Governance and Economic Development in West Africa: Linking Governance with Economic Misery

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Abstract. In this study, we explored how governance could influence economic misery. Consideration is made of 16 West African countries from 2005 through 2020. The governance indicators used in the study include voice and accountability; political stability and absence of violence/terrorism; government effectiveness; regulatory quality; the rule of law; and control of corruption. Barro's misery index was computed and used in this study. The analysis used the pooled ordinary least squares, fixed and random effect models, and the Granger causality test. The Granger causality test indicated that unidirectional causality runs from government effectiveness, political stability and absence of violence/terrorism, and regulatory quality to economic misery. For the pooled OLS, only voice and accountability aided in reducing economic pain in a significant manner, while the rule of law aggravated financial distress. In the Fixed effect model, none of the governance indicators could significantly influence economic misery, while in the Random effect model, voice and accountability with regulatory quality significantly reduced financial discomfort. Government effectiveness has not in any way exerted a significant influence on economic misery within the study period. Other variables that substantially influenced economic distress within West Africa were trade liberalisation and credit to the private sector, as they both significantly reduced economic misery. The weak governance indicators show poor institutional quality intensifies economic pain within the West African region.

Keywords: governance; economic development; economic misery; inflation; unemployment.

INTRODUCTION

The issue of development has extended to encompass happiness. Consequently, "development has to be more concerned with enhancing the lives we lead and the freedom we enjoy" [14]. It could result from human curiosity to try to explain something as subjective as happiness using a scientific method [22]. Economics frequently uses utility to measure a person's satisfaction from consuming goods and services. "The utility derived from consumption is highly personal and could thus be regarded as a measure of happiness" [35]. On the other hand, the concept of utility is rather theoretical and difficult to apply in practice. To present a more credible study, a happiness measurement based on more concrete factors would be preferable.

There have been efforts to estimate the perception of happiness using variables that are not as theoretical as those used to compute the concept of utility. In 1960 (specifically in 1966), American economist Arthur Okun proposed the Misery Index, which attempted to compute happiness's inverse, unhappiness. According to Okun, "inflation and unemployment are two major causes of unhappiness in the population", so his index is based on these two variables. Further, Okun stated that the misery index can be viewed as "a crude utility or simply a disutility function in an economy" [36]. According to [26], the index measures economic discomfort as an unweighted sum of unemployment and inflation, two important macroeconomic policy outcome indicators. Inflation and unemployment are both affected by a country's economic and political situation, which means that misery, at least according to Okun's definition, may be affected by how a government decides to structure its economy [22].

Other index variants have been developed, such as the Barro [5] misery index, which incorporates interest and GDP growth rates into the mix. Since then, the index has been used as an essential measure of economic livelihood in many countries, and policymakers use it to guide policy [9]. The index, in general, is a vector quantity with magnitude and direction usually triggered by the magnitude and direction of unemployment, growth rate, and inflation at any given time [2]. As a result, an upsurge in the misery index portrays the manifestation of a negative consumer sentiment connected with economic discomfort.

As a result, it is worth looking into whether there's a link between misery and how well-regulated an economy is. In other words, is there a relationship between the Misery Index and the governance index? Unemployment and inflation, vital components of the misery index, remain critical problems in the country's macroeconomic management. Poor fiscal policy management through government expenditure and taxation can lead to an increase in the general price level, a high unemployment rate, a balance of payment deficit, unequal income distribution, and poverty, among other things [2]. If fiscal policy fails to create productive employment opportunities while addressing poverty and income inequalities in developing countries, this raises serious concerns. It is worth noting that the misery index has since proven useful in predicting election outcomes [43], plus offering some facts about the presidential approval rating [23]. It has also been thoughtfully designed to be a reverse measure of economic good [30].

The misery index, which combines the inflation and unemployment rates, measures a country's macroeconomic situation [10]. Although the misery index has been criticised for being a simplistic representation of economic discomfort, it is inversely associated with consumer sentiment [24] and happiness [11] and positively interconnected to the suicide rate [47] and crime rate [1].

With the global effect of the Covid-19 pandemic, countries are experiencing some form of economic misfortunes like rising unemployment, rising price levels, declining economic growth, and trade deficits. These variables, which are critical for the economic well-being of the citizens being unfavourable, clearly indicate that the economic misery of the West African countries has increased drastically. The West African region is not exempted from these perils as countries face economic turmoil from the Covid-19 restrictions. Within these scenarios, these countries' governments have employed several policies, like the increase in the monetary policy rate, to align with the global interest rate hikes to tackle inflation. One component these countries have failed to address is the governance style they adopt.

Governance is a vital issue of concern in the West African sub-region [14]. Evidence from the World Governance Indicators (ranges from approximately -2.5 (weak) to +2.5 (strong) governance performance) developed by the World Bank has indicated that West African countries are embedded in negative governance indicators over the years. In 2020, a country like Nigeria, which is regarded as "the Giant of Africa", recorded negative governance indicators as follows: Voice and accountability (-0.59); Political Stability and Absence of Violence/Terrorism (-1.86); Government Effectiveness (-1.03); Regulatory Quality (-0.96); Rule of Law (-0.81); and Control of Corruption (-1.10). The misery index in the country has risen from 14.61% in 2011 to 22.91% in 2020 and then to 25.29% in 2021. Government intervention in an economy (based on the Keynesian view) is expected to bring forth the desired economic outcome. However, with poor institutions, such desired results may not be attainable. With the poor governance indicators of the West African countries, could this be a reason behind the rising economic misery in Nigeria? In this regard, this study seeks to investigate the influence of governance on financial distress within the West African sub-region. Since there is no database offering the level of economic misery, this study will have to make such computations using Barro's approach.

Given the above problem, the following questions seek answers: What is the level of misery index within West Africa? Is there any relationship between governance and economic misery in West Africa? How do the governance indices affect the economic misery index in West Africa?

This study's core objective is to explore institutional quality's influence on economic misery in 16 West Africa from 2005 to 2020. The specific goals are to: compute the misery index for the West African countries, determine the nature of the causal relationship between governance indices and the misery index in West Africa, and examine the influence of governance indices on the economic misery index in West Africa.

The goal of government is frequently fundamental in political discourse in politics. Libertarians may agree with John Locke that "the state's only function is to protect life and property" [20, 22]. The socialist, on the other hand, may feel that "the government exists to redistribute wealth and power in society to assist the working class" [45]. This debate occurs in every country on the planet. How severely an economy should be controlled and whether this makes people happier or more miserable is an issue that will almost certainly remain important for as long as there is an economy to shape [22].

For years, political debates have been largely based on this concept, and for a good reason – questions on how an economy should be structured influence people's lives. Politicians throughout the world make economic decisions regularly. Consequent to the topic's importance, more excellent information about the issue should be seen as desired. As a result, this study intends to contribute to the discussion by giving information on how governance affects economic misery. This will be accomplished by investigating the impact of governance variables on the Barro Misery Index in the West African subregion.

