

The Moderating Influence Of Governance On The Relationship Between Public Expenditure And Economic Security

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Abstract

Economic security provides an indicator of the economic well-being enjoyed by the people. However, there have been limited mention at the microeconomic level of the concept and factors that affect economic security. The objective of this study was to find out whether the relationship between public expenditure and economic security is moderated by governance. Economic security was measured as an equally weighted composite economic security index of three economic insecurities being unemployment rate, poverty rate and universal healthcare uncovered rate. Public expenditure on the other hand was expressed as percentages of the Gross Domestic Product. Governance was measured using the six Worldwide Governance Indicators. The study used secondary panel data, from year 2008 to 2022, that was sourced from the World Bank Development Indicators, for five selected countries of the East African Community. The study adopted the Broyden–Fletcher–Goldfarb–Shanno Autoregressive Moving Average Generalized Least Squares regression model to test the research hypothesis. The study found that governance had positive statistically insignificant moderating effect on the relationship between public expenditure and economic security with increase in governance reducing the adverse effect that public expenditure has on economic security through prudent management of public resources. The study findings can guide to policy makers in enhancing governance to reduce the adverse effects that governance inefficiencies have on worsening the impact of public expenditure on economic security.

Keywords: *Public expenditure, governance, economic security, economic insecurities, economic security index*

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I. Introduction

The definition of economic security has evolved and cascaded to incorporate both the macro-level of the state and the micro-levels of individuals and their households (Griffiths, 2014). Economic security is one of the fundamental rights under the Universal Declaration of Human Rights (UDHR) for all humanity (Assembly, 1948). Economic security defined from a micro-economic well-being point of view is the ability of people to meet their needs consistently and in a sustainable manner (ICRC, 2015). Economic security is therefore the possession by individuals, households and communities of income and/or resources to provide for their respective basic and essential needs in a sustainable and a dignified manner, which includes having access to the requisite enabling environment and infrastructure (Mollenkamp, 2022).

Economic security at the macro-economic level, is a constituent of national security and provides protection to the nation's economic capacity as well as providing freedom to the state and her people to control their economic and financial matters (Kadala, Guzenko & Bondarenko, 2023). The definition of national security has also evolved from the traditional military focused safety against threats to encompass the safety of a nation from all threats and includes defence of a sovereign state against threats indicators to its citizens, economy and institutions (Brown, 1977). Economic growth provides indication of the welfare of a country and serves to guarantee economic security and translates to maintenance of national security (Belyaeva, 2019). The existence and survival of a country is dependent on attainment and maintaining certain minimum conditions by that country. Key among such conditions is ensuring the economic well-being of its population who are a key ingredient to its recognition as a state in the international arena and whose protection is a key survival priority (Montevideo Convention, 1933). Economic security of a state is therefore a key determinant to its national security (Ibragimovich, Ogli, Kholikovich & Ogli, 2020).

The economic well-being measure of per capita Gross Domestic Product (GDP) has been criticized for not being a sufficient measure to capture the real economic well-being of the people (Berik, 2018). The criticism gained impetus leading to the French government to set up a commission in 2008 to develop a robust measure of the people's welfare (Stiglitz, Sen & Fitoussi, 2009). This coincided with intellectual works in the same field that led to the development of an Index of Economic Well-Being (IEWB) that incorporated four aspects namely consumption flows, equality, wealth stocks, and economic security (Osberg & Sharpe, 2010).

Economic security is measured through the presence of economic insecurities with the two having an inverse relationship. There is however no universal methodology consensus to measure economic insecurity (Richiardi & He, 2020). Economic security can be measured by various economic insecurities such as unemployment, poverty levels, old age income coverage, social security and public healthcare coverage, which reflects the gap that individuals are required to bridge in meeting their healthcare needs (Osberg & Sharpe, 2010; Hacker, Huber, Rehm, Schlesinger & Valleta, 2010). Clause 25 of the Universal Declaration on Human Rights (UDHR) established by the United Nations (UN) provides old age, unemployment, disability, illness and widowhood as the hazards that produce economic insecurity (Assembly, 1948). Aggregation of measures of economic insecurities provides an index as a measure of economic security (Osberg, 2015).

