



UNIVERSITI PUTRA MALAYSIA

***IMPACT OF GOVERNANCE ON POVERTY, PUBLIC EXPENDITURE
AND TRADE IN SUB SAHARAN AFRICAN COUNTRIES***

DANKUMO ALI MADINA

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**IMPACT OF GOVERNANCE ON POVERTY, PUBLIC EXPENDITURE AND
TRADE IN SUB SAHARAN AFRICAN COUNTRIES**

By

DANKUMO ALI MADINA

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia,
in Fulfilment of the Requirements for the Degree of Doctor of Philosophy**

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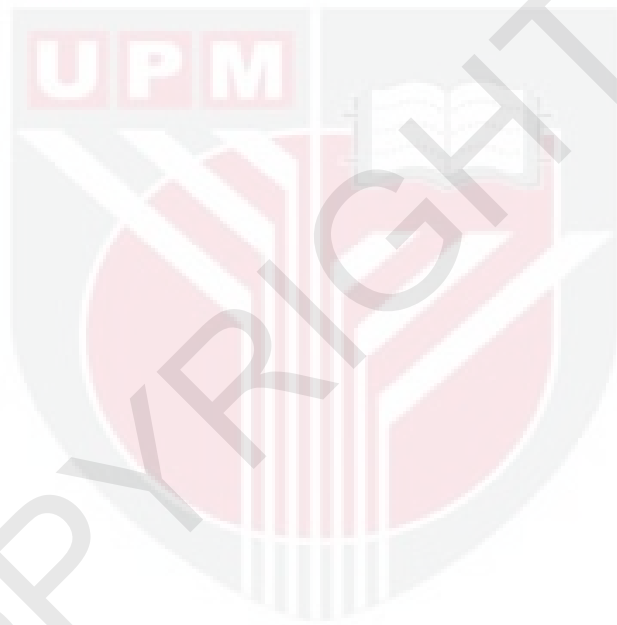
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DEDICATION

I dedicate this entire work to God almighty for his infinite grace and mercies throughout this period of study. I also dedicate this work to my beloved wife and children, whose supports are numerous and immeasurable, coupled with their patience during my absence. Lastly, to my late parents.



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Doctor of Philosophy

IMPACT OF GOVERNANCE ON POVERTY, PUBLIC EXPENDITURE AND TRADE IN SUB SAHARAN AFRICAN COUNTRIES

By

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July 2021

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Globally, nations and international organizations such as IMF, World Bank and Transparency International, try to promote good governance, due to its significance to growth and development, while frowning at bad ones. Unfortunately, in the SSA region, governance in almost all the countries in the region is poor with the lowest measures of governance when matched with other regions of the World as confirmed by its separate governance measures of control of corruption (-0.582) and political stability (-0.526). Other manifestations of poor governance are the poor implementation of policies and programmes, no transparency and accountability, non-functional legal framework, and there are also coups, crisis, and civil wars etc., which affects growth and poverty through its determinants- public expenditure and trade.

Firstly, the study investigated the impact of governance on poverty via interaction with public expenditure in the region applying system GMM techniques for unbalanced panel data for 46 countries of SSA spanning over the 1996 – 2019 period. The study discovers that the interaction of governance (corruption and political instability) and public expenditure increases poverty. The marginal effects also show that governance – corruption and political instability – at both minimum and medium levels increases poverty in SSA, but is insignificant at the maximum levels. This suggests that corruption and political instability has a significant role in mediating the effect of public expenditure on poverty in the SSA. It then follows that if SSA forcefully combats corruption and enhance political stability, they are likely to witness not only a direct improvement in its economic performance but an indirect impact through poverty reduction.

Secondly, the study examined the direct relationship between governance and public expenditure using balanced panel data for 1996-2019, employing the Pooled Mean Group (PMG) to tackle the problem of heterogeneity for the 34 selected SSA. The findings show that governance (corruption and political instability) in SSA countries

increase public expenditure. Similarly, population growth and trade do impact public expenditure positively, whereas, debt service negatively affect public expenditure. Therefore, anti-corruption agencies in SSA countries should ensure enforcement of their laws and compliance with the code of ethics for public officers, while dealing with corrupt officials to scare others from stealing public funds, thereby generating sufficient revenue and usefully spending.

Thirdly, the study investigated the relationship between governance and trade in the SSA region, using panel data of 38 countries for 1996-2019 employing the PMG estimation technique. The study finds that governance (corruption and political instability) decrease trade in the SSA countries. Hence, the government must ensure fighting corruption parallel with other actions to facilitate growth for exports, while making the bribery of officials a criminal offence. Also, political stability should be improved to attract higher FDI inflows to increase savings in the region, by and large, increasing trade.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

KESAN TADBIR URUS TERHADAP KEMISKINAN, PERBELANJAAN AWAM DAN PERDAGANGAN DI NEGARA-NEGARA AFRIKA SUB SAHARA

Oleh

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Tadbir urus adalah penting untuk pertumbuhan dan pembangunan. Pada peringkat global, negara-negara dan organisasi antarabangsa seperti Dana Kewangan Antarabangsa (IMF), Bank Dunia dan Transparensi Antarabangsa berusaha menggalakkan tadbir urus yang baik disamping menghindari perkara buruk. Malangnya, tadbir urus di kebanyakan negara di rantau SSA adalah lemah di mana ukuran tadbir urus di negara-negara terbabit merupakan paling rendah berbanding dengan rantau lain di dunia seperti yang disahkan oleh ukuran tadbir urus berasingan bagi kawalan rasuah (-0.582) dan kestabilan politik (-0.526). Antara penyataan tadbir urus yang lemah ialah kegagalan dalam pelaksanaan dasar dan program, tiada ketelusan dan kebertanggungjawapan, kerangka undang-undang yang tidak berfungsi, dan kejadian rampasan kuasa, krisis, perang saudara dan lain-lain yang memberi kesan kepada pembangunan dan kemiskinan melalui penentu- perbelanjaan awam dan perdagangan.

Pertama, kajian ini mengkaji kesan tadbir urus terhadap kemiskinan melalui interaksi dengan perbelanjaan awam di rantau yang mengamalkan sistem teknik GMM bagi data panel tak seimbang di 46 negara SSA bagi tahun 1996-2019. Kajian ini mendapati bahawa interaksi tadbir urus (rasuah dan ketidakstabilan politik) dan perbelanjaan awam meningkatkan kemiskinan. Kesan marginal menunjukkan tadbir urus- rasuah dan ketidakstabilan politik- pada tahap maksimum dan sederhana meningkatkan kemiskinan di SSA, tetapi tidak signifikan pada tahap maksimum. Ini membuktikan bahawa rasuah dan ketidakstabilan politik mempunyai peranan penting dalam perantaraan kesan perbelanjaan awam terhadap kemiskinan di SSA. Oleh itu, sekiranya SSA bertegas dalam memerangi rasuah dan berusaha meningkatkan kestabilan politik, bukan sahaja peningkatan prestasi ekonomi secara langsung dapat dilihat tetapi turut juga kesan tidak langsung melalui pengurangan kemiskinan.

Kedua, kajian ini mengkaji perhubungan langsung antara tadbir urus dan perbelanjaan awam dengan menggunakan data panel yang seimbang bagi tahun 1996-2019. Kumpulan Min Terkumpul (PMG) digunakan untuk mengatasi masalah keheterogenan selepas 34. Dapatan kajian menunjukkan bahawa tadbir urus (rasuah dan ketidakstabilan politik) di negara-negara SSA meningkatkan perbelanjaan awam. Begitu juga perkembangan populasi dan perdagangan memberi kesan positif kepada perbelanjaan awam, manakala perkhidmatan hutang memberi kesan negatif kepada perbelanjaan awam. Oleh itu, badan pencegahan rasuah di negara-negara SSA perlu melaksanakan undang-undang dan mengikut kepada kod etika bagi pegawai awam ketika berurusan dengan pegawai korup sebagai amaran kepada yang lain daripada mencuri dana awam, seterusnya mewujudkan penjana pendapatan yang mencukupi dan perbelanjaan yang bermanfaat.

Ketiga, kajian ini mengkaji hubungan antara tadbir urus dan perdagangan di rantau SSA dengan menggunakan data panel 38 negara bagi tahun 1996-2019 dan menggunakan teknik penganggaran PMG. Kajian ini mendapati tadbir urus (rasuah dan ketidakstabilan politik) mengurangkan perdagangan di negara-negara SSA. Oleh itu, kerajaan hendaklah memastikan tindakan memerangi rasuah adalah selari dengan tindakan lain untuk memudahkan pertumbuhan eksport, disamping menjadikan rasuah sebagai kesalahan jenayah. Kestabilan politik juga perlu dipertingkatkan untuk menarik aliran masuk FDI yang lebih tinggi bagi meningkatkan simpanan di rantau ini dan seterusnya meningkatkan aktiviti perdagangan.

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This thesis was submitted to the Senate of the Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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LIST OF ABBREVIATIONS

ADF	Augmented Dickey-Fuller
AIC	Akaike Information Criterion
ARDL	Autoregressive Distributed lag
BIC	Bayesian Information Criterion
CBN	Central Bank of Nigeria
CCI	Control of Corruption Index
CGE	Computable General Equilibrium
CPI	Corruption Perception Index
DFE	Dynamic Fixed Effect
ECM/T	Error Correction Model/Term
FA	Foreign Aid
FDI	Foreign Direct Investment
GMM	Generalized Methods of Moments
GTM	Gravity Trade Model
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HLSS	Household Living Standard Survey
IDRG	International Country Risks Guide
LS	Least Squares
LGI	Low Governance Index
MDG	Millennium Development Goals
MENA	The Middle East and North Africa
MG	Mean Group

NGOs	Non-Governmental Organisations
2SLS	Two Staged Least Squares
OECD	Organisation for Economic Cooperation and Development
OLS	Ordinary Least Squares
PMG	Pooled Mean Group
PVAR	Panel Vector Autoregressive
SSA	Sub- Saharan Africa
SCI	Structural Corruption Index
SVAR	Structural Vector Autoregressive
TI	Transparency International
UN	United Nations
UNAIDS	United Nations Programme on HIV and AIDS
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UIS	United Nations Information System
VCM	Vector Correction Model
VLGI	Very Low Governance Index
WDI	World Development Indicators
WGI	Worldwide Governance Indicators
WHO	World Health Organization
WTO	World Trade Organization

CHAPTER 1

INTRODUCTION

1.1 Introduction

In every economy, the government is responsible for establishing a framework that ensures the following: active institutions, rule of law, accountability, a transparent legal system, civil justice, a stable political system, and consistency for a conducive investment environment, which will enable the government to utilize the naturally endowed resources in the quest towards achieving growth and development. Governance is the act or process of exhibiting this responsibility, precisely in an authoritative direction and with control.

There is a consensus among policymakers, international donors and scholars that the nature of governance is vital to achieving sustainable economic growth and development, as evident in the literature (North, 1990; Shleifer & Vishny, 1993; Mauro, 1995; Easterly & Levine, 1997). When governance is good, it enhances economic growth and development, but when it is poor, it distracts or retards growth and development. Hence, the economic performance of every country depends majorly on the nature of its governance that provides a stimulus for better performance of an economy, specifically by outlining the paths towards economic growth and development.

Governance is, therefore, not only desirable but also a pre-condition for achieving developmental goals because it enhances market system efficiency and reduces market failures to ensure equity in resource distribution. Furthermore, prosperous countries are distinguished from unsuccessful ones by their nature of governance. However, there are rare cases where nations experience rapid economic growth despite poor governance, as was the case in Indonesia and Bangladesh, because their governments enhance growth, while, at the same time, managing people's expectations amid a high level of corruption and poor governance (Lateef, 2016).