This study explores the influence of governance indicators on economic misery within the West African region. The study focuses on 16 West African countries, and data covering the period of 2005 through 2021 will be utilised. The study considers the six core governance indicators (voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption) as developed by the World Bank, and the misery index will be the Barro's misery index. Though there are other measures of misery index, such as Okun's misery index, the choice of Barro's misery index is more encompassing since it does not only capture the inflation and unemployment components; but also considers the rate of interest and the economic growth as crucial variables in its computation.

Literature Review

Conceptual Issues

Misery Index. This is also known as the economic discomfort index (EDI), which measures the citizens' misery level. Concerning Okun's postulation, the misery index is the sum of unemployment and inflation. But this has been adjusted to incorporate lending interest and GDP growth rates. This approach is Barro's, where the misery index is computed as the sum of inflation, unemployment, and lending interest rate, less the GDP growth rate.

Governance. Governance refers to "how any organisation, including a nation, is run. It includes all the processes, systems, and controls used to safeguard and grow assets" [46]. Developing a system of governance that fosters, supports, and sustains human development, particularly for the most marginalised and poor, is a challenge for all societies. However, the hunt for a concisely stated notion of governance has just begun.

Participatory, open, and accountable government are just a few characteristics of good government. Additionally, it works well and fairly. It also supports the rule of law. The voices of the poorest and most vulnerable people are heard when decisions are made regarding the distribution of development resources, which is made possible by good governance, ensuring that political, social, and economic priorities are based on a broad consensus in society.

The three pillars of governance are economic, political, and administrative. Economic governance is the decision-making procedures impacting a nation's economic activities and interactions with other economies. It significantly affects equity, poverty, and quality of life. Making decisions to create policy is the process of political control. Implementing policies is done through a system of administrative governance. Considering all three, good governance describes the procedures and frameworks that direct political and socioeconomic interactions. The state is included in control but extends beyond the state to have the private sector and civil society organisations. It is hotly contested what the state is made up of.

The state is referred to here as including both political and public sector organisations. The effectiveness with which the government meets the needs of its citizens is of primary concern to UNDP. The informal market sector and private businesses (such as those engaged in manufacturing, trade, banking, cooperatives, and other activities) are included in the private sector. Some claim that civil society consists of the private sector. However, the private sector is distinct in that its participants impact social, economic, and political policies to improve the environment for businesses and the market.

Between the individual and the state, civil society is made up of both organised and unorganised people who interact socially, politically, and economically under the control of both formal and unofficial rules and laws. According to UNDP, enhancing good governance capabilities is the first step in eradicating poverty. The growing international consensus that good governance and sustainable human development are inseparable has been led by the United Nations Development Programme (UNDP). Thoughts on sound management and the connection between it and sustainable human development differ significantly among development professionals and in academic literature [46].

The measures of governance in this study are given as follows: voice and accountability; political stability and absence of violence/terrorism; government effectiveness; regulatory quality; rule of law; and control of corruption.

Theoretical Review

This study hinges on institutional theories. Since 1970, the field of public administration institutions has become more and more open to contributions from other social sciences, including history, political science, and organisational sociology. In addition to considering institutions as autonomous actors and dependent variables, it has become less normative and more empirical. In academic circles, new schools of thought have emerged. The term "institutional theory" oversimplifies how different these institutions are from one another because they have different agendas [44]. Four of these were identified by Thoenig [44]: "historical institutionalism, sociological institutionalism, new institutionalism, and local order or actor institutionalism".

Historical Institutionalism. Early in 1980, the author [18] noted that a theoretical movement known as "historical institutionalism" emerged [42]. This viewpoint challenges the idea that the state apparatus operates as an impersonal, passive agent and defines public administration as a component of political life. Why does the public sector distribute resources and authority inequitably? Competition for limited resources between groups and issues is the essence of politics [44]. As emphasised by neo-Marxists [21, 15], neo-corporatists [3], and organisational theorists [12], it appears to be much more like a complex set of differentiated institutions [44].

According to historical institutionalism, the results of public policies do not always correspond with the preferences or interests of the most prominent social groups [44]. Current and previous arrangements also guide them. Past policy decisions influence decisions made today. As a result, the institutions, customs, and processes that govern the interactions between economic actors and the state are path-dependent [44]. In these situations, enacting radical and voluntary changes in public administration is mainly futile. The decisions themselves are structured by the institutions already in place. Historical or longitudinal approaches emphasise that "politics and policies shape institutions", contrary to older forms of institutionalism which hypothesised "those institutions shape policies and politics". Public institutions serve as the foundation for collective action and are taken for granted. They have become accepted social norms and are never questioned. They resist any incremental change or reform a single actor implements because they are social constructs [17].

Sociological Institutionalism. Selznick's Tennessee Valley Authority study was a groundbreaking contribution to the sociological institutionalism perspective [38, 39]. Insofar as their field units adopt and advance values and interests ingrained in the local communities in which they operate, public agencies as organisations are considered institutional actors instead of simply being tools used to carry out goals and values established by a principal. The first lesson is that there may be discrepancies between the stated goals and what the organisation accomplishes or aspires to. It pursues productive goals as well as self-supporting and self-maintaining objectives. It evolves into a polymorphous system whose battle for survival compels it to disregard or obstruct its objectives. Public bureaucracies have a life of their own and sometimes even start their businesses. Participants don't just act by the roles that have been assigned to them. Therefore, public management should consider how participants are influenced, changed, and completed by informal structures in addition to the art of designing formalised systems. In some cases, what happens at the bottom of the hierarchy, in grass-roots units, matters even more than what occurs at the top. The limitations and pressures imposed by the external local context in which a public bureaucracy operates must be managed.

"The process by which agency members acquire values that go beyond the technical requirements of organisational tasks is institutionalisation" [44], which is the second lesson. No company is devoid of values. According to [40], "to institutionalise is to infuse with value beyond the technical requirements of the task at hand." It is brought about by the selective hiring of staff, by forging close ties or alliances with outside groups using techniques like implicit alliances, embracing similar values, or cooperating with local partners. Thick institutionalisation occurs "when certain rules or practices are revered, certain departments or employees within a public agency develop into autonomous power centres with their vested interests, and when there are administrative rituals, symbols, and ideologies" [44]. Institutions run by the government grow over time. They gain respect from their peers and outside vested interests due to their unique societal position. About 40 years later, sociological institutionalism had its actual birth or revival. It supports some theories that Selznick had previously put forth. The constraints and pressures imposed by the environments in which organisations operate must be managed.

New Institutionalism. The origins of the explicit school of thought known as "new institutionalism" can be found in a paper written by two political scientists [29]. The government's role is to create its environments, not to change with them. Political initiatives and societal visions steer public administration. As a result, institutions rather than instruments should be used to conceptualise organisations that handle public affairs [8]. They create and put into action rules that specify how the game should be played.

