COST OF GOVERNANCE AND ECONOMIC DEVELOPMENT IN NIGERIA: AN EMPIRICAL REVIEW

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ABSTRACT
The inclination to achieve a desirable level of economic development becomes a task amidst sumptuous unscrupulous cost of governance in Nigeria. Government at different levels and policymakers have been working round the clock to improve people's welfare and reduce poverty despite huge resources the country is blessed but still confronted with avoidable challenges not helpful but disastrous to the economy. This is not unconnected to channeling funds to unproductive activities which are not yielding rewarding outcome .Therefore ,this paper examined the connection between cost of governance and economic development in Nigeria .To unravel this linkage this paper considered annual data set in Nigeria from 1986 to 2020 .The data set was estimated using the Autoregressive Distributed Lag Model (ARDL) as a series is a mixture of 1(0) and I(1).The results showed that General administration had negative (-0.0852) and significant (5%) on economic development ; also, the National security has negative (-0.1815) and significant (5%) and governance effectiveness had negative (-5.2463) .However ,National Assembly is positive (0.3238) and significant (5%) to economic development .These results suggests that some unscrupulous government spending do not contribute to improving economic development and may increase the incidence of poverty order than reducing it. Therefore, governments at various levels and policymakers need to orientate and encourage public office holders especially the Law makers and government functionaries to focus more on projects that will stimulate economic development in the country

Keywords: ARDL, Cost of governance, Economic Development
JEL Codes: C32, D72, F52, G3, O1,

1 INTRODUCTION

The desire to improve human well-being and stimulate economic growth and development of Nigeria in the course of governance incurring public funds in providing social amenities for all and sundry has been the major focus of the policymakers and governments at various levels in recent times. Several economic policies had been initiated and implemented by different governments in transition but little desirable results were recorded which in contrast not in tandem with Nigeria's huge internally generated revenue coupled with numerous natural resources (Aliyu, Ahmad &Yahiya, 2021). The salary disparity between Senators and Governors in the United States of America and Nigeria is significant. In the United States, the

average annual salary for a Senator is $174,000, while the average annual salary for a Governor is $143,000. These salaries are relatively high compared to the average income in the United States, which was $68,703 in 2020 (. On the other hand, the average annual salary for a Nigerian Senator is approximately $51,000, while the average annual salary for a Nigerian Governor is around $62,000 (source: Vanguard News). This is significantly lower than the average income in Nigeria, which was approximately $2,222 in 2020 (Andy, Moses, Titilayo, & Deborah (2022). It is worth noting that the cost of living in both countries also varies significantly, with the United States generally having a higher cost of living than Nigeria. Additionally, the responsibilities and powers of Senators and Governors differ between the two countries, which may also impact their salaries (Yakubu, Aminu, Abdulwahab & Ahmad, 2020). The idea of making funds available for the public office holders is to bring government nearer to the people by empowering them and thereby reducing high level of poverty (Oduntan, 2022). The poverty rate in Nigeria is particularly high in rural areas, where access to basic amenities such as healthcare, education, and clean water is limited (Ezejideaku, 2020) .The National Bureau of Statistics (NBS) reports that the poverty rate in rural areas was 52.1% in 2019, compared to 18.0% in urban areas (NBS, 2020).The rate of poverty has continued to increase tremendously amongst the populace who do not have access to the basic necessities of life (Food, clothing and shelter) . Poverty is more prevalent in certain regions of the country. For example, the North-East and North-West regions have the highest poverty rates, with 76.3% and 71.2% of the population living below the poverty line, respectively (Gimba, Mbaeri & Uwaleke, 2021). Therefore, this appears a cankerworm and remain unabated and if not well addressed may either worsen the economic situation or make economic development a mirage The high cost of governance in Nigeria has several negative effects on the country's economy and society. It contributes to the country's high level of debt, as a significant portion of the government's budget is allocated to paying salaries and maintaining the bureaucracy (Okunade, Ajisafe & Olasusi, 2022). It also limits the government's ability to provide basic services such as healthcare, education, and infrastructure (Olugbenga, Adesida, Victoria & Okoye 2019) .This, in turn, has a negative impact on the country's economic development and affects the quality of life of its citizens. Nigeria's economy has been heavily reliant on oil exports, which account for over 90% of its foreign exchange earnings and about 60% of government revenue (World Bank, 2021). This dependence on oil has made the economy vulnerable to fluctuations in global oil prices, as seen during the recent oil price crash in 2020 due to the COVID-19 pandemic. This has led to a situation where the government has had to borrow heavily to finance its budget, leading to a rising debt burden. Nigeria, like many other African nations, has a complex history that has contributed to its current economic situation (Oluwatoyin &Akinbowale,2020). The country gained independence from Britain in 1960 and quickly became a regional power due to its large population, abundant natural resources, and strategic location in West Africa. However, corruption, political instability, and poor economic policies have hindered Nigeria's economic growth and development (Olatunde, Julius & Otusanya. (2019).The cost of governance in Nigeria has been a major issue affecting economic development in the country. Nigeria has one of the highest costs of governance in the world, with a large percentage of the national budget being allocated to the payment of salaries, allowances, and other benefits of political office holders(Mohammed, Idris &Shehu 2021). This has resulted in a situation where the government has limited funds to invest in critical sectors such as education, healthcare, infrastructure, and social welfare programs (Omotosho & Owolabi, 2019).