1.2 Background of the Study

1.2.1 Governance

Literature (e.g., World Bank, 1994; Kaufmann, Kraay, & Zoido-Lobaton, 1999; UNESCO, 2006) suggests different definitions of governance, but they are all based on authority, decision-making, and accountability. Policies and programmes introduced by governments tend to achieve development goals when the governance is good and vice versa. Sometimes, even if the policymakers have good intentions, some of the policies hardly achieve the desired motive because they are poorly designed and implemented

due to poor governance. Many countries are still backwards in terms of development, not because excellent policies are not in place, but because those in authority pursue their selfish interests over the interests of all (Schaffner, 2014). Governance does not only provide the legal, political, and institutional framework for the formulation of poverty-reduction policies, but it also enhances the poor's capacity to improve their living conditions.

The World Bank (1994) defined governance as the capability of any government to apply its power to design, articulate, and execute policies and programmes with an apparent reason of utilizing the country's scarce endowed resources for economic and socio-political growth and development. To Kaufmann, Kraay & Zoido-Lobaton, (1999), governance is: "The traditions and institutions by which authority in a country is exercised. These include: (1) the process by which governments are selected, monitored, and replaced, (2) the effectiveness and capacity of the government to formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them." It also refers to the government's level of accountability and the efficacy of its public institutions' management regarding transparency with a functional legal framework, to achieve both social and economic aspects of development by ensuring justice and respect for people's rights and freedoms (UNESCO, 2006). In this study, governance refers to the parameters under which administrative systems in an economy work via policy formulation, which is expected to be participatory, accountable, transparent, and effective, to promote economic growth and development. Therefore, it is expected to be a good one, which can achieve one of the targets of the Millennium Development Goals (MDGs), poverty reduction.

This study used the Worldwide Governance Indicators (WGI) of World Bank measures of governance, as proposed by Kaufmann, Kraay & Zoido-Lobaton (1999) because it is the only database that covers over 200 countries, including all the countries of SSA. Although this World Bank corruption index has been criticized (Knack, 2007; Donchev, & Ujhelyi, 2014), it has been used as a benchmark for analysis as it provides a considerably more significant number of observations than other alternative measures. Similarly, as noted by Knack & Langbein (2010), the WGI is widely used in scholarly research and development policy discussions. However, a recent study by Majeed and Macdonald (2010) shows a 0.88 correlation between International Country Risk Guide (ICRG) and the World Bank's (WB) indices and there is a very high correlation of 0.98 between that of Transparency International (TI) and World Bank (WB). Also, a study by De Jong & Bogmans (2011) shows a 0.95 correlation between CPI and the WB index, indicating a high consensus among observers of corruption level, which means that any alternative corruption indices used in a study will be consistent, even though the ratings are on subjective reasoning.

According to World Bank, governance consists of control of corruption, political stability, the voice of accountability, rule of law, regulatory quality, and government effectiveness. Control of corruption measures the perceived extent of misuse of public power for personal benefits in the form of small and grand types of corruption, including

the elite's and private interests to capture the state. Political stability measures the perceived extent of the likelihood of political instability and politically-driven violence and terrorism. Voice and accountability measure the perceived extent of citizens' participation in governance, freedom of expression, association, and media. Rule of law measures the perceived extent of confidence by agents in the society's rules and regulations, particularly, in the area of contract execution, the police, property rights, the courts, and the likelihood of violence and crime. Regulatory quality measures the perceived extent of a government's ability to formulate and implement sound policies and programmes that ensure private sector development. Lastly, government effectiveness measures the perceived extent of the quality of public and civil services, the degree of political independence, the quality of formulated and implemented policy, and how credible the government is committed to such policies. All these governance estimates give a country's score in units of the standard normal distribution that ranges from approximately -2.5 (bad) to +2.5 (good) (World Bank, 2021b). However, in this study, for ease of interpretation, these indexes are upscaled by replacing $ccorr$ by $3.5 - ccorr$ in analysis and $\text{Log}(ccorr)$ by $\text{Log}(3.5 - ccorr)$ in regressions (Meon & Sekkat, 2005). Given these transformations, the range changes to 1 and 6, where higher values depict high corruption levels and high political instability, and lower values indicate low corruption and low political instability.

For this research, two out of the six measures of governance indicators, as proposed by the World Bank (Kaufman, Kraay & Mastruzzi, 2008), were used. The two indicators used in measuring governance are control of corruption and political stability estimates, among the numerous measures of governance. The reason is that corruption and political instability are the two most significant aspects of governance that have most obviously affected the Sub-Saharan Africa (SSA) region, as shall be seen in the latter part of this work and how it affects growth and development.

1.2.1.1 Corruption

Corruption has been a serious concern, especially, for countries/regions facing economic problems like poverty, with a reasonable number of studies discovering some of its economic effects (Sequeira, 2012; Abu, Karim, & Aziz, 2014; World Bank, 2017). Corruption is a complicated situation that comprises a range of human attitudes. It is the process whereby one influences government policies and decisions for their benefit (Shleifer & Vishny, 1993). According to the World Bank, corruption is an abuse of public office for personal benefits. This definition of corruption does not discharge and acquit the private sector from being corrupt, especially when it comes to the award of contracts, procurement, or hiring in large companies, especially multinationals. Transparency International (TI) defined corruption as the abuse of entrusted power for private gains; its classification includes grand, petty and political, depending on the amounts of money lost and the sector where it occurs. Generally, corruption is a system of dishonesty or criminal activity undertaken by an individual or group of individuals that were entrusted with the power to lead, often for illegal gains. Corruption mostly involves bribery, law-breaking, fraud, duplicity, unscrupulousness, delay in the decision-making process, etc.

Figure 1.1 describes a region-based estimate of corruption control by the World Bank. North America has the highest value, having recorded positive values of not less than 1.5/2.5 throughout the period under study. Europe and Central Asia follow this, with average positive values of 0.4/2.5 and above. Latin America and the Caribbean, and East Asia and the Pacific regions also maintained average positive values. However, Latin America and the Caribbean witnessed a decrease from 2014 to 2016, while East Asia and the Pacific regions experienced an increase in the estimate for the same period. The MENA countries are next; they had a lower estimate (negative values), but improved slightly in 2002, and then experienced a fall until 2016. South Asia and Sub-Saharan Africa are at the bottom of the figure, but the SSA has the worst estimate of high negative values, indicating a low level of commitment by SSA governments in ensuring corrupt-free countries. It is, therefore, apparent that SSA is the most corrupt region in the world.

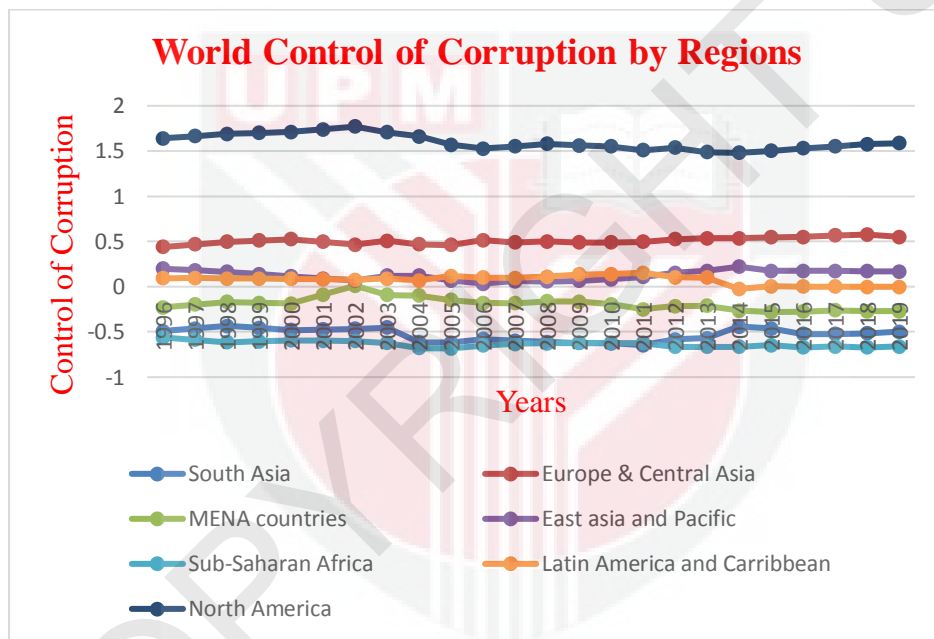


Figure 1.1 : World Control of Corruption Estimate Based on Regions (1996-2019)
 (Source: Worldwide Governance Indicators (WGI) data from World Bank, 2021b)

Corruption in SSA has been very high, as indicated in Table 1.1. The control of corruption estimates by the World Bank shows the level of commitment by SSA governments to combat the problem, which was -0.670 or 4.17 on average with yearly negative values throughout the period under study. The control of corruption shows a very low estimate in 2005 at -0.6825 or 4.1825 and the highest in 1996 at -0.56186 or 4.0618.

Table 1.1 : Control of Corruption in SSA (1996-2019)

Year	Control of corruption (scores between -2.5 and 2.5)	Corruption (scores between 1 and 6)
1996	-0.56186	4.06186
1997	-0.58763	4.08763
1998	-0.61341	4.11341
1999	-0.60308	4.10308
2000	-0.59276	4.09276
2001	-0.59762	4.09762
2002	-0.60249	4.10249
2003	-0.62371	4.12371
2004	-0.68003	4.18003
2005	-0.68257	4.18257
2006	-0.65023	4.15023
2007	-0.6315	4.1315
2008	-0.62683	4.12683
2009	-0.62071	4.12071
2010	-0.62317	4.12317
2011	-0.62089	4.12089
2012	-0.66313	4.16313
2013	-0.66612	4.16612
2014	-0.66309	4.16309
2015	-0.64864	4.14864
2016	-0.67045	4.17045
2017	-0.63395	4.13395
2018	-0.67045	4.17045
2019	-0.66046	4.16046

(Source: Researcher's computation from WGI data from World Bank 2021b)

In a report by Transparency International (2017), the SSA corruption perception index was an average of 32 in 2017, falling far behind other regions of the world in terms of corruption with about 75% of SSA countries scoring below 50%. In the report by Transparency International (2018), SSA countries formed 42% of the most corrupt countries, scoring less than 20. Similarly, the two most corrupt countries out of the 180 countries ranked in the world are SSA countries, i.e. Somalia (9) and South Sudan (12). For scores between 21 and 40, SSA countries constitute 32%, and between 41 and 50 scores, 17.9% are also SSA countries, while only six countries of SSA fall within 50 and 70. Finally, no SSA country scores 70 and above. According to the report, Botswana (61) and Seychelles (60) are the cleanest countries of SSA. Nigeria scored 27, while South Africa scored 43 on the 2017 Corruption Perception Index (CPI) (Transparency International, 2018).

From 2012 to 2017, Somalia, South Sudan, and Sudan remained within the first five most corrupt countries. The SSA Corruption Rank averaged 32 in 2017. Therefore, the region of SSA is far behind other regions of the world in terms of governance. In another report by Transparency International, 75% of the countries in the region (36 out of 48) scored below average (50%). In contrast, only three out of the 30 countries of SSA included

in the governance indicators by International Country Risk Guide's (ICRG) scored above average (Marleny, 2019). For instance, about 25% of GDP loss was claimed by corruption in the region due to rent withdrawal that exceeded the rent sharing benefit (Sequeira, 2012). In the SSA countries, corruption is seen as a systematic way of doing daily life activities and multinational corporations incorporate it into their businesses (Transparency International, 2017). It has also affected the general populace because it is so widespread (Gyimah-Brempong, 2002; Hasty, 2005; Smith, 2007; Liedong, 2017), thereby making the poor in the region become used to, as well as, tolerate it.

