UNIVERSITY OF CAPE COAST

EXTERNAL DEBTS AND ECONOMIC FREEDOM IN SUB-SAHARAN AFRICA: THE ROLE OF POLITICAL INSTITUTIONS

JOSHUA NYATUAME

2024

UNIVERSITY OF CAPE COAST

EXTERNAL DEBTS AND ECONOMIC FREEDOM IN SUB-SAHARAN AFRICA: THE ROLE OF POLITICAL INSTITUTIONS

BY

JOSHUA NYATUAME

Thesis submitted to the Department of Finance of the School of Business, College of Humanities and Legal Studies, University of Cape Coast, in partial fulfillment of the requirements for the award of Master of Commerce Degree in Finance

JULY 2024

DECLARATION

Candidate's Declaration

I hereby declare that this thesis is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's signature…….. Date……

Name: Joshua Nyatuame

Supervisor's Declaration

I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast

Principal Supervisor's Signature: …… Date: ……

Name: Prof. John Gartchie Gatsi, Esq.

ABSTRACT

Over the years, economic freedom in Sub-Saharan Africa (SSA) has gone through different phases. The overall level of economic freedom in the area has been very bad, even though there have been some improvements. This study explores the interplay between external debt, political institutions, and economic freedom in SSA by employing a quantitative approach and the Generalized Method of Moments (GMM) to analyze data from 38 out of 48 SSA countries. The research aims to uncover how external debt affects economic freedom, the role of political institutions in this dynamic, and how political institutions moderate the relationship between external debt and economic freedom. The results indicate that high levels of external debt have a significantly negative effect on economic institutions in the region. Conversely, robust political institutions are positively associated with enhanced economic freedom, highlighting their crucial role in economic development. Furthermore, the study finds that political institutions can mitigate the adverse effects of external debt, thereby amplifying its positive impact on economic freedom. This is evidenced by the interaction term between external debt and political institutions, which suggests that well-functioning political frameworks help alleviate the detrimental effects of debt. Based on these findings, it is recommended that SSA countries prioritize strengthening their political institutions by fostering transparency, accountability, and good governance. Enhancing political rights, such as promoting freedom of expression and participatory governance, can further improve institutional quality and economic outcomes.

KEYWORDS

External Debts

Economic Freedom

Generalized Method of Moments

Moderating role

Political Institutions

Sub-Saharan African

ACKNOWLEDGEMENT

I would like to say how much I appreciate my supervisor, Prof. John Gartchie Gatsi from the Department of Finance, for all the help, support, and inspiration he gave me while I was doing this study. His professional views have been instrumental in shaping this work, and I am deeply appreciative of his support.

My sincere thanks also go to Dr. Mac Abeka Junior for his important contributions to my entire postgraduate journey. His encouragement and support have been a great source of inspiration, and I am truly thankful for his assistance.

I am especially thankful to my spiritual mentor, Rev. Francis Ashiabi, for his steadfast prayers, encouragement, mentorship, and tutelage. His spiritual and personal guidance has been a pillar of strength throughout my academic endeavor.

Further, I wish to extend my gratitude to my uncles, Isreal Nyatuame and Samuel Kwaku Cobblah, for their unwavering support and encouragement.

Lastly, I want to acknowledge the special presence of Charity Afealetey and Moses Nyatuame in my life. Their love, care, and motivation have been a constant source of support and inspiration

DEDICATION

To Lady Matilda Nyatuame

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ACRONYMS

ILO	International Labour Organization
EF/ EI	Economic Freedom/ Economic Institutions
ED	External debts
SGMM	System Generalized Method of Moments
SSA	Sub-Sahara Africa
GMM	Generalized Method of Moments
PI	Political Institutions
GNI	Gross National Income

CHAPTER ONE

INTRODUCTION

Foreign capital plays a critical part in the growth process of developing economies, which typically lack the requisite capital pool to support expansion. According to the Big Push idea, economies with limited capital can rely on foreign capital to improve their productive capacity and, consequently, their growth. Foreign capital can take various forms, including foreign aid, development assistance, remittances, and external borrowing. Among these, external borrowing or foreign debt has prompted much academic controversy due to its complex effect on economic on the growth of an economy. Rising levels of external debt frequently lead to concerns from experts, officials, and other economic stakeholders, especially in developing countries that rely heavily on foreign debt to boost their growth prospects. This problem is especially evident in Sub-Saharan Africa (SSA), where relying on external debt is a prevalent approach to fostering economic growth.

This research aims to deepen our understanding by exploring the relationships among external debt, political institutions, and economic freedom in SSA. Grasping these interactions is essential, as political institutions play a vital role in shaping the impact of external debt on economic freedom in the area. The results of this study will offer important guidance for policymakers who are focused on improving economic freedom in Sub-Saharan Africa.

Background to the Study

External debt, as defined by the International Monetary Fund (2013), encompasses the total amount borrowed by a country from foreign

governments, commercial banks, and international financial organizations like the World Bank and IMF. This debt includes both principal—the original sum borrowed—and interest, the cost of borrowing (World Bank, 2023). For emerging nations, external debt serves as a crucial funding source for infrastructure development, imports, and fiscal deficits. Theoretically, debt financing for public expenditure can positively influence productive investment and foster economic growth (Alonge & Olaoye, 2022). Debt also facilitates countercyclical macroeconomic measures and long-term growth strategies, such as reductions in marginal tax rates (Miller & Foster, 2012).

However, many emerging economies grapple with resource mismanagement due to corruption and embezzlement (Julius Otusanya, 2011), which expands budget deficits and necessitates external borrowing to bridge savings and investment gaps (Konneh, 2022). Consequently, external funding becomes essential for promoting investment in economically disadvantaged nations with budgetary shortfalls. Governments often borrow externally to enhance welfare and stimulate growth, either through taxation or debt accumulation (Ngangnchi & Joefendeh, 2021). The global financial crisis of 2007/8 and the COVID-19 pandemic further intensified sovereign debt levels due to automatic stabilizers and exceptional government expenditures for relief measures (Mitchener & Trebesch, 2021). Over time, secular patterns show an increase in public debt, coinciding with institutional changes, although susceptibility to external debt varies across economies.

Extreme levels of debt, however, pose significant risks, including rising interest rates, crowding out private investment, and limiting governments' capacity to address future emergencies (Miller & Foster, 2012).

Mismanagement of borrowed funds can inflate a country's foreign debt, trigger inflationary pressures (Ewane & Mejame, 2023), and complicate future borrowing (Krugman, 1988). Many developing nations face challenges in meeting external debt obligations due to unsustainable debt accumulation (Were, 2001). While external debt facilitates capital-intensive investments to boost production, it has also become the sole policy alternative for addressing economic challenges in these nations (World Bank, 2023).

According to the debt overhang theory, excessive debt impairs economic growth and economic freedom. Empirical research identifies debt thresholds, typically around 55-60% of GDP, beyond which further debt accumulation hinders growth significantly (Otonne, 2014; Matongo, 2019). Studies like Presbitero (2012) and Fosu (2007) confirm a non-linear relationship, where debt positively impacts growth up to a certain threshold before turning negative. However, contrasting findings from Clements, Bhattacharya, and Nguyen (2003) and Schclarek (2004) highlight the complexity of this relationship. Scholars like Pattillo, Poirson, and Ricci (2004) argue that external debt negatively impacts growth by reducing total factor productivity, while others suggest its influence on savings, investment, and interest rates further affects growth (Qureshi & Liaqat, 2020; Hassan & Meyer, 2021). Despite these findings, the link between external debt and economic institutions remains underexplored.

This study draws on New Institutional theory to investigate how external debt impacts economic institutions, defined as mechanisms that protect property rights, enforce contracts, and maintain a stable monetary environment, among other functions (Abeka, Gatsi, Appiah & Agyemang,

2022). Empirical studies suggest foreign capital significantly affects economic freedom (Dzhumashev & Hailemariam, 2021; Shamim & Luqman, 2020). International lenders often condition loans on economic institutional reforms, such as trade openness (Zahonogo, 2018). However, external debt may disincentivize governments from pursuing efficient institutions (Devarajan, Dollar & Holmgren). Additionally, repayment pressures may lead to increased taxes, undermining institutional strength, while rent-seeking behaviors in recipient economies erode institutional quality (Djankov, Montalvo & Reynal-Querol, 2008). In socialist-leaning governments, foreign debt might be used to bolster state enterprises, hindering free markets (Heckelman & Knack, 2008). These dynamics raise the question: how does external debt influence economic institutions?

Apart from the first order impact of external debt on economic freedom, this study also explores how political institutions influence this relationship. Dutta and Williamson (2016) suggest that democratic governments are more likely to utilize foreign capital in ways that foster equal opportunities and strengthen economic institutions. In established democracies, voters have the power to hold governments accountable for misusing funds, which encourages positive economic reforms through the effective use of external debt. Furthermore, stable political institutions ensure that economies benefit more from foreign capital by reinforcing their economic institutions (Shamim & Luqman, 2020). Given the crucial importance of political institutions in the external debt-economic institutions dynamic, this study analyzes how political institutions can condition the relationship between external debts and economic freedom.

Statement of the Problem

Economic institutions are essential for the smooth functioning of any economy, as they define the rules, norms, and enforcement mechanisms that govern economic interactions. In Sub-Saharan Africa (SSA), however, weak economic institutions persist, and this is compounded by the region's high levels of external debt. External debt, if mismanaged, can restrict economic freedom by diverting resources toward debt servicing instead of investments in institutional development, infrastructure, and social programs. High debt burdens can also lead to macroeconomic instability, reducing the capacity of economic institutions to function effectively.

Current statistics highlight the critical need for addressing economic institutions and debt in SSA. According to the World Bank's International Debt Statistics (2023), SSA's external debt stock more than doubled between 2012 and 2022, rising from $425.9 billion (26.8% of GNI) to $832.8 billion (42.2% of GNI). The debt-to-GNI ratio peaked at 46.8% in 2020, and external debt as a percentage of GDP reached an average of 45% in the same year. Countries like Zambia and Mozambique exceeded 100% of their GDP in external debt levels, illustrating the severity of the issue. Similarly, South Africa, Tanzania, Angola, Ghana, and Zambia have external debt accounting for over 60% of their total public debt, with Tanzania's external debt comprising 72% of its total public debt as of December 2020 (IMF, 2023a).

Despite these challenges, economic freedom remains limited in SSA. According to the Fraser Institute's Economic Freedom Index, SSA lags behind other regions, with significant issues in property rights, trade freedom, and regulatory efficiency (Economic Freedom Report, 2023). Mauritius and

Botswana are notable exceptions, performing relatively well; however, most countries in the region continue to rank in the bottom half globally. This reflects struggles with large government size, weak rule of law, insecure property rights, and restrictive regulations.

The growing external debt problem in SSA is part of a broader global concern, as the increasing portfolio of foreign debts, rising debt servicing rates, and the looming risk of debt overhang attract global attention. For instance, Bal (2022) emphasized that the implications of these debt dynamics in SSA extend beyond financial constraints, affecting institutional capacities and economic freedoms. Addressing the interplay between external debt, economic institutions, and economic freedom is critical to fostering long-term stability and growth in the region.

The selection of SSA is motivated by the region's unique economic and political challenges, including high levels of external debt and institutional fragility (Abeka et al., 2021), which make it a compelling case for examining the moderating role of political institutions on economic freedom. This study expands on existing literature by focusing specifically on these interactions, distinguishing it from country-specific analyses or broader cross-regional studies.

Purpose of the Study

This study aims to investigate how external debt and political institutions interact to influence economic freedom in SSA. Specifically, the study seeks to determine whether strong political institutions can mitigate the adverse effects of external debt on economic freedom. This research aims to provide actionable insights for policymakers and scholars on fostering

sustainable development through improved debt management and institutional governance

Research Objectives

1. To determine the effect of external debt on economic freedom in SSA economies
2. To assess the relationship between political institutions and economic freedom of SSA economies.
3. To examine how quality of political institutions moderate the relationship between external debt and economic freedom in SSA.

Research Hypotheses

H_1: There is a significant effect of external debt on economic freedom in SSA

H_2: There is a significant relationship between political institution and economic freedom in SSA.

H_3: There is a significant moderating effect of political institution on the relationship between external debt and economic freedom in SSA.

Significance of the Study

This study examines the influence of political institutions on the relationship between external debt and different aspects of economic institutions. The findings will expand the knowledge of how foreign debt interacts with economic institutions. Additionally, the study could inspire Sub-Saharan African economies to reinforce their political institutions (democracy) if it is determined that these institutions have a moderating influence on the relationship between external debt and economic institutions in the region.

Delimitations

The research is centered solely on Sub-Saharan Africa (SSA), leaving out nations from other regions. The study only included 38 out of the 48 countries in sub-Saharan Africa due to limitations in data availability. To assess foreign debt, the researchers calculated the external debt stock as a percentage of Gross National Income. Economic freedom was assessed using various factors such as regulations, the legal system and property rights, government size, sound money, and international trade freedom, widely recognized in existing literature.

Definition of Terms

Size of government

The notion of government size concerns the degree to which a country places more weight on private initiative and market forces than on public spending and political decisions. This aspect may have an impact on how the amount of external debt develops over the African continent. Several variables, including government spending, transfers and subsidies, government-owned businesses and investments, the top marginal tax rate, and state asset ownership, can be used to determine the size of the government (Fraser Institute). When there is less government domination in the economy, the Fraser Institute's measurement shows high scores on government size. Significant government spending can be interpreted as a sign of restricted economic freedom, as indicated by a lower government size score. This is because it may indicate that the government is taxing one group of people to pay for transfers and subsidies to another group of people.

Regulation

Fraser institute examines regulation as the extent to which government regulations impact economic activity across three main areas: credit markets, labor markets, and business operations. In the credit markets, the focus is on how regulations affect access to credit, including the regulation of interest rates, restrictions on foreign banks, and credit controls, with minimal interference indicating higher economic freedom. For labor markets, the assessment includes the flexibility of hiring and firing practices, minimum wage laws, labor mobility, and union activities, where fewer restrictive regulations correlate with higher scores in economic freedom. Business regulations are evaluated based on the regulatory environment surrounding the establishment, operation, and closure of businesses, including the cost and time required to start a business, the burden of compliance, and the ease of obtaining necessary permits and licenses. Fewer and simpler regulations contribute to a higher score in this area

Sound Money

"Sound money" describes a stable and dependable monetary system in which inflationary pressures do not affect the purchasing power of the currency (Fraser Institute). Three factors comprise the Fraser Institute's sound money index: inflation rates, inflation variability, and the ability to own bank accounts denominated in other currencies (Economic Freedom Report, 2023). An effective monetary policy reduces inflation, strengthens policy credibility, grounds expectations, evens out business cycles, and fosters an atmosphere that encourages people and companies to participate in long-term financial planning and profitable economic endeavors (Engen & Hubbard, 2004).

Legal system and property right

Property rights and legal systems are defined by the Fraser Institute as the defense of individuals and their rightfully obtained property by means of an impartial and just legal system and the uniform application of the law. An essential part of economic systems is the protection of property rights. People are more inclined to preserve money, form long-term goals, and invest in commercial companies when property rights are protected. This assurance stems from the understanding that their income, savings, and possessions—material or immaterial—are protected from wrongful seizure or pilferage (Abeka et al., 2022).

Freedom to trade internationally

According to the Fraser Institute, the Economic Freedom of the World (EFW) index measures how much a nation encourages or prohibits the free flow of goods and services across international borders. This part takes into account things like capital controls, the ability to transact in foreign currencies, black market exchange rates, tariffs, quotas, and regulatory impediments to commerce. More economic freedom is linked to higher rates of economic growth and prosperity, and it is suggested by fewer restrictions in these sectors.

