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Governance and Inclusive Development in Developing Countries: What Matters?

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Abstract: The objective of this article is to determine the effects of governance on inclusive development in a sample of 71 developing countries. We specify and estimate, respectively, a panel data model, fixed effects, generalized least squares, robustness with alternative measures of a country's stability, control of endogeneity using Lewbel's two-stage least squares method, quantile regression, and subregional heterogeneity over the period 1995-2017. Our results show that governance significantly and statistically improves inclusive development in developing countries. We obtain the same result for each regional area (SSA, MENA, SAS, EAP, and LAC). We propose that the governments of developing countries must promote democracy and good governance, strengthen judicial, legislative, and executive institutions, and intensify regional and international cooperation in order to guarantee political stability, foster a favorable economic climate, and attract foreign investment in a sustainable manner.

Résumé: L'objectif de cet article est de déterminer les effets de la gouvernance sur le développement inclusif dans un échantillon de 71 pays en développement. Nous spécifions et estimons respectivement un modèle de données de panel, des effets fixes, les moindres carrés généralisés, la robustesse avec les mesures alternatives de la stabilité d'un pays, le contrôle de l'endogénéité par la méthode des moindres carrés à deux degrés de Lewbel la régression quantiles et l'hétérogénéité sous régionale sur la période 1995-2017. Nos résultats montrent que la gouvernance améliore significativement et statistiquement le développement inclusif dans les pays en développement. Nous obtenons le même résultat pour chaque zone régionale (SSA, MENA, SAS, EAP et LAC). Nous proposons que les gouvernements des pays en développement doivent impérativement promouvoir la démocratie et une bonne gouvernance, renforcer les institutions judiciaires, législatives et exécutives, et intensifier la coopération régionale et internationale afin de garantir la stabilité politique, favoriser un climat économique propice et attirer durablement les investissements étrangers.

Keywords: Governance, inclusive development, GMM, Lewbel-2SLS, developing countries.

INTRODUCTION

Over the past few decades, the implementation of economic growth described as inclusive— manifested in economic policies that encourage the expansion of social opportunities, particularly in terms of income, employment, essential infrastructure, human capital development, and social protection systems (Ali & Son, 2007), in developing countries has generated significant discussion. The principle of inclusive development is gradually becoming an essential element in growth policies and income generation strategies (Asongu and Nwachukwu, 2016; Lee, 2019). This debate remains particularly vital for African nations, where there is a close link between inequality, extreme poverty, and economic growth dynamics. Despite steady expansion, with an average growth rate of 4.4% in 2000 compared to 4.1% in 2021 (African Development Bank, 2002), Africa still faces persistent poverty and marked inequalities. In this context, the transition from the Millennium Development Goals (MDGs) to the Sustainable Development Goals (SDGs) represents a significant policy shift towards promoting inclusive growth (Ali and Son, 2007; Asongu and Nwachukwu, 2016; Oluseye and Gabriel, 2017). The appeal of this type of development stems from its multiple benefits: job creation, poverty reduction, and decreased disparities (Ali and Son, 2007). It also includes a general improvement in people's well-being, both financially and non-financially, on a personal and societal level (Whajah et al., 2019).

Faced with current challenges, many organizations and the majority of policymakers in developing countries have implemented strategies to promote more inclusive development. At the same time, several initiatives have been launched to reduce inequalities and promote decent jobs, placing inclusive development at the center of many development agendas, with the aim of leaving no one behind (UNDP, 2019). Such growth aims to enable all social groups to participate actively in the economic dynamic, while ensuring a fair distribution of the benefits, whether financial or otherwise, in order to reduce poverty and inequality (OECD, 2017, 2021; Lee, 2019).

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In this context, and in light of the empirical work extensively documented in the literature, this article aims to analyze the effects of governance on inclusive development in developing countries. Many studies focus on quantitative indicators of governance such as corruption, transparency, and accountability, neglecting the qualitative aspects that actually impact inclusive development. Furthermore, most research is centered on specific contexts, often in developing countries, which limits the generalizability of the results to other regions or political systems. In addition, there is a lack of longitudinal studies that would allow us to observe the effects of governance on inclusive development over a long period of time, making it difficult to assess causality and long-term dynamics.

This study will fill some of the identified gaps by providing a detailed and multidimensional analysis of the link between governance and inclusive development. Using both quantitative and qualitative methods, it will focus not only on governance indicators, but also on citizens' perceptions and experiences of the inclusiveness of public policies. Furthermore, by expanding the sample to include various countries and contexts, this research will be able to identify common trends as well as local specificities, thereby enriching the overall understanding of the subject. The study will make it possible to better establish causal links and analyze how changes in governance influence inclusive development over time. Finally, it highlights the polysemic nature of the concept of inclusive development, using an inclusive growth quality index (IGQI) to better understand its complexity and formulate appropriate recommendations that take into account external factors influencing governance. Thus, empirical analysis of the effect of governance on inclusive development, as measured by the IQGI, is essential to contributing to poverty reduction and the mitigation of socioeconomic inequalities in developing countries.

Although several studies have identified governance as a fundamental source of economic and inclusive development, this article addresses the same point for the specific case of developing countries. First, using a comprehensive dataset covering the period 1995-2017, we provide new empirical evidence. Second, our results show that governance increases inclusive development in developing countries. Overall, our results are robust to alternative model specifications. The rest of this article is organized as follows. Section 2 explores the existing literature between our two concepts. Section 3 reviews the methodological approach and description of the data. Section 4 presents preliminary results, robustness analyses, and discussions. Section 5 concludes and highlights the main policy implications.

