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Interconnections between governance and socioeconomic conditions: Understanding Sub-Saharan African challenges

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A G D I Working Paper

WP/21/099

Interconnections between Governance and Socioeconomic Conditions: Understanding Sub-Saharan African Challenges

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Interconnections between Governance and Socioeconomic Conditions: Understanding Sub-Saharan African Challenges**Fisayo Fagbemi, Geraldine E. Nzeribe, Tolulope T. Osinubi & Simplicie A. Asongu**

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Abstract

Given that challenges facing sub-Saharan African (SSA) countries on the issue of socioeconomic development have been identified as critical to strengthening the inherent link between governance and socioeconomic conditions, this study examines the interconnections between governance and SSA socioeconomic conditions. With a focus on 25 countries between 2005 and 2019, the analysis is based on Panel-Corrected Standard Error (PCSE) and System-GMM estimations, and panel causality test. Results show that SSA seems not to have the means of effective governance to spur improved socioeconomic conditions. Findings indicate that the pervasiveness of institutional problems in many SSA countries has been responsible for the poor socioeconomic condition in the region. Furthermore, it is equally found that governance quality and socioeconomic conditions are mutually reinforcing, suggesting that they influence each other. An improvement in socioeconomic conditions could result in better governance. On the other hand, the quality of governance is viewed as a vital ingredient in achieving needed socioeconomic development outcomes. Thus, it is suggested that there is need for SSA countries to streamline governing system towards engendering improved well-being. The introduction and implementation of transformative policies through effective governance are also necessary for ensuring critical structural changes and increased social service provision. Overall, there should be a proactive identification of ineffective policies and procedures by policymakers to enhance meaningful impact in the region.

Keywords: Governance quality, socioeconomic condition, economic development, System-GMM, Africa

1. Introduction

Over the years, public discourse on the issue of critical governance has revealed the need for the adoption of an effective approach to address institutional problems for meaningful development to take place (South African Institute of International Affairs (SAIIA, 2009)). In this respect, understanding the link between governance and socioeconomic condition in the sub-Saharan African (SSA) context remains crucial in the literature, since effective development may not depend on the type of government, but on the quality of governance or character of the state. It should, therefore, be noted that the extent to which the interconnection is perceived between governance and socioeconomic conditions would depend on how socioeconomic crisis is understood. Within a broad definition, socioeconomic crisis means factors or conditions that have an adverse influence on individuals' social and economic activities which include: health issues (like COVID-19), lack of education, disaster, racial and religious discrimination, poverty, overpopulation, unemployment, political unrest and corruption. In this case growing poverty and a dysfunctional economy with massive unemployment, exacerbated by a lack of even the most basic human rights and fundamental freedom, could place the concerned economy at a low level of human development in the long-run. This view is most notably advocated by Merton (1949). The successful track record of economic development is well known. Yet, based on studies, Africa's institutional environment appears to have been weak and unchanged over the years (Fayissa and Nsiah 2013; Al Mamun et al. 2017). Does this imply that governance framework and policy measures do not matter for economic performance? A deeper understanding of Africa's development gap is essential, given the paucity of development – oriented decisions and the needed capacity that could allow for improved economic performance facilitated by significant changes to the mechanism of accountability and transparency in the public sector, and collective leadership. Indeed, Africa's experience indicates the need to give more attention to how public institutions perform, and with less attention to the specific form taken. Since today Africa faces a huge institutional gap, maintaining accelerated growth and avoiding “socioeconomic crisis” require the political will to switch to effective institutional arrangements that could guarantee a sustainable development model (Governance and Social Development Resource Centre (GSDRC, 2010)).

The literature widely recognizes the adverse effect on the poor of weak governance systems. The failure to institute effective pro-poor social policies is the outcome of irresponsiveness of state institutions (World Bank, 2001) —governance failings are most inimical for the poor, and with the inevitability of increasing humanitarian crises. It is, therefore, implied that the significance of the quality of governance seems to have become almost axiomatic (Kadhim, 2013), based on the indispensability of governance in the maintenance of sustainable growth rate and development. Within the context of developing countries, ineffectiveness of governance is the root cause of numerous economic, political, and social crises (Jreisat, 2002). Effective governance which entails proper monitoring and better coordination of economic activities are lacking in most African countries — inadequate enforcement of contracts and establishment of propriety rights for the promotion of economic development (Lahouij, 2017). Governance improvement is vital to addressing overwhelming socioeconomic challenges in sub-Saharan Africa (SSA) (Fagbemi and Asongu, 2020). Hence, as Africa’s Agenda of 2063 gains traction, coupled with the attainment of Sustainable Development Goals (SDGs), the state of governance in African countries has been a topical issue in view of the fact that the major bane of development in the continent is poor institutional quality (Al Bassam, 2013; African Capacity Building Foundation (ACBF), 2016). Indeed, the availability of the required standards to successfully implement and enforce provisions depends largely on the prevailing institutional factors. Considering the prominent role of institutions, the link between institutional arrangements and socioeconomic development needs to be given more practical and scholarly perspectives. State capabilities should be conceived as the aptitude to coordinate policies that could drive structural change in economic and social fields, critical to ensuring long-term economic growth and development (Mira and Hammadache, 2017).

In this context, good governance¹ is a fundamental component of Africa’s resurgence, as the structural change and tremendous task of socioeconomic development seem related to it (ACBF, 2017). Africa’s peculiarities and socioeconomic conditions require the adoption of optimal strategies to reform governing systems, and attain sustainable socioeconomic development. There is a consensus recognizing that to improve efficiency and social service delivery in Africa, raising accountability and maintaining political stability have become more central in recent

¹Good governance means the consolidation of market-oriented reforms and the key prioritization of social services provisions to the Africa’s poor (ACBF, 2017).

times given the increased poverty, poor governance, growing insecurity and pervasive corruption (ACBF, 2017). Despite this, studies on the link between governance quality and socioeconomic development are limited as much of literature on the quality of institutions is concerned with its effect on economic growth, not on socioeconomic conditions, per se. For instance, Dahlström et al. (2012); Fayissa and Nsiah (2013); Liu et al. (2013); Shao (2016); Adedokun (2017); Setayesh and Daryaei (2017) commonly based their discussions and findings on how economic growth is influenced by governance, indicating that limited attention has been given to the linkage between institutional quality and socioeconomic development in the literature. In addition, Tan and Abosedra (2014); Ramadhan et al. (2016) stress the relationship between political stability and economic growth, while Gani (2011) and Salahodjaev (2015) explained voice and accountability-economic growth nexus. Thus, a more focused approach to research into how socioeconomic condition is influenced by governance in Africa's context is crucial. This will indeed help further an understanding of the continent's development challenges, thereby harnessing what stakeholders can proffer to facilitate good governance.

