

Quality of Political Institutions and Bank Credit Supply in Sub-Saharan Africa Countries

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Abstract: Addressing institutional weaknesses is vital, as disparities in governance underscore the challenges in effective bank intermediation especially in a region facing rising sovereign debt and significant credit rationing despite available bank liquidity. The objective of this paper is to assess the effect of political institutional quality on bank credit supply in Sub-Saharan African countries. To achieve this, econometric estimates were conducted using the Generalized Method of Moments (GMM) in a dynamic panel comprising 33 countries in the region over the period 2004 to 2018. Results indicate that the quality of political institutions significantly influences the level of bank credit extended to the private sector in Sub-Saharan Africa. Specifically, effective governance, political stability, and a low level of corruption promotes bank lending and, consequently, reduces credit constraints. Poor governance undermines implemented economic and political strategies, hindering institutional effectiveness. To mitigate economic fluctuations from bank credit supply, we recommend that government authorities enhance their political institutions by adopting "good governance" practices to facilitate better access to bank credit.

Keywords: Institutional Governance, Banking Lending Decision, GMM.

Classification JEL: O16, G21, D73, and O55.

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I. INTRODUCTION

The relationship between the quality of institutions and the capacity of financial systems to generate a sustained and inclusive supply of credit is a fundamental development challenge for sub-Saharan Africa. In a regional context marked by rising sovereign debt and constrained access to finance for the private sector, understanding the institutional mechanisms underlying bank intermediation is an urgent economic imperative. Currently, nearly half of the region's countries are in or at high risk of debt distress, with the number having nearly tripled from eight in 2014 to twenty-three in 2025 (Ogwu, 2025). This vulnerability is exacerbated by an environment where African states often borrow at interest rates exceeding 10%, compared to 2–3% for G7 countries, reflecting a perceived risk premium deeply rooted in institutional weaknesses.

The paradox of financing in the region where bank liquidity coexists with severe credit rationing to the private sector highlights the structural failures that hinder the transformation of deposits into productive loans. Empirical work demonstrates that institutional factors exert a significant depressing effect on the volume of credit allocated to the real economy (KUINDJA, 2022). Simultaneously, the World Bank's 2024 Country Policy and Institutional Assessment (CPIA) reveals marked regional disparities, with scores ranging from 4.2 for Rwanda to 1.6 for South Sudan, offering a natural laboratory to study the impact of governance on financial systems

Institutional quality is generally understood through the concept of governance. Good governance defined as the state's capacity to provide institutions that foster economic growth and poverty reduction (World Bank, 2022). In Sub-Saharan African countries, poor governance manifests as a high level of corruption, reflecting weak institutions.

Illustratively, Transparency International report (2017) indicates a high level of corruption, evidenced by the low scores on the Corruption Perceptions Index (CPI) for these countries and their deep ranking positions: Cameroon CPI (25) 153rd, Gabon CPI (32) 117th, Central African Republic CPI (23) 156th, Democratic Republic of Congo CPI (21) 161st, Chad CPI (20) 165th, Equatorial Guinea CPI (17) 171st. The debate on the effects of corruption is particularly vigorous. It began with the work of Weill (2011), this author suggest that corruption can increase economic growth through two mechanisms. First, corrupt practices like "speed money" allow individuals to avoid bureaucratic red tape. Second, government employees who receive bribes will work harder. However, Hasan & Ashfaq (2021) argued that corruption reduces investment through access to bank credit and, consequently, economic growth.

Credit supply defined as financial assistance from the bank to the company comes in two main forms (Benabdelmoula, 2017). On one hand, there is direct credit, which allows for the provision of funds (disbursement credit) over a well-defined time horizon used to finance company's operational activities such as production, marketing, investment credits and acquisition of long-term fixed assets (Benabdelmoula, 2017). On the other hand, there is indirect credit, which involves the banker's commitment to honour their client's signature in the event of the client's default. However, access to bank credit is not as straightforward as might be assumed. Political institutions, liquidity shortages, and credit restrictions weaken the supply of bank credit.

