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Public Debt, Governance and Economic Performance in the Selected Sub-Saharan African Countries

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Abstract

The persistent poor economic performance in Sub-Saharan Africa (SSA) is often associated with rising public debt levels and persistent governance challenges. This study examines the effect of public debt and governance indicators specifically control of corruption and political stability on economic performance in selected SSA countries, namely Nigeria, South Africa, Kenya, and Angola. The study utilized secondary data obtained from the World Development Indicators and World Governance Indicators of the World Bank covering the period 1996–2023. A longitudinal research design was adopted, and the Panel Autoregressive Distributed Lag (ARDL) model was employed to analyze both the short-run and long-run relationships among the variables. The empirical results show that governance indicators, particularly political stability and control of corruption, have a significant influence on long-run economic performance ($p < 0.05$). The findings further reveal that external debt exerts a positive effect on economic performance in the long run, suggesting that properly managed borrowing can support productive investment and economic growth. In contrast, debt servicing obligations have a significant negative effect, indicating that increasing debt burdens may constrain fiscal capacity and reduce resources available for development. The study therefore recommends the adoption of debt service reduction strategies, including concessionary borrowing with favorable repayment conditions. In addition, strengthening governance institutions, particularly through improved control of corruption and enhanced political stability is essential to ensure that public debt contributes effectively to sustainable economic growth in Sub-Saharan Africa.

Keywords: Public Debt, Governance Quality, Economic Performance, Sub-Saharan Africa, Panel ARDL

Introduction

Public debt is an important fiscal instrument used by governments to address liquidity constraints and finance essential development projects and social services. When effectively managed, public borrowing can support investments in infrastructure, education, and other productive sectors that contribute to macroeconomic stability and improved economic performance. However, the rapid growth of public debt in Sub-Saharan Africa has generated increasing concern due to the absence of proportional improvements in economic growth and development outcomes. This issue has attracted considerable attention from researchers, development financiers, and policymakers seeking to understand the implications of rising debt levels in developing economies. Although the growth in public debt is a global phenomenon, emerging and developing economies have experienced the most significant increases in public borrowing in recent decades (Ndulu & Connell, 2021).

Historically, global economic recessions following the Second World War compelled many countries, both developed and developing, to rely on domestic and external borrowing to finance

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fiscal deficits, leading to substantial public debt accumulation by the early 2000s (Donayre & Taivan, 2017). In response to growing debt distress among low-income countries, international financial institutions such as the World Bank and the International Monetary Fund introduced major debt relief initiatives, including the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). These initiatives collectively provided over US$100 billion in debt relief to approximately thirty low-income African countries (Calderón & Zeufack, 2020). As a result, the debt-to-GDP ratio in many countries declined significantly, falling from about 64 percent to roughly 21 percent between 2004 and 2012 (Calderón & Zeufack, 2020). Despite these gains, public debt levels in Sub-Saharan Africa began to rise again after 2012, with the regional debt-to-GDP ratio increasing from an average of 38 percent in 2012 to about 59 percent in 2018 (Calderón & Zeufack, 2020), reaching approximately 60.06 percent in 2023 (Statista, 2024).

Governance is widely recognized as a critical factor influencing economic growth and the effectiveness of fiscal policy. Strong governance systems help reduce corruption, enhance transparency, and improve the allocation of public resources, thereby promoting macroeconomic stability and sustainable economic performance (Gani, 2011; Bosco, 2016). In addition, effective governance structures and political stability can enhance investor confidence, strengthen institutional performance, and reduce the risk of sovereign debt crises (Mehlum, Moene, & Torvik, 2006). The relationship between public debt and economic performance is therefore closely linked to the quality of governance within a country (Eggertson & Krugman, 2012). Scholars have emphasized that governance quality, institutional capacity, and prevailing economic conditions play significant roles in determining how effectively borrowed resources contribute to economic development (Egert, 2015). Similarly, institutional quality and governance standards have been identified as key determinants of public debt management and fiscal sustainability (Assoum & Alinsato, 2023). In the context of Sub-Saharan Africa, the interaction between public debt management and governance conditions has become an important policy concern. Rising public borrowing, combined with governance challenges in several countries, has raised questions regarding the capacity of governments to effectively utilize borrowed resources to stimulate economic performance. Understanding how public debt and governance conditions jointly influence economic outcomes is therefore essential for developing effective fiscal and institutional policies in the region. This study therefore investigates the influence of public debt and governance indicators on economic performance in selected Sub-Saharan African countries. Although a substantial body of literature exists on the relationship between debt and economic growth, empirical findings remain mixed and often inconclusive, particularly regarding the role of governance in shaping this relationship. The persistence of these divergent findings highlights the need for further empirical investigation into how public debt and governance jointly affect economic performance, especially within the unique institutional and economic contexts of Sub-Saharan African economies.

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Literature Review

The part is divided into three sub-sections, which are conceptual review, theoretical review and empirical review for proper analysis.

