FISCAL POLICY AND PRIVATE CONSUMPTION IN WEST AFRICA: The Moderating Role of Governance

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ABSTRACT

This study investigates the impact of fiscal policy on private consumption in West Africa as well as the moderating role of governance on the effect of fiscal policy on household consumption and its direct effect on private consumption. The study utilized the IV-FE estimator on data for 16 West African countries from 2000 to 2020. The results show that fiscal policy significantly increases household consumption in West Africa, but its effect reduces marginally due to its interaction with governance. Furthermore, governance moderates the effects of fiscal policy on household consumption in West Africa. The interaction between fiscal policy and governance negatively affects the fiscal policy variable alone, with the interactive term being insignificant at all levels. The study concluded by highlighting the importance of fiscal policy and governance in shaping household consumption in West Africa.

1. Introduction

Fiscal policy refers to the way government employs taxation, public borrowing, and spending to achieve a range of economic policy goals. Put simply, it is the government's approach to taxing and spending in order to attain sustainable growth (Horton and El-Ganainy, 2023). Governments can

influence fiscal policy by adjusting the types and amounts of taxes, borrowing, and spending. Maintaining the value of money, boosting employment, and containing inflation all depend on sound fiscal policies, which are crucial for managing the economy (Economic Times, 2023). For example, a government may announce tax cuts to encourage spending or introduce new taxes or raise existing ones during periods of significant inflation (Auerbach & Gale, 2009). During times of negative growth, the public and investors may lose faith in the economy, leading to reduced demand and production. In such cases, the government might increase expenditure to offset the decline in private sector investment and stimulate the market (Freedman et al., 2010). Macroeconomists generally agree that fiscal expansion (increase in government expenditure and tax cuts) reduces unemployment through job creation and enhances the output of an economy, and yields a favourable balance of payments (Saka et al., 2021).

In view of the importance of fiscal policy, this study explores two major issues: (i) the effect of fiscal policy on private consumption, and (ii) the influence of governance on the effect of fiscal policy on private consumption, as well as its direct effect on private consumption. First, the study examines the effect of fiscal policy on private or household consumption expenditures. Household consumption expenditure—also referred to as private consumption or consumer expenditure—is personal spending on goods and services, mainly for household use (Keho, 2019). It includes rents, administrative costs of life assurance and pension funds, and purchases of land and buildings. Consumer expenditure accounts for half to two-thirds of GDP in most countries, and a 1% increase in consumer expenditure typically contributes about a 0.6% rise in total GDP (The Economist Group, 2023). Factors influencing consumption include income, price expectations, interest rates, consumer credit, wealth, stock levels and prices of durable goods, and social factors (Keho, 2019). Higher personal incomes generally lead to more spending, while certain price expectations can result in increased saving or borrowing. Fiscal policy has been linked to private consumption. Statistically, all regions of the African continent saw a decline in the average fiscal deficit, though West Africa recorded a larger deficit in 2022—estimated at 5.6% of GDP—due to ongoing infrastructure investment and weak domestic resource mobilization. Although this figure was expected to decline to 5.2% in 2023

and 4.9% in 2024, it remained the highest on the continent (African Development Bank, 2023). Similarly, private household spending contributed just 179% of the 3.8% GDP increase in 2022, compared to 273% in 2021, raising concerns for regional economic growth (African Development Bank, 2023).

Second, a key focus of this study is the role of governance in shaping the impact of fiscal policy on private consumption. Theoretically, the relationship between governance and fiscal policy is vital in determining a country's economic environment. Transparency and accountability in the formulation, implementation, and monitoring of fiscal policies are achieved through effective governance. Prudent fiscal measures—such as taxation, government spending, and debt management—significantly influence private consumption. Effective fiscal management can promote economic stability, boost investor confidence, and provide essential public goods and services, all of which can indirectly enhance private consumption (Temsumrit, 2022). Moreover, sound fiscal governance, free from corruption, fosters public trust in institutions, thereby encouraging consumer spending and investment and supporting economic growth and stability. Alesina and Passalacqua (2016) also note that because redistribution across people, regions, and generations is central to political conflict, fiscal policy is deeply intertwined with politics. Since the introduction of welfare programmes during the Great Depression and their expansion in the 1960s and 1970s, governments have increasingly assumed a redistributive role (Horton and El-Ganainy, 2023). Issues such as healthcare and unemployment insurance, capital taxation, international tax coordination, pension systems, and the balance between centralization and decentralization all reflect the political dimensions of fiscal policy (Economic Times, 2023). Empirically, studies like Temsumrit (2022) have shown that procyclical fiscal policy can be curbed by improving institutional quality, with stronger effects observed in democratic countries than in non-democratic ones.