One of the major causes of the high cost of governance in Nigeria is the large number of political appointees and the excessive salaries and allowances they receive. According to a report by the Revenue Mobilization Allocation and Fiscal Commission (RMAFC), there are over 17,000 political office holders in Nigeria, with a total salary bill of over N1.2 trillion ($3.2

billion) annually. This is a significant drain on the country's resources, particularly given the low revenue base and high poverty rate (Adenikinju, Adeola &Adenikinju, 2018). Furthermore, corruption and mismanagement of public funds have also contributed to the high cost of governance in Nigeria. There have been numerous cases of embezzlement and diversion of public funds by political office holders, which has further strained the economy and limited the government's ability to invest in critical sectors (Suleiman & Audu, 2013). The high cost of governance has significant negative effects on the masses and economic development. Firstly, it leads to a situation where the government is unable to invest in critical sectors such as education and healthcare, which are necessary for human capital development and poverty reduction (Owolabi, 2019). According to the United Nations Development Programs (UNDP), Nigeria ranks low in the Human Development Index, with a high poverty rate and low literacy rate. Secondly, the high cost of governance also affects infrastructure development in the country. Nigeria has a significant infrastructure deficit, particularly in the areas of power, transportation, and water supply. The limited funds available for infrastructure development are often diverted to finance the salaries and allowances of political office holders, resulting in a situation where the infrastructure deficit continues to widen (Bamidele, 2016).The high cost of governance also affects private sector development in the country. The limited funds available for investment by the government are often invested in non-productive sectors, which do not create jobs or stimulate economic growth. This makes it difficult for the private sector to thrive and create employment opportunities for the masses (Adekunle, 2017).

The high cost of governance in Nigeria is a well-known issue that has plagued the country for decades. It refers to the huge amount of money spent on maintaining the government and its various arms and agencies, including salaries and allowances for political office holders, overhead expenses, and other administrative costs (Ufoeze,2017). This issue has been a major concern for many Nigerians because it diverts funds away from critical areas such as infrastructure, education, healthcare, and social welfare programs. One of the solutions to the high cost of governance in Nigeria is the reduction of the number of political office holders Gbatsoron, Ahemen &Ijirshar (2020). Nigeria has one of the highest numbers of political office holders in the world, with over 17,000 elected and appointed officials at the federal and state levels. This number is significantly higher than in other countries with similar populations, such as Brazil and India (Adetayo & Ojo 2015). Reducing the number of political office holders will not only cut down on the cost of governance but also reduce the burden on the government's resources. Another solution is to implement a review of government agencies and parastatals to determine their relevance and efficiency. Nigeria has over 600 government agencies and parastatals, many of which are duplicating functions and not delivering on their mandates. By streamlining these agencies, the government can reduce the cost of governance and save money for more important areas (Roderick, 2008).The government can leverage technology to reduce the cost of governance in Nigeria. Technology can be used to automate some government processes, reduce waste and improve efficiency. For instance, the use of electronic voting systems can reduce the cost of conducting elections in Nigeria, which is often expensive. The high cost of governance is a major issue in Nigeria that needs to be addressed urgently. By reducing the number of political office holders, streamlining government agencies, and leveraging technology, the government can significantly reduce the cost of governance and save money for more important areas. This will not only improve the country's economic situation but also contribute to the well-being of its citizens (Ojike, Uwajuogu & Didigu, 2022).

In the light of the above, this paper considers the need to address the cost of governance and its purpose for the economic development in Nigeria .This would encourage policy makers and governments at all levels who are public office holders to review and effectively channel the public fund to developmental purposes to circumvent the hardship caused by poverty

emanating from the poor government spending .Also, a vacuum exists in the empirical link on how public fund can reduce poverty and reduce cost of government efficiently to meet human needs and d economic development in the country . This study provided vital information to the government functionaries and major stakeholders in the governance of the country to either reduce cost of governance or ensure proper implementation of public fund. The rest of the paper follows accordingly; section 2 focuses on the literature review, while section 3 presents the model specification and econometric techniques .The results of the empirical analysis are presented in section 4 and section 5 presents the conclusion and policy.

2 LITERATURE REVIEW

The cost of governance in Nigeria has been a topic of concern among scholars and policymakers due to its potential impact on the country's economic development. Empirical studies and literature reviews have explored the relationship between the cost of governance and economic development in Nigeria. The arrangement of government inherited at independence is fundamentally anevidence of colonial influence. The colonial powers capriciously divided the African continent so that ethnically unrelated peoples were enforced into political matrimony for the pattern of a state (Easterly & Levine, 1997). The cost of governance is the money spent on administrative processes. It is also known as administrative expenditure. Adewole and Osabuohien (2007) alienated cost of governance into two: recurrent governmental operating cost and capital administrative operating expense. They defined cost of governance as costs linked with the consecutively of government. In other words, these are costs incurred by the government is running governmental affairs. The government helps to sustain the social contract that binds every member of the state. Correspondingly, Fluvian(2006) defined cost of governance as any expenditure in maintaining government administrative structures. He also equates cost of governance to total administrative spending, which is a part of total federal government expenses in Nigeria. He posited that the rationalization for using total administrative spending as cost of governance stems from the fact that administrative expenditures are incurred in governing processes.