In the literature, in spite of the fact that a number of points were raised on the relationship between governance and economic performance, ACBF (2017) affirmed that there has been uncertainty on the issue of causal direction. Some previous studies prove a positive causation from institutional quality to economic development as well as positive causality in the opposite direction (Chong and Calderon, 2000; Emara and Jhonsa, 2014). However, Kaufmann and Kraay (2002) argue that there only exists unidirectional causality which follows from improved governance to the higher per capita income. It remains unclear whether economic development has led to improved governance and vice versa. Based on this, investigating the causal direction could give a more pertinent understanding of what constitutes Africa's governance challenge. Consequently, aside finding the nexus between governance quality and socioeconomic conditions in African context, the direction of causation between them is also examined. In the study, two governance indicators are selected — political stability, and voice and accountability — out of six indicators of good governance based on World Governance Indicators developed by Kaufmann, et al. (2010)². These indicators are chosen following the growing centrality of the political issue and democratic accountability (Pereira and Teles, 2010). In terms of rating, the

² These six indicators include political stability; voice and accountability; government effectiveness; rule of law; regulatory quality; and control of corruption.

governance indicators are rated on a scale as appropriate -2.5 to +2.5 (or on a scale from 0 to 100). The causality test developed by Toda and Yamamoto (1995); and Dolado and Lütkepohl (1996) is adopted to find the interrelationship, while System-Generalized Method of Moments (GMM) and Panel-Corrected Standard Error' (PCSE) Estimations are employed to examine the effect of governance on socioeconomic conditions. The key significance of the study is to aid the extension of the frontier of knowledge regarding the role of governance in African socioeconomic development trajectories, as the major contribution to the extant literature is to give an empirical justification for the link between governance quality and socioeconomic conditions in SSA's context in order to enhance the understanding of the region's main challenge. Furthermore, the study's objective is essential for explaining the cause of the current socioeconomic development outlook in SSA.

2. Empirical evidence

In the face of the precariousness of governance and economic state, the African Union (AU) has listed seven key aspirations in its 50-year development and transformation program (Agenda 2063) tagged "The Africa We Want" (African Union Commission, 2015). Out of these seven key aspirations, in terms of interlinks, "an Africa of good governance"³ is indeed critical. In Agenda 2063, although challenges conspicuously remain, progress on the good governance framework has been encouraging, as the key to Africa's political and socio-economic transformation revolves around it. The AU recognizes that, for the African continent to realize its full potential, good governance which is arguably the single most significant factor in reducing poverty and achieving sustainable development should be well entrenched across countries (South African Institute of International Affairs (SAIIA, 2009)). However, this development and transformative program seems not to have yielded meaningful and sustainable outcomes, following the series of institutional problems that continue to thwart development efforts in the continent. While the State must guarantee the adequate provision of social services — basic healthcare, education, and, perhaps, the expansion of infrastructure — communication, transport, and electricity, sufficiently operational, these very characteristics have seriously eroded in Africa today due to bad governance (Mbaku, 2020). Indeed, the type of reforms that can preclude dictatorship, corrupt behaviours, inefficiency and economic decline are yet to be firmly embraced and achieved by

³In this context, good governance entails democracy, respect for human rights, justice and the rule of law (Gisselquist, 2012)

many countries. Poor-functioning governance structures have persistently saddled countries such as the Central African Republic, Eritrea, Nigeria, Somalia, and South Sudan — a strong indication for continued lack of political will, sectarian violence, and weak and ineffective leadership (Mo Ibrahim Foundation, 2018).

The pervasiveness of poor governance in most African countries has overwhelmingly frustrated the government's corrective intervention role in improving economic development. For instance, in order to combat poverty and improve human development, the maintenance of peace and security, as well as growth enhancement and wealth creation needed have remained elusive. No doubt, if Africa is to attain its developmental goals, it is pertinent that African countries entrench mechanisms that engender good governance (like constitutionalism, accountability and transparency, and democracy). Due to ineffectiveness of governance, from 1990 to 2015, the number of African people living in poverty actually rose from 2.78×10^6 to 4.13×10^6 (Mbaku, 2020). It is worrying that the African continent has the largest share in extreme poverty (Brookings Institute, 2019). In terms of security and health, the greatest proportion of Africans lack access to social protection and good health care (International Labour Organization (ILO), 2017). Only effective pro-poor policies can curb this terrible poverty trend in the continent (World Bank, 2019). In addition, based on United Nations Development Program's Human Development Index, the least developed countries in the world have been African countries like the Central African Republic, Chad, the Democratic Republic of the Congo, Equatorial Guinea, Eritrea, Libya, Somalia, South Sudan, and Sudan. This classification, as determined by the Ibrahim Index of African Governance, is based on countries with relatively dysfunctional or weak governance structures (United Nations Development Program, 2018).