The literature highlights several key determinants of bank credit supply, primarily focusing on the criteria that influence lending decisions. These criteria include the borrower's moral qualities and competence, the significance of collateral, repayment capacity, and financial risk assessment (Wamba and Tchamanbé-Djiné, 2002). Additionally, interest rate settings are crucial as they can create imbalances between credit supply and demand (Cho, 1986). Inflation also plays a vital role by affecting banking efficiency and diminishing real returns on investments and loans (Tinoco-Zermeño et al., 2022), thereby intensifying credit market frictions and exacerbating information asymmetry, which can lead to credit rationing (Hu et al., 2012). Regulatory constraints on capital further limit credit supply in the banking sector. Consequently, the quality of institutional frameworks significantly influences the banking system. So, regulating specific institutional variables such as political, economic, or socials are essential for minimizing transaction costs, enhancing information flow, and defining property rights will stimulate bank credit supply (Acemoglu, 2006; La Porta et al., 1997; Maresch et al., 2015).

Banks attribute their strong risk aversion and the resultant low credit supply in Sub-Saharan Africa to institutional factors, including the economic, legal, and regulatory environments that limit their operations (Adam-Madji, 1997). This has led to a perception of credit insufficiency, often equated with credit rationing, suggesting it is more accurately described as a credit shortage (Calvin, 2008). Given the nascent state of financial markets, small and

medium-sized enterprises (SMEs) heavily rely on bank financing, positioning banks as critical financial intermediaries in resource allocation. Consequently, the scarcity of credit undermines the economic growth prospects of these nations.

The underfinancing can be understood through the volume of credit extended by the banking sector to the economy. In Sub-Saharan Africa, credit to the economy fell to 5.4% in 2016 from 9.7% in 2015, reflecting primarily a slowdown in short-term credit and a decline in long-term credit, linked to decreased investment in an unfavorable economic context (French Bank, 2016). Furthermore, credit granted to the private sector is among the lowest, averaging 9.56% compared to the normally observed rate of 18.61%. However, most of these banks hold excess or free reserves. Financial intermediation theory implies that banks with excess liquidity should be struck by a "lending frenzy" and thus a decrease in risk aversion (UNECA, 2011). Yet the observed stylized fact is the paradox of banking over-liquidity and credit insufficiency in Sub-Saharan African countries (Dolumbia, 2011). This banking surplus liquidity, whose origin can be traced to the weakness of the institutional and legal environment in these countries, serves as a significant barrier to investment and business development in Sub-Saharan African Countries. Consequently, the following, hypothesis, question and objective still deserves to be investigated.

The main hypothesis of this article is that the low quality of political institutions helps explain the insufficiency of credit supply by financial establishments to the private sector in the zone. The governance of political institutions (defined as the formal and informal rules governing human interactions) refers to the exercise of political, economic, and administrative authority in the management of these institutions (UNDP, 1997). The problem, therefore, is the persistently low level of credit supply to the private sector, which translates into weak macroeconomic performance in the countries of this subregion. It is notable that despite the persistent pursuit of autonomy by BEAC, BCEAO, and ECCB, the trickle-down effect in terms of improved living conditions remains problematic, as a large portion of states remain in the category of middle-income countries. Can we then consider that the level of bank credit granted to the private sector in these countries which is supposed to encourage economic performance is dependent on the governance of their political institutions?

The objective of this article is, therefore, firstly to evaluate the effect of the quality of political institutions on the supply of bank credit in Sub-Saharan African countries and, secondly, to highlight proposals on which financing policies can rely. This research question seems legitimate because, to our knowledge, no study has yet been conducted on the role of political institutional governance in determining bank credit supply decisions in Sub-Saharan Africa. The present article therefore aims to fill this gap. The remainder of the article is structured as follows: The second section presents the literature review. The third section outlines the methodological approach. The fourth section

presents the results obtained and their discussion. The fifth section concludes the study.

II. LITERATURE REVIEW

Economists still do not agree on the role of institutional governance in banking credit decisions in Sub-Saharan African countries. To better understand factors that determine credit supply, we will articulate around two main axes: the theoretical frameworks explaining the transmission mechanisms, and the empirical validations of these relationships. This review summarizes these contributions with a focus on the region's specific context.

➤ *Institutions and Credit Supply: A Theoretical Analysis*

The study of the relationship between institutional quality and credit supply has been approached from two main perspectives. The first examines the contribution of the quality of economic institutions to credit availability, while the second highlights the significance of the quality of political institutions in shaping credit supply.