Organization of the Study

This paper is divided into five chapters to comprehensively examine the relationship between external debt, political institutions, and economic freedom in Sub-Saharan Africa. The introduction provides an overview that includes background information, the problem statement, research objectives, hypotheses, the study's importance, limitations, and an outline of the research

framework, all framed within the economic challenges faced by the region. The following chapter reviews relevant literature, offering insights from previous research on foreign debt, economic institutions, and political institutions. Chapter three details the research methodologies and data sources used, with a focus on the System Generalized Method of Moments (SGMM) estimator for analyzing the relationships. Chapter 4 presents and interprets the main findings, highlighting the impact of external debt on economic freedom and the role of political rights in moderating this impact. This is analyzed within the economic policies of Sub-Saharan Africa. The final chapter summarizes the study's contributions, acknowledges its limitations, and suggests directions for future research, providing a comprehensive framework for understanding and assessing the study's results.

Chapter Summary

Sub-Saharan African (SSA) economies have accumulated significant external debt over time compared to other regions. Thus, the study began by establishing the context of this issue and setting the stage for understanding the problem. The research specifically focuses on the impact of external debt and the role of political institutions in achieving economic independence in Sub-Saharan Africa. The impact of external debt on economic freedom is closely tied to the strength of political institutions. The chapter ends with an outline of the study's organization and structure.

CHAPTER TWO

LITERATURE REVIEW

Introduction

The literature review in this thesis extensively examines prior research to establish a framework for understanding the connections between external debt, political institutions, and economic institutions in Sub-Saharan Africa. It commences with a conceptual analysis of the main variables relevant to the study. Subsequently, it offers a theoretical review to clarify the theoretical connections among external debt, political institutions, and economic institutions. The chapter concludes with an empirical review that explores existing studies on how external debt relates to economic institutions, how political institutions interact with economic institutions, and the influence of political institutions in moderating the effects of foreign debt on economic institutions. Each section of the empirical review identifies specific gaps in the current literature

The Concept of External Debt

External debt, also referred to as foreign debt, pertains to the financial responsibilities a country undertakes when it borrows money from foreign sources such as commercial banks, foreign governments, and international financial organizations like the International Monetary Fund (IMF) and the World Bank. (Kenton, 2023). Repayment of this obligation, together with any accrued interest, normally must be made in the same currency in which the loan was initially issued. To obtain the necessary foreign currency for debt servicing, the borrowed nation generally sells and exports items to the lending country. According to the International Monetary Fund (IMF), external debt is

defined as financial responsibilities committed by a resident to a nonresident, identified by the customary location of both creditors and borrowers rather than their nationalities

External debt encompasses both the principal sum and the accumulated interest (Chuhan, 2005). However, it does not include any possible obligations, known as contingent liabilities that may develop in the future as a result of uncertain circumstances. The presence of external debt can be observed in the form of a tied loan, which signifies that the borrowed capital must be utilized exclusively within the country that provided the finance. For instance, the provision of such a loan could facilitate the procurement of essential resources by a recipient nation from the lending country. Earmarking of external debt, particularly loans that are tied, can be designated for certain uses that have been mutually agreed upon by the borrower and lender (Chauvin & Golitin, 2010)

Financial aid of this nature could potentially be allocated towards the fulfilment of humanitarian or disaster-related needs. For example, in the event that a nation undergoes a significant famine and lacks the resources to independently procure emergency food, it may resort to external borrowing in order to get food from the country providing the tied loan. Governments frequently turn to external borrowing as a means to finance capital outlays intended to foster economic expansion and enhance income levels, in instances where domestic resources are insufficient. Nevertheless, it is imperative to acknowledge that a considerable amount of debt increases the likelihood of default, and the failure to repay the loan can have a large negative impact on the borrower's creditworthiness (Pokorná & Sponer, 2016).

In addition, the act of loan repayment significantly restricts the borrower's ability to deploy resources towards the advancement of economic development. Moreover, in the event that a recipient nation assumes external debt, it becomes susceptible to variations in interest rates, thereby amplifying its susceptibility to interest rate risk

The Concept of Political Institutions

Political institutions refer to the organizational structures, regulations, customary practices, and conduct that influence the formulation of policies and political procedures within a nation (Leftwich, 2006). The functioning of political institutions significantly influences the conduct of political stakeholders, such as those in elected positions, government employees, and the public. These institutions provide the parameters within which these actors operate, influencing their decision-making processes and patterns of interaction (Clemens & Cook, 1999). The examination and definition of political institutions are central aspects of research in comparative politics and the field of economic development. In a broad sense, political institutions encompass elements such as legislatures, political parties, electoral systems, and executive bodies that constitute the governing framework of a country. They serve as avenues for aggregating interests, contesting authority, and shaping economic policies (Haggard & Kaufman, 2018).

The Concept of Economic Institutions

Institutions are widely established social norms and rules that guide and impact social interactions (Knight, 1992). They both constrain and enable human activity. As North (1990) said, "Institutions are the rules of the game in a community or, more formally, are the humanly constructed limitations that

govern human interaction. Consequently, they structure incentives in human transaction, whether in political, social, or economic contexts." Thus, economic institutions are systems that either restrict or promote the actions of economic agents inside an economic framework. In this study, economic institutions are defined by how well governments protect private property, establish impartial legal systems, ensure fair contract enforcement, maintain a stable monetary system, impose low taxes, avoid trade barriers, and rely on market mechanisms rather than government intervention for resource allocation (Fraser Institute).

The indices of economic institutions include freedom to trade globally, regulation, legal system and property rights, sound money, and the size of government (Fraser Institute). The term "size of government" refers to the degree to which a country stresses individual freedom and market systems over government control and economic policies. This factor can considerably effect foreign debt levels, particularly in places like Africa.

The size of government can be judged through numerous metrics, including government expenditure, transfers and subsidies, state-owned firms, government investment, the top marginal tax rate, and the amount of state asset ownership (Fraser Institute). According to the Fraser Institute's methodology, high ratings for government size suggest less government influence in the economy. Conversely, significant government spending may suggest constrained economic freedom, represented in a lower government size score. This is because high expenditure often requires taxing certain individuals to fund transfers and subsidies to others, thus confining economic freedom

The Concept of Political Right

Political rights encompass the freedoms and entitlements that enable individuals to engage in their society's political processes (Deneulin, 2009). These rights are crucial for the operation of a democratic system and include the ability to vote, run for public office, and freely express political opinions (Steiner, 1988). Political rights ensure that citizens can influence governance and hold leaders accountable. Numerous studies have investigated the link between political rights and debt costs. Qi, Roth, and Wald (2010) found that countries with stronger political rights generally experience lower debt costs. Tee and Teoh (2024) further confirmed this, showing that democratic institutions, smaller government bureaucracies, and adherence to the rule of law are associated with reduced debt costs, particularly in nations with low corruption. In the context of economic freedom, political rights are vital because they affect accountability and transparency in governance, thereby influencing economic policies and their implementation. When political rights are strong, citizens can advocate for policies that enhance economic freedom, such as lower taxes, fewer regulations, and better protection of property rights.

Conversely, when political rights are weak, governments find it easier to engage in practices that undermine economic freedom, such as excessive regulation, corruption, and asset expropriation. Political rights can moderate the impact of external debt on economic freedom by offering mechanisms for accountability and citizen engagement. In countries with robust political rights, citizens and opposition parties can pressure the government to manage debt responsibly and avoid policies that harm economic freedom. In contrast, in countries where political rights are limited, there is often less public

scrutiny and fewer checks on government actions, which can worsen the negative effects of debt on economic freedom.

Theoretical Review

Debt Overhung Theory

The "Debt Overhang Theory" is a significant concept suggesting that an excessive amount of debt can impede economic growth and development. This situation arises when a country's expected ability to repay external debt is less than the original loan amount. While various theories have been proposed to explain the adverse effects of external debt on economic growth, Krugman's (1988) Debt Overhang Theory stands out. It argues that when a country struggles to meet its debt obligations, its economic performance and debt repayment become deeply interconnected (Guzman & Stiglitz, 2016). In the presence of debt overhang, it implies that a substantial portion of the increased output primarily benefits foreign creditors, and this can distort investment by acting as a tax on investment or output.

Based on the Debt Overhang Theory, high levels of external debt can adversely affect economic freedom in several ways. First, underinvestment occurs as a result of excessive external debt, inevitably resulting in a decrease in investment activity. This happens because the generated revenue is allocated towards servicing outstanding debt obligations rather than financing new investment initiatives (Ibrahim Mohammed, 2017). Insufficient allocation of resources can impede both economic expansion and the development of novel ideas, thus constraining the range of prospects accessible to individuals and enterprises.

Second, the presence of debt overhang might potentially diminish the positive outcomes of policy reforms aimed at improving efficiency and promoting growth, such as trade liberalization and fiscal adjustment. The incentive effects generated by debt overhang can hinder the implementation of market-oriented changes, thereby restricting the potential economic rewards. This phenomenon is supported by Kharusi and Ada (2018), who highlight that debt overhang can have a substantial effect on the level of economic freedom, particularly in terms of international trade.

When a government accumulates a significant level of external debt, it may be compelled to adopt measures that limit global trade as a means to earn income for debt servicing purposes. For instance, a nation may implement tariffs or other forms of trade impediments to safeguard native industries and generate fiscal income (Philippon, 2009). The imposition of such measures may potentially curtail economic freedom as it restricts the capacity of enterprises to engage in international trade and access new markets. Moreover, the theory of debt overhang might also have implications for a nation's capacity to attract foreign investment. When a nation possesses a substantial volume of external debt, it could be perceived as a precarious venture by international investors, who might exhibit reluctance to allocate investments in the nation due to apprehensions regarding the nation's capacity to meet its debt obligations (Hwang, Chung, & Wang, 2010).

The New Institutional Theory

The new institutional theory proposes that formal and informal rules, norms, and practices impact the behavior of individuals and organizations within a society (Manasseh, Abada, Okiche, Okanya, Nwakoby, Offu, &

Nwonye, 2022). North (1990) proposed the New Institutional Economics hypothesis, presenting plausible explanations for the potential relationship between economic and political institutions. According to North (1990), institutions, comprising social and legal norms, create the framework for economic activities. The interaction between economic systems and participants, such as people, families, and companies, has a significant impact on the development of an economy's institutions.

This theory asserts that both formal and informal institutions profoundly affect economic outcomes. In the context of economic freedom, external debt, and political institutions, it highlights a dynamic relationship among these factors. Political institutions, comprising the structures, rules, and norms governing a country's political landscape (Faundez, 2016), play a central role. They influence the dynamics of external debt, controlling the extent of borrowing and the allocation of borrowed funds. Weak political institutions can lead to increased corruption and mismanagement of borrowed funds, resulting in unsustainable debt levels and restricted economic freedom. Conversely, strong political institutions promote transparency and accountability in the borrowing process, supporting sustainable debt levels and enhancing economic freedom.

Following the hierarchy of institutions hypothesis proposed by Acemoglu, Johnson, and Robinson (2005). This idea proposes that the proper functioning of economic institutions relies heavily on the presence of appropriate political institutions.. The idea is that the establishment of economic institutions is influenced by the political framework, indicating that the effectiveness of economic institutions heavily depends on the nature of

political institutions. Numerous examples demonstrate how this hierarchy determines a country's debt levels and consequently affects economic freedom. In terms of external debt, political institutions shape the strategies and policies for borrowing and managing debt (Faundez, 2016). The effectiveness and transparency of these institutions impact a nation's ability to secure and manage external debt responsibly. Weak or corrupt political institutions can lead to debt mismanagement, limiting economic freedom by burdening the economy with unsustainable debt levels.

Additionally, political institutions shape the environment in which economic actors operate. Economic freedom, including factors like property rights, contract enforcement, and low taxation, is directly influenced by the quality of political institutions. The New Institutional Theory suggests that strong and stable political institutions foster economic freedom by providing a secure environment for individuals and businesses to thrive. Conversely, inadequate or unstable political institutions hinder economic freedom by failing to safeguard property rights or ensure a fair and competitive marketplace.

Empirical Review

External Debt and Government Size

External debt has become a substantial financing source for many developing economies, resulting to rising debt loads (Clements et al., 2003). High public debt frequently arises from recurring budget deficits, which occur when government expenditure surpasses receipts. To finance these deficits, governments borrow money, amassing debt. A study by Hanousek and

Kočenda (2011) studied the impact of changes in economic freedom (EF) and corruption levels on government finances in the ten newest EU member states Their findings showed varied patterns across these countries. In the Czech Republic, Estonia, Latvia, and Malta, higher EF was associated with increased government deficits. In contrast, in Poland and Cyprus, it correlated with reduced deficits. The study also found that increasing EF tended to decrease government deficits in Hungary, Slovakia, and Cyprus, with none of these countries showing an increase in government debt. Based on these results, the researchers suggested that improving economic freedom could potentially benefit a country's fiscal position.

Researchers have identified a link between government spending and government debt, noting that increased deficit spending often leads to a rise in overall debt (see Ma & Qamruzzaman, 2022; Gamber & Seliski, 2019; Roth et al., 2022). Odo et al. (2016) describe government expenditure as spending on the country's common needs, including infrastructure and various economic issues. Empirical studies by Kim, Suen, Lin, and Hsieh (2018) reveal a positive correlation between government debt and the size of government, showing that increased debt is linked to greater government spending. Similarly, Dreher et al. (2008) identified a significant relationship between government debt and government size based on panel data from 108 countries.

As external debt increases, government spending tends to rise, leading the government to take a more prominent role in the economy by significantly expanding its provision of goods and services. This dominance can limit the involvement of economic entities, such as individuals and private businesses, thereby restricting their active participation and innovative efforts. When the

government takes on a major role in delivering goods and services, it can overshadow the private sector, restricting its ability to operate freely and competitively. This dominance can suppress market competition and reduce incentives for entrepreneurship. Consequently, rising government debt enables the government to take a primary role in providing goods and services, shifting the economic landscape towards reduced economic freedom and limiting opportunities for private sector engagement and innovation. This restricted involvement can impede economic progress and diminish the overall freedom of economic actors in the market. Based on the discussions so far, the study hypothesizes that: *There is a negative effect of external debt on government size*

External Debt and Sound Money

The relationship among foreign debt, inflation, and has been thoroughly examined in the macroeconomic theory and policy literature. (*see* Karakaplan, 2009; Mweni et al., 2016 and Tskhadadze, 2019) . When government debt is denominated in local currency, high public debt levels can lead to higher inflation through several channels (Reinhart et al., 2015). As government debt rises, central banks face political pressures to monetize deficits and ease debt burdens through inflationary policies(Masciandaro, 2019). The presence of high levels of government debt has been observed to increase inflation expectations among economic agents (Wood, 2012). When public debt is on a trajectory of rapid growth and there is a lack of timely fiscal adjustments, concerns about debt monetization and inflation become prevalent.

Additionally, there may be resistance to implementing proactive tightening of monetary policy in order to minimize interest expenses for the government (Reinhart & Sbrancia, 2015). Consequently, a situation of fiscal dominance emerges, wherein fiscal imperatives dictate monetary policy decisions, potentially compromising the objective of maintaining price stability. We argue that high inflation due to these mechanisms has the tendency to erode trust in the currency and affect sound money. Olaoye, Omokanmi, Tabash, Olofinlade and Ojelade (2024) indicates that when inflation becomes entrenched at high levels, real money balances decline, store of value and medium of exchange functions get disrupted, and currency substitution emerges. Its Implications can be severe, including loss of monetary policy autonomy, financial instability, and macroeconomic volatility.

