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The Impact of Good Governance on Socio-Economic Growth in Djibouti

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ABSTRACT

Djibouti is a small, low-income country that faces significant governance challenges. Despite efforts to improve governance, Djibouti remains among the lowest-ranked countries globally in terms of political freedom and transparency. The relationship between governance and economic growth in Djibouti is not well studied.This study aimed to examine the impact of good governance on economic growth in Djibouti. Specifically, it analyzed the effects of political stability, institutional quality, and corruption on economic growth. The study utilized a quantitative, regression analysis approach. Secondary data on governance indicators and economic growth in Djibouti over 36 years (1987-2022) were gathered from World Bank sources. Political stability, institutional quality, and corruption were the independent variables, while GDP per capita was the dependent variable. The findings showed that political stability and reduced corruption significant positive impacts economic growth in Djibouti. However, contrary to expectations, improved institutional quality appeared to retard growth. Together, the governance variables explained over 50% of the variation in GDP per capita.The study provides important insights into the drivers of economic growth in Djibouti. The results highlight the need to promote political stability and combat corruption. However, strengthening institutional capacity may not spur growth in the short term. The findings have implications for policymakers seeking strategies to improve governance and accelerate development in Djibouti. Further research is needed to understand the unexpected institutional quality effects better.

KEYWORDS:

Economic Growth, Good Governance, Institutional Capacity, Political Instability, Corruption.

INTRODUCTION

Djibouti is a small country located in the Horn of Africa, bordered by Eritrea to the north, Ethiopia to the west and south, and Somalia to the southeast. It has a population of approximately one million, most of whom live in urban areas, such as the capital city of Djibouti. The country has a land area of 23,200 square kilometres and a coastline of 314 kilometres along the Red Sea and the Gulf of Aden (CIA WorldFacebook, 2021). Djibouti's economy is primarily service-based, with key sectors including transportation, logistics, and communications. The country's strategic location at the intersection of global shipping lanes has made it a hub for international trade and investment, especially with neighbouring Ethiopia, which relies heavily on Djibouti's port facilities and railway network for its imports and exports. The Port of Djibouti is a central transhipment hub, handling around 95% of Ethiopia's imports and exports and goods bound for other countries in the region (Bank A. D., 2019). The country has established several Islamic finance institutions, including the Central Bank of Djibouti's Shariah Supervisory Board and the Djibouti International Finance Centre, which aims to attract investment from Middle Eastern and Asian investors. (News, 2017).Djibouti's economic prospects are also vulnerable to external factors, such as changes in global trade patterns or geopolitical risks. For example, the country's reliance on Chinese investment and debt has raised *concerns*about debt sustainability and the potential for China to exert political influence in the region (Financial Times, 2018). In recent years, Djibouti has also sought to diversify its economy and attract foreign investment in the energy, tourism, and agriculture sectors. However, the country still faces significant challenges in terms of poverty, unemployment, and inequality, with a large proportion of the population living below the poverty line (Bank W. , For statistics on Djibouti's economy, share of GDP by sector, economic growth rate, poverty rate, unemployment., 2021).Djibouti is a presidential republic with a unicameral legislature called the National Assembly. The ruling party, the People's Rally for Progress (RPP), has dominated the political scene since independence in 1977, and opposition parties face significant obstacles in organizing and participating in elections. Theme diaisalsotightly controlled by the government and civil society organizations operate under restrictive laws and regulations (House, 2021). The justice system is also weak and susceptible to political interference, undermining the rule of law and human rights (International, 2021).