Who is a legitimate participant? What are the acceptable agendas? Which sanctions should be applied in case of deviations? Which processes would be able to induce actual changes? The way people think, interpret facts, act and cope with conflicts are influenced and simplified by public administration. Do public administration reforms match societal needs? And do they also help and enhance democratic participation? [44].

The notion that public organisations can be reformed and controlled from the top down and technocratic is regarded as dangerous by new institutionalism. The less-than-tenable axioms or hypotheses supporting and legitimising reforms must be made explicit in social science research. For instance, neo-liberal economics' rational choice and agency theory, which are widely held postulates and are purported to be generally applicable, are the foundation of New Public Management approaches. A perspective known as contextualism maintains that politics is merely a by-product of social constructs like social classes, culture, or demography.

According to the reductivism theory, political phenomena are merely the results of specific individual behaviours. For example, how a public agency operates can be explained by the behaviour model of a single bureaucrat. According to economic utilitarianism, people's actions are primarily motivated by self-interest. Functionalist approaches adopt Darwinian principles; historical evolution selects organisational forms that meet environmental requirements and eliminates those that do not. According to an instrumental perspective, allocating limited resources is the primary function of political life, and it is acceptable to rationalise the selection criteria used by governments and budgets.

An idea for a theory of learning in ambiguous settings is provided by new institutionalism. It forecasts and explains how and why people and organisations try to understand the context they face in a particular action context [29]. It examines why each chooses to focus on a specific topic at a given time and how information is gathered and used [29]. For example, decentralisation policies in municipalities, complex public building projects [37], constitutive reforms of the European Union [7], municipal accounting, and central government officials [13] continue to pique the interest of social scientists. According to this perspective, public management results from human activity rather than specific techniques. Contrary to most proponents of the New Public Management argument, organisations are not passive, leaders are not entirely controlled, and policy decisions are not unanimous.

Empirical Review

Authors [6] investigated the historical impact of fiscal policies and institutions on unemployment. They estimated reduced-form unemployment equations for 21 OECD countries from 1982 to 2003 using cross-country/time series data. They discovered that a high tax rate raises the rate of unemployment. The author [25] employs a time-series approach to investigate the relationship between public spending and inflation in Mediterranean countries from 1970 to 2009. He discovered a long-run relationship between the growth of government spending and inflation in some countries.

Authors [19] investigated the impact of government spending on unemployment in 20 OECD countries from 1980 to 2007. According to the study, a 1% upturn in government spending reduced unemployment by about 0.3% in the current year. This effect was found to be stronger during recessions than during booms, and it was also stronger under a fixed exchange rate regime than under a floating control.

The author [31] applied the co-integration and Vector Error Correction Model to time series data from 1970 to 2010 to investigate the long-run and short-run impact of government spending on inflation in three emerging Asian economies: India, Indonesia, and Vietnam. The findings in all three sample countries confirm a long-run cointegrating causal link between government spending and inflation.

The author [33] used aggregate annual time series data from 1980 to 2013 to investigate fiscal policy's effect on Nigeria's unemployment. The co-integration method and ECM were used. The study discovered a long-run equilibrium relationship between the variables. The parsimonious ECM result shows that "government spending has a negative and significant relationship with unemployment in Nigeria". The results also show a long-run rapport between fiscal policy and unemployment, as indicated by the sign and statistical significance of the ECM coefficient.

In the study [32] investigated the relationships between Nigeria's fiscal deficit, financing options (domestic and external borrowing financed deficits), and unemployment rate. The data were analysed using the vector autoregression (VAR) econometric technique. It discovered a long-run relationship between unemployment and endogenous variables: "GDP per capita, overall fiscal deficit, domestic credit to the private sector, domestic borrowing financed deficit, external borrowing financed deficit, and foreign direct investment". The study also discovered a link between the unemployment rate and fiscal deficits.

Researchers [10] examined the relationship between the misery index and economic growth in Iran and the impact of governance on the misery index from 1974 to 2011. The vector autoregressive model was used to achieve this goal. Government effectiveness was used as a proxy for good governance in the study. The study discovered that economic growth has a negative relationship with the misery index. Another finding is a link between the type of governance and the misery index.

The author [1] used data from 1986 to 2016 to examine the effect of institutional quality and misery index on the crime rate in Nigeria. In estimating the model built for the study, the ARDL approach to co-integration was used. The findings indicate that the variables have a long-run relationship. It also reveals that institutional quality reduces crime rates significantly in the short run, whereas economic hardship increases crime in Nigeria. These findings suggest that gradual improvements in institutional arrangements within democratic administrations would provide a more effective and efficient peaceful means of resolving disputes and realigning socioeconomic inequalities, which appear to be Nigeria's primary causes of criminal activity.

Researchers [2] examined the impact of fiscal policy on the Nigerian misery index from 1981 to 2018. Fiscal policy variables such as capital expenditure, recurrent expenditure, and government external debt were used. Dummy variables were used to capture the effects of policy changes on the Nigerian misery index. The misery index was calculated by adding unemployment, inflation, and lending rates to the real GDP per capita growth rate. The ordinary least squares (OLS) regression analysis method was used in this study. According to the findings, an increase in government spending reduced the misery index, but rising external debt in the current period worsened the misery index in Nigeria.

Researchers [22] investigated the relationship between misery and economic freedom. A random effects model with clustered standard errors was used to compare Okun's Misery Index and the Heritage Foundation's Economic Freedom Index. The Misery Index is calculated by adding a country's inflation and unemployment rates, which have been shown to impact personal well-being negatively. The findings revealed a significant inverse relationship between the Misery Index and the Economic Freedom Index. This suggests that greater economic freedom leads to a happier population.

From 1991 to 2019, Atan and Effiong [4] investigated the impact of government activities on inflation in Nigeria. The Augmented Dickey-Fuller unit root test, the Bounds test for co-integration, and the error correction model were all used in the study. The findings indicated that government activities in Nigeria do not drive inflation in the long or short run. The paper concluded that increased government spending in Nigeria is still required because it is not inflationary. Government activities have not yet reached Collin Clerk's 25% critical limit.

In exploring the influence of governance on economic development, researchers [14] referenced ten selected West African countries from 2002 to 2019. The study utilised the random effect model and the autoregressive distributed lag (ARDL) in its estimation. The "Random Effect Model" found that the "rule of law" negatively and significantly impacts West Africa's economic development. The economic development of West Africa, meantime, was positively and significantly affected by voice and accountability. The ARDL model revealed that although the rule of law had a negative but minor impact on economic development, regulatory quality had a negative but considerable impact. On the other hand, political stability, lack of violence and terrorism, and voice and accountability had a beneficial and significant long-term effect on economic development. None of the governance indices substantially impacted the development of the sub-region in the near term, although the majority showed a negative impact.

