Effects of Governance on Economic Growth in Kenya: 1997-2022

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Abstract:

Purpose: *The primary objective of the study was to evaluate the impact of governance on economic growth in Kenya. Specifically, the study examined the influence of government effectiveness, control of corruption, political stability, and accountability on the country's economic performance.*

Methodology: *The study was grounded in the Solow Growth Theory, Endogenous Growth Theory, and New Growth Theory, which collectively explain the drivers of long-term economic development. A time series research design was employed, utilizing data covering a 25-year period from 1997 to 2022. This design facilitated an assessment of both short-term and long-term relationships. The data on governance indicators and economic growth were sourced from the World Bank's official databases, ensuring accuracy and consistency. Statistical analyses were conducted to determine the extent and significance of the relationships among the study variables.*

Findings: *The empirical results revealed that both government effectiveness and control of corruption had a positive and statistically significant effect on Kenya's economic growth, underscoring the importance of strong institutions and transparent governance. Conversely, voice and accountability exhibited a negative and statistically significant relationship with economic growth, suggesting potential short-term disruptions associated with participatory governance reforms. Political stability, while negative, did not have a statistically significant effect on economic growth.*

Conclusion: *The study concludes that effective governance, characterized by institutional efficiency and anti-corruption measures, is essential for promoting economic development in Kenya. However, increased citizen participation and accountability mechanisms may initially create transitional challenges that temporarily affect growth dynamics.*

Value: *This study provides empirical evidence on the complex interaction between governance quality and economic performance in emerging economies. It offers critical policy recommendations, emphasizing the need for Kenyan policymakers to strengthen institutional effectiveness, reinforce anti-corruption frameworks, and balance accountability initiatives with policies that support macroeconomic stability and sustainable growth.*

Keywords: *Governance, Economic Growth, Corruption Control, Accountability, Government Effectiveness*

Paper Type: *Research Article*

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1. Introduction

Economic growth is widely recognized as a vital driver of poverty reduction and improved living standards in developing nations. Sustained expansion contributes not only to Sustainable Development Goal 1 eradicating extreme poverty but also to broader economic stability, welfare, and global competitiveness (Awad & Al Karaki, 2019; Adzima & Baita, 2019; Paruchuru et al., 2020). Governments prioritize growth as a safeguard of national independence and a key measure of economic "health," with fiscal and monetary policies often centered on sustaining expansion (Wajeetongratana, 2020). However, growth trajectories vary significantly across countries and regions, influenced by governance effectiveness. Scholars have increasingly highlighted that while economic growth can alleviate poverty, its outcomes are shaped by the quality of governance, which determines how effectively development translates into improved welfare (Paruchuru et al., 2020).

Over the past decades, governance has emerged as a central determinant of growth, with evidence showing that effective governance fosters policy efficiency, reduces poverty, and enhances economic expansion (Bichaka & Christian, 2010; Hashem, 2019). International institutions such as the UN, World Bank, and IMF consistently emphasize that strong governance systems are essential to sustainable growth and human capital development (Kaufmann & Kraay, 2002; Mehanna et al., 2010). Yet, the relationship is complex and sometimes inconsistent, as studies suggest governance indices positively impact growth in well-governed nations but may hinder it where governance quality is weak (Murrell & Olson, 1991; Seldadyo et al., 2007; Huynh & Jacho-Chávez, 2009). In Sub-Saharan Africa, corruption and poor regulation continue to limit development gains (Doumbia, 2020). Kenya exemplifies this challenge: despite notable reforms that boosted growth, inequality, poverty, and climate vulnerability persist, alongside consistently poor rankings on global governance indicators (World Bank, 2020). This underscores the importance of investigating both short- and long-run impacts of governance on Kenya's economic growth.

Governance quality, defined as the institutional systems, laws, and policies through which power is exercised, forms the backbone of a functional market economy and equitable development (Khouya et al., 2020). The Worldwide Governance Indicators (WGI) provide a comprehensive global framework for measuring governance across six key dimensions—Voice and Accountability, Government Effectiveness, Political Stability, Control of Corruption, Rule of Law, and Regulatory Quality—drawing on over 30 credible data sources and employing robust statistical methods to ensure comparability and reliability (World Bank Group, 2021). Global assessments reveal significant disparities in governance effectiveness, with Singapore scoring the highest (2.222) and Yemen the lowest (−2.28) (World Bank, 2020). The European Union ranks among the top regions, with Denmark at 1.94, while Africa shows the weakest governance effectiveness overall, averaging −0.78, with Mauritius performing best (0.87) and Somalia worst (−2.24) (World Bank, 2019). These findings highlight persistent governance gaps, particularly in Africa, underscoring the importance of strengthening institutional frameworks to support sustainable development and economic growth.

Economic growth is commonly measured by increases in GDP or GNP, reflecting a nation's overall income expansion (World Bank, 2004). While higher income levels can enhance living standards, improvements in health and education also have the potential to drive dynamic societies, highlighting an ambiguous cause-and-effect relationship between human capital and growth (United Nations Development Programme. Regional Centre in Colombo, 2010).

Historical data from the Maddison Project Database (2020) shows that developed regions such as Austria and Europe have experienced sharp and sustained per capita growth exceeding $40,000, while regions like Southeast Asia and Sub-Saharan Africa continue to face high volatility with growth rates below $5,000 per capita. This global disparity underscores the uneven distribution of economic progress and the role of governance and stability in shaping long-term growth trajectories.

Kenya's experience reflects these dynamics, with its governance index averaging –0.5 between 1996 and 2019, indicating persistent weaknesses in accountability and institutional effectiveness (Global Economy, 2021). Although Kenya recorded strong growth in 2019 at 5.7%, making it one of Sub-Saharan Africa's fastest-growing economies, its long-term performance has been volatile, with significant declines during 1961 (–7.77%) and 2000 (–0.5%). Liberalization and privatization have spurred progress but are often linked to corruption and governance challenges that constrain growth. Recent shocks such as the 2020 locust invasion and the COVID-19 pandemic further disrupted agriculture, food security, and overall economic stability, with GDP growth dropping to 1.5% in 2020 and projected as low as 1% in 2021 (World Bank, 2020). These patterns suggest that Kenya's economic growth is highly vulnerable to governance shortcomings, external shocks, and natural disasters, emphasizing the need for stronger governance quality to secure sustainable growth.