Corruption retards the development of free and fair market structures (Acemoglu & Verdier, 2000), thereby distorting competition and deterring investment, which, in turn, aggravates unemployment, and increases poverty. In the public sector, corruption often intensifies situations of poverty in some countries that are already stressed with the straining economic growth, democratic changeover, and political instability, such as Sudan, Niger, Somalia, Nigeria, etc. Hence, the suggestion is that countries experiencing corruption tends to have a high rate of extreme poverty because of the diversion of the scarce resources into private pockets by corrupt public officers. For instance, around the world, bribes of over one trillion dollars exchange hands, squandering about 25% of the GDP of African countries (World Bank, 2017).

In addition, some studies argue that the existence of corruption in an economy tends to affect the government's performance in discharging its responsibility to provide goods and services, thereby inflicting more hardships on the people. However, others state that corruption helps to stimulate growth, as it produces the quickest and most comfortable way for people to have things done by skirting bureaucratic bottlenecks.

1.2.1.2 Political Instability

Political instability can be understood in three forms: (1) as a propensity for government change, (2) as an incidence of violence and political upheaval in society includes e.g. demonstrations and assassinations, and (3) instability of policies. According to Morrison & Stephenson (1971), political instability is a condition of breakdown in the institutional structure of authority, while a change of loyalty to political influence occurs by unrest. Furthermore, they emphasized the involvement of political instability in the understanding of the dichotomy among the ruling elite and that of the non-elite, resulting in three categories of political instability. Firstly, elite political instability, which is forceful removal of ruling elite from authority positions through coup *d'état*, as seen in most African countries, and is usually by the military. Secondly, communal political instability is a situation where a local group, often in collaboration with foreign countries, seeks to capture the existing government machinery through civil wars, rebellions, and conflicts. Thirdly, mass political instability, which is a scenario where a group usually organizes itself to achieve its well-defined objectives by inflicting violent attacks on the ruling class.

The political stability index by World Bank measures political instability described by violence, crises, and wars, as described in Figure 1.2 based on regions of the world. North America is the most stable, with a better estimate for the period under study, followed by Europe & Central Asia region, Latin America & the Caribbean, and the MENA countries, while Sub Saharan Africa is the second most unstable region. Lastly, South Asia is regarded as the most unstable region. The instability there is due to the violence and terrorism experienced in just two countries – Afghanistan and Pakistan – for the period under study. In SSA, however, almost all the countries experienced one form of instability or the other. The instability in South Asia was due to an increase in deaths from terrorism and crisis in Afghanistan, making the region most impacted by terrorism and crisis. SSA is the second most unstable region due to a high number of deaths from terrorism, overtaking MENA, which was attributed to terrorist activity in Nigeria by Fulani herdmen. Furthermore, 3 of the first 10 countries with high terrorism, are from SSA, i.e. Nigeria (3rd), Somalia (6th) and the Democratic Republic of Congo (10th) (Institute for Economics & Peace, 2019). However, none of the regions scored more than 1.0 or 70% for political stability, which signifies how unstable (high rate of violence and terrorism) the entire globe is.

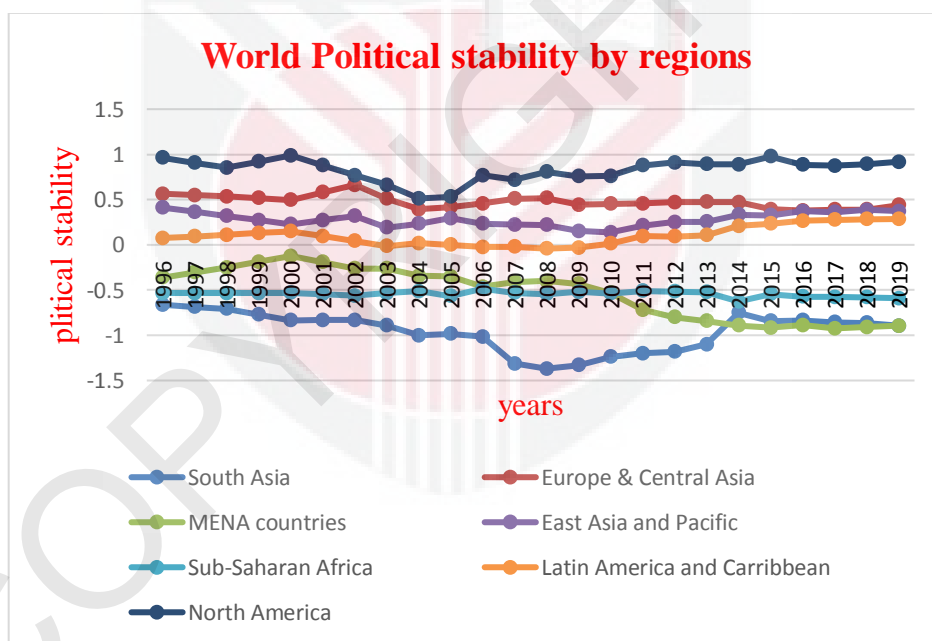


Figure 1.2 : Political Stability Estimate based on World Regions (1996-2019)
 (Source: WGI data, World Bank, 2021b)

In a democratic setting, whenever officers misuse their authority for personal advantages, the holders of such responsibilities tend to lose their legitimacy and integrity from the public (Morrison & Stephenson, 1971). This further produces inducements for corruption since it attracts little or no punishment, thereby making the deprived and marginalized people react in the form of upheavals, uprising, strikes, protests, terrorism,

and, sometimes, a coup *de' tat*. Political instability harms economic development because it reduces the safety of life and property and discourages capital formation and encourages its flight, while discouraging foreign investments and capital inflow, thus affecting the economic development of the region (Abu, Karim, & Aziz, 2014). Nonetheless, not all forms of political stability (in terms of government change) support development, but rather depend on the degree to which the stability converts its nature of governance into a good one (Hussaini, 2014).

SSA countries have gone through political instability and wars; more than three-quarters of the nations have experienced instability in the form of political wars, religious crises, terrorism, and coups since independence. Indeed, this has threatened the continued existence of countries as nations and dates back to the early period of independence when the countries started to witness coup *de' tat* by the military. This has led to a lack of consistency and continuity in the act of governance. Since the inception of democracy in most of the nations, they have not recorded any meaningful progress in ensuring stable and violence-free nations (Muhammad, D'Souza, & Amponsah, 2011). According to World Bank (2018), the political environment in SSA has been unstable, as presented in Table 1.2. The political stability indicator shows the level of commitment by SSA governments to ensure political stability, with an average value of -0.5377 or 4.0377 and yearly negative values throughout the period under study, having a very low estimate of -0.62526 or 4.1256 in 2014 and a relatively better one at -0.48478 or 3.9878 in 2006. This estimate shows an unstable political environment and an increased level of violence and crises in SSA.

Table 1.2 : Political Stability Estimates for SSA (1996-2019)

Year	Political stability (scores between -2.5 and 2.5)	Political stability (scores between 1 and 6)
1996	-0.5324	4.0324
1997	-0.53349	4.03349
1998	-0.53458	4.03458
1999	-0.53239	4.03239
2000	-0.5302	4.0302
2001	-0.54622	4.04622
2002	-0.56224	4.06224
2003	-0.53459	4.03459
2004	-0.51409	4.01409
2005	-0.56579	4.06579
2006	-0.48478	3.98478
2007	-0.52983	4.02983
2008	-0.54374	4.04374
2009	-0.52064	4.02064
2010	-0.53665	4.03665
2011	-0.50875	4.00875
2012	-0.5168	4.0168
2013	-0.52456	4.02456
2014	-0.62526	4.12526
2015	-0.54465	4.04465
2016	-0.57175	4.07175
2017	-0.54602	4.04602
2018	-0.58173	4.08173
2019	-0.59146	4.09146

(Source: Researcher's computation from WGI data from World Bank 2021b)

Despite decades of democratic dispensation, the instability of some nations is worsened by the activities of Boko Haram, Herdsmen, and Cattle Rustlers, especially in countries like Cameroon, Chad, Niger and Nigeria, which affect farming activities, availability of, and accessibility to, infrastructures, including, for example, health facilities and education. Sometimes, countries may encounter political instability due to political reasons, as is the case in countries like Sudan, Somalia, Burundi, Ethiopia, Zimbabwe, and a host of others that experienced instability due to poor governance (Ibrahim & Cheri, 2013). Political instability discourages businesses from building industries where there is no compliance with law and order, nor useful and functional institutions (Jung & Thorbecke, 2003).

Furthermore, it will also lead to the haphazard implementation of the budget and low or no agricultural produce (a fall in the farmers' income) that will later aggravate the poverty condition of the affected areas. The governments of these countries must do a lot more to encourage development by ensuring the functionality of institutions and political stability, to enable the building of infrastructures, such as power, roads, and hospitals, to reduce poverty.

This political factor, poor governance, shed more light on why some SSA countries, such as Ethiopia, Sudan, Somalia, Burundi, Zimbabwe, and others suffer from poverty. Their governments must do more to inspire development by building and maintaining infrastructures through financing judiciously factual projects. Indeed, whenever governments are incompetent at managing substructures, development tends to be impossible, as no business would want to build industrial units in a city where power outage is not reliable. Therefore, every country must set up laws and acceptable business practices, as well as a stable environment, in such a way that it inspires investment. Akanbi (2010) supported this when he argued that poor governance, which manifested in an unstable political environment in most African countries, had been a major obstacle to investment over the years.

SSA has a devastating past in terms of governance (corruption and political instability); estimates are (see in Tables 1.1 and 1.3) averaged at -0.6704 or 36.59% and -0.5377 or 39.25% respectively, and determined by its institutional inefficiency. This negative measure of estimates depicts a worse situation of corruption and instability in the region, hence making state capacity and governance in SSA very poor, which has impacts on the growth and poverty in the region.

Current studies (see Acemoglu & Verdier, 2000; Treisman, 2000; Wei, 2001; Meon & Sekkat, 2005; Del Monte & Papagni, 2007; D'Agostino, Dunne, & Pieroni, 2016; Alesina & Perotti, 1996; Fosu, 2002; Aisen & Francisco, 2013; Gurgul & Lach, 2013; Ibrahim & Cheri, 2013; Omoteso & Mobolaji, 2014) have continued to investigate the significance of governance in determining economic growth and development. However, the outcome remains debatable, with both a negative and positive relationship, which is mostly a direct impact, but without looking at its indirect impact. This literature has also established how corruption damages economic progress and as well cause political instability while others would say political instability is responsible for high corruption in so many countries. Therefore the linkage between corruption and instability is bidirectional (Adefeso, 2018). Hence the two must be pursued concurrently for good governance to enhance growth and poverty decline.

1.2.2 Poverty

Globally, poverty has drawn the attention of all and sundry. According to Sen (1981), poverty is “a matter of deprivation,” which could be an absolute denial of the necessities of life, or is relative compared to the living standards enjoyed by other people whose incomes are high. In the same vein, in 1995, the United Nations defined poverty as a situation characterized by an intolerable deficiency of the necessities of life, such as food, health, education, shelter, safe drinking water, information, and sanitation facilities. In absolute terms, World Bank described extreme poverty as the inability to live on or above the US \$1.90 a day. However, in 2005, this amount was \$1.25, though the actual value of \$1.90 in 2011 prices was the same – at \$1.25, based on 2005 prices. It is also said to exist in a society if people of that society do not reach an assured level of economic well-being that is believed to meet the minimum standard of that society (Ravallion, 1994).

