

The determinants of the structure of government expenditure in Africa

by

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SUMMARY

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This study investigates the determinants of the structure of public budgets in Africa using a panel econometrics approach. Data for 28 countries was collected covering the period 1995-2004. The determinants of the spending behaviour of these governments are analysed with the specific objectives to: identify the factors that determine the structure of government spending; identify a framework that explains the structure of government spending; specify and estimate a model that explains the allocation of the public budget and finally, to make policy recommendations on the basis of the findings.

A number of hypotheses are tested, namely: an increase in the level of corruption would tilt the budget allocation towards sectors such as defence and general public services; an increase in the level of political instability would cause a shift in the budget allocation to sectors that seek to secure government's political power; an increase in political liberty results in a shift in the budget towards those sectors favouring citizens' preferences, such as education, health and social security and services; an increase in the public debt leads to a shift in the budget towards expenditure on economic services; and the mere presence of

International Monetary Fund (IMF)-supported programmes in a country plays an instrumental role in the distribution of the budget.

The main findings are the following:

The proportions of the public budget devoted to education, health and public services had been on an upward trend during the period 1995-2004 while that of defence and 'other' remained high but declined. The share of the public budget allocated to economic services remained large but showed substantial volatility. On average, general public service expenditures account for the largest share of the public budget, while health and social welfare services account for the lowest share.

The results show that corruption is associated with high levels of general public services and 'other spending while it is negatively correlated to education, health and social welfare spending. Evidence to support the notion that high levels of corruption are associated with large budget allocations to the economic services category seems to be ambiguous. Also, the findings on the role of corruption in twisting the budget towards higher levels of expenditure on defence are not conclusive which contradicts the findings of similar studies.

Furthermore, countries that suffer from political instability tend to allocate a larger slice of their budgets to the general public services and defence spending categories while countries that are politically stable tend to allocate more of their budgets to the education and social welfare sectors. However, there is no strong evidence to support the role of political instability in health spending. It is found that in those countries where human rights are acknowledged and the political process is more transparent, a larger share of the budget is allocated to social welfare spending.

The role of IMF programmes in budget allocation reveals that countries that have implemented IMF programmes tend to allocate less of their budgets to defence and 'other' spending while increasing the budget allocation to education, health, social welfare and economic services. Furthermore, the budget allocation to general public services is shown to be affected by changes in the IMF programmes. Also, irrespective of the corruption status of a country, the IMF programmes tend to cause spending to move away from defence. In the case of education spending, it is found that countries that are exposed to IMF programmes tend to allocate a larger share of their budgets to education than those countries without such programmes.

Budget priorities of neighbouring countries with regard to defence expenditure positively affect a home country's defence budget allocation. This is also true with regard to the number of military personnel per capita of the population which is found to correlate positively with the share of defence expenditure in the budget. Lastly, the coefficient of public debt is unambiguously positive in the economic services and health expenditure categories which may suggest that countries that have high levels of public debt tend to allocate more resources to these sectors.

Based on these findings an 'ideal' distribution of a budget based on the economically most successful countries in Africa is proposed. According to this framework it is ideal, in the African context, to allocate not more than 21 per cent of the public budget to general public services; 8 per cent to defence and 18 per cent to 'other' spending. A minimum of 18 per cent should be allocated to education; 10 per cent to health; 11 per cent to social welfare and 18 per cent to economic services.

For policy purposes the following are noted: Firstly, for an 'ideal' budget allocation to be achieved in the African context, measures must be put in place to control the level of corruption. These may include the following:

- i. Anti-corruption legislation: Countries that have legislated anti-corruption laws should ensure that they enforce these laws.
- ii. Public officers' ethics law: Countries that have not legislated laws relating to a code of ethics for public officials are recommended to do so. Such laws would include requiring public officers to declare their wealth and to disclose any interests that they may have in private investments.
- iii. Anti-corruption institutions: Existing institutions such as parliamentary committees on public finance and investment should be strengthened and if non-existent should be established and entrenched in the constitutions of the respective countries.