Economic growth is strongly linked to governance worldwide, yet Kenya's growth has remained slow and unstable despite reforms targeting governance improvement. Weak accountability systems, inefficiencies in public service delivery, and widespread corruption including high incidences of bribery for licenses, medical care, and basic services have undermined economic performance (World Bank, 2018). While Kenya possesses key strengths such as a dynamic private sector, skilled workforce, and strategic regional position, governance challenges continue to constrain its potential. Moreover, the full impact of multi-dimensional governance on economic growth in Kenya and Africa is still poorly understood, as most studies focus on limited aspects of governance and overlook both short- and long-term effects. Few empirical works have fully utilized international governance indicators available since 1996, leaving critical knowledge gaps. This study therefore employs time series data from 1997 to 2022 to examine the short-run and long-run effects of governance on Kenya's economic growth, addressing research questions on the roles of government effectiveness, corruption control, political stability, and accountability in shaping the country's growth trajectory?

Theoretical Literature

The Solow Growth Theory emphasizes capital, labor, and technology as the fundamental determinants of economic growth and has served as a baseline for most growth analyses (Romer, 1956; Romer, 2012). While Solow highlighted capital accumulation as central to growth, later models incorporated human capital and technology as additional drivers. Scholars such as Hall and Jones (1999) expanded the model to include governance and social infrastructure as critical factors shaping how effectively economies utilize resources. Good governance is viewed as essential for facilitating the accumulation of both physical and human capital by providing stable institutions, effective infrastructure, and supportive financial environments that encourage investment and long-term development (Castiglione et al., 2015). Conversely, poor governance undermines these mechanisms, leading to inefficiencies and weaker growth outcomes (Fagbem et al., 2021).

The Endogenous Growth Theory shifted attention to internal drivers of economic growth, particularly innovation, human capital, and entrepreneurship (Romer, 1980, 1991; Lucas, 1988). It argues that government actions directly shape long-run growth by influencing investments in research and development, education, telecommunications, and health. Productivity gains arise from the accumulation of knowledge and innovation, which in turn increase output per capita. Unlike neoclassical models that rely on exogenous technological change, endogenous theory emphasizes deliberate policy choices and internal factors as engines of sustained growth (Srinivasan, 2001). Thus, the theory underscores the role of governance in providing enabling environments, such as protection of property rights and support for innovation, to stimulate technological advancement and long-term economic expansion.

The New Growth Theory builds on earlier models but places stronger emphasis on the role of institutions and governance in explaining differences in cross-country economic performance (Romer, 2001). Institutions—both formal and informal—shape incentives for economic activity, with strong institutions promoting stability, efficiency, and technological adoption, while weak ones encourage corruption and rent-seeking behavior (North, 1981, 1990). Effective governance fosters productive use of resources and supports knowledge investment, which accelerates technological progress and innovation (Nawaz et al., 2014). In this way, the New Growth Theory highlights governance quality and institutional structures as central to enhancing a nation's capacity for sustained growth, making them as important as traditional factors like capital and labor.

Empirical Review (Hypothesis Development)

Azimi (2022) examined governance effectiveness in the ten largest economies such as the United Kingdom, Germany, France, Brazil, China, Canada, Japan, and India from 2002 to 2019 using ARDL, panel, and time-series models. The results showed a prolonged symmetric relationship between governance and economic growth, with growth found to be highly susceptible to governance determinants. Canada's economy was more strongly influenced by governance effectiveness than France, highlighting variations in the extent to which governance impacts national growth. Similarly, Azimi and Shafiq (2020), using quarterly VAR models on Afghanistan from 2003 to 2018, found a one-way causal relationship where governance effectiveness directly influenced economic growth, confirming governance as a key driver of development.

Other cross-country studies reinforce these findings. Al Mamun et al. (2017), analyzing 50 oil-trading nations with the AMG estimator, found that governance effectiveness, particularly in ICT, played a fundamental role in stimulating economic growth. Likewise, Bedane, Alam, and Kitenge (2017) employed a System GMM approach across 81 economies and confirmed that government effectiveness significantly explained growth variations. In the OECD context, Saidi et al. (2017) analyzed data from 54 countries over 15 years and reported that governance effectiveness substantially increased real GDP per capita growth rates. Similarly, Lahouij (2016) established that in MENA oil-importing countries, governance efficiency was significantly linked to economic progress, although fixed and random effect models did not reveal distinct short- or long-term impacts.

Country-specific studies present mixed results for instance Wilson (2016) found that while governance effectiveness is theoretically associated with stronger growth, in China's case

(1985–2005), rapid economic expansion occurred with limited governance improvements, suggesting growth may at times drive governance reforms instead of the reverse. Bassam (2013), analyzing 215 UN countries, concluded that the governance-growth relationship is contingent on human development levels and governance metrics, with stronger correlations outside times of crisis. Collectively, these studies highlight that while governance effectiveness generally enhances economic growth, the strength and direction of this relationship may vary across contexts. Guided by these insights, this study hypothesizes:

H_1: There is a significant effect of governance effectiveness on economic growth in Kenya

Afonso et al. (2022) Afonso et al. (2022) analyzed 48 countries globally from 2012 to 2019 using the GMM model and found that corruption negatively affects GDP per capita growth, while reductions in corruption had limited influence on government size. Similarly, Ozegbe and Kelikume (2022), using the ARDL technique, revealed that the interplay of weak institutional quality and high corruption eroded Nigeria's economic performance, underscoring the need for anti-corruption measures. Other studies also support these findings: Baklouti and Boujelbene (2020) applied a panel ARDL to 81 countries and established that corruption had a significant negative impact on productivity growth, while Gründler and Niklas (2019), using Transparency International's reversed CPI for 175 nations, concluded that corruption reduces per capita GDP by about 17%, particularly in authoritarian regimes where it deters FDI and inflates demand. Adegboyega (2017) further confirmed for Nigeria that corruption reduces investment, fuels poverty, and constrains job creation, while Bayar (2016) showed that in European economies, governance indicators particularly rule of law and control of corruption were strongly linked to growth.