World Bank (2018) maintained that the world had attained some progress on reducing poverty, specifically, by reducing the 1990 poverty rate by half in 2015, which was five years earlier than scheduled. However, despite this progress, the number of the extremely poor globally remains unsatisfactorily high due to the poor nature of governance in many countries (World Bank, 2021a). Given the world growth forecasts, reducing poverty policies is not good enough to end extreme poverty by 2030. Based on the recent 2015 estimates, about 1.1 billion people have come out of extreme poverty, with only 10% of the world's population (736 million) surviving on below \$1.90 per day when compared to 11% in 2013, which was down from 36% in 1990 (1.85 billion). Even though the rates declined, the progress was uneven, for instance, in East Asia and the Pacific (47 million), and Europe and Central Asia (7 million); it is possible to achieve the target, with a decline in poverty by 3%. Nevertheless, Sub-Saharan Africa houses more than half of the world's extremely poor because the number of the poor increased by 9 million in the region to 413 million people surviving on the US \$1.90 per day in 2015. If this trend continues until 2030, about 9/10 of the world's poor will be located in Sub-Saharan Africa (World Bank, 2018a).

Figure 1.3 shows the world poverty rate according to regions for the period 1996 to 2019, except North America due to unavailable data on the World Bank database where the data was extracted. It is, therefore, obvious that SSA has the highest poverty rate when compared to other regions of the world. Even though the graph shows some evidence of the decline in the percentage of the population, in absolute terms, but the number of poor continued to increase.



Figure 1.3 : Poverty Headcount Ratio by Regions of the World
 (Source: Researcher's computation, WDI, World Bank, 2021a)

Poverty in SSA is a dreadful problem caused by factors, such as corruption, degrading institutional quality, high unemployment, poor infrastructures, reduced utilization of resources, natural recourses, crises, and continuous wars (Brennan, 2018; Mendy, 2016; Kabuya, 2018). SSA is the most impoverished region in the world, despite its abundant resources. In 2018, the UN released the names of forty-seven least developed nations, out of which 66% are in Sub Saharan Africa (UN Committee for Development Policy, 2019).

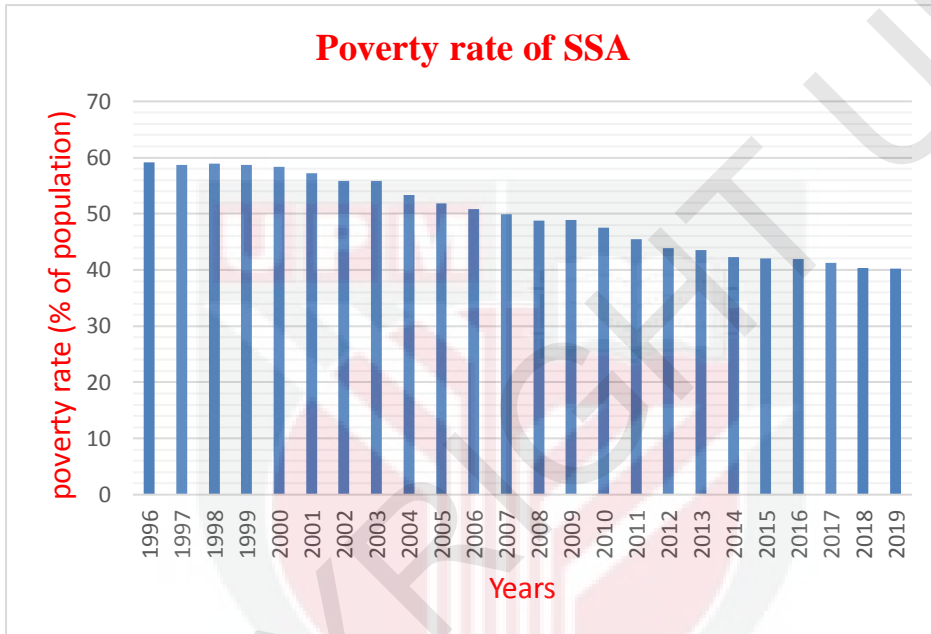


Figure 1.4 : Poverty Rate of SSA (1996-2019)
(Source: Researcher’s computation, WDI, World Bank, 2021b)

Figure 1.4 presents the poverty rate in the SSA region, with evidence of a decline from 58% in 1996 to 42% in 2015 and 40.2% in 2019. However, in nominal terms, the number of the poor continued to increase, with about 388.7 million surviving on less than \$1.90 per day, which is about 41% of the total population in the region and the highest among the regions of the world, despite recorded economic growth in some of the countries, like Nigeria and South Africa (World Bank, 2017). In 2009, the National Bureau of Statistics of Nigeria (NBS, 2012) reported that 71% of Nigerians lived in absolute poverty, indicating a rise from 54.7% in 2004, but, by 2015, this figure declined to 70%. In the Benin Republic, according to a World Bank report, the poverty rate reduced in 2006 from 37.5% to 35.2% in 2010 but later increased to 49.6% in 2015. In Cote d'Ivoire, it was 28.2%; 26.7% in Ethiopia; it was 10.1% in The Gambia; 49.2% in Togo; and 57.5% in Zambia. On average, 40.2% of the population of SSA were poor by the year 2019 (World Bank, 2021a).

According to the 2017 Oxfam report, SSA is the region where the poverty trend is on the increase, despite the increased public expenditure. The number of millionaires increased by 44%, while, at the same time, the number of poor people increased by 69%. This was due to the following factors: the existing inequality in the economy, persistent increase in corruption, inconsistency of government policy and political instability, among other macroeconomic conditions (Oxfam, 2017). Furthermore, United Nations Development Programme (UNDP) (2018), in its report on Development Indices, revealed that SSA countries, such as South Sudan and Niger, recorded 91.92% and 90.59% of the poverty headcount ratio respectively. Similarly, in its reports on the Human Development Index (HDI), which is a usual practice of appraising a country's progress in development using the per capita GDP in the areas of education, health and income measured by life expectancy index, education index and per capita income. UNDP reported that 31 of 38 countries of the World with Low Human Development Index (HDI) were from SSA, with countries such as the Central Africa Republic and Niger having the lowest scores (between 0 and 1) of 0.354 and 0.367 respectively in the HDI's measurement of countries' achievement in education, health, and income, according to the same report by UNDP. This low HDI in SSA is an indicator of a high poverty rate that is prevalent in the region. Furthermore, Gates (2018) forecast that, by 2050, if governments do not take serious measures, 40% of the world's extremely poor will be domiciled in only two countries in SSA: DR Congo and Nigeria, though this does not exonerate others in the region because poverty is still concentrated in most of the countries there.

The consequences of poverty are as follows: low life expectancy after birth, increase in malnutrition, high incidence of diseases like HIV/AIDS, high illiteracy rate, increased child and maternal mortality, lack of suitable shelter, and lack of drinkable water. In 2018, SSA life expectancy was 62.5 years, below Asia, Europe, and North America, which was 72.5 years, 78.5 years, and 79 years respectively (UNDP, 2018). Also, in 2017, despite global progress, more than half of 5.4 million children that died were from the region (UNICEF, 2018). According to UNAIDS (2018), SSA has made some significant improvements against HIV, but it still houses 66% of the world population living with HIV/AIDS. HIV is, predominantly, contracted via infected mothers, who are, in all likelihood, poor or uneducated.

Education in SSA is another indication of how poor the region is. After all, it has 34 million out-of-school children, which constitutes more than half of the world total (UIS, 2018). Moreover, maternal mortality in SSA is more than half of 99% of maternal mortality cases occurring in developing countries. Inadequate access to medical services, rich-poor gap, and poverty level in the region are the reasons why the region has such awful statistics (WHO, 2018). The governments of SSA countries, and donor agencies to them must, therefore, come to know the factors responsible for poverty in the region. These must be clearly understood to provide a guide for reforms, or else policies will be implemented aimlessly without targeting the real causes of poverty.

Previous literature used some poverty proxies. However, this study used the poverty headcount of World Bank, which is a measure of poverty on the income perspective, as adopted by many countries, to monitor progress in reducing the percentage of people

below the poverty line (see Agrawal, 2008; Mehmood & Sara, 2010; Anderson, d' Orey, Duvendack, & Esposito, 2018). The poverty headcount ratio is measured based on \$1.25 in 1981, but that changed to \$1.90 in 2011, and mostly averaged for three to five years (see World Bank, 2018). Since poverty is always measured in terms of income that enables an individual to access the necessities of life to enhance his well-being, then it is evident that the poverty headcount ratio will be a better indicator of poverty in this study of developing countries such as the SSA.

1.2.2.1 Relationship between Corruption and Poverty in SSA

Figure 1.5 is the preliminary analysis of the association between corruption and poverty; it shows a linear positive association, which means they move in the same direction. Therefore, a positive association between poverty and corruption can be deduced, signifying that poverty and corruption move in the same direction although this study cannot conclude on this relation until we investigate further.

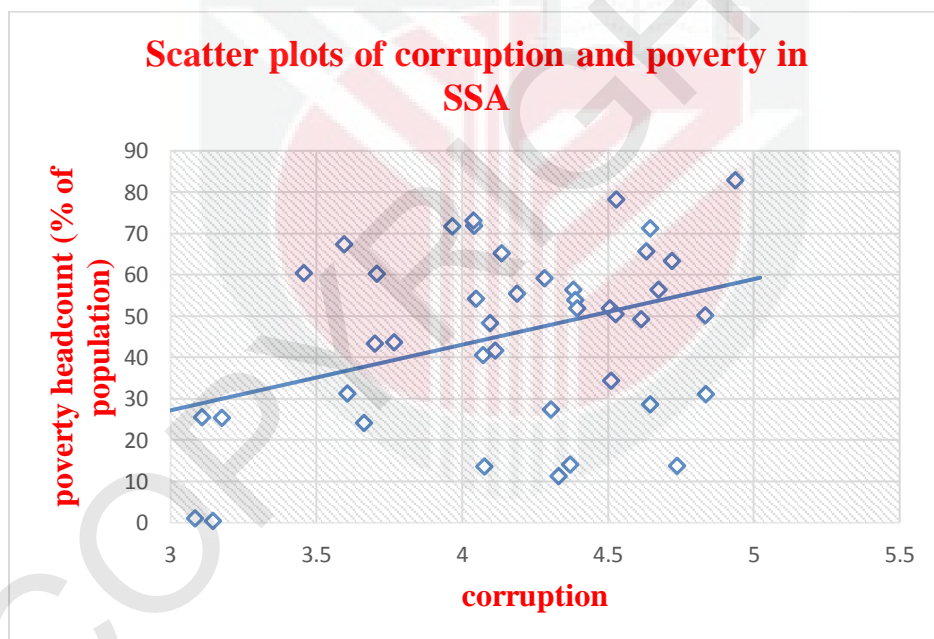


Figure 1.5 : Scatter Plot of Corruption and Poverty in SSA (1996-2019)
(Source: Researcher's computation using data from WDI and WGI, World Bank, 2021)

1.2.2.2 Relationship between Political Instability and Poverty in SSA

The preliminary study of the association between political instability and poverty in Figure 1.6 suggests a positive one, suggesting that political instability tends in the same direction as poverty. We can, therefore, deduce a positive association between poverty and political instability, such that an increase in political instability brings about an increase in poverty. Even though this result shows some evidence of the relationship, it cannot conclude on this relationship unless we use other econometric tools of analysis to investigate further.

