

**THE RELATIONSHIP BETWEEN GOVERNANCE AND ECONOMIC GROWTH IN
INTERGOVERNMENTAL AUTHORITY ON DEVELOPMENT MEMBER STATES**

BY

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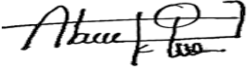
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**A RESEARCH REPORT SUBMITTED IN PARTIAL
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NAIROBI.**

MARCH 28, 2022


DECLARATION

This research project is my original work and it has not been submitted to any university or college for examination.

Signed... 

Date: 28/03/2022

This research project has been submitted for examination with my authority and approval as the university supervisor.

Signed: 

Date: 28th March, 2022

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DEDICATION

I hereby dedicate this work to Allah, who without his assistance, this work was have not even made, second to my lovely parent; to my mother **Maryam Abdullahi Said** and My father **Abdirashid Muse Osman** for their patience, kindness and support during my life and in completion of this thesis.

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Lastly, I'd want to express my gratitude to my family for providing me drive to continue my education. My uncles Ali Abdullahi Said and Ismael Said Ali for taking care of my schooling, my brothers Zaki Abdirashid Muse and Yahye Abdirashid Muse for their support contribution. I shall for ever be thankful.

The ideas represented in this research are exclusively mine, and I am fully responsible for any mistake(s) and/or omission(s) that may have occurred.

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ABBREVIATIONS AND ACRONYMS

GCF	-	Gross Capital Formation
GDP	-	Gross Domestic Product
GFCE	-	Government Final Consumption Expenditure
HDI	-	Human Development Index
HOA	-	Horn of Africa
IGAD	-	Inter-Governmental Authority for Development
IMF	-	International Monetary Fund
IOs	-	International Organizations
ROI	-	Return on Investment
UNESCAP	-	United Nations Economic and Social Commission for Asia and the Pacific

ABSTRACT

Bretton Woods system of monetary management which include international organizations such as the United Nations, the International Monetary Fund, and the World Bank, among others continue to promote robust economic growth practices through effective public governance. Governance is at the center stage for the attainment of economic prosperity thus having gained great attention from different players globally. To that end, this study seeks to examine the link between institutional (governance) quality and economic growth among the IGAD member countries. Moreover, the study seeks to investigate whether there exists a link between varied macroeconomic factors and economic growth in these IGAD member countries.

The study employed panel data spanning between 1996 to 2020 and utilized the panel estimation technique to estimate the variables of interest. The study findings found that governance has a positive effect on economic growth although some governance indicators showed a negative effect on economic growth. Unemployment rate, voice and accountability, political stability, and government effectiveness variables were statistically insignificant. On the other hand, regulatory quality, control of corruption, rule of law, gross capital fixed formation, and population growth variables were statistically significant. However, control of corruption had a negative influence on economic growth. Lastly, population growth rate had a strong but negative relationship on economic growth in these IGAD countries.

The study suggests that government officials, policymakers, lawmakers, and other players should prioritize on strengthening institutional quality in order to stimulate economic growth. Moreover, they should strengthen the governance aspects mainly entailing; voice and accountability, political stability, efficiency in government, quality of regulation, the rule of law, and corruption control. Key macroeconomic factors should be accorded a priority so as to achieve economic growth. These involve regulating population growth rates by instituting birth control and family planning campaigns. Finally, capital stock formation through savings and Foreign Direct Investment is critical for realizing economic growth.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Although there is not any agreement on defining governance, analysts feel that more Non-Governmental Organizations (NGOs) are involved in policy and decision-making (Salahodjaev, 2015). Governance refers to the complete process through which public authorities and organizations get and exercise their authority to establish policies and deliver public services and products. It includes the acquisition and exercise of power by public authorities and organizations. Governance is the quality and responsiveness of the relationships between people and governments and the efficiency, honesty, and overall quality of the connections and services (Ramadhan et al., 2016). Similarly, Pere (2015) defined governance as the determination and decision-making processes that implement or fail to accomplish.

Governance has replaced traditional management practices. When making a traditional decision, the government has more power than the rest of the world (World Bank, 2016a). However, in power, policy-making processes are involved in other government institutions, including civil society and the commercial sector (World Bank, 2016b). Thus, in governance, there are numerous instead of the government being the lone player in the management of national affairs (Tharanga, 2018). According to International Organizations (IOs, good governance), has a positive effect on the quality of government operations, service delivery to citizens, and implementation of projects (Agagu, 2014). Although scholars and policymakers have contested the utility of IO's introduced good governance qualities as a quality metric, they have undoubtedly garnered credit between IOs and, more crucially, among academic researchers (Iheanacho, 2014). These attributes also play an essential role in allowing international loan givers or direct assistance to those countries in need under numerous circumstances (Adefeso & Abioro, 2016).

UNESCAP (2009) has set as a global benchmark for assistance recipients components of good governance which states that good governance comprises eight core aspects: participatory, consensus-based, responsible, transparent, responsive, effective, fair and inclusivity in line with the rule of law. IOs and beneficiary countries often use these criteria to measure how their governments improve governance (Mimicopoulos, Kyj & Sormani, 2007). The governance characteristics of these studies include language and accountability, policy stability, public efficiency, regulatory quality, law, and corruption management. The Global Bank Indicators

on Governance (WGI) include indicators from six main areas of governance. The six governance indicators are based on more than 30 underlying data sources that provide information on a large number of survey respondents' management impressions and expert opinions from around the world, resulting in a comprehensive picture of governance.

The World Bank built composite indicators summarized under six headings: Voice and accountability which measures tendencies of political process, civil liberties, political rights and independence of the media. The responsibility is that of citizens who participate in political life through elections and public decisions. Political instability and violence measure the perception of a possible destabilization of the political regime through elections or violence. Further, Government effectiveness measures the perception of the quality of public service or public administration. This index assesses the perception of the government's credibility through the trust given to its administration.

Rule of Law measures the perception of citizens of the rules that structure society and the degree of compliance with these rules. The indicator measures the perception of the efficiency and fairness of the judicial system and respect for binding contracts and agreements. Moreover, quality control measures perceptions, which are favourable or unfavourable to a market economy, including anti-liberal interventionist policies, such as price controls, imports and exports, and the banking system. This index allows for the appraisal of the business climate for foreign investors, for example. Lastly, control of corruption measures perceptions of the use of public power in the pursuit of private gain (Kaufmann, Kraay & Mastruzzi, 2010). The WGI includes indicators for IGAD member states' governance (Kaufmann, Kraay & Mastruzzi, 2010). The WGI includes governance indicators for IGAD member states.