Additional evidence highlights the global consistency of this relationship. Enofe et al. (2016) found a significant negative association between corruption and Nigeria's economic performance, recommending systemic reforms to curb corruption. Ibrahim (2015) identified long-term links between corruption and socio-economic indicators in Nigeria, though without clear directionality, while Han et al. (2014), using a dynamic GMM model across Asian countries, demonstrated that strong governance fosters rapid growth compared to nations plagued by corruption. Meta-analysis by Ugur (2014) across 29 studies further reinforced that corruption consistently harms growth, especially in low-income countries. Yusuf et al. (2014) revealed a long-term causal link between corruption, poverty, and economic growth in Nigeria, highlighting corruption's role in perpetuating underdevelopment. Ahmad et al. (2012), analyzing 71 countries from 1984 to 2009 with GMM, found a non-linear, hump-shaped relationship between corruption and growth, stressing that institutional quality shapes the extent of corruption's adverse effects. Collectively, these studies affirm that corruption undermines economic performance by discouraging investment, misallocating resources, and promoting inefficiency. Thus, the study hypothesized that:

H_2: There is a significant effect of control of corruption on economic growth in Kenya.

Zhuo et al. (2021) examined the relationship between political stability and economic growth in 31 developed countries from 2002 to 2018 using GMM, System GMM, and panel fixed/random effects. Their findings confirmed that political stability indirectly influences economic growth, showing that governance indices such as regulatory quality and government effectiveness significantly shape the performance of advanced economies. Cela and Hysa (2021), focusing on 13 Central and Eastern European nations between 2006 and 2016, found that political stability positively affects GDP per capita growth, although extended tenures of

chief executives had a negative impact. Similarly, Samarasinghe (2018), analyzing 145 EU countries, confirmed that corruption control and political stability are vital for sustained growth, estimating that a single unit improvement in corruption control could increase GDP growth by nearly 6.9%. These studies highlight the importance of political stability and governance indicators as catalysts for long-term economic expansion.

Evidence from developing nations equally reinforces this relationship. Nomor and Iorember (2017) demonstrated that political stability indirectly influences Nigeria's economic growth through exchange rate stability, while Williams (2017) showed that political instability in Sub-Saharan Africa significantly reduces FDI inflows, undermining growth prospects. Kurecic and Kokotovic (2017), using VAR and ARDL frameworks, found that instability in small economies negatively impacts FDI, establishing a long-term adverse link. Abdelkader (2017) confirmed similar findings in Egypt, showing that political instability between 1972 and 2013 was significantly detrimental to economic growth. Radu (2015), in the case of Romania (1990–2011), also concluded that political stability is indispensable for achieving sustainable economic growth.

Other global studies further emphasize the short- and long-run effects of political stability on growth. Ahmed and Pulok (2013), examining Bangladesh between 1984 and 2004, found that political instability undermines long-term economic performance, though short-run stability can enhance growth. Uddin and Masih (2013), studying 120 emerging economies, confirmed that political stability is a key predictor of economic development across both OIC and non-OIC nations. Similarly, Zouhaier and Kefi (2012), using panel data from 2000 to 2009 in MENA countries, found an insignificant relationship between political stability and growth but highlighted investment as a channel through which stability indirectly shapes outcomes. Collectively, these studies demonstrate that political stability plays a significant role in shaping both investment flows and long-term economic performance. Therefore, based on the above review, the study hypothesized that:

H_3: There is a significant effect of political stability on economic growth in Kenya

Zhuo et al. (2021) examined the effect of voice and accountability on economic growth in 31 developed countries between 2002 and 2018, employing GMM and System GMM models. Their findings provided empirical evidence of a positive, direct, and significant impact of government accountability on GDP per capita growth. Similarly, Chand et al. (2020), studying Fiji, revealed that governance through voice and accountability positively influenced export-led growth. By applying rigorous statistical techniques, the study confirmed that transparency and public participation enhance export performance, thereby reinforcing the role of accountability in driving economic expansion.

Other studies, however, present mixed results. Hadj Fraj et al. (2018), analyzing 29 developing and 21 developed economies between 1996 and 2012, reported that government accountability was statistically insignificant in expediting economic growth. Likewise, a study in Western Balkan countries from 1996 to 2014 highlighted that while political stability and rule of law significantly affected growth, other governance indicators such as accountability remained inconclusive, and the results could not be generalized to contexts such as Kenya. Cebula and Foley (2011), using PLS estimation for OECD countries between 2003 and 2006, found that greater accountability positively impacted growth by improving market efficiency and reducing business costs. Huynh and Jacho-Chavez (2009) further showed that among six

governance indicators, voice and accountability, adherence to legal regulations, and political consistency were statistically significant, while regulatory control, government efficiency, and corruption prevention had limited influence. Therefore, based on the above review, the study hypothesized that:

H_4: There is a significant effect of accountability on economic growth in Kenya.

Research Methodology

The study adopted a time series research design covering the period 1997–2022 to examine the relationship between governance and economic growth in Kenya. A research design serves as the structural framework guiding data collection, analysis, and interpretation (Kothari, 2015; Cooper & Schindler, 2014; Creswell & Creswell, 2017). The choice of a time series design was informed by its ability to capture long-term trends, short-term fluctuations, and structural shifts, thereby distinguishing between temporary policy shocks and enduring institutional effects. This approach also facilitated the application of advanced econometric techniques such as the Autoregressive Distributed Lag (ARDL) model, which accommodates variables of different integration levels.