Furthermore, Mweni, Njuguna and Oketch (2016) found external debt accumulation in Kenya led to higher inflation volatility as the government relied on seigniorage revenues. Similarly, Pattillo, Poirson and Ricci (2002) uncovered a significant correlation between debt burdens and inflation across developing countries. External debts also spur depreciation pressures on exchange rates due to heightened imported inflation and falling investment inflows (Iyoha, 1999). Downward currency adjustments could in turn spark higher domestic price levels. Garcia and Restrepo (2001) showed exchange rate depreciations driven by unsustainable external borrowing significantly increased inflation.

Finally, Bonizzi et al.(2020) find excessive external debt restricts financial sector depth by redirecting credit from private to public sectors.

Shallow banking systems are associated with poor monetary policy transmission and higher inflation volatility. Existing research highlights channels through which escalating external debts induce inflationary biases in monetary policy, exchange rate depreciations, and financial sector weaknesses - eroding sound money. With this, the study hypothesizes that: external debt negatively affect sound money.

External debt and regulations

The relationship between government debt and regulation has been a subject of significant research. External debt can place considerable fiscal pressure on governments, often leading to increased credit market regulation. High debt levels may result in credit rationing and elevated borrowing costs as governments compete with the private sector for available capital, thereby tightening credit conditions (Bua, Pradelli and Presbitero, 2014). Berggren & Bjørnskov (2019) have considered how regulatory quality affect government debt and found that regulatory quality is associated with reduced government debt. This is further supported by Kim (2019), who suggests that lower regulation quality leads to increased public debt, particularly in the presence of rent-seeking interest groups.

However, Afonso and Teixeira (2023) present a paradox, showing that while prudential regulation reduces private debt, it paradoxically increases government debt. In labor markets, external debt often necessitates austerity measures and labor market deregulation, leading to reductions in public sector employment and wages to manage debt repayment (Bohoslavsky, 2017). These measures are typically part of structural adjustment programs (SAPs) imposed by international financial institutions, which advocate for labor

market flexibility to boost competitiveness but can undermine job security and worker protections (ILO, 2016). Furthermore, the regulatory burden on businesses tends to increase as governments seek additional revenue through heightened taxes and bureaucratic processes to service debt, complicating the operational environment for businesses and stifling innovation and growth (Djankov, McLiesh, & Ramalho, 2006). For example, in countries like Nigeria, these regulatory and tax burdens have posed significant challenges, particularly for small and medium-sized enterprises (Okonjo-Iweala, 2014).

Additionally, external debt pressures can prompt governments to adopt protectionist policies to support domestic industries, restricting market competition and entry (Panizza, 2008). Theories such as Debt Overhang provides a framework for understanding how excessive debt levels inhibit investment and lead to short-term regulatory activities focused on debt payment, often at the cost of long-term economic freedom and progress (Krugman, 1988). To offset these unfavorable consequences, SSA countries need to establish sustainable debt management methods, streamline regulations, and boost domestic revenue production (Easterly, 2001). Shearer (2018) also discovered that government debt, when coupled with improvements in the quality of government, is really a driver of economic growth in sub-Saharan Africa

External debts and Legal Systems and Property Rights

The effectiveness of a nation's legal system and the protection of property rights are deeply influenced by its ability to manage and service external debt (World Bank, 2019). High levels of foreign debt can undermine these crucial aspects of economic freedom through various mechanisms

explored in recent research. Saungweme and Odhiambo (2018) provide evidence that higher public debt service payments correlate with reduced public investment in developing countries. When faced with substantial external debt, governments may have to cut funding for the court system, law enforcement, and property registries due to limited budgets.

This reduction in funding can weaken institutions, leading to increased uncertainty around legal processes and property rights. Dreher and Rupprecht (2007) found that IMF programs negatively impact liberalizing reforms related to property rights and trade policy. Research has also explored the effects of foreign aid on recipient institutions, finding a negative association between aid and the quality of legal competence. Aid is generally perceived as hampering market-oriented changes (Heckelman & Knack, 2009; Powell & Ryan, 2006). However, Heckelman and Knack (2009) eventually determined that aid does not significantly impact economic institutions. Conversely, Young and Sheehan (2014) found that assistance flows are inversely connected with indicators of legal system robustness and property rights safeguards in recipient nations, suggesting that aid flows can damage these areas.

Although foreign debt is a type of aid, it comes with repayment and interest requirements, increasing pressure on indebted countries to create money, which can unwittingly erode property rights and the rule of law. Moreover, excessive external debt to foreign creditors can diminish a government's autonomy and sovereignty. Sachs (1989) argued that in the 1980s, many developing countries lost control over key policy decisions as they became increasingly subject to the demands of foreign creditors, resulting

in diminished sovereignty and a reduced capacity to develop policies and institutions that support independent and fair legal systems.

External Debt and Freedom to trade internationally

According to the Fraser Institute, the freedom to engage in international trade is a crucial component of economic freedom. This freedom is defined by the lack of tariffs and non-tariff restrictions that impact the import and export of goods and services. High tariffs and non-tariff obstacles can hamper international trade, limiting firm growth and profitability. Conversely, less trade restrictions help enterprises to reach new markets and customers more readily. In a society with economic freedom, individuals are free to select, trade, and compete as they desire. Freedom to trade abroad considerably helps to modern living standards (Fraser Institute, 2022). To earn a good rating in this area, a country must adopt policies and institutions that preserve low and stable inflation rates and avoid rules that prohibit the use of alternative currencies. Barriers such as tariffs, quotas, and currency rate controls can impede international trade

Public debt can impact freedom to trade internationally in several ways. Countries with high levels of public debt may need to implement policies that restrict trade to protect domestic industries and generate revenue (IMF, 2023). In contrast, countries with lower levels of public debt may be better positioned to engage in international trade and capitalize on growth opportunities (A World of Debt, 2023). Lower public debt generally reflects a healthier fiscal situation, providing more flexibility to invest in initiatives that promote and enhance international trade. Thus, public debt can have a complex effect on international trade freedom, and managing debt risks is

crucial for maintaining participation in the global economy (Sovereign Debt, 2021).

Additionally, high inflation, often caused by elevated debt levels, can lead governments to impose contractionary trade measures such as import tariffs, non-tariff barriers, export taxes, and capital controls (Romer, 1993). However, these debt-driven policies may harm a country's export competitiveness over time by increasing the cost of locally produced goods compared to foreign competitors, potentially restricting international trade. The study hypothesizes that:

External debt has a negative effect on freedom to trade internationally

Political Institutions and External debt

The post-World War II era witnessed a significant increase in government participation in economic affairs and the growth of welfare states, particularly in high-income nations, which led to a consistent rise in public debt (Vojnovic, 2023). This trend is not limited to advanced economies; developing nations, including those in SSA, have also experienced substantial public debt accumulation. Throughout the 1990s, many developing countries faced whole or partial failures to meet their public debt obligations, highlighting the challenges in managing external debt (Presbitero, 2012).

Kraay and Nehru (2006)suggests that the quality of political institutions significantly influences how countries handle their external debt. Effective political institutions can lead to better debt management practices, reducing the likelihood of debt crises. In SSA, political structures have been pivotal in shaping the outcomes of external debt management. Ozler and Tabellini (1991) find a correlation between increasing external debt and

political instability and polarization, suggesting that political turmoil exacerbates debt problems. Krah and Mertens (2020) find a strong positive relationship between democracy and financial transparency in local governments in SSA. Their study suggest that deepening democracy is essential for promoting a culture of financial transparency, which is crucial for effective debt management. Transparent financial practices reduce the risks of mismanagement and corruption, ensuring that external debt is used for its intended purposes.

External Debt, Political Institutions and Economic Freedom

The intricate relationship between external debt, political institutions, and economic freedom, especially in emerging regions like Sub-Saharan Africa (SSA), has not been extensively studied. To fill this gap, Manasseh et al. (2022) investigated the role of governance in linking external debt to economic growth, emphasizing the importance of political institutions in determining the effectiveness of external debt in boosting economic growth. Likewise, Sani, Said, Ismail, and Mazlan (2019) examined how public debt, institutional quality, and economic growth are interconnected in Sub-Saharan Africa, highlighting the significant impact of political institutions on regional economic development.

Additionally, Dutta and Williamson (2016) found that while foreign aid does not directly influence economic institutions significantly, its effectiveness is contingent on the quality of the recipient country's political institutions. Aid can enhance economic freedom in countries with strong political institutions but has little impact in countries with weaker institutions. Krah and Mertens (2020) demonstrated a notable positive link between

democracy and financial transparency in local governments within Sub-Saharan Africa, indicating that fostering democracy is crucial for enhancing financial transparency in local governance.

In contrast, Abdullahi et al. (2016) did not find a significant link between debt levels and borrowing from commercial sources in democratic settings. Political institutions not only shape the relationship between external debt and economic growth but also influence how debt affects economic outcomes. Rowley (2000) emphasized the role of political culture in economic performance and the importance of robust institutions for implementing effective economic policies. This paper suggests that political institutions play a crucial role in moderating the connection between external debt and economic freedom.

Other determinants of economic institutions

The study includes several control variables to account for macroeconomic factors that may influence economic freedom in Sub-Saharan Africa (SSA). These variables are life expectancy at birth, GDP growth, and trade openness. Life expectancy at birth is used as an indicator of a population's overall health and well-being, which can impact economic performance and stability. Higher life expectancy is often associated with a healthier workforce and increased productivity, thus affecting economic freedom (Acemoglu & Johnson, 2007). Bloom, Canning, and Sevilla (2004) argue that improved health, reflected in higher life expectancy, enhances labor productivity and economic growth, both of which are crucial for economic freedom. Cervellati and Sunde (2011) further support this by showing that better health outcomes can lead to more stable and effective governance, which in turn supports economic freedom.

The "Development as Freedom" concept by Sen (2000) posits that development should be viewed as expanding the real freedoms people enjoy. Economic growth, as measured by GDP growth, plays a key role in this expansion by increasing the resources available for improving institutions, policies, and economic structures. This implies that as GDP rises, there is greater capacity and demand to enhance economic freedom, leading to improvements in regulatory quality, trade openness, and property rights protection. Simionescu et al. (2017) highlight that GDP growth significantly influences economic stability and investment potential, which are essential for economic freedom. As the economy grows, the need for government control and regulation may decrease, allowing for greater economic freedom. This is consistent with Brkić, Gradojević, and Ignjatijević (2020), who suggest that higher economic freedom promotes growth, creating a positive feedback loop where increased growth leads to more freedom and vice versa.

Trade openness is another macroeconomic factor affecting economic freedom. Research indicates that trade openness fosters competition, enhances resource allocation, and expands access to goods and services, all of which contribute to greater economic freedom (Razmi & Refaei, 2013; Mayache, 2021). By encouraging competition in domestic markets, trade openness drives businesses to innovate, improve efficiency, and lower prices, benefiting consumers and boosting overall economic performance. This competitive environment supports economic freedom by allowing businesses to operate with less government intervention, responding more freely to market demands and opportunities.

Gaps in existing studies

Table 1: Gaps in existing studies

Authors	Topic	Methodology	Key Findings	Gaps in Literature
Mura & Donath (2023)	Government Debt and Economic Freedom in CEE	Empirical analysis using regression models (OLS)	Government debt has a negative significant effect on economic freedom	The study focuses on CEE and not SSA economies. The study does not consider the role of institutional quality in moderating the effects of ED on EF
Dzhumashev & Hailemariam (2021)	Foreign Aid and Economic Freedom in developing countries	IV and identification techniques	Foreign aid has positive and significant effect on economic freedom	Does not address the specific issues of external debt on economic institutions in SSA; the study does not address the moderating effect of external debt on economic freedom
Hassan & Meyer (2021)	External Debt and economic growth in SSA	System Generalized Method of Moments (GMM)	External debt has been found to negatively impact economic growth in SSA	The study does not address the specific issue of debt on economic freedom
Ehikioya & Omankhanlen (2021)	Impact of public debt on economic growth: Evidence from Nigeria	OLS, Johansen cointegration test, Vector error correction model	The findings reveal insignificant negative impact of public debt on economic growth	The study is limited to Nigeria and not the entire SSA countries. Does not explore the moderating role of political institutions in this relationship.
Sayari et al. (2018)	The impact of value-added components of GDP and Foreign Direct Investment (FDI) on economic freedom in Europe.	It utilizes Pedroni and KAO panel cointegration analyses to assess the long-run relationships between the Economic Freedom Index (EFI), FDI, and GDP	There is a significant long-run relationship between EFI, FDI, and value-added components of GDP.	The study focuses on Europe and does not address the specific issue of external debt and economic freedom

Al Kharusi and Ada (2018)	External Debt and Economic Growth in Oman	Autoregressive Distributed Lag (ARDL) cointegration approach	Finds a negative influence of external debt on economic growth in Oman.	Limited to Oman; findings may not be generalizable to SSA due to different institutional contexts.
Clements et al. (2003)	External Debt, Public Investment, and Growth in Low-Income Countries	Fixed effect and system GMM	Debt service has no direct effect on economic growth	The study does not consider the effect of external debt on economic freedom
Schclarek (2004)	External debt and economic growth in developing and industrial countries	OLS was used as the estimation technique	Mixed results on the relationship between external debt and economic growth	The study does not address the specific issue of the impact of external debt on economic freedom

Conceptual Framework

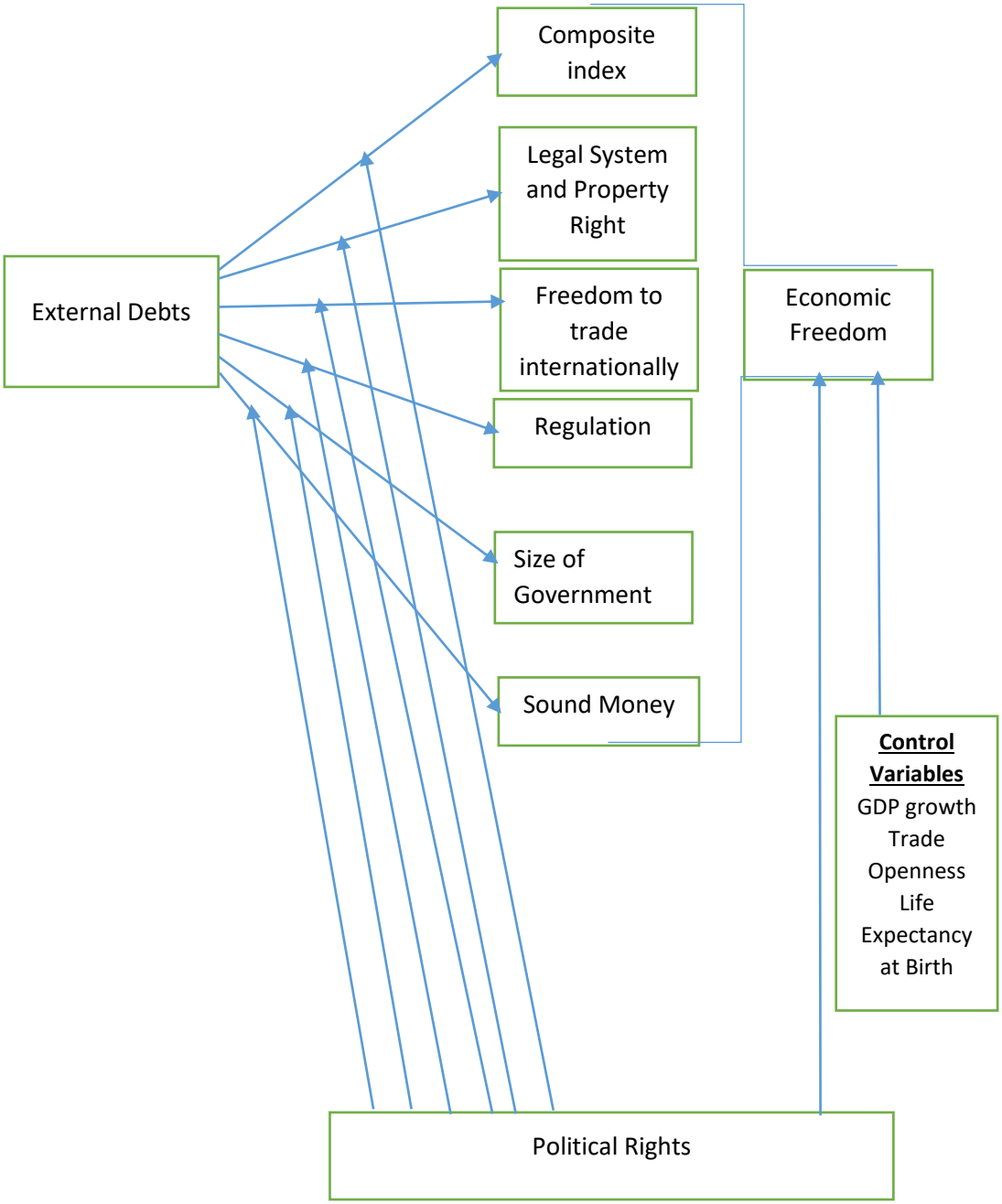

Figure 1 shows how political rights and foreign debt affect economic freedom in Sub-Saharan Africa (SSA). It highlights how political rights, as well as the composite index, function as a moderator in the relationship between external debt and the several measures of economic freedom. Additionally, the chart illustrates the clear relationship between economic

freedom and the control variable. The association between external debt and the various indices of economic freedom is consistent with the debt overhang hypothesis. New institutional theory strengthens the link between political institutions and economic freedom. Furthermore, the influence of external debt on economic freedom is moderated by political institutions, as supported by both the debt overhang theory and the new institutional theory.