LITERATURE REVIEW

This subsection explores the main theoretical foundations that establish the link between governance and inclusive development. By examining different approaches and models, we will highlight how effective governance practices can promote development outcomes that encompass all segments of society. Analyzing relevant theories will provide a better understanding of the mechanisms through which governance influences the inclusiveness of development.

Theoretical Evidence

Institutionalist Theories: Neo-institutionalist Approaches and New Institutional Economics

Neo-institutionalism, as developed by North (1993), highlights the decisive role of institutional change in economic development. North (1981, 1993) argues that institutional transformations, rather than technological advances, are the driving force behind economic growth. He distinguishes between institutions (rules) and organizations (actors), showing that their interaction leads to complex and gradual institutional change, influenced by learning and perception (Cairney, 2019). This change impacts economic performance by influencing production costs and incentive systems (Cairney, 2019). Furthermore, he emphasizes the importance of adapting institutions to local contexts to ensure successful economic development, rather than blindly adopting foreign models, citing the historical failures of Latin America (North, 1993). This approach, based on traditional institutionalism (Veblen, 2009) and integrating interactions between formal and informal institutions, cognitive processes, and actors, promotes economic inclusion by creating environments conducive to growth and the equitable distribution of opportunities.

New institutional economics (NIE), based on neoclassical theory, examines its own limitations by incorporating institutional theory (Caballero, 2011). While preserving the neoclassical assumptions of scarcity and competition, this approach emphasizes the importance of institutions in determining economic outcomes. Major contributions to NEI include Coase's (1988) analysis of transaction costs and the work of North on institutions. By improving and understanding institutional frameworks, the NEI promotes economic inclusion through mechanisms aimed at resolving issues such as unequal access to resources, information asymmetry, and inefficient transaction costs, leading to more equitable economic growth and greater well-being. The NEI's emphasis on institutional change as a central factor in economic development (Schofield and Caballero, 2011) contributes directly to the promotion of more inclusive economic systems.

Critical currents: Authoritarian governance vs. democratic governance

The impact of political regimes on economic performance requires an understanding of their emergence and persistence. Numerous studies highlight the impact of institutions and political regimes on economic and social outcomes (Acemoglu and Robinson, 2001; Chong and Gradstein, 2007; Acemoglu

et al., 2008; Scanlon, 2018). These political institutions fundamentally shape the dynamics of power and governance (Acemoglu and Robinson, 2006), which has an impact on individuals' rights and preferences.

A democratic regime is often associated with freedom and equality (Bobbio, 1984; Guttman, 1980; Rosanvallon, 2011). However, even within democracies, divergent interpretations of these ideals lead to conflicts and choices. Schumpeter (1942) operationally defines democracy as a system in which incumbents lose their mandate and leave office if they are defeated. Although there are debates about precise definitions (Coppedge and Reinicke, 1990; Przeworski et al., 2000), there is generally consensus on a country's democratic status. Democracies encourage citizen participation in decision-making processes, which leads to policies that are better suited to the needs of the population and to the reduction of inequalities.

Authoritarian governance is characterized by a concentration of power in the hands of a leader or a small group, often at the expense of civil liberties and political rights (Pereira et al., 2022; Neundorf and Pop-Eleches, 2020; Dinas and Northmore-Ball, 2020). This form of governance allows for the centralization of resources and decisions, facilitating the rapid implementation of development projects. However, this centralization can also lead to inequalities, as decisions are made without consulting local populations. Thus, global trends in gender equality show that authoritarianism plays a key role in both repression and progress in gender equality (Zetterberg et al. 2022; Donno, Fox, and Kaasik 2022). Although authoritarian regimes may maintain political and social stability, this stability is often achieved through repression and control, which limits citizen participation and inclusiveness (Tripp 2015; Guriev and Treisman 2022; Bjarnegård and Zetterberg 2023).

Classical approaches: Theories of modernization and economic development

Political modernization, as presented by Lipset and others, involves transformations in social mobility, political awareness, participation, and governmental efficiency. In his book The Passing of Traditional Society (1958), Lerner contrasted the autocratic systems of the Middle East with the absence of political modernization, suggesting that the latter would weaken traditional elites. Although modernization can offer a path to economic inclusion through growth, it is crucial to recognize the potential negative consequences. Indeed, economic modernization can lead to excessive consumer behavior, social inequality, increased crime, environmental pollution, and job losses due to automation (Matondang, 2019). Furthermore, social and cultural modernization can cause a decline in traditional beliefs and practices, growing individualism, and an erosion of national culture in the face of foreign influence (Hatuwe et al., 2021; Gandamana, 2017). Thus, although modernization theory offers a framework conducive to progress, its implementation requires careful attention to potential negative impacts and a commitment to equitable and sustainable development.

Governance as a tool for inclusive development: a review of existing work

The relationship between governance and development is the subject of much debate. While good governance can have positive effects on economic growth and poverty reduction, poor governance can undermine development efforts and exacerbate inequalities (Ibourk and Raoui, 2022; Khalil, 2020; Roy and Tisdell, 1998). The government's ability to ensure inclusive development and growth depends largely on the quality of governance (Ivanyna and Salerno, 2021). Numerous studies have shown that good governance plays a crucial role in improving living conditions in low- and middle-income countries. They highlight that countries with ineffective governance systems are at increased risk of poverty (Pelizzo and Stapenhurst, 2013; Stojanovic et al, 2016). Thus, it emphasizes that inclusive development can be ensured through truly interactive governance that works to empower marginalized people (Gupta and Ros 2015). Good governance leads to increased trust in government institutions, which improves productivity and increases the chances of achieving better outcomes (Ivanyna and Salerno, 2021).

