# Good-Governance and Poverty Reduction Relationship a case study of Nigeria

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November 2012

Australian Journal of Basic and Applied Sciences, 7(2): 804-812, 2013
ISSN 1991-8178

# Good-Governance and Poverty Reduction Relationship a case study of Nigeria

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**Abstracts:** The aim of this paper is to examine whether governance causes poverty or alternatively poverty reduction causes governance in Nigeria. We applied ARDL approach to co integration in order to establish the direction of the relationship between governance and poverty reduction in Nigeria. The result suggests that three out of six indicators of governance integrate with poverty, but all of the indicators took a negative sign. Suggesting that the indicators of governance are too coarse to capture the nuances of interaction between governance and poverty in Nigeria, results from the Error correction representation suggest that there is reverse causality, Our study have some implication for economic research and for economic policy, research on governance must focus on real issues that involves actual rules, rather than on conceptually vague assessment of governance scores. On the policy, this paper suggests that Nigeria needs to focus on critical growth driven policies that sustained growth and poverty reduction in the short and medium term.

**Key worsd:**

## INTRODUCTION

A fast-growing comparative literature on research on goo- governance approach to development stresses good- governance widely, defined as the traditional and institutions that determine how authority is exercised in a country (Kaufmann, *et al*., 2000) is important for economic development. This understanding surface from the earlier pioneering work of institutional economists such as Dauglass North and Mancur Olson, which led to the wide spreads different types of cross-sectional empirical evidences suggesting a positive relationship between governance structures and economic growth. No wonder, in recent development a lot of agreement have been reached among growth economists, development specialists and international policy- makers that "good governance" is basic and necessary for economic growth and poverty reduction (Kaufmann *et al*., 2003).

Despite comparative literature on governance structures and social determinants of economic growth and poverty, the governance matters to development have been marred with number of short comings. Cross-sectional studies proven that good governance matter for economic growth have been challenge on the grounds of reverse causality problems (Chod and Calderon 2000). Attempt to addressed causality problems has been marred with measurement error (Knacks and Keefer, (2003), missing variables Gleaser *et al*., (2004), conceptual vagueness (La Porta *et al*., (2004). The weakness of these types of cross-sectional regression exercise pointed out by Quibria (2006) in his now famous paper "*Does Governance matter? Yes, No or may be some evidence from Developing Asia.* The main reason why cross-sectional studies fail to capture the nuances of interactions between governance and economic growth is because the model was developed based on the implicit governance model which exist only in institutions available in Western richer countries.

In the case of Nigeria, the causality of the various links and channels of influence between governance, growth and poverty is not well understood. Despite deficit in its governance performance, Nigerian economic growth, is rising with poor governance performance and rising growth, is also associated with rising poverty. Recent data has indicated economic growth rising to the average of 7% since, 2006, which is higher than the 6.5% target rate for appreciable poverty reduction within Sub Saharan Africa (MDG, 2010).

This apparent paradox of rising growth with poor governance performance and rising growth with rising poverty, contradict the theoretical as well as empirical evidences suggesting that the causal relationship between governance, economic growth and poverty reduction is a one way causation running from governance to growth and poverty reduction and that causation from growth to governance is weak or negative, attempt to resolve these controversies is yet settled. The objective of this paper to determine whether Good governance causes poverty reduction or alternatively poverty reduction causes good-governance.

Following the introduction the remaining part of the paper is structured as follows, section two provide methodology of the paper, while section three present the results and finally section four provide discussion and policy recommendation and conclusion.

***Methodology:***

We revisit six measures of governance used in the current economic literature, in an attempt to examine each, one empirical validity, we follow the common practice in the literature, by following the work of Gleaser *et al* (2004), and Quibria, (2006), in order to check the validity of the empirical evidences established through

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the use of these measure of governance indicators. Even though most of these indicators are quite heterogeneous, some reflecting process, while others seek to capture performance, but yet these are the indicators used to show governance cause growth and poverty reduction.

