THE IMPACT OF GOVERNANCE AND INSTITUTIONS ON EDUCATION AND POVERTY ALLEVIATION: A PANEL STUDY OF SAARC ECONOMIES

[1] Hafiz Muhammad Abubakar Siddique,[2]Iram Shehzadi, [3]Asma Shaheen,
[4]Muhammad Rizwan Manzoor

[1]School of Economics, Quaid-i-Azam University, Islamabad, Pakistan
Email: bakar343@gmail.com
[2]Govt. Degree College for Women Ghakar Mandi, Gujranwala
Email: iramshehzadi343@gmail.com
[3]School of Economics, Quaid-i-Azam University, Islamabad, Pakistan
Email: asma.shaheen07@gmail.com
[4]Research Officer, Pakistan Institute for Parliamentary Services, Pakistan
Email: rizwan.491@gmail.com

Presented at "Two Days International Conference on Migration, Education and Development in South Asia" (23-24 March, 2014)

ABSTRACT:*The present study examines the impacts of governance and institutions on education and poverty alleviation in South Asia. Poverty, illiteracy and poor quality education are the major problems of developing world. As depraved education and poverty are the main problems of developing nations. Good governance provides a platform for inquiring the long menu of institutional changes and proper initiatives which are currently considered as essential for development. Institutions affect both poverty and education directly and indirectly through number of channels which in turn affect government policies for making decisions regarding poverty reduction and quality education. However, poor governance and weak institutional structure also remained the pressing issue of developing economies. This study endeavors to identify the relationship between these two areas and try to dig out the impacts of governance and institutions on education and poverty in the south Asian economies through econometric techniques.*

Key words: Governance, Institutions, Poverty, Education.

INTRODUCTION:

Poverty is the major problem of developing world or we can say that poverty is general scarcity or the state of one who lacks a certain amount of material possessions or money. The deprivation or scarcity of basic human needs such as food, shelter, clothing, sanitation, health care and education is known as absolute poverty. There is another type of poverty which is Relative poverty and it can be defined as the economic inequality in the location or society in which people live. Reduction in poverty is a major goal and issue for many international organizations such as the United Nations and the World Bank. The World Bank estimated 1.29 billion people were living in absolute poverty in 2008. Of these, about 400 million people in absolute poverty lived in India and 173 million people in China. In terms of percentage of regional populations, sub-Saharan Africa at 47% had the highest incidence rate of absolute poverty in 2008. Between 1990 and 2010, about 663 million people moved above the absolute poverty level. Still, extreme poverty is a global challenge; it is observed in all parts of the world, including developed economies.

Similarly Education in its general sense is a form of wisdom in which the ideas, knowledge, habits and skills of a group of people are transferred from one generation to the next through teaching, training, or research. Education is commonly divided into stages such as primary and secondary school then college and universities. In many developing countries there were millions of students which were not able to attain education due to their family or cultural matters but a large effort was put by not only national in fact international organizations in order to create such a situation or to provide such a law so that every student can easily attain education. A right to education has been organized by some governments. At the global level, Article 13 of the United Nations' 1966 International Covenant on Economic, Social and Cultural Rights recognizes the right of everyone to an education.

The 'go governance' refers to "all processes of governing, whether undertaken by a government, market or network, whether over a family, tribe, formal or informal organization or territory and whether through laws, norms, power or language. It relates to processes and decisions that seek to define actions grant power and verify performance. There is a difference between governance and government. We can explain Government as a body that comprises a person or a group of persons who run the administration of a country. This is a means in which power is exercised. There are various forms of governments such as democracy or autocracy but this article will remain confined to the general term government which is commonly used in social sciences. In normal circumstances, a state is run by a government that has a mandate from the people to run the affairs of the country and also a term that may be of 4-6 years to serve the state. Thus there is a succession of governments in any country or the same government may be elected again for a successive term if people feel that it has done its job of running the country in a fair and close to ideal manner. On the other hand the word governance refers to the activities of a government. In layman's terms, it is the rules and laws made by the government that are sought to be implemented through a chosen bureaucracy which is referred to as governance. The process of governing people or a state is called governance. In nutshell, governance is what a government does. There are six indicators to measure governance and we will also use them in this paper and these are Control of corruption, Voice and accountability, Rule of law, Regulatory quality, Government effectiveness, Political

