Analyzing the Effect of Governmental Law on Ensuring Welfare Maximization of East African Citizens

Аналіз впливу урядового законодавства на забезпечення максимізації добробуту громадян Східної Африки

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Purpose. The objective of this study is to determine the impact of institutional characteristics of public governance on the economic development of East African countries. Particular attention is paid to analysing the role of key components of good governance, including government effectiveness, rule of law, regulatory quality, political stability, and control of corruption, in shaping macroeconomic outcomes, particularly GDP per capita dynamics. The study aims to empirically examine the relationship between governance quality and long-term economic growth using comprehensive statistical data.

Method. The study employs a set of quantitative econometric methods. The empirical analysis is based on panel data for East African countries covering the period from 2000 to 2020 using data obtained from the World Bank database. A multiple regression model is applied to estimate the influence of independent variables on economic development indicators. Fixed-effects and random-effects regression models are used, while the Hausman test is applied to determine the most appropriate model specification. Statistical processing and econometric estimation are conducted using the STATA software package.

Theoretical implications. The theoretical contribution of the study lies in deepening the understanding of the role of governance quality and institutional factors in promoting economic development in developing countries. The findings expand the theoretical discussion on the concept of good governance and demonstrate the relationship between institutional quality and long-term macroeconomic performance.

Practical implications. The practical significance of the research lies in the possibility of applying the results in the formulation of economic policy and institutional reforms in developing countries. The conclusions of the study may support policymakers in improving regulatory policies, reducing corruption, strengthening institutional capacity, and creating a favourable investment climate that contributes to sustainable economic growth.

Paper type. Empirical research article.

Key words: Good Governance, Sustainable Economic Growth, Rules of Law, Government Effectiveness.

Мета дослідження. Визначення впливу інституційних характеристик державного управління на економічний розвиток країн Східної Африки. Основна увага зосереджена на аналізі ролі таких компонентів належного врядування, як ефективність уряду, верховенство права, якість регулювання, політична стабільність та контроль корупції у формуванні макроекономічних результатів, зокрема динаміки ВВП на душу населення. Для досягнення поставленої мети дослідження використовує довгострокові статистичні дані та здійснює емпіричну перевірку взаємозв'язку між інституційними факторами та економічним зростанням.

Метод дослідження. У роботі застосовано комплекс кількісних економетричних методів аналізу. Дослідження базується на панельних даних країн Східної Африки за період 2000–2020 рр., отриманих із бази даних Світового банку. Для оцінювання впливу незалежних змінних на економічний розвиток використано багатофакторну регресійну модель. Емпіричний аналіз здійснено із застосуванням моделей фіксованих та випадкових ефектів, а також тесту Гаусмана для визначення найбільш адекватної специфікації моделі. Обробка статистичних даних виконана за допомогою програмного пакета STATA.

Теоретична цінність дослідження. Поглиблення наукового розуміння ролі інституційної якості державного управління у забезпеченні економічного розвитку країн, що розвиваються. Результати дослідження уточнюють теоретичні положення концепції належного врядування та демонструють взаємозв'язок між інституційними параметрами управління і довгостроковою макроекономічною динамікою.

Практична цінність дослідження. Полягає у можливості їх використання під час формування державної економічної політики та інституційних реформ у країнах, що розвиваються. Висновки дослідження можуть бути застосовані органами державного управління для підвищення ефективності регуляторної політики, зменшення рівня корупції та формування сприятливого інвестиційного середовища.

Тип статті. Науково-дослідна (емпірична) економічних досліджень.

Ключові слова: належне врядування; сталий економічний розвиток; верховенство права; ефективність уряду.

Introduction

Good governance encompasses multiple dimensions that must be addressed to foster economic growth and development, particularly given the crucial role of effective government in developing countries. Chibba (2009) argues that government plays an important role in shaping the social and cultural settings of a state and can significantly influence GNP and poverty reduction (Aysan, Ersoy, & Varoudakis, 2008). Jain (2011) highlights that government plays a significant role in reducing corruption levels and ensuring stable political conditions.