Conceptual Review

Public debt encompasses the sum of all outstanding financial liabilities held by a government, encircling both the principal amount borrowed and the associated interest (Hlongwane & Daw, 2022). This debt can be classified into two categories: domestic or internal debt when sourced within the country, and external or foreign debt when obtained from international sources. External debt refers to borrowed funds from overseas commercial banks, governments, or international financial institutions, whereas internal debt represents liabilities incurred from domestic residents or institutions, often involving the sale of bonds in the domestic primary capital market and expressed in the home currency (Taghizadeh-Hesary, et al., 2021; Calitz, 2019).

The impact of public debt on economic growth can manifest either directly or indirectly. Direct effects arise when externally acquired funds are directed toward social programs such as education, unemployment benefits, elderly support, or healthcare. Indirect links are established through investments that drive economic growth, as external borrowing addresses the investment-savings gap within an economy (Matandare & Tito, 2018).

Governance

Governance encompasses the mechanisms through which societies, organisations, or institutions reach agreements, make decisions, and regulate matters of collective concern, with the aim of optimizing the utilization of available resources for the public benefit. According to Kaufmann, Kraay, and Mastruzzi (2010), governance is characterized as the institutions and traditions that guide the decision-making processes and rule by those in authority within a given country. In a similar vein, Abbas, Li, Muhammad and Sumbal (2021) asserted that governance involves the traditions and institutions through which the authority of a state is exercised. The World Bank extends this definition to include the institutions and norms through which authority is exerted (Kaufmann et al., 2009). In this context, an institution embedded in governance is perceived as socially approved behavior models that not only modify, compel, and inspire a pattern of behavior but also serve as a crucial component in facilitating efficient resource utilization to achieve societal objectives (Vitola & Senfelde, 2015). Furthermore, institutions can be understood as the "rules of the game" within a society, or, when considered more comprehensively, as humanly devised constraints that shape human interaction. Consequently, these institutions play a pivotal role in building incentives for human exchanges, whether they be political, social, or economic in nature (North, 1990)

Economic Performance

Economic performance encompasses how effectively a country is achieving its economic policy goals. It evaluates whether a nation is prospering and meeting its economic objectives. The four core macroeconomic policy objectives include stable economic growth, low unemployment, stable inflation, and a satisfactory balance of payments. Economic growth is one component of economic performance. Proper assessment of economic performance and macroeconomic policies requires

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precise measurement. The economic policies are meant to achieve strong and stable economy in countries. They include economic growth of nation, Low level of unemployment, Low and stable inflation and Satisfactory Balance of Payment**.** Achieving stable and sustainable economic growth is a fundamental goal for governments, both in developed and developing countries. While the Western world has made substantial progress in various aspects of growth, developing countries often struggle due to limited capital stock caused by low revenue capacity (Zouhaier & Fatma, 2014). Economic growth refers to the increase in a nation's economic value over a specified period, typically a year. It reflects the rise in a nation's productive potential over time. The dual gap theory posits that a certain level of saving is required for investment to drive economic growth. As many developing countries lack sufficient savings, they often resort to debt financing (Murungi & Okiro 2018).

Debt Interaction

According to Daud (2020), debt interaction refers to the mediating role of governance on the debt-growth relationship, a phenomenon contingent upon the governance quality within a country. Additionally, it can be elucidated as the governance's influence on the relationship between debt and growth (Mensah, Bokpina, & Boachie-Yiado, 2018). The study further expounds on the role of governance in shaping the dynamics of the debt-growth relationship. Debt interaction represents the indirect influence of governance on economic growth through the interplay of debt and economic growth (Sani et al., 2019). It assumes a moderating role, wherein governance disrupts the relationship between external debt and economic growth, as established by Ring et al. (2021) and Musa, Sohag, Said, Ghapar, and Ali (2023)

Conceptually, debt interaction embodies the influential role of governance in shaping the debt-growth relationship. This influence has the potential to either detrimentally disrupt or positively enhance the already established nexus between public debt and economic growth within a country's economy. It underscores the significance of governance as a key determinant in steering the trajectory of economic growth amid the dynamics of debt accumulation.

Existing literature identifies several channels through which debt interacts with economic growth. These include physical capital accumulation and total factor productivity growth, with the latter playing a substantial role (Pattillo et al., 2004). Riffat and Munir (2015) highlighted private investment, public investment, and total factor productivity as key channels. Qureshi and Liaqat's (2020) recent study identify savings and investment as primary channels through which external debt influences economic growth. Similarly, Silva (2020) emphasized public and private investment as the conduits for external debt's effects on economic growth. A study by Hassan and Meyer (2021) expanded the list of channels to include public investment, private investment, total factor productivity, savings, and interest rates as mechanisms for debt transmission to economic growth.

Theoretical Framework

In the context of examining the relationship between debt, governance, and economic performance, the research specifically centers on the Neoclassical Growth Model and Keynesian Theory of public debt as its foundational theories.

