THE RELATIONSHIP BETWEEN FISCAL PERFORMANCE, GOVERNANCE QUALITY AND ECONOMIC GROWTH: EVIDENCE FROM SUB-SAHARAN COUNTRIES

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Mali Performans, Yönetişim Kalitesi Ve Ekonomik Büyüme İlişkisi: Sahra-Altı Ülkelerinden Kanıtlar

Öz

Son yıllarda yapılan birçok çalışma hükümetin yönetebilme yeteneği ile ekonomik performans göstergeleri arasındaki ilişkiye odaklanmıştır. Bir ülkede yolsuzluk, şiddet ve terörün varlığı, piyasayı denetleyen kurumların kalitesi gibi faktörlerin ekonomi politikalarının başarılarını etkilediğine dair çok sayıda ampirik kanıt bulunmaktadır. Benzer şekilde kamunun borç stokunun ekonomik büyümeyi nasıl etkilediği konusu da birçok çalışmanın temel sorusu olmuştur. Özellikle son yıllarda Afrika kıtasında ortaya çıkan şiddet olayları, terörizm ve ayrılıkçı savaşlar kıta ile ilgili çalışmaların yoğunlaşmasına neden olmuştur. Buna ek olarak kıtada yaşanan şiddet ve terör olaylarının yarattığı güvensizlik ikliminin Afrika'da yönetişim başarısızlığına eden olduğunu destekleyen birçok çalışma bulunmaktadır. Yönetişim başarısızlığı aynı zamanda kamu politikalarının oluşturulması ve uygulanmasında etkinsizliğin bir göstergesidir. Bu çalışma ise Sahra-altı Afrika ülkelerinde mali performans ve kurumsal kalitenin ekonomik büyüme üzerindeki etkilerini araştırmaya odaklanmıştır. Çalışmada 25 Sahra-altı Afrika ülkesinin 2002-2019 dönemine ait verileri kullanılmıştır. Analiz sonuçlarına göre anılan ülkelerde kamu harcamaları arttıkça ekonomik büyüme azalmaktadır. Çalışmanın odağı açısından bakıldığında ise mali performans ve kurumsal kalite arttıkça ekonomik büyümenin de arttığı bulgusuna ulaşılmıştır. Mali performans göstergesi olarak kamunun iç ve dış borç stokunun aritmetik ortalaması hesaplanarak analize dahil edilmiştir. Mali performans değerinin artması ülkenin borç stokunun yükselmesi anlamına gelmektedir.

Anahtar Kelimeler: Mali Performans, Kamu Harcamaları, Yönetişim Kalitesi, Ekonomik Büyüme, Dinamik Panel Veri Analizi

The Relationship Between Fiscal Performance, Governance Quality, And Economic Growth: Evidence From Sub-Saharan Countries

Abstract

Many studies in recent years have focused on the relationship between the government›s ability to manage and economic performance indicators. There is ample empirical evidence that factors such as the presence of corruption, violence, and terrorism in a country, and the quality of institutions controlling the market affect the success of economic policies. Similarly, the issue of how the public debt stock affects economic growth has been the central question of many studies. Especially in recent years, the violence, terrorism, and separatist wars that have emerged in Africa have led to the intensification of studies on the continent. In addition, there are many studies supporting that the climate of insecurity created by the violence and terrorist incidents in the continent is the cause of the failure of governance in Africa. Governance failure is also an indicator of ineffectiveness in the formulation and implementation of public policies. This study focuses on investigating the effects of fiscal performance and governance quality on economic growth in Sub-Saharan African countries. In the study, data from 25 sub-Saharan African countries for the period 2002-2019 were used. According to the results of the analysis, as public expenditures increase in the mentioned countries, economic growth decreases. In terms of the focus of the study, it has been found that as fiscal performance and governance quality increase, economic growth also increases. As a fiscal performance indicator, the arithmetic average of the public›s domestic and external debt stock was calculated and included in the analysis. An increase in the fiscal performance value means an increase in the country›s debt stock.