Theoretical Framework and Model Specification

This study adopted Institutions Augmented Solow Model by Tebaldi and Mohan (2008). Institutions-augmented Solow model is a modified version of Solow Growth Theory by Romer (1956). In Institutions Augmented Solow Model, the effect of quality of governance in government institutions (governance) is accounted for in growth rate of a countries economy (Tebaldi and Mohan, 2008). According to Tebaldi and Mohan (2008), commodities are manufactured in a market with ideal competitiveness utilizing Constant Return to Scale (CRS) technology. Because institutions are believed to have a key role in influencing factor of production, output (Y) is created using the factor of production shown below:

$$Y = f\{A(Q,t), K(Q,t), L(Q,t)\} \quad \text{.....1}$$

Where

K refer capital, L symbolizes labor, A denotes technology, t is time and Q denotes institution quality (governance). From the model, the studies assume Q increases with institutions quality which represents governance quality indicators political stability (PS), control of corruption (CC), governance effectiveness (GF) accountability (AC). To simplify, the study assumes Q as value of 0-1 which is normalized and regarded as constant (as such an economy with quality institutions is valued as 1)

Following Próchniak, Mariusz (2013) incorporated quality of institutions in Nonneman and Vanhoudt extended Solow Model as new input in productions model which not so different from types of capital. Thus, production function was as follows:

$$Y = K^{\propto} H^{\beta} (AL)^{1-\alpha-\beta} Q^{\gamma} \quad \text{.....2}$$

where Q is index of qualitative measuring countries institutional climate, symbol γ which is exponents of institution quality indicate power separation in index of institutions since Q indicate “deep” determinates of GDP revealing direct impact of determinants of GDP. Thus, γ

as exponents of Q is not treated or related with ∝, 1-α-β andβ, which represent conventional inputs

Where 0<α<1. Defining $y = \frac{Y}{AL}$ allows writing the production function as follows

$y = \frac{Y}{AL} = k^{\propto} h^{\beta} Q^{\gamma}$ ……..….3

Combining equation (3) with the capital accumulation equation

$\dot{k} = S_K y - (n + a + \delta)k = s_K k^{\alpha} h^{\beta} Q^{\gamma} - (n + a + \delta)k$

……...……..4

$\dot{h} = S_H y - (n + a + \delta)h = s_H k^{\alpha} h^{\beta} Q^{\gamma} - (n + a + \delta)h$……...…….5

In similar analysis as the later, Eq (6) In the context of a steady-state economy, the concept of effectiveness is typically represented by the accumulated stocks of both human and physical capital, alongside the total output that is generated as a result of labor input and overall productivity.

$k^* = \left(\frac{S_K^{1-\beta} S_H^{\beta} Q^{\gamma}}{n+a+\delta}\right)^{\frac{1}{1-\alpha-\beta}}$ …….....…….….6

$h^* = \left(\frac{S_H^{1-\alpha} S_K^{\alpha} Q^{\gamma}}{n+a+\delta}\right)^{\frac{1}{1-\alpha-\beta}}$ ……..……..….....7

$y^* = \left(\frac{S_K}{n+a+\delta}\right)^{\frac{\alpha}{1-\alpha-\beta}} \left(\frac{S_H}{n+a+\delta}\right)^{\frac{\beta}{1-\alpha-\beta}} Q^{\frac{\gamma}{1-\alpha-\beta}}$…….....……....8

From institutions-augmented Solow model, Eq (8) depicts factors determining growth rate of GDP per capita in the long run equilibrium. This equation shows that GDP relies on factor of productions and quality of institution (governance). From the model, economic growth is related with institutions (Q) among other factors implying that nations which indicate high quality of institutions have high GDP than those with poor institutions quality. Eq. (8) can be logarithmized (similarly to equation (9) for the MankiwRomer-Weil model). This process yields;

$\ln\left(\frac{Y}{L}\right) = \ln A + \frac{\alpha}{1-\alpha-\beta}\ln S_K + \frac{\beta}{1-\alpha-\beta}\ln S_H + -\frac{\alpha+\beta}{1-\alpha-\beta}\ln(n + a + \delta) + \frac{\gamma}{1-\alpha-\beta}\ln Q$.....9

The aforementioned formula may be calculated as a linear regression equation, allowing us to validate and experimentally quantify the influence of governance on economic development in the following way follows

$\ln(\frac{Y}{L}) = a_0 + \frac{\gamma}{1-\alpha-\beta}(\ln GE + \ln CC + \ln PS + \ln AC)$…….....……..10

Based on the theoretical framework, the model was specified as follows:

$\ln\left(\frac{Y}{L}\right) = \beta_o + \beta_1 lnGE + \beta_2 lnCC + \beta_3 lnPS + \beta_4 lnAC + \beta_5 lnI + \beta_6 lnHC + \varepsilon$……11

Definition and Measurement of Variables

Table 1: Outlines the Variables, Their Definitions, And Measurements.

Variable name	Notation	Definition	Measurement
Economic Growth	Y	Refers to increase of countries income entities such as actuals GDP per capital	It is measured as a Increase in percentage of real (GDP)
Governance effectiveness	GE	Defines as quality of services delivered to the citizen by civil servants, quality of formulated policies and their implementation and how committed and credible is governments in raising the above services and maintaining them	Governance is assessed through a standardized scorecard system, typically ranging from about -2.5 to 2.5, where -2.5 indicates the weakest level of governance performance and 2.5 reflects the strongest.
Control of corruption	CC	Refer to degree those trusted with public power exercise the same power of their private benefits there in small way ("petty corruption") or big way ("grand corruption"). it can also refer to " state capture" by private interests and elites	Similarly, corruption levels are evaluated using a corruption index or scorecard, which also spans approximately from -2.5 to 2.5, with the lower end signifying high corruption and the upper end indicating minimal corruption.
Political stability and absence of violence	PS	Indicate political related violence, civil unrest and mass protest creating instability in the political environment.	Political stability is measured using a standardized scorecard ranging from approximately -2.5 to 2.5, where -2.5 indicates the lowest level of political stability (signifying high risk of violence and unrest) and 2.5 represents the highest level
Voice and accountability	AC	Refer to government disclosure information that account for its spending, investment and other operations	scorecard ranging from approximately -2.5 to 2.5, where a score of -2.5 reflects the lowest level of accountability and citizen participation, while 2.5 indicates the highest level,
Inflation	I	Refer to unexpected rise in prices of services and goods in an economy	Measured as Growth rate of GDP implicit deflator
Labor Force	L	Working-age people with a higher schooling serve as a representation of human capital.	The percentage of the entire population is used to express this indicator.

