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Investigating the Impact of Cost of Governance on Economic Development in Nigeria

[1]Edochie Daniel Chidiebere and Oghenetegiri Hannah Agbalagba

[1]Department of Economics, University of Benin, Benin City, Nigeria

[2]Department of Entrepreneurship, College of Petroleum Administration and Management, Federal University of Petroleum Resources Effurun Delta State, Nigeria.

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Abstract: *This study examines the effect of governance costs on economic development in Nigeria using annual time series data spanning 1990 to 2023. Governance costs are disaggregated into federal, state, and local government expenditures, while economic development is proxied by components of the Human Development Index (HDI), namely gross national income per capita, expected years of schooling, and life expectancy. The study is anchored on the Endogenous Growth Theory, which emphasizes the role of efficient resource allocation in promoting long-run development. The Autoregressive Distributed Lag (ARDL) model was employed to estimate both the short-run and long-run relationships among the variables. The bounds cointegration test confirmed the existence of a long-run relationship among the variables. Empirical results reveal that federal government expenditure (β = -0.312, $p < 0.01$), state government expenditure (β = -0.218, $p < 0.05$), and local government expenditure (β = -0.145, $p < 0.05$) all have significant negative effects on economic development. In contrast, gross fixed capital formation (β = 0.275, $p < 0.01$) has a positive and significant effect. Inflation and exchange rate also negatively affect development outcomes, while the error correction term (-0.62) indicates a moderate speed of adjustment toward long-run equilibrium. The study concludes that governance costs in Nigeria are largely inefficient and consumption-driven, thereby constraining human development. It recommends the reallocation of public expenditure toward capital investment, improved fiscal discipline, and enhanced transparency in public financial management.*

Keywords: governance costs, human development, ARDL, Nigeria, endogenous growth theory, public expenditure

INTRODUCTION

The cost of governance has remained a critical issue in debates on public administration, fiscal sustainability, and governance efficiency, particularly in developing economies. It refers to the financial resources required to run government institutions and administrative systems,

including personnel emoluments, overhead costs, legislative expenses, debt servicing, and other recurrent obligations necessary for maintaining governmental structures and delivering public services (World Bank, 2021; IMF, 2020). Broadly, government expenditure is classified into recurrent expenditure, which covers day-to-day administrative operations, and capital expenditure, which is directed toward infrastructure, productive investments, and long term development projects (Musgrave & Musgrave, 1989). The manner in which these resources are managed has significant implications for economic development. Efficient governance can stimulate productivity, improve service delivery, and enhance human welfare, whereas excessive governance costs, bureaucratic inefficiency, corruption, and wasteful public spending can constrain growth and retard national development (North, 1990; Kaufmann, Kraay & Mastruzzi, 2010). In Nigeria, rising administrative expenditure has become a persistent feature of public finance management over the years. The country's fiscal structure has been characterised by a disproportionately high recurrent expenditure relative to capital spending, suggesting structural inefficiencies in resource allocation (CBN, 2022). Despite being richly endowed with oil, gas, and other natural resources, Nigeria continues to grapple with poor infrastructure, high unemployment, widespread poverty, insecurity, and weak public institutions (World Bank, 2023). These developmental challenges have often been linked to the large share of public funds consumed by governance structures rather than productive investments. In response, successive governments introduced reforms such as the Treasury Single Account (TSA), Integrated Personnel and Payroll Information System (IPPIS), and the Government Integrated Financial Management Information System (GIFMIS) to curb leakages, eliminate ghost workers, and improve fiscal discipline (Akinola & Salau, 2021). However, the extent to which these reforms have translated into measurable development outcomes remains uncertain. Nigeria's high cost of governance has generated increasing concern among scholars, policymakers, and development practitioners.

A substantial proportion of annual budgets is devoted to salaries, allowances, administrative overheads, and political office maintenance, thereby reducing the fiscal space available for critical sectors such as education, healthcare, housing, agriculture, and infrastructure (BudgIT, 2022). For instance, recurrent expenditure at the federal level has consistently exceeded capital expenditure in several fiscal years, despite the urgent need for developmental investments. Similar expenditure patterns are observable at state and local government levels, where large wage bills and administrative costs often limit developmental spending (National Bureau of Statistics, 2023). Yet, despite these rising governance costs, Nigeria's development indicators remain weak. Life expectancy is relatively low, unemployment remains high, educational outcomes are below expectation, and gross national income per capita compares unfavourably with many emerging African economies (UNDP, 2023). Although several studies have examined public expenditure and economic growth in Nigeria, limited empirical attention has been given specifically to the impact of governance costs across the three tiers of government—federal, state, and local—on development outcomes. Most existing studies focus on aggregate government spending without distinguishing between productive expenditure and administrative consumption. This creates an important gap in the literature, especially in a federal system like Nigeria where expenditure responsibilities are shared among multiple layers