Some studies have focused on the impact of the cost of governance on government expenditure, public debt, and economic growth. (Adenikinju &Bamidele, 2016) found that the cost of governance in Nigeria was high, and this had led to an increase in public debt. The study also revealed that the high cost of governance had reduced the government's ability to invest in critical infrastructure, which is essential for economic development. Similarly, (Ogunmuyiwa & Aderinto,2015) found that the cost of governance in Nigeria was a significant contributor to the high level of government expenditure. The study also revealed that the high level of government expenditure had led to a decline in private investment and economic growth. The relationship between the cost of governance and corruption in Nigeria. Aluko & Arowolo,2014) found that the high cost of governance in Nigeria was due to corruption and rent-seeking behavior by public officials. The study revealed that corruption had led to a misallocation of resources, reduced investment in critical infrastructure, and decreased economic growth. Similarly, (Adebayo & Ojo, 2015) found that the high cost of governance in Nigeria was due to a lack of transparency and accountability in government operations. The study suggested that increasing transparency and accountability in government operations would reduce the cost of governance and improve economic development.

In sharing his thoughts on governance with World Bank economists, Roderick (2008) argues that governance is a significant instrument for development. He suggests that it is a good mechanism to attain enhanced economic outcomes and boost a country's policy making. Roderick (2008) also distinguishes between governance as a means and as an end. The author advises economists not to attempt to address governance as an end since it is political scientists' task. For governance as a way, however, he argues that only countries have governance as

requisite restriction can provide governance restructuring the precedence to boost their economic growth. Empirical studies and literature reviews have shown that the cost of governance in Nigeria is a significant impediment to economic development. The high cost of governance has led to an increase in public debt, a decline in private investment, and a misallocation of resources. Corruption, rent-seeking behavior, and a lack of transparency and accountability in government operations have contributed to the high cost of governance in Nigeria. Addressing these issues is crucial for reducing the cost of governance and promoting economic development in Nigeria. Another institutional dynamic that raises cost of governance is the condition of security by the state. For instance, a public good like security has a high degree of public interest, upon which there is a broad consensus that it could be more cheaply provided by government, predominantly by a central government, if we make a clean breast that in authenticity there is no pure public good, we should realize why profit maximizing firms could similarly provide harmonizing security services. However, government provides that bulk of security services. Thus, the role of the private sector in the security region is negligible (Ejuvbkpokpo, 2012).

According to Acemoglu and Robinson (2008), economic development can lead to change in resource allocation and may have direct control on political institutions. Wilson's (2016) research indicates a related relationship between governance and economic development. The result show that improved governance is not the primary source of China's affluence; somewhat, economic growth supplements and show enhancement in official governance at the region level. Aziz and Sundarasen (2015) revealed that, as extrinsic variables, corruption and armed conflict have a statistically significant and depressing relationship with economic growth in Asian countries, while the polity shows to be insignificant Adenuga and Evbuomwan (2012) examined whether governance has any significant effect on household investment and economic growth in Nigeria under a democratic government. Exploring periodical series spanning 1999:q1 to 2010:q4, and employing an error correction model (ECM) and Johansen and Juselius multivariate co-integration techniques, they established that there was the subsistence of long-run steady-state equilibrium among economic growth, investment and governance, and that there was signal of a response of about 58.8 per cent of the preceding quarter's disequilibrium. They also indicated that the style in gross fixed capital formation as a ratio of GDP and economic growth in the country showed positive developments since the introduction of democracy in 1999. They submitted that domestic production grew from 0.9 per cent at the foundation of the first democratic government in 1999 to 9.6 per cent at the end of the regime in 2003.

Ufoeze (2017) investigated the effect of cost of governance on economic growth in democratic dispensation in Nigeria. The study covered the civil rule in Nigeria forth republic of 1999 to 2014. Diagnostics test and Ordinary Least Square regression was carried out. The results show that cost of general administration, defense and national assembly has positive effect while internal security effect on GDP. Among others, the study recommended that spent on internal security should to investigated and cost-benefit analyses should be carried out on the parastatals that receive the proceeds of internal security.

3 METHODOLOGY

3.1 DATA

The study used quantitative data obtained from secondary sources. The period spanned from 1986 till date, but availability of data for the analysis runs from 1986 to 2019. The variables of the study are the federal government disaggregated expenditures based on the practical classifications of administration, social and community services, economic services, and transfers. Economic development is the explained variable. This refers to the annual rate of GDP per capita based on the constant domestic currency. In other words, it is the gross domestic

production divided by the population of the country. Real per capita income was used as proxy for measuring economic development. The cost of governance includes all administrative expenses of the government. In Nigeria, federal government administrative expenditure includes general administration (GA), defense (DEF), bfx binternal security (ISEC) and national assembly (NAS). The *ex-post-facto* design was used because the variables used in this study are already documented by highly research based institutions like the World Bank, IMF, CBN, among others. Thus, researchers have to adapt to and rely on such official publications for valid and reliable academic exercise.