These indicators are rated on a scale as appropriate -2.5 to +2.5 or on a scale from 0 to 100. The lowest indicator is considered as the least favourable and above that figure the most favourable. The purpose of the construction of these indicators is to measure the evolution of good governance by country and implement a policy to improve these indices in order to ensure that improving good governance could reduce the failure of the state.

Economic growth is defined as a per capita rise in GDP or any measure of total income. The GDP rate change is commonly used to calculate it. The number of products and services generated alludes to economic growth. When economic growth is negative, the economy considers decreasing, often in recession and decline (Mira & Hammadache, 2017). Economic

growth is a significant monetary policy objective, and for all countries, it is a crucial macroeconomic objective (Otieno, 2015). According to Mosiori (2014), financial development is the expansion of the generation and use of goods and undertakings in the economy. Companies and individual savings growth can assist a country's economy flourish by implementing rules that stimulate the accumulation of investment money.

The per capita national income is the rise in total national output, typically referred to as GDP or other wage values, is known as monetary development, most commonly determined by the GDP growth rate. The economic advancement that can be favourable or negative only takes into account the goods and services created (Omoke, 2010). When the economy grows, it benefits a variety of stakeholders. Job creation, improved living standards, expanded product markets, and a variety of other advantages are just a few of the advantages (Ukah & Iheanacho; 2014).

GDP, GDP per capita, expenditure on household consumption, GCF (Gross Capital Foundation) and GOC (GFCE) are all used for quantifying economic growth (GFCE). The annual rise in these measures over the previous year is described as economic growth (Adefeso & Abioro, 2016). The current research will use annual per capita GDP growth to indicate economic growth.

Government and governance practice has been associated directly and indirectly with economic growth (Liu et al., 2016). International organizations, such as the United Nations, the International Monetary Fund, and the World Bank, promote effective economic growth through governance (World Bank, 2016a). Good governance is a technology to achieve economic growth and human development (World Bank, 2016b).

Researchers and scientists agree that economic growth is a significant part of sound administration, albeit whether good governance results in economic growth or proper governance is debatable (Liu et al., 2018). The typical theoretical perspective is that enhanced governance quality drives economic growth. Mirra and Hammadache (2017) argue that a robust governance scheme enables emerging countries, similar to rich countries, to achieve minimal economic growth and reforms. However, recent years have shown that there is higher economic growth in certain weak government countries. Notably, most countries have poor levels of governance since their governments are more focused on monetary expansion than on adoption and enhancement of good governance (Kaufman, Kraay, & Mastruzzi, 2010).

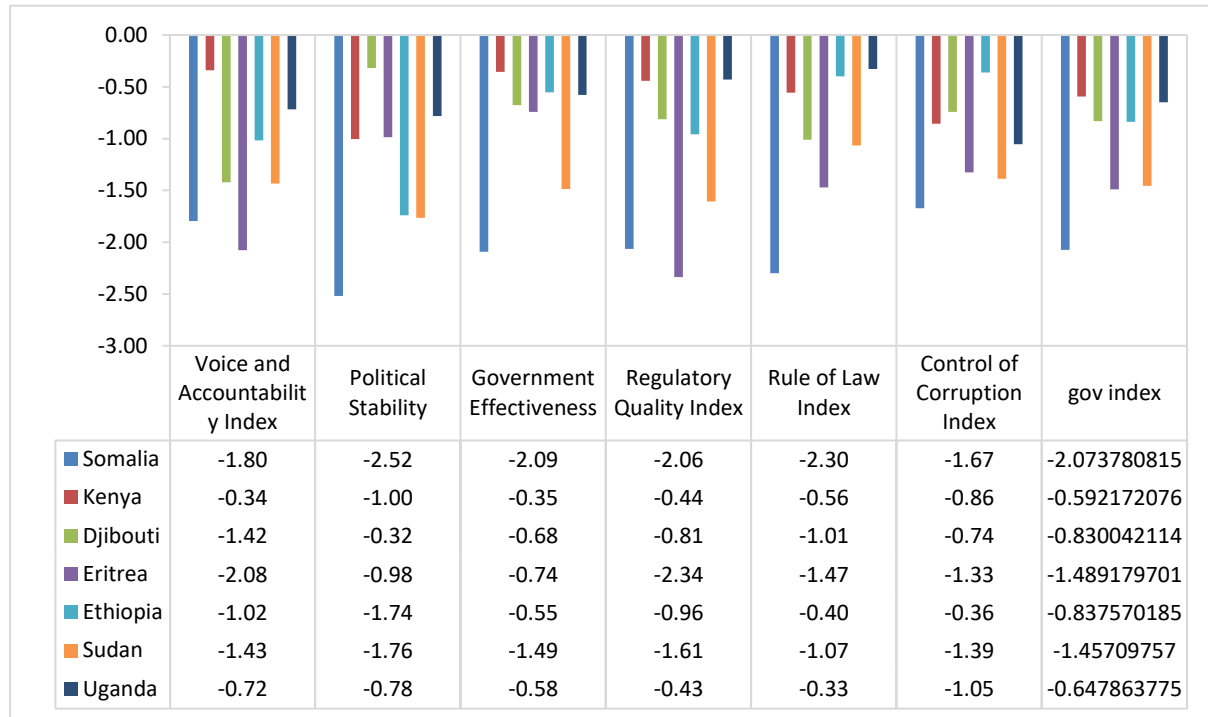
All international donors in nations or IOs such as the IMF and World Bank are committed to maximizing the use of economic help in the supporting countries. These funders employ good governance attributes specified by IO to evaluate the government's performance (Liu et al., 2013). Moreover, heterodox institutional economists say that rapid growth has notably differed from the governing capabilities of the governance model, based on case studies of rapid expansion throughout the past 50 years. States which have done most to converge with advanced countries have acquired and maintained high investment levels and implemented policies that encourage rapid acquisition and understanding of new technology (Shao, 2016).

Lv and Zhu (2016) suggested that the focus on governance reform is inappropriate at Africa's stage of evolution and that the challenges encountered by Africa in terms of development are a major challenge to the mainstream approach to good governance in Africa. Zheng (2016) endorsed this conclusion through empirical research, which shows that discrepancies in African nations' achievements are not explained by differing quality of governance, assessed by good governance standards, when their degree of development differs. The principal political conclusion is that Africa needs to focus on big drive based on aid-supported infrastructure and disease management investments. Zheng and Ying (2017) said however that while Zheng (2016) had rightly stressed the importance of a major push in Africa, their case for a strategy of this kind should be true for other low-performing developing world countries, the decreases in governance capacity in even Africa are probably erroneous.

