

Fiscal Sustainability in West Africa, The Role of Governance

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ABSTRACT

This study examines the determinants of fiscal sustainability in West Africa, emphasizing governance. Using annual data from 14 economies, panel econometric techniques—Fixed Effects (FE), Driscoll–Kraay FE, and Instrumental Variable FE (IV-FE)—address heteroskedasticity, cross-sectional dependence, and endogeneity. The debt-to-GDP ratio, fiscal balance, primary balance and cyclically adjusted primary balance serve as the main indicator of fiscal sustainability, while governance is captured through political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. FE results show lag of debt to GDP negatively impacts fiscal sustainability, indicating rising public debt undermines fiscal stability. Driscoll–Kraay corrections reinforce these findings. IV-FE estimations reveal that government effectiveness, regulatory quality, and control of corruption significantly enhance fiscal sustainability when endogeneity is considered, while political stability exhibits mixed effects. The lag structure indicates a persistent fiscal adjustment path. Results suggest that achieving sustainable public finance in West Africa requires both prudent debt management and strengthened governance institutions across the region.

Keywords: Fiscal Sustainability, Governance, West Africa, FE, DK-FE, IV-FE

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