In 2015, the Organization for Economic Cooperation and Development (OECD)[1] published a report highlighting the importance of governance in promoting inclusive growth. The report analyzes governance systems and their impact on growth in several developed countries, emphasizing the need for effective governance to ensure equitable development. To achieve inclusive development, the report stresses the importance of ensuring the well-being and health of all citizens, while emphasizing the need for strong political will, medium-term budgetary planning, sustainable policies, and inclusive institutions. Inclusive growth strategies must be based on openness and accountability in decision-making, allowing for the equitable representation of the needs of all stakeholders, including marginalized populations. This transparency helps prevent appropriation by elites and ensures that inclusive growth serves the collective interests.

The author points out that the world's least developed countries (mainly in Africa) are progressing faster than the most developed countries because they have improved their governance over time (Ibourk and Raoui, 2022). Therefore, promoting inclusive and sustainable growth requires good governance as the ideal springboard for achieving the Sustainable Development Goals. Numerous empirical studies show that poor governance and corruption are associated with weaker economic growth, lower investment, and reduced tax revenues (IMF, 2018; Ugur, 2014). Thus, countries with transparent and participatory governance systems tend to have higher development rates and lower inequality.

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Poor governance is also linked to greater income inequality (IMF, 2018). A deterioration in a country's corruption index by one standard deviation leads to an increase in income inequality equivalent to a decline in average secondary schooling of 2.3 years (Gupta, Davoodi, and Alonso-Terme, 1998). Low growth and the resulting inequalities of opportunity can in turn increase the incidence of corruption, creating a negative and self-fulfilling feedback loop (IMF, 2016).

Furthermore, Adams and Mengistu (2009) have shown that good governance has a positive impact on economic growth and a negative impact on income inequality. Thus, effective and inclusive governance is essential to reduce inequality, promote citizen participation, and ensure that the benefits of development reach all segments of society.

DATA AND METHODOLOGIES

Data

The data used in this study consists of a sample of 71 developing countries observed over the period from 1995 to 2017. The study period and sample size were chosen based on data availability. Tables 1 and 2 present the descriptive statistics of the variables used and the correlation matrix, respectively. Table A1 presents the list of countries in the sample in the appendix.

Dependent variable

The Inclusive Growth Quality Index (IGQI) serves as the dependent variable. Measuring inclusive growth is a subject of debate among researchers, as it encompasses various aspects and dimensions (Mlachila et al. 2014; Cha'ngom et al. 2020). Economists at the International Monetary Fund (IMF) have identified six indicators of inclusive growth that are commonly used in the literature. These indicators are based on two dimensions. The first dimension focuses on economic fundamentals, including sustainability as measured by the growth rate of GDP per capita, which is an essential element in the fight against poverty (Dollar and Kraay, 2003; Dollár and Zitnick, 2013), and stability measured by the inverse of the coefficient of variation of growth or economic volatility (Ramey and Ramey, 1995). The second dimension considers sources of diversification, captured by the diversification index, and external orientations, captured by the share of net external demand. The social aspects of growth, such as access to healthcare and quality education, are important indicators of inclusive growth because they are widely validated in the academic literature and are considered essential factors influencing poverty levels (Schultz, 1999; Sen, 2003). To create a comprehensive index of inclusive growth quality, principal component analysis (PCA) is used to aggregate these variables. The advantage of this method is that it generates weighting that accurately reflect the variability of the data, based on empirical rather than theoretical weights.

Using principal component analysis (PCA) on the six economic growth indicators, it became possible to construct an index measuring the quality of inclusive growth, known as the IQCI. The rejection of the null hypothesis of no correlation between variables, as indicated by Bartlett's test in Table 1, demonstrates the presence of shared factors among the inclusive growth indicators. This, combined with the favorable results of the Kaiser-Meyer-Olkin (KMO) and Cronbach's alpha tests, confirms the suitability of PCA for this analysis.

Table 1: Eigenvalues of the principal component analysis

Component	Eigenvalue	Difference	Proportion	Cumulative
Comp1	1.526	0.247	0.254	0.254
Comp2	1.279	0.236	0.213	0.467
Comp3	1.043	0.208	0.174	0.641
Comp4	0.835	0.048	0.139	0.780
Comp5	0.786	0.254	0.131	0.911
Comp6	0.532	.	0.089	1.000
Cronbach's Alpha		0.7494		
Kaiser-Meyer-Olkinaé (KMO)		0.683		
Bartlett specificity test (Chi^2)		77.604 ***		

*** p<0, 01. The null hypothesis for the Bartlett test suggests that the variables (Inclusive growth variables) are not inter-correlated.

Based on the eigenvalues presented in Table 1, it is clear that three components meet the criteria because their eigenvalues exceed one. Collectively, these components explain approximately 64.1% of the variations observed in the indices relating to the quality of inclusive growth. Therefore, we use components 1, 2, and 3 of the PCA analysis as indicators to assess the quality of inclusive growth in our econometric estimation. In order to determine the number of items to include in each principal component (PC), an oblique rotation of PC loadings was performed, as shown in Table 2 (Fabrigar et al., 1999; Njoya et al., 2023; Ngounou et al., 2024). By rotating the PC weights, it becomes possible to identify trends in how the components align with variables related to inclusive growth, such as GDP per capita growth rate, net external demand, diversification index, inverse coefficient of variation (/cv), health expenditure, and primary school completion rate. Principal component 1 (PC1) is particularly influenced by external orientations and

primary school completion rates. Notably, these two variables are positively correlated with PC1. Principal component 2 (PC2) is explained by external orientations and primary school completion rates. PC2 is negatively associated with external orientations but has a positive correlation with the primary school completion rate. Moving on to principal component 3 (PC3), it is more specifically taken into account by the per capita GDP growth rate and the inverse of the coefficient of variation (1/cv). These two variables have a positive correlation with PC3.