We consider four such measures motivated by the work of Alberto Alesina (1998), Bureaucratic efficiency, and absence of corruption and the Bureaucratic quality and rule law. We are motivated because Alesina used these indicators to established the fact that governance cause growth, and he presented his work at the 1997 Annual World Bank conference on Development Economic, On the basis of this piece work World Bank and other international donor agencies imposed aid conditionality's to poor countries stressing, they must have quality of institution before they can qualify for foreign assistance. Despite serious modeling problems of short time frame for Alesina study, and the unwarranted normative inference using perception based indexes, to conclude on the causal relationship between governance and growth, we placed this argument in country specific situation and assess the validity of these empirical evidences under a case study approach to Nigeria.

We applied autoregressive distributed approach to co -integration recently developed by Peseran *et al*, (2001), which is a breakthrough in the area of modeling time series data, and the most simples' way of establishing the long run relationship among economic variables under investigation. Why we decided to adopt ARDL approach in this study, is because this approach enables us to investigate the long run relationship between governance, economic growth and poverty reduction in Nigeria. Considering the small sample size of our data ARDL model will enable us to overcome small sample size problems in co- integration analysis.

***Model Specification:***

We consider the practice in the literature following the work of Abdul Jalil and Yig Ma (2008), we modify and specified the model below:

$$\Delta InPO = \beta 0 + \sum_{j=i}^{m} \beta 1 \Delta InPO_{t-1} + \sum_{j-i}^{n} \beta 2 \Delta ECt\text{-}1 + \sum_{j-i}^{n} \beta 3 \Delta QBt\text{-}1 + \sum_{j-i}^{n} \beta 4 \Delta SCt\text{-}1 + \sum_{j-i}^{n} \beta 5 \Delta CPt\text{-}1 + \sum_{j-i}^{n} \beta 6 \Delta RLt\text{-}1 + \sum_{j-i}^{n} \beta 7 \Delta CCt\text{-}1 + \sum_{j-i}^{n} \beta 8 \Delta InEQt\text{-}1 + \sum_{j-i}^{n} \beta 9 \Delta InGDPt\text{-}1 + \beta 10 InPOt\text{-}I + \beta 11 ECt\text{-}1 + \beta 12 QBt\text{-}1 + \beta 13 SCt\text{-}1 + \beta 14 CPt\text{-} + \beta 15 RLt\text{-}1 + \beta 16 CC + \beta 117 InEQt\text{-}1 + \beta 18 InGDPt\text{-}1 + et \quad (1)$$

The null hypothesis of no long run relationship is examined through F-test of the joint significant of the lagged level coefficient of equation (1).

Ho: β10, β11, β12, β13, β14, β15, β16, β17, β18, =0 against the alternative hypothesis

Hi: β10□0, β11□0, β12□0, β13□0, β14□0, β15□0, β16□0, β17,□0, β18□0

However for the error correction representation the equation is estimated as follow:

$$\Delta InPO = \beta 0 + \sum_{j=i}^{m} \beta 1 \Delta InPO_{t-1} + \sum_{j-i}^{n} \beta 2 \Delta ECt\text{-}1 + \sum_{j-i}^{n} \beta 3 \Delta QBt\text{-}1 + \sum_{j-i}^{n} \beta 4 \Delta SCt\text{-}1 + \sum_{j-i}^{n} \beta 5 \Delta CPt\text{-}1 + \sum_{j-i}^{n} \beta 6 \Delta RLt\text{-}1 + \sum_{j-i}^{n} \beta 7 \Delta CCt\text{-}1 + \sum_{j-i}^{n} \beta 8 \Delta InEQt\text{-}1 + \sum_{j-i}^{n} \beta 9 \Delta InGDPt\text{-}1 + \partial ECMt\text{-}1 + Ut$$

Where InPO is the proxy of poverty taking in logarithm form, and is the dependent variables. While InEC, InQB, InSC, InCP, InRL, InCC, InEQ, InGDP are the proxies of Accountable executive, Quality of the bureaucracy, strong civic society, rule of law, competitiveness of political participation and control of corruption respectively and InEQ, InGDP is the proxies of inequality of income and economic growth, they represent the explanatory variables in the model and et, is the white noise term.