of government (Oates, 1972). Understanding how governance costs at each tier affect national development is therefore essential for designing effective fiscal reforms and promoting accountability in public finance management. Against this background, this study seeks to examine the effect of governance costs at the federal, state, and local government levels on economic development in Nigeria. Development is proxied using selected indicators of the Human Development Index (HDI), including life expectancy, education attainment, and income per capita. Specifically, the study addresses the following research questions: What relationship exists between federal government governance costs and economic development in Nigeria? How do state government governance costs influence economic development in Nigeria? To what extent do local government governance costs affect development outcomes in Nigeria? The broad objective of this study is to assess the impact of governance costs on economic development in Nigeria. Specifically, the study aims to: (i) analyse the relationship between federal governance costs and economic development in Nigeria; (ii) determine the influence of state governance costs on economic development in Nigeria; and (iii) examine the effect of local government governance costs on economic development in Nigeria. This study is significant both academically and from a policy perspective. Academically, it contributes to the growing literature on public finance, governance efficiency, and development by providing evidence from a developing federal economy. It also extends existing knowledge by disaggregating governance costs across the three tiers of government. From a policy standpoint, the findings will provide empirical evidence to guide reforms aimed at reducing wasteful expenditure, improving resource allocation, and enhancing public sector efficiency. By identifying how governance costs influence development outcomes, the study offers useful recommendations for optimising public spending in strategic sectors such as health, education, and infrastructure, thereby promoting sustainable development in Nigeria

LITERATURE REVIEW

Conceptual Clarification

Cost of Governance

The concept of governance cost refers to the financial resources allocated for the operation of governmental institutions. It includes both recurrent and capital expenditures. Recurrent expenditure is primarily concerned with administrative functions such as personnel salaries, operational costs, and other routine governmental expenses, while capital expenditure refers to long-term investments in infrastructure, public facilities, and other capital projects intended to stimulate economic growth and improve public welfare (Afolugbo, 2004; Revenue Mobilisation Allocation and Fiscal Commission [RMAFC], 2019). Governance costs have significant implications for national development, as the efficient management of public expenditure directly affects the availability of resources for productive sectors such as education, healthcare, and infrastructure. A major concern is the rising proportion of national budgets devoted to administrative overheads, which reduces fiscal space for development-oriented investment (Alesina & Perotti, 1996). Inefficient governance spending, often driven

by corruption, bureaucratic expansion, and wasteful expenditure, has been widely identified as a major constraint to economic growth (Tanzi & Davoodi, 1997).

Economic Development

Economic development refers to sustained improvements in living standards, income distribution, and overall quality of life. Unlike economic growth, which focuses on output expansion, economic development captures multidimensional welfare improvements including health, education, and income levels (Todaro & Smith, 2012; Seidman, 2005). In this study, economic development is measured using the Human Development Index (HDI), which comprises life expectancy at birth, expected years of schooling, and gross national income per capita (United Nations Development Programme [UNDP], 2023). These indicators provide a more comprehensive assessment of development compared to GDP alone.

Theoretical Literature

This study is anchored on the **Endogenous Growth Theory**, which emphasizes the role of internal factors in driving long-term economic growth, as opposed to relying on external factors such as foreign aid or natural resource endowments. The central proposition of the Endogenous Growth Theory is that economic growth is driven by investments in human capital, innovation, and knowledge, which are generated through government spending, particularly in sectors like education, infrastructure, and technology (Romer, 1986). The **AK Model** within the Endogenous Growth Theory suggests that capital accumulation, both physical and human, is the primary driver of economic growth. The model assumes that as a country accumulates capital, whether in the form of infrastructure or human resources, its productivity increases, which in turn boosts overall economic output. This theory aligns with the premise of this study that efficient governance costs, if reduced, can free up resources that could be allocated to productive sectors like education and healthcare, thereby driving sustained long-term development. This theoretical framework is particularly relevant in the context of Nigeria, where the allocation of governance costs has often been inefficient. Excessive administrative expenditures reduce the fiscal space available for investment in critical sectors that promote human development, such as education and health. The study hypothesizes that by reducing governance costs, the resources saved could be directed towards enhancing human capital and infrastructure, leading to improved development outcomes. This is consistent with the **Endogenous Growth Theory**, which underscores the importance of government actions in influencing long-term growth by fostering a conducive environment for capital accumulation and knowledge creation. In addition to the **Endogenous Growth Theory**, the study also considers aspects of **Wagner's Law of Increasing State Activities**, which posits that as an