Chapter Summary

The literature review explores the relationship between external debt, economic freedom, and political institutions in Sub-Saharan Africa, drawing from both theoretical and empirical studies. It highlights the debt overhang theory, which posits that excessive external debt can stifle economic growth and limit economic freedom by diverting resources toward debt servicing instead of productive investments. The chapter also discusses the role of political institutions in shaping economic outcomes, emphasizing their capacity to either mitigate or exacerbate the negative effects of external debt. Studies by Mura and Donath (2023) and Guzman and Stiglitz (2016) provide foundational insights into how institutional quality influences economic stability in the face of rising debt levels.

Despite the breadth of existing literature, several gaps are evident. While prior studies have examined the relationship between external debt and economic growth, few have investigated how political institutions moderate the impact of external debt on economic freedom, particularly in the context of Sub-Saharan Africa. Additionally, much of the existing research focuses on aggregate measures of economic performance, with limited attention to the nuanced dimensions of economic freedom, such as trade liberalization, sound

money, and property rights. The literature also tends to generalize findings across regions, overlooking the unique socio-economic and political characteristics of SSA economies.

This study seeks to address these gaps by integrating the concepts of external debt, political institutions, and economic freedom within the specific context of Sub-Saharan Africa. By focusing on the moderating role of political institutions, the research offers a novel perspective on how governance quality can influence the relationship between external debt and economic freedom. Furthermore, the study delves into disaggregated measures of economic freedom, providing a more granular analysis than previous studies. These contributions aim to bridge the existing gaps and enrich the discourse on debt management, institutional governance, and economic policy in SSA.

CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter outlines the systematic approaches employed to analyze the influence of political institutions and external debt on economic freedom in Sub-Saharan Africa. It provides a thorough overview of the study's framework, design, and methodology, including the definitions, sources, and measures of the variables involved. The chapter also explores the rationale behind the chosen model definitions and details the methods used for data handling and evaluation

Research Paradigm

According to Hallebone and Priest (2008), studies paradigms constitute the medical strategies and philosophies taken into consideration maximum appropriate for accomplishing the studies goals, context, and difficulty matter. This take a look at adopts the positivist paradigm, which posits that medical inquiry must recognition on inspecting observable social realities to derive conclusions just like the ones in herbal and bodily sciences (Saunders, Lewis and Thornhill, 2012). Since those social realities may be measured and quantified, the positivist technique entails amassing statistics on those variables, reading it with statistical importance exams, and confirming or refuting hypotheses to attract huge conclusions.

The positivist paradigm produces effects which might be generalizable and generally supplied in quantitative form, taking into account predictions approximately wide-ranging phenomena (Hallebone and Priest, 2008). This take a look at collects statistics on outside debt, political establishments, and

monetary freedom; analyzes relationships via statistical exams of importance; and exams hypotheses to evaluate whether or not political establishments have an effect on the connection among outside debt and monetary freedom, thereby using the positivist studies paradigm.

Research Design

Saunders et al. (2012) categorize research designs into three types: explanatory, descriptive, and exploratory. This study used an explanatory research design, which is defined as empirical investigations that attempt to find cause-and-effect correlations among variables. The explanatory design was chosen for this study because it aids in the understanding of the subjects being studied and identifies challenges that have not been sufficiently explored. This study design was used to clarify the relationships between political institutions, external debt, and economic freedom in the economies of Sub-Saharan Africa.

Research Approach

Creswell (2014) presents three key study approaches: mixed methods, qualitative, and quantitative. Since most of the factors in this study, such as institutional quality, are measured statistically, a quantitative research approach was applied

Data Collection Procedures

The study utilizes secondary data from 38 Sub-Saharan African (SSA) countries for the period 1996–2021, selected to ensure analytical feasibility. The choice of 38 countries, as opposed to fewer, was guided by the availability and completeness of data for key variables, such as external debt, economic freedom, and institutional quality. While SSA comprises 48

countries, missing data for some necessitated their exclusion to maintain the reliability of the analysis. The selected countries provide a broad cross-section of SSA, capturing diverse economic structures, governance systems, and levels of external debt.

The timeframe of 1996–2021 was chosen to capture critical historical and economic developments in SSA. This period includes key events such as the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative, the adoption of political and institutional reforms, and global financial crises, including the 2008 economic downturn. These events significantly influenced debt levels and governance structures in SSA, making the period particularly relevant for analyzing long-term trends and interactions between external debt and economic freedom. Extending the period beyond 2000 ensures a more comprehensive understanding of these dynamics.

While acknowledging the limitations of data availability, the study carefully managed these constraints to ensure the validity and reliability of the results. Countries with substantial missing data were excluded, and the timeframe was deliberately extended to reflect a broader range of economic cycles and institutional reforms. The decisions regarding the sample size and period are aligned with the study's objectives and ensure that the findings are robust and context-specific, offering valuable insights into the unique challenges faced by SSA economies. The institutional quality metrics span from 1996 to 2021, confirming the relevance of the chosen timeframe

Model Specifications

Model 1- The Relationship between External Debt, Economic freedom and Political Institutions in SSA

Model 1 is based on the regression equations from Dzhumashev and Hailemariam (2021), which address the first two research objectives. Their primary model examines the relationship between economic freedom (a measure of economic institutions) and the amount of foreign aid a country receives, controlling for other influencing factors. They use a regression approach that includes lagged foreign aid as a percentage of GDP, incorporating both country-specific and year-specific fixed effects. The country fixed effects account for unchanging factors like geography and historical context, while year fixed effects capture global events impacting all countries.

Additionally, they control for various time-varying factors such as income level, democracy, life expectancy, trade, and population growth. The coefficient on lagged aid is the key focus, reflecting the impact of foreign aid on economic freedom. To establish causality, they use an instrumental variable approach due to the joint determination of aid and institutions. Their initial model employs fixed effects regression with lagged aid and institutional controls.

This study builds upon these models by integrating further macroeconomic factors that were not considered in the original research, as outlined in Chapter 2. It includes a lagged dependent variable to account for the gradual adjustment of economic freedom to its long-term equilibrium, acknowledging that it is influenced by its past values. The updated models aim

to explore the connections between external debt, political institutions, and economic freedom while controlling for additional macroeconomic variables. The baseline models from Dzhumashev and Hailemariam (2021) are presented first, followed by the new model used in this study

Baseline Model

$yit = a_t + \theta y_t, t-5 + \beta_1 AID_t, t-5 + \gamma a_t X_i, t-5 + \mu_t +$

ϵ_{it} , …… the baseline model of

Dzhumashev and Hailemariam (2021)

Here's what each part means:

yit represents the economic freedom of country i and t

a_t is a fixed effect for each country, considering factors like geography and history that don't change over time

$\beta_1 AID_t, t-5$ is the main focus – it shows the effect of foreign aid on economic freedom. They use the logarithm of aid to GDP ratio ($\beta_1 AID_t, t-5$)

$\gamma a_t X_i, t-5$ includes control variables (like economic development, democracy, life expectancy, trade, and population growth) that could influence economic freedom

μ_t represents fixed effects for each year, accounting for common time shocks affecting both foreign aid and economic freedom

ϵ_{it} is the error term, capturing anything else not considered in the model

Model 1

$lnECOF_{it} = \beta_1 lnECOF_{it-1} + \beta_2 PLINS_{it} + \beta_3 lnEXTD_{it} + \beta_4 Z_{it} + ¥_i + \mu_i + \varepsilon_{it}$

where $lnECOF$ signifies the natural log of economic freedom, PLINS represents political institutions , Z signifies a vector of control variables comprising of the natural log of GDP growth, natural log of trade openness, natural log of life expectancy and ¥$_i$, μ$_i$ denote the full set of unobserved country specific effects and time-specific effects respectively, Ɛ$_{it}$ is the error term. i is the country index while t is the time index.

Model 2- The moderating role of Political Institutions in the Relationship between External Debt and Economic institutions in SSA economies

The final objective of this study is to investigate how political institutions affect the connection between external debt and economic freedom. To do this, the model includes an interaction term that combines external debts and political institutions as an independent variable. If this interaction term has a positive and significant coefficient, it would suggest that stronger political institutions enhance the impact of external debt on economic freedom.

Model 3 is given as:

$$lnECOF_{it} = \beta_1 lnECOF_{it-1} + \beta_2 PLINS_{it} + \beta_3 EXTD_{it} + \beta_4 (lnEXTED * PLINS)_{it} + \beta_5 Z_{it} + ¥_i + \mu_i + Ɛ_{it}$$

Where lnECOF is the log of dependent variable

$lnECOF_{it-1}$ is the log of the lag of dependent variable

$PLINS$ is the political institution

$(lnEXTED * PLINS)$ is the interacting term of the natural log external debt and political institutions

lnZ is natural log of the control variables

μ$_i$ is the error term

Data Processing Tool and Analysis Technique

The study utilized the System Generalized Method of Moments (GMM) panel estimator to analyze the models, with data managed using Stata version 13.0. The initial GMM panel estimator, known as difference GMM, was introduced by Arellano and Bond (1991). As noted by Law and Azman-Saini (2012) and Miletkov and Wintoki (2012), Arellano and Bond (1991) developed panel data equations by using the first differences of variables and the levels of lagged values of time-varying variables as instruments, which helps to reduce unobservable simultaneity bias and national fixed effects.

However, Arellano and Bover (1995) pointed out that difference GMM might produce inaccurate results, especially when the regressors are stable, which is relevant to this study since institutional quality metric is expected to be relatively stable (Acemoglu & Robinson, 2008). To address this, Blundell and Bond (1998) proposed the system GMM estimator, which combines equations in both first differences and levels, using lagged differences of regressors as additional instruments for the levels equation. System GMM is suitable for this study because it addresses reverse causality by identifying exogenous components of endogenous variables or variables with simultaneity bias (Miletkov & Wintoki, 2012). By using these exogenous components as instruments, the GMM estimator effectively handles endogeneity issues between the independent and dependent variables.

System GMM comes in two forms: the one-step and the two-step estimators.

This study employed the two-step GMM estimator due to its theoretical efficiency compared to the one-step estimator. A notable drawback of system GMM is instrument proliferation, which can be problematic when

the time series dimension is small relative to the cross-sectional dimension (Roodman, 2009). Given the panel data includes 38 countries over 15 years, the analysis followed Roodman's (2009) approach to mitigate instrument proliferation bias by restricting the moment conditions to a maximum of two lags of the dependent variable. It is generally recommended that the number of instruments should be less than or equal to the number of groups to avoid excess instrument proliferation (Abeka, 2018).

Diagnostic tests were performed to assess the model's validity. The key diagnostics for the GMM estimator include the Arellano and Bond serial correlation test and the Hansen test for instrument validity. The Arellano-Bond test for autocorrelation has a null hypothesis of no autocorrelation and is applied to differenced residuals. Typically, the null hypothesis for the AR(1) test in initial differences is rejected, while the AR(2) test, which checks for autocorrelation in levels, should not reject the null hypothesis. The Hansen test for overidentifying restrictions has a null hypothesis that the instruments are collectively exogenous. A higher p-value for the Hansen statistic is desirable, indicating that the instruments used in the GMM analysis are valid and the exclusion restrictions are appropriate.

Measurement of Variables

The measurement choices for all variables in this study were based on their proven use in relevant literature. External debt was quantified using "External debt stocks (% of GNI)," which measures the total outstanding public and private debt due to non-residents, scaled by Gross National Income (GNI). This measure is commonly used in studies investigating the influence of external debt on economic results. Regulation was measured by regulatory

quality, demonstrating the efficiency of government regulations in fostering market-friendly policies. The size of government was assessed by the expenditures of central and municipal governments as a percentage of GDP, showing the level of government participation in the economy.

Freedom to trade globally was operationalized using trade openness, defined as the total of imports and exports scaled by GDP, a typical metric in trade economics. Legal system and property rights were examined by indices analyzing the degree of legal protections and enforcement of property rights within a country. Political institutions were represented by political rights, which evaluate the level of political freedoms and civil liberties afforded to citizens. The study adjusted for three macroeconomic indicators: GDP growth, life expectancy, and trade openness. The table below gives the measurements of the variables, their sources, and the empirical explanations for these measurements

Table 2 – Description of Variables and Source of Data

Variable	Measurements	Data Source	Empirical Justification
Economic Freedom	Regulation, Sound Money, Legal System and Property Rights, Freedom to Trade Internationally, Size of Government, Composite Index	Fraser Institute 2006 – 2021	Gwartney et al. (2021); Hall and Lawson (2014); Bjørnskov and Foss (2008); Dzhumashev and Hailemariam (2021)
External Debt	External Debt Stock (% of Gross National Income)	World Development Indicators 2006 - 2021	Kose et al. (2008); Reinhart and Rogoff (2010); Dreher and Sturm (2015)
Political Institutions	Political Rights	Freedom House 2006-2021	Acemoglu et al. (2001); Campante and Chor (2012); Dincecco and Katz (2016); Lemma et al. (2020)
Economic Health	Life Expectancy at birth	World Development indicators 2006 - 2021	; Bloom et al. (2004); Preston (1975)
Trade Openness	Trade (% of GDP)	World Development indicators 2006-2021	Andersen and Babula (2009); Dzhumashev and Hailemariam (2021)

Chapter Summary

This chapter outlined the research methodologies used in the study, which operates within the positivist research paradigm and employs a quantitative approach. An explanatory study design was chosen to explore the relationships between external debt, political institutions, and economic freedom within Sub-Saharan African (SSA) economies. Due to limitations in

data availability, the analysis focused on 38 of the 48 SSA countries. Three baseline models were developed for this investigation: the first model examined the relationship between external debt and economic freedom in SSA; the second model assessed the connection between political institutions and economic freedom in SSA; and the third model investigated how political institutions affect the relationship between foreign debt and economic freedom in SSA. The Generalized Method of Moments (GMM) estimation technique was primarily used to estimate all models, as it effectively addresses endogeneity issues.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents and analyzes the results derived from the empirical analysis. It starts with a descriptive overview of all variables to offer insight into the current state of external debt, political institutions, and economic freedom in SSA economies. Next, a correlation matrix is provided to address any multicollinearity issues within the empirical model. The chapter concludes with a detailed discussion of the different models estimated throughout the study.