The author [16] used data from 1985 to 2020 to investigate fiscal policy's impact on Nigeria's misery index. The misery index was calculated by adding unemployment, inflation, and lending rates to the percentage change in real GDP per capita [5]. The Autoregressive Distributed Lag - ARDL model served as the primary analytical tool. The ARDL Bounds test revealed that the variables had a long-run association. The findings revealed that recurrent expenditure and external debt had decreased Nigeria's misery index over the study period. However, capital expenditure, total tax revenue, and domestic debt have not effectively reduced Nigeria's misery index over the study period. Factors responsible for this include "mismanagement, corruption, embezzlement and the inability of the government to detect and eradicate all administrative loopholes for capital expenditure, tax revenue and domestic debt to contribute meaningfully to the reduction of misery index in Nigeria" [16].

It is observable from the above review that the majority of the studies centred on fiscal policy (government spending, taxation, budgetary deficits, and public debt) without some substantial attention to governance indicators. Also, these studies only utilise components of the misery index (unemployment, inflation, or growth) in their analysis without constructing a unique measure of economic misery (except for [10], who considered government effectiveness in the Iranian case). This study will compute the misery index for the West African countries and examine how governance indicators affect its level within the region. The study will capture fifteen West African countries, and the time frame will be from 2005 to 2021.

METHODOLOGY

Model Specification. In exploring the influence of governance on economic misery (measured by the economic misery index or financial discomfort index, EDI) within the West African Sub-region, we consider key governance indicators like voice and accountability (VAC), political stability and absence of violence/terrorism (PVT), government effectiveness (GEF), regulatory quality (RQT), rule of law (RLW), and control of corruption (CCP). The model is therefore specified as follows (1):

$$EDI_{it} = f(VAC_{it}, PVT_{it}, GEF_{it}, RQT_{it}, RLW_{it}, CCP_{it}) \quad (1)$$

where the variables are as earlier defined, and *i* and *t* capture the country and time, respectively.

By controlling equation (1) with other variables like trade openness and financial sector development, credit to the private sector, and population growth, equation (1) now becomes (2):

$$EDI_{it} = f(VAC_{it}, PVT_{it}, GEF_{it}, RQT_{it}, RLW_{it}, CCP_{it}, TRP_{it}, FSD_{it}, POP_{it}, CPS_{it}) \quad (2)$$

where TRP measures the degree of openness of the economy, and FSD captures financial sector development.

Equation (2) is thereby presented to reflect the estimable form of the model in its econometric form as follows (3):

$$EDI_{it} = \gamma_o + \gamma_1 VAC_{it} + \gamma_2 PVT_{it} + \gamma_3 GEF_{it} + \gamma_3 RQT_{it} + \gamma_4 RLW_{it} + \gamma_5 CCP_{it} + \gamma_6 TRP_{it} + \gamma_7 FSD_{it} + \gamma_8 POP_{it} + \gamma_9 CPS_{it} + \mu_t \quad (3)$$

Equation (3) portrays the econometric form of the model, where γ_o is the constant term; γ_1 to γ_7 are the slope coefficients of the explanatory variables, and μ is the error term assumed to be normally distributed.

A Priori Expectation. The a priori expectation for γ_o is expected to be non-zero ($\gamma_o \neq 0$) to reflect that our estimation does not follow regression through the origin. Also, we are not sure of the a priori expectation for γ_1 to γ_4 ($\gamma_1 = \gamma_2 = \cdots = \gamma_5 = ?$) implying that the slope coefficients for the governance indicators can either be positive or negative but not equal to zero. Meanwhile, the a priori expectation for γ_6 is positive ($\gamma_6 > 0$) pointing to the fact that increasing liberalisation could harm the domestic economy through adverse effects on the exchange rate, increasing economic misery. To γ_7, it is expected to be negative ($\gamma_7 < 0$) to portray that an improved financial system will aid financial flows for investment which could reduce economic misery within the West African region. Also, γ_9 is expected to be harmful as credit to the private sector will aid in stimulating investment and spur employment and overall economic growth, which are critical pointers in the computation of the misery index. Lastly, γ_8 is expected to be positive as the increasing population will pressure the available resources, resulting in higher unemployment.

Nature and Sources of Data. The data to be used in this study are panel data which cover the period of 2005 through 2020. These data are to be obtained from a cross-section of 16 West African countries of Benin Republic, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. Data on all the governance indicators will be obtained from the World Governance Indicators. In contrast, data on trade openness, financial development, and construction of economic discomfort index (unemployment rate, inflation rate, GDP growth rate, and lending interest rate) will be obtained from the World Development Indicators.

Measurement of Variables. Initially, the economic discomfort index is measured as the sum of unemployment and the inflation rate in the economy. In expanding this measure, Barro's (1999) misery index incorporates interest rates and Gross Domestic Product (GDP) growth rate into the mix. As such, our economic discomfort index is constructed based on Barro's (1999) approach, where the financial discomfort index (*edi*) will be given as the sum of inflation (*inf*), unemployment (*unm*), and interest rate (*int*) less GDP growth (*gdp*). Hence, EDI = (*inf* + *unm* + *int)* – gdp. The index varies between 0% and 100%, with higher values representing more significant economic discomfort experienced by the residents within an economy. Trade openness is measured in percentage as the sum of export and import (total trade) divided by GDP. The higher the rate, the higher the degree of openness of the economy. Also, financial development is measured in percentage as the ratio of broad money supply to GDP. A higher rate captures a higher degree of financial depth. The governance indicators are counted as an index between the -2.5 (weak) to +2.5 (strong) range. Higher values represent better governance performance compared to lower values.

Analytical Technique. Since our study is based on panel data, the analysis will be conducted using panel data analysis based on the two identified objectives. For the first objective, the study will utilise the Pairwise Granger causality tests (stacked test) to capture the nature of the causal relationship between the governance indicators and economic misery within the West African sub-region. Meanwhile, the second objective will be addressed by estimating the specified model using pooled OLS approach, fixed effect and random model to panel data analysis, and Granger causality.

EMPIRICAL ANALYSIS

Stylised Facts

The stylised facts here are based on the misery index and governance indices across the selected West African countries.

Stylised Facts on Misery Index. The selected West African countries are characterised by various levels of misery index as computed for this study. Figure 1 captures this situation as of 2020.