Secondly, to ensure optimal public choice that reflects the preferences of the citizens, the government should ensure that political stability is a high priority on its development agenda. Governments should establish early warning systems to enable them to address instability before it degenerates into civil unrest and war. Measures to deal with any instability should be put into place, for example the parties involved in a conflict should be brought together in order that they may enter into a dialogue. At the continental level, peace efforts under the African Union (AU) should be encouraged to ensure that problems on the continent can be resolved by its leaders without recourse to outside support.

Thirdly, accountability is also important in the internal allocation of the budget. Governments must be informed about collective and individual needs, listen to the voice of the public and embrace transparency and true accountability to its citizens. This can be achieved through:

- i. Government openness with regard to its fiscal policies.
- ii. The establishment of information and communication offices where anyone seeking information regarding public matters can get assistance.

- iii. The retraining of the police and other security personnel on matters related to public relations since, in Africa, many of the human rights abuses are committed by the police.

TABLE OF CONTENTS

Acknowledgements.....	ii
SUMMARY	iii
1.1 Introduction.....	1
1.2 Background	1
1.3 Review of public spending and public debt performance in Africa.....	2
1.3.1 Distribution of public budgets	3
1.3.2 Trends in the public budget and public debt.....	5
1.3.3 Review of governance indicators.....	8
1.4 Objectives of the study	10
1.5 Research statement	11
1.6 Hypotheses of the study	12
1.7 Scope of the study.....	13
1.8 Conclusion.....	13
1.9 Outline of the dissertation.....	14
CHAPTER TWO: LITERATURE REVIEW	15
2.1 Introduction.....	15
2.2 Theoretical literature review.....	15
2.2.1 Public choice under different political systems	15
2.2.2 Public choice and strategic debt accumulation.....	18
2.3 Empirical literature.....	19
2.3.1 Literature on governance and public budget allocation	19
2.3.2 Literature on public debt accumulation and public budget allocation	23
2.3.3 Literature on other determinants of public budget allocation	25
2.4 Summary and conclusions.....	27
CHAPTER THREE: METHODOLOGY	29
3.1 Introduction.....	29
3.2 Analytical Framework	29
3.3 The Model.....	35

3.3.1	Selected factors that impact on the composition of budget spending	35
3.3.2	Model specification	40
3.4	Diagnostic tests	42
3.4.1	Testing the joint validity of fixed effects	42
3.4.2	Testing for random effects	43
3.4.3	The choice between a fixed effects model and a random effects model	44
3.5	Estimation procedure	44
3.6	Description of the data	45
3.6.1	Data sources and type	45
3.6.2	Choice of governance indicators	46
3.7	Univariate analysis	48
3.8	Summary	50
CHAPTER FOUR: GENERAL PUBLIC SERVICES SPENDING		52
4.1	Introduction	52
4.2	The relationship between general public services spending and governance	52
4.3	Estimation results of general public services spending	58
4.4	Summary of the main findings	65
CHAPTER FIVE: DEFENCE SPENDING		67
5.1	Introduction	67
5.2	The relationship between defence spending and governance	67
5.3	Estimation results of defence spending	72
5.4	Summary	81
CHAPTER SIX: EDUCATION SPENDING		83
6.1	Introduction	83
6.2	The relationship between education spending and governance	83
6.3	Estimation results of education spending	88
6.4	Summary	95
CHAPTER SEVEN: HEALTH SPENDING		97

7.1	Introduction.....	97
7.2	The relationship between health spending and governance.....	97
7.3	Estimation results for health spending.....	102
7.4	Summary	109
CHAPTER EIGHT: SOCIAL WELFARE SPENDING.....		111
8.1	Introduction.....	111
8.2	Relationship between social welfare spending and governance.....	111
8.3	Estimation results of social welfare spending	115
8.4	Summary	121
CHAPTER NINE: ECONOMIC SERVICES SPENDING.....		123
9.1	Introduction.....	123
9.2	Relationship between economic services spending and governance.....	123
9.2	Estimation results of economic services spending	127
9.3	Summary	134
CHAPTER TEN: 'OTHER' SPENDING.....		136
10.1	Introduction.....	136
10.2	Relationship between governance and 'other' spending	136
10.3	Estimation results of 'other' spending	141
10.3	Summary	146
CHAPTER ELEVEN: PANEL SYSTEM APPROACH ESTIMATIONS.....		147
11.1	Introduction.....	147
11.2	Panel systems estimation results	147
11.3	Concluding remarks.....	153
CHAPTER TWELVE: EXPLORING BEST PRACTICE IN PUBLIC BUDGET ALLOCATION		154
12.1	Introduction.....	154
12.2	Criteria of public budget allocation.....	154
12.2.1	Corruption control.....	154
12.2.2	Political stability	156
12.2.3	Voice and accountability.....	157
12.2.4	Comprehensive criteria of budget allocation in Africa.....	158