The Inter-Governmental Authority on Development (IGAD) region covers over an area of 5.2 million km² and consists of the following countries; Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda (Byiers, 2016). Most of the IGAD Member States belong to the categorization of the world's Least Developed Countries (LDC). This is because the member states are low-income countries confronting severe structural impediments to sustainable development. However, the region has a wide range of Agro-Ecological Zones (AEZ) with rich biodiversity and diverse agricultural potential, which could turn the region into a breadbasket for Africa and other global countries if effectively cultivated and managed. It is against this setting that the IGAD member states have resorted in enhancing their regional co-operation in an effort to maximize the potential of the vast resources in the region and propel it to unprecedented economic growth levels (IMF, 2016). Marshalling the requisite resources for the implementation of development programmes at the national and regional levels is an enormous challenge for the IGAD region and its member states. The capability of the IGAD

region and its member states to handle the development challenges of the region single handedly without considerable external support is a contemplation that highlights the significance of regional integration and the justification of IGAD as a regional organization (Berhe, 2014).

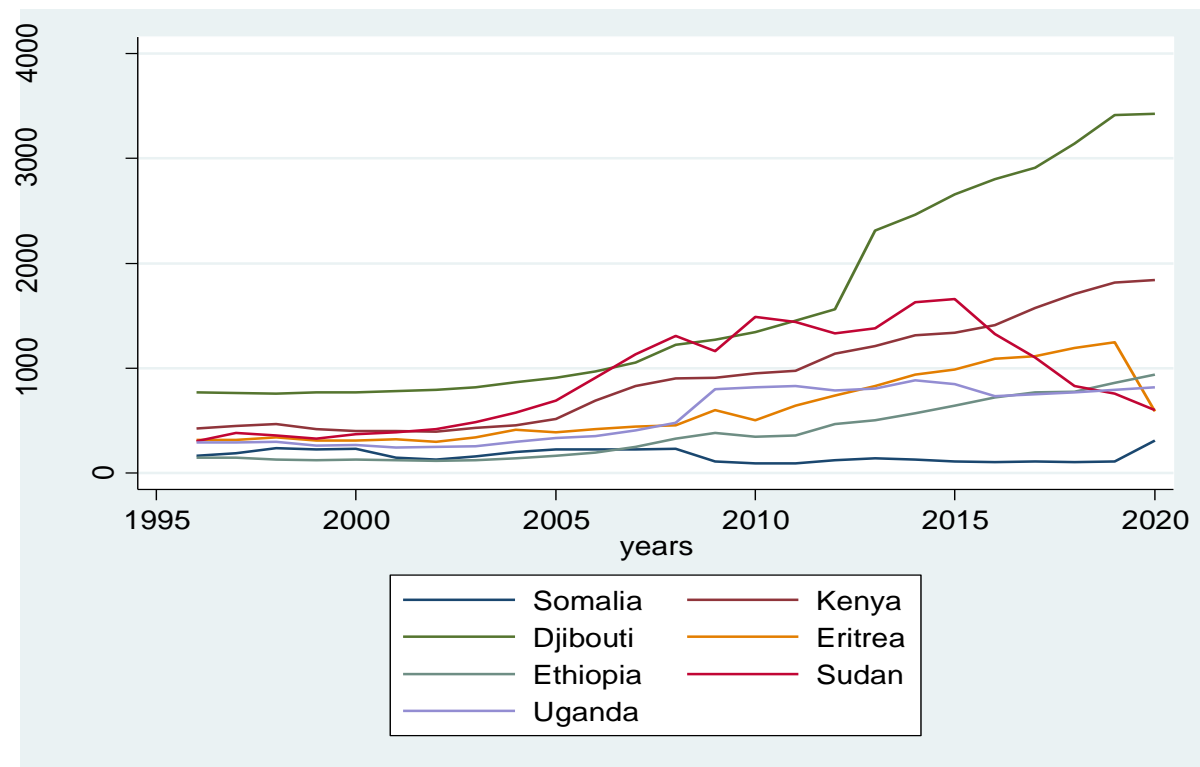
Figure 1.1: Governance Indicators in IGAD Member States for the Year 2020



Source: Researcher (2021)

The chart shows that the IGAD member states have low governance in which Somalia, Sudan, Eritrea, and Djibouti topped in the rank. Somalia ranked on average at -2.07, while Sudan at -1.76, likely because of the country's current political instability and acts of violence. On the other hand, Eritrea ranked at -1.48, Uganda at -0.64, and Kenya on average ranked at -0.592. Ethiopia has been confronted with several issues, including high violence and instability. The fight between the Tigrayan powers and the Ethiopian government continues.

Figure 1.2: Trends of GDP per capita for the Period 1996 – 20120



Source: Researcher (2021)

1.2 Problem Statement

Economic growth was directly and indirectly linked to the conduct of government. However, scientists and researchers believe that governance and leadership are significantly linked to economic growth, while there remain challenges to whether strong governance practices help economic growth. The IGAD nations' economic performance has been inconsistent during the review period. For example, Somali's growth rate has been low at 2.9% in the 2019, Eritrea was 3.8%, Sudan was -1.3% in 2019 because of political instability, over 2015-2019, Kenya's average annual growth rate has been 5.7 percent, despite the fact that it is one of the fastest growing economies in Sub-Saharan Africa. Most of the IGAD Member States belong to categorizing the world's Least Developed Countries (LDC). The seven member states are low-income countries confronting severe structural impediments to sustainable development. IGAD member states have routinely scored low on governance measures. Corruption, poor human rights records, lack of accountability and transparency in the public sector, and election misconducts.

Previous research studies have produced varied conclusions on governance's association with economic growth. Some empirical studies claim that economic growth linked to governance and leadership, either directly or indirectly, while some argue that economic prosperity leads to good governance. In addition, the relationship between per capita income and government was negative according to some empirical studies. The conflicting results illustrate the conceptual gap required to quantify government impact on economic growth in IGAD member states. Moreover, as no equivalent study in IGAD member states has been carried out, this presents a contextual gap that the current study can fill.

1.3 Objectives of the Study

The research aimed to relate the governance of IGAD member states with economic growth.

1.3.1 Specific Objectives

- i. To establish the relationship between institutional quality and economic growth in IGAD member states
- ii. To test the effect of macroeconomic variables on economic growth in IGAD member states.
- iii. To establish the policy implications from findings of the study.

1.4 Research Questions

- i. What is the relationship between institutional quality and economic growth in IGAD member states?
- ii. What is the relationship between macroeconomic variables on economic growth in IGAD member states?
- iii. What are the policy implications of the findings of the study?