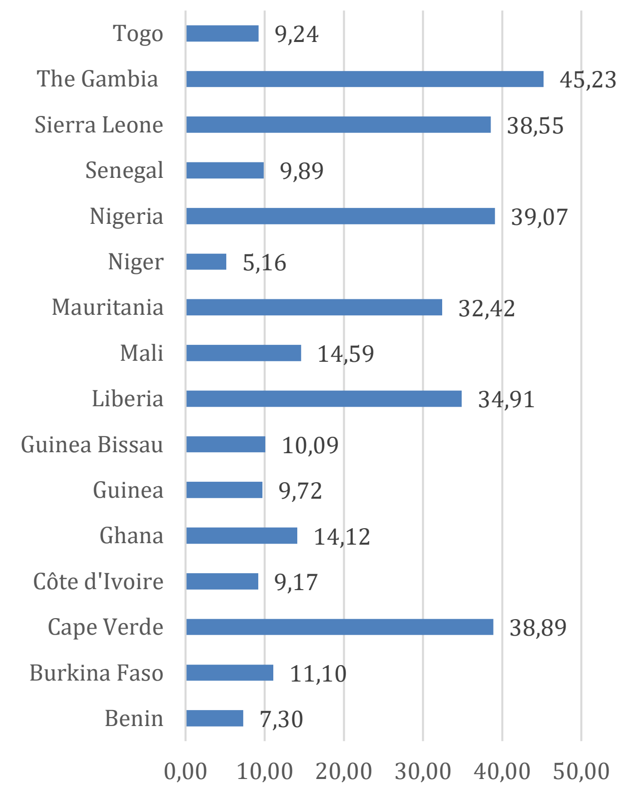

Figure 1 – Misery Index for the Selected Countries, 2020

As can be observed from Figure 1, Gambia has the highest misery index of 45.23%, followed by Nigeria with 39.07%. The country with the most minor misery index is Niger Republic, with only 5.16%, followed by Benin Republic, with 7.30%. Other countries include Cape Verde, with a misery index of 38.89%; Sierra Leone, 38.55%; Liberia, 34.91%; Ghana, 14.12%; and Senegal, 9.89%. It can be observed that most of the French-speaking West African countries have a lower misery index compared to their Anglophone counterpart.

Stylised Facts on Governance Indicators. The governance indicators captured are voice and accountability; political stability and absence of violence/terrorism; government effectiveness; regulatory quality; rule of law; and control of corruption. These indicators, in the range of +2.5 (strong) to -2.5 (weak), are displayed in Figures 2–3.

As can be observed from Figure 2, where voice and accountability are captured, it is clear that only Cape Verde, Ghana, and Senegal have cheerful voice and accountability index. Every other country exhibits a negative index, with the most predominant in Liberia being -1.38.

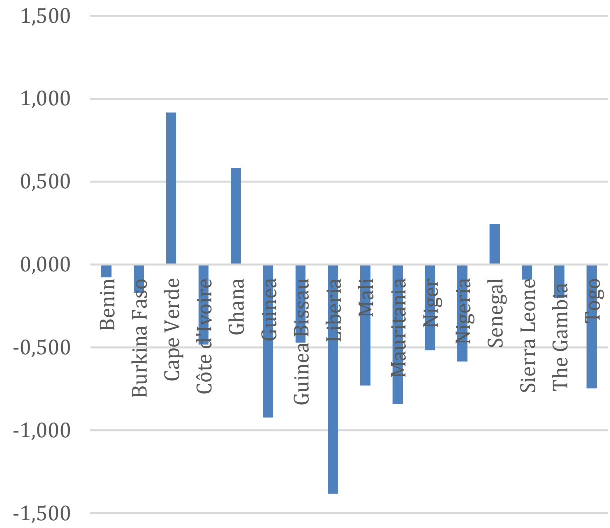

Figure 2 – Governance Indicators: Voice and Accountability, 2020

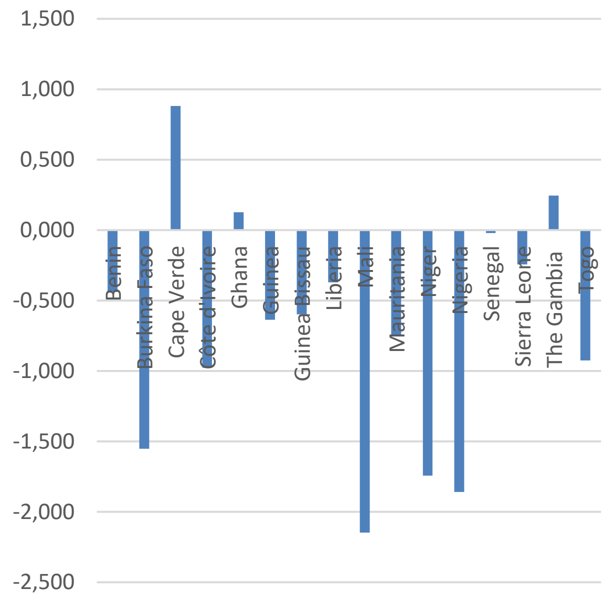

Figure 3 – Governance Indicators: Political Stability and Absence of Violence/Terrorism, 2020

For Figure 3, where political stability and absence of violence/terrorism are captured, it can be noticed that apart from Cape Verde, Ghana and Gambia, every other county exhibit negative value, the highest being -2.15 for Mali. The recent high index for Mali could be linked to the military intervention in politics in recent times, which has shaken the democracy of the country.

Figure 4 showcases that most of the West African countries are not effective in terms of their governance.

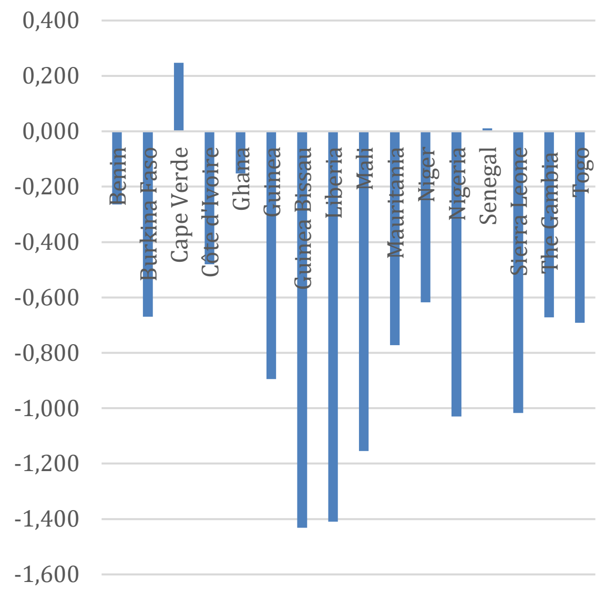

Figure 4 – Governance Indicators: Government Effectiveness, 2020

This is because apart from Cape Verde and Senegal, with a very minute positive value, every other country within the region exhibits negative government effectiveness. Nigeria, regarded as the giant of Africa, falls under this category, with -1.03 as its government effectiveness index. The weakest country regarding government effectiveness is Guinea-Bissau with -1.43, followed by Liberia with -1.41.