Key Words: Fiscal Performance, Government Expenditure, Governance Quality, Economic Growth, Dynamic Panel Data Analysis

Introduction

In cases where public expenditure exceeds its revenue, this deficit is made up by borrowing. This borrowing requirement can be covered by internal or external debt. Especially in underdeveloped and developing countries, the need for borrowing is higher. In these countries, borrowing is important for the sustainability of the economy. However, besides its positive effects, it is emphasized that high public debt increases economic growth in underdeveloped and developing countries only to a certain extent (Griffin & Enos, 1970). The question of the limit of borrowing is also controversial. According to Reinhart & Rogoff (2010), negative effects occur when the ratio of public debt to GDP reaches 90%. This threshold is calculated by Caner & Koehler-Geib (2010) as 77%, by Cecchetti, et al. (2011) as 85%, and by Egert (2015) as 20% to 60%. Many studies are proving that especially the increase in external debt will negatively affect economic performance and increase the fragility of the economy (Alesina & Tabellini, 1989; Pattillo et al., 2002; Cerra, et al., 2008; Reinhart and Rogoff, 2010; Navarro-Ortiz & Sapena, 2020). In the existing literature, public debt reduces economic growth by causing a decrease in savings and capital accumulation. Endogenous growth models point to a similar conclusion (Greiner, 2012).

Theoretically, economic growth is promoted as long as the funds obtained with foreign debt are used in productive areas. However, this view is highly controversial. Empirical studies show that the impact of borrowing on economic growth varies from country to country. For example, the use of funds obtained through borrowing in inefficient sectors has a detrimental effect on economic growth. This is true for all resources. Therefore, the negative impact of public debt on economic growth is greater in countries that do not have good governance indicators.

Institutional quality has a strong impact on the relationship between external debt and growth. However, the mediating effect of governance quality on this relationship is limited. When a country's debt burden exceeds a certain level, high governance quality cannot help reduce the negative impact of debt (Mensah, et al., 2018). (Cordella et al., 2010)found that in countries with high debt but good policies and institutions, governance quality can offset the negative effects of borrowing as long as the debt is less than 25% of GDP, while this threshold is lower in countries with high debt and poor governance quality.

Whether debt is a blessing or a scourge depends on how countries use the borrowed capital. While funds obtained through borrowing contribute to the economy if used wisely and moderately, if used ineffectively, they lead to a debt burden instead of contributing to the economy. Governance quality, on the other hand, has come to the fore in the literature in terms of explaining the differential impact of borrowing on economies (Acemoğlu & Robinson, 2008; Qayyum, et al., 2014, Lartey & Kemoe, 2022). Cordella et al. (2010) compared countries with weak institutions and

countries with strong institutions. According to the study's findings, high governance quality mitigates the impact of external debt on macroeconomic indicators. Acemoğlu, et al., (2003) argue that institutions have an impact on economic outcomes and that countries with good governance tend to grow faster.

Both foreign capital and governance quality are important factors in the development process of low-income countries. Public expenditures that exceed their revenues increase the dependence of economies on foreign capital. Moreover, not only foreign funds promote economic growth but there is also a need for good governance that can create high-quality institutions that increase productivity (Agnor & Montiel, 2010) (Kemoe & Lartey, 2022).

Hypothetically, one can assume that good governance quality stimulates economic growth. Moreover, allocating debt according to the principles of efficiency and effectiveness can, thanks to high governance quality, mitigate or eliminate the negative effects of debt on growth. Studies on the relationship between economic growth, borrowing, and governance quality are quite new. Most studies focus on underdeveloped and developing countries. These countries have high borrowing needs and low governance quality.

There is a widespread view in the literature that external debt will harm economic growth. However, good governance or the quality of institutions can mitigate these negative effects. For example, in a country where institutions are corrupt and the rule of law is weak, government funds, including borrowed funds, may be channeled into unproductive investments. Therefore, good governance and well-functioning institutions can help to acquire external debt and transfer it to productive sectors (Mensah et al., 2018, 476). In their study covering sub-Saharan African countries, Kemoe & Lartey (2022) showed that while an increase in public debt harms economic growth, this effect decreases when there is an increase in governance quality captured by anti-corruption or government activity.

Studies on this topic have focused only on the impact of external or domestic debt on economic growth. In this study, a fiscal performance index was created from the combination of domestic and external debt and included in the model along with the governance quality index. In the next part of the study, explanations and results related to the empirical analysis are given.