1.5 Significance of the Study

This study will benefit many stakeholders from scholars, scientists, government agencies, international agencies and the corporate sector. The new study will greatly contribute to the current knowledge body and help to predict economic growth based on governance. Moreover, this study may be used by other scholars in future to reference their work. The study also contributes to the expansion of research activities and publications' width and quality. The study findings will help improve the information base on the studied parameters.

The findings of the research will be very useful in the design of policies. According to the present research, policymakers in the IGAD nations and government would be better equipped to argue for robust institutional governance systems in order to drive economic development. Lawmakers and policymakers alike may benefit from the research, which will be valuable for establishing legislation and revising existing ones. These recommended rules and recommendations have increased in relevance and quality as a result of the beneficial information gained from this research. The quality of policies and laws will be ensured via the development of sound policy drafts and a strong regulatory framework.

International organizations will borrow from the current study findings so as to decide whether to advocate for strong institutional governance structures when gifting aid to Least Developed Countries (LDCs) in order to spur economic growth and development. The private sector and investors can learn from the current study findings whether to scout for strong institutional governance structures when making decisions whether to make an investment or not. If governance positively influences economic growth, then it will be prudent for them to invest in jurisdictions with strong institutional governance structures because economic growth will consequently lead to higher Return on Investment (ROI).

1.6 Organization of the Study

Chapter Two offers an overview of empirical and theoretical literature investigating the relationship between economic growth and management. Chapter Three outlines the methodology utilized in the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter composes theoretical and empirical literature, how it influences economic growth. The theoretical part focuses on the Solow model, the new theory of growth, and institutional economists. The empirical section discusses the numerous studies conducted by other researchers that are relevant to our topic.

2.2 Theoretical Foundation

This literature review focuses on the author's and other researchers' studies on economic growth and how it is affected by governance in different countries. The section encompasses the detailed knowledge of related concepts and provides a platform on which the results will be built upon and overcome the study's shortcomings. Theories are essential in the various sections as they establish the phenomena and principles that relate to the topic. The theoretical framework depicts the interrelationship between different ideologies and provides the guidelines for the project or business endeavour (Lyon, 1977). The research will focus on the Solow model, the new theory of growth, and the social infrastructure vision.

2.2.1 Solow Model

The Solow growth model was devised by Solow (1950). The objective of designing the model was to carefully overlook some essential macro-economic aspects, such as short-term job fluctuations and savings rates, to develop a model to describe the long-standing development of the economy. According to this view, improved governance promotes favourable governments and institutions that encourage investment and productivity. Growth is due to increased investment in people and physical capital. On the other hand, better governments and institutions provide necessary productive resources for a country rather than diversion. The allocation of a country's investment and production resources increases future output (Romer, 2001).

Hall and Jones (1999) imply that rising physical capital and successful learning can only account for a percentage of employees' production. The significant contribution to the remainder of the country's labour productivity variations leads to political and institutional variations in nations (Hall & Jones, 1999). According to North (1991), North and Thomas

(1973), Griev (1994), Acemoglu and Robinson (2008, 2010, and 2012), the role of economic growth and politics was also examined from diverse aspects. Romer (2001) stresses that the Solow model does not explain technical developments in detail. Consequently, this increase in labor productivity is open for a similar interpretation to that of the Solow model's technological development. Then this technological advance increases economic growth by stimulating the accumulation of capital.

Better quality institutions can support the Solow model by improving technological availability. All bad government, such as serious political violence, terrorism and excessive corruption, seems to have a physical and emotional impact on people, lowering their production. It is therefore logical to argue that better management eliminates these physical and mental restraints, therefore improving labour productivity (Acemoglu & Robinson, 2008, 2010, 2012). The enhanced institutions provide investors with a suitable environment. It follows from this logic that increasing investment is being made in the development of physical and human capital. Human capital development comprises the information, skills and competences gained by individual workers during the learning process. Increased investment in physical capital instead raises capital per worker in respect to the original level. These techniques eventually lead to economic progress by capital accumulation (Romer, 2001).

2.2.2 New Growth Theory

A new growth hypothesis was established by Romer (1989). The theory stresses that economic progress derives from growing rewards of new knowledge. It describes the technological objective of economic expansion (Romer, 2001, Mankiw & Ball, 2011). Technological progress and information collection are increasing. Research and Development (R&D) offers institutes such as ownership rights knowledge and benefits, promotes investment in R&D and hence supports economic growth (Romer, 2001).

In many aspects, the New Growth Theory challenges the neoclassical model. In significant part, Solow and other neoclassical researchers devised exogenous growth models to explain what technology has improved through time. The implication that "simply happened" technology led to an emphasis on accumulation of capital and improvement of labour as sources of progress. According to Barro (1991), Barro & Sala-I-Martin (1991) Young (1991), Mankiw, Romer and Weil (1992), and Jones (1995a), the weaknesses of the endogenous

growth paradigm were observed with regard to the growth model based on factors determining the steady state.

Neoclassical growth theory ignored the impact of governance on economic growth, but public governance became a key element for economic growth as endogenous growth theories emerged in the late 1980s. The institutional structure of countries is potentially having an impact on economic growth under the new theory of growth since it determines both transaction and production costs (Aron, 2000). New endogenous ideas lead scientists to uncover alternate drivers of economic growth and differences in countries' economic levels of development.

In the study context, the impact on economic growth of public administration, in other words, public administration quality, has been theoretically and empirically examined. Without effective and efficient public administration, development finance may be wasted and the prospects for economic transformation compromised.

2.2.3 New Institutional Economics Theory

The term new institutional economics was coined by Williamson (1985). The New Institutional Economics (NIE) is an interdisciplinary enterprise combining economics, law, organization theory, political science, sociology and anthropology to understand the institutions of social, political and commercial life. It borrows liberally from various social-science disciplines, but its primary language is economics. Its goal is to explain what institutions are, how they arise, what purposes they serve, how they change and how, if at all, they should be reformed.

Until recently, institutional economics was mostly criticisms of orthodox economics. Institutional economics usually focussed on; collective rather than individual action, a preference for an 'evolutionary' rather than mechanistic approach to the economy, and an emphasis on empirical observation over deductive reasoning (Eggertsson, 1990; Furubotn & Richter, 1991; Coase, 1992; Werin & Wijkander, 1992, Pejovich, 1995, Drobak & Nye, 1997). NIE differs from mainstream neoclassical economics, however, in insisting that policy analysis be guided by what Coase (1964) calls 'comparative institutional analyses. Orthodox welfare analysis typically compares real-world outcomes with the hypothetical benchmark of perfectly competitive general equilibrium. It is unsurprising, then, that actual market outcomes will come up short. The relevant question, Coase (1964) explains, is whether a feasible alternative can be devised (Benson, 1994).