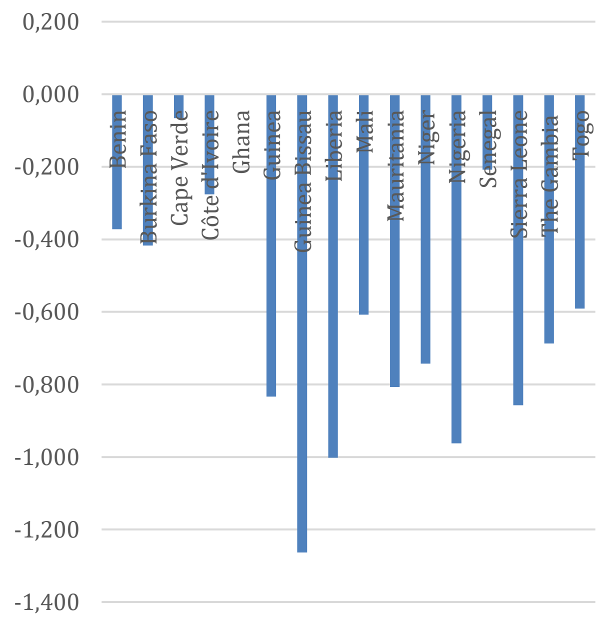

Figure 5 – Governance Indicators: Regulatory Quality, 2020

Ghana's regulatory quality is only slightly positive, while every other country exhibits negative values. Guinea Bissau becomes the weakest regarding regulatory quality (-1.26), followed by Liberia (-1.002). Nigeria also has a weak regulatory framework, given that its index is -0.963, although it is better than a few of its partners, like Sierra Leone. Though it is weak in Cape Verde and Ghana, they are not as vulnerable as the countries above in the region.

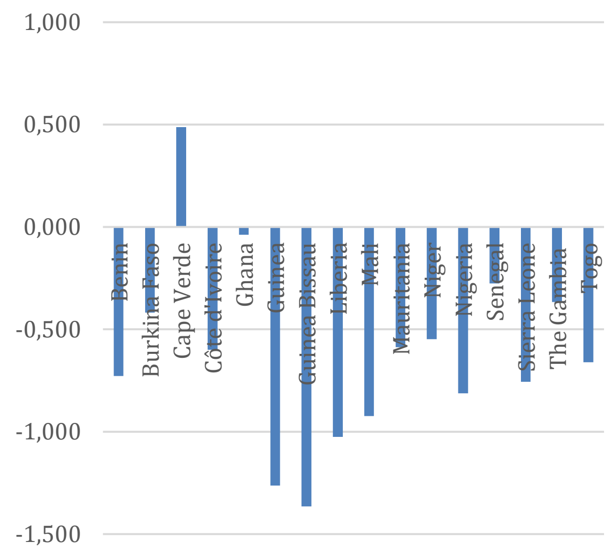

Figure 6 – Governance Indicators: Rule of Law

Based on Figure 6, which captures the rule of law, it is clear that many West African countries are fragile regarding the rule of law. Only Cape Verde, as of 2020, exhibits positive value, while all other nations were noted to have negative values, with Guinea Bissau (-1.37) and Guinea (-1.26) being in the weakest position.

When it comes to control of corruption, Cape Verde seems to present a promising result given its firm control of crime, as reflected in Figure 7.

Though Senegal also has a positive value, such is very little and still tilts to the weak status. It can be seen that Guinea Bissau exhibits the most vulnerable (-1.32) when it comes to control of corruption, followed by Nigeria (-1.097).

Weak governance indicators have characterised West African countries in recent years. Whether these indicators could have an undesirable effect on the economic misery of the region will be explored further by using an econometric approach.

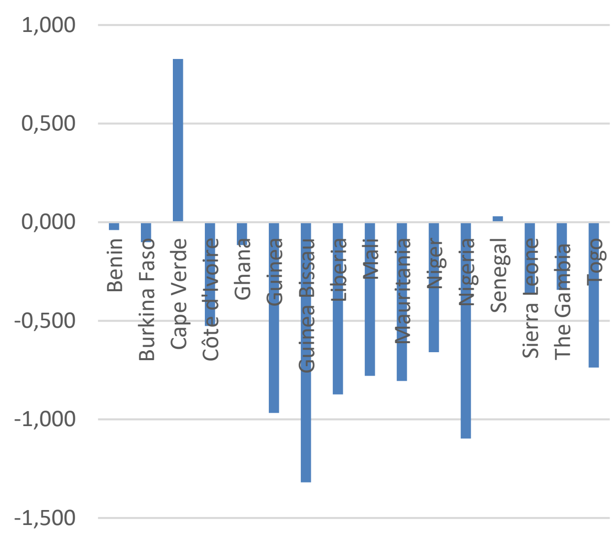

Figure 7 – Governance Indicators: Control of Corruption

Descriptive Statistics of Governance Indicators

The descriptive properties of the variables are presented in Table 1, where both the measures of position and dispersion are displayed.

Table 1 – Descriptive Statistics of Governance Indicators

Indicators	CCP	VAC	GEF	PVT	RLW	RQT
Mean	-0.608	-0.418	-0.796	-0.566	-0.661	-0.610
Maximum	0.951	0.979	0.354	0.963	0.653	0.128
Minimum	-1.559	-1.983	-1.760	-2.400	-1.586	-1.577
Standard Deviation	0.511	0.652	0.445	0.774	0.496	0.360
Skewness	1.216	0.148	0.492	-0.390	0.570	-0.041
Kurtosis	4.808	2.671	2.691	2.543	3.159	2.247
Jarque-Bera	97.932	2.094	11.339	8.731	14.146	6.117
Probability	0.000	0.351	0.003	0.013	0.001	0.047
Observations	256	256	256	256	256	256

It is clear from Table 1 that all the governance indicators have negative average values across the West African region. For instance, control of corruption averaged -0.608 with a standard deviation of 0.511; voice and accountability averaged -0.418 with a standard deviation of 0.652; government effectiveness averaged -0.796 with a standard deviation of 0.445; political stability and absence of violence/terrorism averaged -0.566 with a standard deviation of 0.774; regulatory quality averaged -0.610 with a standard deviation of 0.360; and rule of law averaged -0.661 with a standard deviation of 0.496. Only voice and accountability are normally distributed of all the indicators, given that the Jarque-Bera statistic is insignificant at the 5% level.

Correlation Analysis

As seen in Table 2, the correlation matrix captures the association between the governance indicators and economic misery (economic discomfort index) within the West African zone.

Table 2 – Correlation Matrix of Governance Indicators with Misery Index

	CCP	VAC	GEF	PVT	RLW	RQT	EDI
CCP	1						
VAC	0.735	1					
GEF	0.860	0.779	1				
PVT	0.614	0.556	0.546	1			
RLW	0.921	0.789	0.881	0.664	1		
RQT	0.765	0.738	0.868	0.509	0.848	1	
EDI	-0.019	-0.226	-0.073	0.030	-0.021	-0.117	1

It is clear from Table 2 that all the variables are inversely correlated with economic misery except for political stability and the absence of violence/terrorism, which exhibits a direct correlation with financial pain. However, the correlations between economic distress and governance indicators are somewhat weak across all hands. This implies that the degree of association between governance indicators and economic misery is soft.

Granger Causality Test

The pairwise Dumitrescu-Hurlin causality test is deployed in the study to detect the direction of causality between the governance indicators and economic misery within West Africa. The result is captured in Table 3 for all six governance indicators as they Granger-cause economic misery.