Given these challenges, the relationship between good governance and economic growth in Djibouti is particularly relevant. Good governance, defined as the ability of the government to provide efficient and effective public services, promote transparency and accountability, and protect human rights and the rule of law, is considered a necessary condition for sustainable economic growth and development. However, the actual impact of good governance on economic growth is subject to debate, with some scholars arguing that other factors, such as natural resources, trade openness, and human capital, maybe more important (Kaufmann, The worldwide governance indicators: Methodology and analytical issues.https://doi.org/10.1017/S1876404511200046, 2010).Similarly, a study conducted by Kim et al. in 2019, titled "Governance and Economic Growth in Asian Countries: A Panel Data Analysis," examined the role of governance in driving economic growth, specifically in Asian countries. The authors found that improvements in governance significantly contribute to higher economic growth rates in Sub-Saharan Africa.They highlighted the importance ofpolitical stability, institutional quality, and control of corruption as key drivers of economicgrowth in the region. Another study by Augustin Kwasi Fosu, titled "Growth, Inequality, and Poverty Reduction in Developing Countries: Recent Global Evidence" and published in 2010, examined the impact of various factors, including governance, on economic growth and povertyreduction. The scholarly article "Institutions and Economic Growth in Africa" authored by Easterly, Levine, and Roodman in 2004 explores the relationship between institutions and economic growth in the African context. The scholarly article titled "Governance, Economic Policy, and the Transition to Democracy", authored by

Ndulu and O'Connell in 1999 explores the interplay between governance, economic policy, and the process of transitioning to democracy. Djibouti has grappled with notable political instability since gaining independence in 1977. While Djibouti operates under a democratic political system, a traditional bureaucratic administrative apparatus characterizes its governance landscape. Regrettably, it is widely regarded as one of the world's poorest nations, occupying a position among those with the lowest political stability and transparency levels. Consequently, this researchaimed to scrutinizes the correlation between good governance and economic growth in Djibouti's context. Therefore, this research answer the question is there a correlation between good governance and economic growth in Djibouti's.

METHODOLOGY

Area of the Study

Djibouti is a small country in the Horn of Africa, bordered by Eritrea to the north, Ethiopia to the west and southwest, and Somalia to the southeast. It has a strategic location at the entrance to the Red Sea, making it an essential hub for international trade and shipping. Djibouti is a small country in the Horn of Africa, with a population of approximately one million people. The country's economy is heavily dependent on its location, which makes it a gateway for trade between the Red Sea and the Indian Ocean. Djibouti's strategic location has led to significant investment in infrastructure, including ports, railways, and airports, which has helped to drive economic growth in recent years (Bank W. , For statistics on Djibouti's economy, share of GDP by sector, economic growth rate, poverty rate, unemployment., 2021).

Study design

The research design used in this study was a quantitative research design that employed a secondary data analysis approach. This is because the study aims to examine the relationship between good governance and economic growth of Djibouti, using data from the World Bank. The study is a panel that analyses data from a single point in time.

Data Collection methods and Procedures

This study used a secondary source of data. Secondary source of data is a source of data that is collected by a previous researcher directly from the field through questionnaire, interview, survey, experiment, etc., and it's being used in a current study.This secondary data source was used in this study because it provides manipulated data and second-hand evidence. Secondary data source is equally very reliable because an expert usually collects it previously. But secondary source of data collection may not be original, sometimes; some information is kept out because of personal interest. The study gathered secondary data from World Bank on a period of 36 years (1987-2022).This period was preferred because it yielded enough data points to support quantitative regression analysis.

The data used in this study were obtained from the World Bank website. The independent variable, good governance was measured using the Worldwide Governance Indicators (WGI) index available on the World Bank website. The WGI index measures six governance dimensions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. The dependent variable, economic growth, was measured using Djibouti's gross domestic product (GDP) per capita information available on the World Bank website. The data were collected for 36 years (1987-2022).

Data Analysis Techniques

Descriptive Tools

Descriptive statistics was considered for this study through tables, percentages, bar charts, pie charts, frequency distribution tables, and mean and standard deviation to give more meaning to this study. Descriptive statistics, as an instrument of data analysis that is illustrative, helped in the clear presentation of the data so that the readers of the work could easily understand and interpret the results.

Inferential Tools

The Inferential statistics for this study used the multiple regression technique of estimation. This model was selected for this study because the regression analysis is a quantitative and qualitative method used in situations where the study involves modeling and analyzing several variables like this case.