Economic Security Index (ESI) measures the magnitude of economic security that individuals experience as derived from composite measure of economic insecurities. The composition of ESI is relatively new and still in the developmental stage with various scholars adopting and developing various composites. Hacker et. al (2010) developed an aggregated economic security index focusing on the degree of protection against hardships from large income losses for individuals in the United States of America. Osberg and Sharpe (2010) developed an Index of Economic Well-Being (IEWB) on economic security encompassing four economic hazards. This study developed and adopted an ESI comprising of equally weighted composite index of unemployment rate, universal healthcare uncovered rate and poverty rate. The composition of the ESI was informed by the primary three components of economic security being income component, out-of-pocket medical expenses component and financial wealth component. Unemployment represented the income component, universal healthcare uncovered rate represented the out-of-pocket medical expenses component while poverty represented the financial wealth component.

The study was anchored on the agency theory by Jensen & Meckling (1976), which seeks mechanism to address agency conflict thus ensure the agent always acts in the paramount interest of the principal. The efficiency of a government, as an agent of the people, is reflected by the quality and implementation of its policies, protection of property, service delivery and provision of public goods, which leads to economic development (Kochanov, Hasnain, & Larson, 2020). Government's actions on behalf of the people influence the independent variable of public expenditure that affects economic security experienced by the people. The realism theory and financial theory were the other key theories that guided this study. Realism theory advanced by Morgenthau (1948) holds that states are the solo actors in the international arena and are driven by pursuit of national interests and power politics to ensure their survival (Tilly, 1985). The actions of the government are critical in protection of the people and thus ensuring their economic security. The financial theory developed by Minsky (1974) postulates that the financial system experiences swings arising from surpluses that lead to borrowing with some of the borrowing not being commensurate with ability to pay thus causing financial crisis (Minsky, 1974). This calls for prudence in public spending and raising sovereign debt.

Governments are charged with the responsibilities of providing an enabling environment and requisite infrastructure and must incur expenditure, which is referred to as public expenditure. Governments raise funds for public expenditure mainly through taxation, levies and fees to finance budget deficits (World Bank, 2022). Governments are charged with running countries and their mandate include providing the necessary legal and social framework in which the country's economy operates through having quality institutions (Arora & Chong, 2018). Government are also required to provide public goods and services such as infrastructure besides ensuring there is a healthy competition within the markets and taking necessary actions to have a stable economy. Governments endeavor to provide safety nets to their citizens to cushion the less fortunate through provision of minimum protections. States that have commitment to provide elementary economic security to their populations through providing protection against market related risks such as sickness, unemployment, accidents and old age are referred to as welfare states. The concept of a welfare state developed during World War II in the United Kingdom (Weir, 2001).

Public expenditure definition has evolved over time with the generally agreed definition being the accounts aggregates from the central government, local authorities and public corporations, which are collectively referred to as the aggregates of the general government in short or in the long format as aggregates of the General Government Fiscal Operations (GGFO). This is considered the best macroeconomic definition of public expenditure (IMF, 2019). Categorization and measurement of public expenditure is diverse. The principal categorization of public expenditure relates to the level of governments that are mainly three with the first being the national or central government, the second being local authorities or federal governments and the third being

public corporations or parastatals that are state owned entities that render social and welfare essential services at reasonable fees and prices (IMF, 2019). Public expenditure can also be categorized based on the purpose of the expenditure whether for current purposes or future purposes thus developmental in nature or recurrent. Recurrent expenditure, which takes a higher component of public expenditure, has less discretionary latitude and covers items such as salaries for public officers, wages, bills, sovereign debt servicing and other ongoing activities. Development expenditure on the other hand has a higher discretionary latitude and touches mainly on new programmes related to investment such as on infrastructure.

The effectiveness of government programmes implemented through incurring public expenditure is measured by the outcomes that are derived from outputs for any given level of inputs and such outcomes include the impact of public expenditure on economic security (Matos, Jorge & Moura e Sá, 2023). Governments match their expected revenues to projected expenditures as guided by development plans. In most instances, and especially in the developing economies, like within the EAC member countries, the development plans are more ambitious than the revenue base thus creating a mismatch that constitutes budget deficits (Geng and Qian, 2024). Governments results to either rescheduling the timing of some development plans or seeking alternative funding (Scharff, 2020), which leads to borrowing driven by government budget deficits (Ahmed, 2021). The outcomes from public spending reflect how public expenditure benefits the public from whom its derived from thus the effect of public expenditure on economic security. The measurement of public expenditure varies according to definition and categorization of public spending. The measurement of public expenditure can be expressed in absolute monetary terms, either in the local currency or equivalent standard international currency principally being the United States Dollars (USD). Public expenditure can also be expressed relative to macro-economic variables. This study adopted the measure of public expenditure expressed as a percentage of GDP.