Data Analysis

The study employed both descriptive and inferential statistical techniques to analyze the data. Descriptive statistics such as mean, standard deviation, minimum, maximum, skewness, and kurtosis were first computed to summarize the key characteristics of the dataset, providing insights into central tendency, dispersion, and distributional patterns. To test the hypotheses, the Autoregressive Distributed Lag (ARDL) model was applied, supported by the ARDL Bounds Test to assess dynamic interactions between governance indicators and economic growth. This approach was chosen because it effectively captures both short-run fluctuations—often reflecting policy shocks or political events and long-run equilibrium relationships that represent structural linkages. The model specifically examined how government effectiveness, control of corruption, political stability, and voice and accountability influence economic performance. In integrating both immediate and gradual effects, ARDL provided a comprehensive understanding of the bidirectional causal relationships between governance and growth, allowing for a nuanced interpretation of how institutional quality shapes Kenya's economic trajectory over time.

Results

This section provided results on the influence of governance on Kenya's economic growth from 1997 to 2022, applying the Autoregressive Distributed Lag (ARDL) model to capture both short-run adjustments and long-run equilibrium relationships. The findings integrated descriptive statistics, diagnostic tests, and regression estimates, offering a comprehensive empirical analysis

Descriptive Statistics

The descriptive statistics in this study provided an overview of governance and macroeconomic indicators in Kenya from 1997 to 2022. Government effectiveness (mean = -0.564) and control of corruption (mean = -1.024) revealed persistent weaknesses in governance, while political stability (mean = -1.117) highlighted prolonged instability that threatens economic and institutional progress. Voice and accountability averaged -0.425, pointing to challenges in strengthening citizen participation and institutional transparency. On the economic side, GDP growth averaged 3.65%, suggesting moderate expansion, though inflation was volatile at an average of 11.07%, raising concerns over economic stability. The labor force remained relatively stable with a mean of 0.034, though still below optimal levels. These results indicate that while Kenya has experienced some economic growth, persistent governance weaknesses, corruption, instability, and inflation volatility remain critical constraints to sustainable development.

Table 2: Descriptive Statistics

stats	Obs	Min	Max	Mean	Sd
GDP (%)	63	-0.799	8.058	3.648	2.100
GE (Index Score)	63	-0.756	-0.301	-0.564	0.131
COC (Index Score)	63	-1.217	-0.736	-1.024	0.130
PS (Index Score)	63	-1.350	-0.614	-1.117	0.146
VANDA (Index Score)	63	-0.967	-0.012	-0.425	0.244
N (ratio)	63	0.020	0.040	0.034	0.004
INFLA (%)	63	1.554	45.979	11.066	8.728

Key: GDP = Economic Growth, GE = Governance Effectiveness, COC = Control of Corruption, PS = Political Stability, VANDA = Voice and Accountability, INFLA = Inflation, N = Labor force

Time Series Properties of the Data

To ensure the robustness of the time series analysis, this study tested the stationarity of all variables using the Augmented Dickey-Fuller (ADF) test, a widely recognized tool for detecting unit roots and avoiding spurious regression outcomes. The results presented in Table 3 revealed that GDP was largely non-stationary at level, except under the drift model where it was stationary ($p = 0.0023$), but became fully stationary at first difference with highly significant values ($p = 0.0000$), a common pattern in macroeconomic data. Governance Effectiveness (GE) also showed non-stationarity at levels, reflecting systemic volatility, yet became stationary after differencing, indicating its reliance on historical shifts rather than immediate stability. Similarly, Control of Corruption (COC) and Political Stability (PS) were non-stationary at levels but stationary after first differencing, underscoring their persistent yet volatile nature over time. Voice and Accountability (VANDA) followed the same trend, remaining non-stationary at levels with limited exceptions under the drift model, but achieving stability after differencing, highlighting its dependence on past conditions. Inflation also displayed volatility, being non-stationary at levels but stable after differencing, while Labor Force (N) demonstrated a similar pattern of requiring differencing to achieve stationarity. Collectively, these results confirm that most variables in the study were integrated of order one, I(1), consistent with earlier empirical evidence that governance and economic indicators often exhibit structural trends and shocks. By establishing stationarity through first differencing, the study strengthened the reliability of its ARDL modeling framework, ensuring that the estimated short-run and long-run relationships between governance and economic growth are both valid and empirically sound.