The theory links to the study to the study because public sector governance is as much about strengthening core state institutions, such as public finance institutions, anticorruption institutions, public procurement institutions, among others. Open, effective and accountable institutions can make real differences for citizens, economies and societies. Without effective and inclusive public sector governance and institutions, development finance may be wasted and the prospects for economic transformation compromised.

2.3 Empirical Review

Prudent government administration has a positive impact on economic growth (Mahmood, Awan and Furqan 2021). International bodies such as the UN, IMF and the World Bank have championed solid governance as an economic advancement approach (Mimicopoulos et al., 2007; Santiso, 2001; United Nations, 2007). The IOs argued that good governance is the key for economic growth and human progress (Kaufmann & Kraay, 2002; Mehanna, Yazbeck & Saredine, 2010; United Nations, 2000).

Mushtaq Khan (2000), a neo-institutional economist who redefined governance in a more broad sense, taking into consideration governments' ability to effect structural change in institutional, political, economic, and social domains in order to encourage long-term economic growth, governance is defined as the ability of governments to effect structural change in institutional, political, economic, and social domains in order to encourage long-term economic growth. Mushtaq Khan carried out a variety of studies to investigate the relationship between good governance and economic development in the sense of "market-enhancing governance" (contracting stimulus institutions). It was discovered that there is a positive association between good governance and economic growth in the sense of "market-enhancing governance" (contracting stimulus institutions). According to Mirra and Hammadache, once strong governance measures have been adopted, economic growth may be hastened and convergence to the level of industrialized countries can be reached (2017).

All international donors from either countries or IOs, such as the IMF and the World Bank, aim to maximize economic development assistance to recipient countries. These donors utilize the IOs' good governance features to assess government performance (Poluha & Rosendahl, 2002). Moreover, heterodox institutional economists argue that high growth has been notably different in governance capacities than in the good governance model, based on case studies of fast expansion in the last 50 years. States which have done their utmost to converge with developed

countries can achieve and sustain high levels of investment and develop policies to promote new acquisitions and learning technologies swiftly.

Knack and Philip (1999) have identified beneficial links between good governance and development. The authors have also emphasized that a sound governance approach allows emerging countries to achieve minimum economic growth and policy changes in a comparable way to wealthy countries. Applying strong governance practices can encourage economic development and bring developed economies closer together. On the other side, Kauffman, Kraay, and Pablo (2005) asserted that the causal effects on good governance of economic growth. The writers considered that economic change can have a significant disruptive influence on political leadership, leading, for example, to interest groups that encourage responsible leaders and effective institutions. As countries grow economically, more effective institutions are also more inexpensive. Thus, economic reform can advance key governance objectives over time. Kaufmann and Kraay (2002) also claimed that high-income countries can financially implement strong policy governance, boosting government effectiveness, rule of law and corruption control.

However, Kaufmann, Kraay and Pablo (1999) have established a negative relationship, largely due to state predation and illegal or improper influence, on the establishment of laws, policies and rules that can lead to poor governance by a State which is represented by the elites that constituted interest groups. Per capita income could therefore improve without more government if this does not reach the favoured goals.

Kaufmann, Kraay, and Pablo (2005) constructed six composite indicators which contained around 190 governance perception measures and data agglomeration of 17 institutions from 170 countries. The association between governance quality and per capita revenue was investigated by Kaufmann, Kraay, and Pablo (2005). The empirical results showed that the per capita rate of income growth and the improvement of every indicator of good governance were notably beneficial. Acemoglu, Johnson, and Robinson (2001) emphasized on colonial-historic underdeveloped countries and set high-income countries rapid growth rates for the last two century. They can be characterized by major historical changes in institutional quality. A strong association has been demonstrated between early institutional quality and long-term growth.

2.4 Overview of Literature Review

Governments' direct and indirect governance has linked economic growth to the practice of governments (Mahmood, Awan & Furqan 2021). The UN, IMF and World Bank also backed strong governance to promote economic growth (Mimicopoulos et al., 2007; United Nations, 2007). The IOs saw effective management as a motivator for human growth and economic prosperity (Mehanna, Yazbeck & Sarieddine, 2010; United Nations, 2000). However, scientists and academics feel that the ties between economic growth and governance are significant. Whether good management techniques contribute to economic advancement or whether economic growth leads to management is disputed (Kaufman, 2009). Kaufmann, Kraay and Pablo (1999) have added to the muddle a negative link between per capita income and governance.

Sachs et al. (2004) was a major challenge to the usual approach of good governance to African reforms, who stated that the concentration on governance reforms is inappropriate at African levels of development and given that continent has restrictions in growth. Sachs et al. (2004) supports their assertion by empirical investigation, which shows that discrepancies in the performance of African states are not explained by differing governance quality, assessed by good governance, when their degrees of development differ their level. The underlying political conclusion is that Africa should be focused on a substantial boost of investment in infrastructure and aid-supported disease management. Khan (2005) said however that while Sachs et al. (2004) had rightly stressed the importance of a major push in Africa, their case for a strategy of this kind should be true for other low-performing developing world countries, the decreases in governance capacity in even Africa are probably erroneous.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This section will summarize the study's strategies and methods in this chapter. The different segments in this chapter includes the theoretical framework, empirical model to be applied, data sources, diagnostic tests, and the definition and description of the study variables. In summary, this chapter covers processes used in the data collection and analysis process.

3.1 Theoretical Framework

This study adopted the Solow growth model. In this approach, a representative company produces output based on the production function;

$$Y = zF(K, N) \dots \dots \dots (1)$$

K denotes capital while N denotes labour. We will be working with the output person; $y = Y/N$ because of constant return to scale.

$$y = \frac{Y}{N} \dots \dots \dots (2)$$

Plug the previous production function equation with the above one

$$y = z \frac{1}{N} F (K, N) \dots \dots \dots (3)$$

All divide by N or multiply by one over N

$$y = zF \left(\frac{K}{N}, \frac{N}{N} \right) \dots \dots \dots (4)$$

K/N equal per person capital small k

$$y = zF(k) \dots \dots \dots (5)$$

That equation means per capita GDP is equal capital investment per person. An investment and governance stimulate economic growth.