In this paper, the author aims to measure the effect of governmental approaches on economic growth, using GDP and GDP per capita as key indicators in selected West African countries. To achieve this, the study employs a dataset covering a 20-year period from 2000 to 2020.

Berry (2019) analyses how local government can serve as an effective tool for industrial development, demonstrating that good governance contributes to accelerating internal financial flows and strengthening the research and development sector, particularly in the pre-crisis period in Britain. Rodrik (2009) argues that economic growth depends on industrial policy, where both horizontal and vertical policies support the development of local firms and industries. Pagés (2010) and Devlin and Moguillansky (2011) note that rigid industrial policies, such as excessive tariffs and taxes on industrial goods, can negatively affect governance quality.

Greenwald and Stiglitz (2014) suggest that infant industries can contribute to economic development when supported by effective trade policies, while intellectual property rights help deepen capital formation and encourage entrepreneurial investment. Mazzucato (2013) emphasises that industrial growth is closely linked to innovation-led development, and that middle-income countries require technological and structural transformation.

According to Kaufmann and Kraay (2002), governance can be conceptualised through three dimensions: first, the accumulation of power influences the attraction of foreign direct investment (FDI); second, effective governance systems ensure stable and secure policies for citizens; third, governance contributes to social policy improvement and infrastructural development, thereby supporting economic growth. Harford (2006) demonstrates the interconnection between governance, competitiveness, and growth, highlighting investment attraction as a key driver of capital formation.

Governance systems in developing countries often face challenges in integrating into global markets without losing control over rapid capital inflows that may destabilise their economies (Jreisat, 2002). Kerandi (2008) shows that weak governance systems fail to attract foreign investment in industrial sectors, thereby hindering economic growth. Similarly, governing bodies in Sub-Saharan African countries (SSAC) have struggled to attract foreign investors and secure sufficient funding.

Literature Review

Alexeev and Conrad (2009) examined the relationship between natural resources and GDP levels, finding a negative association between government intervention, GDP, and natural resource abundance. In contrast, cross-country regressions indicate that natural resource abundance has a significant positive effect on GDP per capita. The estimated coefficients suggest that, on average, a 1% increase in natural resource rents per capita leads to an approximate 0.1 % increase in GDP per capita in the long term.

However, natural resources do not always stimulate GDP growth positively, which supports the resource curse hypothesis. In contrast, Haber and Menaldo (2011) and Brueckner et al. (2012) found little empirical evidence supporting the existence of a resource curse, arguing that good governance policies can mitigate its adverse effects. Brückner et al. (2023) analysed the relationship between natural resource abundance and economic development, showing that state ownership can significantly influence resource utilisation and macroeconomic development. State ownership is closely associated with improved resource management, particularly in mining and oil sectors, which have been identified as important drivers of GDP growth.

Furthermore, Nunnenkamp (2002), analysing 28 developing countries from 1987 to 2000, found that FDI is positively associated with per capita GNP, factor costs, and years of education in the long run. Margalioth (2003) and Blonigen (2005) argue that FDI inflows can be stimulated through tax incentives. Maskus (2000) suggests that FDI can be enhanced by strong intellectual property rights (IPR), reflecting a supportive legal and regulatory framework that is essential for good governance.

Globerman and Shapiro (2002) examined FDI flows in the United States and found that they are partially influenced by governance quality across 144 countries during 1994–1997. Shleifer (2000) and Habib and Zurawicki (2002) demonstrated that political stability positively affects FDI inflows. Shah and Afradi (2015) found that terrorism and high political risk deter FDI, whereas Seim (2010) showed that regulatory quality enhances FDI inflows. Bissoon (2011) analysed 45 developing countries across Africa, Asia, and Latin America, concluding that strong regulatory frameworks, low corruption, and political stability significantly increase inward FDI. Daude and Stein (2007), using data from 34 source countries and 152 host economies, highlighted that regulatory quality (RQ) and government effectiveness (GE) play a crucial role in attracting FDI.