Table 2: Principal component loadings for exploratory component analysis with oblique rotation

Variable	PC 1	PC 2	PC 3	Non élicudé
PIB	0.009	-0.036	**0.905**	2.053
Orientations extérieures	**0.765**	**-0.642**	-0.031	0.002
Diversification	-0.001	0.000	0.000	0.006
1/cv	-0.002	-0.015	**0.421**	9.524
Santé	-0.002	0.032	-0.045	3.771
Education	**0.643**	**0.765**	0.026	0.002

Note: factor loadings > 0.30 are in bold.

Independent variable

Our main variable of interest, country stability, is a composite index that takes into account 22 variables divided into three subcategories of risk: political, financial, and economic. It is the sum of political risk (PR), financial risk (FR), and economic risk (ER) divided by two on a scale of 0 to 100. This variable is taken from the International Country Risk Guide (ICRG) database provided by the PRS Group and ranges from 0 to 100. It is divided into two categories: highly stable (80 to 100) and slightly stable (0 to 49.9). In terms of its sub-dimensions, political risk comprises 12 weighted variables covering both political and social attributes. It measures a country's political stability, comparable to that of other countries, and ranges from 0 to 100. It is also divided into two groups: politically very stable (80 to 100) and politically very stable- ly (0 to 49.9). The FR measures a country's ability to repay its debt by financing its official, commercial, and industrial obligations. Economic risk ranges from 0 to 50. The RE is used to assess a country's current economic strengths and weaknesses.

Control variable

Several control variables are taken into account in the study of the relationship between governance and inclusive development. In order to limit the well-known omission bias that can result from the omission of important determinants of inclusive development, we follow the empirical literature and include four control variables consistent with the literature on the determinants of inclusive development. Thus, we used four control variables in this work, namely: foreign direct investment (FDI), inflation, internet, and urbanization.

Foreign direct investment plays a crucial role in economic development and the quality of institutions. FDI can strengthen institutional capacity by bringing in financial resources, modern technologies, and management practices. According to Blonigen (2005), countries that attract FDI tend to improve their institutions due to the need for a stable and transparent regulatory framework to attract investors. In addition, FDI can promote the diffusion of governance and compliance standards, which contributes to better institutional quality.

Inflation has mixed effects on the quality of institutions. High inflation can erode trust in government institutions, as it is often associated with poor economic management. According to Fischer (1993), countries with persistent inflation often suffer from institutional weakness, as governments may be perceived as incapable of maintaining economic stability. On the other hand, controlled inflation can be a sign of effective monetary policy, thereby strengthening the legitimacy of institutions.

Internet use has a significant impact on the quality of institutions. It promotes transparency and access to information, which are essential elements of good governance. According to Bertot et al. (2010), the Internet allows citizens to become better informed and engage in the political process, which can lead to increased pressure on institutions to be more accountable. In addition, the Internet facilitates communication between governments and citizens, thereby strengthening trust in institutions.

Urbanization is a key determinant of institutional quality. As populations move to cities, it is essential that institutions adapt to meet new urban challenges. Glaeser (2011) points out that urbanization can lead to increased demand for public services and infrastructure, prompting governments to improve their efficiency and accountability. However, rapid urbanization without adequate institutional development can also lead to governance and corruption problems.

Descriptive statistics for the various quantitative variables are summarized in Table 3. The difference in the number of observations is due to missing data. However, the correlations between the various variables used are not high enough to create serious multicollinearity problems (see Table 4). Table

A1 presents the list of countries in our sample in the appendix.

Table 3 presents the correlation between the variables in the study.

Table 3. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
IQCI	2282	.008	.614	-8.69	6.19
Composite Risk Rating	2282	66.52	10.323	15.708	91.108
Economic Risk Rating	2282	34.305	6.118	0	50
Financial Risk Rating	2282	36.614	6.655	6.25	50
Political Risk Rating	2282	62.099	11.963	22.458	90.917
FDI entrant	2235	4.501	16.524	-82.892	449.083
Inflation	2278	14.031	123.946	-30.2	4800.532
Internet	2226	19.305	24.827	0	99.653
Urban	2282	24948392	74146745	116848	8.298e+08

Source: Author

Table 4. Correlation matrices

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) IQCI	1.000								
(2) CTSI	0.494	1.000							
(3) ECO	0.476	0.844	1.000						
(4) FIN	0.387	0.744	0.675	1.000					
(5) POL	0.391	0.875	0.569	0.380	1.000				
(6) FDI entrant	0.187	0.085	0.012	-0.007	0.143	1.000			
(7) Inflation	-0.020	-0.111	-0.073	-0.112	-0.093	-0.004	1.000		
(8) Internet	0.350	0.470	0.379	0.359	0.417	0.085	-0.055	1.000	
(9) Urban	0.113	0.090	0.097	0.215	-0.013	-0.042	-0.013	0.052	1.000

Source: Author

Empirical strategies

The empirical model developed in this study is based on the work of Ngounou et al. (2024), who analyze the effects of urbanization on inclusive growth. This model is defined by the equation below:

$$\boldsymbol{IQCI_{it} = \alpha + \beta_1 IQCI_{it\,1} + \beta_2 \mathrm{CTSI}_{it} + \beta_3 X_{it} + \delta_i + \mu_t + \epsilon_{it}} \quad (1)$$

Where $IQCI$ represents the inclusive growth index in country i for year t,$IQCI$ represents the lagged inclusive growth index,$CTSI$ represents the overall stability index for countries,X represents the vector of control variables.δ is a country-specific, unobserved effect, andμ is a time-specific effect, withϵ the error term.