In the economic literature, New Institutional Economics theory has been employed to link the quality of economic institutions with bank credit supply (North, 1991; Williamson, 2000). This theory posits that the quality of institutions constitutes the structural foundation on which the efficiency of financial institutions rests. North (1991) established that institutions, understood as the formal and informal "rules of the game" in a society, reduce uncertainty by providing a stable structure for human interaction. In the banking sector, this stability translates directly into a reduction in transaction costs and information asymmetries that hinder credit supply.

According to this framework, transaction costs affect the institutional structure and the economic choices made by individuals (Furubotn and Richter, 2005). Countries characterized by strong economic institutions are better equipped to reduce transaction costs (North, 1990). Indeed, certain transactions in the marketplace can incur substantial transaction costs, prompting economic agents to seek alternative institutional arrangements that minimize these costs. In the context of credit markets, banks will only extend credit to the private sector if they assess that the associated costs are manageable. In extension of this view, the agency theory of Jensen & Meckling (1976), reveals how weak institutions exacerbate problems of adverse selection and moral hazard. To this theory, in an environment where information about borrowers is difficult to verify, banks adopt behaviours of extreme credit rationing, preferring to hold excess liquidity rather than lend at rates that do not adequately compensate for risk. This phenomenon partly explains the paradox observed in several CEMAC and UEMOA countries where bank over liquidity coexists with chronic underfinancing of the productive economy.

Conversely, La Porta et al. (1997) utilized the theory of law and finance to establish a connection between the quality of political institutions and credit supply. This theory initially

emphasizes the role of legal institutions in financial development, positing that in countries with legal systems that protect investor property rights, savers are more inclined to deposit their funds in financial institutions, thereby facilitating corporate financing. Conversely, a legal system that provides minimal protection for investor rights tends to hinder financial development. La Porta et al. (1997), in analyzing the relationship between legal systems and financial markets, specify both the degree of law enforcement and the content of the law. The quality of institutions and bank credit supply is frequently analyzed through the lens of the interaction between the legal framework and finance. Better law enforcement quality, as evaluated by investors and the environments in which they operate, has a significant effect on the extent of credit markets. In alignment with this, Demirgüç-Kunt and Maksimovic (1998) Maresch et al., 2015 assert that an effective legal system is crucial since a company seeking long-term financing must be able to credibly commit to combating opportunistic behavior by insiders.

Another aspect of the relationship between institutions, law, and finance has been examined from the perspective of property rights protection and contract enforcement. Acemoglu et al. (2005) and Fernandes and Kraay (2007) argue that the interaction between the state and businesses or individuals is a vertical relationship, while interactions among private firms represent a horizontal relationship. They explain that a country may possess weak property rights institutions yet have strong contractual rights institutions, as the latter reflect the extent to which courts allow private parties to contract with one another. Similarly, Acemoglu and Johnson (2005) highlight that individuals or investors often develop informal institutional arrangements to circumvent the legal system when dealing with one another, particularly in situations where they lack recourse against a predatory state. Consequently, Beck et al. (2003) proposes that in countries where legal systems enforce private property rights, support contractual arrangements, and protect legal rights of investors, savers are more willing to finance businesses, leading to prosperous financial markets. Djankov et al. (2007) find that creditor protection through legal and information-sharing institutions is associated with higher ratios of private credit to GDP.

In a similar view, Barth et al. (2009) developed a theoretical model showing that quality bank supervision limits regulatory capture and corruption in lending. In economies where supervisory authorities lack political independence and technical capacity, banks may direct credit to politically connected borrowers rather than the most productive projects, creating inefficient allocations of capital. Theory also suggests that an independent central bank, insulated from short-term fiscal pressures, fosters macroeconomic stability that reduces counterparty risks and encourages long-term credit supply. Fabbri & Padula (2001), in incomplete contracts theory highlights the crucial role of the legal framework in resolving disputes and enforcing collateral. An ineffective judicial system, characterized by excessive procedural delays and endemic corruption, undermines the value of real guarantees and increases the risk

of loan recovery. As demonstrated by Fabbri and Padula (2001), high judicial costs directly reduce banks' willingness to lend, particularly to small and medium-sized enterprises lacking liquid collateral.