3.2 MODEL ESTIMATED

Adam Smith and other classical economists promoted minimal government involvement in the provision of public goods, law and order, and those investments that the private sector was unable to adequately offer due to their high risk or unprofitable nature (Jibir & Aluthge, 2019b). The classical system was exposed as being ineffective by the unprecedented Great Depression of the 1930s, which ended the dominance of this philosophy over the global economy. The Keynesian economists, on the other hand, favoured the use of public spending to encourage growth and development by raising aggregate demand, particularly during economic downturns. This is the clear justification for government involvement in economic activity in the modern eraThis is due to the fact that government is required to construct socially optimal growth and development policies and to address short-term economic distortions (Jibir & Aluthge, 2019b; Singh & Sahni, 1984). Government also exists to provide essential services like health care, education, communication, and transportation, among others, through investments that affect both the business climate for the private sector and the wellbeing of citizens (Aladejare, 2019; Jibir & Aluthge, 2019b; Ukwueze, 2015). According to the underlying assumptions of the neoclassical growth models of Solow (1956), Cass (1965), and their following modifications, the rates of capital depreciation, population increase, and technological advancement are the main determinants of long-run or steady-state economic development. Although distortionary taxation and productive government spending may influence people's propensities to invest, these changes only have an impact on steady-state factor ratios rather than the rate of economic growth, as the rate of economic growth only changes temporarily before stabilizing at either the old or new steady state (Bleany, Gemmell, & Kneller, 2001). The neoclassical growth models draw the conclusion that government expenditure only has a short-term impact on economic growth rate. Contrarily, endogenous growth models—not all, but those of Barro (1990; 1991) and King and Rebelo (1990)—suggest that distortionary taxation and productive spending will have a significant impact on the long-run level output path and growth rate as the rate of distortionary taxation changes and as the amount of government productive spending rises. According to endogenous growth models, non-discriminatory taxes and wasteful government spending have no impact on the steady-state growth rate (Sala-i-Martin & Barro, 1995). In addition, Wagner (1883) put forth a theory of government spending in the field of economics. According to the law, public spending as a percentage of gross domestic product increases along with a country's per capita income, implying a direct positive relationship between the two.

According to neoclassical theory, a country's steady-state growth rate is unaffected by public spending, only its transitional growth rate is affected (Arrow & Kurz, 1970). However, a number of models linking public capital with a nation's long-term growth rate have been developed as a result of the recent explosion of endogenous growth research (Barro, 1990; Devarajan, et al., 1996; Gemmell, et al., 2016; King & Rebelo, 1990). According to endogenous growth theories like Barro's (1990; 1991), public spending may have both short-term and long-term effects on a nation's economic growth (Devarajan et al., 1996).The public expenditure can affect both the level of the production path and the steady-state growth rate of

a country in the public-policy endogenous growth models of Barro (1990) and Sala-i-Martin and Barro (1995) (Devarajan et al., 1996; Gemmell et al., 2016). This opens up the possibility of using endogenous growth models for public policy to examine how government spending affects economic growth. In order to explore the effect of government spending on economic growth in Nigeria, we use the public-policy endogenous growth model, where one of the components is public capital. Therefore, public spending is utilized as a stand-in for capital, which is further divided into capital and recurrent spending. We employ a function called aggregate production (Yt) that incorporates public capital spending. Equation 1 describes the Cobb-Douglas production function as the economy's overall production function within the context of an endogenous model.

$Yt = f(K_t, g1_t, g2_t)$

(3.1),

where Y is the production level, K is the private capital that is readily available, g1 and g2 are the components of government expenditure, and t is the time period. We omit private capital as a separate parameter in the production function, following Barro (1990), Devarajan et al. (1996), and Gemmell et al. (2016).We propose adjusting for additional pertinent factors in the model, as in earlier studies. In the model, we have included labour force, inflation, trade openness, and non-oil revenue.

The researcher tested the model presented in equation 1.The model followed the work of Ejuvbekpokpo (2012) who decomposed cost of governance as total administrative expenditure, into recurrent administrative expenditure and capital administrative expenditure. The functional form of the model is stated below where g1 and g2 that represent government expenditure were decomposed to government administration (GA) as:

$$\frac{rgdp}{p} = f(COG)$$

(3.2)

$$COG = f(GA, DEF, NSEC, NAS, GOVN)$$

(3.3)

$$\frac{rgdp}{p} = f(GA, DEF, NSEC, NAS, GOVN)$$

(3.4)

Consequently, we transform the relationship expressed in equation (3.4) above in to a log-log model. All the variables enter the model in their log forms, these variables are equally in their real forms. Specifically, given the time series nature of the data available the postulated long-run model is shown below.