Table 3 – Pairwise Dumitrescu Hurlin Panel Causality Tests Result

Null Hypothesis	W-Stat.	Zbar-Stat.	Probability
EDI does not homogeneously cause CCP	2.6306	0.0686	0.9453
CCP does not homogeneously cause EDI	3.5199	1.0997	0.2714
EDI does not homogeneously cause VAC	3.7014	1.3102	0.1901
VAC does not homogeneously cause EDI	3.6387	1.2374	0.2159
EDI does not homogeneously cause GEF	1.9288	-0.7452	0.4562
GEF does not homogeneously cause EDI	4.7230	2.4946	0.0126*
EDI does not homogeneously cause PVT	2.7819	0.2440	0.8072

Null Hypothesis	W-Stat.	Zbar-Stat.	Probability
PVT does not homogeneously cause EDI	4.3065	2.0117	0.0443*
EDI does not homogeneously cause RLW	4.0835	1.7531	0.0796*
RLW does not homogeneously cause EDI	3.0212	0.5215	0.6020
EDI does not homogeneously cause RQT	3.5965	1.1885	0.2346
RQT does not homogeneously cause EDI	4.2433	1.9384	0.0526*

Given Table 3, there is no causality between control of corruption and economic misery in West Africa as none of the null hypotheses are rejected. Therefore, neither financial distress causes crime nor corruption causes economic discomfort within the region. Also, there is no causality concerning economic misery and voice and accountability, given the insignificance of the test statistics at the 5% level. For financial distress and government effectiveness, a unidirectional causality flows from government effectiveness to economic misery. This implies that government effectiveness causes economic pain, and the reverse does not hold. It is also being observed that a unidirectional causality flows from political stability and the absence of violence/terrorism to economic misery, as the null hypothesis is rejected at the 5% level.

Consequently, political stability and the absence of violence/terrorism cause economic distress and not vice versa. In the case of the rule of law, it is observed that a unidirectional causality flows from economic misery to the rule of law, implying that economic pain causes the rule of law and not the rule of law causing financial distress. Lastly, the regulatory framework is noted to cause economic misery as a one-way causality flows from regulatory quality to economic pain within the West African region.

Pooled-OLS Regression Analysis

The panel least squares (pooled OLS) are utilised to ascertain the influence of governance indicators on economic misery within the West African region. The regression result is conducted in two aspects. First, only the governance indicators are considered as explanatory variables. In the second case, governance indicators are included along with other control variables like trade openness, population growth, financial sector development, and credit to the private sector. The regression result is presented in Tables 4 for the two aspects.

Table 4a – Pooled OLS Regression Result of Governance Indicators on Economic Misery

Variable	Coefficient	Std. Error	t-Statistic	Probability
CCP	-1.0128	3.9438	-0.2568	0.7975
VAC	-10.4017	1.9414	-5.3577	0.0000*
GEF	3.5016	4.3693	0.8014	0.4237
PVT	1.4864	1.2947	1.1481	0.2520
RLW	12.5400	5.0732	2.4718	0.0141*
RQT	-9.0964	4.5763	-1.9877	0.0479*
C	17.5029	1.8264	9.5835	0.0000*
R^2	0.1372	F-statistic		6.6002
Adjusted R^2	0.1164	Prob (F-statistic)		0.0000*

Notes: * portrays significance at the 5% level

Table 4b – Pooled OLS Regression Result of Governance Indicators on Economic Misery with some control Variables

Variable	Coefficient	Standard Error	t-Statistic	Probability
CCP	-0.8360	4.2403	-0.1972	0.8439
VAC	-13.6406	1.9058	-7.1575	0.0000*
GEF	1.0725	4.1992	0.2554	0.7986
PVT	-0.6020	1.2904	-0.4665	0.6413
RLW	20.4581	4.917`0	4.1607	0.0000*
RQT	-5.7016	4.6097	-1.2369	0.2173
TRP	-0.0723	0.0334	-2.1645	0.0314*
POP	-9.6397	1.7572	-5.4859	0.0000*
FSD	0.1305	0.0966	1.3504	0.1781
CPS	-0.4608	0.1356	-3.3979	0.0008*
C	54.7023	6.9369	7.8857	0.0000*
R^2	0.2783	F-statistic		9.4473
Adjusted R^2	0.2488	Prob (F-statistic)		0.0000*

Notes: * portrays significance at the 5% level

From the regression result in Tables 4, it can be seen that the effect of control of corruption on economic misery is negative but insignificant. Implying that corruption control within the West African region does not reduce economic misery at a substantial level. For voice and accountability, the result indicates that its effect on economic misery is negative and significant at the 5% level. Implying that voice and responsibility as an indicator of governance has helped reduce economic misery within the West African region over the study period. A 1 unit increase in the voice and accountability index will lead to a 10.4017 decrease in financial misery. Government effectiveness is observed to wield a positive but insignificant increase in economic misery of the region over the study period. This implies that the government has not been effective, as shown by the weak indicator, and as such, it cannot reduce economic misery instead of aggravating it.

Meanwhile, the rule of law wielded a positive and significant effect on economic misery. This implies that disregarding the rule of law is an essential factor that could aggravate economic misery. Given the coefficient, a 1 unit increase in the direction of law leads to 12.54 units increase in economic misery within the study period. The regulatory quality has the desired sign as it is seen to exert a negative and significant effect on economic misery within the region. A 1-unit increase in regulatory rate will lead to a 9.0964-unit decrease in financial misery. Consequently, reasonable regulations will reduce unemployment and inflation and as well promote growth which could result in a reduction in economic misery within the region.

The intercept of the regression result indicates that holding all the governance indicators constant, the level of economic misery within the West African region will be 17.5029%. The overall model is significant at 5% given the F-statistic, and the model jointly explains 13.72% of the total variations in economic misery within the West African region. Given this weak explanatory power of the model, we cannot fully state that governance is a strong predictor of economic misery within West Africa. This necessitates the introduction of other critical variables in the model, and the result is presented subsequently.

Given the introduction of other variables, it can be seen that trade openness generates a negative and significant effect on economic misery. A one-unit increase in trade openness will lead to a 0.0723-unit decrease in financial misery. This can be linked to the fact that increased trade will ensure the transfer of technology and job creation, which will aid productivity and employment of labour. The resultant effect could be a decline in unemployment and an increase in growth. It can also be seen that population growth has a negative and significant impact on economic misery in West Africa. A one-unit population increase will lead to a 9.6397 unit decrease in economic misery. This indicates that population growth is not associated with increasing economic misery within the region. For financial sector development, the effect is positive but insignificant in influencing economic misery. Credit to the private sector is a crucial variable influencing economic misery as it exerts a negative and significant effect. Given the coefficient, a one-unit increase in credit to the private sector will lead to a 0.4608 unit decrease in economic misery. It follows that credit to the private sector will spur investment which will ensure more employment and growth within the economy, with such improvements leading to a decline in economic misery.

