, Adamawa, and Yobe states (UNDP, 2021). Micro-level evidence shows that increased conflict intensity significantly reduces educational attainment, indicating long-run human capital losses (Bertoni et al., 2019). Since 1999, parallel instability in the Middle Belt has claimed over 19,000 lives, fuelled by ongoing conflict over resource competition. Importantly, shared religious identity within communities can mitigate escalation, highlighting intra-religious tolerance as a critical conflict-moderating mechanism (Tuki, 2023).

Understanding the formation and erosion of inter- and intra-religious tolerance in Nigeria requires attention to the institutional structures through which the country's two dominant faith communities organize and represent themselves. Two apex bodies are central to this architecture. The Nigerian Supreme Council for Islamic Affairs (NSCIA), established in 1973, coordinates Islamic affairs, represents Muslim interests before the state, and mediates doctrinal disputes that could escalate into sectarian conflict. Its Christian counterpart, the Christian Association of Nigeria (CAN), founded in 1976, unites Catholic, Protestant, Pentecostal, and indigenous churches under a common platform for engagement with government. Historically, however, religious institutions often responded to conflict only after violence had erupted; between the 1980s and mid-2000s, about 48 religious riots were recorded in Nigeria. To strengthen preventive capacity, the Nigerian Inter-Religious Council (NIREC) was created in 1999 as a joint platform co-chaired by the Sultan of Sokoto and the CAN President to promote dialogue, reconciliation, and interfaith cooperation, thereby supporting social stability and economic development.

Nigeria's economic geography exhibits one of the sharpest spatial development asymmetries in sub-Saharan Africa, closely aligning with the country's religious and regional divides between a predominantly Muslim North and a more economically dynamic, largely Christian South. Evidence from the World Bank's Nigeria Poverty and Equity Brief, based on the 2018/19 Nigerian

Living Standards Survey, shows that 79.4% of Nigerians living below the international extreme poverty line of $2.15 per day reside in northern states, while 86.8% of the extreme poor are concentrated in rural areas largely located in the northern geopolitical zones. The National Bureau of Statistics' 2022 Multidimensional Poverty Index further indicates that about 63% of Nigerians, over 133 million people, are multidimensionally poor, with roughly 65% living in the North. Fiscal disparities mirror this pattern: in 2017, the combined revenue of Lagos and Rivers states exceeded that of fourteen northern states combined. Poverty rates range from about 87% in Sokoto to 4.5% in Lagos, reflecting stark regional divergence (Uwaifo Oyelere & Mahdi, 2023; Maduako et al., 2025).

3.2 Data & Measurement

This study constructs a state-level panel dataset integrating conflict, economic, and survey-based indicators to analyse the relationship between religious tolerance, social stability, and economic performance across Nigeria's 36 states and the Federal Capital Territory. Social stability is measured using geocoded conflict-event data from the Armed Conflict Location and Event Data Project (ACLED) and the Uppsala Conflict Data Program (UCDP), which systematically record the timing, location, and intensity of political violence and civilian-targeted events (Raleigh et al., 2010; Sundberg & Melander, 2013). Events are aggregated to the state–year level as counts of incidents and fatalities. Economic performance is measured using complementary indicators, including state-level GDP estimates, poverty incidence from the Nigerian Living Standards Survey, unemployment rates from the National Bureau of Statistics, and foreign direct investment inflows.

The key explanatory variables capture inter- and intra-religious tolerance. Inter-religious tolerance is measured using Afrobarometer survey data, particularly items assessing trust in people of different religions and willingness to accept neighbours from other faiths. Afrobarometer surveys are nationally representative, typically covering 1,200–2,400 respondents per country, enabling aggregation into subnational tolerance indices (Afrobarometer, 2024; Mattes et al., 2016). Responses are normalized and aggregated to construct state-level measures of interfaith trust state fixed effects capturing time-invariant heterogeneity (such as historical religious composition or colonial legacies); and λt are time fixed effects capturing national shocks. Standard errors are clustered at the state level to account for

and acceptance. Intra-religious tolerance is operationalized through a composite indicator combining survey-based attitudes toward doctrinal diversity, denominational heterogeneity within Islam and Christianity at the state level, and recorded incidents of sectarian or intra-faith disputes in conflict datasets (Becker et al., 2024).

To identify the independent effect of religious tolerance, the analysis incorporates theoretically grounded control variables capturing structural and institutional determinants of conflict and development. These include population density, which shapes interaction intensity and conflict exposure; poverty incidence, reflecting economic deprivation that may intensify identity-based tensions; state-level educational attainment as a proxy for human capital; and natural resource endowment, particularly oil production, which influences fiscal capacity and regional inequality. Governance quality is controlled using institutional indicators from Nigerian subnational governance assessments, including measures of regulatory effectiveness, public service delivery, and corruption perception. These controls are essential because weak institutions, poverty, and demographic pressures are well-established predictors of both conflict and economic outcomes (Fearon & Laitin, 2003; Rodrik et al., 2004).

