

## DEMOCRACY, INSTITUTIONAL QUALITY AND POVERTY IN NIGERIA

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### ABSTRACT

*In explaining the level of poverty in less developed countries, attention is increasingly being focused on the roles of good governance and quality institutions. While democracy is expected to reduce poverty through redistribution and equitable access to resources, quality institutions can incentivize human capital investment through the provision of public services such as education and healthcare. Whether this is true for an emerging economy like Nigeria will require robust empirical evidence. Hence, this study investigates the impact of democracy and quality institutions on poverty in Nigeria. It utilized data from the World Bank data catalogue (2023), World Governance Indicators (2023), and the V-Dem Dataset (2023) spanning from 1990 to 2022. Using the Quantile Regression estimation technique, we found a robust positive and statistically strong relationship between weak institutions and poverty. That is, a unit increase in the corruption index will increase poverty by 18%. This statistically significant relationship between institutions and poverty remained consistent when we redefined the democracy variable by decomposing the V-Dem index. However, our results indicate that democracy appears not to matter (0.054) in reducing poverty for the country. It is likely that the effect of democracy is counteracted by the strong influence of weak institutions.*

**Keywords:** Democracy, Institutions, Poverty, Nigeria

**JEL classification:** D72, I32, P16

## **1. Introduction**

Recently, scholars have appeared to focus more on factors such as good governance and the quality of institutions in explaining differences in the level of development among countries, following the inability of the classic models of exogenous growth and endogenous growth to explain the instability of economic growth in equilibrium. Historically, reducing poverty in developing countries has been a central goal in all development agendas. Indeed, the 2030 Agenda for Sustainable Development aims to eradicate extreme poverty by 2030 (Halişçelik and Soytas, 2019).

Global poverty appeared to have declined over time prior to the COVID-19 pandemic. The pandemic significantly reversed the growth progress, with nearly 90 million more people falling into poverty (Mahler et al., 2022). By the end of 2022, it was estimated that 7% of the global population, approximately 575 million people, were living in extreme poverty, with a significant concentration in sub-Saharan Africa (SDGs, 2024). The pandemic exacerbated the growth challenges facing the sub-region, resulting in more job losses, reduced income, and increased vulnerability among the poor. Additionally, climate change continues to pose a severe threat to poverty alleviation, as extreme weather events disproportionately affect low-income populations by disrupting agricultural productivity and food supply chains (Farooq et al., 2022). In sub-Saharan Africa, the persistence of poverty is particularly alarming. The region struggles with high unemployment, political instability, and inadequate social safety nets, and such uncertainties contribute to its vulnerability (Renzaho, 2020; Mekonnen & Amede, 2022). This raises concerns about attaining the 2030 target of the Sustainable Development Goals (SDGs). Hence, mitigating such volatility in economic growth equilibrium is crucial for developing countries.

In Nigeria, poverty is pervasive. According to the National Bureau of Statistics (NBS), 63% of the population (133 million people) live in multidimensional poverty (NBS, 2022). This type of poverty is more prevalent in rural areas, affecting 72% of the rural population, compared to 42% in urban areas. Child poverty is also more severe in rural regions, with nearly 90% of rural children experiencing poverty. This persistent trend has continued since the return of democracy in 1999, thus raising concerns about

whether political regime matters in explaining the level of development of the country.

Political regimes shape the constraints and incentives for key political groups within societies. The political power of these groups, whether de jure or de facto, largely influences the choice of economic institutions, which is based on the anticipated outcomes from these institutions. In essence, political institutions directly affect economic institutions and growth performance (Acemoglu et al., 2005). Therefore, any political institution or form of government must include checks on political power to guarantee property rights for a broad segment of society, fostering good economic institutions. Political institutions with independent judiciary and regulatory bodies are more likely to limit government rent-seeking behaviour and promote accountability to taxpayers (North and Weingast, 1990).

Similarly, controlling corruption, an aspect of economic institutions, can incentivize human capital investment through the provision of public services such as education and healthcare (Reinikka and Svensson, 2005). Effective corruption control encourages the creation of public goods with positive health externalities. Generally, countries with robust economic institutions are more likely to attract investments, engage in trade, and efficiently utilize physical and human capital (Acemoglu et al., 2005).