Brown and Zehder (2007) conclude that the introduction of a registry significantly enhances repayment rates and increases the volume of credit extended by lenders. Love et al. (2003) and Djankov et al. (2007) agree that bank credit to the private sector rises when information-sharing institutions are more developed. According to Weill, L. (2011), loans granted under corrupt practices are typically high-risk and difficult to recover. Such loans are often issued because credit managers, benefiting from bribes, fail to adequately assess counterparty risk. Corruption in bank lending has become increasingly prevalent, undermining the efficiency of the banking system in allocating scarce resources. Thus, corruption plays a significant role in the loan approval process worldwide (Barth et al., 2009). The adverse effects of corruption on capital allocation highlight the necessity of implementing mechanisms to eradicate corrupt lending practices (Barth et al., 2009; Houston et al., 2011).

➤ *Empirical Evidence on Political Institutions and the Supply of Bank Credit*

The first variable regarding the quality of political institutions that has garnered interest in the literature is corruption. Campos et al. (2010) emphasize that corruption leads to a scarcity of financial resources, weakens negotiating power, and heightens the difficulty of accessing bank credit. While social capital facilitates a better allocation of resources in the credit market by reducing transaction costs, corruption negatively impacts the business environment, diminishing trust and creating uncertainty (Cai et al., 2011). Consequently, corruption adversely affects corporate financing and the efficiency of bank loan allocation (Wellalage et al., 2019). Similarly, Cieslik and Goczek (2018) investigate the effects of corruption using an endogenous growth model in an open economy context with perfect capital mobility to show that corruption reduces economic growth by creating uncertainty and hindering investment. They empirically test the predictions of this theory using a sample of 142 countries from 1994 to 2014, employing the Generalized Method of Moments (GMM).

Gozgor (2018) examines the determinants of domestic credit within a panel of 61 developing economies from 1984 to 2016. Utilizing a fixed effects estimation method followed by the Generalized Method of Moments (GMM) in a dynamic model, the study finds that both income and money supply are positively associated with bank credit. Conversely, it identifies negative effects of the current account balance and interest rate differentials on domestic credit. Moreover, an analysis of the subcomponents of overall political risk indicates that improved socioeconomic conditions and lower levels of corruption positively influence domestic credit demands.

Calderon et al. (2016) demonstrate that political institutions influence the cyclicity of monetary policy. Specifically, they emphasize that democratic countries with

stable governments and lower levels of corruption are more likely to implement counter-cyclical monetary policies. Similarly, Jappelli et al. (2005) highlight that the cost of contract enforcement is a critical determinant of credit market performance. Their analysis refers to the credit market within a model of opportunistic debtors and inefficient courts. According to this model, improving judicial efficiency reduces credit constraints and increases lending, although the effect on interest rates is ambiguous and depends on banking competition and the nature of judicial reforms. In line with this, Castelar and Cabral (2001), examined how local variations in judicial system effectiveness affect credit market development. They observe fewer loans and a higher incidence of non-performing loans in provinces or states characterized by poor law enforcement. Additionally, Meador and Mark (1982) found that mortgage interest rates were generally higher in states where the foreclosure process was longer and costlier.

Horioka (2009) analyzes the impact of law enforcement on credit constraints, credit levels, and the probability of default using a logit model. Demirgüç-Kunt et al. (1999) utilize banking data to show that differences in interest margins and bank profitability reflect various determinants, including bank characteristics, macroeconomic conditions, taxation, regulations, financial structure, and legal and institutional indicators. Their findings suggest that the higher profitability of banks in Sub-Saharan countries is consistent with riskier environments. Akins et al. (2016) examine how recognizing non-recoverable loans hinders corruption associated with bank lending by increasing the likelihood that problematic loans are identified earlier. Furthermore, Chen et al. (2013) emphasizes that corruption, rather than firm performance, largely determines the extent to which private enterprises have access to bank credit.

Adams & Klobodu, (2023) analyzed 14 Sub-Saharan African countries with the largest banking sectors between 1996 and 2023, using the Generalised Method of Moments (GMM) on World Development and Governance Indicators, established robust correlations. The study demonstrates that macroeconomic factors (money supply, interest rates, exchange rates) significantly increase lending, while high institutional quality, unexpectedly, showed a negative, statistically insignificant effect on lending behavior, alongside a significant negative interactive impact.