2.2.1 Neoclassical Growth Model

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According to the neoclassical growth model, economic growth is driven by increased investment within an economy, which is supported by stable macroeconomic policies (Ellig, 2001). This model asserts a direct relationship between public debt and economic performance, particularly when borrowed funds are effectively allocated to investment projects (Matthew & Mordecai, 2016). Countries facing capital shortages are encouraged to borrow to support capital accumulation, which is vital for sustained economic growth (Madow et al., 2021). The model emphasizes the need for governments to ensure adequate funding for viable investments, particularly in regions like Sub-Saharan Africa (SSA), where capital constraints hinder growth.

However, a key limitation of the neoclassical model is its assumption that the economy will self-regulate, neglecting real-world issues like market failures, unequal resource distribution, and the need for government intervention, especially during economic downturns (Yusuf & Mohd, 2021). Critics, such as Tsoulfidis (2017), highlighted that debt accumulation may divert resources from the private sector, negatively impacting growth. Additionally, the Ricardian Equivalence Theory argues that the benefits of debt are neutral or even harmful, creating burdens for future generations (Omitogun, 2018; Bernheim, 1987).

In summary, while the neoclassical model provides valuable insights into economic growth mechanisms, it overlooks the complexities of real-world economies, including the need for government intervention and the challenges posed by market imperfections. Acknowledging these limitations is crucial for developing more effective economic policies.

Keynesian Theory of Public Debt

The Keynesian Theory of Public Debt, introduced by John Maynard Keynes in the 1930s, suggests that public debt can stimulate economic growth if used for productive investments, such as infrastructure projects. The theory emphasizes that the effectiveness of debt depends on its utilization. When governments invest borrowed funds in growth-enhancing projects, the positive impact on the economy can outweigh the downsides. However, misuse or wasteful spending can lead to negative consequences (Kavila, 2022). Keynesians argue that during economic downturns, government spending should supplement private investment to achieve full employment and output. They also assume that individuals and firms behave rationally, although real-world complexities, such as uncertainty and behavioral biases, challenge this view. The theory highlights the importance of efficient public spending and stresses that borrowing, if well-managed, will not necessarily burden future generations (Otaki, 2015).

Key critiques include the Ricardian equivalence theory, which argues that individuals anticipate future taxes to finance debt, leading them to save more and reduce consumption, thereby limiting growth. Critics also point out that reliance on government intervention can lead to inefficiencies and discourage private sector investment. Additionally, delays in implementing fiscal policies can hinder their effectiveness (Barro, 1987).

The relevance of this theory to Sub-Saharan Africa (SSA) is significant, as many SSA countries accumulate debt without effectively managing it, often using funds for political purposes rather than for economic development. Mismanagement and lack of accountability undermine the

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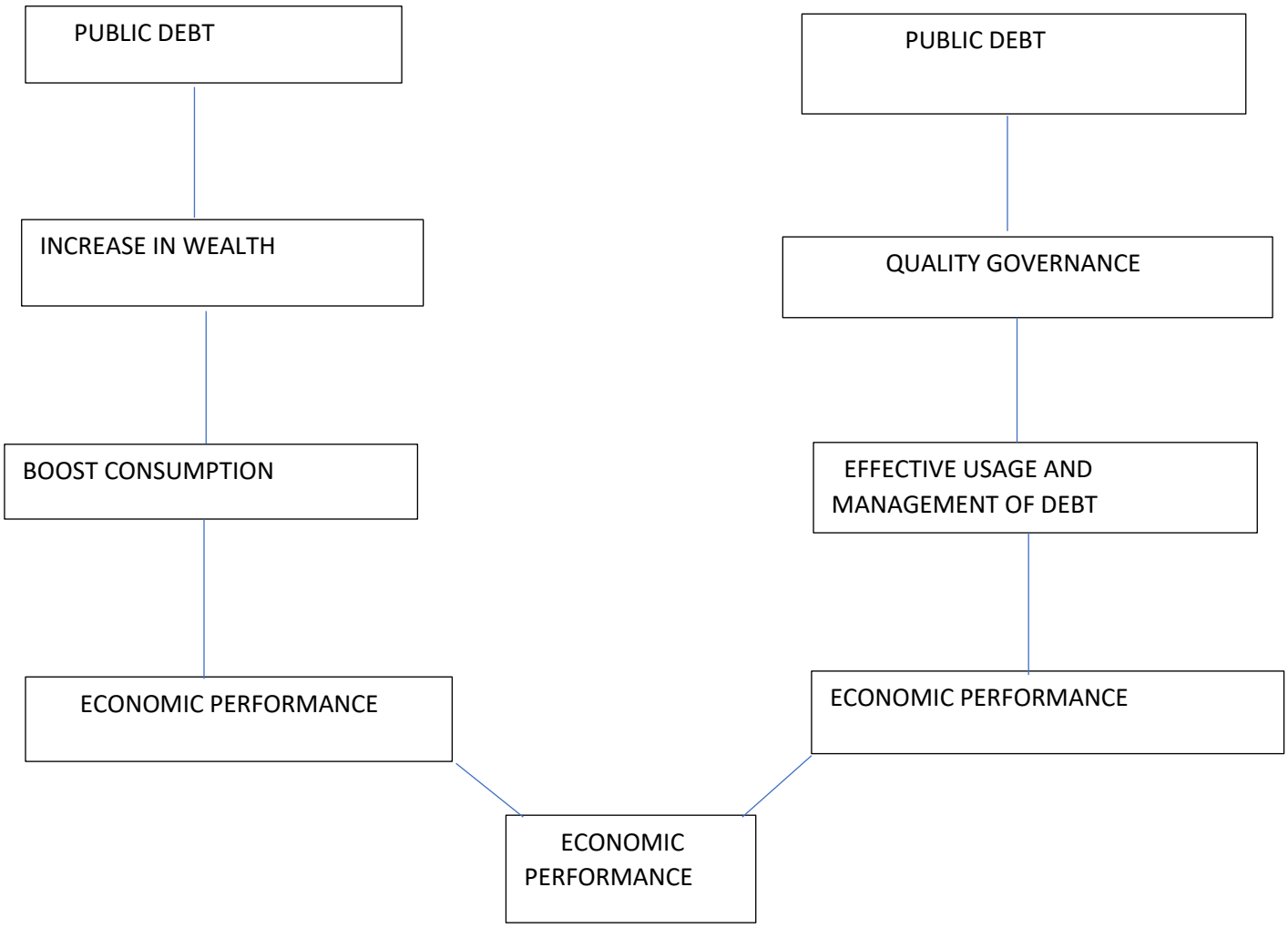
potential growth benefits that proper debt management could offer (Kelikume & Otonne, 2022; Dung & Okereke, 2022)