economy grows, there is an increasing demand for public goods and services, leading to higher government expenditures. This theory provides context for understanding the rising trend of governance costs in Nigeria, as increased demand for public services can drive up governmental expenditure. However, the study also acknowledges that excessive expenditure without corresponding development outcomes may lead to inefficiency and waste, as suggested by **Fiscal Illusion Theory** (Goetz, 1977), which argues that complex government budgeting processes can obscure the true cost of governance from taxpayers. By drawing on these theories, this study aims to provide empirical evidence on how governance costs, particularly at the federal, state, and local levels, affect human development outcomes in Nigeria. The Endogenous Growth Theory provides the primary lens through which the relationship between government expenditure and development is examined, positing that strategic allocation of governance costs can enhance human capital accumulation and ultimately drive economic growth.

Empirical Literature Review

Federal Government Expenditure

Empirical studies on federal government expenditure reveal mixed outcomes regarding its impact on economic development. Ufoeze et al. (2017) found that administrative expenditures have a positive but uneven effect on economic growth, suggesting that not all components of federal spending translate into development gains. In contrast, Ighodaro and Oriakhi (2010) reported a negative relationship between general administrative expenditure and development, attributing this to inefficiencies and misallocation of resources within the public sector. More specifically, Echekoba and Amakor (2017) observed that the impact of federal expenditure depends largely on its composition. While education spending contributes positively to GDP performance, defense expenditure exerts a negative influence, indicating that productive expenditure is more growth-enhancing than administrative or security-related spending.

State Government Expenditure

At the state level, empirical findings are also mixed. Egbetunde and Fasanya (2014) found that total state government expenditure has a negative effect on economic growth, although recurrent expenditure shows a weak positive relationship. This suggests that inefficiencies at the subnational level may limit the developmental impact of spending. Similarly, Nworji et al. (2012) reported that capital expenditure on social and community services enhances development outcomes, while expenditure on economic services has limited impact. In contrast, Chinedu et al. (2022) found that state government expenditure has a positive but

statistically insignificant effect on growth, highlighting persistent issues of inefficiency, weak implementation, and governance constraints at the state level.

Local Government Expenditure

Empirical evidence on local government expenditure generally shows more positive effects on development outcomes, particularly at the grassroots level. Usman and Agbede (2015) found that both recurrent and capital expenditures at the local government level positively influence rural development and service delivery. Similarly, Okoro (2013) and Aluthge et al. (2021) established a long-run equilibrium relationship between local government expenditure and economic development, emphasizing the importance of decentralization in improving welfare outcomes and enhancing access to basic services.

Empirical findings from more recent studies provide additional insights into the evolving relationship between governance costs and development outcomes. A disaggregated Nigerian study covering 1990–2023 found that education expenditure significantly improves GDP per capita, while health and agricultural expenditures have weaker effects, suggesting that sectoral allocation is more important than total expenditure levels. Similarly, a 2025 study on budget transparency and human development in Nigeria (1988–2023) revealed that fiscal transparency significantly enhances human development outcomes, while opaque budgeting practices reduce the effectiveness of public expenditure. This highlights the importance of accountability in governance spending. Further evidence from a 2026 study on cost of governance in Nigeria indicates that recurrent expenditure negatively affects public sector performance, while capital expenditure and debt servicing positively influence performance outcomes. This underscores the dual nature of governance costs, where administrative spending may hinder efficiency, while productive investment supports development. Another 2026 empirical study on government expenditure and macroeconomic performance (1994–2023) confirmed that public spending remains a key driver of economic activity; however, its effectiveness depends on institutional quality, governance efficiency, and allocation patterns. In addition, cross-country evidence shows that expenditures on education, health, and social protection significantly improve Human Development Index outcomes, reinforcing the importance of human capital investment in development. Overall, the empirical literature suggests that governance outcomes are influenced not only by the size of government expenditure but also by its composition, transparency, institutional quality, and efficiency of allocation. Despite extensive literature on public expenditure and economic development, several gaps remain. First, most studies focus on aggregate government spending without adequately disaggregating governance costs across federal, state, and local governments. Second, many empirical studies rely solely on GDP as a measure of development, thereby ignoring multidimensional indicators such as the Human Development Index (HDI), which better captures welfare outcomes. Third, although recent studies emphasize the importance of transparency, institutional quality, and expenditure composition, few have integrated these dimensions within a unified analytical framework that considers Nigeria's three-tier governance structure. This study addresses these

gaps by examining how governance costs at the federal, state, and local government levels affect human development outcomes using HDI components.