Governance is defined as the exercise of authority in various forms through institutions and traditions in managing a country's affairs in all levels and encompasses political, social and economic structures and institutions (Abdou, 2021). However, governance has no universally generally accepted definition. The key components of governance relate to government effectiveness, the rule of law and corruption prevention. Governance is a vital component of public finance management and includes the quality of financial and budgetary management, accountability, effectiveness in revenue mobilization, public expenditure efficiency, transparency and corruption management (Bawole & Adjei-Bamfo 2020). Governance practices that encompass risk management have been shown to reduce the debt to GDP ratio, reduce deficit and improved the structure of debt (Karataş, 2020). Governance being exercise of authority through institutions has been identified as a key component in public expenditure management to achieve effectiveness while escalation of trade openness that defines the level of international trade interactions augments economic growth (Zahonogo, 2016).

Governance quality is defined to mean how sound the institutions and processes of public governance function and has an important influence on the well-being of the people (Ma, Ma, Yu, Ma, & Dong, 2024). The quality of governance affects economic performance and its indirect effects such as poverty reduction (Dankumo, IsHak, Auta & Denthe, 2023). Good governance is a critical component in determining a country's creditworthiness through lowering its country risk thus increasing ability to attract investment and spur sustained economic growth (Meyer, 2021). A government establishing the proper governance framework is critical in attainment of higher economic growth and enabling the economy to grow to its potential. The quality of governance has an affirmative effect on the trust that people place in the government (Ma, 2024).

The measurement of public governance for determining the value of public organizations and institutions is done through quantifying their results and activities as there is a positive correlation between good governance and effectiveness of a government (Malik, 2024). The measurement of governance in a country is measured through a governance index. The factors to consider in modelling the governance index are varied based on the measurement focus. What constitutes good governance has therefore a wide subjective spectrum of principles (Pomeranz, & Stedman, 2020). Public trust is developed and enhanced by good governance practices (Hartanto, Dalle, Akrim & Anisah, 2021). The measurement of Good Public Governance (GPG) must incorporate a multidimensional index as opposed to a single dimension (Amyulianthy, Muda, Said & Setyaningrum, 2022). The quality governance in a nation can be expressed by the six Worldwide Governance Indicators (WGI) components that are Voice and Accountability (VA), Regulatory Quality (RQ), Political Stability and Absence of Violence/Terrorism (PSAV), Government Effectiveness (GE), the Rule of Law (RL) and Control of Corruption (CC) that are added to give the WGI of a country (World Bank, 2022). This was the measure of governance that this study adopted as they factor exercise of authority through institutions, which is the definition of governance in this study.

The East African Community (EAC) is a Regional Economic Community (REC) as well as a regional inter-governmental entity made up of eight (8) member states and first formed in 1967 by Kenya, Tanzania and Uganda and headquartered in Arusha, Tanzania. Unfortunately, the first EAC collapsed in 1977 only 10 years after its formation due to ideological differences that made it impracticable for the leaders of the three countries to harmoniously work together. The current EAC became officially effective on 7th July 2000 as a culmination of

efforts to re-establish EAC that had seen the signing of the EAC treaty on 30th November 1999 by Kenya, Tanzania and Uganda. Thereafter, five other countries have joined the EAC. Burundi and Rwanda joined in June 2007, South Sudan joined in August 2016, the Democratic Republic of Congo (DRC) joined EAC in July 2022 while the Federal Republic of Somalia joined in March 2024 (EAC, 2024).