Theoretical framework Analysis

Neoclassical Growth Theory

Keynesian Theory of Public



Empirical Review

The empirical review comprises studies by scholars from developed, emerging and developing countries who have investigated the effect of public debt on economic performance along the mediating role of governance while employing different estimation techniques, period and sample of countries.

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Evidence from Developed Countries

In a comprehensive study spanning from 1995 to 2019, Onofrei, Bostan, Firtescu, Roman, and Rusu (2022) utilized ARDL (Auto-Regressive Distributed Lag) models and dynamic fixed effects (DFE) models to investigate the short and long-term impacts of public debt on economic growth in European Union countries. The findings underscored a significant negative effect of increasing public debt on economic growth in the countries. The ARDL results further reinforced this conclusion, revealing a consistent negative impact in both the short and long term, albeit with varying magnitudes. Their recommendations aligned with the notion that proactive measures in these areas are crucial to supporting sustained economic growth. The study not only contributed to the ongoing discourse on the public debt-growth nexus but also emphasized the necessity for policymakers to adopt proactive strategies in managing public debt for the long-term economic well-being of nations. Equally significant is the study conducted by Al-Naser and Hamdan (2021), focused on the impact of public governance on economic growth in Gulf Cooperation Council countries. The study utilized a multiple regression model, employed the fixed effect approach for a period of 1996-2019. Their findings indicated that while control of corruption and the rule of law had a positive but statistically insignificant impact on economic growth, government effectiveness and regulatory quality both had positive and statistically significant impacts on economic growth in these countries. The recommendation from this study highlighted the need for increased awareness of public governance and its effectiveness in promoting economic growth, urging policymakers and top management of corporations and entities to take this seriously. These empirical studies contributed valuable insights to the ongoing discourse on the intricate relationships between public debt, governance, and economic growth, emphasizing the importance of nuanced approaches and comprehensive policy frameworks for sustainable economic development. In a departure from the aforementioned studies, Gómez-Puig et al. (2022) adopted a multinomial logit regression model and a two-stage least squares technique to assess the heterogeneous link between public debt and economic growth. Using panel data for one hundred and fifteen (115) countries over the period 1995 to 2016, the study grouped countries into five categories employing the Group Fixed Effect estimator. The results unveiled that the relationships between public debt and growth vary across these five groups of countries. Moreover, the likelihood of the impact of the debt-growth relationship was found to be moderated by the quality of institutions and the level of productive expenditure, albeit intensified by the level of indebtedness and the maturity of debt acquired.

Evidence from Emerging Economies

Alwi, Lee, Azman, and Lee (2020), for instance, confirmed a significant positive relationship between external debt and economic growth in Malaysia, utilizing quarterly data spanning from 1997 to 2016 and employing time series econometric approaches. The finding revealed a significant positive effect between external debt and economic growth. The scholars recommended effective debt monitoring to harness a progressive impact on the economy.

In contrast, Kurniasih (2021) employed the Error Correction Model on Indonesia over a period of thirty-six years (1981-2017). The findings revealed a negative and significant influence of foreign debt on economic growth in Indonesia, both in the long and short run. This study suggests a nuanced understanding of the relationship between foreign debt and economic growth,

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emphasizing the need for careful consideration of country-specific contexts. Chien, Chau, Aldeehani, Huy, Tan, and Mohsin (2022), applying quantile estimation, explored the study on Asian countries over nineteen years from 2000-2018. The scholars underscored that a high level of debt may adversely affect economic advancement, but the study did not indicate a causal link between high debt levels and fragile economic growth. They emphasized that a comprehensive understanding of the debt-expansion connection, coupled with robust macroeconomic policies, is pivotal for achieving better economic performance. These insights contribute to the ongoing dialogue on the nuanced relationships between debt, governance, and economic growth, particularly within the unique contexts of emerging economies.

