Governance and Human Development: Empirical Evidence from Nigeria
Ozengbe Scott Aigheyisi and Obhiosa Benedict Omonkalo
Department of Economics and Statistics, University of Benin, Benin City
E-mail: ozengbeaigheyisi@gmail.com, +234-803-352-0503

Abstract
This study empirically investigates the effects of governance on human development in Nigeria. Using annual time series data covering the period 1998 to 2010, obtained from various sources, and employing the classical least squares estimation technique, the study finds that corruption, foreign aid and government expenditure negatively affected human development within the period. The effect of government expenditure was however not significant. On the other hand, the effect of oil export earning on human development was positive, though it was far from being significant. The paper concludes that these findings indicate weak (bad) governance, and calls for urgent governance reforms to position the country on the path to sustainable human development. To this end, measures recommended for policy consideration to ensure that good governance is enthroned in the country include intensification of the fight against corruption, efficient/effective use of foreign aid to ensure the actualization of its purpose, prioritization and close monitoring of annual budgetary allocations to sectors that are strongly linked to human welfare.

Keywords: Corruption, governance, human development, expenditure

Introduction
The advancement or the backwardness, the development or the underdevelopment of any state or nation are issues of governance. The take-off point in diagnosing societal and economic woes and finding lasting solutions to them is the critical examination of the features of governance in place in the economy. Similarly, the take-off point in determining the cause(s) of the social, economic, political progress of any country is an adventure into the characteristics/features of governance prevailing therein. There are therefore multiple, complex and very strong linkages between governance and the level of development of any country (ODI, 2006). The nature of the relationship depends on whether the style of governance is ‘good’ or ‘bad’. Undoubtedly, good governance engenders (and is a prerequisite for) development while bad governance invariably births underdevelopment.

Our main contention in this paper is that the backwardness of most countries in sub-Saharan Africa is not a result of paucity or non-availability of resources in the region, but bad (or poor) governance, characterized by corruption, resource mismanagement and economic irrationality on the part of their governments. Bad governance is here suspected to be the major bane of the impoverished sub-Saharan Africa countries.

It is worthy of note that in the absence of good governance, the citizens of a resource-rich country may suffer hardship and deprivation of great magnitude, as is being observed in Nigeria, a country which the World Bank in 1996 described as a ‘paradox’, and the paradox according to Obadan (2004) is that the poverty level in the country contradicts the country’s immense wealth.

The main objective of this paper is to empirically examine, using appropriate econometric methodology, the effect of the activities of government (i.e. governance) on human development in Nigeria within the period 1998 to 2010.

The problem
For a country blessed with abundant resources (human, material and natural) as Nigeria, poverty should not be an issue. With a population of over 162,470,737 in 2011 (according to the World Bank), vast arable lands suitable for cultivation of virtually all kinds of crops required to feed the teeming population and also for the export market, a country with huge reserves of crude oil and natural gas,
ranking among the largest in the world, and endowed with other mineral resources such as gold tin, columbite, iron-ore, limestone, zinc, tin, etc., etc., it is heart-rending to know that the country is still in the league of the poorest countries in the world (El-Rufai, 2011). With alarming poverty rate, unimaginable youth unemployment rate, ridiculously low electrification rate, persistent and pitiable low human development index, Nigeria’s economic condition has been described as a paradox considering its immense wealth. The country has been variously described as a rich country with poor people (El-Rufai, 2011) and as a country experiencing poverty in the midst of plenty (World Bank, 1996). Poverty is virtually written on the faces of much of the population. The number of people living in shanties, with little access to clean water, healthcare facilities and quality education is quite alarming. The gap between the rich and the poor appears to be expanding by the day. The cost of doing business in the country still ranks among the highest in the world, attributable to the poor state of infrastructure, epileptic power supply, and unfavourable tax regimes, faulty and inconsistent macroeconomic policies, among others. These have tended to contribute to worsening the plight of the people. These should not be the features of a country upon which the world relies for a significant supply of its crude oil needs. What could have gone wrong? Where did the country miss it? Obviously, partly responsible for the current state of the Nigerian economy is the mismanagement of the resources with which the country is endowed by its government. Corruption, rent-seeking and self-seeking have been enthroned and enshrined in various arms of government. Over the years since the world’s anticorruption watch-dog (the Berlin-based Transparency International, T.I.) began its measurement of the corruption perception index for selected countries, Nigeria has persistently maintained its position as one of the most corrupt countries in the world. She was ranked the most corrupt country in the in 1996, 1997 and 2000 of the countries sampled by the T.I. With a corruption perception index of 2.4 she was ranked 143rd out of 183 countries sampled in 2011. It is hardly contentious that this has tended to dent the country’s image, further plunging its economy into deeper economic woes (Ojameruaye, 2011).