This study, by looking at the moderating role of governance on the effects of fiscal policy on household consumption in West Africa, holds critical significance against the backdrop of West Africa's economic landscape. This region confronts a variety of issues pertaining to household welfare and economic stability, as seen by its varied fiscal policies, low household

spending, and weak governance structures. Household consumption in West African countries remains considerably lower compared to nations such as South Africa, Kenya, Algeria, Egypt, and Tunisia. According to the World Bank (2024), household consumption expenditure stands at 32,900 PPP (constant 2021 International $) for both Benin and Burkina Faso, 44,143 PPP for Mali, 17,782 PPP for Togo, and 49,815 PPP for Senegal. In contrast, Ghana and Ivory Coast report significantly higher figures of 166,074 PPP and 120,490 PPP respectively. These disparities highlight notable differences in consumer spending within the region. Governance quality, which is relatively weak across several West African nations, further compounds the issue. According to the Worldwide Governance Indicators, Nigeria ranks 140th out of 180 countries with a Corruption Perceptions Index (CPI) score of 26, reflecting persistent governance challenges, particularly in political stability and corruption control (Transparency International, 2024). Ivory Coast, despite economic improvements, records a low government effectiveness score of -0.36% and a control of corruption percentile rank of 30.66%. Conversely, Senegal shows stronger governance, with a government effectiveness score of 54.25% and a CPI score of 45 (Transparency International, 2024). These variations underscore the importance of assessing how governance influences the relationship between fiscal policy and private consumption in the region.

Therefore, by an examination of the complex interactions among household spending, fiscal policies, and governance quality, this study fills a significant vacuum in the current body of research. Several fiscal policies have been put in place by West African nations recently in an effort to boost household welfare and promote economic growth (Aregbeyen, 2020). However, the standard of governance procedures that are followed in each country has a significant impact on how effective these policies are. Effective, responsible, and transparent governance can boost the benefits of fiscal policies on household consumption, promoting personal prosperity and economic resilience. On the other hand, ineffective governance institutions might impede the desired results, resulting in unequal economic distribution and impeding social advancement. Thus, understanding the intricate correlation among fiscal policies, household consumption, and governance is crucial for development practitioners, economists, and policymakers. The

remainder of this study is divided into four parts: the theoretical issues and review of literature; the methodology, the results and discussion; and the conclusion.

2. Theoretical Issues and Review of Literature

The relative income hypothesis (RIH) serves as the theoretical framework for this study, focusing on the relationships between government final consumption expenditure, household consumption expenditures, and governance quality in West Africa, representing fiscal policy, household consumption, and governance respectively. The RIH, proposed by the economist, James Duesenberry, posits that individuals' consumption decisions are influenced by their income relative to others in society, rather than by their absolute income levels (Drakopoulos, 2021). This theory suggests that people tend to compare their own incomes and consumption patterns to those of their peers, neighbours, or societal norms (Storey, 2017). The RIH can be applied and justified in the context of this study in several ways. First, applying the RIH to this study assumes that households in West Africa may base their consumption decisions not only on absolute income levels but also on the income levels and consumption patterns of others in their communities or social circles. In a region marked by significant income disparities (Anyanwu et al., 2016), understanding how relative income influences consumption provides insights into the nuanced dynamics of spending behaviour.