The EAC member states are classified as developing countries with the East Africa region expected to register rapid income growth though about two thirds of workers in Sub-Sahara Africa are classified as working poor (WESP, 2020). Poverty is an indicator of prevalence of economic securities thus majority of EAC member have lower economic security (Osberg & Sharpe, 2010). The World Development Indicators in 2021 indicated that EAC member countries are at different economic developmental stages. The GDP of Kenya was indicated as being USD 110.35 billion followed by Tanzania with a GDP of USD 67.84 billion. Democratic Republic of Congo was third with a GDP of USD 55.35 followed by Uganda with a GDP of USD 40.53 billion. Rwanda was fifth with a GDP of USD 11.07 billion, Burundi had a GDP of USD 2.78 billion while data on South Sudan related to year 2015 when it had a GDP of 12 billion (World Bank Group, 2024). The expected rapid income growth within EAC member states would be expected to enable governments aided by good governance to raise additional revenues for their development programmes whose impact would be manifested in the outcomes experienced by the people that would translate to increased economic security.

Research problem

There has been limited mention of the concept of economic security at microeconomic level and factors that would be indicators, affect or measures of the same (Stiglitz, et. al. 2009). Measures of economic security are segregated to various components of insecurities as opposed to composites through economic security indices. The economy influences economic security thus factors that affect the economy affect economic security (Gryshova, Kyzym, Hubarieva, Khaustova, Livinskyi, & Koroshenko, 2020; Grigoreva & Garifova, 2015). Categories of public expenditure also tend to depict heterogeneity in their impact on the economy. Capital expenditure has been shown to have positive significant impact on economic growth while recurrent expenditure has been shown to have no significant impact on economic growth (Aluthge, Jibir, & Abdu, 2021).

The impact of public expenditure on economic growth ranges from negative to positive, it tilts more towards being positive (Nyasha, & Odhiambo, 2019). Investment spending and GDP have been shown to have a bi-directional relationship that is negative in the short run and a positive in the long run (Hilton, 2021). Social speeding and subsidies on the other hand have been shown to increase inequality (Apeti, 2023). Most studies done on the effectiveness of public expenditure have mainly been on education and health (Sant' Ana, Lopes, Miranda, Bermejo, & Demo, 2020). The ability to achieve economic security on long term basis has become a challenge to many households (Rank & Thomas, 2014). Countries around the world have unique features of economic insecurities (Zhengyi, 2004) while factors that affect the economy do so in different manner.

Studies have found come up with various findings on the impact of public expenditure on segregated components of economic security. Abouelfarag and Qutb (2021) found out that public expenditure increases unemployment rate in Egypt in the long run while Joy, Okafor & Ohiorenuan (2021) found out that capital public expenditure had significant directly proportionate impact on poverty in Nigeria. The study findings thus negate the literature review that had found public expenditure having an inverse relationship with economic insecurities such as unemployment. Saraireh (2020) found out that public expenditure is inversely related to unemployment rates both in long run and short run, Alamanda (2020) found out that components of public expenditure had both positive and negative effect on poverty and income inequality while Yusoff, Law, Mohamed, Ismail (2023) found out that capital public expenditure had no or little impact in lowering poverty levels while reduction in capital public expenditure would reduce poverty levels in the long run. Nyamweya (2021) found a significant effect of economic growth on poverty, Mukisa, Nathan and Bulime (2020) found that sustaining economic growth among EAC would reduce unemployment rates. Mathenge and Muturi (2021) made a similar conclusion in relation to economic growth and unemployment. Studies on universal healthcare have majorly grouped the EAC among the Sub-Saharan Africa (SSA) countries.

Governance plays a key role in economic management development and growth thus economic security (Karataş, 2020). Having effective governance mechanisms both at the state level and corporate level to control and manage marginal increase in financial obligations is desirable (Zemskov, Prasolov, Sinyavsky, Konvalova, & Botasheva, 2020). EAC member states have over the years formulated and implemented social, political and economic policies geared towards development. These measures are expected to, inter alia, enhance the respective GDP of EAC member states, contribute to reducing unemployment, providing universal health care (UHC) that would reduce the out-of-pocket medical expenses, alleviate poverty through prudent public expenditure, enhance sound management of sovereign debt, improve public governance and have better managed trade openness. The effectiveness of such policies would be measured based on the outcomes experienced by the people in these EAC member states and thus their economic securities. There was need therefore to understand whether governance

moderates the linkages between public expenditure and economic security within the EAC and thus the objective of this study.

II. Literature Review

Public expenditure reduces the disposable income arising from raising of taxes to finance public spending and this reduces the ability of individuals and households to meet their basic and essential needs in a sustainable manner. This ability is at the core of the micro-economic component of economic security. Governance of public expenditure to improve the outcomes of public spending would mitigate the reduction in economic security. The impact and outcome of public expenditure to various parameters of economy security and similarly the impact of governance on public expenditure and various components of economic security have been studied with varied findings.