Table 3 ADF Unit Root at levels

Variables	Test Equation	Test statistic	5% Critical Value	P value	Conclusion
At level					
GDP	No constant	-1.144	-1.950	-	Non-Stationary
	Trend	-3.416	-3.488	0.0493	Non-Stationary
	Drift	-2.949	-1.671	0.0023	Stationary
GE	No constant	-1.713	-1.950		Non-Stationary
	Trend	-1.499	-3.488	0.8293	Non-Stationary
	Drift	-0.481	-1.671	0.3162	Non-Stationary
COC	No constant	-1.610	-1.950		Non-Stationary
	Trend	-2.278	-3.488	0.4463	Non-Stationary
	Drift	-0.734	-1.671	0.2328	Non-Stationary
PS	No constant	-0.355	-1.950	-	Non-Stationary
	Trend	-1.348	-3.488	0.8755	Non-Stationary
	Drift	-1.623	-1.671	0.0549	Non-Stationary
VANDA	Constant	- -1.481	-1.950	-	Non-Stationary
	Trend	-2.824	-3.488	0.1882	Non-Stationary
	Drift	-2.242	-1.671	0.0143	Stationary
INFLA	Constant	-1.601	-1.950	-	Non-Stationary
	Trend	-2.333	-3.488	0.4157	Non-Stationary
	Drift	-2.154	-1.671	0.0176	Stationary
N	Constant	-0.829	-1.950	-	Non-Stationary
	Trend	-2.442	-3.488	0.3575	Non-Stationary
	Drift	-1.843	-1.671	0.0351	Stationary
ADF Unit Roots at First Difference					
GDP	No constant	-8.356	-1.950	-	Stationary
	Trend	-8.278	-3.490	0.0000	Stationary
	Drift	-8.346	-1.672	0.0000	Stationary
GE	No constant	-5.339	-1.950	-	Stationary
	Trend	-5.507	-3.490	0.0000	Stationary
	Drift	-5.526	-1.672	0.0000	Stationary
COC	No constant	-5.380	-1.950	-	Stationary
	Trend	-5.440	-3.489	0.0000	Stationary
	Drift	-5.479	-1.671	0.0000	Stationary
PS	No constant	-8.397	-1.950	-	Stationary
	Trend	-8.434	-3.490	0.0000	Stationary
	Drift	-8.327	-1.672	0.0000	Stationary
VANDA	No constant	-8.515	-1.950	-	Stationary
	Trend	-8.405	-3.490	0.0000	Stationary
	Drift	-8.474	-1.672	0.0000	Stationary
INFLA	No constant	-6.207	-1.950	-	Stationary
	Trend	-6.175	-3.490	0.0000	Stationary
	Drift	-6.189	-1.672	0.0000	Stationary
N	Constant	-9.408	-1.950	-	Stationary
	Trend	-9.252	-3.490	0.0000	Stationary
	Drift	-9.363	-1.672	0.0000	Stationary

Key: GDP = Economic Growth, GE = Governance Effectiveness, COC = Control of Corruption, PS = Political Stability, VANDA = Voice and Accountability, INFLA = Inflation, N = Labor force

Since all variables were stationary at first difference, the ARDL Bounds Testing approach was applied to examine whether a long-run equilibrium relationship existed among governance indicators and economic growth. The optimal lag length for the model was selected using the Akaike Information Criterion (AIC) to ensure an appropriate balance between fit and complexity. The F-statistic from the ARDL bounds test was then compared against critical value bounds proposed by Pesaran et al. (2001). Results in Table 4.3 show that the calculated F-statistic (11.417) exceeded the upper bound at all significance levels (10%, 5%, 2.5%, and 1%), thereby rejecting the null hypothesis of no cointegration. This outcome confirms that a long-run relationship exists between governance dimensions and Kenya's economic growth, implying that while short-term fluctuations may arise, the variables move together toward a long-run equilibrium. These findings align with existing literature (Al-Mulali & Ozturk, 2020; Shahbaz et al., 2019), which highlights the robustness of ARDL in capturing both short- and long-run dynamics in time series analysis.

Table 4 ARDL Bounds Test

Pesaran/Shin/Smith (2001) ARDL Bounds Test								
H0: no levels relationship	F	11.417						
	t	-6.869						
Critical Values (0.1-0.01), F-statistic, Case 3								
	10%		5%		2.50%		1%	
	[I_0] L_1	**[I_1] L_1**	**[I_0] L_05**	**[I_1] L_05**	**[I_0] L_025**	**[I_1] L_025**	**[I_0] L_01**	**[I_1] L_01**
k 6	2.12	3.23	2.45	3.61	2.75	3.99	3.15	4.43
accept if F < critical value for I(0) regressors								
reject if F > critical value for I(1) regressors								
Critical Values (0.1-0.01), t-statistic,								
	10%		5%		2.50%		1%	
	[I_0] L_1	**[I_1] L_1**	**[I_0] L_05**	**[I_1] L_05**	**[I_0] L_025**	**[I_1] L_025**	**[I_0] L_01**	**[I_1] L_01**
k_6	-2.57	-4.04	-2.86	-4.38	-3.13	-4.66	-3.43	-4.99
accept if t > critical value for I(0) regressors								
reject if t < critical value for I(1) regressors								
k: # of non-deterministic regressors in long-run relationship								
Critical values from Pesaran/Shin/Smith (2001)								

ARDL Error Correction Model (hypotheses Testing)

The ARDL-based Error he diagnostic checks provided the necessary assurance that the data used in this study was reliable for econometric modeling. First, the test of normality confirmed that the residuals followed an approximately normal distribution, with the Jarque-Bera statistic ($p = 0.1239$) and adjusted chi-square results both above the conventional threshold of 0.05. This implied that the data did not deviate significantly from the normality assumption, supporting the credibility of subsequent regression inferences. Second, multicollinearity was assessed using Variance Inflation Factor (VIF) and tolerance values. The results showed an

average VIF of 2.29, well below the critical level of 10, thereby confirming that independent variables were not excessively correlated and could independently explain economic growth. Third, the Breusch-Pagan/Cook-Weisberg test for heteroscedasticity indicated constant error variance, which validates the stability of standard errors in the regression. Collectively, these diagnostics reinforced the robustness of the ARDL Error Correction Model (ECM), assuring that the findings were not driven by statistical anomalies but rather reflected the true relationships between governance indicators and economic growth in Kenya.

The ARDL-based Error Correction Model produced strong explanatory power, with an adjusted R^2 of 0.7972, meaning that almost 80% of the variation in GDP growth was explained by governance indicators and macroeconomic controls. This high explanatory strength demonstrates that the selected governance dimensions government effectiveness, control of corruption, political stability, and voice and accountability alongside inflation and labor force, are credible determinants of Kenya's economic performance. Importantly, the ECM framework allowed for the separation of short-run dynamics from long-run equilibrium relationships, a feature that is crucial in governance studies where reforms often produce immediate shocks but require time to manifest their lasting effects. By integrating both perspectives, the model offered a nuanced understanding of the governance–growth nexus. The significant F-statistic and the strength of the explanatory variables also validated the suitability of the ARDL approach for Kenya's time-series data, confirming that the model is statistically sound for testing the four hypotheses (H_1–H_4).