Evidence from Sub-Saharan African Countries

Kelikume, & Otonne (2022) delved into the productive capacity of fifty-four (54) African countries, aligning with the Debt-led-growth hypothesis. Their study, spanning nineteen years spanning 2000-2018, revealed a negative effect on growth, despite the marginal contribution made by external debt. This highlights the critical role of the productive capacity of host countries in determining the impact of debt on economic progress. In the study conducted by Hassan, Ongeri, and Ndolo (2023) on the Effect of National Public Debt on Economic Growth in Kenya, the researchers employed the Ordinary Least Square (OLS) regression technique on thirty (30) years of data across 1990 to 2019. Their findings revealed a negative but insignificant effect of domestic debt on growth, while external debt exhibited a positive but insignificant impact on economic growth in the Kenyan economy. The study emphasized the importance for the Kenyan government to enhance its internal revenue base to fund budget deficits, thereby reducing dependency on external debt. These recent analyses contribute valuable insights to the ongoing discourse on the nuanced relationship between debt and economic growth. The evidence presented underscores the need for policymakers to consider the specific dynamics of their economies, emphasizing absorptive capacity and internal revenue enhancement for sustainable economic development

In contrast to the prevailing consensus, another group of study has conducted investigations into the debt-growth relationship, arguing based on their empirical findings that public debt can have a growth-enhancing influence on the economy within Sub-Saharan Africa (Joshua, Babatunde, and Samuel, 2021; Didia and Ayokunle, 2020). These studies, conducted in the same region, employed varying estimation techniques on samples of countries, yet all arrived at similar conclusions.

For example, Joshua, Babatunde, and Samuel (2021) explored the sustenance of economic growth and the relevance of debt and Foreign Direct Investment (FDI) in Sub-Saharan Africa. Employing Autoregressive Distributed Lag and System GMM on sampled data spanning thirty-nine (39) years across four regions in SSA, the study found that external debt and FDI are major driving factors for economic growth. The study emphasizes the importance of governments seeking debt for economic reasons rather than political motives, suggesting that a focus on increasing productivity can lead to sustained economic growth in the country. This challenges the conventional narrative surrounding the relationship between public debt and economic growth, providing an alternative viewpoint rooted in empirical analysis. Benli (2020) cross-sectional Autoregressive Distributed Lag analysis, spanning thirty-one (31) years and covering thirty-five developing countries such as Algeria, Kenya, Brazil, Nigeria, Senegal, and Turkey, revealed that external debt and inflation rate

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had detrimental effects on the economic growth of the sampled nations. The study underscores the importance of comprehensive policies for prudent debt management and exercising caution in utilizing debt for developmental projects.

In another investigation, Yusuf and Mohd (2021) sought to understand the impact of government debt on Nigeria's economic growth over a thirty-nine (39)-year period. Their findings indicated that external debt acts as a hindrance to long-term growth but exerts a positive influence in the short run. Furthermore, the study revealed that domestic debt has a significantly positive impact on economic growth in the long run, albeit with a negative short-term effect. This underscores the complexity of the relationship between different types of debt and economic outcomes, aligning with the broader discussion on the nuanced nature of debt-growth dynamics

A comprehensive analysis conducted by Ashogbon, Onakoya, Obiakor, and Lawal (2023) on the Nigerian economy, spanning forty-one (41) years from 1981 to 2021, utilized descriptive Autoregressive Distributed Lag techniques. The study scrutinized the effects of public debt and institutional quality on the growth of the Nigerian economy. The robust findings indicated that institutional quality or governance exerted a negative and significant influence on long-term growth, with no such evidence in the short run. The variables considered in their assessment included gross capital formation, labor force, total domestic public debt, total external public debt, exchange rate, and institutional quality, represented by the mean of control of corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability. This study underscores the need for policymakers to address governance issues for sustained economic growth.

Research Methods

This chapter focuses on the diverse research methods essential for investigating the relationship between public debt, governance, and economic performance. It encompasses aspects such as research design, study population, sampling techniques, data sources, and estimation techniques. These components are crucial for achieving valid conclusions in the research investigation.