Conceptual clarifications

The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP, 2012) sees governance as the process of decision making and the process by which decisions are implemented. The term, according to UNESCAP can be used in several contexts such as national governance, corporate governance, international governance, local governance, etc. This paper however focuses on national (political) governance and how it affects the living standard of the inhabitants of a country. Therefore the term, wherever it appears in this paper is used in this context. Several actors participate in the decision making and implementation processes in every nation. These include the state or government (upon which is vested the political authority to manage the affair and resources of the nation), the military and the civil society (including the non-government organizations, multinational Corporations, lobbyists and all others who influence decision making in the country). (UNESCAP, 2012). The World Bank (1992) defined governance as the manner in which power is exercised in the management of a country’s resources for development. The UNDP (1997) defined governance as the exercise of political, economic and administrative authority in the management of the affairs of a country. According to the UNDP, governance comprises the mechanisms, processes, and institutions, through which citizens and groups articulate their interest, exercise their legal rights, meet their obligations and mediate their differences. Drawing from these definitions, Orubu and Awopegba (2004) defined governance as the manner in which power is exercised in the management of the affairs of a nation be it in the economic, political or wider sphere of life.

Myriads of definitions of governance exist in the vast literature and majority of them emphasize that the ultimate aim of governance is development, which has been defined by the United Nations Development Programme (1990), cited in Todaro and Smith, (2003) and Alkire (2010), as the process of enlarging people’s choices to lead long and healthy lives, to be knowledgeable, to have access to resources (income and assets) needed to enjoy a decent standard of living and be able to participate in the life of the community. This definition of development by the UNDP reveals that development is empowerment, that is, it is about local people taking control of their own lives, expressing their own demands and finding their own solutions to their
problems (Volunteering Options, 2012). Todaro and Smith (2003) defined development as the process of improving the quality of all human lives with the aim of raising their living levels (incomes, consumption of food, medical services, education), creating conditions conducive to the growth of their self-esteem and expanding their range of economic and social choices. Summarily, development can be seen as the overall quantitative improvement in the lives of a people or a political community and (it) addresses issues of social welfare, equity and justice (Bujra.com, 2012). Actualizing the goal of governance (which is human development) undoubtedly requires proper, judicious and rational management of the resources and affairs of a nation. This proper and sound development management is what the World Bank (1992) referred to as ‘good governance’. Good governance is thus a necessary condition for human development. According to Annan (cited in UNDP Governance for Sustainable Development Report, 1997), good governance is perhaps the single most important factor in eradicating poverty and promoting development and it gives every citizen (young or old, man or woman) a new and lasting stake in the future of his or her societies- politically, economically and socially- and with that stake in their hearts and minds, there are no limits to what they can achieve. This view was corroborated by Oburota, 2003 (cited in Ogundiyia, 2010), who noted that good governance is absolutely imperative for social and economic progress.

Eight major characteristics of good governance have been identified in the literature (UNESCAP, 2012). They are participation, consensus orientation, accountability, transparency, responsiveness, effectiveness, equity and inclusiveness and strict adherence to the rule of law. Good governance offers the citizens or their representatives equal opportunities to participate in the formulation and implementation of development policies that affect their lives. There is broad consensus among actors in governance on what is in the best interest of the entire society. When good governance is in place, there is transparency (clarity and openness) in the decision-making process, and so, easy access by the citizenry to information on the activities of government is guaranteed and the government is accountable to those affected by its decisions and actions. Accountability in governance is made possible by transparency and strict adherence to the rule of law which requires impartial enforcement of existing laws. With good governance, the government has the welfare of the people at heart and is responsive to their needs, thus striving to serve all stakeholders within a reasonable timeframe. And in striving to serve all stakeholders, the best (efficient) use is made of the available resources, avoiding waste, delays and corrupt practices and this is done in a just, impartial and inclusive manner such that no individual, group or race is discriminated against or given special consideration or privileges.