Good and inclusive governance, which are a sine qua non for attaining sustainable development, are unlikely to be widely practiced and entrenched by many African countries due to lack of political will and bad leadership (Mbaku, 2020). When the quality of governance is eroded, the State will be unable to put in place policy measures that can foster socio-economic development, and thus favour long-term investment (South African Institute of International Affairs (SAIIA, 2009)). Empirically, it has been found that both low per capita GDP and poor quality of governance are predominant features of many Africa countries (Fayissa and Nsiah 2013; Al Mamun et al. 2017). Hence, the successful and effective implementation of socioeconomic

development policies critical to achieving the Sustainable Development Goals in 2030 or Agenda 2063 are likely to be a mirage without sound institutional reforms to enforce optimal practices in the public sector (Mbaku, 2020). It is, therefore, suggested that African countries with progressive and inclusive constitutions (such as Ghana, Kenya, and South Africa) secured through the separation of power can promote national dialogues to better the understanding of their citizens on good governance to achieve sustainable development (Mbaku, 2020; World Bank, 2019). However, among issues remaining is that many other SSA countries have persistently lacked the remedial mechanisms for discussing and charting ways for ensuring that besetting governance problems are addressed and ceased to undermine the effectiveness of the State to promote more progressive social policies (ACBF, 2016).

Given that an understanding of governance as a critical determinant of socioeconomic development, apparent contradictions in the institutional context in explaining development trajectories across countries have attracted global attention. In view of this, Authors like Knack and Keefer (1995); Hall and Jones (1999); Kaufmann and Kraay (2003) demonstrate that some governance indicators such as control of corruption, stability of property rights or democracy are strongly associated with GDP growth rate per capita, human capital development or investment, buttressing the argument that market enhancing governance framework and economic performance are closely correlated. Nonetheless, these authors emphasize that improved indices of good governance positively influence economic growth, and offer long-term convergence with countries regarded as developed. However, Khan (2004) argued that the enhancement of good governance indicators could lead to better economic growth rates, when developing countries could create efficient good governance policies only sequel to the period of learning in the capacities of states, and after attaining a certain level of development.

In the literature, there are several studies supporting the hypothesis of governance quality influencing economic performance. For example, Olson et al. (2000) affirm that governance quality is significant to enhancing investment rate, suggesting that to stimulate economic growth, improving investment climate and the capital market are central. In addition, other conditions identified as promoters of improved economic performance through good governance include, a well-coordinated economic power structure which could engender the optimization of the allocation of resources (Zhang and Yu, 2009); corruption reduction encourages productive

investment (Dahlström et al., 2012); a political power structure could have an effect on economy system and policy (Liu et al., 2013); and the fiscal decentralization that enhances official incentives and regional competition can also affect economic performance (Shao, 2016). Overall, the aforementioned conditions indicate that governance can be viewed as social infrastructure, which is critical to the growth of economies (Fayissa and Nsiah 2013; Al Mamun et al. 2017) through governmental system and policies. Indeed, Adedokun (2017); Setayesh and Daryaei (2017) in their work, state that by hindering the “grabbing hand” of power while inducing the “helping hand” of power, good governance can be a positive determinant of growth and economic development.

In addition, Ahmad et al. (2012) test whether corruption influences economic growth or not using panel data for the period 1984-2009 for 71 developed and developing countries. Results indicate that high corruption lowers countries’ growth performance, suggesting that the quality of institutions has a significant effect on the examined economies. Similarly, Cebula and Foley (2011) argue that for Organization for Economic Cooperation and Development (OECD) countries, between 2003 and 2006, economic growth is positively affected by better regulatory quality as it allows for effective functioning of market and businesses. In the work of Aisen and Veiga (2013), using system-GMM estimator for linear dynamic panel data models, it is stressed that, for 169 countries examined between 1960 and 2004, political instability and lower GDP per capita are strongly connected. Other studies that show a significant relationship between political stability and economic growth include Ramadhan et al. (2016); Tan and Abosedra (2014), while Gani (2011) prove that voice and accountability have a significant effect on economic growth. In contrast, Pere (2015) shows that there is an insignificant association between corruption and economic growth. In terms of causality, relationship is found between institutional quality and the economic development indicator used (per capita income) Chong and Calderon (2000) contend that, although there is bi-directional causation between governance quality and growth, causality from institutional quality to economic growth is stronger. Emará and Jhonsa (2014) also examine the interrelationship between the quality of governance and per capita income for 197 countries. Bi-directional causality was as well found by the authors.

Regarding Africa in particular, Al Bassam (2013) shows support for the argument that institutions of political representation and accountability determine the level of political and economic

development in the continent. Aikins(2009); Reinhart and Rogoff (2009) also suggest that policy response should be based on an effective and efficient governing system to promote sustainable development in Africa. Gray andKhan (2010) find that the provision of adequate public goods and the possibility of good socio-economic conditions arethe key elements of the developmental role of improved governance. On the other hand, Fagbemi et al. (2020) state that governance quality contributes to the level of poverty in Nigeria. However, ACBF (2017) confirms that so far there seems to be no consensus on the development of an optimal strategy fundamental to proffering a lasting remedy to Africa’s poor governance menace. Hence, the above review opens up the ground for a further investigation as the need to explain how African governance systemaffects the continent’s socioeconomic state becomes imperative.The argument that the pervasive socioeconomic crisis in Africa could be significantly determined by the level of governance in Africa remains a subject of debate.

3. Methodology

3.1. Theoretical framework

Solow model and new growth theory can directly or indirectly elucidate the improvement in economic performance resulting from high institutional quality in the global economy.The explanation for this assertion is given as:

On the Solow model, a rise in the availability of technology through improved quality of governance could contribute to the Solow model.It is plausible that any form of poor governance can adversely affect citizens’ psychological state or mental health as well as their productivity.For example, the irregular political changes can lead to an uncertainty for investors, and thus cause decreased economic growth. Consequently, in both the short-run and the long-run, many negative effects may surface in the economy (Feng, 1997).However, with the mitigationof the country’s risk, and offering of goodand consistent policy measures by the new government which can guarantee the creation of a better environment for local and foreign investors, major government changes may result in increased economic growth. In this context, the stability of a political environment stimulates an increase in both human and physical capital accumulation, thereby inducing the growth trajectory positively (Younis et al., 2008). In another argument, to properly enforce contract, safeguard of law andorder, and for market expansion to

attain sustainable economic growth, democracy and political freedom are recognized as the prerequisites (Sirowy and Inkeles, 1990). In contrast, the operation of an authoritarian system, with the limited capacity of a centrally controlled system which encourages tendency for corruption and resource waste, negatively affects enterprise development (Sirowy and Inkeles, 1990)⁴. In view of these prepositions, it can be reasonably assumed that good governance eliminates the physical and mental constraints associated with bad governing systems, and thus improves labour productivity. In addition, improved institutional quality offers a conducive environment to both local and foreign investors. Arguably, the increased investment is brought about by improved institutions which could be in form of physical and human development. Through the learning process, human capital development (it is closely related to improved socioeconomic condition), which entails knowledge and skills acquired by individual workers results in increased output per worker (Romer, 2001). On the other hand, compared with the initial condition, increased investments in the physical capital causes a rise in capital per worker. Through the process of capital accumulation, it is plausible that economic growth will be eventually enhanced (Romer, 2001).