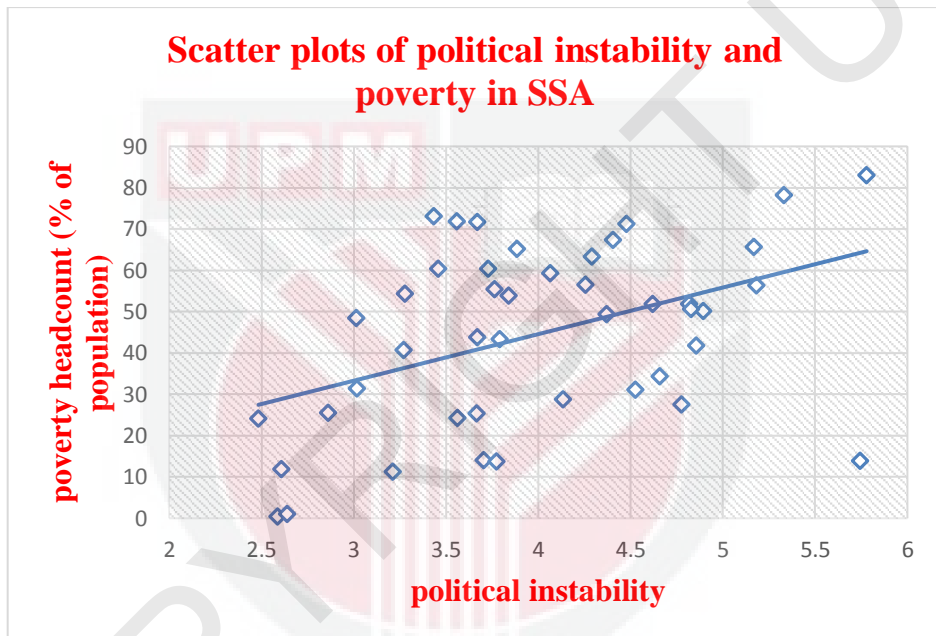


Figure 1.6 : Scatter Plot of Political Stability and Poverty in SSA (1996-2016)
(Source: Researcher's computation using data from WDI and WGI, World Bank, 2021)

However, one of the better means of reducing poverty in SSA is through public spending because of the link between public expenditure and poverty, as emphasized by Keynes' theory of government participation in an economy. It suggests that governments must intervene through high expenditures to reduce poverty through the creation of employment and delivering private goods that are excessively used up by the poor but cannot be afforded by them. Similarly, anti-poverty programmes – provision of food, housing, education and health services- are through public expenditure.

1.2.3 Public Expenditure

Whenever a country is facing market failure, unemployment, inadequate infrastructure, or low economic growth, the government must intervene to stabilize the market and provide employment and infrastructures to achieve economic growth and development. Government spending on infrastructures, like health, agriculture, education, energy, rural development, transport and communication, enhances growth and development and reduces poverty. Sen (1999) corroborated this when he reiterated the importance of government spending on infrastructures, such as health, agriculture, education, energy, rural development, transport and communication on poverty, hence the need for increased government expenditure and its effective utilization. Further, Wilhelm & Fiestas (2005) stated that public expenditure is a vital medium through which the government can stimulate economic growth and reduce extreme poverty. This role becomes more conspicuous when donor agencies supporting Heavily Indebted Poor Countries' (HIPC) debt liberation increased public spending on “pro-poor” programmes as one of their conditions for debt relief in 1996. Thus, a country’s debt can only be written-off when the country shows evidence of spending on projects and programmes that aim to reduce poverty.

For over seventy decades, expenditures by governments have been vital for any economic growth and affluence, right from the time of Keynes (1936), because it significantly focuses on public goods and equitable distribution of resources. Therefore, its structure and size show the level of every government’s willingness to achieve the intended objectives of spending, reducing inequality and poverty. On the one hand, the more the spending, “*ceteres paribus*,” the higher the reduction in inequality and poverty. However, when it is inadequate, the desired objective- reducing inequality and poverty- would not be achieved, especially when governance variables interfere. This research used governments’ final consumption expenditures as a percentage of GDP, as used by Cooray (2009) and Mehmood & Sara (2010), while others used disaggregated expenditures, such as education, health, defense (e.g., Jha et al., 2000; Jung & Thorbeck, 2003; Edeme, Nkalu, & Ifelunini, 2016).

Figure 1.7 describes the public expenditures of the World based on regions. MENA countries took the lead from 1996 to 2001 before Europe and Central Asia took over the lead from them. Next is North America that was followed by Latin America and the Caribbean. East Asia and Pacific regions also maintained a reasonable percentage of public expenditure above SSA and South Asia, which was next to the last and the last respectively. It is, therefore, apparent that the public expenditure in SSA is the least among the regions apart from South Asia.

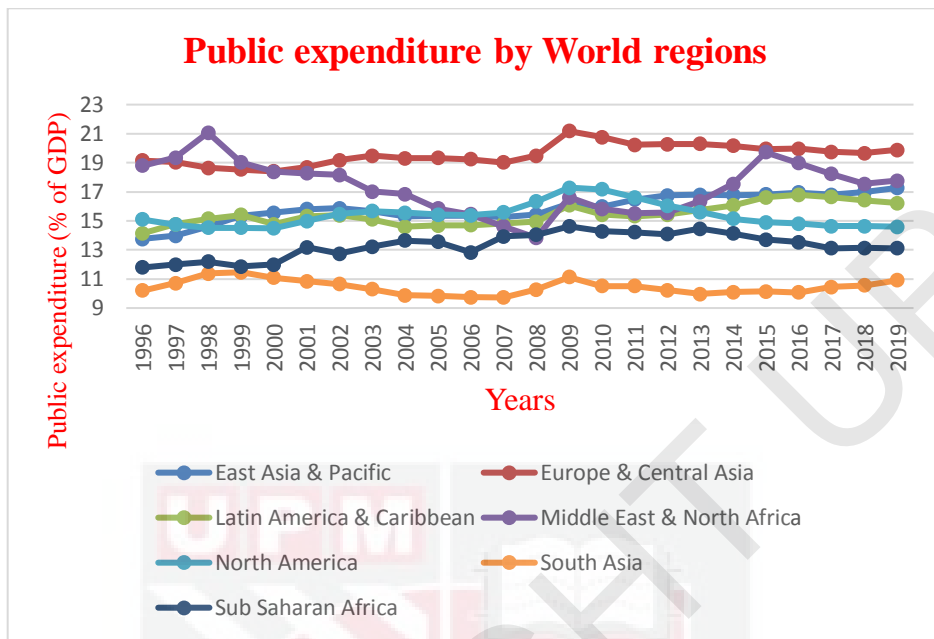


Figure 1.7 : Public Expenditure by World Regions (1996-2019)
 (Source: Researcher’s computation using data from WDI, World Bank (World Bank, 2021b))

Figure 1.8 illustrates the trend of government’s expenditure as a GDP percentage in SSA. It was averaged at 11.76% of the GDP total in 1996, where it increased to 12.23% in 1998. 2001 witnessed an increase to 13.38%, but this figure later fell to 12.92% in 2002. Since then, it continued to fluctuate but later settled at 14.19% in 2007. From that period on, it remained within the range of 14.1% and 14.7% until 2016 when it started to fall to 13.74% and 13.38% in 2017. However, generally, the statistics showed evidence of a remarkable level of increase in government consumption expenditure as a GDP percentage.

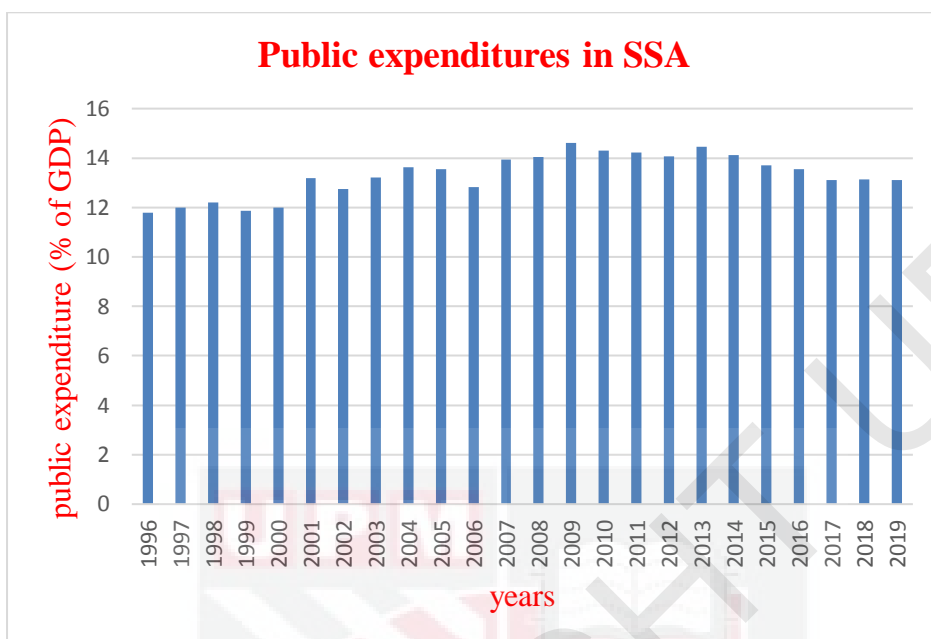


Figure 1.8 : Public Expenditure in SSA (1996-2019)

(Source: Researcher’s computation using data from WDI, World Bank)

The trend of expenditures in SSA shows evidence of a remarkable increase, yet the people in the region are still deficient in health services/facilities, as well as decent education, thereby affecting their ability to look for income-yielding jobs. It is also a known fact that infant and maternal mortality is high in the region, educational attainment is low, life expectancy is very short, and diseases are prevalent – to mention just a few of the numerous problems. Government expenditure is, therefore, paramount to reducing poverty, especially, if it is on pro-poor programmes, such as education and health, which are sometimes referred to as public goods, as allowing market forces to allocate them will leave the poor inconsequential. This spending will tend to move growth and, at the same time, reduce poverty via increasing the income of the poor, providing infrastructures that are pro-poor, and enhancing human abilities (Schwartzman, 1998). The significance of government expenditure in the course of human advancement cannot be overemphasised because it helps in improving some of these development indices. In SSA, all the various tiers of governments do play significant roles in achieving this objective through their various expenditures, with the expectation that they will impact negatively on poverty.

1.2.3.1 Relationship between Public Expenditure and Poverty in SSA

Figure 1.9 presents the preliminary association between public expenditure and poverty, which is negative and linear, but weak, looking at the slope of the trend line. We can draw an inference that a negative association exists between poverty and government

expenditure, where poverty decreases with an increase in expenditure and increases with a fall in government expenditure. However, this outcome seems to signify some elements of association, but it cannot conclude on the numerical degree of the impact until we further use additional econometric techniques to investigate.