stability and absence of violence. Governance plays a significant role in order to reduce poverty and rise education. At the same time it is possible that the rate at which poverty decreases depends on the quality of institutions a country have. Institutions are defined in [2] as the rules connecting the members of society, shape the behavior of economic agents and contribute to economic performance of country. The authors gave a broad interpretation of institution arguing that they include not only legal and political structure but cultural as well in [9]. Good institutions lead toward higher level of economic growth and provide a fertile ground for more equal distribution of income. On the other hand, Low quality institutions are associated with gearing wealth toward rich and have detrimental effects on income distribution. For example, corruption can switch the benefits of social spending from poor towards rich. We use different indicators to measure institutions such as Government stability, Socioeconomic conditions, Investment profile, External and internal conflict, Corruption, Law and order and Bureaucracy quality.

Now a country which is having high education level and low rate of poverty is considered to be as a developed or prosperous economy. Both poverty and education are affected through number of variables such as economic growth, technology globalization, institution and governance. All of these variables are impacting both poverty and education greatly. Now-a-days the major variables which are affecting these are institutions and governance because a country can be developed only when it has strong institutions and proper governance. This study is analyzes how governance and institution effects poverty and education in SAARC economies and results indicates that both of these variables have a significant impact.

The organization of study is as follows that is the second section is based on literature review. In third section the methodology of study is given while fourth section is based on empirical results and in last conclusion and suggestions are given.

LITERATURE REVIEW:
In this chapter we will analyze the previous studies which have been done on this area and have explained how governance and institutions affect education and poverty.

Impact of Governance and Institutions on Education:
In [1] the researcher has explained that as Bangladesh has made significant advancement in increasing education access in the last 20 years. However, widespread disparities in educational attainment remain even though equity in education is a central objective of government. The article argues that weaknesses in education sector governance level of the budget, anti-poor biases in allocation decisions are shown to be the result of the budget's role in political management and the lack of effective accountability mechanisms are critical to understanding these persistent inequalities. The study suggests the need of nation's policies to improve education sector.

In [4] the researchers examined the impacts of education investments in developing countries. They suggest that good governance can serve as an entry point to raising institutional performance in the delivery of education services. Performance indicators that offer the potential for tracking

relative education performance are proposed, and provide the context for the discussion of good governance in education in the areas of budget and resource management, human resources, household payments, and corruption perceptions. In [3] the authors examined the impact of State Governance Structures on Higher Education Resources and Research Activity, and they argued that Universities in the United States reside in regions that have different political cultures and economic conditions. They explored that the governance structure affects the resources allocated and the activities undertaken by universities. This paper suggests that, for most of the measures, productivity and resources are higher at universities with a statewide board that is more decentralized and with members which are not primarily appointed by the governor.

The authors explained the differences in the efficiency of public spending can be largely explained by the quality of governance in [10]. Public spending on primary education becomes more effective in increasing primary education attainment in countries with good governance. More generally, public spending has virtually no impact on health and education outcomes in poorly governed countries.

Impact of Governance and Institutions on Poverty:
The researchers argue that the extent and seriousness of poverty vary markedly across Asian developing countries, and so does the rate at which poverty has changed over time in [11]. In addition, there are large inter country differences in the extent to which social services, especially health and education, reach the poor. Institutions affect poverty both directly and indirectly via a number of mediating factors. Institutions influence government policies, which in turn influence growth and distributional outcomes, which then affect the pace of poverty reduction. In addition, institutions directly influence the pace and quality of economic growth. Then, of course, government policies affect institutions as well. The impact of institutions whether political, social, cultural or administrative on poverty reduction is general.

In [8] the authors have identified a mass of ways that global governance is relevant to UK poverty, both positively and negatively. By focusing on global regulatory processes the paper has not denied the importance of national and local governments in addressing UK poverty. Indeed, as many examples have indicated, much global governance directly involves national and local authorities. However, global governance is also substantially more than the individual nation state, and UK activists need to attend to global rules and regulatory institutions as part of any successful strategy of poverty alleviation in this country.