Sarairoh (2020) evaluated data covering the period 1990 to 2019 to estimate impact of state expenditure on unemployment in Jordan. He established that public expenditure is inversely related to unemployment in the long and short runs with an increase in public spending measured as a fraction of GDP reducing unemployment by 0.43%. Unemployment is an indicator of economic security. His studies however did not study the association between public expenditure and a composite of economic insecurities modelled into an economic security index, which was the study gap that this study addressed.

Alamanda (2020) analyzed panel data from 33 provinces in Indonesia from the period 2005 to 2017 to investigate the effect on income inequality and poverty by various categories of public expenditure. He aimed to evaluate the claim that the structure and types of government spending affects income disparity and poverty. He found out that grant expenditure, social assistance and subsidy have no significant influence on income inequality and reducing poverty. He further found out that investment expenditure and income inequality are negatively correlated in both urban and rural parts of Indonesia. He also found out investment expenditure is still adversely correlated with poverty in both urban areas and rural zones with the impact being higher in rural areas. Poverty is one of the economic insecurity factored in the economic security index adopted by this study. Alamanda did not however incorporate other economic insecurities in his study, which was the study gap that this study addressed by incorporating three economic insecurities into an economic security index.

Obisike, Okoli, Onwuka, & Mba (2020) using secondary data from 1981 to 2016 studied the effect of public social expenditure on unemployment rates in Nigeria. They analyzed the data using ordinary least square (OLS) and found out recurrent spending did not have a significant influence on unemployment as did capital expenditure. They further found out that both capital and recurrent spending on health and education had a significant bearing on unemployment. Their study's conclusion showed that a government should focus its expenditure on health, education and other social activities to reduce unemployment in Nigeria. Though their study looked at the breakdown of public expenditure on unemployment rates, it did not make comparative analysis with other economies nor with other types of economic insecurities. These were the study gaps addressed by this study.

Abouelfarag and Qutb (2021) studied the effect of public expenditure on unemployment rate in Egypt. They analyzed data for the duration from 1980 to 2017 using vector error correction model (VECM) and Johansen cointegration test. They further examined whether discretionary and non-discretionary expenditure items had difference impact on unemployment. They found out that in the long run marginal increases in public expenditure results in increased unemployment rate and there was approximately similar effect of increasing unemployment by both discretionary and non-discretionary expenditures. Investment spending however had insignificant impact owing to its minimal percentage in public expenses. The study looked at only one aspect of economic insecurity and did not factor a composite of insecurities that was the gap that this study addressed.

Joy, Okafor & Ohiorenuan (2021) carried out a study on the impact of capital public expenditure on poverty in Nigeria. They used secondary panel data from Central Bank of Nigeria as well as from the Nigeria Bureau of Statistics for the duration from year 1981 to 2015. They analyzed the data using Autoregressive Distributed Lag model (ARDL) and discovered a positive significant influence on poverty by capital public expenditure. Their study findings reflected that increases in capital public expenditure resulted in increased poverty. These findings suggest it would be counterproductive to increase public expenditure as it would be tantamount to increasing poverty. The study finding can therefore be extended to the influence of public expenditure to other economic insecurities or composite of economic insecurities to means increasing public expenditure results into increased composite economic insecurities. The study sought to test this theorized extension.

Yusoff, Law, Mohamed, Ismail (2023) studied the impact of capital public spending in alleviating of poverty in Malaysia. They analyzed time series data for the years 1970 to 2019 using a Non-Linear Autoregressive Distributed Lag (NARDL) model. They discovered that public development expenditure had no or little impact in lowering poverty levels in Malaysia both in the long and short runs. They also found a positive significant effect on poverty by increasing capital public expenditure but reducing capital public expenditure was

insignificant in the determination of poverty in Malaysia in the long run. The study finding support reduction of all forms of capital public expenditure whose effect would be to reduce poverty. It can also be argued that since increasing capital public expenditure does not significantly adversely affect poverty, governments may consider increasing capital public expenditure in areas that would have a higher multiplier effect in improving the quality of lives in poverty stricken areas. The study sought to ascertain whether these findings would hold on composite economic insecurities.