Equation 1 is estimated using several estimation techniques. The basic estimation uses the ordinary least squares (OLS) method borrowed from the empirical literature for two reasons: (i) it minimizes the impact of measurement errors; (ii) it assumes that the countries in the sample are perfectly homogeneous. This econometric technique is generally used as an initial framework for analysis to give the general trend of the results. However, in the presence of panel data, OLS are biased in the presence of specific unobserved effects. For this reason, the Hausman test (1972) led us to choose a fixed effect. Studies on inclusive development suffer from a lack of precise measurement, which can lead to a problem of endogeneity. Endogeneity can also result from the omission of relevant variables in the model. To overcome this problem, we use the two-stage generalized method of moments estimation technique. This technique effectively corrects endogeneity problems by using internal instruments, such as lagged values of variables, and improves efficiency compared to difference GMM by including both level and difference equations. It is also robust to heteroscedasticity and autocorrelation, especially in its two-stage version, which provides more accurate standard errors. Another key advantage is its ability to handle unobserved fixed effects specific to entities by eliminating them through differentiation. In addition, it allows for optimal use of instruments, thereby increasing the accuracy of estimates. Finally, system GMM offers tests, such as the Sargan-Hansen test, to verify the validity of instruments, and the Arellano and Bond test for testing autocorrelation of order 1 (significant P-value) and 2 (non-significant P-value), which reinforces the rigor of the results.

Figure 1 highlights the relationship between countries' stability measures and their ability to promote inclusive growth. The x-axis represents a stability index, while the y-axis illustrates inclusive growth through various indicators. This configuration clearly shows how some countries manage to maintain stability while promoting equitable growth, highlighting the importance of effective governance.

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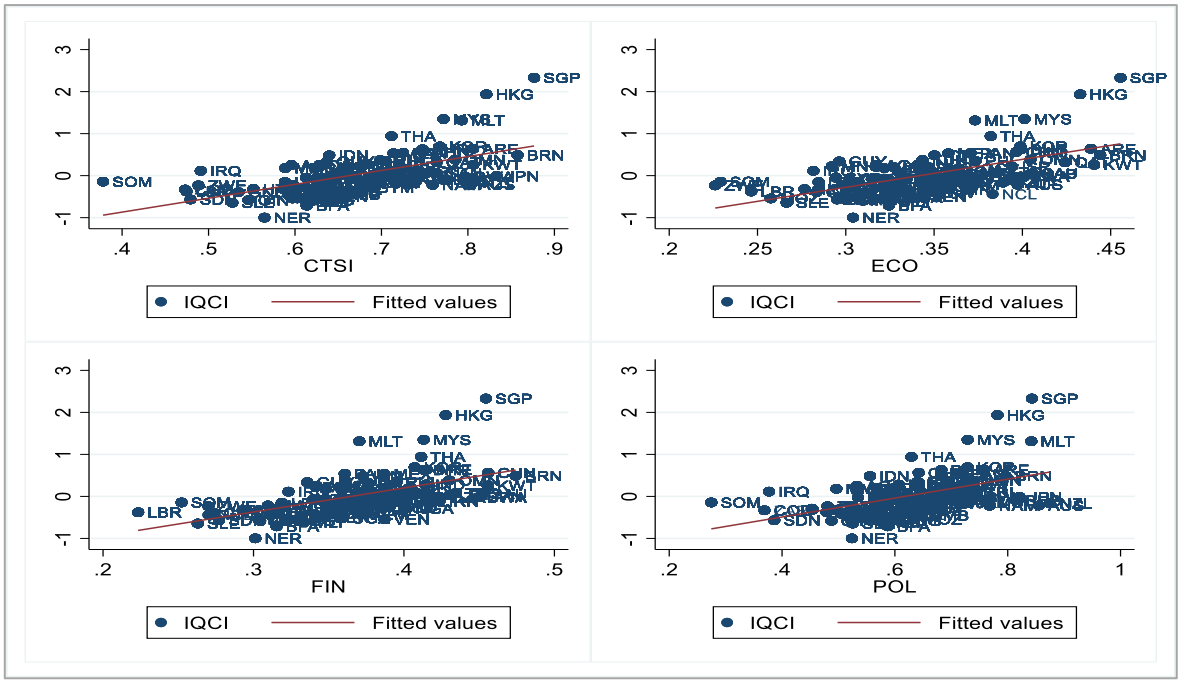

Figure 1. Correlation between countries' stability measures and inclusive growth
Source : Author

ANALYSIS OF RESULTS

Table 4 presents the results of a regression model incorporating several levels of fixed effects, highlighting the relationship between the Inclusive Growth Index (IGI) and the country stability index. The coefficients associated with the CTSI are all positive and statistically significant at 1%, indicating that better-quality institutions are correlated with higher values of inclusive growth. This suggests that the quality of institutions plays a crucial role in explaining variations in the CTSI, reinforcing the idea that the in s of strong institutions can have a positive impact on the performance of the systems studied.