In this study, we investigate the impact of democracy and institutional quality on poverty in Nigeria by answering two questions: 1) has democracy been pro-poor in Nigeria? and 2) what is the impact of institutional quality on poverty in Nigeria? The motivation for investigating the impact of democracy and institutional quality on poverty in Nigeria is rooted in the need to understand the dynamics of governance and economic well-being in one of Africa's largest economies. Theoretically, it is expected that democracy should provide the framework for inclusive governance (Pickering et al., 2022), which will facilitate the provision of basic needs. Despite its natural and human resources endowments, and with over two decades of uninterrupted practice of democracy, Nigeria continues to grapple significantly with a high level of poverty (Ekeh and Adetayo, 2024). Additionally, this study focuses on the role of a crucial determinant of

economic development: institutional quality. The effectiveness of institutions in delivering social welfare and economic prosperity cannot be overemphasized (Poniatowicz et al., 2020).

This study extracted annual series from the World Bank Data Catalogue (2023), the V-Dem Democracy Index (Coppedge et al., 2025) and the Worldwide Governance Indicators (2024), and applied the quantile regression estimator to provide robust evidence on the effect sizes of democracy and institutions in reducing poverty. The study's findings contribute to resolving the debate on the exact nature of the relationship between poverty, democracy and quality institutions. Empirical evidence of the effect of democracy on poverty across countries is mixed. While some studies report counterintuitive effects (See Fambeu, 2021), others show non-statistical relationships (Adnan and Amri, 2021; Dörffel and Freytag, 2023), with some studies revealing a negative relationship between democracy and poverty reduction. This study provides new evidence on the nature of the relationship, taking into consideration the threshold effects of democracy.

This study is structured into five sections. Following the introduction in section 1, section 2 discusses theoretical and empirical issues. The data and methodology used in this study are presented in section 3, while the results and findings are discussed in section 4. The conclusions and policy implications are presented in section 5.

## **2. Theoretical Issues and Empirical Studies**

The inability of the classic models of exogenous growth to explain the stability of economic growth in equilibrium gave rise to the development of endogenous growth models by scholars such as Romer (1986), Lucas (1988), and Barro (2001). These models sought to explain the role of physical and human capital accumulation and productivity in economic growth. Even this generation of growth models has failed to explain how countries have varied in economic growth, productivity, and innovation. Recently, scholars have appeared to focus more on factors such as good governance and the quality of institutions in explaining differences in the levels of development between countries.

Good governance stimulates a country's economic growth (Touitou and Boudeghdegh, 2021). It promotes accountability, transparency, and inclusive systems that drive economic growth and reduce inequality. Democracy as a *good* system of government is argued to strengthen institutions, ensure the rule of law, and promote citizen participation. Theoretically, it is expected that democracy should provide the framework for inclusive governance (Pickering et al., 2022), which will facilitate the provision of basic needs. Democratic governments are expected to implement policies that encourage wealth redistribution, eliminate barriers hindering the poor from accessing economic opportunities, and ensure better access to societal institutions (United States Agency for International Development, 2024). These aspects are crucial for creating an environment where all citizens, particularly the marginalized, thrive. Democracies typically provide platforms for the voices of the poor to be heard, leading to the formulation of policies that address their specific needs. Tach and Edin (2017) argue that democracies are more likely to establish social safety nets and welfare programmes that reduce poverty and enhance the quality of life of the poor.

Similarly, strong institutions are widely regarded as essential for establishing robust economic and social systems that facilitate overall development and poverty reduction. These institutions, which include legal frameworks, regulatory bodies, and enforcement agencies, provide the foundation for stable governance, economic growth, and social welfare (Davis and Trebilcock, 1999). Effective institutions ensure the rule of law, protect property rights, enforce contracts, and maintain public order, which are all critical for fostering a conducive environment for investment and economic activities (Dam, 2007; Shirley, 2005). Furthermore, strong institutions are expected to deliver essential services such as education, healthcare, and social protection, which are vital for improving living standards and reducing poverty. However, emerging evidence suggests that the relationship between strong institutions and poverty reduction is more complex than traditionally assumed. In many developing countries, including Nigeria, the presence of formal institutions does not always translate into effective governance or improved welfare for the poor (Grindle, 2007; Perera