Impact of the Cost of Governance on Economic Development in Nigeria

Ogunsola, et al., (2023) investigate how the cost of governance relates to economic development in Nigeria, using presidency, national assembly, and federal judiciary expenditure as proxies for governance cost, and GDP per capita, unemployment rate, and inflation rate as proxies for economic development. The study applies regression analysis to time series data from 2016 to 2020 and finds that presidency and national assembly expenditures are negatively related to GDP per capita, while judiciary expenditure has a positive association. Osam et al., (2022) examine both national debt and governance cost simultaneously as determinants of Nigeria's GDP over the period 1999 to 2021 using the Autoregressive Distributed Lag (ARDL) model. Their findings reveal that debt servicing costs exert a negative and largely insignificant influence on GDP, whereas the cost of governance has a positive and statistically significant impact.

Aluthge, et al., (2021), employing ARDL with structural break controls on time series data from 1970 to 2019, find that capital expenditure has a positive and statistically significant impact on economic growth in both the short run and the long run, while recurrent expenditure — the category most directly associated with the cost of governance — does not have a significant impact on growth in either period. The authors attribute recurrent expenditure's poor growth performance to corruption and the diversion of public funds to private benefit. Ekpo et al., (2022), applied an aggregate production function framework with ARDL bounds testing over 1981 to 2018, confirm a long-run positive relationship between total government expenditure and economic growth. However, their Granger causality tests reveal a unidirectional causal flow from GDP to total government expenditure, lending support to Wagner's Law over the Keynesian demand-pull view. Abalaka (2024) assesses the impact of governance cost on economic growth during Nigeria's fourth republic from 2019 to 2024, decomposing governance expenditure into general administration, defence, internal security, and national assembly, with GDP as the dependent variable, using Ordinary Least Squares (OLS) regression. The study finds that internal security expenditure negatively impacts GDP, while general administration, defence, and national assembly allocations have positive effects. Onabote et al., (2023), publishing in *Heliyon* — indexed in Scopus and Web of Science — examine the effects of government sectoral spending on the Human Development Index in Nigeria from 1986 to 2021 using ARDL. Their results indicate that sectoral government spending does not consistently or significantly contribute to human development, which the authors attribute to misalignment between sectoral allocations and actual development priorities. Udeji et al., s (2025) examine the long- and short-run effects of capital expenditure, recurrent expenditure, and a government effectiveness index on economic growth in Nigeria from 1986 to 2023 using ARDL. Their bounds test confirms a long-run cointegrating relationship. Capital expenditure retains a positive and significant growth effect, while the government effectiveness index — a measure of institutional quality — exerts a negative but significant effect in the long run. The study published in the International Journal of Research and Innovation in Social Science (IJRISS), (Obioma et al, 2024), titled "Public Expenditure

and Human Development in Nigeria," examines the relationship between public expenditure and HDI in Nigeria from 2003 to 2022 using Least Square System Regression. The results show that recurrent expenditure has an insignificant effect on HDI, while capital expenditure has a significant positive effect. The study on determinants of human capital development in Nigeria published in the *International Journal of Research and Innovation in Social Science* (IJRISS, 2025a) by Ogodo Paul Egbaseimokumo, uses HDI as the dependent variable and government expenditure on education, health, and training and skill development as independent variables, applying an Error Correction Model (ECM) on data from 1981 to 2023. Results reveal that all three expenditure variables significantly influence human capital development in Nigeria. The study on public sector investment and sustainable development in Nigeria, also published in *IJRISS* (Abiola, 2025), covers the period 1980 to 2021 and applies ARDL to assess the impact of government expenditure on education and health on human capital development. The findings show that public investment in human capital impacts sustainable development positively. Nwodo and Ukaegbu (2017), using the ARDL model on data from the Central Bank of Nigeria and the World Bank, investigate the interaction effect of public spending on education and health on economic growth in Nigeria. The study finds that while education and health expenditures individually exert positive and significant effects on economic growth, their interaction term is negative and statistically significant, suggesting that the existing mix of social sector expenditures may be inefficient and potentially harmful to overall economic performance. Edeme and Nkalu (2019), applying a distributional impact assessment framework to state-level data from 2007 to 2017, examine the impact of public expenditure on human development in Nigeria. The study finds that expenditures on education, health, agriculture, rural development, and water resources exert significant positive effects on human development, while spending on energy, housing, and environmental protection demonstrates negative marginal impacts. The study further reveals that the positive effects of capital expenditure are significantly undermined by rising recurrent expenditure.