In equation (3:3), the a priori expectations of the coefficients are:

$B_1 > 0$: An increase in physical investment will lead to an increase in development;

$B_2 > 0$: An increase in educational investment will lead to an increase in development;

$B_3 > 0$: An increase in the labour force will lead to an increase in development;

$B_4 < 0$: An increase in carbon emissions will lead to an increase in development;

$B_5 > 0$: An increase in health policy will lead to an increase in development;

3.3 LONG-RUN COINTEGRATION-ANALYSIS

Following previous researches, the Augmented Dickey- fuller (ADF) unit root test was used to detect whether variables are stationary or not, this is to avoid the spurious regression problem. Conducting the unit root test further allows for the co integration test. The Augmented Dickey fuller (ADF) in equation 3.4 and 3.5 were tested while equation.

Specified at first different from the trend. In equation 3.4 and 3.5, Y_t and Dy_t show variables at the level and first difference correspondingly; μ term is the constant, pt is a trend; t is a parameter of the lag variable of yt-l ^{and} ε_t is the white noise. In ADF, H_o:t= lis the null hypothesis while H_A: t ≠ l or t <0 is the alternative hypothesis. The decision is based on the test statistics

greater than the critical value, H_0:t=l would be rejected; this means that variable is integrated. The variable is tested at the level (o) at first instance where the null hypothesis of non stationary (H_o^nt =1) fails to be rejected, the variable is transformed. The transformation of the variable into differentiated form was also tested by applying the same testing processes (Huang, 2007)

$y_t = \mu+pt+ty_{t-1}+^{k-1}\sum_{i-1}^{k-1} \delta tyt\text{-}1+\varepsilon_t$ (3.5)

$\Delta yt = \mu+pt+ty_{t-1}+\sum_{i-1}^{k-1} \delta\, i\Delta y_{t-1}+\varepsilon_t$ (3.6)

Pesaran, shim and smith (2001) proposed bound test for the long run relationship to estimate co-integration among variables having a mixture of integration order 1(0) and 1(1), and also considers mutually exclusive 1(0) and 1(1), though it does not considers variables with 1(2). Autoregressive distributed lag model (ARDL) has usefulness over the cointegration test. This is as a result of why ARDL establishes sufficient lags for variables in the model and its ability to determine residual relationship or connection that makes it more superior. The model is dynamic as it transferring the variable at the period of one lag using the optimal lag length. Variables transformation was tested with the Akaike information criterion (AIC) consequent of the small sample size tested in this study (see Adekoya &Abdul Razak, 2007 : Liew, 2004), following the model transformation of equation 313, the bound test was employed to examine the existence of cointegration using the F-test statistics, using equation 3.7. The F-statistics tested the joint significance of the coefficients at one period of lag.

The null hypothesis of no co-integration shows that H_o:$\beta_1= \beta_2= \beta_3= \beta_4 =\beta_5=0$, this implies the non-existence of cointegration and the alternative is H_o: $\beta_1\neq\beta_2\neq \beta_3\neq \beta_4\neq \beta_5\neq0$ and where at least one of the β_1 to $\beta_2 \neq0$ (implies the existence of cointegration). The short run dynamics of the ARDL model in equation 3.6 and the ECT are presented in equation 3.7 and 3.8.

$^{\Delta}/_{n}\frac{rgdp}{p} =Y_o+\beta_1 l_n GA_{t-1}+\beta_2 l_n DEF_{t-1}+\beta_3 l_n NSEC_{t-1}+ \beta_4 l_n NAS_{t-1}+ \beta_5 l_n GOVN_{t-1}+\sum_{i=1}^{p} y_1 \Delta l_n GA_{t-1} P$
$+^{p}\sum_{i=1}^{p} y_2 \Delta l_n DEF_{t-1} +\sum_{i=1}^{p} y_3 \Delta l_n NSEC_{t-1} + \sum_{i=1}^{p} y_4 \Delta l_n NAS_{t-1} +\sum_{i=1}^{p} y_5 \Delta l_n GOVN_{t-1} + \mu_t$ (3.7)

4. RESULTS AND DISCUSSION OF FINDINGS

4.1 DESCRIPTIVE ANALYSIS

Table 4.1: Descriptive Analysis

	$\frac{rgdp}{p}$	*GA*	*DEF*	*NSEC*	*NAS*	*GOVN*
Mean	7.206	-1.049	-0.608	12.317	23.863	16.215
Median	7.524	-1.159	-0.694	12.127	23.121	14.900
Maximum	8.028	1.210	-0.230	22.540	39.510	29.900
Minimum	6.125	-1.420	-1.540	4.710	14.800	9.000
Std. Dev.	0.682	0.401	0.283	4.979	8.403	4.839
Skewness	-0.461	4.221	-1.158	-0.126	0.425	1.264
Kurtosis	1.610	19.351	4.424	2.287	1.905	4.353
Jarque-Bera	2.821	217.339	7.764	0.328	1.984	8.532
Probability	0.234	0.000	0.021	0.703	0.279	0.014

Source: *Author Compilation (2021)*

In analyzing the time series data, it is necessary to first examine the descriptive statistics of all the variables in the data set to check if there exists a perfect multicollinearity among the independent variables. This discusses the univariate statistics of the variable which include the mean, median, skewness, Jarque-Bera, Kurtosis, among others are reported. From Table 4.1, it shows that the mean and median values are fall in the range of maximum and minimum values depicting that the variables are statistically self-determining. Skewness was employed to evaluate asymmetry of the distribution of the series around its mean. It was found out that

economic development, national security and defense were negatively skewed and have their tails to the left while general administration, national assembly and governance effectiveness index were positively skewed and have their tails to the right.