Second, government final consumption expenditure, as a fiscal policy variable, can influence households' relative income positions. When government spending is channeled effectively, it can create employment opportunities, improve infrastructure, and enhance access to public services. Consequently, this may affect the relative income positions of households (Cantore & Freund, 2021), especially those in lower-income brackets, thereby shaping their consumption choices. For instance, increased public investment in education and healthcare could elevate the relative income status of households with limited access to these services, leading to changes in their consumption patterns. Third, governance quality, as measured by the Worldwide Governance Indicators, plays a crucial role in shaping the relative

income landscape. Transparent and accountable governance structures ensure that fiscal policies are implemented efficiently and equitably. Good governance facilitates well-targeted social welfare programmes, which can reduce income inequality among households. Consequently, the relative income positions and consumption behaviours of households may be influenced by the quality of governance, moderating the relationship between government expenditure and household consumption.

Empirical studies examining the impact of fiscal policy on household consumption have produced diverse findings, revealing both substitutive and complementary relationships between government spending and private consumption. Some studies suggest that government expenditure may displace private consumption—a phenomenon known as the crowding-out effect. For instance, Baxter and King (1993) proposed that government expenditure could potentially crowd out private consumption. Similarly, Ho (2001) supported the notion of a substitutive relationship between public spending and private consumption. Khanfir (2016) also found Keynesian effects of government spending and tax revenues on the economy, noting that the level of private debt plays a significant role in shaping the impact of fiscal policy on private consumption.

In contrast, other studies provide evidence of a crowding-in effect, where government spending complements and stimulates private consumption. Durkaya (2012) identified a positive relationship between government expenditure and private consumption in Turkey. A similar positive association was observed by Khalid et al. (2015) in China, suggesting that public spending can enhance private consumption. Dahmardeh et al. (2011) also reported a positive link between government expenditure and private consumption in 13 developing Asian countries, emphasizing the role of real disposable income in this dynamic. Jönsson (2007) discovered that fiscal contractions, particularly those involving significant transfer cuts, could lead to expansions in private consumption. Likewise, Sugiarto and Wibowo (2020) concluded that increased government spending stimulates household consumption expenditure across Asian nations. Tagkalakis (2008) found that government expenditure correlates positively with private consumption during both recessions and expansions, emphasizing the greater effectiveness

of fiscal policy when a substantial portion of the population faces liquidity constraints.

Kwan (2006) identified government spending and private consumption as substitutes in East Asia, with moderate elasticity of substitution for China, Hong Kong, Japan, and Korea. Mahmud and Ahmed (2012) found evidence suggesting that higher government spending can suppress household consumption. Similarly, Keho (2019) confirmed the negative impact of government consumption on private consumption. In contrast, Ominyi (2023) observed that both short- to medium-term and long-term dynamic elasticities positively influence private consumption expenditure and economic growth. Schclarek (2007) noted Keynesian effects of government consumption shocks in both industrial and developing countries. Keho (2019) also examined the dynamic interplay between government spending and private consumption in Côte d'Ivoire. Alessandro (2010) reported a negative correlation between government and private consumption, while Pius and Johnson (2020) investigated the influence of government expenditure on private consumption in Nigeria, finding a positive but statistically insignificant relationship. These diverse findings highlight the complexity of the relationship between fiscal policy and household consumption, which is shaped by factors such as economic conditions, specific policy measures, and regional contexts.

The relationship between governance and household consumption has not been extensively studied, with limited empirical evidence available. However, a few studies have explored this relationship in developing countries. For example, Edeme and Mumuni (2023) examined the influence of terms of trade and governance on household income. Their study utilized data from 36 African countries spanning the period 2002 to 2021 and employed the two-stage least squares (2SLS) method to estimate fixed effects. Using household final consumption expenditure as a proxy for household income, their findings indicate that improved terms of trade significantly enhance household income. Furthermore, governance indicators such as political stability, regulatory quality, rule of law, government effectiveness, and control of corruption were found to have positive and significant impacts on household income levels across Africa. Similarly, Dhrifi (2014) explored the effects of financial crises on household consumption. The study analysed aggregate annual data from 36 emerging countries covering the period 1990

to 2012, developing a model that captures the interplay between financial crises and household consumption. Although the primary focus was on financial crises, the study included institutional quality as a control variable. The results revealed that institutional quality significantly boosted household consumption. Together, the studies by Dhrifi (2014) and Edeme and Mumuni (2023) underscore the importance of good governance in fostering economic stability and growth, ultimately benefiting household consumption. They suggest that strong institutions, effective regulatory frameworks, and political stability can enhance household income and consumption, even during economic shocks such as financial crises. Understanding the broader impacts of governance on household consumption is thus crucial for designing policies that promote economic well-being and resilience.