and Lee, 2013). Institutional weaknesses such as inefficiency, lack of accountability, and corruption can significantly diminish the positive impact of these institutions on development and poverty alleviation (Tebaldi and Mohan, 2010). For instance, even with well-structured institutions, if corruption is rampant, the resources intended for public services and poverty reduction may be siphoned off for private gain. Also, strong institutions may sometimes enforce policies that inadvertently favour the wealthy and powerful, further entrenching inequality and poverty. Thus, while strong institutions are theoretically crucial for development, their practical effectiveness in reducing poverty depends on the broader political and socio-economic context in which they operate. This understanding underscores the need for strong, transparent, accountable, and inclusive institutions in order to achieve meaningful poverty reduction and development outcomes.

Empirically, in a study by Fambeu (2021), the impact of democracy and trade openness on poverty was analysed across 24 sub-Saharan African countries from 2005 to 2016. The findings indicate that while democracy tends to increase income poverty in non-oil-producing nations, its impact is insignificant in oil-producing countries. This suggests that the economic structures and resources of a country can influence how democratic governance affects poverty levels. Adnan and Amri (2021) conducted similar research in Indonesia, exploring the effect of democracy on poverty. Their results show that democracy does not have a significant impact on poverty reduction. This aligns with the findings of Dörffel and Freytag's (2023) extensive study, which investigated the relationship between democracy and poverty reduction in 140 countries from 1980 to 2018. Their research concluded that democratization, particularly through electoral democracy, generally does not significantly affect poverty rates. However, they noted that democratization could reduce poverty rates by 11-14% within the first five years, and by up to 20% within 10-14 years. Their study underscored the importance of democratic political institutions and suggested that more inclusive political systems can benefit societies, though it acknowledged the risk of elite capture or dysfunctional democracies. Halleröd and Ekbrand (2023) examined the impact of democracy on poverty reduction and children's living conditions in 51 low- and lower-middle-income countries from 1995 to 2019. Utilizing data from the World Bank Demographic and

Health Surveys, and the V-Dem project on democratization, their results indicate that democracy helps decrease poverty. However, the impact was contingent on previous experiences with leftist governments; democracy improved living conditions significantly in countries with a history of leftist governance. The study concluded that democracy helps mitigate the adverse effects of corruption on children's school attendance.

In Africa, Vitenu and Alhassan (2020) explored the effect of democracy on poverty alleviation from 1996 to 2017 using panel data from 50 African countries. Their research revealed a complex, two-dimensional relationship: while the rule of law positively influenced poverty alleviation, factors like voice and accountability had a negative impact. They highlighted the critical role of corruption control, noting its adverse effect on poverty reduction efforts. The study emphasized the need for effective governance and stringent anti-corruption measures. Regarding institutional factors, Singh (2021) analysed the relationship between governance conditions and poverty reduction in BRICS countries from 1997 to 2011. Using Kao's cointegration, FMOLS, and Dumitrescu-Hurlin causality tests, the study focused on six governance indicators: government effectiveness, political stability, corruption control, accountability, regulatory quality, and rule of law. The findings highlight the rule of law as the most significant factor in reducing poverty.

Kouadio and Gakpa (2022) investigated the impact of economic growth and institutional quality on poverty reduction in West Africa. Their study found that enhancing institutional quality, especially democratic institutions, helps reduce long-term poverty and income inequality. The results also emphasize the importance of low corruption levels and improved bureaucratic quality for effective poverty reduction. Perera and Lee (2013) examined the effects of economic growth and institutional quality on poverty and income inequality in nine developing Asian countries between 1985 and 2009. Using the System Generalized Method of Moments (GMM) estimation, they discovered that improvements in government stability and law and order reduce poverty. However, enhanced corruption levels, lack of democratic

accountability, and poor bureaucratic quality were associated with increased poverty levels.