12.3 Summary of findings.....	159
CHAPTER THIRTEEN: CONCLUSION AND POLICY RECOMMENDATIONS	160
13.1 Introduction.....	160
13.2 Conclusions.....	160
13.3 Policy recommendations.....	161
13.3 Limitations of the study.....	163
13.4 Suggestions for future studies.....	163
REFERENCES.....	166
APPENDICES.....	172

LIST OF TABLES

Table 1:	Descriptive statistics of the ratio of dependent variables as ratios of the total public budget	49
Table 2:	Description statistics of dependent variables as ratios of GDP	50
Table 3:	Estimation results of general public services spending: Full sample.	59
Table 4:	Estimation results of general public services spending as a ratio of total spending	60
Table 5:	Estimation results of general public services spending as a ratio of GDP	61
Table 6:	Estimation results of defence spending.....	74
Table 7:	Estimation results of defence spending as a ratio of the total public budget	75
Table 8:	Estimation results of defence spending as a ratio of GDP	76
Table 9:	Estimation results of education spending: full sample.....	89
Table 10:	Estimation results of education spending as a ratio of the total public budget	90
Table 11:	Estimation results of education spending as a ratio of the GDP	91
Table 12:	Estimation results of health spending: full sample	104
Table 13:	Estimation results of health spending as a ratio of the total public budget	105
Table 14:	Estimation results of health spending as share of the GDP.....	106
Table 15:	Estimation results of social welfare spending: full sample	117
Table 16:	Estimation results of social welfare spending as a ratio of the total public budget	118
Table 17:	Estimation results of social welfare spending as a ratio of the GDP..	119
Table 18:	Estimation results of economic services spending: full sample ...	129
Table 19:	Estimation results of economic services spending as a proportion of the total public budget	130

Table 20:	Estimation results of economic services spending as a proportion of the GDP.....	131
Table 21:	Estimation results of ‘other’ spending: full sample.....	142
Table 22:	Estimation results of ‘other’ spending as share of the total public budget	143
Table 23:	Estimation results of ‘other’ spending as share of the GDP.....	144
Table 24:	Panel system estimation results	147
Table 25:	Panel system estimation results	149
Table 26:	Panel system estimation results	151

LIST OF FIGURES

Figure 1: Average distribution of public budget/GDP ratios in Africa: 1995-2004	.3
Figure 2: Average distribution of public budget in Africa: 1995- 2004	4
Figure 3: Trends in the ratio of specific budget votes and debt (% of public budget): 1995- 2004	5
Figure 4: Trends in ratio of specific budget votes and debt (as % of GDP): 1995-2004	5
Figure 5: Trends in the voice and accountability index in Africa: 1995-2004	9
Figure 6: Trend of political stability index in Africa: 1995- 2004	9
Figure 7: Trends of the corruption control index in Africa: 1995- 2004	10
Figure 8: Corruption control index and general public services spending	52
Figure 9: Political stability index and general public services spending	53
Figure 10: Voice and accountability index and general public services spending	54
Figure 11: Corruption control index and general public services spending as a ratio of the total budget: 'most corrupt' sub-sample	55
Figure 12: Corruption and general public services spending as a ratio of GDP: 'most corrupt' sub-sample	56
Figure 13: Corruption control index and general public services spending as a ratio of the total budget: 'less corrupt' sub-sample	57
Figure 14: Corruption control index and general public services spending as a ratio of the GDP: ' less corrupt' sub-sample	57
Figure 15: Corruption control index and defence spending	67
Figure 16: Political stability index and defence spending	68
Figure 17: Voice and accountability index and defence spending	69
Figure 18: Corruption control index and defence spending as a ratio of the total budget: ' most corrupt' sub-sample	70
Figure 19: Corruption control index and defence spending as a ratio of the GDP: 'most corrupt' sub-sample	70
Figure 20: Corruption control index and defence spending as a ratio of the total budget: ' less corrupt' sub-sample	71