In [2] the authors indicate that poverty is negatively related to institutional quality. The empirics suggest that the measures like law and order, corruption in Government and repudiation of contract are not significant and robust in alleviating poverty. While the authors suggested that bureaucratic quality improve overall quality of institutions which reduces poverty. In [5] the authors examined the impact of institutions and economic growth on poverty and income inequality, results showed a negative and significant relationship between economic growth and poverty. While it finds that relationship between economic growths on inequality is unchanged. This mean that economic growth although do not effect inequality

but it reduces poverty. The aim of this study [6] is to check the importance of institutional quality in poverty reduction. Results indicate that good governance is helpful to reduce poverty.

MATERIAL AND METHODOS:

This purpose of this study is to find out the impact of governance and institutions on education and poverty alleviation of SAARC countries. Governance refers to "all processes of governing, whether undertaken by a government, market or network, whether over a family, tribe, formal or informal organization or territory and whether through laws, norms, power or language". It relates to processes and decisions that seek to define actions grant power and verify performance. On the other hand institutions are rules, enforcement characteristics of rules, and norms of behavior that structure repeated human actions such as corruption, law and order etc. Initially or in the past the focus of studies was on;

Poverty= f (Economic growth), and
Education=f (Economic growth)

As mentioned in [12] that there exists an inverse relationship between economic growth and poverty that is when economic growth of an economy increases it leads towards reduction in poverty. While on the other hand there exist a positive relationship between education and growth. When there will be more growth more education will also spread. With time the studies not only focus on relationship with economic growth in fact they found many other variables which are affecting level of poverty and education such as Technology, FDI, employment, globalization, institutions and governance. Among all these now a days the focused variables are institutions and governance that is how they are affecting poverty and education.

Now this paper is actually to analyze the impact of Governance and Institutions on Education and poverty alleviation.

The functional form of the model will be;
Poverty = f (Economic growth, Governance, Institutions), and
Education = f (Economic growth, Governance and institutions)

We will find how poverty and education will be affected by the governance and institutions. There is also another thing that governance is not an individual variable or it is not possible to measure governance directly in fact there are six indicators of governance which are used to measure governance and these are; Control of corruption, Voice and accountability, Rule of law, Government effectiveness, Political stability and absence of violence, and Regulatory quality.

In the same way we use different indicators to measure institutions and these are; government stability, socioeconomic conditions, investment profile, external and internal conflict, corruption, law and order, and bureaucracy quality.

In this paper in order to present governance we have used government effectiveness political stability and absence of violence while to measure institutions we have used

corruption, law and order and bureaucracy quality therefore over model will become

Poverty = f (Economic growth, Government effectiveness Political stability and absence of violence, Corruption, Law and order and Bureaucracy quality)

Education = f (Economic growth, Government effectiveness Political stability and absence of violence, Corruption, Law and order and Bureaucracy quality)

Data and Economic Model:
The analysis is based on annual data for six SAARC countries (N=1…..6) that are Pakistan, India, Sri Lanka, Bangladesh, Nepal and Maldives for 1996 to 2012 (t=1…..17). The study used Poverty (Pov) measured through head count ratio and education (E) measured through primary enrollment as dependent variable whereas the independent variables are GDP (Y), Government effectiveness (G), Political stability and absence of violence (P), Corruption (C), Law and order (L) and Bureaucracy quality (B). The data is taken from World Development Indicators 2014.

Now functional form of the model become

$$POV = f(Y, G, P, C, L, B) \ldots\ldots\ldots\ldots\ldots\ldots (1)$$
$$ED = f(Y, G, P, C, L, B) \ldots\ldots\ldots\ldots\ldots\ldots (2)$$

The panel version of equation (1) and (2) can be written as:

$$POV_{it} = \alpha_0 + \alpha_1 Y_{it} + \alpha_2 G_{it} + \alpha_3 P_{it} + \alpha_4 C_{it} + \alpha_5 L_{it} + \alpha_6 B_{it} + \varepsilon_{it} \qquad (3)$$

$$ED_{it} = \beta_0 + \beta_1 Y_{it} + \beta_2 G_{it} + \beta_3 P_{it} + \beta_4 C_{it} + \beta_5 L_{it} + \beta_6 B_{it} + \mu_{it} \qquad (4)$$

Where, i=1……..6 denote the countries, t= 1996…….2012 denotes the time period, ε_{it} and μ_{it} are the error terms with the usual statistical properties while α and β are coefficients.