***Sources of Data:***

Data on relative poverty or head count poverty ratio proxy as InPO, which measure the percentage of the population below the poverty line, was collected from various issues of the Poverty Assessments Survey data from the National Bureau of Statistic of Nigeria, ranging from National expenditure survey of 1980-1996, Nigerian living standard surveys of 2003/2004 and Harmonized Nigerian living standard survey (HNLSS, 2009/2010). Data on GDP per capita Proxy as InGDP were collected from World Bank Development indicators, and Central Bank of Nigeria annual statement of accounts various issues. Similarly Data on inequality of Income were obtained from the various National Poverty Assessments Survey, various issues and Daninger square assembled data set on inequality of income for Nigeria.

Measurement of the indicators of governance is not an easy task considering the abstracts nature of the concepts, this made a large amount of these indicators in principle multi dimensional. Considering this multi dimensionality of these indicators, we follow the work of (Knack and Keefer 1997, Mauro 1995, to use different

measures for each dimension of the indicators. We have no option other than to utilize the existing set of data that was made available since our aim is to check the validity of the empirical evidences coming out from this data set

For the purpose of this study, we follow the work of Compos, N.F. and Nugent, J.F (1999) and collected data from different various sources due to recent development in which data on these indicators are made available. We specifically collected data from World Wide Governance indicators, Country Risk Guide ICRG data house, Business Environment Risk Intelligence (BERI), Polity 11 data house, Freedom house data set, World Bank CPIA assemble data set. We start with Accountability of the Executive; we collect data from the Gurrs Polity 111 data set. To measure the quality of Bureaucracy which is the second indicator of governance, in our model, we collected data from ICRG data house and data from BERI data house. The rule law, which is another variable in our model, data was collected from ICRG indicators. Data on Strong Civil liberties were found from the Gastil (now called freedom house indicators data set. Data on Competitive Political Participation, where sources from Gurrs Polity 111 data set, data on the absence of corruption where also made available from the private international investment risk services and World Bank CPIA data set.

***Presentation of the Results:***

Table 01 Characteristics of the Sample Data

| | InGDP | EC | QB | SC | CP | RL | CC | InEQ | InPO |
|---|---|---|---|---|---|---|---|---|---|
| Mean | 7.102177 | 128227.9 | -1.167187 | -1.010313 | -.971875 | -1.106250 | -1.049688 | 1.360313 | -0.687143 |
| Median | 7.099951 | -1.000000 | -1.000000 | -1.000000 | -1.000000 | -1.000000 | -1.000000 | 1.385385 | -0.846298 |
| Maximum | 21.43372 | 4103322 | 1.690000 | -0.880000 | -0.690000 | -1.000000 | -0.810000 | 1.443172 | 3.835142 |
| Minimum | 5.394634 | -1.670000 | -2.080000 | -1.220000 | -1.320000 | -1.159166 | -1.320000 | 1.194897 | -0.865122 |
| Std.Dev. | 2.750778 | 725371.9 | 0.658225 | 0.067417 | 0.140814 | 0.159166 | 0.106513 | 0.076356 | 0.825870 |
| Skewness | 4.574841 | 5.388159 | 2.321897 | -1.390796 | -0.102381 | -1.328567 | -0.986122 | -1.084341 | 5.374711 |
| Kurtosis | 24.56973 | 30.03226 | 12.28102 | 5.611519 | 3.568499 | 3.542040 | 4.192313 | 3.345754 | 29.93843 |
| | | | | | | | | | |
| Jargue-Bera | 731.9600 | 1129.163 | 143.6029 | 19.40972 | 0.486825 | 9.805551 | 6.229351 | 6.229351 | 1121.639 |
| Probability | 0.000000 | 0.000000 | 0.000000 | 0.000061 | 0.783948 | 0.007426 | 0.044393 | 0.044393 | 0.000000 |
| | | | | | | | | | |
| Sum | 227.2697 | 4103293 | -37.35000 | -32.33000 | -31.10000 | -35.40000 | 42.16970 | 42.16970 | -21.98859 |
| Sum sq. Dev. | 234.5701 | 1.63E+13 | 13.43105 | 0.140897 | 0.614688 | 0.785350 | 0.174906 | 0.174906 | 21.14392 |
| | | | | | | | | | |
| | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 |

Note: The optimal lags for conducting ADF test were determine by AIC (Akaike information criteria) * indicate significant at 1% level ** indicate significant at 5% level and *** indicate significant at 10%.