Figure 21: Corruption control index and defence spending as a ratio of the GDP: 'less corrupt' sub-sample	71
Figure 22: Corruption control index and education spending as a ratio of the total budget.....	83
Figure 23: Political stability index and education spending as a ratio of the total budget.....	84
Figure 24: Voice and accountability index and education spending as a ratio of the total budget	85
Figure 25: Corruption control index and education spending as a ratio of the total budget: 'most corrupt' sub-sample	86
Figure 26: Corruption control index and education spending as a ratio of the total budget: ' most corrupt' sub-sample	86
Figure 27: Corruption control index and education spending as a ratio of the total budget: 'less corrupt' sub-sample.....	87
Figure 28: Corruption control index and education spending as a ratio of the GDP: 'less corrupt' sub-sample.....	87
Figure 29: Corruption control index and health spending as a ratio of the total budget.....	97
Figure 30: Political stability index and health spending as a ratio of the total budget.....	98
Figure 31: Voice and accountability index and health spending as a ratio of the total budget	99
Figure 32: Corruption control index and health spending as a ratio of the total budget: 'most corrupt' sub-sample	100
Figure 33: Corruption control index and health spending as a ratio of the GDP: 'most corrupt' sub-sample	100
Figure 34: Corruption control index and health spending as a ratio of the total budget: 'less corrupt' sub-sample.....	101
Figure 35: Corruption control index and health spending as a ratio of the GDP: 'less corrupt' sub-sample	101

Figure 36: Corruption control index and social welfare spending as a ratio of the total budget	111
Figure 37: Political stability index and social welfare spending as a ratio of the total budget	112
Figure 38: Voice and accountability index and social welfare spending as a ratio of the total budget	113
Figure 39: Corruption control index and social welfare spending as a ratio of the total budget: 'most corrupt' sub-sample	113
Figure 40: Corruption control index and social welfare spending as a ratio of the GDP: 'most corrupt' sub-sample	114
Figure 41: Corruption control index and social welfare spending as a ratio of the total budget: 'less corrupt' sub-sample	114
Figure 42: Corruption control index and social welfare spending as a ratio of the GDP: 'less corrupt' sub-sample	115
Figure 43: Corruption control index and economic services spending as a ratio of the total budget	123
Figure 44: Political stability index and economic services spending as a ratio of the total budget	124
Figure 45: Voice and accountability index and economic services spending as a ratio of the total budget	125
Figure 46: Corruption control index and economic services spending as a ratio of the total budget: 'most corrupt' sub-sample	125
Figure 47: Corruption control index and economic services spending as a ratio of the GDP: 'most corrupt' sub-sample	126
Figure 48: Corruption control index and economic services spending as a ratio of the total budget: 'less corrupt' sub-sample	126
Figure 49: Corruption control index and economic services spending as a ratio of the GDP: 'less corrupt' sub-sample	127
Figure 50: Corruption control index and 'other' spending as a ratio of the total budget	136

Figure 51: Political stability index and 'other' spending as a share of the total budget.....	137
Figure 52: Voice and accountability index and 'other' spending as a share of the total budget	138
Figure 53: Corruption control index and 'other' spending as a share of the total budget: 'most corrupt' sub-sample	138
Figure 54: Corruption control index and 'other' spending as a share of the GDP: 'most corrupt' sub-sample	139
Figure 55: Corruption control index and 'other' spending as a ratio of the total budget: 'less corrupt' sub-sample.....	140
Figure 56: Corruption control index and 'other' spending as a ratio of the GDP: 'less corrupt' sub-sample	140
Figure 57: Ideal public budget structure in Africa based on the corruption control criteria	155
Figure 58: Ideal public budget allocation in Africa based on political stability criteria	156
Figure 59: Ideal public budget allocation in Africa based on the voice and accountability criteria	157
Figure 60: Ideal public budget allocation in Africa based on the comprehensive criteria	158