Methodology:
To estimate the equation (2) and (3) in the first step we have used OLS (Ordinary Least Square) for both models then Random and fixed effect technique are applied on the basis of Haussmann test. In the next step we have applied Arellano Bond model.

As we were using indicators of governance and institutions we have used principal component analysis to make there one series and then again random and fixed affect technique was used.

RESULTS AND DISCUSSION:

The results of OLS for both equations are shown in Table 1. The results shows the coefficient of gdp is negative that with an increase in growth there is a decline in poverty but also in education level because of low resources or availability among individuals. In the same way the negative sign of corruption and law and order is showing improvement in them that is when corruption will controlled or better law and order situation than there will be reduction in poverty. The positive sign of corruption and law and order with education shows that they are not improved so much therefore level of education is still low or not equivalent to advanced economies. In the same way the positive sign of indicators of governance shows that if there are proper government policies than they will be definitely reduction in poverty and rise in education as mentioned in [4], in there study that good governance can serve as an entry point to raising institutional performance in the delivery of education services.

Table 1: OLS Results

Poverty	Coeff.	Education	Coeff.
Y	-.032	Y	-0.03
C	-6.52	C	0.20
L	-14.61	L	9.71
B	19.34	B	11.28
P	10.15	P	10.60
G	339.39	G	-31.98
Constant	8.17	Constant	71.02

In both panel equations Haussmann test was used to check either fixed effect model will be used or random effect. So in the equation of education the Haussmann test suggests fixed effect while for model of poverty it suggests Random effect, the results shown in Table 2.

Table 2: Results of Fixed and Random Effect

Fixed Effect on Education		Random Effects on Poverty	
Edu.	Coeff.	Pov.	Coeff.
Y	-0.70	Y	-0.0.32
C	-1.51	C	-6.52
L	-11.73	L	-14.61
B	0.00	B	19.34
P	-249.43	P	10.15
G	273.26	G	339.38
Constant	215.47	Constant	8.17
R-square	0.85	R-square	0.81

The negative sign of growth shows reduction in poverty while negative signs of corruption and law order shows improvement in them and positive sign shows positive impact of governance in order to increase education and reduce poverty. . So in the equation of education the Haussmann test suggests fixed effect while in model of poverty it suggests Random effect and there results are: The negative sign of growth shows reduction in poverty while negative signs of corruption and law order shows improvement in them and positive sign shows positive impact of governance in order to increase education and reduce poverty as in [7] the researchers founded. The results of Arellano Bond model for both equations are:

Table 4: Dynamic Panel data Estimation, one-step GMM

Poverty	Coeff.	Education	Coeff.
Y	1	Y	-6.33e-12
C	-5.80e-13	C	3.19e-10
L	2.22e-10	L	1.43e-08
P	-6.13e-11	P	-3.17e-08
G	-4.47e-09	G	1
Constant	1.52e-09	constant	1.31e-08
Prob.>chi square =1.000			

The results of Arellano Bond estimation are almost same as of fixed and random effect and showing the reduction in poverty with rise in growth and indicated the need to promote education level as growth is affecting it negatively. Similarly improvement in institutions leads towards alleviation in

poverty and rise in education. Governance is playing a significant role to reduce poverty and to increase education. Our results are similar to [2] as they indicate that bureaucratic quality is highly significant that improve overall quality of institutions and reduces poverty.

By using principal component analysis and making a single series for governance and institutions the result for random effect in equation of poverty and fixed effect in education are:

Table 6: Results of PCA

Poverty	Coeff.
Gdp per capita	-0.04
Institutions	-3.55
Governance	0.19
Constant	59.24
Education	**Coeff.**
Gdp per capita	-0.03
Institutions	1.26
Governance	-0.30
Constant	130.75

The results shows the tradeoff between economic growth and poverty reduction similarly improvement in institutions is reducing poverty and increasing education level and governance is also playing significant role in poverty alleviation and improving education.