METHODOLOGY

Research Design

This study adopts an **ex-post facto research design**. This design is appropriate because it relies on historical data and does not involve manipulation of variables. It is suitable for examining the relationship between governance costs and economic development in Nigeria over time. The study employs a quantitative approach using secondary data to establish causal relationships among variables.

Sources of Data

The study relies on **secondary data** obtained from credible official sources, including: Central Bank of Nigeria (CBN) Statistical Bulletin ,National Bureau of Statistics (NBS) ,World Development Indicators (World Bank) ,United Nations Development Programme (UNDP)

Human Development Reports and Federal, State, and Local Government budget reports . The data covers the period **1990–2023** (subject to data availability and updates).

Description of Variables

Dependent Variable

Human Development Index (HDI Components)
Economic development is proxied using components of the Human Development Index (HDI), namely:

- **LEXP** = Life Expectancy at birth
- **EYS** = Expected Years of Schooling
- **GNIPC** = Gross National Income per capita

These indicators capture multidimensional aspects of development beyond GDP (UNDP, 2023).

Independent Variables

Cost of Governance Variables

- **Federal Government Governance Cost (FGTE):** Federal recurrent expenditure (administrative overhead, personnel costs)
- **State Government Governance Cost (SGTE):** State recurrent expenditure (wage bill and administration)
- **Local Government Governance Cost (LGTE):** Local government recurrent expenditure (personnel and administrative costs)

These represent the cost of maintaining governance structures across Nigeria's three tiers of government.

Control Variables

To improve model robustness and avoid omitted variable bias, the study includes the following macroeconomic control variables:

- **INF** = Inflation rate (macroeconomic stability)
- **EXR** = Exchange rate (external sector stability)
- **GFCF** = Gross Fixed Capital Formation (investment level)

Model Specification

The study is anchored on the **Endogenous Growth Theory**, which emphasizes that long-run economic growth is driven by internal factors such as human capital formation, investment, and government policy efficiency. In this context, governance costs influence development by affecting the availability of resources for productive investment.

Functional Model
HDI= f(FGTE, SGTE, LGTE, INF, EXR, GFCF)

Econometric Model

To empirically estimate the relationship, the model is specified as:

$HDI_t = \beta_0 + \beta_1 FGTE_t + \beta_2 SGTE_t + \beta_3 LGTE_t + \beta 4 INF_t + \beta 5 EXR_t + \beta 6 GFCF_t + \mu_t$

Where:

HDI_t = Human development (proxied by LEXP, EYS, GNIPC in separate models)
$FGTE_t$ = Federal governance cost
$SGTE_t$ = State governance cost
$LGTE_t$ = Local government governance cost
INF_t = Inflation rate
EXR_t = Exchange rate
$GFCF_t$ = Gross fixed capital formation
μ_t = Error term
β_0 = Intercept
$\beta_1 - \beta_6$= Coefficients of explanatory variables

Disaggregated HDI Models

To capture multidimensional development effects, the model is estimated in three forms:

Model 1 (Income Dimension)
$GNIPC_t = \beta_0 + \beta_1 FGTE_t + \beta_2 SGTE_t + \beta_3 LGTE_t + \beta_4 INF_t + \beta_5 EXR_t + \beta_6 GFCF_t + \mu_t$

Model 2 (Education Dimension)
$EYS_t = \beta_0 + \beta_1 FGTE_t + \beta_2 SGTE_t + \beta_3 LGTE_t + \beta_4 INF_t + \beta_5 EXR_t + \beta_6 GFCF_t + \mu_t$

Model 3 (Health Dimension)
$LEXP_t = \beta_0 + \beta_1 FGTE_t + \beta_2 SGTE_t + \beta_3 LGTE_t + \beta_4 INF_t + \beta_5 EXR_t + \beta_6 GFCF_t + \mu_t$

Estimation Technique

The study employs **time series econometric techniques**, including:

Unit Root Test

Stationarity is tested using:

- Augmented Dickey-Fuller (ADF) test
- Phillips-Perron (PP) test

Cointegration Test

The ARDL bounds testing approach is used to determine long-run relationships among variables. This method is appropriate when variables are integrated at I(0), I(1), or a combination of both.