In Nigeria, Olawale et al. (2023) explored the relationship between poverty, institutional quality, and economic growth from 1996 to 2018, using the fully modified OLS (FMOLS) and causality tests. Their study focused on the rule of law and corruption control, finding that eliminating corruption positively impacts poverty in the short term. Additionally, reducing corruption was found to have a detrimental effect on relative poverty, indicating that a corruption-free environment may constrain poverty reduction efforts. Aloui (2019) examined the link between governance and poverty reduction in sub-Saharan Africa from 1996 to 2016. Applying a static model, the study revealed that governance indicators have varied effects on poverty reduction depending on the region's development stage. For instance, government effectiveness positively impacted poverty reduction in Central and Eastern Africa, had a negative impact in Southern Africa, and was significant in West Africa. These studies collectively highlight the intricate and varied impacts of democracy and institutional quality on poverty reduction across different regions and contexts. They underscore the importance of tailored governance reforms and anti-corruption measures in addressing poverty effectively.

### **3. Methodology**

#### **3.1 Data and variables**

This study utilizes data from the World Bank Data Catalog (2023), the V-Dem Democracy Index (2023), and the Worldwide Governance Indicators (2023). The data used were quarterly data spanning 1996 to 2022. The dependent variable, poverty, is measured at \$1.96. Six indicators of democracy are used; they include electoral democracy, liberal democracy, participatory democracy, deliberative democracy, and egalitarian democracy, which all range from 0 to 1, and the political regime, which ranges from 0 to 10, with higher scores suggesting better democracy. Institutions are captured using the control of corruption, which scores range from -2.5 to 2.5, with higher scores suggesting better quality.

#### **3.2 Model specification**

The regression model is such that:

$$POV_{i,t} = \beta_0 + \beta_1 dem_{i,t} + \beta_2 inst_{i,t} + \beta_3 X_{i,t} + \mu_{i,t} \quad (1)$$

where: *POV* is poverty headcount at \$1.98; *dem* represents six indicators of democracy and includes electoral democracy, liberal democracy, participatory democracy, deliberative democracy, egalitarian democracy, and political regime; *inst* represents institutions proxied by control of corruption; *X* is composed of a set of control variables, which includes GDP per capita, school enrolment, oil rents, inflation, and ICT;  $\mu$  is the error term.

### **3.3 Estimation technique**

To estimate the objectives of this study, the quantile regression is used. The Stata command, *qreg*, was used to fit the quantile regression models. The standard approach in median regression aims to estimate the median of the dependent variable based on the given independent variables. This is somewhat akin to ordinary regression, which seeks to estimate the conditional mean of the dependent variable. Essentially, median regression identifies a line that minimizes the sum of the absolute values of the residuals, unlike ordinary regression, which minimizes the sum of the squared residuals. In other words, median regression models the median of the dependent variable's conditional distribution as a linear function of the independent variables. Quantile regression estimates the conditional quantiles of response variables based on predictor variables, offering greater flexibility compared to the ordinary least squares regression. This method effectively manages heteroscedasticity and outliers in the data. Additionally, quantile regression can incorporate interaction terms, nonlinear functions, and time-varying coefficients.

## 4. Results

### 4.1 Descriptive statistics

Table 1 shows the descriptive statistics of the variables included in this study. Specifically, we are only interested in discussing the key variables in this study. The results show that the poverty headcount at 1.9 dollars is 53.8% based on the timeframe of this study. That is, more than half of the population lives in poverty. For the political regime, which is the main measure for democracy, the result shows a mean of 3.36, suggesting a poor regime score. The variable ranges from 0-10. The result shows the disparity in the mean of the various democracy indicators. For instance, while the electoral democracy index has a mean value of 0.449, the liberal democracy index has a mean value of 0.311, the participatory democracy index is 0.31, the deliberative democracy index is 0.68, and the egalitarian democracy index is 0.26. Since the range of these democracy indices is between 0 and 1, the data highlights the low level of democracy in the country. The data also points to the fact that deliberative democracy is revered in the country. Finally, it reveals the mean of control of corruption, which ranges from around -2.5 to 2.5, is -1.16 in the country. This suggests that corruption is endemic and widespread, and its power is very weak, which may imply poor quality of institutions.