4.2 Correlation Matrix

Table 4.2: Correlation Matrix

	$\frac{rgdp}{p}$	LGA	$LDEF$	$LNSEC$	$LNAS$	$GOVN$
$\frac{rgdp}{p}$	1.000	0.367	0.543	-0.345	-0.635	-0.508
LGA		1.000	-0.243	0.047	0.248	0.301
$LDEF$			1.000	0.337	-0.479	0.354
$LNSEC$				1.000	-0.085	0.469
$LNAS$					1.000	0.031
$GOVN$						1.000

Source: *Author Compilation (2021)*

Correlation matrix shows the degree of association between pairs of variables. As indicated in table 4.2, the associations are shown to be moderate. It can be deduced from table 4.2 that there was no evidence of multicollinearity among the variables used in the model. This is because there were no strongly correlated variables in the model. Furthermore, evidence revealed that all the variables were negatively related with the economic development ($\frac{rgdp}{p}$) except general administration (GA) and defense (DEF).

4.3 Econometric Analysis

4.3.1 Unit Root Test

This test tries to examine the property of the variables. It is used to check for the presence of a unit root i.e. no stationarity of the variables. This test is carried out using the Augmented Dickey Fuller (ADF) test. This is the first test carried out in the Co-integration analysis and is known as the pre co-integration test. The ADF is carried out and the results from the test are tabulated below:

Table 4.3:Augmented Dickey Fuller (ADF) Test

Variables	ADF Statistic at Level	Critical Value 5%	ADF Statistic 1st Difference	Critical Value (5%)	Order of Integration
$\frac{rgdp}{p}$	-4.813	-2.998			$i(0)$
LGA	-3.112	-3.005			$i(0)$
$LDEF$	-2.946	-3.323	-3.633	-3.536	$i(1)$
$LNSEC$	-2.2254	-3.5381	-5.5473	-3.536	$i(1)$
$LNAS$	-1.0332	-3.5331	-5.4569	-3.536	$i(1)$
$GOVN$	-4.3593	-3.5684		-3.536	$i(1)$

Source: *Author Computation (2021)*

To ensure that the variables in the model have a long-run relationship, the authors used the Augmented Dickey-Fuller test to check the stationarity of all variables in the model to ensure that none is I(2) or higher. If the variables have the same level of stationarity at (1), it implies a long-run relationship or co-integration between the variables (Abdullah & Habibullah, 2009).

The implication is that the analysis findings are not spurious because they entail comparable movements. The results of the ADF tests revealed that our variables are of different orders.

4.3.2 Autoregressive Distributed Lag (ARDL)

The data supplied in this part was transformed into testable forms in this section. This is attempted to solve the issue of heteroskedasticity while simultaneously adhering to the linearity assumption, which states that all data must be in the same state (Gujarati & Porter, 2009).

Table 4.4: Result of the Bounds Test

Null Hypothesis: No long-run relationship exist

Test Statistic	**Value**	**K**
F-statistic	11.43	5
Critical Value Bounds		
Significance	$i(0)$ Bound	$i(1)$ Bound
10%	2.26	3. 35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

Source: *Author Compilation (2021)*

The construction of the co-integration bounds test entails the evaluation of F-statistics against the critical values; in this case, we use the one generated by Narayan (2005) due to the short period covered by the data. The results revealed that the test is highly significant at 5% level. This warrants the rejection of the null hypothesis of no co-integration, irrespective of whether the series are strictly at □ (*0*) or □ (*1*) or a mix of both. Similarly, the results also confirm the presence of a long-run relationship between the regressors and regressant, which suggests the co-integration exits between dependent variable and independent variables with an *F* statistic of 11.43, which exceeds the upper critical bound value.

4.3.2.1 Long Run and Short Run Estimates

Table 4.5: Long Run Results

$\boldsymbol{Variable}$	$\boldsymbol{Coefficient}$	$\boldsymbol{Std.Error}$	$\boldsymbol{t-Statistic}$	$\boldsymbol{Prob.}$
$\frac{\boldsymbol{rgdp}}{\boldsymbol{p}}(-\mathbf{1})$	0.3253	0.0727	4.4704	0.0002
$\boldsymbol{LGA}$	-0.0852	0.0526	-1.6201	0.1201
$\boldsymbol{LDEF}$	0.0231	0.0329	0.7035	0.4894
$\boldsymbol{LNSEC}$	-0.1815	0.0793	-2.2877	0.0326
$\boldsymbol{LNAS}$	0.3832	0.0445	8.6025	0.0000
$\boldsymbol{GOVN}$	-5.2463	1.1952	-4.3895	0.0003
$\boldsymbol{C}$	-0.2472	0.1074	-2.3016	0.0317

Source: *Author Compilation (2021)*

Table 4.6 presents the result of the long run relationship between cost of governance and economic development. The result explained that internal security and governance effectiveness index were statistically significant at 5% level with negative relationship with economic development while national assembly was statistically significant at 5% level with positive relationship with economic development. This implies that internal security and governance effectiveness index significantly decrease economic development in the long run while national assembly significantly increases economic development in the long run. General administration and defense did not contribute significantly to economic development in Nigeria.