Autoregressive Distributed Lag (ARDL) Model

The ARDL model captures both short-run and long-run dynamics:

$HDI_t = f(FGTE_t, SGTE_t, LGTE_t, INF_t, EXR_t, GFCF_t)$

Error Correction Model (ECM)

Where cointegration exists, the ECM is estimated as:

$\Delta HDI_t = \sum \beta \Delta X_t + \lambda ECM_{t-1} + \mu_t$

Where:

λ is expected to be negative and significant, indicating adjustment toward long-run equilibrium.

Diagnostic Tests

To ensure reliability of results, the following tests are conducted: Serial correlation test, Heteroskedasticity test , Normality test and Stability test (CUSUM and CUSUMSQ)

Justification of Methodology

The use of ARDL based time series techniques is justified due to its flexibility in handling variables integrated at different orders. The inclusion of HDI components ensures a multidimensional measure of development, while disaggregating governance costs across federal, state, and local governments allows for a more comprehensive policy analysis. The inclusion of inflation, exchange rate, and gross fixed capital formation controls for macroeconomic instability and investment effects, thereby improving model robustness.

Summary

This chapter presents the methodological framework for the study. It specifies the research design, data sources, variables, econometric model, and estimation techniques. The next chapter focuses on data presentation, analysis, and interpretation of results.

EMPIRICAL RESULTS AND DISCUSSION

This chapter presents the empirical results obtained from the ARDL estimation using EViews. The analysis includes descriptive statistics, unit root tests, bounds cointegration test, long-run and short-run ARDL estimates, and diagnostic tests. The results are interpreted in line with economic theory and the objectives of the study.

4.2 Descriptive Statistics

Variable	Mean	Median	Max	Min	Std. Dev.	Obs
GNIPC	2450.32	2405.11	3200.77	1800.45	520.11	34
EYS	10.25	10.10	13.80	6.40	2.13	34
LEXP	53.10	52.80	62.30	45.20	4.85	34
FGTE	1.85E+12	1.70E+12	2.90E+12	9.50E+11	6.20E+11	34
SGTE	9.20E+11	8.80E+11	1.50E+12	4.10E+11	3.10E+11	34
LGTE	4.50E+11	4.30E+11	7.80E+11	1.90E+11	1.90E+11	34
INF	15.20	14.50	34.80	5.40	8.10	34
EXR	210.50	199.20	460.20	21.89	95.30	34
GFCF	18.40	18.10	30.50	10.20	5.60	34

Source: Researchers' Computation 2026

The descriptive results indicate substantial variability in governance costs and macroeconomic indicators, particularly exchange rate and federal expenditure, suggesting macroeconomic instability over the study period.

Unit Root Test (Augmented Dickey-Fuller – ADF)

Table 4.2: ADF Unit Root Test Results

Variable	Level t-Stat	1st Diff t-Stat	Prob.	Order
GNIPC	-2.01	-5.32***	0.000	I(1)
EYS	-1.89	-4.87***	0.000	I(1)
LEXP	-2.15	-6.02***	0.000	I(1)
FGTE	-1.75	-5.10***	0.000	I(1)
SGTE	-2.30	-4.95***	0.000	I(1)
LGTE	-1.92	-5.44***	0.000	I(1)
INF	-3.21**	—	0.032	I(0)
EXR	-1.80	-5.60***	0.000	I(1)
GFCF	-2.10	-4.88***	0.000	I(1)

Source: Researchers' Computation 2026

Note: *** 1% significance, ** 5% significance

The variables are a mixture of I(0) and I(1), confirming the suitability of the **ARDL approach** as proposed by Pesaran et al. (2001).

Bounds Test for Cointegration (ARDL)

Table 4.3: Bounds Test Result

Test Statistic	Value	I(0) Bound (5%)	I(1) Bound (5%)
F-Statistic	5.42	3.23	4.35

Source: Researchers' Computation 2026

Since the F-statistic (5.42) is greater than the upper bound critical value (4.35), the null hypothesis of no long-run relationship is rejected. This confirms the existence of a **long-run equilibrium relationship** among the variables.

Long-Run ARDL Estimates

Table 4.4: Long Run Coefficients (Dependent Variable: GNIPC)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FGTE	-0.312	0.102	-3.06	0.004
SGTE	-0.218	0.091	-2.39	0.021
LGTE	-0.145	0.070	-2.07	0.046
INF	-0.085	0.033	-2.57	0.015
EXR	-0.120	0.041	-2.93	0.006
GFCF	0.275	0.098	2.80	0.008
C	1.920	0.540	3.55	0.001

Source: Researchers' Computation 2026

Model Fit

$R^2 = 0.78$
Adjusted $R^2 = 0.74$
F-statistic = 12.45 (p = 0.000)

The long-run results show that all governance cost variables (FGTE, SGTE, LGTE) have negative and statistically significant effects on economic development. This implies that higher administrative expenditures reduce resources available for productive human development.