Descriptive Statistics

The study examines descriptive statistics for a sample of 38 out of 48 Sub-Saharan African economies, with the remaining 10 excluded due to missing data for certain variables. For each variable, the reported descriptive statistics include the mean (average value), standard deviation (extent of variability around the mean), minimum value, maximum value, and the number of observations used to calculate these statistics.

Table 3- Descriptive Statistics of the Regressand and the Regressors

Variable	Obs	Mean	Std. Dev.	Min	Max
efIndex	589	5.897	.793	3.06	8.23
SOG	608	6.812	1.037	3.414	8.891
LGSPR	608	3.807	1.232	1.803	7.077
SM	589	7.122	1.379	1.25	9.759
FTI	579	6.023	.946	1.76	8.861
REG	608	5.697	.946	2.939	8.141
PSE	608	-.633	.858	-2.699	1.104
VAAE	608	-.508	.676	-1.849	.975
lnEXD	608	3.561	.708	1.36	6.072
PR	608	18.845	10.432	0	38
lnlifeX	608	4.087	.096	3.759	4.339
TradeofGDP	537	65.571	27.143	4.128	165.049
POG	608	2.561	.825	-.077	5.627
GDPPG	600	1.192	4.418	-36.778	19.939
GDPPC	608	2201.201	2865.924	166.276	19849.718
lnEXS	608	22.302	1.358	19.435	25.974

efIndex denotes the composite index of economic freedom in SSA. SOG refers to the size of government, LGSPR stands for legal system and property rights, SM indicates sound money, FTI represents freedom to trade internationally, REG denotes regulation, PSE refers to political stability, VAAE represents estimates of voice and accountability, EDofGNI represents external debt as a percentage of Gross National Income (GNI) and is the primary independent variable, EDST refers to external debt stocks, PR stands for political rights, LEXAB represents life expectancy at birth, TradeofGDP denotes trade as a percentage of GDP, POG refers to population growth, and lngdpg stands for GDP growth.

The indices for each component range from 0 to 10, where a score of 10 represents the highest level of economic freedom according to various rankings for each component and sub-component. The composite Economic Freedom Index (efIndex) has an average score of 5.897 with a standard

deviation of 0.793, indicating moderate economic freedom across Sub-Saharan Africa (SSA), with scores ranging from 3.06 to 8.23, showing significant differences between countries (Gwartney, Lawson, & Hall, 2022).The Size of Government (SOG) index has an average of 6.812 and a standard deviation of 1.037, with scores ranging from 3.414 to 8.891. This reflects considerable variation in government involvement across SSA countries, with some having substantial government roles while others have more limited involvement (Heritage Foundation, 2023).

The Legal System and Property Rights (LGSPR) index has an average score of 3.807 and a standard deviation of 1.232, indicating generally weak legal institutions in the region. Scores range from 1.803 to 7.077, highlighting challenges in maintaining robust legal frameworks and safeguarding property rights (Acemoglu, Johnson, & Robinson, 2001). The Sound Money (SM) index, with a mean score of 7.122 and a standard deviation of 1.379, suggests that while some countries have relatively stable monetary environments, others experience significant volatility. Scores range from 1.25 to 9.759 (World Bank, 2022).

The Freedom to Trade Internationally (FTI) index has an average score of 6.023 and a standard deviation of 0.946, reflecting moderate levels of trade openness. The Political Stability (PSE) and Voice and Accountability (VAAE) indices, with mean values of -0.633 and -0.508 respectively, indicate challenges in political stability and citizen participation in governance for many SSA countries. The Political Rights (PR) index has a mean score of 18.845, showing substantial variation in political rights across SSA countries

Correlation Analysis

Table 4 – Correlation Matrix

Variables	(SOG)	(LGSPR)	(SM)	(FTI)	(REG)	(PSE)	(VAAE)	(PR)	(efIndex)	(lnlifeX)	(lngdpg)	(lnEXD)	(lnEXS)
SOG	1.000												
LGSPR	0.028	1.000											
SM	0.166***	0.547***	1.000										
FTI	0.175***	0.579***	0.568***	1.000									
REG	0.047	0.642***	0.582***	0.606***	1.000								
PSE	-0.050	0.652***	0.326***	0.509***	0.326***	1.000							
VAAE	0.190***	0.759***	0.486***	0.630***	0.518***	0.696***	1.000						
PR	0.199***	0.687***	0.410***	0.514***	0.404***	0.626***	0.927***	1.000					
efIndex	0.371***	0.789***	0.829***	0.799***	0.790***	0.480***	0.714***	0.610***	1.000				
lnlifeX	0.020	0.439***	0.281***	0.408***	0.405***	0.373***	0.328***	0.230***	0.426***	1.000			
lngdpg	0.029	-0.011	-0.107**	0.046	-0.074*	0.043	0.017	0.034	-0.039	-0.172***	1.000		
lnEXD	-0.060	0.083**	-0.040	0.125***	-0.119***	0.083**	0.064	0.056	-0.002	0.241***	-0.108**	1.000	
lnEXS	0.074*	0.179***	-0.006	0.153***	0.162***	-0.139***	0.034	-0.012	0.166***	0.224***	-0.096**	0.294***	1.000

**** p<0.01, ** p<0.05, * p<0.1*

Note: lnlifeX represents the log of life expectancy at birth, lngdpg denotes the logarithm of GDP growth, and lnEXD refers to the logarithm of external debt, which is the main independent variable measured as a percentage of Gross National Income. PR stands for political rights, PSE indicates political stability, FTI represents freedom to trade internationally, SM refers to sound money, LGSPR denotes legal systems and property rights, REG represents regulation, and SOG refers to the size of government

Table 4 displays the pairwise correlations among all variables included in the analysis. The variable for political rights (PR) shows a strong correlation with the political stability variable (PSE). However, this does not create multicollinearity issues since PSE and PR are not included in the same model.

A detailed examination of the correlation matrix reveals that the empirical model does not experience multicollinearity problems. None of the independent variables exhibit a correlation coefficient exceeding 0.90, a level considered to indicate severe multicollinearity according to Adam (2015).

Regression results on the relationship among external debt, political rights and economic freedom in SSA.

This subsection details and examines the empirical findings related to the study's goals. Tables 5 and 6 display the regression results. Table 5 highlights the effects of external debt and political rights on economic freedom within Sub-Saharan African economies, whereas Table 6 investigates the role of political institutions in moderating the relationship between external debt and economic freedom in these regions.

The table below outlines the individual impacts of external debt and political institutions on economic freedom across Sub-Saharan Africa. Columns labeled Model 1 through Model 6 present the results for the effects of external debt and political institutions on five distinct measures of economic freedom in these countries. Specifically, Model 1 illustrates the impacts on the composite economic freedom index in SSA economies, addressing the study's first and second objectives.

Table 5 – Effect of external debt and political institutions on economic freedom of SSA economies

Model	(1) ef Index	(2) SM	(3) REG	(4) SOG	(5) FTI	(6) LGSPR
L.ef Index	0.336**					
	(0.154)					
lnEXD	-0.604**	-1.277***	-0.866***	-1.650**	-0.770**	-0.225**
	(0.281)	(0.388)	(0.252)	(0.759)	(0.346)	(0.0985)
lnlifeX	4.190**	9.223***	8.171***	8.061*	4.911***	0.454
	(1.556)	(2.120)	(1.929)	(4.632)	(1.456)	(0.951)
lnTrade	0.915**	0.675	0.630**	2.075*	1.194***	0.214*
	(0.429)	(0.526)	(0.297)	(1.107)	(0.312)	(0.113)
PR	0.0295*	0.0841**	0.0487**	0.0714***	0.0276**	0.00779**
	(0.0163)	(0.0327)	(0.0209)	(0.0261)	(0.0128)	(0.00299)
lngdpg	0.0738	0.0742	0.131***	-0.669***	-0.248*	-0.0918
	(0.0485)	(0.105)	(0.0433)	(0.216)	(0.139)	(0.0621)
L.SM		0.352***				
		(0.120)				
L. REG			0.393***			
			(0.141)			
L.SOG				0.339**		
				(0.126)		
L.FTI					1.002***	
					(0.140)	
L. LGSPR						0.918***
						(0.0574)
Constant	-15.47**	-32.95***	-30.57***	-31.60	-22.51***	-1.606
	(5.724)	(9.765)	(7.312)	(19.83)	(6.379)	(4.143)
Observations	422	422	433	433	416	433
No. of instruments	30	30	30	30	30	30

AR1 (p-value)	0.0140	0.0263	0.00912	0.00569	0.00371	0.0169
AR2 (p-value)	0.582	0.220	0.626	0.145	0.0987	0.576
Hansen-J (p-value)	1.000	1.000	0.998	0.956	1.000	0.873

Standard errors in parentheses
* p<0.10, ** p<0.05, *** p<0.010

Note: L.ef Index represents the first lag of economic freedom, while efIndex denotes the economic freedom index. lnEXD is the log of external debt as a percentage of Gross National Income, lnlifeX refers to the log of life expectancy, and lnTrade is the log of trade as a percentage of GDP. PR stands for political rights, and lngdpg is the log of GDP growth. In addition to the diagnostics section, all values in parentheses indicate the standard errors of the coefficients, while values not in parentheses represent the coefficients themselves. Significance levels are denoted by ***(1%), **(5%), and *(10%). The diagnostics section provides the probability of z-values for AR(1) and AR(2), the probability for the Hansen test, the number of groups, and the number of observations, as detailed in Table 5

External debt and economic freedom of SSA economies

Model 1 in Table 5 explores the relationship between external debt levels and the composite economic freedom index in Sub-Saharan African (SSA) countries. The results reveal a statistically significant negative impact of external debt on this index at the 5% significance level, suggesting that higher external debt constrains overall economic freedom. This finding aligns with the debt overhang theory proposed by Krugman (1988), which posits that excessive debt can deter investment and economic progress, as anticipated returns are often diverted to debt servicing. This result is consistent with Mura and Donath (2023), who found that high government debt can impede economic freedom due to the need for restrictive fiscal policies. However, it contradicts the findings of Engen and Hubbard, who argue that some countries with high external debt have managed to maintain economic freedom through effective debt management. Thus, the study fail to reject the hypothesis that external debt significantly affects economic freedom.

Model 2 of Table 5 indicates a significant negative effect of external debt on sound money at the 1% significance level. This result suggests that high levels of external debt may lead to inflationary pressures, as governments might face political pressure to finance deficits through inflationary policies (Masciandaro, 2019). This finding aligns with Mweni et al. (2006), who observed that external debt accumulation in Kenya led to increased inflation volatility due to reliance on seigniorage revenues. However, it contrasts with Reinhart and Sbrancia (2015), who found that some countries maintained monetary stability despite high debt levels through prudent fiscal and monetary policies.

Model 3 of Table 5 examines the effect of external debt on regulation in SSA economies. The results show a significant negative impact on regulation at the 5% level, suggesting that high external debt leads to more restrictive regulatory environments as governments impose stricter regulations to manage economic activities and debt repayment. This finding supports Djankov et al. (2006), who argued that excessive debt burdens can result in regulatory measures that hinder economic growth and innovation, leading to increased government intervention.

Model 4 of Table 5 investigates the relationship between external debt and government size in SSA countries. The results indicate a significant negative effect of external debt on government size at the 5% level. This implies that high external debt can compel governments to increase their economic intervention, resulting in higher public spending, taxes, and regulatory control, which may distort markets and reduce economic efficiency (Alesina & Ardagna, 2010). This finding is consistent with Barro (1979) and Alesina and Ardagna (2010), who found that higher government debt is associated with increased public spending and intervention.

Model 5 of Table 5 explores the impact of external debt on freedom to trade internationally in SSA economies. The results show a significant negative effect at the 5% level, indicating that high external debt leads governments to implement trade-restrictive measures such as import tariffs, non-tariff barriers, and capital controls to manage inflation and protect domestic industries (Jarju et al., 2016). These policies can make local goods more expensive compared to foreign competitors, thereby limiting international trade opportunities.

Model 6 of Table 5 examines the relationship between external debt and the legal system and property rights in SSA economies. The results show a significant negative effect at the 5% level, indicating that high external debt negatively impacts legal systems and property rights. This finding is consistent with Mura and Donath (2023), who found that external debt adversely affects legal systems and property rights in both the short and long term. However, it contradicts Umaru, Hamidu, and Musa (2013), who argued that high external debt does not necessarily harm national productivity, suggesting that the relationship between debt and economic outcomes, including legal systems, may be complex. Based on these findings, the study does not reject the null hypothesis that external debt significantly affects economic freedom in SSA economies

Political rights and economic freedom in SSA

Political rights, as a measure of institutional quality, significantly positively influence various aspects of economic freedom. The coefficients for political rights are predominantly positive and statistically significant across different models, suggesting that enhanced political rights promote greater economic freedom. This finding supports new institutional theory, which asserts that strong political institutions are vital for fostering an environment that supports economic freedom. For example, the coefficient for political rights is 0.0295 (significant at the 10% level), indicating that improvements in political rights positively affect freedom to trade internationally. This result is in line with Acemoglu et al. (2005), who found that improved political institutions lead to more open and efficient trade policies. However, it contrasts with Glaeser, La Porta, Lopez-de-Silanes, and Shleifer (2004), who

suggest that the effect of political institutions on trade policies may be minimal due to dominant economic interests.

In Table 5, Model 2, the coefficient for political rights is 0.0841 (significant at the 5% level), suggesting that better political rights contribute to maintaining sound monetary policies. Effective political institutions can resist inflationary pressures and ensure monetary stability, which is crucial for preserving the value of money. This result aligns with North (1990), who highlighted the importance of stable political institutions in maintaining sound monetary policies. However, it contradicts Aisen and Veiga (2006), who found that political instability did not necessarily lead to poor monetary outcomes in some developing countries.

Model 3 in Table 5 shows that the coefficient for political rights is 0.0487 (significant at the 5% level), indicating that improved political rights enhance regulatory quality. Strong political institutions ensure that regulatory frameworks are transparent, efficient, and supportive of economic activities. This finding is consistent with Djankov et al. (2006), who observed that better political institutions correlate with improved regulatory quality.

Model 4 in Table 5 reveals that the coefficient for political rights is 0.0714 (significant at the 1% level), suggesting that higher political rights help manage government size. Effective political institutions prevent excessive government intervention and encourage balanced fiscal policies. This result supports Vučković and Basarac Sertić (2013), who found that strong political institutions are linked to a more efficient and limited government size. However, it contradicts Rodrik (1998), who found that in some cases, political rights do not necessarily limit government size due to varying fiscal priorities.

Model 6 in Table 5 shows that the coefficient for political rights is 0.00779 (significant at the 5% level), indicating that higher political rights strengthen the legal system and property rights. Robust political institutions enforce legal norms and protect property rights, which are essential for economic transactions and investments. This result aligns with Keefer and Knack (1997), who found that strong political rights correlate with better protection of property rights. However, it is inconsistent with Haber et al. (2003), who argued that the protection of property rights can sometimes be independent of political rights in certain institutional setups.

Based on these findings, the study fail to reject the null hypothesis that political institutions have a significant effect on economic institutions in SSA economies during the studied period.