Model Specification

Dependent variables (Y) = Human Development

Independent variable (X) = Governance

Y=f (Governance)……..(1)

Mathematically,

Y=f(IC, PI, & CT) …….(2)

The model is specified econometrically as;

$Y = \beta_0+\beta_1 IC_i +\beta_2 PI_i + \beta_3 CT_i + U_i$…….(3)

Where;

IC = Institutional Capacity

PI= Political Instability

CT =Corruption and Transparency

U = Stochastic or error term

β_0 = Constant term

β_1,β_2& β_3 are the parameters to be estimated

FINDINGS

Descriptive Statistics

Descriptive statistics in terms of mean and standard deviations were determined to describe the study variables, as shown in Table 4.1

Table 4.1: Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
Institutional Capacity	36	.00	33.33	12.6065	10.37003
Political Instability	36	-.96	.49	-.2025	.35634
Corruption and Transparency	36	.00	46.60	21.1025	16.97147
Economic Growth	36	2.87	3.50	3.0711	.23481

The findings in Table 4.1 show that the average value of institutional capacity stood at 12.6065, which of political instability averaged at-0.2025, corruption and transparency averaged at21.1025 while economic growth averaged at 3.0711. Of all the studied indicators, only political instability had a negative average value.

Diagnostic Tests

Diagnostic tests covering the multicollinearity test, normality test and Heteroskedasticity Test were determined to validate the regression analysis assumptions and the findings presented in subsequent sections.

Multicollinearity Test

The reason for carrying out this test was to determine whether a relationship existed between the study's independent variables. This was determined through the computation of values of Variance of Inflation Factors as shown in Table 4.2.

Table 4.2: Multicollinearity Test

	Collinearity Statistics	
	Tolerance	**VIF**
Institutional Capacity	.236	4.244
Political Instability	.863	1.159
Corruption and Transparency	.231	4.321
Average	**.443**	**3.241**

From Table 4.2, the average VIF value is given as 3.241 with values for the respective variablesbeing less than 10. Liamputtong (2019) shared that whenever VIF values are within the range of1-10, the implication drawn is the absence of multicollinearity in the data. Thus, the data used in thisstudyto run regression analysis had no multicol linearity symptom.

Normality Test

Normality was tested through the computation of values of Skewness and Kurtosis, and the findings were established and summarized as indicated in Table 4/3.

Table 4.3: Normality Test

	N	Skewness		Kurtosis	
	Statistic	**Statistic**	**Std. Error**	**Statistic**	**Std. Error**
Institutional Capacity	36	-.096	.393	-1.282	.768
Political Instability	36	-.574	.393	-.310	.768
Corruption & Transparency	36	-.275	.393	-1.591	.768
Economic Growth	36	.813	.393	-1.081	.768
Average	**36**	**-0.033**	**0.393**	**-1.066**	**0.768**

The findings in Table 4.3 indicate that the average values of Skewness and Kurtosis were established as -0.033 and -1.066, respectively. **As shared by** Bougie and Sekaran (2019), any Skewness and Kurtosis values within the range of + or + are an indication of the presence of normality in the data set (Bougie, 2019).

Heteroskedasticity Test

This test aimed to determine if the error term was constant or was characterized by variance. This was determined through the Scatter plot shown in Figure 4.1.