However, it is essential to recognize the limitations of OLS. Although they allow for the control of unobservable effects that are constant over time, they do not take into account possible selection biases or omitted variables that could influence the results. This leads us to consider other estimation methods.

Table 5: OLS absorbing multiple levels of fixed effects

VARIABLES	MCO				
	IQCI_				
	(1)	(2)	(3)	(4)	(5)
CTSI	0.281***	0.280***	0.282***	0.225***	0.220***
	(0.011)	(0.011)	(0.011)	(0.013)	(0.013)
FDI_entrants		5.056***	5.043***	4.876***	5.027***
		(0.685)	(0.685)	(0.676)	(0.674)
Inflation			1.587*	1.343	1.330
			(0.908)	(0.891)	(0.887)
Internet				0.061***	0.063***
				(0.007)	(0.007)
Urban					0.001***
					(0.000)
Constant	-0.186***	-0.187***	-0.189***	-0.163***	-0.161***
	(0.007)	(0.007)	(0.007)	(0.008)	(0.008)
Observations	2,282	2,235	2,235	2,185	2,185
R-squared	0.243	0.267	0.268	0.304	0.310
Report_constant	1	1	1	1	1

Standard errors in parentheses
***** p<0.01, ** p<0.05, * p<0.1**

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However, Table 5 presents a system GMM analysis that highlights the relationship between the CTSI and the inclusive growth index (IQCI) in a dynamic panel with a view to controlling for the potential problem of endogeneity. The analysis in the table shows that, in columns (1)-(5) respectively, the country stability index enhances inclusive economic growth. This suggests that better quality institutions are associated with greater transparency in the country, which is consistent with the literature on the subject. Previous studies, such as those by Kaufmann et al. (2009), show that institutional quality is crucial for transparency and government accountability.

These results support the idea that institutional reform can have positive effects on transparency, as discussed in the work of Acemoglu and Robinson (2012), which highlights the importance of institutions in economic and social development.

Table 6: SYS-GMM analysis

VARIABLES	GMMs				
	IQCI_				
	(1)	(2)	(3)	(4)	(5)
L.IQCI_1	0.713***	0.684***	0.686***	0.674***	0.632***
	(0.015)	(0.014)	(0.016)	(0.016)	(0.019)
CTSI	0.073***	0.078***	0.079***	0.087***	0.088***
	(0.007)	(0.008)	(0.010)	(0.010)	(0.011)
FDI_entrants		5.603***	5.928***	6.300***	7.044***
		(0.626)	(0.654)	(0.904)	(1.016)
Inflation			6.179***	4.353***	5.567***
			(0.548)	(0.467)	(0.717)
Internet				-0.003*	-0.013***
				(0.002)	(0.003)
Urban					0.004***
					(0.001)
Constant	-0.049***	-0.053***	-0.056***	-0.060***	-0.068***
	(0.005)	(0.005)	(0.006)	(0.006)	(0.008)
Observations	2,186	2,142	2,142	2,092	2,092
Nombre de groupes	96	94	94	94	94
Instruments	56	56	56	56	56
ar1p	0.0242	0.0431	0.0438	0.0453	0.0460
ar2p	0.355	0.538	0.606	0.588	0.621
hansenp	0.614	0.111	0.127	0.137	0.138

Robust standard errors in parentheses
***** p<0.01, ** p<0.05, * p<0.1**

With regard to the control variables, we first note that a one-unit increase in FDI inflows leads to a 5.603-unit increase in the institutional quality index at the 1% threshold (2). This result is consistent with the work of Blonigen (2005), who finds that FDI can strengthen institutional capacity by providing financial resources, technology, and modern management practices. For Blonigen (2005), countries that attract FDI tend to improve their institutions because of the need for a stable and transparent regulatory framework to attract investors.

A one-unit increase in inflation leads to a 6.179-unit increase in the institutional quality index at the 1% threshold. This result is inconsistent with the work of Fischer (1993), who argues that countries with persistent inflation often suffer from institutional weakness, as governments may be perceived as incapable of maintaining economic stability. On the other hand, controlled inflation can be a sign of effective monetary policy, thereby strengthening the legitimacy of institutions. Similarly, Smith, J. (2020) argues that high inflation can erode public confidence in government institutions. Citizens may perceive economic management as ineffective, which can diminish their civic engagement and trust in the authorities.

A one-unit increase in internet use reduces the institutional quality index by 0.003 units at the 10% threshold. This result is inconsistent with the work of Bertot et al. (2010), who find that internet use has a significant impact on institutional quality because it promotes transparency and access to information, which are essential elements of good governance. According to Bertot et al. (2010), the internet enables citizens to become better informed and more engaged in the political process, which can lead to increased pressure on institutions to be more accountable. In addition, the internet facilitates communication between governments and citizens, thereby strengthening trust in institutions.

An increase in the urbanization of a unit increases the institutional quality index by 0.004 units at the 1% threshold. This result is consistent with the work of Glaeser (2011), who points out that urbanization can lead to increased demand for public services and infrastructure, prompting governments to improve their efficiency and accountability. However, rapid urbanization without adequate institutional development can also lead to governance and corruption problems.

Robustness analysis

Robustness with alternative measures of a country's stability

In the reference model, we used the country stability index. However, it would be interesting to observe the effect of each of its sub-dimensions on the inclusive growth index. In this section, we test the robustness of the basic results using its sub-components. Columns (1), (2), and (3) of Table 5 present the results for political stability, financial stability, and economic stability, respectively. Thus, regardless of the measure of country stability, its effect on the inclusive growth index (IQCI) is positive and significant at 1%. Table 7: Alternative measure of country stability.