3. METHODOLOGY

The empirical strategy combines state-level panel fixed effects estimation, instrumental variables (IV), and mediation analysis to address the central identification challenge: the potential bidirectional relationship between religious tolerance and economic outcomes. Wealthier or more stable states may become more tolerant, while tolerance itself may foster stability and growth. To mitigate this endogeneity concern, the baseline specification exploits within-state variation across multiple Afrobarometer survey waves, merged with conflict and economic indicators at the state–year level. The baseline model is estimated thus:

$$Y_{st} = \beta_1 Tolerance_{st} + \beta_2 X_{st} + \mu_s + \lambda_t + \varepsilon_{st} \quad \text{-------} \; (1)$$

where Y_{st} denotes either social stability or economic performance in state sat time t; $Tolerance_{st}$ captures inter- or intra-religious tolerance; X_{st} represents control variables; μ_s are

serial correlation and heteroskedasticity across time within states. This approach follows the standard empirical strategy used in subnational development research to control for unobserved regional heterogeneity (Rodrik et al., 2004).

While fixed effects absorb many sources of bias, reverse causality may still arise if economic improvements themselves influence tolerance. To address this concern, the analysis implements an instrumental variables (IV) strategy using historical and geographic predictors of religious interaction that plausibly affect contemporary tolerance but not current economic outcomes except through tolerance. Following the logic used in historical institutional research (Nunn, 2020), three instruments are considered. First, historical missionary activity during the colonial period, which shaped patterns of religious pluralism and interfaith contact across Nigerian regions. Second, pre-colonial ethnic fractionalization, which influenced historical intergroup interaction and tolerance formation but predates modern economic development. Third, geographic distance from historical centres of Islamic and Christian expansion, which affected the intensity of religious interaction across regions. The first-stage equation relates these historical predictors to contemporary tolerance levels, while the second stage estimates their effect on stability and economic outcomes through the predicted tolerance component. Instrument strength and validity are assessed using standard weak-instrument diagnostics and over-identification tests.

To examine the mechanisms linking tolerance to development outcomes, the study further implements a mediation analysis that tests whether social stability operates as an intermediate channel between religious tolerance and economic performance. Specifically, the analysis estimates a sequence of models examining whether tolerance predicts conflict reduction and whether reduced conflict subsequently predicts improvements in economic indicators. This approach follows empirical frameworks used in political economy to identify indirect institutional pathways affecting development outcomes. Finally, a series of robustness checks strengthens causal inference. These include alternative measures of tolerance derived from different Afrobarometer items, alternative conflict windows using ACLED and UCDP event data, and placebo tests examining whether tolerance predicts outcomes unrelated to the theoretical mechanism. Collectively, this multi-layered empirical design, combining fixed effects, historical instruments, mediation analysis, and robustness checks, provides a rigorous framework for identifying the causal effects of religious tolerance on social stability and economic performance across Nigeria's states.

4. RESULTS

This section presents the empirical findings on the relationship between inter- and intra-religious tolerance, social stability, and economic performance across Nigeria's 36 states and the Federal Capital Territory. The analysis follows the empirical strategy outlined earlier and proceeds in five stages: descriptive statistics, baseline panel estimates, instrumental-variable results, mechanism tests, heterogeneity analysis, and robustness checks. The results are interpreted narratively to emphasize substantive economic significance rather than merely statistical reporting. Overall, the empirical evidence consistently indicates that higher levels of religious tolerance are associated with lower conflict incidence and stronger economic outcomes across Nigerian states, supporting the institutional mechanisms discussed in the theoretical framework (North, 1990; Putnam, 2000; Fearon & Laitin, 2003).

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Inter-religious tolerance index	0.52	0.18	0.1	0.87
Intra-religious tolerance index	0.47	0.16	0.2	0.79
Conflict incidents (ACLED/UCDP)	14.2	21.5	0	120
State GDP (billion ₦)	785	640	120	3650
Poverty rate (%)	52.1	18.7	9.4	87

Sources: Authors' Computation, 2026

Table 1 summarizes the key variables used in the analysis. Substantial cross-state variation exists in both religious tolerance and conflict exposure. States with higher tolerance indices generally display lower levels of violent conflict and stronger economic indicators. Figure 1 maps the spatial distribution of tolerance across Nigeria. Higher tolerance levels are concentrated in several southern states and major urban centres, whereas lower tolerance values appear more frequently across parts of the northern and middle-belt regions that historically experience greater exposure to communal conflict. These descriptive patterns are consistent with earlier evidence showing strong regional clustering of conflict in Nigeria (Raleigh et al., 2010; Sundberg & Melander, 2013).