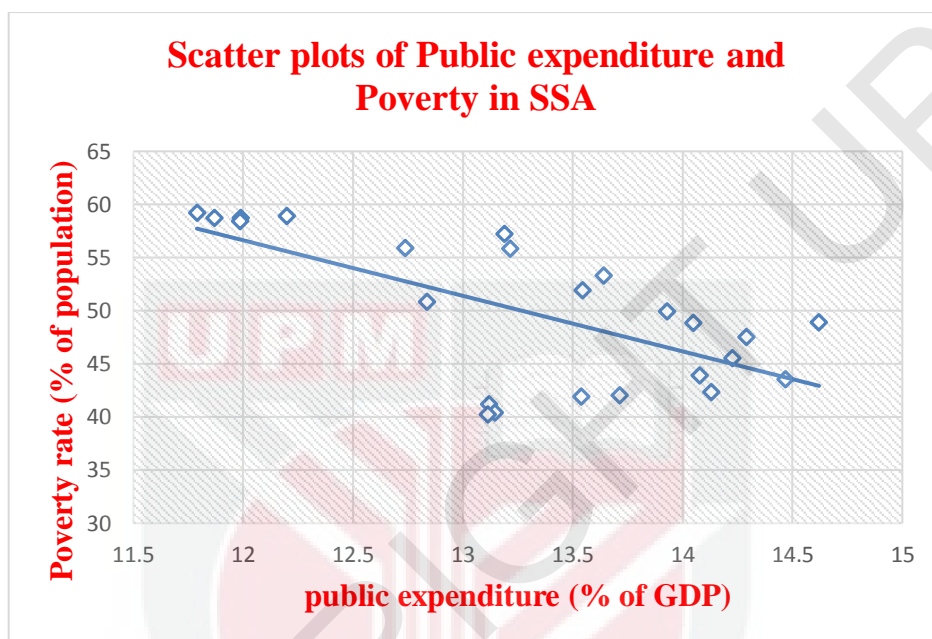


Figure 1.9 : Scatter Plot of Public Expenditure and Poverty in SSA (1996-2019)
(Source: WDI and WGI, all of the World Bank. World Bank, 2021a)

1.2.3.2 Relationship between Governance and Public expenditure

The preliminary analysis in figures 1.10 and 1.11 depicts the scatter plot of the relationship between governance (corruption and political instability) and public expenditure in SSA, based on 46 countries. The relationship shows a positive but weak one because of the slope of the trend line for both governance indices- corruption and political instability. Nonetheless, we need to conduct more analysis before concluding on the nature of the relationship.

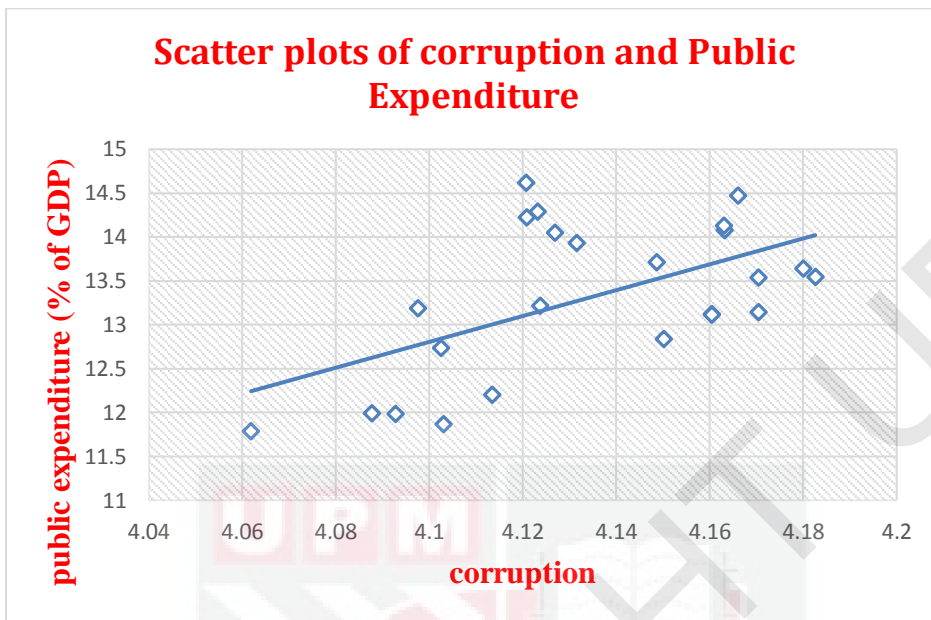


Figure 1.10 : Scatter Plot of Corruption and Public Expenditure in SSA (1996-2019)
 (Source: Researcher's computation, using data from WDI and WGI data, World Bank, 2021)

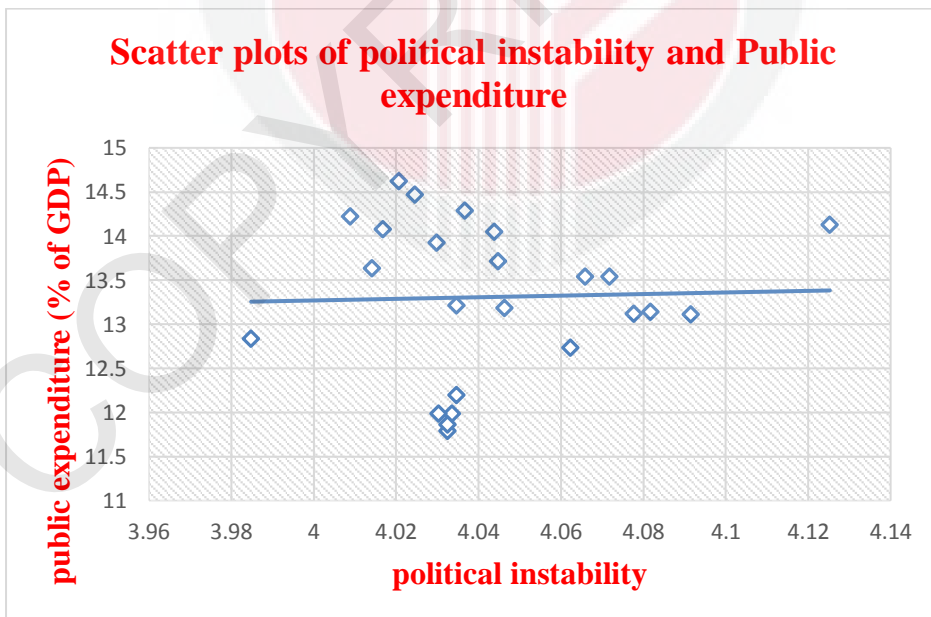


Figure 1.11 : Scatter Plot of Political Instability and Public Expenditure in SSA (1996-2019)
 (Source: Researcher's computation, using data from WDI and WGI, World Bank, 2021)

Furthermore, trade through the flow of FDI, capital inputs, goods and services into a host country increases economic growth and reduces unemployment and poverty, especially in developing countries such as SSA countries that are abundant in natural resources. The benefits derived from trade are quite distinct and have been acknowledged widely by policymakers and academicians (Tahir & Azid, 2015).

1.2.4 Trade

Trade refers to buying and selling of goods and services, and related outlays' payments that can be between two individuals in the same country, or across countries. Trade is also one of the new economic activities around the world that have dramatically impacted many countries' incomes. The classical theory of trade predicts welfare benefits in the country by way of increase in specialization, an inflow of investment, improved productivity, and efficient allocation of resources, employment, increased income, and access to a diversity of goods and services that will impact people's living standards.

Trade enables countries to experience capital inflow for development purposes and is one of the most supportive means of poverty reduction. Trade guides developing nations on what to produce and what not to produce, as postulated by Heckscher-Ohlin's (H-O) model, which is based on comparative cost advantage, as suggested by David Ricardo (1817, cited in Ruffin, 2002). SSA countries have abundant resources and labour that, when exported into the international market, will charge a reasonable reward that can be higher than domestic charges. These higher rewards help in technological advancement, employment generation, increase the income of households, and reduce poverty. Nevertheless, Le Goff, & Singh (2014) argue that there is ambiguity on how trade affects poverty, which most of the pieces of literature could not bring to the fore, especially in SSA, which is facing high poverty amid poor governance. Globally, the support of trade to economic growth and development is very much crucial by assisting in reducing poverty. Trade spurs development via transfer of technology, economies of scale, distribution and efficient resources utilization with a final expectation of poverty reduction.

The total world trade in 2007 accounted for 57.3% of the share of global GDP, merchandise exports stood at USD 14 trillion, while that of commercial services was USD 3.5 trillion (World Bank, 2011). While total merchandise exports rose in 2006 by 32% to \$16 trillion in 2016, commercial services increased by 64% to \$4.77 trillion (WTO, 2017). In Figure 1.12, world trade as a GDP ratio is described according to regions for the period from 1996 to 2016. On average, global trade increased from 46.61% in 2000 to 52.16% in 2005. From 2010, world trade experienced a rise (59.19% in 2016), indicating a 13% increase from 2010. Regionally, Europe and Central Asia took the lead, with the highest percentage of 62.16% in 2000, followed by the MENA countries with 61.88%, SSA with 53%, East Asia and the Pacific with 47.59%, Latin America and the Caribbean with 36.02%, North America with 28.26%, and, lastly, South Asia with the lowest of 27.12%. However, regions like Europe and Central Asia, the MENA countries, and North America continued to experience growth in their trade till

2016, while East Asia, the Pacific, SSA countries, Latin America, and the Caribbean recorded a fall in trade between 2011 and 2017.

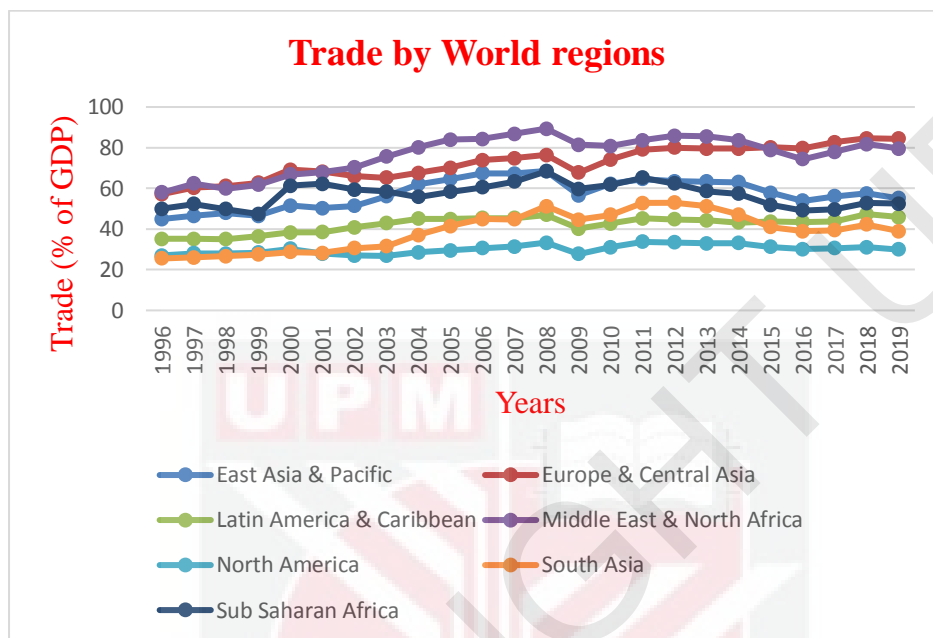


Figure 1.12 : Trade by World Regions (1996-2019)

(Source: Researcher's computation using data from WDI, World Bank, 2021)

However, some economists argued that open economies are well-off in the long run compared to the closed ones, specifically, in terms of aggregate output; while others stated that it is unhealthy for emerging countries (Winters, McCulloch, & McKay, 2004) because they will turn into dumping grounds for the commodities produced by the rich ones.