Results of the control variables for the models assessing the effect of external debt on economic freedom in SSA

The models incorporate three key control variables: life expectancy, GDP growth (GDPG), and trade. The regression analysis shows that increased trade openness (lnTrade) generally has a positive and statistically significant effect on all economic institution variables. This relationship can be explained in several ways. Engaging in international trade usually requires strong legal institutions to enforce contracts, protect intellectual property, and resolve commercial disputes effectively. This necessity provides an incentive for trade-oriented countries to develop robust legal standards to attract foreign businesses and investments (Djankov et al., 2002). Additionally, Alesina et al. (2000) suggest that trade openness can drive a "race to the top" in regulatory quality, as countries enhance their regulatory environments to align with

international standards and facilitate smoother cross-border operations. Krueger (1990) also argues that trade liberalization reduces opportunities for regulatory capture and rent-seeking behavior, prompting countries to streamline regulations and improve transparency to better support trade and economic activities.

The regression results in Table 5 show that higher life expectancy generally has a positive and statistically significant impact on all economic institution variables. Increased life expectancy often signifies improved health and well-being, leading to a more productive workforce and enhanced institutional capacity. Healthier populations are better able to engage in economic activities, fostering an environment conducive to the development of effective legal systems and governance. This finding aligns with the notion that investments in health contribute to broader economic stability and growth (Bloom & Canning, 2000). However, this result contrasts with studies suggesting that the relationship between health and economic outcomes is more complex, as improvements in health do not always directly translate into economic benefits (Acemoglu & Johnson, 2007).

GDP growth in Table 5 demonstrates a nuanced relationship with economic freedom variables. While some models show a positive association between higher GDP growth and improvements in regulatory quality, others indicate that GDP growth does not significantly impact the overall Economic Freedom Index. This inconsistency suggests that the effects of economic growth on economic freedom may depend on contextual factors, including existing institutional frameworks. Some research suggests that economic growth enhances market efficiency and reduces government restrictions

(Apergis, Dincer, & Payne, 2014), while other studies warn that rapid growth can present regulatory challenges if institutions fail to adapt (Kaufmann & Kraay, 2002).

Agglomerating effect in all the models

The inclusion of the lagged form of the economic freedom variable in all models was crucial to account for the gradual adjustment of economic freedom to its long-term equilibrium value. Economic freedom evolves over time, with past levels influencing current levels. The models presented in this chapter consistently show that the coefficient for the lagged economic freedom variable is positive and significant. This indicates that previous periods' economic freedom in SSA economies positively impacts current periods. The significance of this lagged dependent variable confirms the suitability of the system GMM estimator, supporting the reliability of the empirical results for statistical inference.

Diagnostics on the models assessing the effect of external debt and political institutions on economic freedom

According to Mileva (2007), when applying the AR(1) test for first differences, it is commonly expected that the null hypothesis of no autocorrelation will be rejected. However, it is vital that the null hypothesis for the AR(2) test in first differences is not rejected. In Table 5, the p-values for the AR(1) tests at the 5% significance level demonstrate the rejection of the null hypothesis, suggesting the presence of autocorrelation in the initial differences. Conversely, the p-values for the AR(2) tests do not reject the null hypothesis, showing that there is no second-order autocorrelation in the

models. This absence of second-order autocorrelation shows that the models are accurately stated in terms of autocorrelation.

Furthermore, the Hansen test findings indicate strong p-values, which means that the null hypothesis—that the instruments utilized in the GMM calculations are exogenous—cannot be discarded. This confirms that the instruments used in the models are adequate and meet the required exclusion limits, hence supporting the correctness of the estimations shown in Table 5

Table 6: The moderating role of political institutions in the relationship between external debts and economic freedom

Model	(1) ef Index	(2) SM	(3) REG	(4) SOG	(5) FTI	(6) LGSPR
L.ef Index	0.758*** (0.0534)					
lnEXD	0.294** (0.113)	-0.722** (0.332)	-0.786*** (0.156)	-1.153*** (0.184)	-0.356** (0.131)	-0.482** (0.195)
lnexd_PR	-0.0140*** (0.00487)	0.0120 (0.0163)	0.00505 (0.0110)	0.0311* (0.0162)	-0.00740 (0.00823)	0.0206* (0.0104)
lnlifeX	1.781*** (0.504)	3.530*** (0.750)	5.363*** (0.853)	2.113* (1.117)	2.497*** (0.783)	1.159 (0.878)
lnTrade	0.0396 (0.0943)	0.247* (0.138)	0.386** (0.152)	0.262 (0.298)	0.494*** (0.155)	0.299*** (0.102)
PR	0.0575*** (0.0166)	-0.00831 (0.0584)	0.00539 (0.0408)	-0.0797 (0.0584)	0.0250 (0.0283)	-0.0638* (0.0365)
lngdpg	-0.00804 (0.0254)	-0.0716 (0.0584)	0.0725*** (0.0237)	-0.129* (0.0688)	-0.115** (0.0487)	-0.0385 (0.0675)
L.SM		0.641*** (0.0495)				
L. REG			0.515*** (0.103)			

L.SOG				0.413***		
				(0.0425)		
L.FTI					0.895***	
					(0.0499)	
L. LGSPR						0.819***
						(0.0632)
Constant	-7.151***	-10.88**	-18.47***	-2.070	-10.19**	-3.689
	(2.029)	(4.071)	(3.027)	(5.409)	(3.731)	(3.813)
Net effect	0.0308	-0.722	-0.786	-1.329	-0.356	-0.09472
Observations	422	422	433	433	416	433
No. of instruments	30	30	30	30	30	30
AR1 (p-value)	0.0000528	0.00460	0.00467	0.0332	0.00132	0.0260
AR2 (p-value)	0.421	0.878	0.311	0.642	0.0475	0.622
Hansen-J (p-value)	0.999	1.000	1.000	0.999	0.999	0.978

Standard errors in parentheses
* p<0.10, ** p<0.05, *** p<0.010

Note: L.ef Index represents the first lag of the economic freedom index variables, while lnEXD denotes the log of external debt. lnexd_PR is the interaction term between external debt and political rights. lnlifeX refers to the log of life expectancy, and lnTrade signifies the log of trade. PR stands for political rights, and lngdpg indicates the GDP growth rate. SM is the index of sound money, REG denotes regulation, SOG represents the size of government, FTI stands for freedom to trade internationally, and LGSPR refers to legal systems and property rights. Except for the diagnostics section, the values in brackets are the standard errors of the coefficients, and the values outside the brackets represent the coefficient values. Significance levels are denoted as *** for 1%, ** for 5%, and * for 10%. The diagnostics section provides the probability of z-values for AR(1) and AR(2), the probability of the Hansen test, the number of groups, and the number of observations, as detailed in the diagnostics section of Table 6

Table 6 shows the moderating role of political rights in the relationship between external debt and economic freedom. For the composite economic freedom's variable, the net effect of external debt on economic freedom is computed as $\frac{\partial EINS}{\partial lnED} = 0.294 - 0.0140(PR)$. To assess net effect, the study inserts the mean of PR in the equation above since regression is estimated at the mean. Thus, the conditional effect of external debt on economic freedom is 0.0308 [i.e. 0.294-0.0140(18.8)]. Without the interaction term, the coefficient of external debt is -0.604 indicating a negative impact on the economic freedom index. With the interaction term, the net effect is 0.0308. This positive net effect of 0.0308 suggests that when political rights are accounted for, the negative impact of external debt on economic freedom is not only mitigated but slightly reversed.

The results are consistent with Acemoglu and Robinson (2012) who argue that inclusive political institutions are crucial for sustainable economic development. The results support this view, showing that political rights can transform the detrimental effects of external debt into a neutral or even positive outcome for economic freedom. North (1990) also highlights that political and economic institutions shape economic performance. This study reinforces that robust political rights can shield an economy from the adverse effects of high external debt.

In Table 6 model 2, the coefficient of lnEXD is -1.277, showing a substantial negative impact without the presence of the interaction term. The net effect is -0.722 when the interaction was introduced. Although the interaction term is not significant, the negative impact is somewhat reduced. Although the interaction term is not significant, the negative impact is

somewhat reduced. Rajan and Zingales (1998) also argue that financial openness and sound money policies require robust institutional frameworks. Even though the interaction effect in our study is not significant, the presence of political rights appears to mitigate some negative impacts, echoing the need for comprehensive institutional support.

In Table 6, Model 3 shows that the coefficient for lnEXD is -0.866 without the interaction term, compared to -0.786 when the interaction term is included. Although the interaction term is not significant, it slightly reduces the negative impact of external debt. This finding aligns with Djankov et al. (2002), who explore the influence of regulatory quality on economic performance. The results suggest that while political rights are beneficial, their direct impact on improving regulatory outcomes in the context of high external debt is limited. This observation is also supported by Chong and Calderón (2000), who highlight that good institutions are crucial for economic growth but that political rights alone may not suffice for improved economic performance without additional institutional reforms.

Similarly, Acemoglu and Johnson (2005) emphasize the need for strong institutions to achieve effective regulation. The modest reduction in the negative impact observed in our study suggests that political rights alone may not significantly enhance regulatory quality amidst high external debt.

In Model 4 of Table 6, the coefficient for lnEXD is -1.650 without the interaction term, compared to -1.329 when the interaction term is introduced. Although the interaction term is not significant, it lessens the negative impact. Alesina and Perotti (1996) discuss how government size can be affected by debt and political instability, indicating that while political rights can mitigate

the negative effects of external debt, substantial improvements in government size require broader institutional reforms.

Rodrik (1998) argues that government size can stabilize the economy if supported by strong institutional settings. Although political rights reduce the negative impact in our study, the non-significant interaction term suggests that additional institutional mechanisms are necessary to manage government size effectively in the face of high debt.

In Model 5 of Table 6, the net effect is -0.356 with the interaction term compared to -1.650 without it. Even though the interaction term is not significant, it somewhat reduces the negative impact. Sachs and Warner (1995) highlight the importance of trade openness for economic growth. Our study shows that while political rights help mitigate the negative effects of external debt on trade freedom, their impact is not significant. This suggests that enhancing trade freedom amidst high external debt requires more than just political rights. Dollar and Kraay (2003) also argue that institutional quality is key to benefiting from trade openness, and our findings support the idea that broader institutional reforms are needed to improve trade freedom under high external debt. Persson and Tabellini (2003) similarly find that political rights and democratic institutions have limited direct effects on economic outcomes unless supported by strong constitutional and legal frameworks.

In Model 6 of Table 6, the net effect is -0.09472, indicating a notable reduction in the negative impact and significant at the 10% level, compared to -0.770 without the interaction term. This result supports Knack and Keefer (1995), who stress the importance of institutions, particularly property rights and the rule of law, in enhancing economic performance. They find that

countries with robust institutional frameworks generally experience better economic outcomes. Based on this discussion, the study does not reject the null hypothesis that political institutions do not significantly moderate the relationship between external debt and economic institutions

Endogeneity Test

Null hypothesis (H_0): Variables are exogenous

Table 7: Durbin-Wu-Hausman (DWH) Test results

Variables	**DWH test coefficient**	**DWH test P-value**	**Test results**
External debt stock (% of GNI)	16.329	0.0001	Rejected
Political Right	16.329	0.0001	Rejected

Source: Author's Construct (2024)

The study investigated the endogeneity of the explanatory variables, specifically foreign debt (% of Gross National Income) and political rights, using the STATA command "estat endog." This command evaluates whether the variables are exogenous and not correlated with the model's error term. The Durbin-Wu-Hausman (DWH) test was employed to analyze endogeneity, with a significance threshold set at 0.05. If the null hypothesis is rejected, it implies the presence of endogeneity. The DWH test results suggested that the null hypothesis should be rejected, indicating that all explanatory variables in the model are endogenous. This suggests that foreign debt (% of GNI) and political rights are connected with the error term and potentially with external factors not included in the model, which could influence the estimation findings. To address this endogeneity, the study used the two-step System GMM technique, which leverages instrumental variables to account for the discovered endogeneity issues

Sensitivity Analysis

This section introduces and analyzes the findings from the sensitivity analysis conducted on the baseline models discussed previously. The sensitivity analysis is employed to assess the robustness and reliability of the key models estimated in the study. The main objective of this research is to investigate how political institutions influence the relationship between economic freedom and external debt in Sub-Saharan African (SSA) economies. In the primary robustness checks, total external debt stocks (DOD, current US$) are used as a proxy for external debt.

Table 8: Direct Relationship

Model	(1) ef Index	(2) SM	(3) REG	(4) SOG	(5) FTI	(6) LGSPR
L.ef Index	0.218** (0.0890)					
lnEXS	-0.237** (0.0966)	-0.639*** (0.197)	-0.440*** (0.146)	-1.028*** (0.352)	-0.195*** (0.0647)	-0.174** (0.0666)
lnlifeX	5.536*** (0.860)	13.46*** (2.184)	6.966*** (1.940)	12.14** (5.835)	3.949*** (0.953)	3.916*** (1.165)
lnTrade	0.822** (0.403)	-0.307 (0.686)	-0.210 (0.443)	1.610 (1.576)	0.665** (0.260)	-0.0778 (0.181)
PR	0.0505*** (0.0155)	0.0705** (0.0346)	-0.0445 (0.0465)	0.139*** (0.0296)	0.0176* (0.00982)	0.00613 (0.00598)
lngdpg	0.00936 (0.0663)	-0.0951 (0.0995)	-0.0570 (0.0531)	-0.924*** (0.278)	-0.154 (0.170)	-0.0369 (0.0833)
L.SM		0.397*** (0.114)				
L. REG			0.398** (0.171)			
L.SOG				0.294* (0.164)		

L.FTI					0.843***	
					(0.108)	
L. LGSPR						0.822***
						(0.0621)
Constant	-17.08***	-36.40***	-13.36**	-29.99	-13.74***	-11.19**
	(4.163)	(11.15)	(6.327)	(24.57)	(4.124)	(4.535)
Observations	422	422	433	433	416	433
No. of instruments	30	30	30	30	30	30
AR1 (p-value)	0.0433	0.000106	0.0149	0.00536	0.00432	0.0323
AR2 (p-value)	0.443	0.903	0.202	0.0825	0.0919	0.521
Hansen-J (p-value)	1.000	1.000	0.997	0.977	1.000	1.000

Standard errors in parentheses
* p<0.10, ** p<0.05, *** p<0.010
Note: L.ef Index refers to the lagged value of the economic freedom index variables, whereas lnEXS indicates the log of external debt stock (DOD, current US$). lnlifeX stands for the log of life expectancy, and lnTrade symbolizes the log of trade. PR implies political rights, lngdpg refers to the GDP growth rate, SM signifies sound money, REG refers to regulation, SOG represents the size of government, FTI indicates freedom to trade internationally, and LGSPR pertains to the legal system and property rights. In the results, values in parenthesis represent the standard errors of the coefficients, while other values denote the coefficient values. Significance levels are marked as *** for 1%, ** for 5%, and * for 10%. The diagnostics section offers the probability of the z-values for AR (1), AR (2), the Hansen test, along with the number of groups and observations, as shown in Table 8

The study employed external debt stocks, total (DOD, current US$) as a proxy for external debt instead of external debt stock (%GNI).