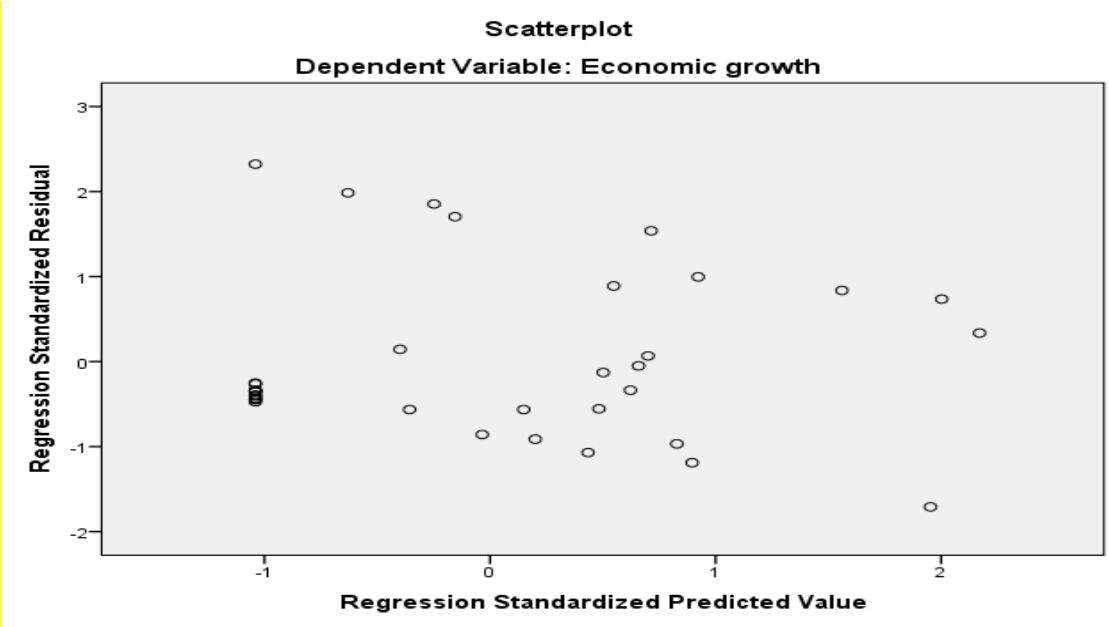

Figure 4.1: Heteroscedasticity Test

Figure 4.1 shows that the plots between regression standardized residual and the predicted values were evenly spread with no established pattern. This indicates the absence of Heteroskedasticity and thus the presence of homoskedasticity was assumed. Harris, Holyfield, Jones, Ellis and Neal (2019) argued that a scatter plot having no clear pattern shows that the data has attributes of homoskedasticity which is desirable (Harris, 2019).

Institutional Capacity and Economic Growth

The study's first objective was to establish the effect of institutional capacity on economic Growth of Djibouti. Information on institutional capacity was gathered from World Bank reports from 1987-2022. Table 4.4 is a breakdown of the findings of the regression model summary.

Table 4.4: Model Summary Linking Institutional Capacity and Economic Growth

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.696[a]	.484	.469	.17114

From Table 4.4, the value of adjusted r-squared was 0.469, this means that 46.9% change in economic Growth of Djibouti throughout consideration was explained by variation in its institutional capacity. The findings of Analysis of Variance as determined were established and presented as indicated in Table 4.5.

Table 4.5: ANOVA findings on Institutional Capacity and Economic Growth

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.934	1	.934	31.890	.000[b]
Residual	.996	34	.029		
Total	**1.930**	**35**			

From TABLE 4.5,it can be inferred that the overall regression model of the study wassignificant (F=31.890, P<0.05) and hence suitable for predicting the effect of institutional capacity on economic Growth of Djibouti. The findings of the regression beta coefficients and significance were established and indicated in Table 4.6.

Table 4.6: Coefficients on Institutional Capacity and Economic Growth

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	3.270	.045		72.211	.000
Institutional Capacity	-.016	.003	-.696	-5.647	.000

From the findings in Table 4.6, the following model is fitted between institutional capacity and economic Growth of Djibouti:

$Y = 3.270\text{-}0.016IC_i + U_i$…….(i)

Where;

IC = Institutional Capacity

U_i-error term

Table 4.6 shows that a unit decreases in institutional capacity would improve economic Growth of Djibouti by 0.016 units.

Political Instability and Economic Growth

The study sought to determine the effect of political Instability and economic Growth of Djibouti. The findings were established and summarized as shown in subsequent tables.

Table 4.7: Model summary on Political Instability and Economic Growth

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.755[a]	.569	**.557**	.15633

The findings in Table 4.7 indicate that 55.7% change in economic Growth of Djibouti is explained by changes in political Instability (Adj. R^2=0.557). The ANOVA findings, as determined, are presented in Table 4.8.

Table 4.8: ANOVA findings on Political Instability and Economic Growth

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1.099	1	1.099	44.964	.000[b]
Residual	.831	34	.024		
Total	**1.930**	**35**			

Table 4.8 shows that on overall, the regression model adopted to predict the effect of political instability on economic growth was significant (F=44.964, P<0.05). Table 4.9 is a summary of the coefficients and significance.

Table 4. 9: Coefficients on Political Instability and Economic Growth

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.172	.030		105.475	.000
Political Instability	.497	.074	.755	6.705	.000

The following equation is predicted out of the findings in Table 4.9:
The model is specified econometrically as;

$Y = 3.172+0.497PI_i + U_i$…….(ii)

Where;

PI= Political Instability

CT =Corruption and Transparency

U = Stochastic or error term

Corruption and Transparency and Economic Growth

The last objective examined the effect of corruption and transparency on economic Growth of Djibouti. Table 4.10 is an overview of the regression model summary.