SSA countries are net importers; they only export primary products to exchange capital goods needed for development, thereby making them have a deficit in their current account which later affects their planned policies and programmes targeted at reducing poverty. Furthermore, the region is experiencing a significant rise in the rate of instability and corruption, resulting from the failure of governance, which will, in turn, give birth to crises, kidnapping, and robbery, thereby making the countries ungovernable and unsecured for businesses to thrive. Political instability discourages foreigners from patronizing the host country in terms of investment or buying their produce (see Gupta, 1990; Abu, Karim, & Aziz, 2014). As such, this affects the future of trade relations with other countries, and affects its output, revenue to the government, and creates low income due to unemployment. Lastly, it causes poverty. These factors result from poor governance.

Figure 1.13 depicts how trade has been fluctuating in SSA. It had the large size of trade in 2008 (\$74.25billion) attributed to the financial crisis that bedevilled the world and the recovery measures taken by the developed countries, which required raw materials and semi-finished commodities from the region. The lowest trade size was \$52.58 billion in 2016, which was attributed to the political crises that affected the region, leading to a decrease in agricultural produce and mineral exploration activities. Trade has been fluctuating in SSA and their governance is characterised by a high level of corruption, political instability and uncertainties. Since trade positively spurs growth and reduces poverty, we need to examine its other determinants, such as corruption and political instability. Furthermore, imports and exports are moving at par, hence inadequate surplus from trade that ought to benefit the region.

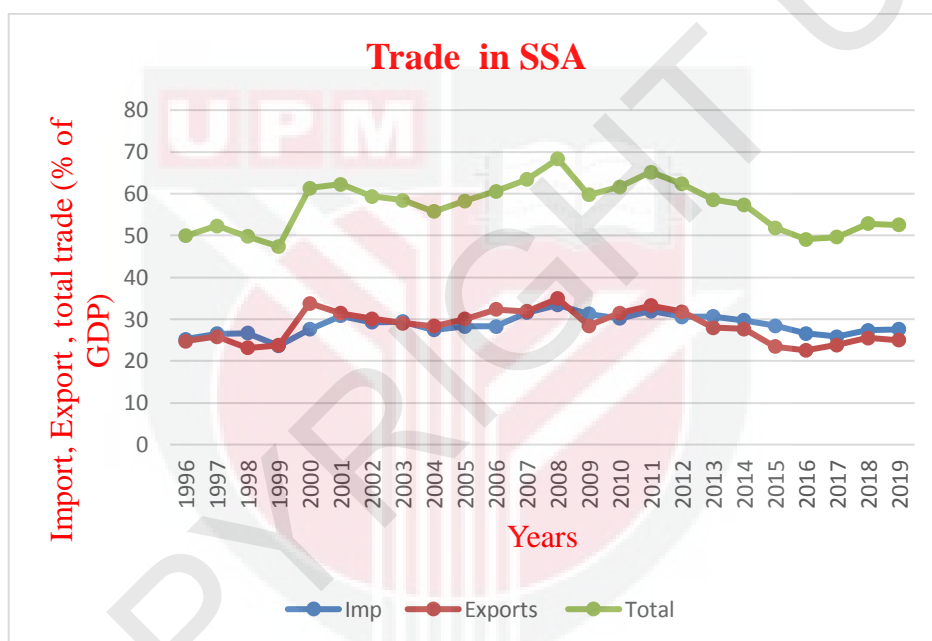


Figure 1.13 : Trade of SSA (1996-2019)
 (Source: Researcher’s computation, WDI, World Bank 2021)

1.2.4.1 Relationship between Trade and Poverty in SSA

The preliminary analysis of the association between trade and poverty is presented in Figure 1.14, revealing a weak negative linear relationship, as confirmed by the slope of the trend line, just like the previous relationship with other variables, which showed that trade and poverty moved in opposite directions. The implication is that as trade increases, poverty declines, and when trade decreases, poverty increases. However, the relationship seems to be weak, as confirmed by the slope of the trend line. Despite this, the study cannot conclude on the strength of the relationship unless it further investigates it using some econometric techniques.

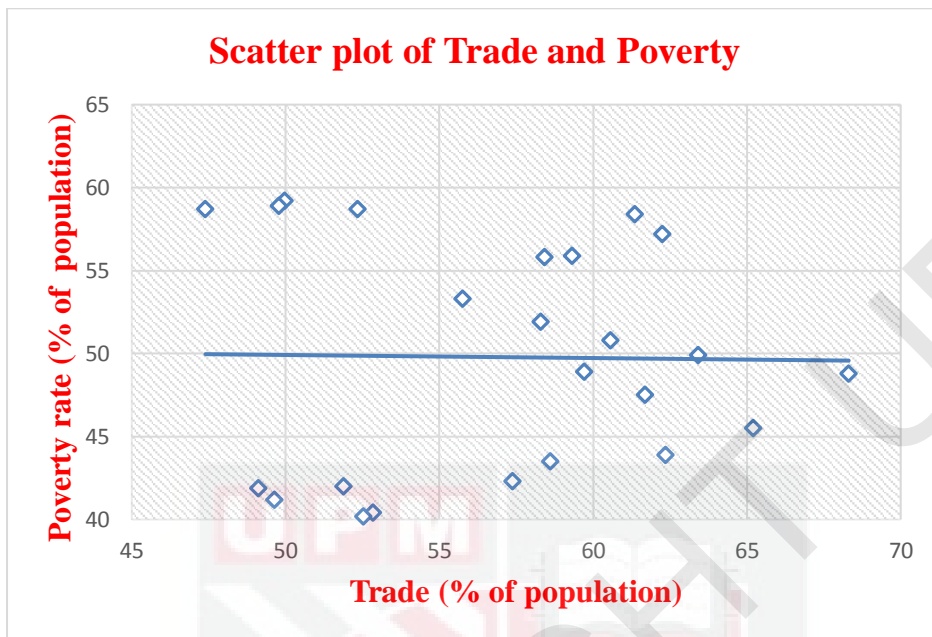


Figure 1.14 : Scatter Plot of Trade and Poverty in SSA (1996-2019)
 (Source: Researcher’s computation, using data from WDI, World Bank, 2021)

1.2.4.2 Relationship between Governance and Trade in SSA

Figures 1.15 and 1.16 present the preliminary analysis in the form of scatter plots of the complementary relationship between governance (corruption and political instability) and trade based on the selected sample of 38 countries of SSA. It shows a positive but weak relationship between governance indices – control of corruption and political stability – and trade, as shown by the slope of the trend line, which signifies that corruption is negatively associated with trade in SSA. However, we cannot conclude on how they impact trade, as the correlation only shows a linear joint relationship or connection between variables. Hence, there is a need to conduct further econometric analysis to ascertain the magnitude of the relationship.

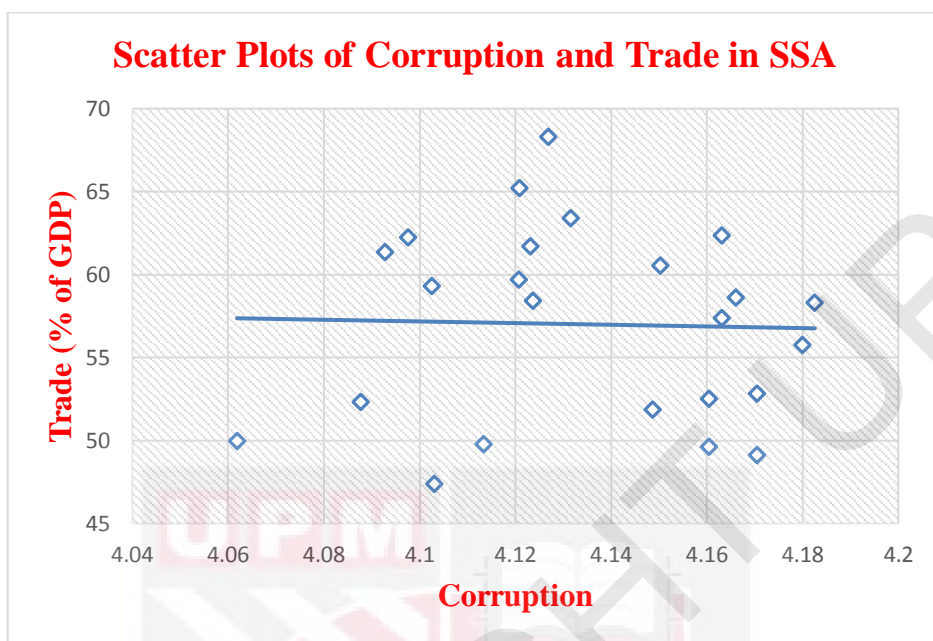


Figure 1.15 : Scatter Plot of Corruption and Trade in SSA (1996-2019)
 (Source: Researcher's computation, WDI and WGI, World Bank, 2021)

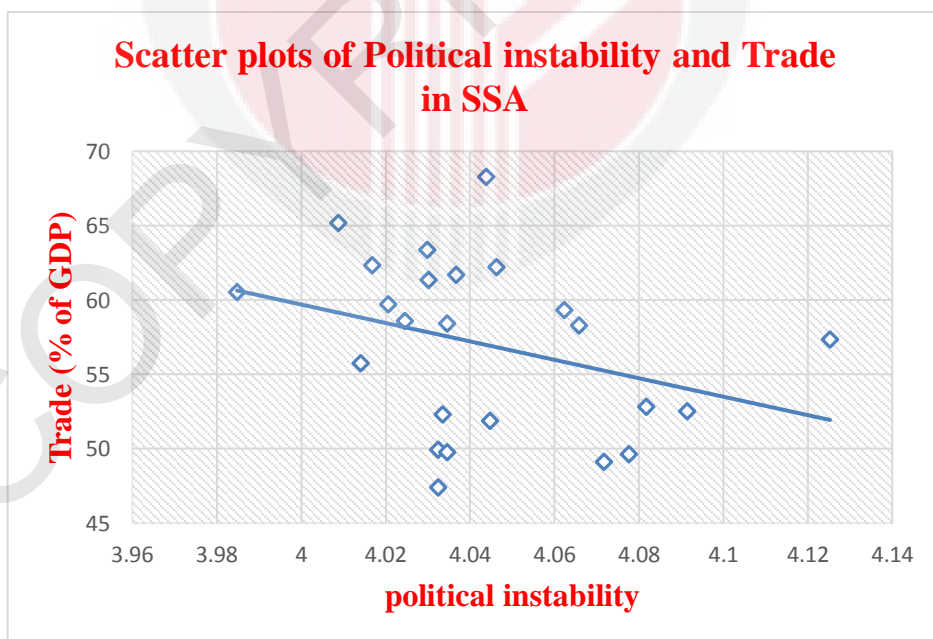


Figure 1.16 : Scatter Plot of Political Instability and Trade in 46 SSA (1996-2019)
 (Source: Researcher's computation, WDI and WGI, all of the World Bank, 2021)

1.2.5 Basic Descriptive Statistics of 46 SSA countries

Table A.1 in the appendix discusses the descriptive statistics of all the variables used in the entire research for 46 countries of SSA. The poverty rate in the SSA region is averaged at 44.89% with Congo DR having the highest number of poor. Public expenditure in the region on the average was 14.72%, with Eritrea having the highest expenditure of 62.13%, while Nigeria recorded the lowest expenditure of 0.91% for the period under review. As for corruption, it is averaged at 4.103 which was 5.326 recorded by Equatorial Guinea being the most corrupt and Botswana the least corrupt. The instability of the political environment in SSA, i.e. political instability, is averaged at 3.996, with Congo DR being the most unstable, which is associated with the crisis that plagued the country, whereas Seychelles is found to be a relatively stable country.