Table 3. 1: Operationalization of Study Variables

Variable	Measurement	Notation	Expected Relationship and literature source
Voice and Accountability	-2.5 (weak) to 2.5 (strong) government performance	VA	Positive (Mahmood, Awan, & Furqan, 2021)
Political Stability	-2.5 (weak) to 2.5 (strong) government performance	PS	Positive (Mahmood, Awan, & Furqan, 2021)
Government Effectiveness	-2.5 (weak) to 2.5 (strong) government performance	GE	Positive (Mahmood, Awan, & Furqan, 2021)
Regulatory Quality	-2.5 (weak) to 2.5 (strong) government performance	RQ	Positive or negative (Sachs et al. 2004)
Rule of Law	-2.5 (weak) to 2.5 (strong) government performance	RL	Positive (Sachs et al. 2004)
Control of Corruption	-2.5 (weak) to 2.5 (strong) government performance	CC	Positive or negative (Sachs et al. 2004)
Unemployment Rate	Unemployment Rate	UR	Negative (Yussuf, 2021)
Gross capital fixed formation	The total value of acquisition less disposal	GFCF	Positive (Romer, 2001).
Population Growth Rate	Population Growth Rate	PGR	Positive (Sachs et al. 2004)
Economic Growth	GDP per Capita	GDP/P	

3.5 Diagnostic Tests

The study employed the following diagnostic tests.

3.5.1 Normality test

"Sample distribution is normal," says the incorrect hypothesis, when comparing the sample scores to a normally distributed arrangement of scores with a corresponding mean and standard deviation. If the result of the test is significant, the circulation is non-normal, with a zero mean and a constant variance of one. The Shapiro-Wilk test will be used to determine whether or not there is normalcy in the present inquiry. Standardization was achieved for the variables that do not take into consideration the level of normalcy.

3.5.2 Heteroscedasticity test

In the linear regression model one of the fundamental grounds is homoscedasticity. This suspicion expresses that for all perceptions of the likelihood distribution of the perturbation term stays as before (Gujarati, 2014). That is, for the entirety of the informative variable values for the variance of every error term is something similar. "By and by, this condition of non-steady variance or non-homogeneity of variance is identified as heteroscedasticity if the disorder standings don't have a similar variance," (Bedru and Seid, 2015).

The study utilized the Breusch-Pagan/Cook-Weisberg Test to test for Homoscedasticity. This test expresses that if the P-value is critical at a certainty timespan percent, the information disapproves of heteroscedasticity, while if the p-value is little (more prominent than 0.05), the information generally approves of heteroscedasticity. Robust standard errors, a procedure to discover fair standard errors of OLS coefficients under heteroscedasticity, was functional in the event that the information series doesn't display homoscedasticity.

3.5.3 Multicollinearity Test

The term multicollinearity shows the existence of careful linear relationship in the regression model, among some illustrative variables. Where independent variables are multicollinear, prescient force is covered or shared. "Consequently, if multicollinearity turns out to be fine, the independent variables' regression coefficients are unsure, and their standard errors are immense," (Gujarati, 2014). The multicollinearity makes huge variables good for nothing by expanding P-value as expanded P-value lessens the meaning of t-statistics. In this way, the multicollinearity regression results will show critical variables as irrelevant variables.

As expressed by Gujarati (2014), “the investigation of the correlation is performed to clarify the strength of the relationship or level of linear relationship between at least two variables. The values of the correlation coefficient shift between - 1 and +1 in the Pearson correlation matrix. A correlation coefficient of +1 shows a perfect positive relationship between the two variables; whereas a correlation coefficient of - 1 demonstrates a perfect negative relationship between at least two variables.” Then again, a correlation coefficient of 0 infers that there is no linear connection between two variables (Bedru and Seid, 2015). Moreover, as verified by Creeks (2008), “in no useful work, zero correlations amongst informative variables happens.” In this manner, despite the fact that there is slightly idea of the occurrence of zero correlations amongst the illustrative variables, the precision is not significantly influenced by that. “Decreasing unequivocally correlated variables take care of the multicollinearity issue,” (Ahmad and Bashir, 2013).

The Variance Inflation Factors (VIF) statistic was utilized to test for multi-collinearity. The normal principle in statistics is that VIF values ought to be under 10 and more noteworthy than 1 to achieve states of multi-collinearity. The elements that won't achieve the states of normality and multicollinearity would be homogeneous as a solution for amending multicollinearity.

3.5.4 Hausman Specification Test

Hausman's specification test was used to find out if the variables used had a fixed effect over time or changed and randomly over time. Variables that have a random effect will be the null hypothesis, and variables that have a fixed effect will be the alternative hypothesis. This is how it works: As a result, if the value of significance is less than 0.05, the null hypothesis is rejected. If the alpha value is larger than 0.05, the null hypothesis will be rejected and the alternative hypothesis will be accepted.

CHAPTER FOUR: EMPIRICAL RESULTS, AND DISCUSSION

4.0 Introduction

In this section, the researcher presents the findings from the data analysis, gives the interpretation and discusses the findings with respect to the study objective. The chapter is broken down into three sections, which consists descriptive, diagnostic test, and empirical results. Descriptive statistics are shown in Table 4.1.

Variable	Mean	Std. Dev.	Min	Max
GDP per capita	727.51	642.40	90.73	3425.50
Voice and accountability	-1.28	0.59	-2.23	-0.11
Political stability	-1.35	0.80	-3.31	0.49
Government Effectiveness	-1.03	0.58	-2.45	0.86
Regulatory quality	-1.08	0.79	-2.65	0.85
Rule of law	-1.08	0.61	-2.61	-0.09
Control of corruption	-0.91	0.49	-1.87	0.81
Log Gross fixed capital formation	20.99	24.35	16.76	1.77
Population growth rate	.025	0.00	-0.00	0.04
Unemployment rate	7.93	5.26	1.72	17.71

Table 4. 1: Descriptive Statistics

Table 4.1 shows that the mean value for GDP per capita is \$727.513 that is not very high. The means that most of IGAD's governance indicators have very weak averages. Accountability, control of corruption, and the rule of law, are all very weak in this region. Unemployment rates in Table 4.1 are very high: 7.93 percent. The standard deviation shows that there is a lot of variation in the unemployment rate, with a value of 5.27 percent. It also shows that the population growth rate is very high, as shown in Table 4. In Table 4.1, the last findings demonstrate that private investment is low.