Bhanumurthy, Prasad and Jain (2018) studied the association between public expenditure, governance quality and human advancement outcomes through a comparative study of districts within the second largest Indian State of Madhya Pradesh. They used a Governance Index (GI) comprising of twenty-two indicators comprising of five dimensions being Administrative, Economic, Legal & Judicial, Political and Social to measure the role of governance. Their study found out that the quality of governance influences public expenditure efficiency (PEE) and better governance indicators improves effectiveness of public expenditure. Prioritization of the administrative aspect of governance in districts with lower human development outcomes contributes in reducing the divergences in human development outcomes as reflected by achievement the Millennium Development Goals (MDG). They also found that development expenditure was not sufficient to achieve human development outcomes at the district level. They concluded that policy should focus on improving governance and development expenditure to improve human development outcomes. They however did not study the impact of governance on the relationship between public expenditure and economic security, which was the gap addressed by this study.

Mohanty & Bhanumurthy (2021) assessed public expenditure efficiency in India at the major subnational level by studying the efficiency of public expenditure to understand what drives it. Their study attempted to measure public expenditure efficiency in the social sub-sector focusing on education and healthcare. They used Data Envelopment Analysis (DEA) and analyzed data for 15-year period from year 2000. They discovered that governance had a positive impact on public expenditure by yielding better outcomes. They also found out that public expenditure efficiency varied among the study sectors with the highest efficiency witnessed in education comparative to the overall social sector and health sector. The study findings indicated the role of governance in achieving public expenditure efficiency and effectiveness as reflected from the outcomes. Their study did not examine the function of governance on composite of economic insecurities, which was the gap studied by this study.

Fourie and Blom (2022) used a qualitative research approach and studied the challenges faced by the South African government in managing its sovereign debt. They found out that poorly managed sovereign debt can lead to increased economic insecurities such as unemployment, inequalities and poverty and that differentiated strategies are required for effective management of sovereign debt in the short, medium and long run. These differentiated strategies are in the realm of governance thus imputing that governance in the management of expenditure of public funds that include those raised from ordinary revenues and those raised from borrowing is a key component in addressing economic insecurities. The study was a case study of South Africa thus limiting the findings to that country. This study looked at developing countries with differentiated economies.

Narayana (2023) developed a framework for analyzing the distribution policies for ensuring old-age economic security to India's older age persons from public retirement benefits scheme. He did a comparative analysis of data for year 2004-05 and 2011-2012 using year 2004-05 as the base year. He found out that redistributive policies for older people by funding public pension scheme at a cost below 0.2% of India's consumption expenditure improved economic security of older persons. Though the study setting was within a developing country, it was a case study and thus didn't have comparable analysis of countries within an economic block which was the gap that this study studied.

Apeti and Combes (2023) investigated the influence of fiscal rules on public expenditure efficiency using panel data from 159 diverse economies covering the period 1990 to 2017. Their study results indicate that having fiscal rules improves public expenditure efficiency, which in turn has economically significant positive effect with debt and deficit rules having a higher impact. Their study did not however evaluate the positive influence of public expenditure efficiency on economic insecurities, which this study aimed to evaluate.

Dankumo, IsHak, Auta & Denthe (2023) undertook a study to investigate whether governance had a role in the association between public expenditure and poverty. They used data for the period 1996 to 2019 for 46 Sub-Saharan Africa (SSA) countries. Governance was represented by political instability and corruption. They analyzed the data through the Generalized Methods Moments (GMM) technique and established that the two problems of governance being political instability and corruption adversely affects poverty. They concluded that governance had an intervening role in the association of public expenditure and poverty and that tackling the problems of governance would help in tacking poverty. This implication of their study finding is that governance quality affects poverty level, which is an economic insecurity. Good governance reduces poverty while bad governance increases poverty. This can be extended to economic insecurities where good governance would be

expected to reduce economic insecurities and bad governance to increase economic insecurities, which this study sought to study.