Table 4.6: Short Run Results

Variable	*Coefficien*	*Std. Error*	*t − Statistic*	*Prob.*
$d.L\frac{rgdp}{p}$	0.4430	0.1074	4.1245	0.0005
$d.LGA$	0.1799	0.0950	1.8937	0.0721
$d.LGA(-1)$	0.1764	0.0780	2.2615	0.0345
$d.LDEF$	0.0315	0.0440	0.7169	0.4813
$d.LNSEC$	-0.2472	0.1074	-2.3016	0.0317
$d.LNAS$	0.0914	0.1035	0.8831	0.3872
$d.GOVN\ (-1)$	-0.2187	0.1035	-2.1114	0.0469
$ect(-1)$	-1.3615	0.1743	-7.8104	0.0000

Source: *Author Compilation (2021)*

The error correction term in this relationship represents the speed of the adjustment mechanism, which reverts to equilibrium in the dynamic model. At the 5% significant level, the coefficient of 1.361 indicates how quickly the variables adjust to equilibrium, with a statistically significant negative coefficient sign. Meanwhile, Azman-Saini (2013) stated that a highly significant error correction term is another indication of a robust long-run connection, suggesting the restoration of any shock in the system within a year.

4.3.2.2 Diagnostic Tests

The model diagnostic statistics and their probability values are shown in Table 4.5. The probability values of the diagnostic test statistics are not statistically significant, as seen in both the Lagrange Multiplier (LM) and F versions, implying that the model passes the diagnostic tests for issues such as serial correlation, functional form misspecification, heteroscedasticity, and that the residuals from the regression are normally distributed.

Table 4.7: ARDL-ECM Model Diagnostic Tests

Test Statistics	Jarque-Bera	F Version [Probability]
A: Serial Correlation	$\chi^2(1) = 0.9304\ [0.347]$	F(1, 12) = 0.4368 [0.521]
B: Functional Form	$\chi^2(1) = 0.3045\ [0.546]$	F(1, 12) = 0.13864 [0.789]
C: Normality	$\chi^2(1) = 4.324\ [0.140]$	Not applicable
D: Heteroscedasticity	$\chi^2(1) = 2.0379\ [0.215]$	F(1, 25) = 0.4368 [0.521]

A: Lagrange multiplier test of residual serial correlation
B: Ramsey's RESET test using the square of the fitted values
C: Based on a test of skewness and kurtosis of residuals
D: Based on the regression of squared residuals on squared fitted values

Source: *Author Compilation (2021)*

4.4 Stability Test Result

According to Pesaran and Pesaran (2009), who emphasize the importance of analyzing the stability of the long-run coefficients in conjunction with the short-run dynamic model, the cumulative sum of recursive residuals (CUSUM) and the cumulative sum of squares of recursive residuals (CUSUMQ) were empirically investigated. This is depicted graphically in Figure 4.2 and further underlined in Figure 4.3, where the plots of CUSUM and CUSUMQ test statistics are shown to be perfectly inside the bounds at the 5% significant level. As a result, the long-run coefficient of economic development with regard to independent variables in the ARDL model is confirmed.