Table 4. 2: Correlations Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) GDP per capita	1.000									
(2) Voice and Accountability	0.117 (0.122)	1.000								
(3) Political stability	0.379* (0.000)	0.372* (0.000)	1.000							
(4) Government effectiveness	0.197* (0.009)	0.735* (0.000)	0.571* (0.000)	1.000						
(5) Regulatory quality	0.245* (0.001)	0.854* (0.000)	0.511* (0.000)	0.851* (0.000)	1.000					
(6) Rule of law	0.261* (0.000)	0.688* (0.000)	0.671* (0.000)	0.891* (0.000)	0.825* (0.000)	1.000				
(7) Control of corruption	0.072 (0.343)	0.210* (0.005)	0.623* (0.000)	0.581* (0.000)	0.436* (0.000)	0.664* (0.000)	1.000			
(8) Gross capital fixed formation	0.194* (0.010)	0.290* (0.000)	-0.115 (0.130)	0.343* (0.000)	0.230* (0.002)	0.377* (0.000)	0.077 (0.314)	1.000		
(9) Population growth rate	-0.439* (0.000)	0.211* (0.005)	-0.276* (0.000)	0.095 (0.209)	0.046 (0.548)	0.013 (0.868)	-0.245* (0.001)	0.112 (0.139)	1.000	
(10) Unemployment rate	0.140 (0.066)	-0.625* (0.000)	-0.439* (0.000)	-0.690* (0.000)	-0.572* (0.000)	-0.670* (0.000)	-0.423* (0.000)	-0.310* (0.000)	-0.214* (0.005)	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

The study used Pearson correlation analysis with 95% confidence level and a two-tail test to figure out how the control variables in the study were linked to the economic growth of the IGAD member states. As shown in Table 4.2, with significance level at 5%, Political stability, the effectiveness of government, regulatory quality, and the rule of law, population growth, and the formation of fixed gross capital have all been shown to be strongly correlated with economic development. Due to the fact that their significant values are below than the critical level (0.05) for the study, they are excluded from consideration. Positive and statistically significant relationships exist between political stability and economic growth; a negative and statistically significant relationship exists between the economy's growth and government effectiveness; a rule of low probability exists; and fixed gross capital creation is high. At the 5 percent level of significance, the research found that the use of voice and accountability, the management of corruption, and the unemployment rate do not have a statistically significant association with economic growth, according to the findings of the study. Due to the fact that its significant value is more than the crucial value of the research, this is the case (which is less than 0.05).

4.2 Empirical Results

The effect of the public governance and the macro-economic factors entailing; unemployment rate, population growth rate, and Gross Fixed Capital Formation, on GDP per Capita was established through the fixed effect panel multiple regression, which is undertaken at the significance level of 5%. The researcher compared the significance value shown in the ANOVA model with those got from the study. The significance values obtained for the model coefficients were also compared to the significance value of 0.05. Table 4.3 exhibits the findings. Prior to carrying out the multiple linear regression analysis, the Hausman specification test was used to find the best model. The fixed effects model specification was compared to the random effects model specification. The null hypothesis is shown to be rejected. P-value of 0.00 was found after the test, which meant that the fixed effect is appropriate to use this scenario, see Table A9 in the Appendix.

Multicollinearity test was carried out by use of variance inflation factor (VIF). The mean value was found to be 5.02 which is below 10, thus indicating absence of multicollinearity. To test for heteroscedasticity this study applied Breusch-Pagan test. We conclude the is heteroscedasticity, since the p-value is 0.000 which is less than 0.05, this mean that variance is

not changing in the residual hence we reject the null hypothesis and conclude that heteroscedasticity is present in data. This implies that we will run robust regression model to solve this problem.

Table 4. 3: Fixed Effects Panel Multiple Linear Regression Coefficients

GDP	Per	Coeff.	St. Error.	t-	p-	[95%	Interval	Sign	
Capita				value	value	Conf]			
Voice and accountability		0.169	.127	1.330	0.184	-.081	.420		
Political stability		-0.044	.072	-0.610	0.540	-.185	.097		
Government effectiveness		-0.005	.111	-0.040	0.964	-.223	.214		
Regulatory quality		-0.251	.105	-2.390	0.018	-.459	-.044	**	
Rule of law		0.437	.163	2.670	0.008	.114	.76	***	
Control of corruption		-0.696	.120	-5.790	0.000	-.933	-.458	***	
Gross capital fixed formation		0.469	.031	15.330	0.000	.408	.529	***	
Population growth rate		-8.847	4.213	-2.100	0.037	-17.168	-.526	**	
Unemployment rate		0.014	.040	0.340	0.733	-.066	.093		
Constant		-3.778	.892	-4.240	0.000	-5.540	-2.017	***	
Mean dependent var			6.239	SD dependent var			0.868		
R-squared			0.779	Number of obs			175		
F-test			62.133	Prob > F			0.000		
Akaike crit. (AIC)			43.353	Bayesian crit. (BIC)			75.000		

*** $p < .01$, ** $p < .05$, * $p < .1$

Unemployment, accountability, political stability and government effectiveness have no statistically significant correlation with economic growth. Control of corruption, rule of law, gross capital fixed formation and population growth are statistically significant. While the

control of corruption is significant and negative for IGAD member states, the result of control corruption implied that if control of corruption increases 1 percent the economic growth would decrease 60 percent, conducted similar research among economic corporation organization in the Pakistan, analysing corruption levels and gaining significant insight on the influence of corruption on economic growth. (Mahmood, Awan, & Furqan, 2021).

IGAD member countries have a negative regulatory quality coefficient. Countries that don't have a stable set of policies that encourage the growth of the private sector are more likely to have a high GDP. It means that if the standard deviation of regulatory quality goes up by 1%, the average economic growth of IGAD member countries will drop by 25% on average. It is necessary to look into the studies of (Mahmood, Awan, & Furqan, 2021). The GDP of Pakistan was changed to show how bad the regulations were.

The IGAD member states have a positive rule of law coefficient that is important. Crime and violence prevention, property rights legislation, and well-functioning law enforcement all contribute to the safety of local and international investors doing business in the countries. As a result, more business and more trade are encouraged. The standard deviation for the rule of law will rise by one percent, resulting in a 40 percent boost in economic growth, according to the World Bank. Alvarez et al. (2015) and De Groot et al. (2004) also found that the rule of law indicator positively economic growth. Gross Fixed Capital formation (GFCF) is positive and significance for IGAD member states. If Gross Fixed Capital Formation rises by 1%, economic growth will rise by 46%. IGAD countries should boost private investment and encourage private assets to help their economies growth.

Finally, the population growth rate was shown to have a strong and inverse association with the economic growth rate in the IGAD member nations. When a unit increases population growth, when a unit increases population growth, economic growth slows by 80% percent, all other variables being constant. This suggests that the pace of population expansion is greater than the rate of economic growth. There is a dearth of empirical research on the relationship between population expansion and economic growth. Economic theory, on the other hand, postulates that as population grows so too does economic growth. In every economy, a large population means inexpensive labour and consequently a high level of economic activity. Our study's results contradict economic theory (Alfaxad, 2014).

CHAPTER FIVE: SUMMARY AND RECOMMENDATIONS

5.0 Introduction

This chapter consists summary of findings and policy recommendation and proposes further areas of research based on the finding of the study.