3. Methodology

3.1 Model specification based on the estimation techniques

3.1.1   *Instrumental Variable Fixed Effects Model*

The instrumental variable fixed effects estimation technique is utilized in this study based on two important reasons. First, in panel data analyses, country specific characteristics which are unobservable are always likely to negative influence the reliability and consistency of estimates. Second, the issue of reverse causality/simultaneity among regressors is a common problem also in panel data. However, the instrumental variable fixed effects model is able to account for these problems (Ifelunini et al., 2023). The problem of reverse causality/simultaneity is corrected through the process of instrumentation. This is done basically by instrumenting the regressors with their first lags (Iheonu et al., 2021).

$$X_{i,t} = \alpha_0 + \alpha_j\big(X_{i,t-1}\big) + u_{i,t} \qquad (1)$$

where:

   $X_{i,t}$ is a regressor in country i at time t

   α_0 is the intercept

   $X_{i,t-1}$ is the first lag of the regressor

   $u_{i,t}$ is the error term

Equation (2) presents the fixed effects model where;

$$Household\ consumption_{i,t} =$$
$$\theta_0 + \theta_1 Fiscal\ Policy_{i,t} + \theta_2 Governance_{i,t} + X_{i,t} + \alpha_i + u_{i,t} \quad (2)$$

where:

$Household\ consumption$ is the dependent variable

$Fiscal\ Policy$ and $Governance$ are the main explanatory variables,

X is composed of the other explanatory variables which include exchange rate, inflation rate, interest rate, and globalization

α_i is country specific effect

$u_{i,t}$ is the error term

3.2 Data sources

This study used panel data from sixteen West African nations between 2000 and 2020, including Nigeria, Ghana, Senegal, Benin Republic, Gambia, Cape Verde, Ivory Coast, Guinea, Guinea-Bissau, Burkina Faso, Liberia, Niger, Togo, Mali, Mauritania and Sierra Leone. The study's time frame and number of participating nations were determined by the data that is available. The study's dependent variable was household consumption spending, whereas the independent variables were fiscal policy proxied by government final consumption expenditures (constant 2015 US$), and governance indicators, including corruption control, government effectiveness, political stability, regulatory quality, rule of law, and voice. The control variables used were inflation rates, official exchange rate, interest rate and globalization. Every variable was taken from the World Development Indicators (2022) report.

Table 1: Variables and Sources

Variable	Proxy	Source
Household Consumption	Households and NPISHs Final Consumption Expenditure (constant 2015 US$)	WDI (2022)
Fiscal Policy	Government Final Consumption Expenditures (constant 2015 US$)	WDI (2022)
Exchange Rate	Official Exchange Rate	WDI (2022)
Interest Rate	Real Interest Rate	WDI (2022)

Variable	Proxy	Source
Inflation Rate	Inflation, CPI	WDI (2022)
Globalization	KOF Globalization Index	WDI (2022)
Corruption	Control of Corruption	WGI (2022)
Government Effectiveness	Government Effectiveness: Estimate	WGI (2022)
Political Stability	Political Stability and Absence of Violence/Terrorism: Estimate	WGI (2022)
Regulatory Quality	Regulatory Quality: Estimate	WGI (2022)
Rule of Law	Rule of Law: Estimate	WGI (2022)
Voice and Accountability	Voice and Accountability: Estimate	WGI (2022)
Governance	Governance Index Generated Using Principal Component Analysis	STATA 15 computation

Source: Authors' computation.