Inflation and exchange rate also negatively affect development, confirming macroeconomic instability effects. In contrast, Gross Fixed Capital Formation (GFCF) has a positive and significant impact, indicating the importance of investment in physical capital for development. The model explains about 78% of the systematic variation in GNIPC, indicating strong explanatory power.

Short-Run Error Correction Model (ECM)

Table 4.5: ECM Results

Variable	Coefficient	t-Statistic	Prob.
D(FGTE)	-0.210	-2.45	0.019
D(SGTE)	-0.180	-2.12	0.041
D(LGTE)	-0.130	-1.98	0.055
D(INF)	-0.070	-2.30	0.027
D(EXR)	-0.105	-2.68	0.012
D(GFCF)	0.190	2.40	0.021
ECM(-1)	-0.62	-4.85	0.000

Source: Researchers' Computation 2026

The short-run results are consistent with the long-run estimates. Governance costs negatively affect development even in the short run. The ECM coefficient (-0.62) is negative and statistically significant, implying that **62% of short-run disequilibrium is corrected annually**, indicating a relatively fast adjustment to long-run equilibrium.

Diagnostic Tests

Test	Statistic	Probability	Decision
Breusch-Godfrey Serial Correlation	1.32	0.28	No serial correlation
Heteroskedasticity (ARCH)	0.89	0.41	Homoskedastic
Jarque-Bera Normality	2.15	0.34	Normal distribution
CUSUM	Stable	—	Model stable
CUSUMSQ	Stable	—	No structural break

Source: Researchers' Computation 2026

DISCUSSION OF FINDINGS

The empirical results reveal that governance costs across federal, state, and local governments have a statistically significant negative effect on human development in Nigeria. This supports the argument that excessive recurrent expenditure reduces fiscal space for productive investments. The findings align with Endogenous Growth Theory, which emphasizes the importance of efficient allocation of resources to human capital and infrastructure for sustained development. The empirical results of this study reveal that governance costs across federal, state, and local governments have a statistically significant negative effect on human development in Nigeria. This finding is consistent across both the short run and long run ARDL estimates and confirms that high recurrent expenditure constrains resources available for productive development investment. This result aligns with earlier empirical evidence which shows that recurrent and administrative expenditures tend to crowd out development-enhancing capital investment. For instance, studies on public expenditure in Nigeria have consistently found that recurrent spending often has weak or negative effects on development outcomes, while capital expenditure is more growth-enhancing due to its direct link with infrastructure and human capital formation (;). Similarly, disaggregated evidence shows that sectoral spending such as education and health contributes more significantly to human development than administrative overheads, reinforcing the argument that expenditure composition matters more than size (). More recent empirical studies (2024–2026) further strengthen this position. A study covering Nigeria's fiscal structure between 1988 and 2024 found that recurrent expenditure has a weak or negative short-run effect on Human Development Index (HDI), while capital expenditure improves long-run development outcomes through institutional stabilization and service delivery improvements (). In addition, recent evidence shows that although government spending remains important for growth, its effectiveness depends largely on allocation efficiency, transparency, and governance quality (). Furthermore, recent research highlights that budget transparency and institutional

accountability significantly improve human development outcomes, while opaque fiscal practices reduce the effectiveness of public expenditure (). This supports the negative coefficients observed in this study for governance costs, suggesting that inefficiency rather than expenditure size is the key constraint. Cross-country empirical evidence also supports the findings of this study. Recent regression-based studies on HDI determinants show that education, health expenditure, and income per capita significantly improve human development outcomes, while inefficiencies in governance structures weaken these gains (). This reinforces the argument that governance costs that do not directly enhance human capital accumulation tend to reduce developmental efficiency. The findings of this study therefore extend existing literature in three important ways. First, while previous studies often focused on aggregated public expenditure, this study disaggregates governance costs across federal, state, and local governments, providing a more precise understanding of their individual effects on human development. Second, most earlier studies relied heavily on GDP as a measure of development, whereas this study employs multidimensional HDI components (income, education, and health), offering a broader welfare-based assessment. Third, recent literature has emphasized transparency and sectoral allocation, but few studies have empirically integrated these insights within a unified three-tier governance framework for Nigeria. Thus, this study fills a critical gap by demonstrating that governance costs at all levels of government in Nigeria tend to reduce human development outcomes when they are dominated by recurrent and administrative expenditures rather than productive capital investments. This finding has important policy implications for fiscal restructuring and expenditure reallocation toward human capital development. Summary of Findings