Based on this brief literature review, several observations can be made. On one hand, most of the research in this area has focused on data from Northern countries, while the private sector in most African countries still faces significant financing issues. Second, few researchers adopt a dynamic approach allowing the identification of institutional thresholds beyond which the impact on credit becomes non-linear. Furthermore, many Sub-Saharan African economies have been characterized for several years by banking surplus liquidity situation, which reflects the limited orientation of businesses toward bank credit and the reluctance of commercial banks to extend credit to the private sector.

III. DATA AND METHODOLOGY

➤ *Data, Sample, and the Study Period*

Data of this work are drawn from three source. First, macroeconomic variables are from the World Bank Development Indicators (WDI, 2018). Second, Institutional variable is taken from Kaufmann et al. (2010) base in the Worldwide Governance Indicators (WGI, 2018). Meanwhile, bank variables are taken from the international Monetary Fund (IMF), Financial Access Survey (2018) database. This study covers a sample of 33 Sub-Saharan Africa countries over the period 2004-2018. The full list is presented in Table 1. It also describes the geographical affiliation of each country. The period of study and countries selection are delimited to data availability. Descriptive statistics and correlation matrices of variables are contained in Appendix 1 and 2. Upon reviewing appendix 1 regarding descriptive statistics, we can observe that, on average, 17.9969% of credit is extended to the private sector. In countries with high credit risk or significant information asymmetry, only 1.01723% of

credit is allocated to the private sector, whereas in countries with low credit risk or reduced information asymmetry, much as 65.7418% of credit is granted to the private sector. From this, we observe that, on average, the political institution quality index is 48.49152%. However, within our sample, the lowest political institution quality index is 13.46901%, while the highest index is 96.83647%.

In view of the correlation matrix in Appendix 2, it shows that bank credit supply is positively correlated with the quality of political institution as further demonstrated by the scatter plot in Figure 1. Hence supporting the theoretical opinion that a country with good governance turns to experience an increase in Bank credit supply to the private sector. Similarly, a positive relationship can be predicted between the variable's gross domestic product per capita, inflation, and credit supply. In contrast, a negative relationship can be predicted between the variable's population density, bank credit cost, bank concentration, and bank credit supply.

Table 1 List of Countries in the Sample Per Sub-Region

Angola, Cameroon, Gabon, Chad, Equatorial Guinea, Democratic Republic of Sao Tome and Principe, Congo, Burkina-Faso, Mali, Cabo Verde, Guinea, Cote d'Ivoire, Niger, Guinea-Bissau, Nigeria, Senegal, Sierra Leone, Botswana, Lesotho, Namibia, Zimbabwe, South Africa, Burundi, Ethiopia, Uganda, Kenya, Madagascar, Tanzania Seychelles, Rwanda, Malawi, Djibouti, Mauritius
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Source: Authors computation