VARIABLES	GMMs		
	IQCI		
	(1)	(2)	(3)
L.IQCI	0.681***	0.707***	0.662***
	(0.016)	(0.015)	(0.021)
POL	0.049***		
	(0.008)		
FIN		0.101***	
		(0.010)	
ECO			0.165***
			(0.011)
FDI entrant	6.699***	5.641***	6.480***
	(0.861)	(0.785)	(0.780)
Inflation	3.054***	5.557***	5.164***
	(0.610)	(0.643)	(0.724)
Internet	-0.004	-0.008***	-0.004
	(0.002)	(0.002)	(0.003)
Urban	0.002**	0.000	0.001
	(0.001)	(0.000)	(0.001)
Constant	-0.038***	-0.040***	-0.061***
	(0.006)	(0.003)	(0.005)
Observations	2,092	2,092	2,092
Nombres de groupes	94	94	94
Instruments	56	56	56
ar1p	0.0453	0.0446	0.0461
ar2p	0.554	0.601	0.646
hansenp	0.130	0.194	0.197

Robust standard errors in parentheses
***** p<0.01, ** p<0.05, * p<0.1**

Alternative control of endogeneity

First, to ensure that our results are not subject to instrumental variable problems, we use the instrumental variable method. However, the difficulty with this method lies in finding a perfectly exogenous and appropriate instrument. According to Baum et al. (2012), an instrument is considered appropriate if it is significantly correlated with the endogenous variable, if it satisfies the orthogonality condition, and if it is correctly excluded from the model so that its effect on the explained variable is only an indirect effect (Baum et al., 2012). Indeed, the complexity of these conditions makes it difficult to find an exogenous instrument, but Lewbel's (2012) method of estimating instrumental variables offers a better alternative when finding a purely exogenous instrument seems complex, as in our case. In the literature, many studies use this estimation technique (Domguia et al., 2022; Ngounou et al., 2023; Fang et al., 2023). The results of this analysis are presented in Table 8 below and reveal that the effect of the country's stability on the inclusive growth index remains positive and statistically significant at the 1% threshold.

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VARIABLES	IV-2SLS IQCI		
	(1)	(2)	(3)
POL	0.148***		
	(0.012)		
FIN		0.287***	
		(0.022)	
ECO			0.243***
			(0.015)
FDI entrant	4.961***	6.410***	5.374***
	(1.504)	(1.809)	(1.591)
Inflation	0.962***	1.344**	1.644***
	(0.302)	(0.560)	(0.445)
Internet	0.054***	0.056***	0.037***
	(0.006)	(0.006)	(0.006)
Urban	0.001***	0.000***	0.001***
	(0.000)	(0.000)	(0.000)
Constant	-0.105***	-0.118***	-0.172***
	(0.008)	(0.008)	(0.010)
Observations	2,185	2,185	2,185
R-squared	0.224	0.232	0.287
Kleibergen-Paap rk Wald F statistic	12261***	2928***	5940***
Hansen J test p-value	0.145	0.379	0.726

Robust standard errors in parentheses
***** p<0.01, ** p<0.05, * p<0.1**

Nonparametric approach: quantile regressions

In this section, we use the quantile regression (QR) approach introduced by Koenker and Bassett (1978). QR has the particularity of taking into account the effect of one variable on another at different points in its distribution. This approach is more robust than the OLS approach, for example. Furthermore, when the distribution of the dependent variable is wide, the mean can be highly variable in the presence of significant heterogeneity in the sample (Cade and Noon, 2003). Thus, QR provides a more accurate description of the distribution of a variable of interest conditional on its determinants than a simple linear regression that focuses on the conditional mean. In line with the work of Binder and Coad (2011), the quantile regression model can be written as follows:

$y_{it} = x'_{it}\beta_\theta + u_{\theta it}$ avec $Quant_\theta(y_{it}|x_{it}) = x'_{it}\beta_\theta$

Where$y$ is the institutional quality index, β is the vector of parameters to be estimated, x is a vector of regressors, and u is the vector of residuals. $Quant\ (y|x)$ Represents the θth conditional quantile of$y$ for a given x. The quantile estimator is obtained by solving the following optimization problem for the θth quantile (0 < θ < 1) :

$$\min_{\beta\in R^K}\left[\sum_{i,t:y_{it}\geq x_{it}'\beta}\theta\left|y_{it}-x_{it}'\beta\right|+\sum_{i,t:y_{it}<x_{it}'\beta}(1-\theta)\left|y_{it}-x_{it}'\beta\right|\right]$$

The results of the quantile estimation are presented in the table below. Columns (1) to (5) present the estimates for the 10th, 25th, 50th, 75th, and 95th quantiles. We observe that the positive effect of the CTSI varies throughout the distribution of the inclusive growth index. More specifically, the effect is statistically significant across all quantile distributions. The effect is more pronounced and significant at the 1% threshold for relatively low levels of the inclusive growth index.