2. Data and Methodology

This section presents the methodology of the study and the results of the analysis. The effects of fiscal performance and institutional quality on growth were examined in 25 sub-Saharan African countries over the period 2002-2019 using a dynamic panel data analysis. The two-stage System Generalized Moments Method (GMM), one of the dynamic panel data analysis methods developed by Arellano and Bover (1995) and Blundell and Bond (1998), was used for the analysis. The equation established in the dynamic panel data analysis is as follows:

$$PGDP_{it} = \beta_0 + \beta_1 PGDP_{it-1} + \beta_2\ FISCAL_{it} + \beta_3\ GOVEX_{it} + \beta_4\ INSQUAL_{it} + \beta_5 LABFOR_{it}$$
$$+ \beta_6\ GFCF_{it} + \beta_7\ TRADE_{it} + u_{it} \tag{1}$$
$$i=1,\ldots\ldots,31\ ; \qquad t=1,\ldots\ldots,18$$

The dependent variable "PGDP" in equation 1 refers to the growth rate of GDP per capita, and the independent variable "$PGDP_{it-1}$" refers to the lagged value of GDP per capita. Other independent variables are respectively "FISCAL" financial performance, "GOVEX" public expenditure, "INSQUAL" institutional quality, "LABFOR" labor force participation rate, and "GFCF" gross fixed capital formation, "TRADE" trade openness. The subscript "u" represent the error term, "i" is the unit size, and "t" is the time dimension. The independent variable "FISCAL" in the equation consists of the ratio of public debt to GDP and the ratio of external debt stock to GNP, which are indicators of financial performance. (Roubini and Sachs, 1989; Edin and Ohlsson, 1991; IMF, 2006; Yalçın, 2017; Fabgemi, 2020). The 25 Sub-Saharan African countries included in the analysis are respectively, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Comoros, and Congo Dem. Rep., Congo Rep., Gabon, Guinea-Bissau, Kenya, Madagascar, Mali, Mauritania, Mauritius, Mozambique, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Tanzania, Togo, Uganda. Table 1 shows the data set and sources used in the study.

Table 1 Data sources and definition

Symbol	Variable	Definition	Sources
PGDP	Growth	GDP per capita growth (annual %)	World Bank
FISCAL	Fiscal Performance	* Public debt to GDP * External debt stocks (% of GNI)	World Bank IMF
GOVEX	Government Expenditures	Government final consumption expenditure (% of GDP)	World Bank
INSQUAL	Institutional Quality Index	** Voice and Accountability ** Political Stability and Absence of Violence/Terrorism ** Government Effectiveness ** Regulatory Quality ** Rule of Law ** Control of Corruption	World Bank (WGI) World Bank (WGI) World Bank (WGI) World Bank (WGI) World Bank (WGI) World Bank (WGI)
LABFOR	Labor Force	Labor force participation rate	World Bank
GFCF	Gross Fixed Capital Formation	Gross fixed capital formation growth (annual %)	World Bank
TRADE	Trade Openness	Trade (% of GDP)	World Bank

*In creating the fiscal performance variable, the variables were first normalized to the same scale and then combined into a single index by assigning an equal weight (%50) to each variable. **The variables that make up the index are the percentile rankings from 0-100. Principal component analysis (PCA) was used to create a single index from the variables. The index is referred to in the study as the "Institutional Quality Index."

2.1. Calculation methods of institutional quality and financial performance indicators

The INSQUAL variable consists of six indicators of the Worldwide Governance Indicators (WGI), published by the World Bank since 1996 and recognized as indicators of governance. When the variables representing components of the same structure are included together in the equation and a high correlation is found between the variables, the problem of multicollinearity may occur. For this reason, the index of institutional quality was determined using PCA. The main advantage of assessing institutional quality with an index is that the key variables of the WGI dataset can be combined into a single index that represents their characteristics. (Dabbous, 2018:73).

Before composing the institutional quality index with PCA, Bartlett's sphericity and Kaiser-Meyer-Olkin (KMO) tests apply to check the adequacy of the data. Bartlett's sphericity test controls whether all correlations are equal to zero, while the KMO test compares the observed correlations and partial correlations between the main variables. It is emphasized that the calculation of Bartlett's and KMO tests is performed before PCA. If the null hypothesis of Bartlett's test is rejected and the KMO value is significantly higher than 0.5, the data are suitable for analysis (Budaev, 2010:475).

After checking data adequacy, a rotation solution is performed with PCA for six governance indicators. The eigenvalue coefficients of each component determined by PCA should be greater than or equal to 1. In addition, the variance explained by the components with an eigenvalue coefficient greater than 1 should be cumulatively greater than 60%. (Banda and Kumarasam, 2020:10-11).

The factor loadings are another criterion for the suitability of variables for analysis. Factor loadings explain the relationship between variables and items. This coefficient is considered when variables are included in the analysis. If the value of the factor loading is between 0.30 and 0.59, it means a medium level, and 0.60 and more means a high level (Büyüköztürk, 2002: 473-474).