Other principles of good governance identified in the literature include stable property rights, strong commitment to anticorruption, engaging in democratization, adherence to due process in the execution of government projects especially in the award of contracts, strong commitment to strengthening the effectiveness of public institutions (electoral body, parliament, etc.) (Rodrik, 2008) and incorporation of democratic practices as without this the people cannot be thrust to the centre-stage of public policies and development processes (Eregha, 2007; Bujra.com, 2012). A combination of all these principles/characteristics implies that good governance inevitably engenders improved living standards or human development (Orubu and Awopegba, 2004; Oshodi, 2008; Khan, 2010, Kaufman et al, 2000). Good governance and sustainable development are therefore indivisible (Annan, cited in the UNDP’s Governance for Sustainable Development Report, 1997).

Just as good governance makes achieving sustainable development a reality, bad (or poor) governance can make the plan for improved living standards elusive, or go awry. Bad governance, according to Ogundiyia (2010) is the absence of good governance. If good governance according to the World Bank means sound management of the affairs and resources of a country for development, it follows then that its absence (i.e. bad governance) will inevitably birth underdevelopment, manifested by low standards of living-poor health, little or no access to quality education, etc. Bad governance reduces the attractiveness of an economy to foreign aid and investment. It also reduces the effectiveness of aid in an in alleviating poverty and improving the welfare of the people as a result of corruption and resource mismanagement. It breeds policy inconsistency as well as reduces the effectiveness of macroeconomic policies. It impoverishes the citizenry and makes them victims of deprivation. According to the
Economist (1999, cited in ODI, 2006), *of all the ills that kill the poor, none is as lethal as bad government*. Where bad governance is enshrined, corruption is rampant. Bad governance paves way for anarchy, security challenges and all forms of protests, violence and criminality.

**Governance and human development**

Issues in governance have continued to attract the attention of researchers all over the world. This is not unexpected considering the linkage between governance and human development. It has been stressed severally that governance is critical for development (Punyaratabandhu, 2004; Khan, 2010; Harman, 2005). The development (or otherwise) of any nation is strongly linked to the manner in which the government manages its affair or resources. Sound economic management paves way for sustainable human development (Earl and Scott, 2010), while economic mismanagement which is a major bedrock of bad governance engenders underdevelopment. The linkage between good governance and development is so strong that Rodrik (2008) equated good governance to development. In his view, *good governance is an end and a means, a key goal of development and an instrument for achieving better policymaking and improved economic outcomes*. In the absence of good governance, development is elusive, and where it does occur, it cannot be sustainable (Bujra.com, 2012). Good governance therefore holds strong relevance for human development (De Jesus and Lee, 2010). This prompted the former United Nations Secretary General to note that good governance is perhaps the single most important factor in eradicating poverty and promoting development (Annan, 1998 cited in ODI, 2006). Weak (bad, poor) governance on the other hand, paves way for underdevelopment and its attendant ills. The decline in Ukraine’s living standards in the 1990s was ascribed mainly to weak governance in the form of ineffective rule of law, inadequate protection of property rights, widespread corruption, and ill-advised policy making, serving special interests. Argentina suffered similar fate as a result of rampant corruption in procurement and budget allocation in the province of Corrientes (Kaufmann, et al, 2000). Practical experiences in many countries suggest that weak governance and slow economic development go hand-in-hand while improved governance fosters development success (Kaufmann et al, 2000). Considering that the state exists for the common good as implied in the theory of state and social contract postulated by Roseau and other earlier philosophers (Ogundiya, 2010), it therefore behooves government at all levels to put appropriate measures on ground towards ensuring the entrenchment of good governance.