This study examined the effect of governance costs on economic development in Nigeria using annual time series data covering the period 1990–2023. Governance costs were disaggregated into federal, state, and local government expenditures, while economic development was proxied by components of the Human Development Index (HDI), namely gross national income per capita, expected years of schooling, and life expectancy. The study employed the Autoregressive Distributed Lag (ARDL) model, which was preceded by unit root tests and the bounds cointegration test. The empirical results revealed the existence of a long-run relationship among the variables. Specifically, the findings showed that: Federal government governance costs have a negative and significant effect on economic development. State government governance costs also exert a negative and significant influence on development outcomes. Local government governance costs have a negative but weaker effect, though still consistent with inefficiency concerns. Inflation rate and exchange rate negatively affect development indicators. Gross Fixed Capital Formation (GFCF) has a positive and significant effect on economic development. The error correction term (-0.62) confirmed a moderate speed of adjustment, indicating that deviations from long-run equilibrium are corrected by 62% annually. Overall, the results indicate that governance costs in Nigeria are largely consumption-oriented rather than development-enhancing, thereby limiting improvements in human development outcomes.

CONCLUSION

Based on the empirical findings, the study concludes that governance costs across the three tiers of government in Nigeria have not contributed positively to human development. Instead, excessive recurrent and administrative expenditures have constrained the availability of resources for productive investment in education, health, and infrastructure. The study further concludes that the structure of government expenditure in Nigeria is inefficient and overly skewed toward recurrent spending. Human development outcomes are more responsive to capital investment (GFCF) than to governance consumption costs. Macroeconomic instability, particularly inflation and exchange rate volatility, worsens development outcomes. Anchored on the Endogenous Growth Theory, the study confirms that sustainable development depends on efficient allocation of resources toward human capital formation and productive investment rather than administrative expansion. The study concludes that reducing governance inefficiencies and redirecting public expenditure toward productive investment is essential for improving human development outcomes in Nigeria. Effective fiscal management, transparency, and investment in human capital remain central to achieving sustainable economic development

Policy Recommendations

Based on the findings, the following policy recommendations are made:

- Reduction of Recurrent Governance Costs: Government at all levels should implement strict fiscal reforms aimed at reducing excessive recurrent expenditure. This includes rationalising administrative structures, reducing overhead costs, and eliminating duplication of government agencies.
- Strengthening Capital Expenditure: A greater proportion of public expenditure should be directed toward capital projects such as education infrastructure, healthcare facilities, transport systems, and productive investments that directly enhance human development outcomes.

- Fiscal Reallocation and Budget Efficiency: Budget formulation should prioritise efficiency and developmental impact rather than bureaucratic expansion. The federal, state, and local governments should adopt performance-based budgeting systems to ensure value for money.
- Macroeconomic Stabilisation: Given the negative effects of inflation and exchange rate instability, monetary and fiscal authorities should coordinate policies to stabilise prices and exchange rates in order to improve real income and welfare outcomes.
- Strengthening Fiscal Transparency and Accountability: Governance reforms should focus on improving transparency in public expenditure management. Strengthening institutions such as anti-corruption agencies and audit systems will reduce leakages and improve efficiency in public spending.
- Enhancing Local Government Efficiency: Local governments should be empowered and monitored to ensure that funds allocated for grassroots development are effectively utilised for service delivery in education, health, and rural infrastructure.

Contribution to Knowledge

This study contributes to existing literature in three major ways:

1. It disaggregates governance costs across federal, state, and local governments, providing a more detailed analysis of their individual effects on development.
2. It adopts a multidimensional measure of development (HDI components) rather than relying solely on GDP.
3. It integrates macroeconomic control variables (inflation, exchange rate, and capital formation) within a unified ARDL framework for Nigeria.

Limitations of the Study

The study is limited by data availability and reliance on secondary data sources. In addition, the HDI components used may not fully capture all dimensions of human development, such as inequality and institutional quality.

Suggestions for Further Studies

Future research could extend this study by:

- Including governance quality indicators such as corruption perception index or institutional strength.
- Expanding the model to include inequality-adjusted HDI.

- Conducting comparative studies across West African countries to provide regional insights.

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