In the study, the fiscal performance variable consists of public debt to GDP and external debt stocks (% GNP). A single indicator of fiscal performance formed from these two variables should not be expressed in the same unit. Since the two varia-

bles have different weights, the indicator resulting from the addition of the variables leads to the problem of combining "apples with oranges." The calculation of the Z-score is one of the common methods to solve this problem. The equation of the normalization process Z-score, with a zero mean and a unity standard deviation, follows: $Z=(X-\mu)/\sigma$. "X" refers to the variable, "μ" to its mean, and "σ" to its standard deviation. (Mlachila et al., 2017:681). After the normalization process with the Z-score, each variable that is an indicator of fiscal performance was assigned the same weight (50%). The variable "FISCAL", which represents fiscal performance, is the sum of the weighted values.

2.2. Methodology

Economic behavior in a period is usually under the influence of past experiences and old patterns of behavior. In this respect, it is very important to take into account the lagged value of the variable as an explanatory variable in the analysis of economic relations. The dynamic structure, which is often used in panel data models, differs from static models in that it includes lagged variable(s). However, the fact that the lagged value of the dependent variable is included in the models in the form of an explanatory variable leads to a correlation with the error term and the endogeneity problem. These problems lead to inconsistent and biased results resulting from the OLS method. The GMM method can be used to obtain effective and consistent estimates even in the presence of these problems and for models where the unit dimension is larger than the time dimension (N >T) (Baltagi, 2005; Yerdelen Tatoğlu, 2013; Das, 2019). The use of the GMM estimator has some advantages. In addition to the endogeneity problem mentioned above, the GMM accounts for differences across countries and unobservable heterogeneity due to the panel structure of the data set. At the same time, the two-stage GMM controls the variance problem better than the single-stage estimator. (Tchamyou, 2020:10-13).

The difference GMM and the system GMM methods are the two main estimators used in dynamic panel data analysis. The first method, developed by Arellone and Bond (1991), uses the first difference of the independent variables as the instrumental variable. In panel data models with an unbalanced structure, the first difference transformation of the data leads to a high observational loss. For this reason, in the system GMM method developed by Arellano and Bover (1995) and Blundell and Bond (1998), orthogonal variances are proposed instead of the first difference transformation to avoid data loss. In this way, it was highlighted that the two-step system GMM estimator, which allows the use of more instrument variables, is more efficient than the difference GMM estimator (Yerdelen Tatoğlu, 2018). Consistent with this information, a two-step system GMM estimator was used in the analysis. In this method, which is consistent and effective even in the presence of problems such as heteroskedasticity and autocorrelation. Although this condition is more efficient, the standard errors could be biased downward. Thus, Windmeijer's (2005) finite-sample

correction is employed in the analysis to prevent the standard errors' downward bias (Roodman, 2009b). In addition to some preconditions should be given in an appropriate form and tests should be performed. One of them is testing the validity of the variables. The suitability of instrumental variables is tested by Sargan or Hansen tests. In the two-step system GMM, it is very important whether the instrumental variables are exogenous. In Sargan and Hansen tests, the main hypothesis that "the over-identification constraint is valid and the instrumental variables are exogenous" should be rejected, so the results of the tests should not be significant. (Dedaj et al., 2022:5). One of the other conditions is the absence of quadratic autocorrelation in the model. Autocorrelation tests were investigated by Arellano and Bond (1991) using AR tests (Özsoy et al., 2022:285). Finally, the number of instrumental variables must be less than the number of cross-sectional units or groups. (Roodman, 2009a). The significance of the entire model was tested using the Wald test.

2.3. Empirical Findings

The descriptive statistics for the variables are summarized in table 2. Accordingly, among the 25 countries in the Sub-Saharan Africa country group, the GDP per capita growth rate was lowest at 22.312% and highest at 21.027%. The lowest value of the variable "FISCAL", which is an indicator of fiscal performance, is -1.074, while the highest value is 6.110. The lowest value of government expenditure to GDP ratio is 0.951%, while the highest value is 31.556%. The lowest value of the variable "INSQUAL", the indicator of institutional quality, is -3.553, while the highest value is 5.570. The lowest value of the labor force participation rate is 41.380%, while the highest is 88.350%. The lowest growth rate of gross fixed capital formation is -49.380%, while the highest is 239.830%. The lowest trade of GDP rate is 20.722%, while the highest is 156.862%.