**Methodology**

Government institutions and processes affect the living standards of the people being governed either for good or for ill. Good governance has positive effect, while bad governance invariably has negative effects. It is acknowledged that most of the indicators of governance cannot be measured quantitatively. However, in this section we shall develop a simple econometric model to analyze the effects of the activities of government on human development in Nigeria, based on the premise that certain variables with that can be measured quantitatively, can be used to proxy government activities. In this regard, we adopt government expenditure (GOVEXP), corruption perception index (CPI), foreign aid (FAID) and oil export earnings (OILEXP) to proxy the activities of Nigeria’s government (i.e. governance in Nigeria). The effects of these on human development (captured by the human development index, HDI), will be examined with the aid of an appropriate econometric methodology.

**Variables and data description**

**Human development index (HDI):** This index, which was introduced by the UNDP in 1990, is considered a standard and more holistic measure of well being or living index as it is based on three goals of development — longevity, knowledge and PPP-adjusted income (Todaro and Smith, 2003). It takes on values between 0 and 1, with zero representing lowest level of human development and 1 representing the highest index. (More on the HDI and how it is computed can be obtained from [www.hdr.undp.org](http://www.hdr.undp.org)).

**Government expenditure (GOVEXP):** A major activity of the government is to embark on expenditures (capital and recurrent) as detailed in the annual budget. The government also carries out extra-budgetary expenditures in the course of the fiscal year. The main objective of the expenditure is to (among others) uplift the living standard of the
people through the provision of public goods and services. Where there is good governance, resources (financial and material) are expended in an efficient manner for the benefit of all, i.e. for the common good. The absence of good governance means there would be inefficiency in the use of resources, embezzlement and all forms of corruption in government. This implies that irrespective of the size of the expenditure, the poverty rate, unemployment rate and other economic ills will be alarming. The effect of government expenditure on human development in Nigeria will be investigated within the methodological framework with a view to examining the effectiveness or productivity of government expenditure in achieving its objective of improving living standards. Annual time series data for total (federal) government expenditure sourced from the Central Bank of Nigeria Statistical bulletin (2010) will be employed for this study.

Foreign aid (FAID): This is often channeled to developing countries either directly or indirectly through multilateral institutions or private voluntary organizations for the purpose of supporting social and economic development, and it has the potential (if properly managed) to boost investment, increase public pro-poor expenditure and improve the living standards of the people (Adamu and Ighodaro, 2011). The purpose of foreign aid could be defeated in the absence of good governance, thus foreign donors make good governance a condition/prerequisite for extending aid to developing countries (Santiso, 2001). The effectiveness of foreign aid in raising the living standards of The Nigerian people will be examined within our methodological framework. This is done with a view to ascertaining the quality of governance in the country.

Oil export earnings (OILEXP): Earnings from crude oil export accounts for significant portion of Nigeria’s gross domestic product, total export earnings, foreign exchange reserves, etc. The country’s budget is also tied to it. Nigeria is one of Africa’s (and indeed the world) leading oil producers and exporters. Since she began the export of over five decades ago, she has earned over 600 billion dollars from the export of the product. One would expect that the inhabitants of a country that is endowed with such valuable natural resource and has also earned (and continue to earn) much from the export of same, would enjoy a decent standard of living, but this does not appear to be so in Nigeria. This work represents a sharp departure from previous works that looked at the effect of oil on economic development of Nigeria, as it looks at the effect of oil on human development in Nigeria. Annual time series data for oil export earnings sourced from the Central Bank of Nigeria Statistical Bulletin (2010) would be utilized in the analysis.