**Table 1:** Unit Root Test Result

| Variables | ADF Statistics | Critical values | ADF Stat | Critical value | PP statistics | Critical value | PP statistic | Critical value |
|---|---|---|---|---|---|---|---|---|
| | Level | Level | First dif. | First dif. | at level | at level | First dif. | First dif. |
| InGDP | -5.825754 | -3.661661 | -6.691555 | -2.967767 | -5.841001 | -2.960411 | -32.24068 | -2.963972 |
| EC | -5.567765 | -2.960411 | -9.165151 | -3.670170 | -5.568385 | -2.960411 | -29.38116 | -2.963972 |
| QB | -3.986312 | -2.960411 | -6.758683 | -2.967767 | -3.959514 | -2.960411 | -19.54798 | -2.96972 |
| SC | -4.658259 | -2.981038 | -6.941956 | -2.963972 | -2.997492 | -2.960411 | -7.465050 | -2.963972 |
| CP | -2.326900 | -2.960411 | -7909285 | -2.963972 | -2.165423 | -2.960411 | -8.100635 | -2.963972 |
| RL | -2.670714 | -2.960411 | -8.316247 | -2.963972 | -2.639485 | -2.960411 | -14.70577 | -2.963972 |
| CC | -4.027230 | -2.960411 | -9.652022 | -2.963972- | -4.027230 | -2.960411 | -18.21547 | -2.963972 |
| InEQ | -2.084581 | -2.967767 | -5.313154 | -2.976263 | -2.094432 | -2.967767 | -5.313711 | -2.976263 |

Evidence from the results in table 4.1.2 using Dickey fuller test, all series are found to be stationary at level, with the exception of RP and InEQ which were non stationary at level, to make all series stationary we move to test unit root at first differencing, in table 4.1.2, the results indicates that after differencing all the series are stationary at 5% level of significance, implies that the computed Mackinnon statistics is greater in absolute term than the calculated critical values.

**Table 2:** Autoregressive Distributed Lag Estimates

| Test statistics | | Significance level | Bound testing critical value with no trend | |
|---|---|---|---|---|
| F- Statistics | | | 1(0) | 1(1) |
| InGDP 11.9212 | | 1% | 5.754 | 6.483 |
| InPO 23.9399<br>InEQ 13.3860<br>EC 3.6511<br>QB 14.5386 | | 5%<br>10% | 3.993<br>3.247 | 4.533<br>3.773 |

| | | | | |
|---|---|---|---|---|
| SC 8.5994<br>CP 21.1851<br>RL 23.5460<br>CC 16.3289 | | | | |

Note: The critical values are taken from Narayan (2004)

However, from the result obtained in table 2 the computed F statistics for joint significance of all lags variables in the model with exception of EC, have exceeded the upper critical value at

**Table 3:** Long run coefficient Poverty as a Dependent Variable (InPO)

| Regressors | Coefficient | T-Ratio |
|---|---|---|
| InGDP | -.6851E-8 | --1.8263 |
| InEQ | -1575.8 | -5.2003 |
| EC | -11.2141 | -1.4701 |
| QB | -35.3394 | -3.2518 |
| SC | -37.5516 | -1.3403 |
| CP | -20.0366 | -.61743 |
| RL | -106.7880 | -3.0716 |
| CC | 9.4507 | 5.2598 |