The research study adopts a longitudinal research design, to explore the impact of public debt, governance, and economic performance across selected countries in the sub-Saharan African countries. Secondary data will be sourced from the World Development Indicators and World Governance Indicators provided by the World Bank, spanning a period from 1996 to 2023, encompassing twenty-eight years of data. Specifically, data will be collected from four key countries—Nigeria, South Africa, Angola, and Kenya—representing distinct regions within Western, Southern, Central, and Eastern Africa in SSA. The population for the study consists of the countries within Sub-Saharan Africa (SSA), which encompasses approximately 48 countries categorized into four regions, excluding North Africa. SSA is recognized for its abundant natural resources and human capabilities. The attention of the researcher was drawn to SSA as the population of interest due to the concerning trend of rising public debt without commensurate effects on economic performance in the region. In this study, the selected countries within sub-Saharan Africa are Nigeria, Kenya, South Africa, and Angola, representing four distinct regions comprising West Africa, East Africa, Southern Africa, and Central Africa, respectively. Sub-Saharan Africa naturally divides into four regions and the researcher then judiciously selects these

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four countries based on having the largest economy, measured by the size of Gross Domestic Product (GDP) and the accumulated debt, in each respective region. The secondary data sources for this study from a range of reputable databases, including the African Development Indicator (ADI) database, the International Monetary Fund, the Country Policy and Institutional Assessment (CPIA) databases, and the World Development Indicators database, in addition to the World Governance Indicators database provided by the World Bank. The estimation technique employed for sampled data is panel regression analysis and Auto-Regressive Distributed Lag.

Model Specifications

The econometric model for the study is specified below;

$Y_{it} = \beta_0 + \beta_1 X_{it} + \beta_2 X_{it} + \beta_3 X_{it} + \beta_4 X_{it} + \theta X_{it} + \varepsilon_{it}$ 1

Where $Y_{it}\ represents$ the dependent variable, X_{it} stands for the explanatory variables, θX_{it} represents combination of the control variables in the research (interest rate, inflation rate and exchange rate), = β_0 is the intercept that shows the of Y when X is zero. The β_1 to β_4 represents the slopes, indicating the values of Y by a unit change in X. The ε_{it} represents the error term

The mathematically the equation can be rewritten for testing the research objectives

$gdp_{it} = \beta_0 + \beta_1 exd_{it} + \beta_2 ds_{it} + \beta_3 coc_{it} + \beta_4 ps_{it} + \theta X_{it} + \varepsilon_{it}$ 2

gdp_{it} represents the Gross Domestic Product being the dependent variable

exd_{it}, ds_{it} represent external debt and debt service which are proxies for total public debt in the SSA economy.

coc_{it} and ps_{it} represent control of corruption and political stability which are proxies for governance in the study.

Measurement of variables

Summary of Study Variables Measurement

Variables	**Definition**	***A Priori* Expectation**	**Source**
Stock of External Debt = (EXD)	Total of external debt (Independent Variable)	Positive (+)	International Monetary Fund Report
Debt Service (DS)	Total cost of servicing debt	Negative (-)	The world development indicators (WDI) database
Control of corruption (COC)	Measures to prevent, detect, and punish corrupt activities	Positive (+)	The World Governance Indicator (WGI) database

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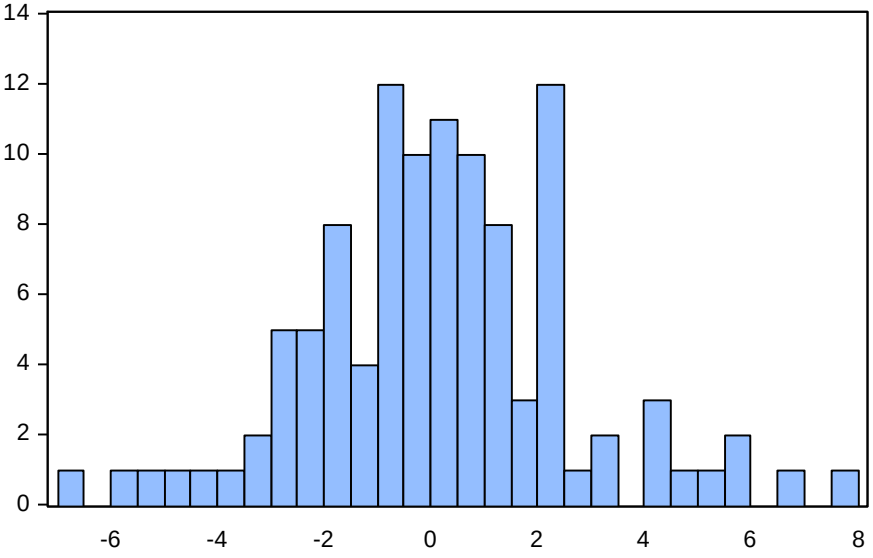
Political stability (PS)	The durability and consistency of political system	Positive (+)	The World Governance Indicator (WGI) database
Inflation Rate (INF)	Inflation rate to reflects yearly changes in the cost of goods and services (Independent Variable)	Negative (-)	Index of Inflation rate, GDP deflator (annual %)
Foreign Exchange Rate (EXR)	Exchange rate of Naira to US Dollars (Independent Variable)	Negative (-)	The world development indicators (WDI) database.
Interest Rate (INT)	**The cost of borrowing of fund**	Negative (-)	World Economic Indicator (WEI)

Source: Author's Compilation (2024)

Results and Discussions

This aspect focuses on empirical results of the study as well as the discussions of the interpretation and implications of the findings.