In the case of trade, the region witnessed an average flow of trade of 70.794%, with Liberia recording the highest volume of trade; while Sudan recorded the lowest volume of trade because the political crisis experienced in the country scared foreign businesses. The Gross Domestic Product of the region is averaged at USD 27.3 billion with the highest value of GDP recorded in Nigeria in 2019, though Nigerians are still poor; Sao Tome had the lowest GDP during the period under study. SSA region averagely services its debts yearly at the cost of USD 587 million, with Mauritius being the most indebted country, while Liberia was the least indebted.

Averagely, the SSA region experienced a 2.49% population growth with Rwanda having the highest growth rate, while Seychelles had negative growth. In terms of the exchange rate, on averagely, SSA exchanged its currency at 6191222 per USD, with Zimbabwe having the highest exchange rate (low currency value) which was due to the official depreciation of the local currency by the then government.

Based on the description of SSA variables, therefore, it is glaringly obvious that the standard deviation value is greater than the mean for the variables; while the range is substantial. This variation signifies that the data suffers from the presence of some extreme values, which may be attributed to differences in countries' characteristics over time. Governance (control of corruption and political stability) is poor, public expenditure is low, while poverty is high in the region. GDP is high, but it does not reflect in the living standard of the people because the countries continued to service their accrued debts disregarding the need to meet the needs of the growing population in the region. The exchange rate in the region was also high which may be attributed to low foreign exchange earnings through trade that was affected by poor governance.

1.3 Problem Statement

Globally, nations and international organizations – such as the IMF, World Bank, and Transparency International, to mention just a few – try to promote and ensure good governance, while condemning countries that have poor governance. However, in the

SSA region, governance in almost all the countries is poor, despite efforts by the governments and pressure by international organizations to ensure good governance. There is also a consensus that poor governance has continued to affect growth, poverty, wealth creation, and sustainable development in SSA indirectly, and this might explain the reason for weak economic growth and high rate of poverty, despite increased public expenditures and abundant resources.

Governance affects poverty indirectly through public expenditure mechanisms. For instance, corruption tilts its direction to unproductive programmes and projects that may not have a direct bearing on poverty, through the diversion of public funds, embezzlement, and, sometimes, abandonment of projects. Also, political instability, like coups, crises and wars, make expenditures on security increase through the acquisition of arms and settlement of displaced persons, thereby depriving other sectors of the economy of decent allocation from government expenditures because resources are highly scarce and competitive. This will, in turn, reflect the increased poverty rate that is supposed to be reduced by public expenditures. Poverty is a global issue, which necessitated the countries of the world and international development partners to agree on a common podium and programme at the Millennium Summit of September 2000 to work in consensus with the determination to eradicate extreme poverty by 2015. In SSA countries, there is not much progress, as the rate remains high and is in a rising trend. However, most SSA economies are government-driven, as the impact of the private sector is minimal, or even non-existent in the delivery of public goods, hence the need for government to determine how the economy works through various policies and programmes financed by its expenditures to reduce inequality and poverty. It is, therefore, evident that poverty can be reduced when the government is involved through its expenditures as is generally accepted worldwide.

Public expenditures are critical to reducing poverty in SSA through enhancing economic growth that ought to translate into improved living standards. When the governments of SSA spend on projects and programmes such as the construction of roads, schools, hospitals, subsidies, building of industries, etc., money will flow into the economy and there will be employment opportunities for people to earn income and reduce their poverty. However, when governance is poor, i.e. high corruption and political instability, it militates against the role of public expenditure to reduce poverty. For instance, when corruption is high, government officials of SSA tend to divert the funds into their private pockets, thereby preventing public expenditure from reducing poverty. Similarly, when the region experiences political instability, the execution of projects and programmes that ought to reduce poverty will be distorted because settling of instability also requires funds, thereby, competing with the projects and programmes in the sharing of scarce resources aimed at reducing poverty. Although the global poverty rate seems to reduce in some countries, the rate remains high in SSA. Can we attribute this to poor governance in the region? Because, on a general note, poor governance reduces funds available for supporting effective economic growth policies and programmes, while reducing the capacity of government to assist its populace, particularly, the poor. Hence, the investigation of the interaction of governance and public expenditure, to see if there is a meaningful indirect impact of governance on poverty through public expenditure, is an area yet to be investigated.

However, public expenditure is seen to be critical in reducing poverty, hence, it is imperative to examine how governance affects the size of expenditure because it will be difficult for these countries to exhaustively generate revenue for expenditure without reducing unnecessary spending. Governance effect on public expenditure is through revenue or spending. In the first instance, corruption affects revenue collection, as most of the collections go into the pockets of the collectors, and makes evasion easier, thereby reducing what goes into the government coffers for financing the economy. When corruption is high, it affects expenditure, by reducing or increasing any planned expenditure. It may also increase expenditure through contract inflation and budget padding that is deducted from the source before disbursement into the corrupt officers' pockets. Similarly, political instability affects public expenditure by increasing government spending while reducing revenue. The aftermath of any crisis requires more funds to reconcile parties, rehabilitate victims and reconstruct property, thereby, increasing expenditure. It affects the taxpayers' source of income to pay tax, e.g. farmers, fishermen and even businesses involving movement across the country, and companies cannot also pay taxes when denied operation by an unstable environment.

Furthermore, trade spurs development via transfer of technology, increased economies of scale, distribution and utilization of resources efficiently with a final expectation of poverty reduction, as the economies of SSA countries have abundant resources that ought to make them have some benefits over other world regions in poverty reduction. When countries are into trade, they tend to grow; while trade-dependent countries benefit less, or do not benefit at all. Unfortunately, the SSA region's imports and exports are moving at par; they are not getting surplus from the trade as desired despite the abundance of natural and human resources hence. The nature of governance in SSA is assumed to be one of the factors that affect trade because weak governance and institutions affect the free movement of goods from and into the country, and high political instability and corruption affect trade and production domestically due to poor infrastructures, thereby affecting the gains to be derived – one of which is poverty reduction. The impact of governance on trade cannot be overemphasized as better governance, notably lower corruption and property rights protection, promotes trade (Balding, 2011). Therefore, this study investigates the link between governance and trade by introducing corruption and political instability as variables of interest.

It is based on these facts that this study investigates how governance affects poverty indirectly through its determinants - public expenditure and trade among numerous determinants of poverty.

1.4 Research questions

Based on the above discussion, this thesis answers the following questions:

1. Does governance affect poverty through public expenditure?
2. What is the impact of governance on public expenditure?
3. What is the relationship between governance and trade?

1.5 Objectives of the study

The general objective is to investigate the impact of governance on poverty, public expenditure, and trade in SSA. Specifically, the objectives of the study are to:

1. investigate the role of governance on public expenditure-poverty nexus;
2. examine the impact of governance on public expenditure; and
3. investigate the relationship between governance and trade.

1.6 Significance of the study

Firstly, the outcome of the research provided a vigorous explanation of whether the nature of governance is responsible for the high poverty rate in SSA. Furthermore, the study added up to the methodology of public expenditure-poverty nexus, where an interaction term is utilized in understanding their conditional relationship, employing General Methods of Moments (GMM) to control for unobserved country-specific effects, omitted variables biasedness, as well as capturing the endogeneity of regressors in any situation of data inadequacy. The study included other variables, such as GDP and trade, as other determinants of poverty. Another significant contribution of this objective is the use of interaction terms of governance (corruption and political instability) and public expenditure since previous studies (Wei, 2001; Meon & Sekkat, 2005; Del Monte & Papagni, 2007; D'Agostino, Dunne & Pieroni, 2016; Mehmood & Sara, 2016; Edeme, Nkalu, & Ifelunin, 2016; Anderson, et al. 2018; Hidalgo-Hidalgo & Iturbe-Ormaetxe, 2018; etc.) only looked at governance-public expenditure and public expenditure-poverty nexuses, separately. But this study differs as it investigated the indirect relationship between governance and poverty by interacting governance and public expenditure to see if a meaningful one exists, thereby providing additional instruments for policymakers and co-researchers when formulating policies and advancing research, especially, in terms of improving governance and increasing expenditure to reduce poverty in Sub-Saharan African countries. Also, this study's findings shall motivate policymakers to look into the actual impediments (governance) to poverty reduction so as to make the right decisions and design policies that will improve the quality of governance.

Secondly, the study adds to the debates on the determinants of public expenditure, as insinuated by Wiseman & Peacock (1967), especially, with regards to displacement effects due to political and social disturbances that make government increase its expenditure for curtailing disturbance. Furthermore, it increases the number of literature on governance-public expenditure nexus, especially, in developing countries faced with governance problems, like SSA. Similarly, the aspect of governance as an influencer of public expenditure was given less attention, to the best of my knowledge, as few studies (Fielding, 1997; Wilhelm & Fiestas, 2005; Del Monte Papagni, 2007; Okafor & Eiya, 2011; Wu & Lin, 2012 etc.) conducted were time series, while panel studies were in other countries and regions. Furthermore, policymakers will see the significance of governance in determining public expenditure and measures to improve the quality of governance should they wish to increase public expenditure size to achieve poverty

reduction through decisions. The measures will allow a substantial generation and expansion of revenue.

Lastly, the results of this study add to the literature on trade determinants, especially in underdeveloped countries with poor governance, such as the SSA countries, by providing additional explanation on whether governance is sincerely responsible for its trade drop, as well as adding to the governance – trade literature, that is scant, with varied results. Most of the studies (such as Barro, 1991; Winters, Mculloch, & Mckay, 2004; Levchenko, 2007; Ibrahim & Cheri, 2013, Ben, Ali, & Mdhillat, 2015 etc.) concentrated on other determinants of trade, using gravity models while employing OLS, 2SLS, Non-linear LS, and others to analyse the relationship. However, scanty studies examine how governance impacts trade using PMG because the variables in the region are heterogeneous in nature, and so they exhibit the same behaviour in the long run. Also, governance effects on individual countries differ due to variation in resource endowment without assumption of the same speed of adjustment to the long run. This is because SSA countries vary in terms of trade policies and nature of governance, thereby, adding to the debates on governance-trade nexus, which has a mixed outcome – indeed, a positive or negative impact. Besides adding to the empirical literature, it also addresses one among the challenges of economic development in the SSA region, more especially, the link between trade and governance that is pertinent to achieving growth and development. Policymakers will have more highlights on the significance of governance in influencing trade and the necessity to improve its quality to attract foreign investments and businesses into the region, thereby increasing gains from trade that genuinely impacts poverty. Lastly, researchers will use it as a source of reference for more research on the same topic.

1.7 Scope of the study

In this research, the study researched the Impact of Governance on Poverty, Public Expenditure and Trade in Sub Saharan African Countries. It considered the 48 countries of the SSA region, using eight variables: poverty headcount ratio, public expenditure, governance, trade, GDP, debt service, population and exchange rate.

The data is for 24 years (1996-2019) because the database where we extracted governance estimates started from 1996 to date. This study is predicated on three theories, viz; Keynes theory of government intervention; Wiseman-Peacock theory of Public expenditure determinants and Kindleberger trade theory that is built on Adam's smith magistracy theory of international trade. This study used poverty as a dependent variable for the first objective, public expenditure for the second, and, lastly, trade for the third.

1.8 Organization of the thesis

Chapter One comprises the introduction, background to the study, statement of the problem, research questions, study objectives, contribution of the study, the scope of the study and organization of the study. Chapter Two reviews theoretical and empirical pieces of literature on the study, while Chapter Three focuses on the methodology, empirical model, estimation technique, type and sources of data, and description of variables. Chapter Four includes the presentation and analysis of the results. Finally, Chapter Five outlines the conclusions, policy recommendations, limitations, and recommendations for future study.



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