Note: ARDL( 1,1,1,0,1,1,0,1,1) selected based on Schwarz Bayesian Criterion

***Diagnostic test:***

Serial Correlation $\chi^2$ (1) = 11.6032

Functional Form $\chi^2$ (1) = 2.5658

Normality $\chi^2$ (1) = 3.7098

Heteroscedasticty $\chi^2$ (1) = 0.41224

The next step is to estimate the long run relationship, between poverty and governance by taking poverty as a dependent variable, from the results in table 3, three out of six governance's measures appear statistically significant but take a negative sign, indicating governance move with poverty in a negative way in the long run. However, Corruption appear with high magnitude implying that 1 percent changes in corruption will cause 94% changes in poverty in Nigeria, this has indicate how structural and endemic corruption is in Nigeria. The positive sign in the corruption coefficient is indicating, corruption and poverty move in the same direction in Nigeria, high corruption is associated with high poverty. The positive sign can be explain by a particular set of common explanation found in the economic theory which argued that corruption, by itself, does not produce poverty. Rather, corruption has direct consequences on economic growth factors, intermediaries that in turn produce poverty. Thus the relationship is indirect. Corruption affects poverty by first impacting economic growth factors, which, in turn impact poverty levels. In other Words, increased corruption reduces economic investment, distorts market, hinders competitions; create inefficiency by increasing the costs of doing business and increases income. The impact of corruption on these economic factors affect poverty, implying increase corruption will lead to increase poverty which proves the positive sign in our results plausibly possible. This has been supported by a number of empirical studies. (see e.g Knacks. 2002. Gupta *et al*, 1998).

However, inequality of income is statistically significant but having negative sign and a corrupted value of -1575.8, this may be due to the thinness of the data and the very limited period of time data on distribution is made available, under which a particular sign of causality may be tested. All the remaining variables do not appear statistically significant with poverty reduction in Nigeria.

How does one explain these seemingly paradoxical results? With governance indicators had taken a negative sign. Does this suggest that governance is unimportant for economic growth and poverty reduction? Perhaps that may not be exactly, the better inference would be that the conventional measures of governance are too coarse to capture the nuances of governance, growth and poverty reduction interactions in Nigeria. The main reason why these governance measures fail to capture the nuances of interactions between governance and growth in the long run analysis, is that all these set of data only measure outcomes, not some permanent characteristics that North refers to, as such all these measures, rise with Per capita income, and they are highly volatile.

However, to investigate these seemingly paradoxical results, more rigorously, we estimate a parsimonious poverty equation through the error correction representation in table

**Table 4:** Error correction model

| Regressors | Coef InPO | InGDP | EC | Coeff. QB | Coeff.SC | Coeff.CP | Coeff.RL | Coeff.CC |
|---|---|---|---|---|---|---|---|---|
| DGDP | -.2054E-8 (1.1854 ) | | -.0000 (-.089070) | | .0000 (.024628) | -.0065890 (-4.3886) | .0000 (.14321) | -0000 (.-23613) |
| DPO | | 10.9795 (4.3195) | -.020742 (-4.6719) | -.035362 (-4.6645) | -.5115E-3 (-.66536) | -.0065890 (4.3886) | -.0070710 (-5.0692) | -.0032966 (-3.2799) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| DEQ | -1503.5 (-5.4920) | | -50.5312 (-5.2816) | -98.7914 (-8.6690) | -2.1918 (-6.9388) | -19.9861 (-11.1947) | -17.5042 (-6.3714) | |
| DEC | --7.4174 (-1.619) | -664.8581 (-5.9948) | | -1.1070 (-6.1523) | -.020434 (-.65638) | -.25203 (-5.2584) | -.21719 (-6.5160) | |
| DQB | -11.1659 (-4.3977) | -312.3430 (-3.5152) | -.44724 (-5.4065) | | -.051542 (-3.4582) | -.17804 (-12.8109) | -.17031 (-8.4933) | |
| DSC | -24.8378 (-1.4498) | 329.4836 (4.5228) | -1.3815 (-2.9263) | -3.0362 (-4.3246) | -.54949 (-4.0124) | -.54949 (-4.0124) | -.57840 (-4.2401) | |
| DCP | -36.3609 (-2.3006) | 129.1064 (.76597) | -2.3518 (-5.2584) | -4.9548 (-12.4578) | | -.77079 (-6.4289) | -.88004 (-7.8361) | |
| DRL | -70.6329 (-4.7561) | 302.3322 (2.1599) | -1.8059 (-3.5812) | -14.5971 (-8.4933) | -.77079 (-6.4289) | | | |
| DCC | 23.9472 (.1.5667) | -1644.6 (-5.9572) | 1.1116 (2.1629) | 3.0689 (4.0724) | .49007 (3.2574) | | .71706 (6.3438) | |
| ECM( | -.66143 (-5.2971) | -15886 (-3.2882) | -.51555 (-4.1019) | -1.8492 (-16.2732) | -.17977 | -1.0001 | -2.27801 | -1.8417 |