Table 2 Descriptive statistics

Variables	Observations	Mean	Std. Dev.	Minimum	Maximum
PGDP	450	1.814	3.502	-22.312	21.027
FISCAL	450	1.910	0.975	-1.074	6.110
GOVEX	450	13.917	4.580	0.951	31.556
INSQUAL	450	-2.460	2.207	-3.553	5.570
LABFOR	450	66.965	12.749	41.380	88.350
GFCF	449	8.3490	18.832	-49.320	239.830
TRADE	450	61.639	26.024	20.722	156.862

As regards the correlation matrix, there is a negative correlation between the "FISCAL", "GOVEX" and "TRADE" independent variables and the "PGDP" dependent variable, and a positive correlation with the "INSQUAL", "LABFOR" and "GFCF" variables.

Table 3 Correlation matrix

Variables	PGDP	FISCAL	GOVEX	INSQUAL	LABFOR	GFCF	TRADE
PGDP	1						
FISCAL	-0.082	1					
GOVEX	-0.119	0.050	1				
INSQUAL	0.148	-0.204	0.370	1			
LABFOR	0.094	0.061	0.106	-0.153	1		
GFCF	0.173	-0.031	-0.030	-0.013	0.056	1	
TRADE	-0.030	0.152	0.289	0.222	-0.279	0.482	1

The results obtained regarding the PCA are given in Table 4. The KMO co-efficient is 0.902>0.5. Also, the p-value of the Bartlett test is 0.000<0.01 (the null hypothesis was rejected). These results verified that variables were quite adequate for PCA.

Table 4 Summary of principal component analysis (PCA).

Component	Eigenvalue	% of Variance	Cumulative %
1	4.872	0.8121	0.8121
2	0.474	0.0791	0.8912
3	0.348	0.0581	0.9493
4	0.169	0.0282	0.9775
5	0.074	0.0124	0.99
6	0.0601	0.01	1
KMO Test	0.902		
Bartlett Sphericity			
Chi-Square	3299.87		
df.	15		
Sig.	0.000		

Variable	Factor loadings
Voice and Accountability	0.837
Political Stability and Absence of Violence/Terrorism	0.794
Government Effectiveness	0.945
Regulatory Quality	0.935
Rule of Law	0.967
Control of Corruption	0.914

According to the results of factor loadings, the factor loadings coefficient of each variable (coefficient > 0.60) is quite large. Considering the degree of explanation of the total variance of each component in the table, the percentage of explaining the total variance of the first component with an eigenvalue coefficient greater than 1 (4.872>1) is approximately 81%. This value is considerably larger than 60%. Therefore, the index to be obtained from the first component is sufficient to explain all the other variables.

Table 5 shows the results of two-step system GMM and robust GMM estimations. As mentioned above, although the two-step system GMM method is efficient in the presence of autocorrelation and heteroskedasticity problems, the standard errors are biased downwards. As a result, the findings of the study will be interpreted considering the robust system GMM analysis.

According to the robust GMM results, the Wald test shows that the model is generally significant at the 1% level. The result of the Hansen test shows that the null hypothesis is rejected. Therefore, the instrumental variables are valid. While according to the AR (1) test result, there is a first-order autocorrelation at the 1% level in the estimation model (p-value < 0.01), according to the AR (2) test result, there is no quadratic autocorrelation (p-probability value > 0.10). Finally, the number of groups is greater than the number of instrumental variables (25 > 23). According to the results of the diagnostic tests, the results obtained with the GMM estimator are consistent.

Table 5. Dynamic system-GMM estimations results (two-step)

PGDP	System GMM		Robust System GMM	
	Coefficient	Std. Err.	Coefficient	Corrected Std. Dev.
PGDPt-1	0.107***	0.017	0.107*	0.055
FISCAL	-0.453***	0.087	-0.453*	0.231
GOVEX	-0.169***	0.024	-0.169***	0.063
INSQUAL	0.363***	0.056	0.363***	0.124
LABFOR	0.056***	0.007	0.056***	0.018
GFCF	-0.050***	0.009	-0.050	0.039
TRADE	0.018***	0.003	0.018**	0.009
CONSTANT	0.168	0.541	0.168	1.440
Diagnostic Tests				
Wald Test (p)	0.000		0.000	
AR(1) (p)	0.001		0.003	
AR(2) (p)	0.354		0.360	
Hansen Test (p)	0.433		0.433	
Groups	25		25	
Instruments	24		24	

"***" is % 1 significance level
"**" is % 5 significance level
"*" is % 10 significance level

According to the robust GMM results, an increase in lagged GDP per capita increases GDP per capita by about 0.107 units at the 5% significance level. An increase in the fiscal performance variable reduces growth by -0.453 units at the 5% significance level. A deterioration in fiscal performance leads to a decline in economic growth. An increase in government expenditures as a share of GDP reduces growth by -0.169 units at the 1% significance level. An increase in the institutional quality index increases growth by 0.364 units at a 1% significance level. Institutional quality has a positive impact on growth in 25 countries in the Sub-Saharan Africa country group. An increase in the labor force participation rate and the trade as a share of GDP increases growth by 0.056 units and 0.018 units, respectively, at 1% and %5 significance levels. The growth rate of gross fixed capital formation has no significant impact on economic growth.