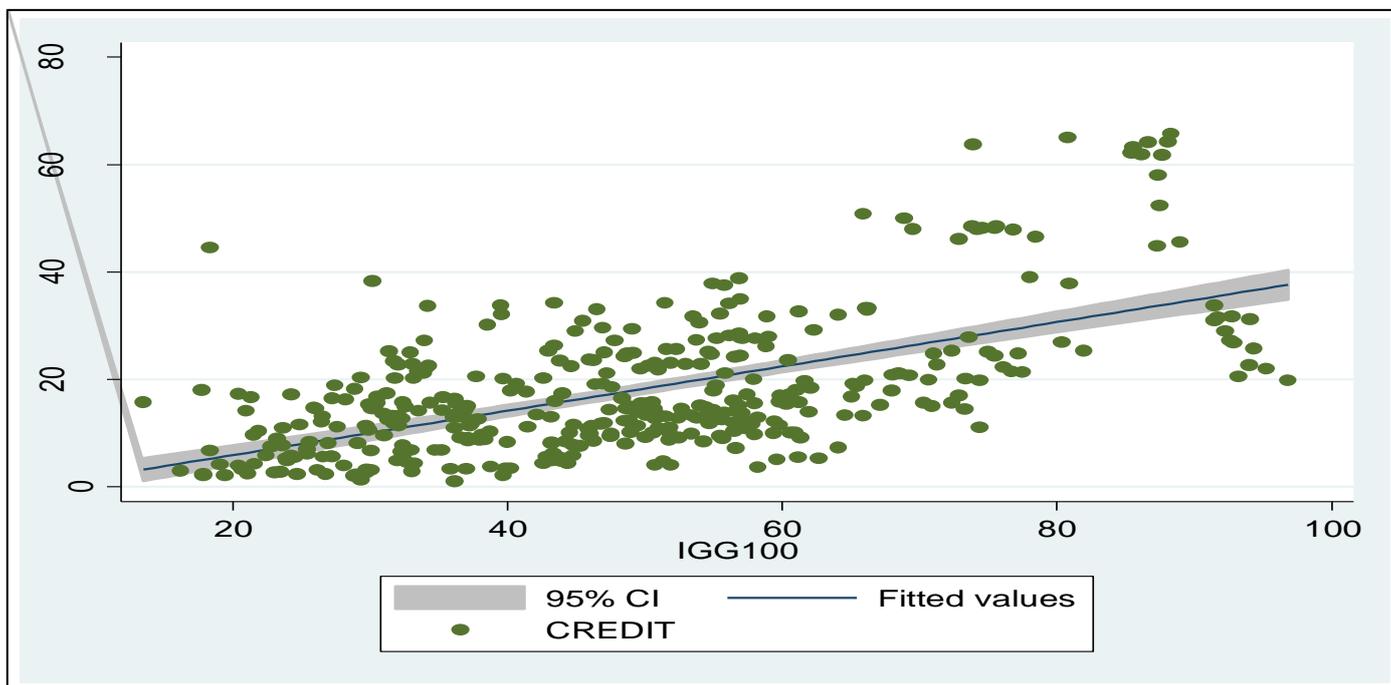


Fig 1 Scatter Plot Between Regressors and Bank Credit Supply

Source: Authors' Construction

➤ *Methodology*

• *Model Specification*

To determine the effect of the quality of political institution on bank credit supply to the private sector in Sub-Saharan Africa, we use an empirical model inspired from

Gozgor (2018). Adams et Amel (2005) for control variables, Beck et al., (2011) for the interest variable as given below :

$$BCRSPS_{it} = \alpha BCRSPS_{it-1} + \beta QPI_{it} + \lambda X_{it} + V_t + V_i + \varepsilon_{it}$$

Où $BCRSPS_{it}$ represents the ratio of credits extended to the private sector to the total credits allocated to the economy as

a percentage of the GDP of country i at time t . It indicates the percentage of credits granted by banks to the private sector in relation to the total financing provided to the economy.

$BCRSPS_{it-1}$ is the level of credit extended to the private sector by banks, measured as a percentage of GDP in the preceding period. The inclusion of the lagged dependent variable allows for partial adjustment of bank credit towards its long-term value.

QPI_{it} represents the quality of political institutions (governance) in country i at time t , measured by the perception of the likelihood of destabilization through unconstitutional or violent means (Kaufmann and Kraay, 2010). This measure evaluates how governments are established, monitored, and replaced, their capacity to implement effective policies, and the respect for citizens within the framework of social and economic interactions. It assesses six key areas of political institutional quality: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Governance quality data ranges from approximately -2.5 (poor) to 2.5 (good), reflecting the governance standards of each country. Based on prior research (Zoatsa et al., 2022) and the availability of data, indicators from the World Governance Indicators (WGI) (2018) were used, focusing on political stability, rule of law, and control of corruption.

X_{it} is a vector of control variables of country i period t . There are five control variables that impact the level of bank credit extended to the private sector. Such as Real GDP per capita, measured by the growth rate of GDP per capita (in constant USD relative to the year 2000). A positive effect of GDP on supply of bank credit is anticipated, as an increase in income which typically increases savings is expected to lead to a corresponding increase in credit supply (Magud et al., 2014).

INF Inflation ; expected to have a negative effect on bank credit supply. High inflation can erode the real value of money, leading banks to be more cautious in lending hence, reducing credit availability for the private sector (Tinoco-Zermeño et al., 2022). **DENS** Population density : expected with a positive effect on bank credit supply. Higher population density often indicates a larger customer base for banks, which can lead to increased demand for credit as more individuals and businesses seek loans for various purposes. However, if the population density leads to over-competition among banks, it might affect credit availability negatively (Bodenhorn & Cuberes, 2010). **COST** Cost of bank credit : measured by interest rate charged on loans, including any associated fees or charges. An anticipated negative effect on bank credit supply is expected due to the fact that a higher cost of credit generally leads to a negative relationship with bank credit supply, as higher rates deter borrowing and reduce demand for loans. Conversely, lower costs encourage increased credit availability (Milcheva, 2013). **CONC** Bank concentration : measured using the Concentration Ratio (CR), which reflects the market share of the largest banks within a banking system. Higher concentration often leads to

reduced competition, potentially resulting in a negative relationship with bank credit supply, as less competitive environments can lead to higher prices and lower availability of credit (Liu et al., 2020).