Dependent variable InPO

Ecm = InPO + .1056E-81InGDP + 2192.8InEQ + 60.163EC +134.4203QB +207.0737SC +241.238CP +199.0766RL +134.1189CC

Dependent variable InGDP

Ecm= InGDP +.1056E-8EC+ 2192.8QB + 60.1636CP+134.4203SC+ 207.0737RL+241.2338CC +199.0766InEQ +134.1189InPO

***Diagnostic test:***

$R^2$== .95444

R- Bar squared .91457

SR = 3.961.9609

DW= 2.8834

However, we examine the Dynamic Poverty Error Correction Model, taking poverty as dependent variables. We established error correction term ECM which is the residual of the long run equation; if it is negative and statistically significant, we said it is affirmative. Thus in the dynamic poverty model ECM is statistically significant with a correct sign, having a value of -5.5971 and a coefficient of -0.66143, which has indicated a quick adjustment to the stable state of equilibrium. Having a value more than -1 indicate a quick adjustment, since -1 indicate one year adjustment, but having a value greater than -1 indicate faster movement of adjustment back to equilibrium after some deviations in the short run and all variables move together toward long run equilibrium. This has established one way causation from poverty from explanatory regressors to poverty.

However, we turn to the short run results, in order to find out the direction of the relationship in the short run. Thus in the short run the coefficient of the lag dGDP is negative and statistically not significant. The lag value of dEQ which stand for inequality of income is negative and statistically significant. But the problem is that inequality took a negative sign which make it difficult to interpret.

While the value of the lag coefficient of dQB which is the quality of bureaucracy is negative and statistically significant, implying that the direction of causation goes from quality of government bureaucracy to poverty reduction in the short run, the coefficient of the lag value of dSC which is strong civic society is significant but take a negative sign. Implying strong civil society affect the level of poverty in the short runs, negatively. The coefficient of the competitive political participation is also negative. Indicating that poverty is affected by the competitive political participation, in the short run, in a negative way, in other words there is unidirectional causality running from competitive political participation to poverty reduction. Poverty reductions depend on open and transparent policy decision making process where poor man is given the chance to participate and have inputs in decisions making and governance. Poor transparent and poor open policy making will lead to increase in poverty.

However, surprisingly the coefficient of the lag value of rule of law is negative and significant; indicating rule of law affects poverty in the short run in a negative way. The coefficient of the lag value of control of corruption is negative and not statistically significant, implying corruption does not affect poverty in the short run in Nigeria, and there is no causal linkage between corruption and poverty in the short run.

It is worth reporting that all models pass through diagnostic stability tests, the diagnostic tests of serial correlation, functional for specification, normality and hetroscidasticity. All diagnostic results are presented immediately below table 4.4.4, 4.4.5, 4,4.6 respectively.

***Diagnostic Tests:***

A: Serial Correlation $\chi^2$ (1) = 2.9105[.088]
B: Functional Form $\chi^2$ (1) = .013369[.908]
C: Normality $\chi^2$ (1) = 8.0006[.018]
D: Heteroscadasticity $\chi^2$ (1) = 2.1996[.138]

We fail to reject the null hypothesis of serial correlation, and we also fail to reject Heteroscadasticity test. We fail to reject the null hypothesis of functional. We can conclude that our model have passed the diagnostic test.