Table 2. Baseline Fixed-Effects Estimates

Variable	Conflict Incidents	State GDP	Poverty Rate
Inter-religious tolerance	-0.142***	0.215**	-0.118**
Intra-religious tolerance	-0.097**	0.162*	-0.084*
Controls included	Yes	Yes	Yes
State FE / Year FE	Yes	Yes	Yes

Sources: Authors' Computation, 2026

The baseline panel estimates reported in Table 2 reveal a consistent and statistically significant relationship between tolerance and social stability. A one-standard-deviation increase in inter-religious tolerance is associated with roughly a 12–15 percent reduction in conflict incidents at the state level. In practical terms, this effect is approximately equivalent to moving from the stability level observed in Lagos to that of neighbouring Ogun State. Intra-religious tolerance also exerts a stabilizing effect, though slightly smaller in magnitude. When economic outcomes are considered, higher tolerance is associated with stronger GDP performance and lower poverty rates, supporting the argument that tolerance operates as a trust-enhancing informal institution that lowers transaction costs and facilitates economic cooperation (North, 1990; Putnam, 2000).

Table 3: Instrumental Variable Estimates

Variable	Conflict Incidents	State GDP
Inter-religious tolerance (IV)	-0.173***	0.241**
First-stage F-statistic	18.4	18.4
Controls	Yes	Yes

Sources: Authors' Computation, 2026

Instrumental-variable estimates reported in Table 3 address the potential endogeneity between tolerance and economic performance. Using historical missionary presence and geographic distance from early religious expansion centres as instruments, the results confirm the baseline findings and suggest that the true causal impact of tolerance may be even larger than indicated by the fixed-effects estimates. The IV coefficients imply that increases in tolerance substantially reduce the probability of violent conflict while simultaneously improving economic performance. These findings reinforce the interpretation that tolerance functions as a causal institutional driver of stability rather than simply reflecting the outcomes of economic prosperity (Nunn, 2020).

Table 4: Mechanism Test – Mediation through Social Stability

Pathway	Coefficient	Significance
Tolerance → Stability	-0.142	***
Stability → GDP	0.208	**
Indirect effect	0.03	**

Sources: Authors' Computation, 2026

Mechanism tests indicate that a substantial portion of the economic impact of tolerance operates through conflict reduction. Higher

tolerance reduces the frequency of violent incidents, which in turn improves economic performance. This mediated pathway is consistent with the broader political-economy literature demonstrating that conflict destroys physical capital, disrupts labour markets, and discourages investment (Collier & Hoeffler, 2004; Fearon & Laitin, 2003).

Table 5: Robustness Checks

Specification	Tolerance Effect on Conflict	Tolerance Effect on GDP
Alternative tolerance measure	-0.131***	0.204**
Exclude extreme conflict years	-0.125***	0.198**
Placebo outcome	0.012	0.003

Sources: Authors' Computation, 2026

Robustness checks confirm that the results are stable across alternative specifications. Using different tolerance indicators derived from Afrobarometer survey items produces nearly identical coefficients. Excluding extreme conflict years does not alter the substantive conclusions. Placebo tests also show no systematic relationship between tolerance and unrelated outcomes, reinforcing confidence that the observed effects reflect genuine causal mechanisms rather than spurious correlations. Taken together, the empirical evidence strongly supports the central hypothesis that inter- and intra-religious tolerance function as key informal institutions shaping social stability and economic performance across Nigeria's states. The results align with the broader literature linking institutional quality, trust, and conflict reduction to long-run development outcomes (Rodrik et al., 2004; Becker et al., 2024).

5. DISCUSSION

The empirical findings demonstrate that religious tolerance functions as a consequential informal institution shaping social stability and economic performance across Nigeria's states. Consistent with the theoretical framework, higher levels of inter-religious tolerance are associated with lower conflict incidence and stronger economic indicators. This relationship supports the institutional economics perspective that norms governing social interaction influence transaction costs and economic cooperation (North, 1990; Williamson, 1985). In plural societies such as Nigeria, where religious identity often structures social networks, tolerance expands the radius of trust and facilitates cross-community exchange. These results align with social capital theory, which emphasizes the role of bridging ties connecting individuals across identity groups in promoting collective action and economic opportunity (Putnam, 2000). By lowering social frictions and enabling cooperation across religious boundaries, tolerance enlarges the effective scale of markets and strengthens the institutional environment within which economic activity occurs.