Regarding new growth theory, technology is identified as the harbinger of economic growth (Romer, 2001; Mankiw and Ball, 2011). Under this condition, a rise in technological progress occurs in addition to the rate of knowledge accumulation. In this argument, knowledge is generated by research and development (Romer, 2001). It can, therefore, be argued that sound institutions in form of the proper enforcement of property rights will stimulate investment in research and development, thereby leading to increased knowledge accumulation and productivity. Overall, it can be established that good governance may offer a conducive economic condition for technological enhancement, in relation to human and physical capital formation which is fundamental to socioeconomic development.

3.2. Conceptual analysis of the interconnections between socioeconomic condition and governance

In Figure 1, the possible interconnections between socioeconomic condition and governance quality is presented in a conceptual form. It is assumed that good governance will result in the

⁴ For detailed discussion on three main schools of thought (such as conflict perspective, the compatibility perspective and the skeptical perspective) about how democracy impacts economic performance, see Sirowy and Inkeles, (1990); Feng, (1997); Younis et al., (2008).

entrenchment of a conducive business environment, which can give rise to proper contract or copyright enforcement; and market expansion. Consequently, this could engender the promotion of research and development with the increased public investment in infrastructure in the economy, and thereby resulting in improved human and capital accumulation. The improvement in the level of workers’ skills, coupled with enhanced technologies, would lead to increased productivity, and hence improved aggregate economic performance. Based on the previous section as the economic performance improved, socioeconomic condition is likely to improve as well, which in turn potentially stimulates the quality of governance. However, these propositions could only be tenable if efficient public spending was maintained (IMF, 2015) — as countries tackle the 2030 SDG agenda, increasing efficiency seems critical to ensuring good outcomes. Hence, the effective mitigation of poor governance risks along the socioeconomic cycle that involves a proactive approach towards addressing the perceived weak quality of institutions is viewed to be the major preconditions for a functional governance-socioeconomic improvement framework (IMF, 2014).

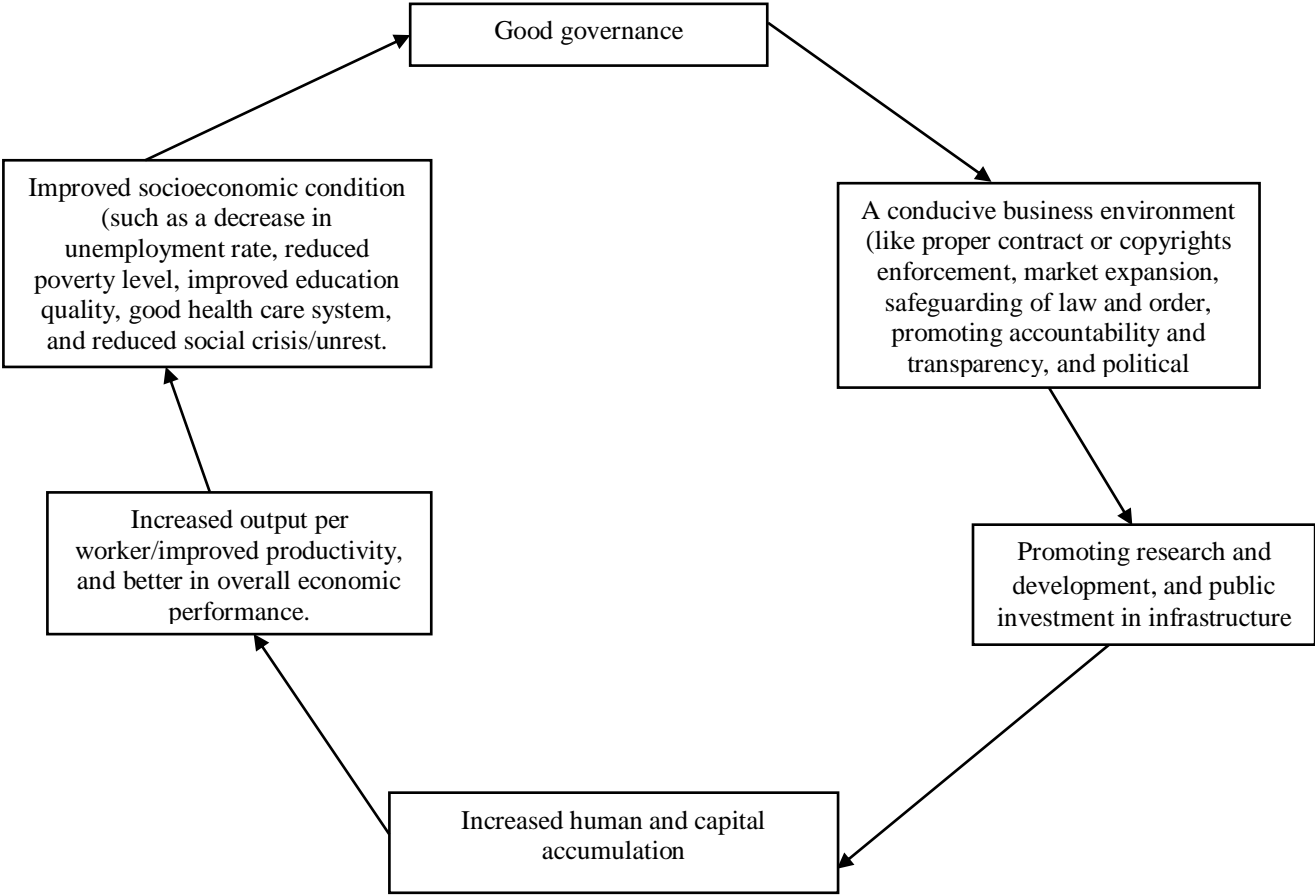


Figure 1. Interconnections between Governance – socioeconomic development in SSA
Source: Authors' computation