Table 4.10: Model Summary on Corruption and Transparency and Economic Growth

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.748[a]	.560	.547	.15807

The findings in Table 4.10 show that changes in corruption and transparency explain a 54.7% change in the economic growth of Djiboutiis explained by changes in corruption and transparency.

The findings on ANOVA were established and indicated in Table 4.11 below:

Table 4. 11 ANOVA Findings on Corruption and Transparency and Economic Growth

	Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
Regression	1.080	1	1.080	43.237	.000[b]
Residual	.850	34	.025		
Total	**1.930**	**35**			

The ANOVA findings in Table 4.11 indicate that on overall, the regression model adopted in establishing the effect of corruption and transparency on economic growth was significant (F=43.237, P<0.05). The findings on beta coefficients and significance as determined through regression modeling are as indicated in Table 4.12.

Table 4.12: Coefficients and Significance on Corruption and Transparency and Economic Growth

	Unstandardized Coefficients		**Standardized Coefficients**		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	3.290	.042		77.585	.000
Corruption and Transparency	-.010	.002	-.748	-6.576	.000

From the findings in Table 4.12, the following equation is predicted between corruption and transparency as far as economic Growth of Djibouti is concerned.

$Y = 3.290-0.010CT_i + U_i$…….(3)
Where;
CT =Corruption and Transparency
U = Stochastic or error term

DISCUSSION OF FINDINGS

A discussion of the analyzed findings is presented in the subsequent sections:

Institutional Capacity and Economic Growth

Institutional capacity refers to the ability of institutions to implement policies and deliver services that promote economic growth effectively. It encompasses various aspects, including the quality of governance, the effectiveness of government institutions, and the rule of law. Inclusive institutions that provide equal opportunities for individuals and foster innovation and productivity are critical for economic growth. The study found that 46.9% change in economic Growth of Djibouti throughout consideration was explained by variation in its institutional capacity. This suggests that institutional capacity plays a significant role in determining economic Growth in Djibouti. The study also found that the p-value of institutional capacity was established as 0.000, which is less than 0.05, indicating that the variable was significant. Therefore, the study accepted the hypothesis that institutional capacity significantly affects economic Growth in Djibouti.

The finding that institutional capacity significantly affects economic Growth in Djibouti agrees with the work of Acemoglu, Johnson, and Robinson (2001), who explored the relationship between institutions and economic growth. They found that countries with better institutional quality tend to experience higher economic growth rates. They emphasized the significance of inclusive institutions that provide equal opportunities for individuals and foster innovation and productivity (Acemoglu D. J., 2001).

The study also found that countries with better governance, as measured as political Stability and government effectiveness indicators, received higher levels of foreign direct investment (FDI). This agrees with the study by Wei (2000), who found that countries with better governance tend to attract higher levels of FDI. Similarly, a study by (Asiedu, 2002) found that countries with better governance, as measured by indicators such as the rule of law and control of corruption, attracted higher levels of FDI (Wei, 2000). Therefore, the study's findings suggest that improving institutional capacity can contribute to economic Growth in Djibouti. This can be achieved by strengthening governance, enhancing the effectiveness of government institutions, and promoting the rule of law. The government can implement policies that promote transparency, accountability, and good governance. This can include measures to reduce corruption, promote fair competition, and enhance the delivery of public services.

Political Instability and Economic Growth

The results showed that political instability significantly affects economic Growth in Djibouti, with 55.7% change in economic growth being explained by changes in political instability. The study's findings support the second hypothesis, H2, that political instability significantly affects economic growth in Djibouti. The p-value of political instability was 0.000, less than 0.05, indicating that the variable was significant. Therefore, the study accepted the hypothesis that political instability significantly affects economic Growth in Djibouti.