**Table 1:** Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Poverty	96	53.818	9.353	39.198	67.066
Political Regime	76	3.368	2.597	-6	7
Polyarchy	100	.449	.109	.197	.592
Participatory Dem	100	.307	.063	.166	.395
Egalitarian Dem	100	.263	.056	.135	.34
Liberal Dem	100	.311	.09	.096	.427
Deliberative Dem	100	.68	.164	.144	.769
Corruption	100	-1.163	.134	-1.502	-.901
Education	100	36.195	9.147	21	54.883
Inflation	104	12.537	4.895	5.388	29.268
Oil Rents	104	11.015	4.949	2.684	22.05
ICT	104	15.147	16.972	.009	55.364
GDP per capita	100	1680.993	893.144	461.52	3098.986

*Source:* Authors' computation.

## **4.2 Regression results and discussion of findings**

To investigate the effects of democracy and quality of institutions on poverty, and to confirm their robustness, seven models were estimated as seen in Table 2. In the first model, the effects of democracy and institutional quality, proxied by political regime and control of corruption respectively as well as other traditional determinants of poverty, such as income and education, on poverty were estimated. In the second model, other control variables, including inflation, oil rents, ICT, and unemployment, were included. In the third to seventh models, other measures of democracy were used (V-Dem indexes) in separate models to test for the robustness of our results.

The result in model 1 (baseline model) shows a positive and statistically strong relationship between weak institutions and poverty. That is, a unit increase in the corruption index will increase poverty by 18%. Invariably, reducing corruption could have a significant impact on poverty reduction. Also, we found that increasing income reduces poverty (0.007) in a statistically significant relationship. However, from the result in column 1, democracy appears not to matter (0.054) in reducing poverty for the country. When we controlled for price stability, oil rents and ICT in model 2, we noted a consistency in the effect of institutions on poverty but with an increase in size of the parameter (20.1). While income loses its statistical significance with the additional controls in model 2, the absence of a statistical relationship between political regime and poverty was consistent. The statistically significant relationship between institution and poverty remained consistent when we decomposed the V-Dem index. Importantly, across the models (1-6), we found a robust relationship between the quality of institutions and poverty.

Theoretically, democracy is expected to reduce poverty. Democratic regimes are expected to be more responsive to the basic needs of citizens, hence reducing poverty levels. This is predicated on the idea that democratic institutions promote accountability, transparency, and public participation in the policymaking process, which should ideally result in policies that are more inclusive and equitable. However, the findings from the seven models estimated in this study suggest that democracy, as measured by the political

regime variable and V-Dem indexes, does not have a significant impact on poverty in Nigeria. Our findings raise questions about the effectiveness of democratic institutions in addressing poverty in the Nigerian context. One possible explanation for this finding is that beyond the existence of democratic institutions, there may be a need to interrogate the possible pathways through which democracies are expected to deliver good governance in Nigeria. Investigating whether accountability, transparency, rule of law, participation, equity and inclusiveness, and respect for human rights are entrenched in the Nigerian democracy could provide an insight into understanding the dynamics of the relationship between democracy and poverty.

Empirically, the discovery that democracy does not significantly impact poverty in Nigeria can be corroborated with existing literature (Vitenu and Alhassan, 2020; Fambeu, 2021; Halleröd and Ekbrand, 2023; Adnan and Amri, 2021). For instance, while some studies find that democracy leads to better socio-economic outcomes (Vitenu and Alhassan, 2020; Fambeu, 2021), others highlight that in countries with high levels of corruption and weak institutions, the benefits of democracy are not fully realized (Halleröd and Ekbrand, 2023; Adnan and Amri, 2021).

In Nigeria, despite the presence of democratic institutions, the persistent issues of corruption and weak institutional frameworks may undermine their effectiveness in poverty alleviation. As argued by Fagbemi et al. (2020), democracy can be undermined by corruption, inefficiency, and a lack of accountability. The empirical analysis also highlights that corruption has a positive and significant effect on poverty, suggesting that higher levels of corruption are associated with increased poverty. This finding is consistent with empirical studies that link corruption to adverse economic outcomes. Corruption diverts resources away from productive uses, reduces the efficiency of public spending, and undermines the provision of public goods and services, which are crucial for poverty reduction. In Nigeria, high levels of corruption have been documented, affecting various sectors including education, healthcare, and infrastructure. This pervasive corruption most likely hinder efforts to reduce poverty by obstructing the delivery of basic needs and opportunities for the poor.