This analysis is anchored on the Public Investment Management Assessment (PIMA) framework developed by IMF to assist countries in terms of how to strengthen critical infrastructure governance areas. The PIMA provides a holistic diagnostic tool for measuring the state of the infrastructure governance across countries with the assessment of economic development levels. In a macroeconomically sustainable pattern, this framework stresses that public investment promotes growth. It identifies areas governments can focus (including the strengthening of institutional quality) to ensure better spending on public investment so as to have improved socioeconomic condition. PIMAs adopts a systematic procedure to assessing governance that helps countries to measure and benchmark their institutional practices against peers. Following IMF (2018), from a macro perspective, three key stages are considered critical for effective institutional process: sustainable investment planning; right allocation of investment; and ensuring that projects are implemented on time and done within budget. Links between governance and socioeconomic condition point to the significance of having strong institutions for the enhancement of public investment that will guarantee improved social welfare, and in turnover all development in the economy. The pervasive weak governance structures in SSA, therefore, may pose a great challenge to the region's socioeconomic development efforts.

3.3. Econometric techniques and data source

In view of the fact that socio-economic development indicators could be dynamic in nature, while explanatory variables could jointly determine socioeconomic conditions, suggesting that endogeneity of the independent series needs to be controlled for. Given this condition, the suitable estimation method to adopt, for dynamic panel data model, is System-Generalized Method of Moments (GMM) estimator proposed by Arellano and Bover (1995); Blundell and Bond (1998). This technique takes into account country-specific effects as well as possible endogeneity of the explanatory variables. To deal with endogeneity, instruments based on lagged values of the independent variables are used. A model involving lagged dependent variables among the regressors ought to be taken for the dynamic nature of the socioeconomic indicator. In the study, for the dependent variable one lag period is adopted:

$$SOC_{it} = \gamma SOC_{it-1} + \beta_1 GOV_{it} + \beta_2 X_{it} + \vartheta_{it} \quad (1)$$

Where γ is a scalar. It is assumed that ϑ follows a one-way error component model: X_{it} denotes the vector of control variables: GDP per capita, domestic credit to private sector (% of GDP), and foreign direct investment, net inflows (% of GDP). In the study, SOC represents socioeconomic indicators, which include socioeconomic condition (SOCD) variable of the International Country Risk Guide (ICRG) and income per capita (INC). GOV denotes governance indicators — political stability, and voice and accountability.

$$\vartheta_{it} = \mu_i + v_{it} \quad (2)$$

For which $\mu_i \sim IID(0, \sigma^2_\mu)$ & $v_{it} \sim IID(0, \sigma^2_v)$ seem to be independent of one another and among themselves. Since $SOC_{it} = f(\mu_i)$, likewise $SOC_{it-1} = f(\mu_i)$. Hence, SOC_{it-1} is correlated with error term. Under this condition, ordinary least square estimator seems to be biased and inconsistent. With System-GMM, the first difference transformation eliminates the possible individual effect. This method operates in this form: taking the first differences of Eq. (1), and generalizing to an equation containing lagged dependent as the regressor, it thus leads to:

$$\Delta SOC_{it} = \gamma \Delta SOC_{it-1} + \beta_1 \Delta GOV_{it} + \Delta \beta_2 X_{it} + \Delta \vartheta_{it} \quad (3)$$

Where $\Delta SOC_{it} = SOC_{it} - SOC_{it-1}$. First differencing wipes out country-specific effects, but in terms of construction, it results in association between the differenced lagged socioeconomic development variable and differenced error term. Consequently, lagged levels of the independent series, with the incorporation of lagged dependent variable as instruments, are employed for the analysis. This technique (System-GMM) considers to be more consistent and efficient, as the lagged levels of explanatory variables are valid instruments for differenced independent variables. For example, Windmeijer (2005) argues that, considering the asymptotic standard errors, System-GMM estimator performs much better than other panel estimation techniques. In addition, to enhance the robustness of the estimated results, Panel-Corrected Standard Error' (PCSE) Estimation is adopted. Both techniques (System-GMM & PCSE) are good for the study, since time periods (T) is less, compared to the number of Cross-section (N). It can also be argued that the appropriateness of PCSE is ensured when disturbances give serial and contemporaneous correlation simultaneously, this approach offers better and efficient estimated outcomes (Parks, 1967). Panel – Corrected Standard Error Estimation (PCSE), therefore, gives more reliable results

compared to panel regression analysis (such as OLS, random and fixed effect estimations), since they are highly susceptible to possible endogeneity and simultaneity issue that are common features of most independent variables which has often resulted in bias and inconsistent estimates (Deaton, 1995).

Given the importance of knowing the causal direction, Granger causality test is explored within the framework of panel vector autoregressive model based on Toda and Yamamoto (1995); and Dolado and Lütkepohl (1996) using the following set of equations:

$$\Delta SOC_{it} = \sum_{k=1}^p \alpha_{1j} \Delta SOC_{it} + \sum_{k=1}^p \alpha_{2k} \Delta GOV_{it-k} + \Delta u_{1it} \quad (4)$$

$$\Delta GOV_{it} = \sum_{k=1}^p \beta_{1j} \Delta GOV_{it-k} + \sum_{k=1}^p \beta_{2k} \Delta SOC_{it-k} + \Delta u_{2it} \quad (5)$$

Where Δ denotes the first difference operator, whereas SOC_{it} , GOV_{it} and u_{it} stand for socioeconomic indicator, governance indicator and error term, respectively. Similarly, $k=1$ represents the minimum lag length selection starts from 1, while p indicates the maximum lag selected for the estimation. Also, the error terms of the transformed equations (4) and (5) satisfy the conditions of orthogonality. The analysis involves two models. Since the governance indicators could be highly corrected, two different model would be used. Model (1) is for the inclusion of voice and accountability only, while political stability is incorporated in model (2). This is done to avoid multicollinearity problem, and also to ascertain their respective effects on socioeconomic conditions in Africa.