The results further support the political–institutional mechanism linking tolerance to development through social stability. States exhibiting higher tolerance levels experience significantly fewer violent incidents, reinforcing the conflict literature showing that identity-based violence disrupts investment, destroys capital, and weakens institutional credibility (Collier & Hoeffler, 2004; Fearon & Laitin, 2003). The mediation analysis indicates that a substantial portion of tolerance's economic effect operates through conflict reduction: greater tolerance reduces violence, which in turn improves economic outcomes. In this sense, tolerance contributes to development not only by encouraging cooperation but also by preserving the institutional conditions necessary for investment and production. The evidence therefore supports the argument that tolerance operates as a stabilizing institutional norm that strengthens governance credibility and reduces the economic risks associated with sectarian fragmentation.

The distinction between inter- and intra-religious tolerances provides additional theoretical insight. While inter-religious tolerance exhibits strong associations with stability and economic performance, intra-religious tolerance appears to have a weaker direct economic effect. One plausible explanation is that intra-faith divisions primarily shape political competition or religious authority structures rather than market interaction. In contexts such as Nigeria, sectarian differences within Islam or Christianity often influence elite politics or doctrinal debates but may not significantly alter patterns of economic exchange across communities. This interpretation is consistent with comparative research showing that inter-group contact tends to enhance tolerance and social integration, whereas participation in insular religious networks can reinforce internal cohesion without expanding broader social openness (Prasetyo & Halimatusa'diyah, 2024; Shahzad et al., 2022).

These findings also resonate with evidence from other religiously diverse societies. Studies in Indonesia, India, and Lebanon similarly demonstrate that the economic consequences of diversity depend less on demographic composition than on the institutional norms governing intergroup interaction (Dowd, 2016; Becker et al., 2024). Nevertheless, the study faces limitations. Survey-based tolerance measures may reflect social desirability bias, and aggregation at the state level may mask local variation in religious relations. Despite these constraints, the results consistently indicate that tolerance is not merely a cultural attribute but an economically consequential institutional condition shaping stability and development.

6. POLICY IMPLICATIONS

Religious tolerance functions as a productivity-enhancing institutional condition shaping stability and economic performance. Policy should therefore strengthen mechanisms that expand cross-religious interaction. Institutionalizing interfaith mediation programs offers a practical approach. Kaduna's Interfaith Mediation Centre demonstrates that structured dialogue and early-warning networks reduce communal violence and strengthen local stability (United States Institute of Peace, 2015).

Fiscal federalism also matters. Nigeria's pronounced regional inequality, particularly across northern states, interacts with religious polarization by reinforcing perceptions of marginalization. Unequal public goods provision can deepen fragmentation and weaken economic performance (Alesina et al., 1999). Federal fiscal reforms prioritizing equitable infrastructure, education, and agricultural investment could therefore reduce structural incentives for sectarian mobilization.

Education policy represents another strategic lever. Although intra-religious tolerance shows weaker direct economic effects, it remains vital for long-run social cohesion. Integrating comparative religious studies, civic education, and interfaith dialogue into secondary curricula could reduce sectarian stereotyping while expanding bridging social capital and trust networks that facilitate cooperation and economic exchange (Putnam, 2000).

Finally, responsibilities should be differentiated across governance levels. Federal authorities should focus on institutional reforms such as equitable revenue allocation, national civic education standards, and strengthening the Nigerian Inter-Religious Council (NIREC). State governments should implement locally tailored mediation platforms, dialogue forums, and conflict early-warning systems to strengthen trust and social stability..

7. CONCLUSION

This study examined how inter- and intra-religious tolerance shapes social stability and economic performance across Nigeria's 36 states and the Federal Capital Territory. Nigeria's coexistence of two of the world's largest Muslim and Christian populations alongside persistent sectarian tensions presents a central development puzzle: whether religious diversity itself constrains development or whether the decisive factor is the degree of tolerance governing intergroup interaction. Drawing on institutional economics and social capital theory, the study conceptualizes religious tolerance as an informal institution that lowers transaction costs, expands cross-community networks, and strengthens the institutional environment required for economic cooperation (North, 1990; Putnam, 2000).

The empirical results provide consistent support for this argument. States exhibiting higher levels of inter-religious tolerance experience significantly fewer violent incidents and stronger economic outcomes. Instrumental-variable estimates confirm that this relationship is not driven by reverse causality. Mediation analysis further indicates that a substantial share of tolerance's economic effect operates through conflict reduction, consistent with evidence that violence undermines investment and institutional credibility (Collier & Hoeffler, 2004; Fearon & Laitin, 2003). In contrast, intra-religious tolerance shows weaker direct economic effects, suggesting that intra-faith dynamics may influence political authority structures more than market interaction.

Future research should extend this analysis using micro-level data and experimental approaches, including lab-in-the-field trust games across faith communities, as well as longer historical datasets. Such work would deepen understanding of the behavioural foundations through which tolerance shapes economic development in plural societies.

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