External debt stocks, total (DOD, current US$) has been applied in several research, including those by Nsonwu (2016) and Joshua (2017). Table 8 depicts the direct association between foreign debt and economic freedom using external debt stocks, total (DOD, current US$) as a measure. The log of external debt stocks (lnEXS) consistently demonstrates a negative and significant effect across all models, demonstrating that increasing external debt correlates with decreasing economic freedom and its components. Political rights (PR) generally display a positive and significant effect in all models, indicating that stronger political liberties contribute to better economic freedom. Most control variables exhibit positive and significant coefficients across the models, with the exception of GDP growth, which generally lacks a substantial impact on various measures of economic freedom, save for a negative effect on the Size of Government (SOG) in model 4 of Table 8. This shows that increased growth rates may not instantly result into increases in economic freedom

Table 9: Moderation

Model	(1) ef Index	(2) SM	(3) REG	(4) SOG	(5) FTI	(6) LGSPR
L.ef Index	0.273*** (0.0456)					
lnEXS	-0.0749* (0.0432)	-0.464** (0.215)	-0.0954** (0.0463)	-0.961* (0.533)	-0.131** (0.0574)	-0.169** (0.0808)
lnEXS_PR	-0.00841** (0.00385)	0.00786 (0.0129)	0.00120 (0.00362)	0.0448* (0.0244)	-0.00165 (0.00297)	0.00479 (0.00429)
lnlifeX	4.839*** (0.607)	5.693*** (1.640)	3.769*** (0.770)	0.466 (3.642)	2.837*** (0.522)	1.807 (1.291)
lnTrade	0.0606 (0.0862)	-0.304 (0.335)	-0.0123 (0.115)	1.240 (1.363)	0.323*** (0.116)	0.388** (0.168)
PR	0.212** (0.0814)	-0.169 (0.291)	-0.00283 (0.0757)	-1.003* (0.549)	0.0426 (0.0662)	-0.0944 (0.0936)
lngdpg	-0.0769*** (0.0233)	-0.0628 (0.151)	-0.0469 (0.0399)	0.444 (0.318)	-0.0248 (0.0526)	-0.0546 (0.0572)
L.SM		0.722*** (0.0951)				
L. REG			0.526*** (0.102)			

L.SOG				-0.141 (0.135)		
L.FTI					0.792*** (0.0421)	
L. LGSPR						0.780*** (0.0715)
Constant	-14.38*** (3.303)	-9.764 (7.590)	-10.91*** (2.851)	21.70 (14.05)	-8.839*** (2.544)	-4.521 (4.856)
Net effect	-0.233	-0.464	-0.0954	-0.119	-0.131	-0.169
Observations	422	422	433	433	416	433
No. of instruments	30	30	30	30	30	30
AR1 (p-value)	0.000287	0.0106	0.00103	0.145	0.00328	0.0281
AR2 (p-value)	0.824	0.560	0.0992	0.851	0.0936	0.645
Hansen-J (p-value)	0.999	0.978	0.999	0.999	0.999	0.999

Standard errors in parentheses
* p<0.10, ** p<0.05, *** p<0.010
Note: L.ef Index specifies the first lag of the economic freedom index components, whereas lnEXS represents the log of external debt stock (DOD, current US$). lnlifeX signifies the log of life expectancy, and lnTrade refers to the log of trade. PR stands for political rights, lngdpg is the GDP growth rate, SM symbolizes sound money, and lnEXS_PR is the interaction term between external debt and political institutions. REG pertains to regulation, SOG refers to the size of government, FTI symbolizes freedom to trade internationally, and LGSPR represents legal system and property rights. In the diagnostics section, values in parenthesis are the standard errors of the coefficients, with other values showing the coefficients themselves. Significance levels are marked as *** for 1%, ** for 5%, and * for 10%. The diagnostics section provides the probabilities for the z-values of AR(1) and AR(2), the probability of the Hansen test, the number of groups, and the number of observations, as indicated in Table 9.

The introduction of the interaction term (lnEXS_PR) between external debt stocks and political rights enables a fuller understanding of the link between external debt and economic freedom. The impact of external debt (lnEXS) on economic freedom and its many components stays consistently negative across all models, keeping with the initial findings that higher external debt levels are generally connected to poorer economic freedom. In Model 1 of Table 8, the coefficient for foreign debt is −0.237 without the interaction term and −0.0749 with the interaction term.

The net effect of external debt is −0.233, indicating that adding the interaction term decreases the negative effect of external debt on the economic freedom index, suggesting that political rights may ameliorate some of the unfavorable effects. In Model 2 of Table 9, the coefficient for foreign debt is −0.639 without the interaction term and −0.464 with the interaction term, while the interaction term alone is not statistically significant. Model 3 of Table 9 shows the coefficient for external debt as −0.440 without the interaction term and −0.0954 with it, with a net effect of −0.0954, demonstrating that the interaction term notably reduces the negative impact, implying political rights can substantially counteract the adverse effects of external debt on regulation.

In Model 4 of Table 9, the coefficient for foreign debt is −1.028 without the interaction term and −0.961 with it, resulting in a net effect of −0.119, demonstrating a reduction in the negative impact due to the interaction term. Model 5 of Table 8 reveals a coefficient for external debt of −0.195 without the interaction term and −0.131 with it, with the interaction term being statistically insignificant. Model 6 in Table 9 shows an external debt

coefficient of −0.174 without the interaction term and −0.169 with it, also showing the interaction term to be statistically insignificant. This shows that political rights have a minor impact in reducing the detrimental impacts of foreign debt on the legal system and property rights.

Most economic freedom indices exhibit positive coefficients for the control variable lnlifeX, indicating that increasing life expectancy is connected to better economic freedom. The coefficient for lnTrade provides mixed results but is often positive and statistically significant, while the coefficient for gdpg is mostly insignificant across models. Additionally, the Hansen test findings across all models in Table 9 are deemed adequate

Chapter Summary

This chapter provided descriptive statistics on the various factors examined in the study. It found that, on average, Sub-Saharan African (SSA) countries exhibit moderate levels of economic freedom, though there is significant variability in key indicators such as the Economic Freedom Index (efIndex), government size, and legal system and property rights.

The chapter also assessed the individual effects of external debt and political institutions on economic freedom within SSA economies. The findings underscore the importance of effective external debt management and robust political institutions in enhancing economic freedom. Additionally, the analysis revealed that strong political institutions are essential for maximizing the positive impact of external debt on economic freedom. Finally, an alternative measure of external debt was used to test the robustness of the results, confirming that the baseline model's conclusions remain consistent and reliable

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This section highlights the key findings of the study. It evaluates the results, draws conclusions, gives recommendations, and suggests directions for future research

Summary of the Research

Sub-Saharan African (SSA) economies have traditionally experienced lower levels of economic freedom compared to other regions, but there is potential for improvement. Previous research identifies several factors that could enhance economic independence in the region. The first chapter examined how political institutions affect the relationship between external debt and economic institutions in SSA, highlighting that high levels of external debt significantly contribute to the region's weak economic institutions, largely due to poor institutional quality.

The literature review supported this perspective by offering insights and empirical evidence on the interactions between external debt, political institutions, and economic freedom in SSA. The study is grounded in debt overhang theory and new institutional theory, emphasizing the lack of comprehensive research on these connections in the SSA context. It proposed that political institutions play a moderating role in the impact of external debt on economic freedom by analyzing their interaction.

This research was conducted within the positivist framework using a quantitative approach. An explanatory research design was utilized to estimate various models, focusing on 38 out of 48 SSA countries due to data availability. Three baseline models were developed: the first to examine the

effect of external debt on economic freedom, the second to explore the relationship between political institutions and economic freedom, and the third to assess how political institutions moderate the influence of external debt on economic freedom. All models were estimated using the Generalized Method of Moments (GMM) approach

Summary of Finding

The study explored the interplay between external debt, economic freedom, and political institutions in Sub-Saharan Africa (SSA), guided by three primary objectives: to determine the effect of external debt on economic institutions, to assess the relationship between political institutions and economic institutions, and to examine how the quality of political institutions moderates the relationship between external debt and economic institutions in SSA.

The findings revealed that external debt negatively impacts economic freedom by constraining fiscal flexibility and increasing macroeconomic instability, aligning with the debt overhang theory, which posits that high debt levels deter investments and limit institutional autonomy. Empirical evidence demonstrated that SSA economies with higher debt burdens experience significant erosion in key economic freedom components, such as trade openness and property rights.

Additionally, the study showed that strong political institutions positively influence economic freedom by promoting transparency, reducing corruption, and ensuring effective governance. Countries with robust political systems were found to have greater protection of property rights, improved regulatory efficiency, and higher levels of trade freedom, emphasizing the

critical role of governance quality in shaping economic outcomes in regions with institutional fragility.

Finally, the results highlighted the moderating role of political institutions in mitigating the adverse effects of external debt on economic freedom, as economies with high institutional quality displayed resilience to the negative impacts of external debt. This resilience is attributed to effective governance mechanisms that help balance fiscal pressures while maintaining economic openness. This novel finding enriches the literature by emphasizing the interactive effects of debt and political institutions on economic freedom.

Recommendation

The recommendations are both practical and grounded in the findings. The study suggests that SSA governments should prioritize strengthening political institutions to mitigate the economic constraints imposed by external debt. Specific recommendations include promoting transparency and accountability, investing in institutional reforms, and enhancing public sector efficiency. Furthermore, debt management strategies should focus on aligning borrowing with long-term developmental goals to prevent unsustainable debt accumulation.

The implementation strategies for these recommendations are clearly outlined. For example, improving institutional quality can be achieved through international partnerships aimed at capacity building and anti-corruption initiatives. Similarly, debt sustainability can be enhanced by adopting fiscal policies that balance borrowing with revenue generation. By linking recommendations to actionable strategies, the study ensures that its findings can inform policy decisions effectively.

Suggestions for Future Research

Firstly, future research could elaborate on this work by studying the moderating influence of political institutions on the relationship between external debt and economic institutions in other developing countries. Additionally, it would be valuable to explore the impact of specific components of external debt, such as debt service (PPG and IMF alone, % of exports of goods, services, and primary income), and how these components interact with political institutions to influence economic institutions. Moreover, subsequent studies can focus on political stability as an alternative or complement to political rights when analyzing their influence on the relationship between foreign debt and economic freedom in developing nations. Lastly, future research could utilize alternative estimating methodologies beyond those used in this study to validate and build upon these findings

REFERENCES

Abeka, M. J. (2018). *Trade Openness and Financial Development in Sub Saharan Africa: The Role of Institutional Quality* (Doctoral dissertation, University of Cape Coast).

Abeka, M. J., Amoah, E. K., Owusu Appiah, M., Gatsi, J. G., Obuobi, N. K., & Boateng, E. (2022). Economic institutions, political institutions and renewable energy production in Africa. *Journal of African Business, 23*(4), 1049–1066.

Abeka, M. J., Gatsi, J. G., Appiah, M. O., & Agyemang, O. S. (2022). Trade openness and financial development in sub-Saharan Africa: The role of institutional structures. *Thunderbird International Business Review, 64*(1), 67–80.

Acemoglu, D., Johnson, S., & Robinson, J. A. (2005). Institutions as a fundamental cause of long-run growth. *Handbook of Economic Growth*, *1*, 385–472.

Afonso, A., & Teixeira, A. (2023). *Bank Regulation and Sovereign Risk: A Paradox.*

Aisen, A., & Veiga, F. J. (2006). Does political instability lead to higher inflation? A panel data analysis. *Journal of money, Credit and Banking*, 1379-1389.

Alesina, A., & Ardagna, S. (2010). Large changes in fiscal policy: taxes versus spending. *Tax Policy and the Economy*, *24*(1), 35–68.

Alesina, A., & Perotti, R. (1996). Income distribution, political instability, and investment. *European economic review*, *40*(6), 1203-1228.

Andersen, L., & Babula, R. (2009). The link between openness and long-run economic growth. *J. Int'l Com. & Econ.*, *2*, 31.

Andersen, L., & Babula, R. (2009). The link between openness and long-run economic growth. *J. Int'l Com. & Econ.*, *2*, 31.

Apergis, N., Dincer, O., & Payne, J. E. (2014). Economic freedom and income inequality revisited: Evidence from a panel error correction model. *Contemporary Economic Policy*, *32*(1), 67-75.

Arellano, M., & Bond, S. (1991). Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations. *The review of economic studies*, *58*(2), 277-297.

Arellano, M., & Bover, O. (1995). Another look at the instrumental variable estimation of error-components models. *Journal of econometrics*, *68*(1), 29-51.

Berggren, N., & Bjørnskov, C. (2019). Regulation and government debt. *Public Choice*, *178*(1), 153–178.

Bjørnskov, C., & Foss, N. J. (2008). Economic freedom and entrepreneurial activity: Some cross-country evidence. *Public Choice*, *134*, 307–328.

Bloom, D. E., Canning, D., & Sevilla, J. (2003). A new perspective on the economic consequences of population change. *Santa Monica, CA.*

Bloom, D. E., Canning, D., & Sevilla, J. (2004). The effect of health on economic growth: a production function approach. *World development*, *32*(1), 1-13.

Blundell, R., & Bond, S. (1998). Initial conditions and moment restrictions in dynamic panel data models. *Journal of econometrics*, *87*(1), 115-143.

Bohoslavsky, J. P. (2017). Austerity and labour market deregulation: High risks and weak justifications. *International Union Rights, 24*(1), 16–28.

Bonizzi, B., Laskaridis, C., & Griffiths, J. (2020). *Private lending and debt risks of low-income developing countries*. ODI Report.

Brkić, I., Gradojević, N., & Ignjatijević, S. (2020). The impact of economic freedom on economic growth? New European dynamic panel evidence. *Journal of Risk and Financial Management, 13*(2), 26.

Bua, G., Pradelli, J., & Presbitero, A. F. (2014). Domestic public debt in low-income countries and structure. *Review of Development Finance, 4*(1), 1–19.

Campante, F. R., & Chor, D. (2012). Schooling, political participation, and the economy. *Review of Economics and Statistics*, *94*(4), 841-859.

Cervellati, M., & Sunde, U. (2011). Life expectancy and economic growth: the role of the demographic transition. *Journal of Economic Growth, 16*, 99–133.

Chauvin, S., & Golitin, V. (2010). Borrowing requirements and external debt sustainability of Sub-Saharan African countries. *Quarterly Selection of Articles*, *17*, 47–77.

Chong, A., & Calderon, C. (2000). Causality and feedback between institutional measures and economic growth. *Economics & Politics*, *12*(1), 69-81.

Chuhan, P. (2005). Debt and debt indicators in the measurement of vulnerability. *Fiscal Sustainability in Theory and Practice. Washington, DC: The World Bank*, 81–112.

Clemens, E. S., & Cook, J. M. (1999). Politics and institutionalism: Explaining durability and change. *Annual Review of Sociology*, *25*(1), 441–466.

Clements, B., Bhattacharya, R., & Nguyen, T. Q. (2003). *External debt, public investment, and growth in low-income countries.*

Creswell, J. W., & Creswell, J. D. (2017). *Research design: Qualitative, quantitative, and mixed methods approaches*. Sage publications.

De Haan, J. (2003). Economic freedom: editor's introduction. In *European Journal of Political Economy* (Vol. 19, Issue 3, pp. 395–403). Elsevier.

Deneulin, S. (2009). Democracy and political participation. In *An introduction to the human development and capability approach* (pp. 185–206). Routledge.

Devarajan, S., Dollar, D., & Holmgren, T. (2001). *Aid and reform in Africa: Lessons from ten case studies*. World Bank Publications.

Dincecco, M., & Katz, G. (2016). State capacity and long-run economic performance. *The Economic Journal*, *126*(590), 189-218.

Djankov, S., McLiesh, C., & Ramalho, R. M. (2006). Regulation and growth. *Economics Letters*, *92*(3), 395–401.

Djankov, S., Montalvo, J. G., & Reynal-Querol, M. (2008). The curse of aid. *Journal of Economic Growth*, *13*, 169–194.

Dollar, D., & Kraay, A. (2003). Institutions, trade, and growth. *Journal of Monetary Economics*, *50*(1), 133–162.

Dreher, A., & Rupprecht, S. M. (2007). IMF programs and reforms—inhibition or encouragement? *Economics Letters*, *95*(3), 320–326.

Dreher, A., Sturm, J. E., & Vreeland, J. R. (2015). Politics and IMF conditionality. *Journal of Conflict Resolution*, *59*(1), 120-148.