Regarding data used, the study covers period 2005 - 2019 for 25 SSA countries. The scope and number of countries considered are largely determined by data availability. On the control variable selected, GDP per capita is incorporated in the model based on Ehigiamusoe and Lean (2019) which indicate that human capital development could be influenced by the variable. Domestic credit to private sector (% of GDP) is also included following the assertion that financial sector development is critical to human capital development (Odhiambo, 2009; Quartey, 2008). Lastly, foreign direct investment, net inflows (% of GDP) is chosen as the variable has been considered significant to economic development in the literature (Kheng et al.,

2016; Zhuang, 2017; Fagbemi and Osinubi, 2020). The description and sources of data employed a stated in Table 1.

Table 1. Description and measurement of data

Variable	Code	Description and measurement	Source
Socioeconomic condition	SOCD	This is an assessment of the socioeconomic pressures at work in society that could constrain government action or fuel social dissatisfaction. The risk rating assigned is the sum of three subcomponents (unemployment, consumer confidence, and poverty), each with a maximum score of four points and a minimum score of 0 points. A score of 4 points equates to very low risk and a score of 0 points to very high risk — 12 Points.	International Country Risk Guide (ICRG, 2019)
Income per capita (PPP)	INC	This indicator provides per capita values for gross domestic product (GDP) expressed in current international dollars converted by purchasing power parity (PPP) conversion factor.	World development indicator (World Bank, 2020)
Political stability	POL	It measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism. It is rated on a scale as appropriate -2.5 to +2.5.	World Governance Indicators (Kaufmann, et al., 2010)
Voice and accountability	ACC	It represents the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. It is rated on a scale as appropriate -2.5 to +2.5	World Governance Indicators (Kaufmann, et al., 2010)
GDP per capita	GDP	It is the sum of gross value added by all resident producers in the economy in addition to any product taxes and minus any subsidies not included in the value of the products. It is measured without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.	World development indicator (World Bank, 2020)
Foreign direct investment, net inflows (% of GDP)	FDI	It represents net inflows — new investment inflows less disinvestment — in the reporting economy from external (foreign) investors (% of GDP).	World development indicator (World Bank, 2020)
Domestic credit to private sector (% of GDP)	DCP	It refers to financial resources provided to the private sector by financial corporations, such as through loans, purchases of nonequity securities, and trade credits and other accounts receivable, that establish a claim for repayment.	World development indicator (World Bank, 2020)

4. Results and discussion

4.1. Descriptive statistics

Given the summary statistics in Table 2, specific features of the variables are known. It is indicated that the mean (average) value of socioeconomic conditions is 3.15, and income per capita is 3667.13 USD in the selected SSA countries, whereas voice and accountability, and political stability are -0.78 and 1.00, respectively. These mean values reflect poor socioeconomic conditions and weak quality of institutions in the region. GDP has the highest mean value of 1853.79 USD, and also the highest fluctuation rate at 2410.66 (i.e. standard deviation). The minimum values of socioeconomic conditions, income per capita, voice and accountability, and political stability are 1.00, 518.84, -1.47 and -2.70, respectively, while their respective maximum values are 6.00, 17260.46, 0.65 and 1.10. All the variables have significant probability values, suggesting the potentiality of having robust estimated outcomes. Regarding correlation matrix presented in Table 3, the variables are directly correlated with one another, with the exemption of foreign direct investment (FDI) and domestic credit to private sector (DCP) which are indirectly correlated with each other. This shows the possible direction of correlation among the variables.

Table 2. Summary statistics

	SOCD	INC	ACC	POL	GDP	FDI	DCP
Mean	3.15	3667.13	-0.78	-1.00	1853.79	5.91	20.25
Median	3.00	2083.49	-1.02	-1.43	784.04	2.72	13.48
Maximum	6.00	17260.46	0.65	1.10	9675.43	103.34	160.13
Minimum	1.00	518.84	-1.47	-2.70	300.56	-6.06	1.20
Std. Dev.	1.05	4071.12	0.52	1.08	2410.66	11.42	28.12
Skewness	0.49	1.95	1.00	0.42	2.08	5.40	3.95
Kurtosis	2.83	5.55	3.05	1.93	5.95	37.90	18.19
Jarque-Bera	12.47	275.78	50.79	23.64	330.22	16965.92	3725.33
Probability	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sum	960.84	1118473	-236.33	-305.04	565406.9	1801.79	6176.23
Sum Sq. Dev.	334.86	5.04	83.24	352.39	1.77	39629.94	240362.50
Observations	305	305	305	305	305	305	305

SOCD is socioeconomic condition variable; INC is Income per capita; ACC is voice and accountability; POL is Political stability; GDP per capita; FDI is foreign direct investment; DCP is Domestic credit to private sector.

Table 3. Correlation matrix

	SOCD	INC	ACC	POL	GDP	FDI	DCP
SOCD	1.00						
INC	0.55	1.00					
ACC	0.29	0.46	1.00				
POL	0.47	0.53	0.56	1.00			
GDP	0.51	0.15	0.46	0.50	1.00		
FDI	0.08	0.12	0.11	0.09	0.09	1.00	
DCP	0.30	0.46	0.61	0.27	0.50	-0.09	1.00

4.2. Analysis of the preliminary test (unit root and diagnostic test)

Before starting the analysis of the model, a set of unit root tests was generated to ascertain the order of integration of the series. Since Levin and Lin (LL) requires balanced panel as well as independently generated time series, and as for practical purposes, LL alternative hypothesis is overly restrictive, Im, Pesaran, and Shin (IPS) was considered for the study, which is less restrictive and more suitable. Furthermore, following Maddala and Wu (1999), ADF, Fisher and Phillips–Perron Fisher unit root tests were equally conducted. Based on the tests presented in Table 4, none of the variables is found to be I (2) or above, but I (0) and I (1). This indicates that the used variables are appropriate for the study. On the diagnostic test, the test for cross-dependence (Pesaran, 2004) was carried out as well as Heteroskedasticity test. Both tests satisfy the required condition that there should be the absence of serial correlation and Heteroskedasticity. Regarding System-GMM, Arrelano-Bond test for the second order serial correlation shows that there is no second order serial correlation, while the number of instruments is lower than the number of observations. The test of overidentifying restrictions (Sargan test) also indicates the validity of the instruments in the model. Overall, these tests validate the rule of thumb and the robustness of the estimates.