5.1 Summary of Findings

This study aimed at establishing the effect of public governance of IGAD member states on economic growth. It also specifically aimed at unravelling the impact of; institutional quality, unemployment rate, population growth rate, as well as Gross Fixed Capital Formation on the IGAD member states economic growth. The analysis of the data collected and the interpretation of the results were therefore carried out in accordance with the stated general and specific goals.

The study findings established that the model entailing; institutional quality, unemployment rate, population growth rate, as well as Gross Fixed Capital Formation explains to a moderate extent the IGAD's member states economic growth by having a co-efficient of determination of 78%. Voice and accountability, political stability, government effectiveness, and unemployment rate are not significantly predicting the economic growth of IGAD member states. The final findings were that regulatory quality, control of corruption, rule of law, gross capital fixed formation and population growth are statistically significant with economic growth while population growth rate and control of corruption had a negative statistically insignificant relationship with economic growth. But as composite governance has positive relationship with economic growth of IGAD member states, you can see in Table A4.

5.3 Policy Implications

Policy recommendations are made to the government officials and policy formulators in the economic developments, as well as legislators that since it has been established that institutional quality has a positive influence on economic growth, the policy makers should mainly focus on public governance to spur economic growth. They should strengthen the governance aspects mainly entailing; voicing and responsibility, political stability, efficiency in government, quality of regulation, the rule of law, and corruption control, together with the monitoring the other determinants of economic growth especially the macro factors. The unemployment rate has a negative significant influence on economic growth; the government

policy makers should strive to reduce the unemployment rate and try to create jobs in order to spur economic growth.

Since it has been demonstrated that the population growth rate has a negative small effect on economic growth, policy makers should try to restrict the population growth rates by introducing birth control and family planning initiatives. However, this should not be the main focus and other significant factors like unemployment should take precedence. Finally, the Gross Fixed Capital Formation has a positive insignificant influence on economic growth; the government policy makers should encourage building of capital stocks through savings and Foreign Direct Investment (FDI). However, this should not be the focus and other significant factors like unemployment should take precedence.

5.4 Recommendations for Further Study

To explore the impact of governance on economic growth is very important for economic development, and policy makers, as well as legislators. However, the current study has been performed in the context of IGAD member states; the same study might be repeated on other African regional integration units like the East African Community (EAC), South African Development Community (SADC), and the Economic Community of West African States (ECOWAS), or other continents to see if the current study results would hold.

The present research has solely included unemployment rate, population growth rate, and Gross Fixed Capital Formation as the study's control variables. Research may be carried out to see if there are other variables that moderate, intervene, or mediate the connection between institutional quality and economic growth.

This study has only utilized secondary data; the study can be followed by studies using primary data. This may either compliment or criticize the study's findings. The statistical analytical technique of the present research was the multiple linear regressions analysis. Additional methodologies for statistical analysis, for instance; descriptive statistics, cluster analyses, discriminant analysis, granger causality, component analysis, correlation analysis, among other methodologies, can be incorporated in further studies.

5.5 Limitations of the Study

The present research was a formal study and it applied the deductive research approach for the reason that it was guided by pertinent literature and theories to further test the theories and empirical literature findings. Employing theories and previous empirical literature assists in laying the groundwork for comprehending the research issue being investigated. However, there was absence of previous researches on the effect of governance on economic growth of IGAD member states. The research was carried out solely in the IGAD member states context in view of time and financial limitations, which does not clearly demonstrate the present outcome if other African regional integration units like the East African Community (EAC), South African Development Community (SADC), and the Economic Community of West African States (ECOWAS), or other continents were taken into consideration.

Although the research engaged secondary sources of data, there were some major challenges like some of the data being not readily available; especially data on Fixed Gross Capital Formation and unemployment rate, and it took great lengths and costs to obtain it. The data was not utilized in their raw form and further calculations and manipulations of the data were required. Impending delays were experienced due to data processing and further editing before the compilation by the researcher.

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APPENDICES

Table A1: Breusch-Pagan/Cook-Weisberg Test for Heteroscedasticity

Breusch-Pagan/Cook-Weisberg Test for Heteroskedasticity	
Ho: Constant variance	
Variables: fitted values of LnGDPperCapita	
chi2(1)	= 1.75
Prob > chi2	= 0.1863

Table A2: VIF Multicollinearity Statistics

Variable	VIF	1/VIF
Unemployme~e	2.14	0.468162
Institutio~y	1.98	0.504084
LnFGCF	1.19	0.838017
Population~e	1.18	0.847038
Mean VIF	1.62	

Table A5: Normality test

Variable	Obs	W	V	z	Prob>z
LnGDPperCa~a	175	0.97744	2.997	2.508	0.00606
Institutio~y	175	0.8754	16.555	6.414	0.00000
Unemployme~e	175	0.86239	18.283	6.641	0.00000
Population~e	175	0.94369	7.481	4.599	0.00000
LnFGCF	175	0.97299	3.588	2.92	0.00175

Table A3: Hausman specification test

Y	Coefficients of Fixed effect (F)	Coefficients of Random effect (R)	Difference (F-R)	Standard Error (S.E)
Voice and Accountability	.1691505	.0240339	.1451166	.
Political Stability	-.0439988	.7225346	-.7665334	.
Government Effectiveness	-.0049625	.4490872	-.4540497	.
Regulatory Quality	-.2514537	-.2146926	-.0367611	.
Rule of Law	.4367242	.49431	-.0575858	.
Control of Corruption	-.6955557	-.707782	.0122262	.
Gross Capital Fixed Formation	.4688856	.2215351	.2473505	.

Population Growth Rate	-8.846741	-42.83626	33.98952	.
Unemployment Rate	.0137015	.0934298	-.0797283	.0386883
Chi-square test value	9246.31			
P-value	0.00			

Table A4: Multiple Regression of Composite Governance

Source	SS	df	MS	
Model	77.4977114	4	19.3744278	Number of obs = 173
Residual	53.0314208	168	.315663219	F(4, 168) = 61.38
Total	130.529132	172	.758890304	Prob > F = 0.0000

R-squared = 0.5937
Adj R-squared = 0.5840
Root MSE = .56184

loggdppercapit	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
loggfcf	.2326279	.0287395	8.09	0.000	.1758908	.289365
logpopulationrate	-1.198807	.1411866	-8.49	0.000	-1.477535	-.9200786
logunemploymentrate	.6502119	.0863934	7.53	0.000	.4796553	.8207685
logcomp_index	1.791802	.1799751	9.96	0.000	1.436498	2.147106
_cons	-2.598359	.9118729	-2.85	0.005	-4.398565	-.7981529