3. Conclusion and Recommendations

There is a large literature examining the relationship between public fiscal performance and economic growth. Fiscal performance is often calculated using either domestic or external debt or a combination of both. There are two different

views on this issue. While the authors of the first group argue that solving the capital insufficiency problem of developing countries by borrowing from abroad will increase economic growth, the authors of the second group believe that high debt levels have a negative impact on economic growth. Moreover, the public's preference for borrowing domestically restricts investment because of the crowding-out effect. This debate on the issue has led to the emergence of studies aimed at finding the optimal level of borrowing. However, empirical studies have not found evidence of a common optimal level of borrowing.

Country experience shows that the public debt burden is detrimental to economic growth. It is emphasized that economies that have no chance to develop without borrowing should use their borrowed funds effectively. Borrowed funds that are channeled into productive sectors contribute to economic growth as they yield higher returns than costs.

The proper use of borrowed funds requires independent and disinterested decision-makers and a strong legal basis. Moreover, in an economy where corruption and bribery are absent and where democratic, transparent and accountable institutions are in place, resources can be channeled into productive and effective areas. These conditions, known as governance quality, are important for the reliability of contracts and thus for a healthy economic structure. In recent years, there has been a surge of interest in governance economics. In this context, many studies examine the relationship between the governance quality of countries and macroeconomic indicators.

This study examined the impact of fiscal performance and governance quality on GDP using data from 25 sub-Saharan African countries for the period 2002-2019. According to the results of the analysis, the deterioration of sub-Saharan African countries' fiscal performance, i.e. the increase in total public debt, has a negative impact on economic growth. On the other hand, the improvement in the quality of governance has a positive effect on GDP growth. Interpreting the coefficients shows that the effect of improving the governance quality is larger than the negative effect of deteriorating fiscal performance. Another indicator of public sector performance is public expenditure. Public expenditure is a contentious issue in the literature. While Keynes argues that public expenditure is conducive to economic growth, the Classical school holds that public expenditure will lead to a decline in output due to the crowding-out effect. According to the results of the analysis, public expenditure has a negative impact on economic growth. In addition, the signs of the variables representing labor and capital were found to be positive, in line with the theory.

Most of the sub-Saharan African countries belong to the group of least developed countries. Since these countries do not have sufficient capital accumulation, they have to borrow to ensure economic growth. The negative effects of borrowing can be mitigated by improving the quality of governance. However, problems

such as the long-standing separatist wars, the existence of violence and terrorism, and corruption on the continent prevent improvement in the quality of governance. Therefore, for better economic performance, it is necessary to increase peace and tranquillity on the continent and create an economic climate where democratic, transparent, and accountable institutions, as well as good regulatory authorities and moral corruption, disappear.

Considering the significant differences in financial capacities among African countries, economic factors alone seem insufficient to explain the financial results between countries, institutional mechanisms are effective in shaping financial cycles as well. Consequently, analyzing the role of political-institutional factors provides an important tool to understand gaps in regulations and the rationale for wide differences in fiscal performance in West African countries (Fagbemi, 2020).

The worsening governance has increased financial vulnerabilities in African countries. Particularly in West African countries, adherence to fiscal rules remained below other developing countries due to weak institutional structures. Therefore, there was no improvement in financial performance (World Bank, 2014).

Countries fundamentally need good institutions to achieve economic progress (Oluwatobi, et all. 2014). Weak institutions and poor governance limit the sustainability of fiscal policies (Muhanji & Ojah, 2011). Evidence from the limited number of studies on African countries indicates that in addition to the inefficiency problem in these countries, the financial structure is extremely vulnerable to shocks, and that uncertainty and instability can weaken institutions and thus worsen financial performance. Therefore, creating incentives for the building of institutions and ensuring good governance will improve the financial performance of countries (Addison & Raman, 2004; Fabgemi, 2020; Nabieu, et all., 2021)

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