Table 4. Results of the panel unit root test

Variable	Im, Pesaran and Shin (W-stat)	ADF Fisher (Choi Z-stat)	Phillips – Perron Fisher (Choi Z-stat)
SOC			
Level	-0.02	-0.04	-0.86
First difference	-11.61***	-11.26***	-16.03***
ICN			
Level	6.44	6.10	5.03
First difference	-7.20***	-6.92***	-7.20***
ACC			
Level	-7.46**	9.10**	-10.57**
First difference	—	—	—
POL			
Level	-14.51***	1.89	2.91
First difference	—	-12.34***	-13.92***
GDP			
Level	-7.26***	-6.49***	-7.06***
First difference	—	—	—
FDI			
Level	1.32	1.33	2.16
First difference	-11.96***	-13.38***	-12.05***
DCP			
Level	2.47	4.81	1.37
First difference	-16.11**	-13.98***	-14.19***

** & *** indicate the level of significance at 5% and 1 % respectively.

4.3. Panel – Corrected (PCSE) and System-GMM estimations

In table 5, it is found that both governance quality indicators (ACC and POL) are positive and significant across models, suggesting that institutional quality is by far the key driver of socioeconomic conditions (SOCED and INC). These results confirm that better governance quality could promote improved socioeconomic conditions — emphasizing the need for stronger institutions for improved socioeconomic state. Promoting accountability and ensuring stable political system can result in the betterment of the standard of living, pointing out that regions or countries with lower governance quality could have a bigger and more challenging socioeconomic crisis. Findings, indeed, show that higher governance quality could engender a high-quality socioeconomic development effect in Africa. This assertion can be corroborated by “spending effect hypothesis”. Based on Entelis (1976), to improve the living condition of the people, government may make the use of resources to be more efficient by ensuring sustainable spending on critical needs of the citizens, thereby reducing pressures for promoting improved welfare practices. Under PCSE and System-GMM, evidence explains the fact that many African countries continue to experience poor socioeconomic conditions due to lack of democratic accountability and instability of governance, buttressing the argument that a continent (like Africa) beset with problems of governance is likely to experience the paucity of social service provision considered instrumental to well-being (ACBF, 2017). Since examples of weak governance abound in almost all African countries, to enhance socioeconomic challenge remains a critical issue (the need to stimulate improved socioeconomic condition is persistently pressing, while the means to effect the needed change through governance is limited due to efficiency gap). In this context, these results corroborate the argument that institutions of political representation and accountability could be a strong determinant of the level of socioeconomic development in SSA (Fayissa and Nsiah, 2013; AlBassam, 2013; Al Mamun et al., 2017; Gray and Khan, 2010).

Regarding control variables, results indicate that GDP & DCP, under the two techniques (PCSE & GMM), positively and significantly influence socioeconomic conditions including income per capita, while FDI, although the estimates are positive, is found to be only significant under PCSE. The insignificance of *FDI* under GMM could be as a result of inadequate FDI inflows or misallocation of foreign capital inflows in some countries (Fagbemi and Osinubi, 2020). The direction of the relationship between the control variables (real per capita GDP, domestic credit to private sector, and foreign direct investment) and socioeconomic conditions is similar to the

anticipated outcome. This suggests that improved wellbeing of Africans could be driven by these variables (GDP, DCP and FDI). In accordance with the argument that improving economic performance can result in the betterment of the living conditions of the citizens (Ehigiamusoe and Lean, 2019) has been further established by the study. Furthermore, increased access to credit in the economy can stimulate business activities and thereby leads to improved human capital development which is in line with previous estimates —Odhiambo (2009); Quartey (2008), while increasing FDI inflows can catalyze accelerated socioeconomic development in the SSA region. Indeed, these findings point to the significance of raising the efficiency and effectiveness of these variables — both governance quality indicators and control variables.

Table 5. Panel – Corrected (PCSE) and System-GMM

	Panel – corrected (PCSE)				GMM estimation			
	Model 1	Model 2	Model 3	Model 4	Model 1	Model 2	Model 3	Model 4
SOCD (lag)					0.67*** [10.79]	0.65*** [11.08]		
INC (lag)							0.54*** [7.91]	0.61*** [6.01]
ACC	0.03*** [4.81]		0.11** [3.14]		0.06** [3.12]		0.21** [3.22]	
POL		0.01*** [5.26]		0.13** [3.11]		0.05** [2.85]		0.41*** [4.21]
GDP	0.13** [2.58]	0.05* [1.69]	0.12** [3.01]	0.22*** [5.04]	0.01*** [5.62]	0.05** [2.87]	0.17*** [4.11]	0.25** [2.96]
FDI	0.01* [2.34]	0.11* [1.88]	0.13 [1.15]	0.21 [0.88]	1.02 [0.19]	0.06 [0.11]	0.01 [0.17]	0.10 [0.61]
DCP	0.21** [2.15]	0.13** [2.71]	0.41* [1.55]	0.23** [2.52]	0.04** [3.27]	0.01** [3.11]	0.19* [1.56]	0.23* [1.51]
Constant	0.04 [0.11]	0.22 [0.71]	0.12* [1.66]	0.20** [2.53]	0.37** [3.22]	1.21** [2.91]	0.13* [1.58]	0.17** [2.01]
R2	0.56	0.54						
Observations	305	305	305	305	257	257	257	257
No. of countries	25	25	25	25	25	25	25	25
Diagnostic test								
Pesaran CD	0.29	0.42	0.13	0.25				
Heteroscedasticity	0.21	0.35	0.42	0.33				
A – Bond AR(1)					-5.21 (0.00)	-5.18 (0.00)	-4.97 (0.00)	-5.32 (0.00)
A – Bond AR(2)					-1.03 (0.13)	-1.05 (0.28)	-1.12 (0.31)	-1.22 (0.33)
Sargan test					46.21 (0.31)	49.17 (0.14)	47.02 (0.34)	49.01 (0.23)

Figures in parentheses are t-values. (***), (**) & (*) indicate significance at 1%, 5% and 10% respectively. Model (1) & (2) are for the socioeconomic condition variable with the inclusion of ACC & POL as the independent variables respectively, whereas Model 3 & 4 are for income per capita with the inclusion of ACC & POL as the explanatory variables accordingly..