For Hypothesis H_1, which states that there is a significant effect of government effectiveness on economic growth in Kenya, the results showed contrasting short-run and long-run outcomes. In the long run, the coefficient of 3.349 ($p = 0.584$) was statistically insignificant, suggesting that government effectiveness did not exert a meaningful or consistent influence on GDP growth over the 26-year period. However, in the short run, the coefficient rose to 9.052 with a p-value of 0.049, confirming a significant and positive effect on growth. This indicates that while reforms in governance structures and administrative efficiency can stimulate immediate economic activity—perhaps by improving service delivery, policy execution, or investor confidence—their influence tends to diminish or become obscured by structural rigidities over longer horizons. These findings are supported by Azimi (2022), who highlighted short-run benefits of effective governance in Canada, and Saidi et al. (2017), who found similar outcomes across OECD countries. In Kenya's case, the evidence affirms H_1 in the short term, showing that governance reforms are valuable instruments for economic stimulation, though sustained long-run growth requires broader institutional strengthening.

Hypothesis H_2 posits that there is a significant effect of control of corruption on economic growth in Kenya. The results revealed a strong and statistically significant long-run effect, with a coefficient of 14.458 and a p-value below 0.025, underscoring that persistent anti-corruption measures have a substantial positive effect on the country's economic performance. However, in the short run, the coefficient of 3.854 with a p-value of 0.391 was insignificant, suggesting that immediate anti-corruption interventions may not yield prompt economic results. This discrepancy can be explained by the fact that anti-corruption reforms often face bureaucratic resistance, legal delays, and enforcement challenges, which postpone their economic impact. Over time, however, consistent efforts reduce rent-seeking, improve investor confidence, and foster efficient resource allocation, leading to measurable growth benefits. These results are in line with Bayar (2016), who found a positive link between corruption control and growth in European countries, and Ahmad et al. (2012), who emphasized that long-run gains emerge only

after institutions mature. Thus, H_2 is validated in the long run, showing that corruption control is indispensable for Kenya's sustainable development, even though short-run gains remain elusive.

Hypothesis H_3 states that there is a significant effect of political stability on economic growth in Kenya. The results showed a long-run coefficient of -0.517 with a p-value of 0.898, which is statistically insignificant, indicating that political stability did not significantly influence Kenya's economic growth during the study period. This result suggests that while stability is often associated with development in theory, its direct effect in Kenya may have been overshadowed by deeper structural and institutional challenges such as weak fiscal management, corruption, or limited industrial diversification. Contrasting findings have been reported in the literature: Zhuo et al. (2021) found that stability indirectly boosts growth in developed countries, while Cela and Hysa (2021) reported positive links in Central and Eastern Europe. However, studies like Zouhaier and Kefi (2012) found no significant relationship, consistent with Kenya's case. These inconsistencies highlight the context-dependent nature of political stability. In Kenya, stability may matter less in isolation and more when combined with effective governance and economic reforms. Therefore, while H_3 is not empirically supported in this study, it opens an important policy conversation on the need for political stability to be accompanied by institutional and structural reforms to meaningfully drive growth.

Hypothesis H_4 proposes that there is a significant effect of voice and accountability on economic growth in Kenya. Interestingly, the findings revealed a statistically significant long-run coefficient of -3.636 with a p-value of 0.006, indicating a negative effect. This suggests that weaknesses in democratic participation, restricted political rights, and poor accountability mechanisms have adversely influenced Kenya's economic growth over the years. The negative relationship highlights that while public participation and transparency are important; their effectiveness depends on the strength of institutions to translate them into efficient governance outcomes. These results diverge from Zhuo et al. (2021) and Cebula & Foley (2011), who found positive effects of accountability in developed nations, but align with Beschel & Dyer (2023), who noted that accountability reforms in developing countries often disrupt administrative systems in the short-to-medium term, dampening growth. In Kenya's context, the findings suggest that incomplete or poorly implemented accountability reforms may have generated political contestation, delays, and inefficiencies, leading to adverse growth outcomes. Consequently, H_4 is supported, confirming that voice and accountability significantly affect Kenya's economic growth, but the negative coefficient emphasizes the urgent need for institutional strengthening and policy coherence to transform accountability into a driver of positive growth outcomes.

Table 5 ARDL ECM

Sample: 1992h2 - 2022h1			Number of obs		60		
			R-squared		0.8488		
			Adj R-squared		0.7972		
Log likelihood		-61.5576	Root MSE		0.7883		
	GDP	**Coef.**	**Std. Err.**	**t**	**P>t**	**[95% Conf.**	**Interval]**
ADJ	GDP						
	L1.	-0.897	0.153	-5.870	0.000	-1.205	-0.589
LR							
	GE	3.349	6.074	0.550	0.584	-8.901	15.600
	COC	14.458	6.226	2.320	0.025	1.902	27.015
	PS	-0.517	4.009	-0.130	0.898	-8.603	7.569
	VANDA	-3.636	1.852	-1.960	0.006	-7.370	0.098
	INFLA	-0.059	0.043	-1.360	0.180	-0.147	0.028
	N	468.626	220.158	2.130	0.039	24.635	912.617
SR							
	dGDP						
	LD.	0.228	0.112	2.040	0.047	0.003	0.454
	dGE						
	D1.	9.052	4.854	1.860	0.049	-0.737	18.841
	dCOC						
	D1.	3.854	4.448	0.870	0.391	-5.116	12.824
	dPS						
	D1.	-0.921	2.183	-0.420	0.675	-5.324	3.482
	LD.	-0.438	1.603	-0.270	0.786	-3.671	2.795
	dVANDA						
	D1.	-1.150	1.134	-1.010	0.316	-3.437	1.138
	dINFLA						
	D1.	-0.039	0.031	-1.250	0.219	-0.101	0.024
	dN						
	D1.	25.423	101.120	0.250	0.803	-178.505	229.351
	LD.	-203.380	96.472	-2.110	0.041	-397.935	-8.826
	_cons	0.016	0.121	0.130	0.898	-0.228	0.259

Conclusion

Drawing from the empirical results, the study concludes that government effectiveness plays a critical role in driving Kenya's economic development. The statistically significant short-run impact underscores the importance of well-functioning public institutions in fostering a stable and supportive environment for investment, innovation, and overall economic advancement. Efficient governance mechanisms appear essential in facilitating timely policy implementation and resource allocation, thereby accelerating growth outcomes in the Kenyan context.. A well-functioning Government apparatus enhances policy implementation, reduces bureaucratic inefficiencies, and improves service delivery factors essential for achieving Kenya's long-term development goals. As the country continues to pursue Vision 2030 and other economic

transformation agendas, strengthening government effectiveness emerges not only as a governance priority but also as a strategic imperative for sustainable national progress.