$V_t, V_i, \varepsilon_{it}$ represent respectively the period (years) at fixed effect and countries or samples, and the error term. i ($= 1, 2, 3, \dots, N$) is the number of countries and t ($= 1, 2, 3, \dots, T$) is the number of periods.

• Estimation Technique

The adopted estimation method is the Generalized Method of Moments (GMM) in dynamic panels. The choice of this estimation technique is on the fact that the level of bank credit supply for a given period t , is a function of its previous period $t-1$. This approach allows us to address potential endogeneity issues among the model's independent variables. Additionally, it has the advantage of generating internal instruments based on the endogenous independent variables in the model. We used a System Generalized Method of Moments (GMM-SYS) estimator introduced by Blundell and Bond (1998). This estimator combines both the level and first-difference models into a single system. To test the validity of the instruments, we conduct the Hansen test, as recommended by Arellano and Bond (1991), Arellano and Bover (1995), and Blundell and Bond (1998). We also perform the autocorrelation test proposed by Arellano and Bond (1991), which examines the first-order serial correlation of errors in levels by assessing the second-order serial correlation of errors in differences, represented by the equation: $\Delta y_{i,t} = \beta \Delta y_{i,t-1} + \phi \Delta X_{i,t} + \Delta \varepsilon_{i,t}$.

IV. RESULTS AND DISCUSSION

Table 2 presents findings corresponding to the effect of political institutional quality on bank credit supply using a system GMM estimation. The overall results are satisfactory upon consulting table 2 below. Econometrically, autocorrelation tests of residuals (AR(1) (Prob > chi2 = 0.005 and AR(2) (Prob > chi2 = 0.108) are satisfactory, as AR(1) is accepted while AR(2) is rejected. Thus, AR(2) tests do not allow us to reject the null hypothesis of the absence of second-order autocorrelation in the residuals (Table 2). Hansen test statistic for identification restrictions also fails to reject the null hypothesis that the instruments are exogenous. A high F-value indicates that the model as a whole is significant. Lastly, Sargan statistics are conclusive for all models, confirming the validity of the instruments, with values generally exceeding the 10% threshold (Prob > chi2 = 0.828). Thus, we cannot reject the null hypothesis that the instruments are exogenous. Consequently, both the Sargan and Hansen tests validate the choice of instruments.

From a theoretical perspective, the significance of this result does not escape obvious observation that the supply of bank credit in Sub-Saharan African countries is not exempted from the phenomenon of credit rationing, commonly identified in developing countries generally. Firstly, results show a significant lagged variable of credit supply influencing the current year's credit supply. Specifically, if the credit supply for the previous year increases by one

percent, the credit supply for the current year is expected to increase significantly by 0.28082. The economic interpretation that emerges from this result is that, in Sub-Saharan African countries, when a bank supply credit during a period and successfully collects it by the end of that period,

it may encourage the bank to offer more credit in the following period. Conversely, if the bank experiences significant difficulties in recovering its funds, this may hinder credit supply in the next period.

Table 2 Results of Dynamic Panel Model (System Generalized Method of Moments).

Variables	Bank Credit Supply	t-Statistics
Credit Supply (period t-1)	0,28082	(0,08828) ***
Quality of political Institution	0,25622	(0,03544) ***
Gross Domestic Product per capita	3,28665	(1,00024) ***
Population Density	3,31098	(0,40148) ***
Inflation	-26,0119	(7,19256) ***
Cost of Bank Credit	-3,21579	(1,02950) ***
Bank Concentration	-0,173630	(0,0335) ***
Constant	114,8371	(34,1365) ***
AR (1)	0,005	
AR (2)	0,108	
Sargan Test	0,828	
Hansen Test	0,717	
Numbers of observation	285	

Source : Author's Estimation from Stata.