3.3 Estimation procedure and statistical package

The instruments for the explanatory variables in the fixed effects model were obtained by first saving the fitted values from an ordinary least squares (OLS) regression, as specified in Equation (1). These fitted values, derived from the OLS regression, were then utilized as instruments for the regressors in the model. To address potential endogeneity, the study applied heteroskedasticity and autocorrelation consistent (HAC) standard errors during the instrumentation process. This approach to instrumentation aligns with established literature, such as Efobi et al. (2019). Following the completion of the instrumentation, the models were estimated. All analyses were conducted using the STATA 15 statistical package.

4. Presentation of Results and Discussion of Findings

4.1 Presentation of results

4.1.1 *Descriptive Results and Correlation*

A summary of all the variables used in this study is presented in Table 2. Of much importance are the means of the key variables. For instance, the means of household consumption and fiscal policy for the West African countries in the study sample were 29548902131 and 3070706757 respectively, in constant 2015 US$. However, these figures may not be accurate due to the fact that information for certain years in some countries was not available.

Hence, the panel is unbalanced and validates the choice of the estimation technique adopted. For governance, the means show that the condition of governance in the region is poor as all figures are negative.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Household Consumption	283	2.955	8.017	5.743	3.874
Fiscal Policy	283	3.071	7.608	35757011	5.349
Corruption	320	-0.617	.52	-1.597	1.127
Government Effectiveness	319	-0.824	.431	-1.807	.341
Political Stability	320	-0.532	.802	-2.403	1.224
Regulatory Quality	320	-0.65	.374	-1.856	.173
Rule of Law	320	-0.678	.52	-1.881	.662
Voice	320	-0.36	.589	-1.46	.975
Exchange Rate	335	659.252	1476.853	.545	9565.082
Inflation Rate	335	6.711	12.119	-11.876	100.608
Interest Rate	223	6.529	8.252	-29.708	32.768
Globalization	336	46.57	6.895	28.758	61.187

Source: Authors' computations.

Table 3 shows the matrix of correlations for the variables used in this study. Primarily, the levels of correlation between the independent variables are of interest. No high correlation is seen among the variables, suggesting that multicollinearity is avoided. The high correlation is visible among the indicators of governance which is why they are estimated differently.

4.1.2   *Regression Results*

Estimations were done for all governance indicators separately, and then for the index of governance. Table 3 shows the regressions results revealing the effect of fiscal policy and governance on household consumption without interactions. The results show that fiscal policy significantly increases household consumption in West Africa. This means that fiscal policy has a positive influence on household consumption in West Africa across all the models estimated. The coefficient of the fiscal policy is also approximately the same across all models showing the different indicators of governance. However, the results show that governance, including all the indicators, did

not significantly impact household consumption in West Africa. For the control variables, the results show that exchange rate appreciation significantly drives household consumption higher with its effect being marginal. Also, rising interest rate and inflation rate significantly reduce household consumption expenditure in West Africa. However, the results reveal that globalization significantly increases household consumption in West Africa.

Meanwhile, Table 4 shows the regressions results revealing the effect of fiscal policy and governance on household consumption with interactions. First, the results show that fiscal policy significantly increases household consumption across all the models estimated. However, the size of this effect reduces marginally as a result of its interaction with governance. Second, the results show that governance, including all the indicators did not significantly impact household consumption. However, across all models estimated, when fiscal policy is interacted with all indicators of governance and the overall governance index, the coefficient of the interactive term is insignificant. This therefore shows that governance moderates the effects of fiscal policy on household consumption in West Africa.

4.2 Discussion of findings

The results of the models estimated in this study to ascertain the moderating role of governance on the effect of fiscal policy on household consumption in West Africa yields interesting results. First, the results show that fiscal policy significantly increases household consumption in West Africa. Secondly, the results show that governance, including all the indicators did not significantly impact household consumption in West Africa. Thirdly, the regressions result also revealed the effects of fiscal policy and governance on household consumption with interactions are vital. Specifically, fiscal policy significantly increases household consumption in across all the models estimated, nonetheless, the size of this effect reduces marginally. However, across all models estimated, when fiscal policy is interacted with all indicators of governance and the overall governance index, the coefficient of the interactive term is insignificant. The results therefore reveal that governance moderates the effects of fiscal policy on household consumption in West Africa.