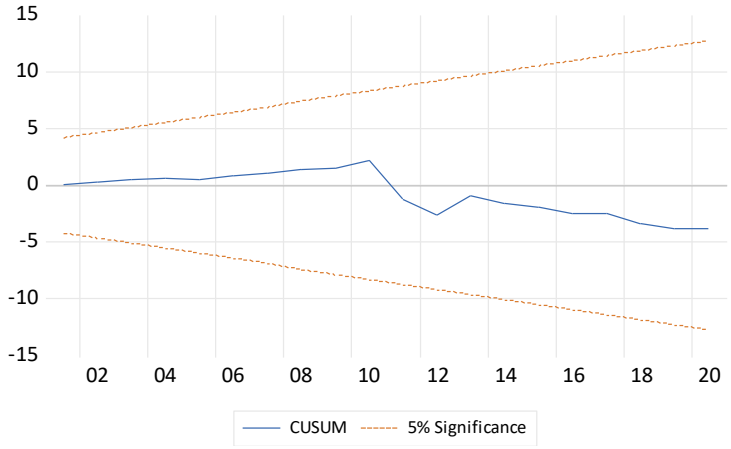

Figure 4.2: CUSUM Test

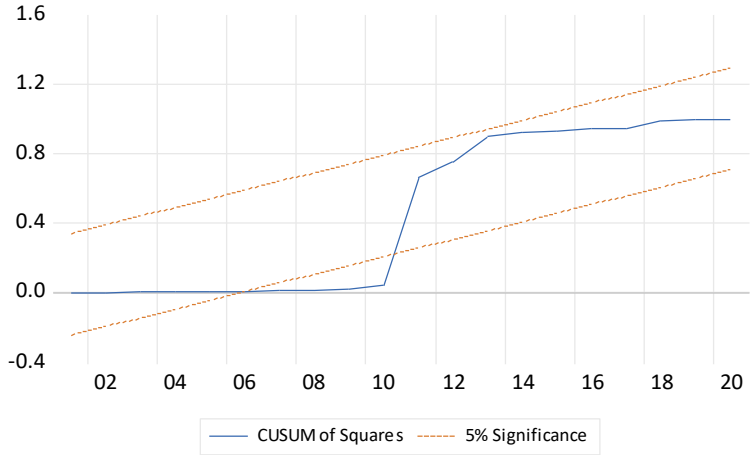

Figure 4.3: CUSUM of Squares Test

4.5 RESULTS AND DISCUSSION

In this study we have examined examine the impact of cost of governance on economic development in Nigeria from 1986 to 2020. The result of this study revealed that internal security and governance effectiveness index were statistically significant at 5% level with negative relationship with economic development while national assembly was statistically significant at 5% level with positive relationship with economic development**.** From Table 4.1, it is evident that the mean and median values are within the maximum and minimum values showing that the variables are statistically independent. Skewness is a measure of asymmetry of the distribution of the series around its mean. We observe that economic development, national security and defense were negatively skewed and have their tails to the left while general administration, national assembly and governance effectiveness index were positively skewed and have their tails to the right. This implies that internal security and governance effectiveness index significantly decrease economic development in the long run while national assembly significantly increases economic development in the long run. General administration and defense did not contribute significantly to economic development in Nigeria. The result is in line with the findings of Ejuvbekpokpo (2012) who found that the cost of governance in Nigeria hinders economic development.

In the development model presented in the table 4.4 Lag 1 specified and the inbuilt tool in ARDL selected the appropriate model based on AIC. The selected and tested model is ARDL as contained in table 4.3 (0,0,1,1,1,1F statistic) .Also ,the F statistic is greater than the critical value at a 5% level of significance. The ECT values of -7.8104 are significant at 1% level of

significance .It means that irrespective of the distortion in the model ,the model can reach the equilibrium by 78.1% over the first year.

The ECT and other estimated results were subjected to diagnostic tests to ensure their robustness. Diagnostic tests include a normality test, functional test, serial correlation test, heteroscedasticity test, and stability test .The normality test of Jarque –Bera indicated that the residual of the model is normal at the 5% level of significance .Ramsey RESET test reveals that there is no absence of misspecification at 5% .In addition there is no serial correlation based on observed R2 probabilities at 5% in the Breusch-Godfrey LM test .The observed R2 in the Breusch-Pagan –Godfrey Heteroscedasticity test indicated that there is no presence of heteroscedasticity in the model at 5%.The stability test comprising the cumulative sum and the cumulative sum of squares ,shows that parameters are stable over time as they jointly move together at the 5% level of significance

The long-run results showed that the internal security and governance effectiveness indicator were statistically significant at 5% level with negative relationship with economic development while national assembly was statistically significant at 5% level with positive relationship with economic development. This shows that internal security and governance effectiveness indicator significantly reduces economic development in the long run whilst national assembly significantly increases economic development in the long run. General administration and defense did not contribute significantly to economic development in NigeriaThe long-run results showed that Nationally Assembly is significant at 5% level of significance to cost of significance .Unit change in National Assembly causes 0.3238 percentage point change in economic growth. Cost of governance is significant at 5% level of significance with a negative relationship that causes -5.2463 percentage point change in economic growth. Ufoeze (2017) investigated the effect of cost of governance on economic growth in democratic dispensation in Nigeria. The study enclosed the civil rule in Nigeria forth republic of 1999 to 2014. Diagnostics test and Ordinary Least Square regression was employed to examine the relationship between the variables of interest in the study. The results show that cost of general administration, defense and national assembly has positive effect while internal security effect on GDP. Among others, the study recommended that spent on internal security should to investigated and cost-benefit analyses should be carried out on the parastatals that receive the proceeds of internal security.

5. CONCLUSION AND POLICY RECOMMENDATIONS

5.1 CONCLUSION

This study has examined the impact of cost of governance on economic development in Nigeria from 1986 to 2018 using bound test, ARDL and ECM model. The results has shown that internal security and governance effectiveness index are capable of reducing economic development but only national assembly has significant positive effect on development. However, cost of maintaining internal security has adverse significant effect on development of Nigeria. This might suggest that bogus security votes to the governors and frivolous spending. Equally, the general administration and defense do not have significant effect suggest that Nigerian civil servants and military are unproductive.

5.2 POLICY RECOMMENDATIONS

For policy implication, this study suggests the followings:

- The government expenditure on internal security should be scrutinized, and cost-benefit analyses should be performed on the projects most especially through the parastatals that receive internal security proceeds.
- Government spending in the form of budget must be adequately assessed and should answer questions that are beneficial to the general populace of the country

- Policymakers should enact sound policies to foster democratic dividends, transparency, equity and accountability in order to stimulate social well being of the electorates
- Electorates must be encouraged to engage in referendum where basic needs and wants of the people would be discussed and addressed
- There should be a regulatory bodies to be established by the governments to monitor and supervise projects before and during implementation
- The federal government should as a matter of exigency begin the process to reduce offices operating or performing similar roles and subsume offices in the course to reducing sumptuous government spending

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