***Stability test of Dependent variable Test:***

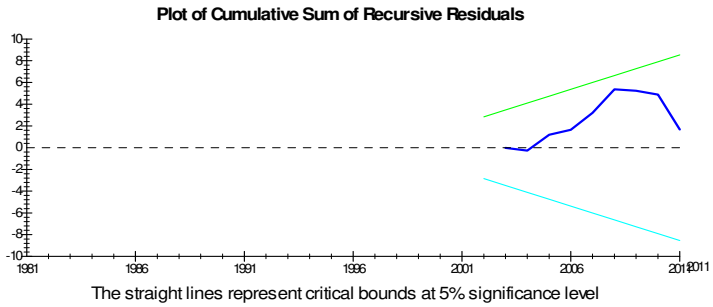


**Fig. 1:** Poverty

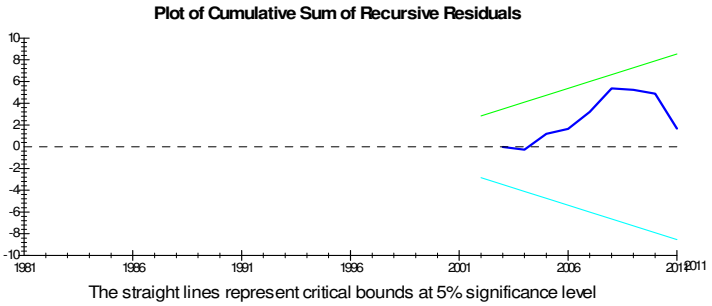


**Fig. 2:** ccountability of Executive

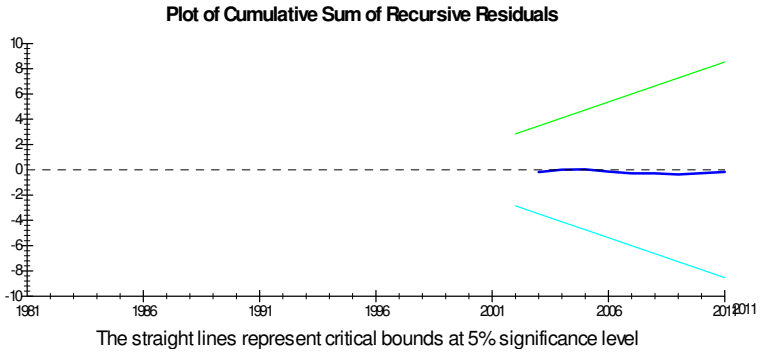


**Fig. 4.1:** 1 Economic growth

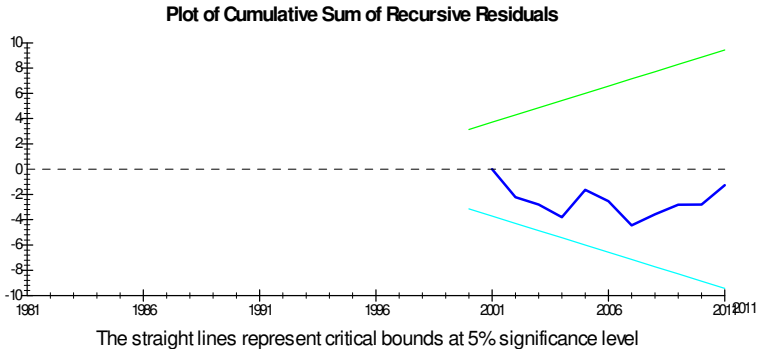


**Fig. 4.1.:** 2 Competitive politic

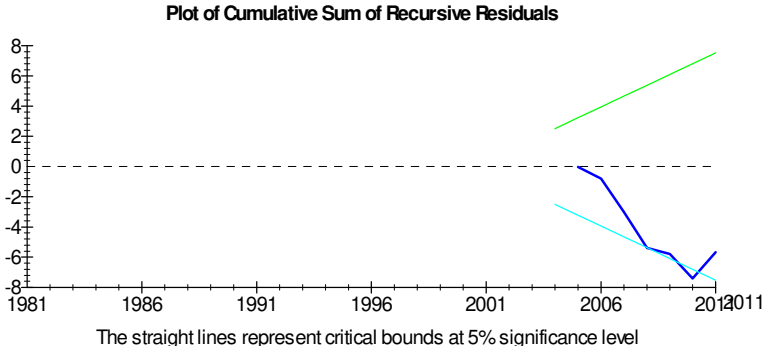


**Fig. 3:** Rule of law

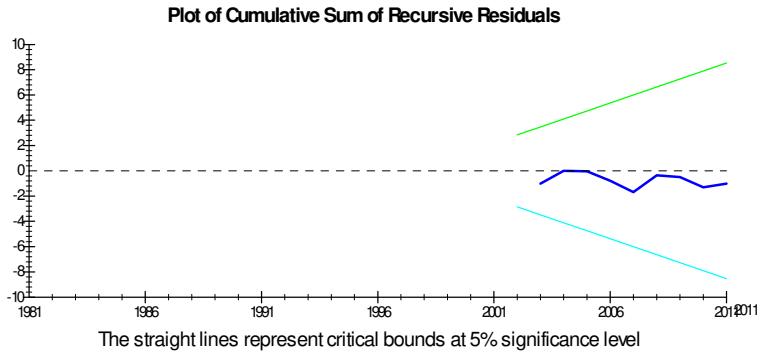


**Fig. 4:** Inequality of Income

In figures above we test the stability of the dependent variable which is the GDP per capita income and we conclude the plot CUSUM has indicate stability of the dependent variables as it falls within the two parallel line and does not exceed 5% level of significant and it is within the two parallel line in our plot, they does not crossed.