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Table 9: Quantile regression

VARIABLES	Quantile				
	(1)	(2)	(3)	(4)	(5)
	Q10	Q25	Q50	Q75	Q95
CTSI	0.252***	0.197***	0.213***	0.194***	0.232***
	(0.012)	(0.012)	(0.020)	(0.018)	(0.033)
FDI entrant	3.369***	2.889*	4.506	15.952*	36.821***
	(1.177)	(1.671)	(3.802)	(8.754)	(8.885)
Inflation	2.047*	1.591	1.222	2.020*	-0.208
	(1.243)	(1.803)	(1.390)	(1.168)	(2.742)
Internet	-0.010**	0.008	0.023***	0.063***	0.084***
	(0.004)	(0.007)	(0.007)	(0.008)	(0.013)
Urban	0.001***	0.001***	0.001***	0.001***	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Constant	-0.220***	-0.163***	-0.154***	-0.126***	-0.104***
	(0.009)	(0.008)	(0.013)	(0.013)	(0.018)
Observations	2185	2185	2185	2185	2185

Standard errors in parentheses
***** p<0.01, ** p<0.05, * p<0.1**

Regional heterogeneity

Overall, the benchmark results show that country stability improves inclusive growth. However, it can be assumed that the baseline estimates may be influenced by the presence of countries in certain regions with different macroeconomic and geographic characteristics. Therefore, we group countries according to their geographical location (SSA, MENA, SAS, EAP, and LAC) and re-estimate the model with these subsamples. As shown in Table 10, the coefficients associated with our variable of interest are positive and statistically significant at the 1% and 5% levels in all specifications. We can therefore conclude that our baseline results do not depend on any particular region in our sample. However, the effect is relatively more pronounced in MENA and SSA.

Table 10: Regional heterogeneity

VARIABLES	SSA	MENA	SAS	EAP	LAC
	IQCI				
	(1)	(2)	(3)	(4)	(5)
CTSI	0.203***	0.314***	0.141**	0.147***	0.070***
	(0.037)	(0.104)	(0.055)	(0.042)	(0.017)
FDI entrant	2.551***	7.957***	9.433***	9.711***	1.471
	(0.574)	(0.705)	(1.252)	(2.891)	(1.290)
Inflation	2.684	6.624	-5.942**	-1.887	8.296**
	(1.296)	(1.178)	(1.303)	(1.380)	(1.864)
Internet	0.038***	0.024	-0.023	-0.024**	0.051***
	(0.008)	(0.029)	(0.015)	(0.011)	(0.016)
Urban	-0.006***	0.001**	0.001**	0.001**	0.002*
	(0.001)	(0.000)	(0.000)	(0.000)	(0.001)
Constant	-0.129***	-0.225***	-0.057	-0.105***	-0.082***
	(0.027)	(0.063)	(0.038)	(0.025)	(0.011)
Observations	398	81	297	521	644
R-squared	0.347	0.506	0.227	0.106	0.090
Kleibergen-Paap rk Wald F statistic	1009	99.68	183.6	705.6	1399
Hansen J test p-value	0.235	0.675	0.336	0.264	0.902

Robust standard errors in parentheses ***
p<0.01, ** p<0.05, * p<0.

CONCLUSION

Recent years have been marked by ongoing debates about inclusive growth, which benefits all members of society, particularly those living in poverty. As a result, inclusive growth has attracted international attention from policymakers and researchers because it plays a significant role in reducing inequalities, strengthening shared prosperity, and accelerating poverty reduction (World Bank, 2009; Mutiiria et al. 2020; Ngounou et al. 2024). On the other hand, the current Russian-Ukrainian conflict, rampant inflation, and the resurgence of numerous hotspots of tension have brought the need to question the importance of country stability back to the forefront. It seems imperative to understand the effects of country stability on inclusive

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growth. This study therefore combines two branches of literature: the rapidly growing field of research on the effects of country stability in the broad sense, and the well-documented field of research on the determinants of inclusive growth. We present what we believe to be the first study on the effects of country stability on inclusive growth in developing countries.

The study covers a sample of 71 developing countries over the period 1995-2017. To do this, we used the System Generalized Moments (SYS-GMM) estimation technique, which has the particularity of taking into account the endogeneity problem inherent in the relationship studied. The results suggest, first, that country stability has a positive and significant effect on inclusive growth in developing countries. Thus, country stability contributes to improving inclusive development. Second, our results are robust to the use of alternative measures of country stability, and even to the use of an alternative endogeneity control technique. Third, taking regional heterogeneities into account reveals that the results remain unchanged regardless of the subregion.

To improve inclusive growth, the study makes a number of economic policy recommendations for governments. First, developing country governments should promote democracy and governance to reduce the risk of instability in order to accelerate political stability. Second, governments should strengthen institutions, including judicial, legislative, and executive institutions, to promote political and economic stability. Third, governments should strengthen regional and international cooperation to promote economic growth and attract foreign investment.

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Annex :

Table. List of countries and their regions

MENA	SSA	SAS	EAP	LAC
Algeria	Burkina Faso	Bangladesh	China	Argentina
Morocco	Guinea-Bissau	India	Brunei	Brazil
Tunisia	Ghana	Nepal	Bahrain	Colombia
Libya	Guinea	Maldives	Azerbaijan	Chile
	Togo	Pakistan	Armenia	Ecuador French
	Senegal	Sri Lanka	Singapore	Guiana
	Nigeria	Afghanistan	Pakistan	Haiti
	Mali		Saudi Arabia	Cuba
	Liberia		Indonesia	Jamaica
	Sierra Leone		Iraq	Uruguay
	Cameroon		Jordan	Peru
	Gabon		Kazakhstan	Trinidad and
	Ethiopia		Kuwait	Tobago
	Somalia		Lebanon	Costa Rica
	South Africa		Mongolia	El Salvador
	Kenya		Myanmar	Guatemala
	Mozambique		Oman	Honduras
	Malawi Zambia		Qatar	Mexico
	Zimbabwe		Vietnam	Panama
	Uganda		United Arab	Paraguay
			Emirates	Nicaragua
			Malaysia	Suriname
			Thailand	

Source: Author

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