4.4. Panel causality test

In this section, in order to identify and further understand the instrumental interconnections between governance quality and socioeconomic condition in SSA context, panel causality test is reported in Table 6. It is shown that both institutional quality indicators (ACC & POL) Granger cause socioeconomic indicators used (SOCD & INC). Similarly, causation also holds in the opposite direction, suggesting that bidirectional causality exists between socioeconomic condition and governance quality. These results reveal that the state of governance (either weak or strong) could play a key role in triggering serious socioeconomic crises. On the other hand, good socioeconomic conditions could enhance public sector performance through improving efficiency and productivity, thereby stimulating governance effectiveness. This argument is line with findings of Chong & Calderon (2000); Emara and Jhonsa (2014) who contend that governance quality and socioeconomic conditions are mutually reinforcing. These findings are also buttressed by PIMA framework which explains how governance can be strengthened to enhance public investment in infrastructure, and in turn stimulates overall economic performance.

Table 6. The Summary of the panel causality test

Causality	Wald Test	Inference of Causality
SOCD → ACC	4.11** (0.03)	Yes
SOCD → POL	5.41** (0.01)	Yes
INC → ACC	4.32** (0.02)	Yes
INC → POL	5.78** (0.02)	Yes
ACC → SOCD	9.20*** (0.00)	Yes
POL → SOCD	11.15*** (0.00)	Yes
ACC → INC	8.01*** (0.00)	Yes
POL → INC	6.57** (0.01)	Yes

Notes: Where → indicates direction of causality. *** & ** indicate 1% & 5% significance level, respectively.

In sum, findings suggest that voice and accountability, and political stability are important for the improvement of socioeconomic condition in Africa. It explains that in countries with stronger governance, citizens could enjoy a better living condition, while in countries with weaker governance, citizens might experience serious ill-being. These results are important and reasonable, as they are critical to strengthening an understanding of the impact of governance on socioeconomic conditions in Africa. Take, for example, where governance deficiencies affect the allocation and implementation of social and physical projects, resulting in misallocation and poor

implementation would also impede the delivery and impact of such projects. Hence, governance problems besetting many African countries could be responsible for the continent's socioeconomic condition.

5. Conclusions

Given that the quality of governance plays a critical role in determining the state of socioeconomic condition across countries, the study examines the interconnections between governance and African socioeconomic conditions. With a focus on 25 countries in the continent, the analysis is based on Panel – Corrected (PCSE) and System-GMM estimations, while the causal direction is also established. Two governance indicators were used (voice and accountability, and political stability) with socioeconomic condition variable. To ensure a robust process, some control variables were also included. The following countries are considered in the study; Angola, Botswana, Burkina Faso, Cameroon, Congo, Congo DR, Cote d'Ivoire, Gabon, Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Liberia, Malawi, Mali, Mozambique, Niger, Nigeria, Senegal, Sierra Leone, South Africa, Tanzania, Togo and Uganda.

Challenges facing African countries on the issue of socioeconomic development have further been identified as critical to strengthening the inherent link between governance and socioeconomic condition. Based on the analysis, SSA seems not to have the means of effective governance to seriously spur improved social welfare. An effective state that can effectively manage its affairs and implement the policies which it may be devised has been compromised by the quality of governance. The study establishes that the pervasiveness of institutional problems in many African countries has been responsible for the poor socioeconomic condition in the continent. Indeed, findings indicate that bad governance results in ill-being or poor living condition across countries. The strong nexus found between institutional quality and socioeconomic conditions has made the relevance of good governance in enhancing citizens' well-being to gain further traction. In this context, the paucity of social service provision could be exacerbated by bad governance. For this reason, sustainable socioeconomic development depends on the quality of governance (SAIIA, 2009). Hence, understanding African major challenges is of utmost importance for addressing the issue of governance for African development. The study's findings, therefore, identify SSA governance problems as a big challenge to the development of the region's socioeconomic condition. Meaningful development

outcome could be difficult to attain with the pervasiveness of political instability and lack of transparency and accountability across SSA countries.

Furthermore, it is equally found that governance quality and socioeconomic condition are mutually reinforcing, suggesting that they influence each other. An improvement in socioeconomic condition could result in better governance and vice versa. Socio-economic system is, thus, fundamental to the developmental role of good governance. On the other hand, the quality of governance is viewed as a vital ingredient in achieving needed development outcomes. Thus, it is suggested that there is need for African countries to streamline governing system towards engendering improved socioeconomic condition. The introduction and implementation of transformative policies through effective governance are also necessary for ensuring critical structural changes and increased social service provision, and there should be a proactive identification of ineffective policies and procedures by policymakers to enhance meaningful impact. Moreover, in order to rebuild and strengthen trust and promote discipline in public institutions for better performance, countries must implement sound governance reforms. Unless these recommendations are taken into consideration, global worst socioeconomic condition may be increasingly African.

This study has indeed covered how socioeconomic condition is influenced by governance quality in SSA. However, while the data on governance indicators based on governance index from the World Governance Indicators (WGI) developed by Kaufmann et al. (2010) were employed, there are other sources of governance data (such as Freedom House index of political rights, the ICRG Political Risk index, or the Polity index). Although, to the best of our knowledge, data from WGI seem to be the most reliable, alternative governance data from other sources could be used by further research in this area. This will help broaden the literature on the governance-socioeconomic development linkage. In addition, employing some other relevant estimation techniques to provide additional evidence to the literature are necessary for the advancement of good governance in Africa.

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