In addition, the results confirm that control of corruption significantly promotes long-term economic growth. By fostering transparency and accountability, effective anti-corruption frameworks contribute to a more predictable and trustworthy business climate, attracting both domestic and foreign investment. This, in turn, enhances resource allocation efficiency, reduces leakages in public spending, and improves the quality of infrastructure and social services. Furthermore, curbing corruption addresses structural inequalities, promotes inclusivity, and increases the government's fiscal capacity to invest in development projects. The strong and positive association between corruption control and GDP growth reinforces the notion that anti-corruption efforts are vital for inclusive and sustainable development in Kenya.

Conversely, the study found a statistically significant negative relationship between voice and accountability and economic growth in the long run. This result suggests that while participatory governance and transparency are cornerstones of democratic institutions, their initial implementation may introduce uncertainty, disrupt entrenched systems, or generate resistance from powerful interest groups. Challenges such as policy gridlock, incomplete institutional reforms, and sociopolitical backlash may offset short-term economic benefits. However, this finding should not be interpreted as a long-term indictment of accountability mechanisms. Rather, it highlights the importance of carefully managing institutional transitions and ensuring that governance reforms are accompanied by supportive economic and administrative frameworks that minimize disruption and build public trust.

In contrast to much of the global literature, the study concludes that political stability had a negative but statistically insignificant impact on economic growth in Kenya over the study period. While political stability is commonly associated with improved investor confidence and macroeconomic performance, the lack of significance in this context suggests that its influence may be diluted by other structural, institutional, or temporal factors unique to Kenya. These findings challenge conventional assumptions and call for more nuanced, context-sensitive analyses that account for country-specific political dynamics, historical trajectories, and policy environments. It is possible that, within the observed timeframe, other governance indicators such as government effectiveness and corruption control had a more immediate and measurable impact on economic outcomes.

Policy Implications

In light of the study's findings, it is critical for Kenyan policymakers including but not limited to the National Treasury and Economic Planning, the Public Service Commission, the Ethics and Anti-Corruption Commission (EACC), the Parliamentary Committees on Finance and National Planning, the Office of the Auditor-General, and the Council of Governors to prioritize investments aimed at enhancing government effectiveness. Recognizing the central role of a competent and efficient public sector in shaping an environment conducive to private investment, innovation, and inclusive growth, reforms should be directed toward strengthening governance structures, reducing bureaucratic inefficiencies and improving service delivery. By aligning these governance reforms with Kenya's broader development agendas, such as Vision 2030 and the Bottom-Up Economic Transformation Agenda (BETA), the government can unlock sustained economic progress and improved societal well-being. The study strongly affirms that a capable, transparent, and responsive government apparatus is a strategic pillar of long-term national development.

The research further emphasizes the vital contribution of corruption control to economic growth. Policymakers are encouraged to intensify anti-corruption efforts by designing and enforcing comprehensive strategies that promote transparency, uphold accountability, and foster a stable and predictable investment climate. These efforts must be grounded in robust legal and institutional frameworks, enabling the detection, deterrence, and prosecution of corrupt practices at all levels of Government. Additionally, integrating anti-corruption measures into broader economic policies while strengthening partnerships with international development agencies and civil society not only improve investor confidence but also enhance resource efficiency and reduce income inequality. Such reforms are instrumental in cultivating an equitable and productive economic environment, ultimately contributing to inclusive and sustainable development.

While the study finds that enhanced voice and accountability may have a negative short-term impact on economic growth, it underscores the importance of carefully managing institutional reform processes. Policymakers must anticipate and mitigate potential transitional challenges, such as administrative delays, resistance from vested interests, and policy paralysis. This can be achieved by promoting broad-based stakeholder engagement, building institutional capacity, and implementing phased reforms that ensure smoother adaptation. Moreover, the study calls for deeper exploration of the sociopolitical dynamics that influence the effectiveness of accountability mechanisms. Tailored, context-specific strategies are essential to balance democratic governance with economic stability, enabling Kenya to realize the long-term benefits of participatory and inclusive institutions while minimizing short-run disruptions.

Finally, the study's unexpected finding that political stability had an insignificant impact on economic growth in Kenya calls for further investigation. Policymakers are encouraged to commission comprehensive, evidence-based research to better understand the nuanced relationship between political stability and economic performance within the Kenyan context. This includes examining temporal shifts, institutional resilience, and the potential mediating role of governance quality or policy implementation. Rather than adopting generalized global prescriptions, Kenya should embrace locally informed and targeted policy responses that reflect its unique political landscape. This approach enables decision-makers to design more effective interventions that capitalize on stability where relevant, while addressing specific bottlenecks that may be constraining its developmental impact.

Further Research Recommendations

The study has made a valuable contribution to the understanding of governance and economic growth in Kenya. However, it is important to note that the study's findings are based on a limited timeframe spanning from before 1997 to 2022. Therefore, future research endeavors should consider expanding the dataset to include more years of observation, providing a more comprehensive and robust analysis of the relationship between governance and economic growth in Kenya. Additionally, the current study focused on four specific governance indicators and there is room for further exploration by incorporating additional indicators in subsequent studies. Comparative analyses with countries that have successfully implemented governance reforms and longitudinal studies tracking the evolution of government effectiveness over an extended period can offer practical insights and enhance the study's applicability.

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