Holding all the explanatory variables constant, it is clear that economic misery will be 54.7023%. This regular term is significant at 5%, portraying the explanatory variables' importance in influencing economic misery. The model is substantial overall, with its F-statistic at 5%. Further, the variables jointly explain 27.83% of the total variations in economic misery over the study period.

Fixed Effect Model

In the fixed effect model, we assume that the period and the cross sections are set. The result of the selected effect model is presented in Table 5, where it is seen that none of the governance variables significantly affect economic misery; instead, other variables captured exhibit some considerable influence.

Table 5 – Fixed Effect Model Regression Result

Variable	Coefficient	Standard Error	t-Statistic	Probability
CCP	0.3132	2.9846	0.1050	0.9165
VAC	-3.5138	2.3311	-1.5073	0.1332
GEF	-4.2145	3.0236	-1.3938	0.1648
PVT	-0.4190	1.1446	-0.3660	0.7147
RLW	1.9491	3.7164	0.5245	0.6005
RQT	-4.7913	3.3709	-1.4214	0.1567
TRP	-0.1010	0.0250	-4.0365	0.0001*
POP	-4.8138	1.7465	-2.7562	0.0063*
FSD	0.0706	0.0894	0.7900	0.4304
CPS	0.0769	0.1207	0.6376	0.5244
C	25.2561	5.4880	4.6021	0.0000*
Effects Specification				
Cross-section fixed (dummy variables)				
The period fixed (dummy variables)				
R^2	0.8558	F-statistic		31.9081
Adjusted R^2	0.8290	Prob (F-statistic)		0.0000*

It can be observed from Table 5 that CCP and RLW have a positive but insignificant effect on economic misery, while VAC, GEF, PVT, and RWT put forth a negative but insignificant impact. The implication is that the latter aided in reducing economic misery within West Africa, but such was not substantial anyway. However, variables like trade openness and population growth negatively and significantly affect economic misery. In contrast, the effect of financial development and credit on the private sector is positive but insignificant. The constant term indicates that holding the explanatory variables steady, the level of economic misery in West Africa will be 25.2561%. The fixed effect model portrays that the explanatory variables jointly explain 85.58% of the total variations in economic misery within the study period. Meanwhile, the overall model is significant, as seen from the significance of the F-statistic at the 5% level.

Random Effect Model

By assuming that both the period and cross sections are random, Table 6 captures the result of the random effect model.

Table 6 – Random Effect Model Regression Result

Variable	Coefficient	Standard Error	t-Statistic	Probability
CCP	1.8187	3.0004	0.6062	0.5450
VAC	-5.5408	2.2865	-2.4232	0.0161*
GEF	-0.3903	3.0082	-0.1298	0.8969
PVT	0.8922	1.1090	0.8045	0.4219
RLW	-0.5115	3.6350	-0.1407	0.8882
RQT	-8.0228	3.2402	-2.4761	0.0140*
TRP	-0.1091	0.0247	-4.4163	0.0000*
POP	-4.9679	1.6989	-2.9242	0.0038*
FSD	0.0180	0.0765	0.2355	0.8140
CPS	-0.0897	0.1164	-0.7708	0.4416
C	30.9040	6.6766	4.6287	0.0000*
Effects Specification				
			S.D.	Rho
Cross-section random			14.6886	0.8881
Period random			0.6580	0.0018
Idiosyncratic random			5.1728	0.1101
Weighted Statistics				
R^2	0.1748	F-statistic		5.1914
Adjusted R^2	0.1412	Prob (F-statistic)		0.0000*

The result of the random effect model presented in Table 6 indicates that out of the six governance indicators, only voice, accountability, and regulatory quality wielded a significant effect on economic misery. The two variables negatively and significantly affected economic misery, implying that they substantially reduced economic misery within the West African region. From their coefficient, a 1 unit increase in the voice and accountability index will lead to an average 5.5408 unit decrease in economic misery. In comparison, a 1 unit increase in regulatory quality will lead to an 8.0228 unit decrease in economic misery in West Africa. Governance indicators like control of corruption and political stability and absence of violence/terrorism are seen to exert positive though insignificant effects on economic misery within the region. Therefore, the rising crime and political instability, matched with rising terrorism in some areas of West Africa, aids in intensifying economic misery in the region. Apart from the governance indicators, it is also observed that trade openness helped in reducing economic misery in a significant way.

CONCLUSION AND RECOMMENDATIONS

This study explored how governance influences economic misery in 16 West African countries. This arises from the widespread weak governance indicators observed in the region over the years. The governance indicators utilised in the study are six in number: voice and accountability; political stability and absence of violence/terrorism; government effectiveness; regulatory quality; rule of law; and control of corruption. Data on governance indicators were obtained from World governance indicators. The misery index was computed for the sixteen countries using Barro's approach (the sum of unemployment, inflation, and lending interest rate, less the GDP growth rate). The data used to compute the misery index and other control variables in the mode were all obtained from World Development Indicators. The study used panel regression analysis that involves the pooled OLS, the fixed effect model, and the random effect model to examine the influence of governance indicators on economic misery. At the same time, the panel causality test was also deployed to ascertain the nature of the causal relationship between governance indicators and economic misery.

The causality test result indicated that government effectiveness, political stability and absence of violence/terrorism, and regulatory quality cause economic misery, portraying that a unidirectional causality flows from the governance above indicators to economic misery. However, it was observed that unidirectional causality runs from economic misery to the rule of law. This implies economic misery causes the rule of law, not vice versa. From the pooled OLS regression result, it was observed that voice and accountability, control of corruption, and regulatory quality aided in reducing economic misery. However, that of control of corruption is insignificant.

Meanwhile, the governance indicators that intensify economic misery within West Africa include government effectiveness, political stability and absence of violence/terrorism, and the rule of law. This is linked to poor institutional quality in the region's countries. By controlling the model with some control variables, the study also noted that trade openness, population growth, and credit to the private sector aided in reducing economic misery within the West African region. In the fixed effect model, none of the governance indicators negatively affected economic misery through hands like voice and accountability, government effectiveness, political stability and absence of violence/terrorism, and regulatory quality was observed to reduce economic misery in an insignificant manner. The control variables in the model which also aided in reducing economic misery are trade openness and population growth. In the random effect model, it is observed that voice and accountability, along with regulatory quality, significantly reduced economic misery. In contrast, the effect of government effectiveness is not significant though negative. The control variables also portray that trade openness and population growth aided in reducing economic misery within the West African region.

Based on the findings of this study, it can be concluded that the poor institutional quality, as showcased in the weak governance indicators, intensifies economic misery within the West African region. For economic misery to be reduced, there is a need for improved institutional quality, which will reflect strong governance indicators. In this way, improved governance will inevitably trickle down to the households by decreasing the variables that point to higher economic misery. Further, West African countries can reduce economic misery through trade openness due to its crucial role in facilitating competition and improved output through technological transfers.

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