***Discussion On The Results:***

We attempt to discuss the results by analyzing the good-governance indicators within the estimated long run growth model. Considering the results in table 3 four indicators of governance were significantly integrated with growth suggesting that governance causes economic growth. But the apparent negative sign taken by these indicators suggest that there is no straight forward answer to the question, because what the negative sign is suggesting is that the conventional measures of governance are too coarse to capture the nuances of governance's growth interactions under Nigerian situation. The main possible reasons why these indices appear with negative sign are because; as noted among others by Rodrik and Mukand (2005) good economic principles do not cheaply translate into unique institutional and governance solution, but rather require to be planted to particular economic and social context. This line of argument is also supported by Quibria (2006), that all dimension of governance are not necessary important for growth and poverty reduction at all stages of development. Other reasons, why the negative sign appear, may possibly because the good governance measures

did not explore the important differences in history, geography, or initial condition of a particular country. These are important issues neglected in the good governance measures under cross-sectional studies. Other important possibilities as pointed out by Gleaser *et al* (2004), improvement in good-governance scores alone is not sufficient for economic growth and poverty reduction, unless supported by similar improvement in human and social capital. In the same line of reasoning Knacks (2003), have also acknowledge that the existing governance measure does not address specific reforms, because, they are based on a very broad and aggregated indicators of institutional performance. As such the indicators are not even measuring the institution parse, but the structure individual equilibrium.

To address the question more squarely, we look at the results of the error correction representation which is presented in table 4 However, looking at the results leaves us skeptical about the causality. What the results suggested is the existence of reverse causality, which has been the major issue in growth regression. The problem is not only because causality run from per capita GDP to governance, but also because many governance structures are measured at the end of too close to the end of the growth period. In fact two way causality implies that the currently dominant good governance agenda suffers two way types of theoretical and development problems. The first blow is the assumption that causality entirely runs from governance to growth ignoring the important possibility that economic growth also changes governances. As rightly noted by Chang, (2010), economic growth changes governance through a number of ways, First, raised in wealth due to growth may generate greater needs for better quality of governances . Secondly, higher wealth equally, makes good governance more affordable, because institutions are costly public goods the greater their quality the more expensive they become. Thirdly, Economic growths generate new agents of change, demanding new governance institutions. Today most advance countries in the World posses these institutions after, not before, their economic development, democracy, modern bureaucracy, banking regulation so forth, but compelling on poor countries to implement something no one has done at early stage of development. More specifically, the advance rich countries whose institution is stellar in international comparism did not have most of those good governance's institutions in their early stage of development, it was after they become rich they acquired most of them. The regression causality through the use of measures of governance indicators may not be sufficient in helping us to identify the specific growth driving governance policies that can address institutional bindings' constraints. Answer to this question requires going beyond the conventional wisdom of governance growth interaction, and explore a big historical lesson on how successful developers overcomes similar institutional constraints to Nigeria, taking a reference case study of somewhere in Asia or even earlier in Japan or even earlier in Europeans development.

***Conclusions:***

We try to examine the causal linkage between governance and poverty reduction in Nigeria, by exploring whether good governance causes growth or alternatively poverty reduction causes governance in Nigeria, the issues of causality has been the area of general controversy in the governance poverty discourse, we employed ARDL approach to co integration in order to find out the direction of the relationships between governance and poverty reduction in s case study of Nigeria. The findings of our study suggested that good governance measures are too coarse to capture the nuances of governance poverty reduction in Nigeria, because governance measures are based on the implicit assumption of a model that only exist in the western rich countries, to understand the nuance of interaction between governance and poverty, context specific situation must be taking into consideration which includes, history environment and culture of a particular country local content. Our studies have important policy implication for Nigeria, the good governance capabilities require for poverty reduction must the one that can drive growth in the short and medium term

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