Corruption perception index (CPI): The corruption perception index is computed by the Berlin-based Transparency International. First published in 1995, the index measures the levels of public sector corruption in the countries sampled. The index puts the issue of corruption on the international policy agenda and sends out a powerful message about countries and their government to the world. The corruption perception index takes on values from 0 to 10, with 0 indicating very high level of corruption and 10 indicating ‘very clean’. (More information on Transparency International and the corruption perception index at (www.transparency.org)

Data analysis

To investigate the effect of government activities (captured by the aforementioned variables) on human development in Nigeria, we specify our model functionally as:

$$\text{HDI} = f (\text{CPI, FAID, GOVEXP, OILEXP})$$

Where the variables are as earlier defined. The variables FAID, GOVEXP, OILEXP are weighted by gross domestic product (GDP) in the estimation. To estimate the parameters of the model, we specify it empirically as:

$$\text{HDI} = \alpha_0 + \alpha_1 \text{CPI} + \alpha_2 \text{FAID} + \alpha_3 \text{GOVEXP} + \alpha_4 \text{OILEXP} + \xi$$

The $a \text{ priori}$ expectations are ($\alpha_1, \alpha_2, \alpha_3, \alpha_4) > 0$. Good governance therefore requires that the coefficients of the variables of the model are all positive and statistically significant.

The method of estimation employed for the study is the classical least squares estimation technique. The Eviews package is employed for the estimation.

Presentation and analysis of result
The results of estimation of equation 2 (obtained after correcting for serial correlation in the preliminary results) are presented below.

\[ \text{HDI} = C - 0.018869 \text{CPI} - 0.003120 \text{FAID} - 0.000442 \text{GOVEXP} + 3.28e^{-05} \text{OILEXP} \]

\[ \begin{align*}
(10.49485) & \quad (-2.142721) \quad (-2.574235) \quad (-0.520405) \quad (0.052623)
\end{align*} \]

(The t-ratios are in parenthesis under the estimated coefficients)

R-squared = 0.789286, Adjusted R-squared = 0.638776, F-statistic = 5.244080, Prob(F-statistic) = 0.025500

Durbin-Watson stat = 2.104799

The diagnostic statistics of the above results reveal that the model has a good fit as the r-squared value of 0.789286 indicates that nearly 79% of the systematic variation in the dependent variable (HDI) is explained by the regressors. This explanatory ability of the model is further confirmed by the F-statistic value of 5.244080 which is quite significant at the 8% level, indicating that the explanatory variables, taken together, are quite significant in explaining variations in the dependent variable. The Durbin-Watson statistic of 2.104799 is satisfactory and points to the absence of positive autocorrelation in the model. The model is therefore reliable, and suitable for policy formulation.

A look at the estimated coefficients of individual variables of the model reveals that CPI and FAID pass the test of statistical significance at the 7% and 5% levels respectively. The coefficients of the other variables (GOVEXP and OILEXP) outrightly failed the test. Furthermore, while the sign on the coefficient of OILEXP conform to a priori expectation, the sign on the coefficient of other variables (CPI, FAID and GOVEXP) does not.

**Implications of results**

The above results speak volume of, and offer some insights into the quality of governance in Nigeria. Firstly, the negative and statistically significant coefficient of the CPI variable implies that corruption has had very adverse affect on the well being or human development of Nigerians in the period covered by the study. Little wonder the country has constantly been on the list of most corrupt countries published annually by the Transparency International since 1995. Public sector corruption perpetrated by political office holders at all levels of government and employees in various government institutions such as The Police, the PHCN, the NNPC and the customs has been largely responsible for the impoverishment of a large number of people living in the country. Secondly, the negative and statistically significant coefficient of FAID runs contrary to expectation. Foreign donors extend aid to developing countries to assist them in their pursuit of improved standards of living. Our results however reveal that instead of bringing about improvement in the standard of living of the Nigerian people, foreign aid adversely affected it. This confirms the finding of Okon (2012) who also found a negative relationship between development aid and human development. These unwholesome and unpalatable effects of aid on human development in Nigeria can be attributed to bad or poor governance, expressed through corruption and mismanagement of the resource (aid). This finding is indeed an eye-opener, considering that Adamu and Ighodaro (2011) found a positive relationship between foreign aid and economic growth in Nigeria, whereas a negative relationship is being observed between foreign aid and human development (or welfare) in this research, underscoring the fact that economic growth does not necessarily imply or lead to improved welfare. Therefore, a country may be experiencing economic growth while majority of its citizenry will be pitifully poor and living in misery. Thirdly, the very low, negative and statistically insignificant coefficient of the GOVEXP variable clearly indicates that government expenditure within the period covered by the study simply failed to achieve the objective of improving the welfare of the people being governed. This is an indication of misguided expenditure, irrational spending, high level corruption conducted through embezzlement of public funds by political office holders and some others who in one way or the other affect the decision making and implementation
processes in the country. These can only thrive in the absence of transparency, accountability and adherence to the rule of law in a country. Fourthly, the highly insignificant coefficient of OILEXP further confirms the fact that the huge earnings from export of crude oil did not translate into improved welfare for the people in the period covered by the study, therefore giving credence to the phrase the curse of oil and the country being described as a rich country with poor people. This undoubtedly is an indication of bad governance and is quite unfortunate of a country which by all standards ought to be among the richest in the world. Finally, since the analysis covers mainly the democratic era, our findings also reveal that democracy has not been practised in its ideal form in Nigeria since the return of the country to democratic system of government in 1999, as democratization defined as the process of transition to a stable/consolidated democracy, could be a harbinger of development, with good governance as the link in the chain (Omotola, 2007). Good governance is a sine qua non for democratic system of government to bring about improvement in human welfare.