**Table 2: Regression Estimates**

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Political regime	0.0542 (0.0489)	0.00492 (0.640)					
Corruption	18.11 *** (2.123)	20.07** (7.841)	13.96** (6.531)	14.17** (6.527)	13.34* (7.691)	13.69** (6.765)	12.15 (11.54)
GDPpc	-0.00793*** (0.000853)	-0.00965 (0.0509)	-0.00632** (0.00252)	-0.00638*** (0.00237)	-0.00633** (0.00250)	-0.00637** (0.00244)	-0.00585 (0.00459)
Education	-0.00286 (0.0887)	-0.0280 (1.467)	-0.159 (0.364)	-0.160 (0.353)	-0.165 (0.352)	-0.154 (0.364)	-0.162 (0.524)
Inflation		-0.155 (0.142)	-0.000166 (0.126)	-0.00149 (0.122)	-0.00395 (0.0869)	-0.00344 (0.125)	-0.00524 (0.325)
Oil rents		0.278 (0.533)	-0.0699 (0.255)	-0.0706 (0.251)	-0.0612 (0.231)	-0.0620 (0.237)	-0.0628 (0.258)
ICT		0.158 (4.234)	-0.105 (0.244)	-0.0999 (0.251)	-0.111 (0.308)	-0.107 (0.259)	-0.131 (0.186)
Uemp		4.221 (124.0)	-2.637 (1.681)	-2.687 (1.752)	-2.536 (1.793)	-2.616 (1.753)	-2.235* (1.260)
Elect Demo			6.972 (9.557)				
Party Demo				12.63 (16.99)			

*Table 2 contd.*

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Egalita Demo						13.66 (19.33)	
Deliberate Demo							2.316 (3.696)
Constant		77.44 (481.9)	97.59*** (11.66)	97.40*** (11.32)	97.12*** (9.109)	96.59*** (10.71)	94.83*** (6.988)
Observations		76	92	92	92	92	92
Control		YES	YES	YES	YES	YES	YES

Robust standard errors in parentheses

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

## **5. Conclusion and Policy Implications**

We investigated the impact of democracy and the quality of institutions on poverty in Nigeria. We found that democracy does not significantly impact poverty in the country, as both the political regime variable and V-Dem index show no significant effect on poverty. Our results also show that corruption has a positive and significant effect on poverty, that is, it significantly increases poverty in Nigeria.

With poverty remaining persistent as well as being a significant obstacle to Nigeria's socio-economic development, and interventions failing to improve the human development index even during economic growth, the findings have significant policy implications. First, they suggest that simply promoting democratic governance is not enough to address poverty in Nigeria. Efforts must also focus on strengthening the quality of institutions. This includes measures to enhance transparency, accountability, and the rule of law. Anti-corruption initiatives should be a top priority, as reducing corruption can have a direct positive impact on poverty alleviation. Strengthening institutions that oversee public spending, ensuring that resources are allocated efficiently and effectively, and improving the delivery of public services are crucial steps. Second, policymakers should consider targeted interventions that are pro-poor. This includes social safety nets, education and healthcare reforms, as well as programmes aimed at economic empowerment. By focusing on improving the quality and accessibility of essential services, the government can help mitigate the adverse effects of corruption and weak institutions on poverty. Additionally, fostering inclusive economic growth that creates opportunities for all segments of society is essential for sustainable poverty reduction.

In conclusion, the study's findings indicate that while democracy alone may not significantly reduce poverty in Nigeria, the quality of institutions plays a critical role. Addressing corruption and strengthening institutions are essential for translating democratic governance into improved socio-economic outcomes. Policymakers must therefore adopt a holistic approach that combines democratic principles with robust institutional reforms and targeted poverty reduction strategies to effectively tackle poverty in Nigeria.

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