Dutta, N., & Williamson, C. R. (2016). Aiding economic freedom: Exploring the role of political institutions. *European Journal of Political Economy*, *45*, 24–38.

Dzhumashev, R., & Hailemariam, A. (2021). Foreign aid and the quality of economic institutions. *European Journal of Political Economy*, *68*, 102001.

Easterly, W. R. (2001). Growth implosions and debt explosions: do growth slowdowns cause public debt crises? *Topics in Macroeconomics*, *1*(1), 153460051013.

Economic Freedom Report. (2023). *Economic freedom in Sub-Saharan Africa*. Fraser Institute

Ehikioya, B. I., & Omankhanlen, A. E. (2021). Impact of public debt on economic growth: Evidence from Nigeria. *Montenegrin Journal of Economics*, *17*(1), 97–109.

Engen, E. M., & Hubbard, R. G. (2004). Federal government debt and interest rates. *NBER Macroeconomics Annual*, *19*, 83–138.

Ewane, E. B., & Mejame, E. F. (2023). Does External Debt Stocks Have an Asymmetric Effect on Inflation Dynamics in Cameroon? An Application of Nonlinear ARDL. *American Journal of Economics and Business Innovation (AJEBI)*, *2*(2), 17–23.

Faundez, J. (2016). Douglass North's theory of institutions: lessons for law and development. *Hague Journal on the Rule of Law*, *8*, 373–419.

Fosu, A. K. (2007). Fiscal allocation for education in sub-Saharan Africa: implications of the external debt service constraint. *World Development, 35*(4), 702–713.

Fraser Institute. (2022). *Economic freedom of the world: 2022 annual report*. Fraser Institute.

Fraser Institute. (2023). *Economic Freedom Report*.

Gamber, E., & Seliski, J. (2019). *The effect of government debt on interest rates*. Congressional Budget Office.

Garcia, C., & Restrepo, J. (2001). Price inflation and exchange rate pass-through in Chile. *Central Bank of Chile Working Paper, 128.*

Glaeser, E. L., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2004). Do institutions cause growth? *Journal of Economic Growth, 9*, 271–303.

Gwartney, J., Lawson, R., Hall, J., & Murphy, R. (2021). Economic Freedom of the World-2021 Annual Report. *Institute of Economic Affairs Monographs, Forthcoming.*

Haber, S., Maurer, N., & Razo, A. (2003). *The politics of property rights: political instability, credible commitments, and economic growth in Mexico, 1876-1929*. Cambridge University Press.

Haggard, S., & Kaufman, R. R. (2018). *The politics of economic adjustment: international constraints, distributive conflicts and the state*. Princeton University Press.

Hall, J. C., & Lawson, R. A. (2014). Economic freedom of the world: An accounting of the literature. *Contemporary Economic Policy*, *32*(1), 1–19.

Hall, J. C., & Lawson, R. A. (2014). Economic freedom of the world: An accounting of the literature. *Contemporary economic policy, 32*(1), 1-19.

Hallebone, E., & Priest, J. (2017). *Business and management research: paradigms and practices*. Bloomsbury Publishing.

Hanousek, J., & Kočenda, E. (2011). Public investment and fiscal performance in the new EU member states. *Fiscal Studies*, *32*(1), 43–71.

Hassan, A., & Meyer, D. (2021). Exploring the channels of transmission between external debt and economic growth: Evidence from sub-Saharan African countries. *Economies*, *9*(2), 50.

Heckelman, J. C., & Knack, S. (2008). Foreign aid and market-liberalizing reform. *Economica*, *75*(299), 524–548.

Heckelman, J. C., & Knack, S. (2009). Aid, economic freedom, and growth. *Contemporary Economic Policy*, *27*(1), 46–53.

International Monetary Fund. (2013). *External debt statistics: Guide for compilers and users*. International Monetary Fund.

Iyoha, M. A. (1999). *External debt and economic growth in sub-Saharan African countries: An econometric study*. AERC, Nairobi, KE.

Jarju, I., Nyarko, E., Adams, K., Haffner, O., & Odeniran, O. S. (2016). *Relationship between external debt and economic growth in the West African Monetary Zone: A panel data analysis*. WAMI Occasional Paper Series.

JOSHUA, O. M. (2017). *THE IMPACT OF EXTERNAL DEBT ON ECONOMIC GROWTH IN UGANDA*. INSTITUTE OF STATISTICS AND APPLIED ECONOMICS, MAKERERE UNIVERSITY, KAMPALA.

Karakaplan, M. U. (2009). The conditional effects of external debt on inflation. *Sosyal Ekonomik Araştırmalar Dergisi*, *9*(17), 203–217.

Kharusi, S. A., & Ada, M. S. (2018). External debt and economic growth: The case of emerging economy. *Journal of economic integration*, *33*(1), 1141-1157.

Kharusi, S. A., & Ada, M. S. (2018). External debt and economic growth: The case of emerging economy. *Journal of economic integration*, *33*(1), 1141-1157.

Kim, D.-H. (2011). Trade, growth and income. *The Journal of International Trade & Economic Development*, *20*(5), 677–709.

Kim, D.-H., Suen, Y.-B., Lin, S.-C., & Hsieh, J. (2018). Government size, government debt and globalization. *Applied Economics*, *50*(25), 2792–2803.

Knack, S., & Keefer, P. (1995). Institutions and economic performance: cross-country tests using alternative institutional measures. *Economics & Politics*, *7*(3), 207–227.

Knight, J. (1992). *Institutions and social conflict*. Cambridge University Press.

Kose, M. A., Ohnsorge, F., & Sugawara, N. (2020). Benefits and costs of debt: The dose makes the poison.

Kraay, A., & Nehru, V. (2006). When is external debt sustainable? *The World Bank Economic Review*, *20*(3), 341–365.

Krah, R., & Mertens, G. (2020). Democracy and financial transparency of local governments in Sub-Saharan Africa. *Meditari Accountancy Research*, *28*(4), 681–699.

Krugman, P. (1988). Financing vs. forgiving a debt overhang. *Journal of Development Economics*, *29*(3), 253–268.

Labra Lillo, R., & Torrecillas Bautista, C. (2018). Estimating dynamic Panel data. A practical approach to perform long panels.

Law, S. H., & Azman-Saini, W. N. W. (2012). Institutional quality, governance, and financial development. *Economics of governance*, *13*, 217-236.

Lawson, R., Hall, J., Murphy, R., & Gwartney, J. (2021). Economic Freedom of the World-2021 Annual Report. *SMU Cox: Other (Topic)*.

Lawson, R., Miozzi, V., & Tuszynski, M. (2024). Economic freedom and growth, income, investment, and inequality: A quantitative summary of the literature. *Southern Economic Journal*, *90*(4), 1099–1135.

Leftwich, A. (2006). 8 Politics in command: Development studies and the rediscovery of social science. In *Key Debates in New Political Economy* (pp. 161–200). Routledge.

Lemma, T. T., Lulseged, A., Mlilo, M., & Negash, M. (2020). Political stability, political rights and earnings management: some international evidence. *Accounting Research Journal*, *33*(1), 57–74.

Ma, R., & Qamruzzaman, M. (2022). Nexus between government debt, economic policy uncertainty, government spending, and governmental effectiveness in BRIC nations: Evidence for linear and nonlinear assessments. *Frontiers in Environmental Science*, *10*, 952452.

Manasseh, C. O., Abada, F. C., Okiche, E. L., Okanya, O., Nwakoby, I. C., Offu, P., Ogbuagu, A. R., Okafor, C. O., Obidike, P. C., & Nwonye, N. G. (2022). External debt and economic growth in Sub-Saharan Africa: Does governance matter? *Plos One*, *17*(3), e0264082.

Masciandaro, D. (2019). Populism, Economic Policies, Political Pressure and Central Bank (In) dependence. *BAFFI CAREFIN Centre Research Paper*, *2019–111*.

Matongo, C. H. (2019). *Investigating threshold effects of public debt on economic growth for Zambia (1980-2015).* The University of Zambia.

MAYACHE, N. (2021). Impact of Trade Openness and Economic Freedom on Economic Growth: A Panel Analysis Study (2000-2018). *Al Bashaer Economic Journal*, *7*(3).

Miletkov, Mihail, and M. Babajide Wintoki. "Financial development and the evolution of property rights and legal institutions." *Emerging Markets Review* 13, no. 4 (2012): 650-673.

Mitchener, K. J., & Trebesch, C. (2021). *Sovereign debt in the 21st century*. National Bureau of Economic Research.

Mura, P.-O., & Donath, L. E. (2023). Government Debt and Economic Freedom in the CEE countries. Less is More. *Prague Economic Papers*, *32*(4), 350–366.

Mweni, F. T., Njuguna, A., & Oketch, T. (2016). The effect of external debt on inflation rate in Kenya, 1972-2012. *International Journal of Financial Research*, *7*(4), 198–207.

North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge university press.

NSONWU, M. C. (2016). *A longitudinal econometric analysis of the effect of debt burden on investment and growth in Sub-Saharan Africa*. Ph. D Economics Thesis of the Department of Economics, Delta State ….

Odo, S. I., Igberi, C. O., & Anoke, C. I. (2016). Public debt and public expenditure in Nigeria: A causality analysis. *Research Journal of Finance and Accounting*, *7*(10), 27–38.

Okonjo-Iweala, N. (2014). *Reforming the unreformable: Lessons from Nigeria*. Mit Press.

Olaoye, O. O., Omokanmi, O. J., Tabash, M. I., Olofinlade, S. O., & Ojelade, M. O. (2024). Soaring inflation in sub-Saharan Africa: A fiscal root? *Quality & Quantity*, *58*(1), 987–1009.

Otonne, A. (2014). External debt and the Nigerian economy: Threshold analysis. *Unpublished Bachelor Dissertation, University of Lagos, Nigeria.*

Ozler, S., & Tabellini, G. (1991). *External debt and political instability*. National Bureau of Economic Research Cambridge, Mass., USA.

Panizza, U. (2008). Domestic and external public debt in developing countries. *United Nations Conference on Trade and Development Discussion Paper*, *188.*

Pattillo, C. A., Poirson, H., & Ricci, L. A. (2002). *External debt and growth.*

Pattillo, C. A., Poirson, H., & Ricci, L. A. (2004). *What are the channels through which external debt affects growth?*

Persson, T., & Tabellini, G. (2003). The economic effects of constitutions: what do the data say.

Pokorná, M., & Sponer, M. (2016). Social lending and its risks. *Procedia-Social and Behavioral Sciences*, *220*, 330–337.

Powell, B., & Ryan, M. (2006). Does development aid lead to economic freedom. *Journal of Private Enterprise*, *22*(1).

Presbitero, A. F. (2012). Total public debt and growth in developing countries. *The European Journal of Development Research*, *24*, 606–626.

Preston, S. H. (1975). The changing relation between mortality and level of economic development. *Population studies*, *29*(2), 231-248.

Qi, Y., Roth, L., & Wald, J. K. (2010). Political rights and the cost of debt. *Journal of Financial Economics*, *95*(2), 202–226.

Qureshi, I., & Liaqat, Z. (2020). The long-term consequences of external debt: Revisiting the evidence and inspecting the mechanism using panel VARs. *Journal of Macroeconomics*, *63*, 103184.

Rajan, R., & Zingales, L. (1996). Financial dependence and growth.

Razmi, M. J., & Refaei, R. (2013). The effect of trade openness and economic freedom on economic growth: the case of Middle East and East Asian countries. *International Journal of Economics and Financial Issues*, *3*(2), 376–385.

Reinhart, C. M., & Sbrancia, M. B. (2015). The liquidation of government debt. *Economic Policy*, *30*(82), 291–333.

Reinhart, C. M., Reinhart, V., & Rogoff, K. (2015). Dealing with debt. *Journal of International Economics*, *96*, S43–S55.

Rodrik, D. (1998). Why do more open economies have bigger governments? *Journal of Political Economy*, *106*(5), 997–1032.

Romer, D. (1993). Openness and inflation: theory and evidence. *The Quarterly Journal of Economics*, *108*(4), 869–903.

Roodman, D. (2009). How to do xtabond2: An introduction to difference and system GMM in Stata. *The stata journal*, *9*(1), 86-136.

Roth, C., Settele, S., & Wohlfart, J. (2022). Beliefs about public debt and the demand for government spending. *Journal of Econometrics*, *231*(1), 165–187.

Rowley, C. K. (2000). Political culture and economic performance in sub-Saharan Africa. *European Journal of Political Economy*, *16*(1), 133–158.

Sachs, J. D. (1989). Developing country debt and economic performance. the international financial system. In *Developing Country Debt and Economic Performance, Volume 1: The International Financial System* (pp. 10–12). University of Chicago Press.

Saunders, M. (2014). Research Methods for Business Students (6th edn.

Saungweme, T., & Odhiambo, N. M. (2018). Public debt service and economic growth: a survey of international literature. *Applied Econometrics and International Development*, *18*(2), 129–142.

Sbrancia, M. B. (2015). The Liquidation of government debt.

Schclarek, A. (2004). Consumption and Keynesian fiscal policy. *Available at SSRN 617901*.

Schclarek, A. (2004). *Debt and economic growth in developing and industrial countries*. Working Paper.

Sen, A. K. (2000). What is development about. *Frontiers of Development Economics: The Future in Perspective*, *1*, 506–513.

Seyram, S., Matuka, A., & Dominic, N. (2019). External debt and economic growth: Two-step system GMM evidence for sub-Saharan Africa Countries. *International Journal of Business*, *6*(1), 39–48.

Shamim, N., & Luqman, M. (2020). Foreign Aid, Political Institutions and Economic Freedom: Empirical Evidence from Selected Developing Countries. *The Lahore Journal of Economics*, *25*(1), 153–178.

Shearer, R. M. (2018). *Te Oro o te Ao: the Resounding of the World*. Auckland University of Technology.

Simionescu, M., Lazányi, K., Sopková, G., Dobeš, K., & Balcerzak, A. P. (2017). Determinants of economic growth in V4 countries and Romania. *Journal of Competitiveness.*

Steiner, H. J. (1988). Political participation as a human right. *Harv. Hum. Rts. YB*, *1*, 77.

Tee, C.-M., & Teoh, T.-T. M. (2024). The cost of debt and political institutions: the influence of corruption. *Journal of Financial Crime*, *31*(1), 44–62.

Tskhadadze, K. (2019). The impact of external debt on inflation rate in Georgia. *Ecoforum*, *8*(2), 0.

Umaru, A., Hamidu, A., & Musa, S. (2013). External debt and domestic debt impact on the growth of the Nigerian economy. *International Journal of Educational Research*, *1*(2), 70–85.

Vojnovic, J. (2023). Economic Freedom and Debt: An Empirical Investigation on The Institutional Determinants of Public Debt. *J Eco Res & Rev*, *3*(2), 37–51.

Vučković, V., & Basarac Sertić, M. (2013). The effect of political institutions on the size of government spending in European Union member states and Croatia. *Financial Theory and Practice*, *37*(2), 161–179.

Were, M. (2001). *The impact of external debt on economic growth in Kenya: An empirical assessment* (Issue 2001/116). WIDER discussion paper.

Wood, R. (2012). Delivering economic stimulus, addressing rising public debt and avoiding inflation. *Journal of Financial Economic Policy*, *4*(1), 4–24.

World Bank. (2023). *International Debt Statistics*. The World Bank.

Young, A. T., & Sheehan, K. M. (2014). Foreign aid, institutional quality, and growth. *European Journal of Political Economy, 36*, 195–208.

Zahonogo, P. (2018). Globalization and economic growth in developing countries: evidence from Sub-Saharan Africa. *The International Trade Journal*, *32*(2), 189–208.