➤ Note : (***), (**) et (*) represent significance at 10%, 5%, and 1% levels, respectively. The standard deviations are presented in parentheses

Regressing with the institutional variable, the quality of political institution, confirm our specific hypothesis, which state that the quality of political institutional framework positively impacts the level of bank credit extended to the private sector in Sub-Saharan African countries. It is observed that when the quality of political institutions increases by one percent, the percentage of bank credit supply also rises by 0.25622. Therefore, bank credit supply is an increasing function of the quality of political institutions. Consequently, as the quality of political institutions improves, banks are more likely to extend credit to the private sector. This finding is supported by Beck et al. (2011) on that strong political institutions influence both credit allocation and loan conditions. And that of, Asongu & Nguena (2022) on the fact that corruption and political instability have a negative effect on the level of bank credit extended to the private sector, thereby impacting economic growth. Thus, developing countries with weak political institutions tend to show a lower share of credit extended to enterprises. The economic interpretation of this result is not different from what has been presented earlier on the point that low quality of institutions accounts for the prevalent credit insufficiency in Sub-Saharan African countries. Conversely, poor governance that prevails in Sub-Saharan African countries accounts for the failure of the economic and political strategies that have been implemented. These governance practices affect the quality of institutions, leading to their weaknesses and inability to fulfill their assigned missions.

Upon reviewing the same table, it is observed that the cost of credit is also a major determinant of credit supply. Specifically, the cost of credit is a decreasing function as the cost of credit increases by 1%, the quantity of credit supply

decreases by 3.21579. This result confirms our anticipation as supported by the work of (Milcheva, 2013). Thus, the cost of credit acts as a barrier to bank credit supply in Sub-Saharan Africa. Similarly, as banking concentration increases by 1%, the level of credit supply decreases by 0.173630, confirming to our anticipated effect on the fact that bank credit supply is a decreasing function of banking concentration collaborated with the work of (Liu et al.,2020).

V. CONCLUSION

This article has examined the effect of political institutional quality on bank credit supply in Sub-Saharan African countries. To achieve results, econometric estimates were conducted using the Generalized Method of Moments (GMM) in a dynamic panel consisting of 33 countries in the region over the period from 2004 to 2018. Empirical estimates were preceded by tests of economic dependence which revealed the existence of interdependence among Sub-Saharan economies. Fixed effects model was conducted to address issues of heteroskedasticity and autocorrelation.

Results indicate that quality of political institutional framework in the fight against corruption, political instability positively impacts the level of bank credit granted to the private sector. Specifically, quality of institutional governance has optimal potential to promote bank credit toward economic growth in Sub-Saharan Africa. More detailly, our study highlighted the positive impact of political institutional quality on bank credit levels. Hence, poor governance that prevails in Sub-Saharan African countries accounts for the failure of the economic and political strategies that have been implemented. These governance practices affect the quality of institutions, leading to their weaknesses and inability to fulfill their assigned missions. We therefore recommend to government authorities in Sub-Saharan African countries further enhance the quality of their

political institutions "good governance" practices, which is crucial to facilitates access to bank credit, thereby reducing economic fluctuations.

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APPENDIX

Appendix 1 Descriptive Statistics Results and Data Source

Variable	Mean	Standard Deviation	Minimum	Maximum	Data Source
Dependent Variable					
Bank Credit Supply	17,9969	12,57843	1,01723	65,7418	
Independent Variables					
Interest Variable					
Quality of Political institutions	48,49152	18,26195	13,46901	96,83647	
Control Variables					
Economic characteristics					
GDP per Capita	2445,082	3638,981	9	20333,9	
Population Density	84,92717	94,59885	2,440486	483,0769	
Inflation	2240,002	44212,52	14,5807	915848	
Banking Sector Characteristics					
Cost of Bank Credit	5,910393	5,386817	0,001473	89,4231	
Banking Concentration	74,27453	18,66678	32,5207	100	

Source: Authors Computation

Appendix 2 Pairwise Correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) Credit	1,0000						
(2) QPI	0,4436	1,0000					
(3) LnGDP	0,4474	0,2596	1,0000				
(4) LnINF	0,1200	0,0505	0,1165	1,0000			
(5) lnDENS	-0,1632	-0,1509	-0,4515	0,1121	1,0000		
(6) Cost	-0,4219	-0,2167	-0,4100	-0,0402	0,3867	1,0000	
(7) Conc	-0,1130	-0,2900	-0,0024	-0,2037	-0,1664	-0,0430	1,0000

Source: Authors Computation