Despite extensive research, it remains evident that improper resource allocation, along with financial and political constraints, undermines social equality. North et al. (2009) argued that approximately 85% of the global population lives in open-access orders characterised by significant gaps between economic development and political organisation. These disparities are reflected in institutional inefficiencies and weak governance structures. North (2008) emphasised that equitable wealth distribution and effective social policies depend on strong institutional frameworks that support macroeconomic development. Eggertsson (2005) highlighted that institutional failures and policy gaps continue to generate inefficiencies, including at the macroeconomic level.

Since the mid-1990s, international financial institutions (e.g., the IMF and World Bank), development agencies (e.g., USAID and DFID), and international NGOs (e.g., Transparency International) have actively promoted the good governance paradigm (Weiss, 2000). North et al. (2009) further argued that well-targeted foreign aid can enhance the effectiveness of governance systems.

Research Objectives

1. To analyse the role of government regulation in welfare maximisation for East African citizens.
2. To assess the effect of government regulations on welfare maximisation in the East African region.

Materials and Methods

In this research, the author uses data from the World Bank database covering the period from 2000 to 2020 (approximately 20 years) to address the research questions and achieve the study objectives. Although some data gaps may arise, interpolation and extrapolation methods are applied to handle missing values and ensure data completeness.

The study focuses on East African countries to estimate the effect under investigation. The countries included are Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, Somalia, South Sudan, Tanzania, Uganda, Zambia, and Zimbabwe.

The research examines the effect of government regulations and legal frameworks on the maximisation of citizens' welfare. Governments implement policies and strategies aimed at improving welfare through appropriate regulatory frameworks and governance mechanisms. The study also employs qualitative analysis to assess the role of good governance factors in enhancing citizens' well-being.

Results and Discussion

1 Regional Results Analysis and Discussion

Citizen welfare maximisation refers to the overall economic and political objective of maximising the total utility or well-being of all citizens, often achieved through equitable public services, an efficient taxation system, and effective allocation of national resources. This concept is associated with improving efficiency to ensure that, at an optimal level, at least one individual is better off without making others worse off.

The rule of law in East African Community (EAC) countries—Kenya, Uganda, Tanzania, Rwanda, Burundi, Somalia, and the Democratic Republic of the Congo—has developed through independent judicial systems, separation of powers, and free and fair elections. However, despite constitutional protections, policy implementation faces significant challenges, including executive overreach, corruption, and limited access to justice.

Alam (2009) highlights that effective governance strategies involve monitoring and evaluating systems, ensuring compliance with established policies, and taking corrective action when rules are violated or misinterpreted. Furthermore, Alam (2010) emphasises the importance of human rights protection, corruption reduction, and adherence to the rule of law. The study also underscores the role of effective government policies in improving living standards and promoting anti-corruption strategies.

Cross-country evidence indicates that governance plays a crucial role in socio-economic development, demonstrating a strong positive relationship between governance quality and economic performance. Improved governance is associated with increased investment, higher national growth rates, greater adult literacy, and lower infant mortality rates (Court, 2006).

Good governance is characterised by participation, consensus orientation, accountability, transparency, responsiveness, efficiency, equity, inclusiveness, and adherence to the rule of law. Participation involves the engagement of all members of society, either directly or through legitimate institutions (Merole, 2016). Moreover, good governance requires a fair legal system enforced by an independent judiciary and an impartial police force.

Transparency implies that decision-making processes and their implementation follow established rules and are accessible to stakeholders. It also ensures that relevant information is available to those affected by such decisions. Good governance promotes ethical values and institutional integrity, contributing to effective organisational performance (John et al., 2003).