Table 3: Regressions Results showing the effect of fiscal policy and governance on household consumption without interactions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	HH Cons	HH Cons	HH Cons	HH Cons	HH Cons	HH Cons	HH Cons
Fiscal Policy	0.107***	0.107***	0.107***	0.104***	0.109***	0.108***	0.107***
	(0.0234)	(0.0218)	(0.0221)	(0.0226)	(0.0226)	(0.0219)	(0.0234)
Exchange Rate	0.000983***	0.00100***	0.000983***	0.00100***	0.000995***	0.000906***	0.000983***
	(0.000186)	(0.000180)	(0.000182)	(0.000182)	(0.000182)	(0.000189)	(0.000186)
Inflation Rate	-0.0232*	-0.0232*	-0.0236*	-0.0228*	-0.0233*	-0.0230*	-0.0232*
	(0.0110)	(0.0109)	(0.0110)	(0.0110)	(0.0110)	(0.0109)	(0.0110)
Interest Rate	-0.0230	-0.0221	-0.0235*	-0.0224	-0.0233*	-0.0218	-0.0230
	(0.0117)	(0.0116)	(0.0118)	(0.0117)	(0.0117)	(0.0117)	(0.0117)
Globalization	0.0410***	0.0416***	0.0408***	0.0411***	0.0408***	0.0404***	0.0410***
	(0.00280)	(0.00268)	(0.00271)	(0.00269)	(0.00270)	(0.00269)	(0.00280)
Corruption	0.00648						
	(0.0485)						
Gov. Effectiveness		0.0891					
		(0.0466)					
Pol. Stability			-0.00715				
			(0.0195)				
Reg. Quality l				0.0393			
				(0.0494)			
Rule of Law					-0.0163		

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	HH Cons	HH Cons	HH Cons	HH Cons	HH Cons	HH Cons	HH Cons
					(0.0486)		
Voice						0.0544	
						(0.0375)	
Governance							0.00321
							(0.0241)
_cons	18.37***	18.38***	18.37***	18.43***	18.30***	18.39***	18.36***
	(0.488)	(0.455)	(0.463)	(0.472)	(0.475)	(0.458)	(0.479)
R^2	0.820	0.824	0.820	0.820	0.820	0.822	0.820
AIC	-357.9	-361.9	-358.0	-358.6	-358.0	-360.2	-357.9
BIC	-335.3	-339.3	-335.4	-336.0	-335.4	-337.6	-335.3
F	126.6	130.0	126.8	127.2	126.7	128.6	126.6
N	186	186	186	186	186	186	186

Standard errors in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 4: Regressions Results showing the effect of fiscal policy and governance on household consumption with interactions

	(1) HH Cons	(2) HH Cons	(3) HH Cons	(4) HH Cons	(5) HH Cons	(6) HH Cons	(7) HH Cons
Fiscal Policy	0.0878*	0.0994*	0.0621*	0.0707*	0.101*	0.106***	0.0993***
	(0.0453)	(0.0447)	(0.0356)	(0.0355)	(0.0438)	(0.0267)	(0.0279)
Exchange Rate	0.00100***	0.00101***	0.00101***	0.000988***	0.00101***	0.000918***	0.00100***
	(0.000191)	(0.000182)	(0.000182)	(0.000182)	(0.000194)	(0.000205)	(0.000191)
Inflation Rate	-0.0234*	-0.0232*	-0.0263*	-0.0205	-0.0236*	-0.0231*	-0.0234*
	(0.0110)	(0.0109)	(0.0111)	(0.0111)	(0.0111)	(0.0110)	(0.0110)
Interest Rate	-0.0229	-0.0221	-0.0259*	-0.0193	-0.0234*	-0.0218	-0.0229
	(0.0117)	(0.0116)	(0.0118)	(0.0120)	(0.0118)	(0.0117)	(0.0117)
Globalization	0.0415***	0.0416***	0.0412***	0.0414***	0.0409***	0.0404***	0.0415***
	(0.00295)	(0.00269)	(0.00272)	(0.00269)	(0.00271)	(0.00270)	(0.00295)
Corruption	0.392						
	(0.798)						
FIS Corruption	-0.0184						
	(0.0380)						
Gov. Effectiveness		0.234					
		(0.704)					
FIS Gov. Effectiveness		-0.00716					
		(0.0348)					
Political Stability			0.542				
			(0.341)				
FIS Political Stability			-0.0264				
			(0.0164)				
Regulatory Quality				0.968			
				(0.776)			