CONCLUSION:

The goal of this study is to determine the impact of governance and institutions on education and poverty alleviation in six SAARC countries for the period 1996-2012. A cross sectional panel data frame work is used to accomplish this task. The OLS technique, fixed and random effect technique, Arellano Bond and in last by using principal component analysis was used for both poverty and education. Overall the empirical results indicate that in all countries economic growth and poverty has a tradeoff that is with more growth there is a reduction in poverty, but the inverse sign of education indicates that level of education does not grow so much with growth because of less awareness and availability of resources as low level of education and poverty are the main problems of developing nations than if there will be a good or improved governance it will provides a policy for examining the long set of choices of institutional changes and proper initiatives which are currently considered as essential for development. Institutions affect both poverty and education directly and indirectly through number of channels which in turn affect government policies for making decisions regarding poverty reduction and quality education. However, poor governance and weak institutional structure also remained the persistent issue of developing economies. In the same way the negative sign of indicator of institution indicates improvement in them and showing reduction in poverty and rise in education. The signs of governance show that government has a very vital role in reducing poverty and increasing education. In order to improve education sector there is a need of nation's policies, public spending's and also by improving trade and enhancing more and more foreign investment will leads not only to reduce poverty in fact it will leads towards more improvement in education sector. If we focus on institutions they affect poverty both directly and

indirectly via a number of mediating factors. Institutions influence government policies, which in turn influence growth and distributional outcomes, which then affect the pace of poverty reduction. In addition, institutions directly influence the pace and quality of economic growth. Then, of course, government policies affect institutions as well. The impact of institutions whether political, social, cultural or administrative on poverty reduction is general so there is a need to improve structure of institutions by improving policies of government.

Our study shows that the governance and institutions are affecting greatly to poverty and education, and our empirics support several theoretical and empirical studies on the positive and significant impact of governance and institutions on poverty reduction and improve the quality of education. The institutions should also provide some fundamental support for the effectiveness in improving economic growth and development, quality of education and also poverty reduction in poor and developing countries. To mitigate the poverty and better quality of education, government should take steps to improve the structure of institutions and it is possible through better policies.

REFERENCES:

[1] Al-Samarrai, Samer, The impact of governance on education inequality: Evidence from Bangladesh, *Public administration and development*, **29.3** (2009) 167-179.

[2] Chong, A., & Calderon, C., Institutional quality and poverty measures in a cross-section of countries. *Economics of Governance*, **1** (2000), 123-135.

[3] Knott, Jack H., and A. Abigail Payne, The impact of state governance structures on management and performance of public organizations: A study of higher education institutions, *Journal of Policy Analysis and Management*, **23.1** (2004) 13-30.

[4] Lewis, Maureen, and Gunilla Pettersson, Governance in education: raising performance, *World Bank Human Development Network Working Paper, December* (2009).

[5] Perera, L. D. H., & Lee, G. H., Have economic growth and institutional quality contributed to poverty and inequality reduction in Asia?, *Journal of Asian Economics*, **27** (2013), 71-86.

[6] Rizk, R., Governance and Its Impact on Poverty Reduction: Is there a role for Knowledge Management?, *International Journal of Innovation and Knowledge Management in Middle East & North Africa,* **1**(2012).

[7] Schiff, Maurice, and Yanling Wang, Education, governance and trade-related technology diffusion in Latin America, *IZA Discussion paper series*, **1028** (2004).

[8] Scholte, Jan Aart, The impact of global governance on poverty in the UK, *York: Joseph*, **2557** (2010).

[9] Engerman, S. L., & Sokoloff, K. L., Factor endowments, institutions, and differential paths of growth among new world economies. *How Latin America Fell Behind*, (1997) 260-304.

[10] Rajkumar, Andrew Sunil, and Vinaya Swaroop, Public spending and outcomes: Does governance matter?, *Journal of development economics* **86.1** (2008) 96-111.

[11] Poverty reduction and the role of institutions in developing Asia. No.10. Manila: *Asian Development Bank*, (2002).

[12] Dollar, D., & Kraay, A., Trade, growth, and poverty, *The Economic Journal*, **114** (2004), 22-49.