Khan (2006) highlights the importance of institutional reforms and anti-corruption strategies in safeguarding citizens' rights. These rights depend not only on domestic transparency but also on foreign policy and diplomatic relations. Effective governance requires the implementation of policies that positively affect citizens in developing countries. Trevor (2002) emphasises the role of fiscal and monetary policies, budget preparation, and policy monitoring in ensuring welfare maximisation.

Alam and Hoque (2010) further note that good governance supports economic and financial administration, strengthens legal institutions, enhances public sector efficiency, and promotes civil society development. Additionally, private sector regulations—such as competitive markets, job creation, and efficient resource utilisation—are essential for economic growth (Khan, 2006).

In African developing countries, tax laws and fiscal policies may be well designed; however, weak administrative capacity often leads to ineffective implementation. As a result, tax burdens may be shifted inequitably, and fiscal outcomes may deviate from intended objectives.

The World Bank (2017) notes that public spending plays a critical role in governance outcomes. However, excessive public expenditure combined with weak institutions can lead to fiscal deficits, inefficient resource allocation, and distortions in economic decision-making.

2 Good Governing Results Analysis and Discussion

The United Nations (2015) emphasises the relationship between good governance and the rule of law within the framework of the Sustainable Development Goals (SDGs). Good governance is a fundamental condition for sustainable economic development and responsible business practices.

Mahmod (2013) highlights that good governance is a prerequisite for effective monitoring of both public and private sectors. Studies also show that the rule of law plays a critical role in preventing abuse of power and reducing corruption (Munro-Nelson, 2008; Michael, 2010).

According to the United Nations (2013), the rule of law is closely linked to justice, power distribution, and the maintenance of peace and security. It also enhances public confidence in legal institutions, including the police and judiciary (De Ferranti, 2009). Effective legal systems must be transparent, predictable, and based on clearly defined rights and responsibilities (Valliani, 2012).

Regulatory quality (RQ) is a key dimension of governance that enables governments to formulate and implement sound policies. It contributes to fair competition, effective market regulation, trade liberalisation, and financial sector stability. Strengthening regulatory capacity leads to improved policy outcomes and reduced inequality (OECD, 2014; Meloni, 2010).

Hossain (2022) finds that governance indicators—such as government effectiveness (GE), rule of law (RL), and regulatory quality (RQ)—combined with human capital, significantly reduce income inequality in developing countries. Similarly, Cletus (2024) identifies good governance as a key determinant of citizens' well-being.

Citizen participation in governance enhances transparency, accountability, and democratic legitimacy (Zuofa, 2020). Conversely, weak participation may lead to the concentration of power and ineffective governance.

Merole (2016) emphasises that transparency and accountability are essential components of good governance. When these principles are upheld, public officials are more likely to act in the public interest, thereby improving welfare outcomes. In contrast, a lack of transparency and accountability often leads to misuse of power and reduced social welfare.

Conclusion

Singh (2022) employed the panel integration to show a complementary connection between economic growth and good government wings. This measures that good governance has been proven an essential strategic key for macro-level development for Brazil, Russia, India, China and South Africa (BRICS) nations. In the same vein, supporting Two-Stage Least Squares (2SLS) and Generalised method of moments (GMM) regression, corruption, government ineffectiveness, rules of law, and poor controlling capacity hinder the general growth of 13 West African countries. According to Beyene (2022), the effect of governance on 22 African countries is that good governing bodies create a positive impact on sustainable growth and attract citizen trust in government. On the other hand, Orji et al. (2022) mentioned that controlling corruption promotes economic efficiency in China; if a strong bureaucracy maintains control over corruption, it leads to promoting 0.54 per cent economic growth. From my perspective, collecting and filtering datasets are the biggest challenging issues for analysing the whole research. All governing bodies in the world trying to improve their economic proficiency with sustainable nature, especially effective African governing bodies that try to ensure their economic sustainability with ensuring sustainable development.

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Competing interests

The authors declare that they have no competing interests.

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