	(1) HH Cons	(2) HH Cons	(3) HH Cons	(4) HH Cons	(5) HH Cons	(6) HH Cons	(7) HH Cons
FIS Regulatory Quality				-0.0451			
				(0.0376)			
Rule of Law					0.146		
					(0.766)		
FIS Rule of Law					-0.00778		
					(0.0366)		
Voice						0.121	
						(0.444)	
FIS Voice						-0.00329	
						(0.0219)	
Governance							0.195
							(0.396)
FIS Governance							-0.00913
							(0.0188)
_cons	18.73***	18.54***	19.28***	19.07***	18.47***	18.43***	18.48***
	(0.897)	(0.906)	(0.732)	(0.711)	(0.897)	(0.543)	(0.543)
R^2	0.820	0.824	0.823	0.822	0.820	0.822	0.820
AIC	-356.2	-360.0	-358.9	-358.2	-356.1	-358.2	-356.2
BIC	-330.4	-334.1	-333.1	-332.4	-330.2	-332.4	-330.4
F	108.1	110.8	110.1	109.5	108.0	109.6	108.1
N	186	186	186	186	186	186	186

Standard errors in parentheses
* p <0.1, 0.05, ** $p < 0.01$, *** $p < 0.001$

4.2 Discussion of findings

The results of the models estimated in this study to ascertain the moderating role of governance on the effect of fiscal policy on household consumption in West Africa yields interesting results. First, the results show that fiscal policy significantly increases household consumption in West Africa. Secondly, the results show that governance, including all the indicators did not significantly impact household consumption in West Africa. Thirdly, the regressions result also revealed the effects of fiscal policy and governance on household consumption with interactions are vital. Specifically, fiscal policy significantly increases household consumption in across all the models estimated, nonetheless, the size of this effect reduces marginally. However, across all models estimated, when fiscal policy is interacted with all indicators of governance and the overall governance index, the coefficient of the interactive term is insignificant. The results therefore reveal that governance moderates the effects of fiscal policy on household consumption in West Africa.

The observed results delineate a positive and statistically significant nexus between fiscal policy and household consumption in West Africa, aligning coherently with Keynesian economic precepts. The discerned impact implies that an augmentation in government final consumption expenditure, constituting fiscal stimulus, is likely to precipitate heightened economic activity, resulting in elevated income levels and, consequently, augmented household consumption. This finding is in concordance with extant literature and is theoretically congruous with the anticipated multiplier effects of government spending in the developmental context of West Africa. Furthermore, the obtained result indicating that governance indicators in isolation lack statistical significance in influencing household consumption is indicative of potential systemic challenges in extant governance structures across the region. Weak governance, characterized by corruption and inefficiencies, may obstruct the efficacious execution of policies intended to directly benefit households. This outcome underscores the imperative of considering the comprehensive quality of governance rather than the disaggregated evaluation of individual indicators.