Series: Residuals
Sample 1997 2023
Observations 108

Mean	0.158970
Median	0.137876
Maximum	7.678232
Minimum	-6.589247
Std. Dev.	2.487095
Skewness	0.210197
Kurtosis	3.764493
Jarque-Bera	3.425316
Probability	0.180386

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The mean and median of the residuals are close to zero, suggesting that the residuals are centered around zero. This is a good sign, indicating that the model does not have a systematic bias. There is considerable spread in the residuals, as indicated by the standard deviation. The residuals do not significantly deviate from normality, as per the Jarque-Bera test.

Test for Unit Root

A unit root test was conducted to assess the stationarity of the variables and prevent spurious correlations in the regression analysis. The Augmented Dickey-Fuller (ADF) test (Dickey & Fuller, 1981), along with the asymptotic Chi-square distribution, was used to determine the order of stationarity in the panel data. This process ensured that the data were appropriately transformed to achieve stationarity, thereby enhancing the reliability of the results.

Table 4.1: Unit Test Results

Variables	t-statistics	p-values	Level	First difference
GDP	-4.58468	0.0000	1(0)	-
EXD	-8.20447	0.0000	-	1(1)
DS	-15.0586	0.0000	-	1(1)
PS	-9.00761	0.0000	-	1(1)
COC	-6.14505	0.0000	-	1(1)
INT	-4.84506	0.0000	1(0)	-
INF	-3.78621	0.0001	1(0)	-
EXR	-2.26692	0.0117	-	1(1)

Source: Author's computation (2024)

The mixture of I(0) and I(1) variables justifies the use of the panel Autoregressive Distributed Lag (ARDL) model, which is suitable for analyzing relationships among variables with different orders of integration. Table 1 indicates that Gross Domestic Product (GDP), interest rate (INT), and inflation rate (INF) are stationary at levels, as their p-values are below the 5% critical threshold. Conversely, variables such as external debt (EXD), debt service (DS), political stability and absence of terrorism (PS), control of corruption (COC), and exchange rate (EXR) are non-stationary at levels, necessitating first differencing to achieve stationarity. The results show that after first differencing, all variables became stationary, exhibiting an I (1) process at the 5% significance level. Consequently, the null hypothesis of non-stationarity for these variables can be rejected at this level.

Table 4.2 Correlation Matrix (Correlation among independent variables)

	GDP	COC	PS	EXD	DS	INT	INF	EXR
GDP	1.0000	-0.2494	-0.2832	-0.0853	-0.1057	0.3415	0.2502	-0.1188
COC	-0.2494	1.0000	0.5720	-0.1530	-0.1421	-0.2433	-0.0785	-0.2989
PS	-0.2832	0.5720	1.0000	-0.1015	-0.0235	-0.3128	-0.1886	-0.2595
EXD	-0.0853	-0.1530	-0.1015	1.0000	0.9064	0.6067	0.4732	0.0573

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DS	-0.1057	-0.1421	-0.0235	0.9064	1.0000	0.5479	0.2904	0.1320
INT	0.3415	-0.2433	-0.3128	0.6067	0.5479	1.0000	0.7641	-0.1307
INF	0.2502	-0.0785	-0.1886	0.4732	0.2904	0.7641	1.0000	-0.0903
EXR	-0.1188	-0.2989	-0.2595	0.0573	0.1320	-0.1307	-0.0903	1.0000

Source: Author's computation (2024)

The correlation matrix in table 2 indicates weak to moderate relationships among most explanatory variables. Although the correlation between external debt and debt service is relatively high, this relationship is expected since debt servicing obligations arise from accumulated external debt. The correlations among the remaining variables are moderate and below the critical threshold, suggesting that multicollinearity is unlikely to distort the regression estimates

Error Correction Mechanism (ECM) and Short-Run Dynamics

The ECM test was used to explore the short-run dynamics of the variables, following the establishment of a long-run relationship as evidenced by cointegration results.

Table 4.3: ECM and Short-run Relationship Result

Variables	Coefficients	t-Statistics	P-Values
COINTEQ	**-0.710991**	-2.683672	0.0085
EXD	**-0.111391**	-1.340067	0.1833
DS	**-0.325447**	-0.669688	0.5046
PS	**0.923105**	0.219997	0.8263
COC	**-0.326934**	-0.120210	0.9046
INT	**0.107037**	-0.875164	0.3836
INF	**0.053288**	0.812517	0.4184
EXR	**0.026524**	2.026550	0.0454

Source: Author's computation (2024)

The error correction term shows a negative coefficient of -0.710991, statistically significant at the 5% level, indicating that deviations from the long-run equilibrium are corrected by approximately 71.10% each period. This confirms a stable long-run relationship among the variables, with cointegration present. In the short run, the exchange rate (EXR) is the only variable that significantly affects GDP at the 5% level, while other factors such as external debt, debt servicing, political stability, control of corruption, interest rate, and inflation do not exhibit significant short-term effects on GDP in the selected countries.