The study's findings align with previous research by (Barro, 1991) who investigated the relationship between political instability and economic growth across countries. (Barro, 1991) political stability positively affects long-term economic growth by reducing uncertainty, attracting investment, and fostering business confidence. The study's findings support this assertion, suggesting that political instability hurts economic Growth in Djibouti. Political instability can negatively affect economic growth, reducing investor confidence, discouraging investment, and hindering economic development. When a country experiences political instability, investors may become wary of investing in that country, fearing that their investments may not be safe or that the political climate may not be conducive to business growth. This can lead to a decrease in foreign investment, negatively impacting economic growth.

Moreover, political instability can also discourage domestic investment. When Entrepreneurs and business owners may hesitate to invest in new projects or expand their businesses when uncertain about the political climate. This can lead to decreased domestic investment, negatively impacting economic growth.

Corruption and Transparency and Economic Growth

The results showed that changes in corruption and transparency explain 54.7% change in economic Growth of Djibouti. The study tested hypothesis H3, which states that corruption and transparency significantly affect economic Growth in Djibouti. The p-value of corruption and transparency was

established as 0.000, less than 0.05, indicating that the variable was significant. Therefore, the study accepted hypothesis H3 and concluded that corruption and transparency were significant enablers of economic growth in Djibouti.The study's findings align with previous research by (Mauro, 1995), who conducted a pioneering study examining corruption's impact on economic growth using a cross-country analysis. (Mauro, 1995) found that higher levels of corruption are associated with lower rates of investment, reduced efficiency, and slower economic growth. The study's findings support this assertion, suggesting that corruption and transparency are critical in promoting economic growth in Djibouti. Corruption and transparency can affect economic growth, reducing investor confidence, discouraging investment, and hindering economic development. When a country experiences high levels of corruption, investors may become wary of investing in that country, fearing that their investments may not be safe or that the political climate may not be conducive to business growth. This can lead to a decrease in foreign investment, negatively impacting economic growth.Moreover, corruption and lack of transparency can also discourage domestic investment. When Entrepreneurs and business owners may hesitate to invest in new projects or expand their businesses. This can lead to decreased domestic investment, negatively impacting economic growth. Furthermore, corruption and lack of transparency can hinder economic development by disrupting the normal functioning of government institutions and policies. When a country experiences high levels of corruption, government institutions maybe unable to function effectively, leading to delays in policy implementation and decision-making. This can hinder economic development by discourageing investment, reducing the efficiency of government programs, and decreasing the effectiveness of policies aimed at promoting economic growth.

Conclusion

The findings of the study revealed some surprising results that contradict general knowledge and expectations Firstly, the study found that reducing institutional capacity would enhance economic growth, which is contrary to expectations. This implies that Djibouti's economic growth may rely on something other than solid institutions, at least in the short term. Secondly, the study found that political instability positively influences economic Growth in Djibouti. This is surprising because political instability is generally believed to have a negative impact on economic growth. Thirdly, the study found that corruption and transparency positively impact economic Growth in Djibouti. This is surprising because corruption is generally believed to hurt economic growth. The study's findings have important implications for policymakers in Djibouti. It suggests institutional capacity, political instability, corruption, and transparency significantly promote economic growth. Therefore, policymakers should consider these factors when deciding to promote economic growth.Moreover, the study's findings highlight the importance of considering the impact of various factors on economic growth in policy-making. In addition, the study's findings have implications for other countries facing similar challenges. The study demonstrates that factors generally believed to have a negative impact on economic growth, such as political instability and corruption, can sometimes have a positive impact. Therefore, other countries can learn from Djibouti's experience and consider the impact of various factors on economic growth when making policy decisions.

Recommendations

From the findings, the study suggests the following recommendations:

i. The National Government of Djibouti should strengthen its level of institutional quality of governance structures.
ii. High level of transparency should be cultivated among government officials working in Djibouti
iii. Strict regulations, including heavy penalties and sanctions, should be enacted to deal with those found with corruption allegations in the Government in Djibouti
iv. Strong internal controls should be put in place in government agencies and institutions in Djibouti that make it hard for people to engage in corrupt dealings

Declarations

Ethical Considerations

Before this study was conducted, the researcher ensured that the relevant authoritative letter, which included a data collection letter from the university, was obtained before collecting data. No individual was coerced to participate in this study through any type of persuasion or deception.

Conflict of interest

The authors declare no conflict of interest.

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