The main focus of this study revolves around the moderating effect of governance on the nexus between fiscal policy and household consumption. The marginal contraction in the magnitude of the fiscal policy coefficient when interacting with governance indicators implies a moderating effect. The insignificance of coefficients pertaining to interactive terms, specifically when fiscal policy is interacted with governance indicators and the overall governance index, implies that the efficacy of fiscal policy in stimulating household consumption is contingent upon the quality of governance in West Africa. The insignificance of interactive terms across models prompts pertinent inquiries. This finding suggests that the moderating influence of governance may not be uniform across various governance dimensions, or alternatively, unobservable factors may be influencing the relationship. Thus, a deeper exploration into specific governance indicators could furnish insights into dimensions of governance that exhibit a more pronounced moderating impact on fiscal policy. The insignificant coefficients associated with governance in models featuring interactions may be ascribed to the intricate nature of governance dynamics. It is plausible that the composite governance index might not encapsulate specific governance intricacies that are pivotal for comprehending its moderating role. Additionally, the time-lagged manifestation of governance reforms in terms of their impact on household consumption may render immediate effects challenging to discern. Finally, the findings of this study corroborate those of Pius and Johnson (2020), Keho (2019), Ominyi et al., (2023), Khalid et al. (2015), and Arapova (2018), who also found that fiscal policy has a significant and positive impact on household consumption. However, this study establishes further, the interlink between fiscal policy and governance within the context of West Africa, thus creating an avenue for future debate as well as empirical debates, providing policy makers with a clear pathway as to the implementation of fiscal policy, especially to stimulate household consumption.

Overall, this study makes a significant contribution to the existing literature by examining the joint influence of fiscal policy and governance on household consumption in West Africa—a topic that remains underexplored in regional empirical discourse. While previous studies have either focused on the impact of fiscal policy on aggregate economic outcomes or assessed governance independently, this research uniquely integrates both dimensions

and introduces governance as a moderating factor in the fiscal policy-private consumption nexus. By employing the IV-fixed effects estimator on a panel of 16 West African countries over two decades, the study provides robust empirical evidence on how fiscal policy independently boosts household consumption, while also revealing that poor governance can dampen its effectiveness. This nuanced finding enhances our understanding of the conditional effectiveness of fiscal interventions in the region. From a policy perspective, the study underscores the imperative of strengthening governance frameworks to optimize the outcomes of fiscal policies. Although fiscal policy significantly drives private consumption, its marginal decline in impact due to interaction with governance signals inefficiencies in public resource allocation, policy execution, or accountability mechanisms. Policymakers in West Africa must therefore prioritize institutional reforms, transparency, and accountability in public finance management to ensure fiscal tools effectively reach and stimulate household-level economic activity. The findings also suggest the need for harmonized fiscal-governance strategies that address both macroeconomic stability and microeconomic welfare. In doing so, West African countries can better harness fiscal policy not only for economic growth but also for inclusive and sustainable development.

5. Conclusion and Policy Implications

This study explores the relationship between fiscal policy, governance, and household consumption in West Africa. Using robust estimation procedures, the findings reveal that fiscal policy's impact on consumption is conditional and positive. Also, governance plays a significant role in shaping these dynamics, but it attenuates the positive effects of fiscal policy on consumption, highlighting the income-dependent nature of the relationship. This study's results on the moderating role of governance on fiscal policy effects in West African household consumption bear crucial policy implications. First, acknowledging the significant positive impact of fiscal policy on household consumption underscores the importance of strategic fiscal measures for stimulating economic activity. Policymakers should

consider targeted fiscal interventions to bolster household spending, especially in the context of economic recovery. Second, the insignificance of governance indicators on household consumption suggests a need for enhanced governance frameworks. Policymakers should prioritize governance reforms to ensure efficient policy implementation and resource utilization, fostering an environment conducive to sustainable economic growth. Third, recognizing the moderating role of governance on fiscal policy effects implies that improving governance can enhance the efficacy of fiscal measures. Policymakers should focus on strengthening governance structures, transparency, and accountability to maximize the positive impact of fiscal policies on household consumption. Moreover, the marginal reduction in the size of the fiscal policy effect when interacting with governance indicators highlights the need for critical policy adjustments. Policymakers should tailor fiscal interventions considering the governance context, ensuring alignment with institutional capacities for optimal outcomes. Ultimately, the insignificance of interactive terms between fiscal policy and governance indicators underscores the imperative for comprehensive governance improvements. Policymakers should prioritize reforms that address governance challenges to unlock the full potential of fiscal policy in fostering household consumption and promoting sustained economic growth in West Africa.

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