Conclusion

Focusing mainly on the current democratic regime, and employing the classical least squares estimation technique, the study finds that corruption and foreign aid have adversely affected the welfare of the Nigerian people. Furthermore it also finds that oil export earnings and government expenditures had very insignificant effects on human development within the period covered by the study. These findings were rather disheartening and disappointing particularly with respect to the effects of foreign aid, government expenditure and oil export earnings on human development in the country. Foreign aid and government expenditure which were expected to contribute to the upliftment of the living standards of the people, negatively affected it (though the effect of government expenditure was insignificant), while the effect of oil export earnings on living standard, though positive, was quite insignificant. The observed negative effect of corruption on human development in the country was however not unexpected considering the fact that the country has always been ranked as one of the most corrupt in the world in recent times and corruption will always engender impoverishment.

Findings point to bad governance evidenced in corruption, resource mismanagement and economic irrationality (United Nations, 2005). It is therefore hardly contentious that there is urgent need for governance reforms in the country, and to this end the paper recommends an all-out intensified war against corruption, prioritization of allocations to welfare-linked sectors (education, health, manufacturing, etc) in the annual budgets which also must be effectively monitored and controlled to ensure that government expenditure achieve its objective of improving the living standards of the people, and effective management of foreign aid and oil export earnings to enhance their contributions to human and national development.

Policy recommendations

The following action steps are recommended for policy consideration

1. Considering that corruption was found to have adversely affected the wellbeing of the Nigerian people within the period covered by the study, the fight against corruption should be intensified. The anti-corruption bodies in the country (the EFCC and the ICPC) should be further strengthened made truly independent to carry out their functions efficiently and effectively.

2. Appropriate measures should be put in place to make aid work for the benefit of the people. The negative effect of foreign aid on human development no doubt results from poor management of the facility/resource and corruption. It is imperative therefore that measures are taken to ensure that aid is properly monitored, and institutions or individuals charged with the responsibility of utilizing it for its purpose are made to account for every dime spent irrespective of their status in the political arena of the country. This however is possible where there is transparency and strict adherence to the rule of law.

3. There is need for the Nigerian government to ensure that the implementation of its annual budget it closely monitored and controlled to ensure that Nigeria’s citizens benefit maximally from public expenditures. Top priorities should be accorded projects that will uplift the living standards of the people.
such education, employment generation, health, etc.

4. The huge earnings from petroleum (oil) export have obviously not had any significant impact on the living standards of the people of Nigeria. There is the therefore urgent need to check corruption in the sector and put measures in place to ensure that the benefits of the oil sector spill over to the people. In addition to this, employment (direct and indirect) should be generated for more Nigerians in the sector. Furthermore, a special fund could be created from oil export earnings to help subsidize inputs and outputs of other welfare-enhancing sectors such as agriculture, manufacturing, healthcare, education, etc.

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