Panel ARDL Tests

Given the mixed stationarity in the panel data, the Auto-Regressive Distributed Lag (ARDL) model was employed to examine both long-run and short-run relationships between GDP (the dependent variable) and the explanatory variables. This approach allows for the identification of long-run trends and potential shocks influencing the variables over time.

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Table 4.4: The results of ARDL model (long -run relationship of variables)

Variables	Coefficient	t-statistics	p-values
EXD	**0.137913**	3.517839	0.0007
DS	**-0.970893**	-3.390698	0.0010
PS	**-2.913369**	-2.781785	0.0065
COC	**2.228389**	2.913995	0.0044
INT	**0.030276**	0.728860	0.4678
INF	**0.052604**	0.971111	0.3338
EXR	**-0.001212**	-0.131680	0.8955

Source: Author's computation (2024)

Table 4 reveals that the coefficient for control of corruption (COC) is positive and statistically significant at the 5% level. This suggests that a one-unit improvement in control of corruption in the sampled countries is associated with a 2.228 unit increase in GDP, holding other factors constant. On the other hand, the coefficients for political stability and absence of terrorism (PS) are negative and statistically significant at the 5% level, indicating that a one-unit increase in political stability and the absence of terrorism corresponds with a 2.913 unit decrease in GDP, all else being equal.

The coefficient for external debt (EXD) is positive and statistically significant, implying that a one-unit increase in external debt is associated with a 0.138 unit increase in GDP, under ceteris paribus conditions. However, debt servicing (DS) has a negative coefficient of -0.970893, also statistically significant at the 5% level, indicating that a one-unit rise in debt servicing costs correlates with a 0.971 unit decrease in GDP.

Inflation rate (INF) and interest rate (INT) coefficients, though positive, are not statistically significant, suggesting these variables do not significantly affect GDP in the long run. Similarly, the exchange rate (EXR) has a negative but insignificant impact on GDP over the study period.

Hypotheses Testing

From table 4, The analysis indicates that political stability has significant negative effect on GDP and control of corruption significantly influence economic performance in the studied sub-Saharan African nations, highlighting the importance of governance. Conversely, external debt positively influences GDP in the long run, possibly due to investments in infrastructure and social services, although the cost of debt servicing can erode these gains. Therefore, the null hypothesis is rejected, and the alternate hypothesis that public debt and governance have effect on economic performance in the selected sub-Saharan African countries is supported.

Discussion of Findings

Empirical findings revealed that external debt has a negative but non-significant effect on GDP in the short run. However, in the long run, the effect became positive and statistically significant at the 5% level. The debt service coefficient showed a negative effect in the short run, which became statistically significant at 5% in the long run. Political stability, though positive and non-significant in the short run, exhibited a negative and statistically significant effect on GDP at the 5% level in

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the long run. The negative relationship may reflect the structural and institutional adjustments occurring in some SSA countries, where political transitions and governance reforms sometimes coincide with short-term economic disruptions. Initially, the control of corruption had a negative impact in the short run, but this turned positive and significant at the 5% level over the long term. Regarding the control variables (inflation, interest rate, and exchange rate), none showed significant effects in either the short or long run, except for the exchange rate, which has a significant negative effect in the short run. The results of the study are consistent with the findings of Hassan, Ongeri, and Ndolo (2023),) Al-Naser and Hamdan (2021)., Yusuf and Mohd (2021), Mehmood, Mohd-Rashid, Aman-Ullah, and Zi Ong, (2021), Butkus, Diana, Lina and Janina (2021), Alwi, Lee, Azman, and Lee (2020), and Ssempala, Ssebulime, and Twinoburyo, (2020)

Conclusion

This study examines the impact of public debt and governance on economic performance in four selected sub-Saharan African countries: Nigeria, South Africa, Kenya, and Angola. The empirical findings reveal that both public debt and governance have a significant effect on the economic performance of these nations.

Recommendations

Based on these results, several recommendations are proposed to address these challenges. First, it is crucial to strengthen fiscal discipline within established guidelines for debt usage by rigorously monitoring and supervising debt management strategies in public offices. This will help reduce the debt burden and maximize its positive impact on economic growth. Second, debt service reduction techniques should be implemented by seeking international support through concessionary loans with lower interest rates and longer maturities, while also encouraging domestic borrowing to enhance the benefits of public debt management. Third, efficient allocation of resources should be ensured through effective economic reforms, such as public sector reforms, to build public confidence. While maintaining political stability is important, excessive or misdirected spending that undermines critical sectors can impede economic progress. Fourth, governance structural reforms should be comprehensive, focusing on all aspects of good governance. For example, while strengthening anti-corruption measures, political stabilization efforts should not be overlooked in order to fully realize the benefits of good governance.

Contribution to Knowledge

The study has enriched the existing body of literature in the field, providing new insights and expanding the depth of understanding in the area of public debt, governance, and economic performance in the selected Sub-Saharan African countries. By introducing novel perspectives and empirical evidence, this research advances the discourse and offers a valuable resource for future scholars and practitioners.

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