III. Data And Methodology

The study used positivism research philosophy and adopted the descriptive and exploratory study designs in analyzing the longitudinal and cross-sectional panel data to describe and evaluate whether governance had moderating influence on the relationship between public expenditure and economic security among the five selected EAC member countries that were Kenya, Uganda, Tanzania, Burundi and Rwanda. The data considered was for a fifteen-year period from year 2008 to 2022. The analysis was done using E-Views Version 12 with the Broyden–Fletcher–Goldfarb–Shanno (BFGS) Autoregressive Moving Average (ARMA) Generalized Least Squares (GLS) being utilized as some of the data failed to meet the classical regression assumptions. Public expenditure was operationalized as being the general government final consumption expenditure and expressed as a percentage of the GDP. Economic security was operationalized as the level of economic insecurity in a country and measured using a customized economic security index developed as a composite using equal weights of unemployment rate, universal healthcare uncovered rate and poverty rate. Governance was operationalized as the quality of governance in the country measured from the six Worldwide Governance Indicators.

The stepwise linear regression models (Baron & Kenny, 1986) adopted and developed by the study and used to test the influence of governance on the relationship between public expenditure and economic security were as indicated below.

$$ES_{jt} = \alpha + \beta_1 P_{jt} + \epsilon \dots \dots \dots (1)$$

Where;

- ES_{jt} = economic security
- P_{jt} = public expenditure
- α = intercept/constant
- β₁ = coefficient for public expenditure
- t = time period
- j = country (1,2,3,4,5)
- ε = error term

$$ES_{jt} = \alpha + \beta_1 P_{jt} + \beta_3 U_{jt} + \epsilon \dots \dots \dots (2)$$

Where;

- ES_{jt} = economic security
- P_{jt} = public expenditure
- U_{jt} = governance
- α = intercept/constant
- β₁ = coefficient for public expenditure
- β₃ = coefficient for governance
- t = time period
- j = country (1,2,3,4,5)
- ε = error term

$$ES_{jt} = \alpha + \beta_1 P_{jt} + \beta_3 U_{jt} + \beta_4 P_{jt} .U_{jt} + \epsilon \dots \dots \dots (3)$$

Where;

- ES_{jt} = economic security
- P_{jt} = public expenditure
- U_{jt} = governance
- α = intercept/constant
- β₁ = coefficient for public expenditure
- β₃ = coefficient for governance
- β₄ = coefficient for product of public expenditure and governance
- t = time period
- j = country (1,2,3,4,5)
- ε = error term

Descriptive analysis of the data in terms of the mean, standard deviation of the data, being the measures of central tendency and the minimum and maximum values associated with the study variables of public expenditure and economic security were also done.

IV. Results And Discussion

The summary of the descriptive statistics of the data variables were presented in Table 1 below while the results of the regression analysis were presented in Table 2, Table 3 and Table 4 below.

Table 1: Summary of Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Public Expenditure as a % of GDP	75	6.59	31.34	14.0941	6.2591
Worldwide Governance Indicators (WGI)	75	-1.45	0.03	-0.6285	0.3824
Economic Security represented by Economic Security Index (ESI)	75	27.12	44.75	35.6400	4.7917

Source: Research Data

Table 1 shows the mean for public expenditure was 14.09% implying that on average the EAC member countries had public expenditure of 14.09% of the Gross Domestic Product (GDP). The mean for governance was -0.63 which reflected below average governance within the East Africa Community. Governance was measured as an average of the scores from the six Worldwide Governance Indicators (WGI) that ranges from 2.5 to -2.5 with a higher positive score reflecting improved governance and a lower negative score showing meagre performance in governance. The mean for economic security was 35.64% implying that on average 35.64% of the population among the EAC region experienced economic insecurities. A higher value of the economic security index reflected a lower level of economic security.

Table 2: Regression Analysis on the Influence of Governance on the Relationship Between Public Expenditure on Economic Security in East Africa Community, Step One.

Dependent Variable: ESI				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	29.31728	2.026748	14.46519	0.0000
Public Expenditure	0.461352	0.098715	4.673576	0.0000
AR (1)	0.839834	0.065652	12.79222	0.0000
R-squared	0.804303	Mean dependent var		35.64000
Adjusted R-squared	0.798867	Durbin-Watson stat		2.318156
Prob (F-statistic)	0.000000			

Source: Research Data

Table 2 shows the coefficient of determination (R^2) value of 0.804) that indicates that public expenditure explains 80.4% of the magnitude of variation in economic security index thus economic insecurity among EAC member countries. The overall computed p (0.000) value was lower than 0.05 indicating that public expenditure had a significant effect on economic security among EAC member countries. Further, the p (0.000) value allied with public expenditure was less than the 0.05. The intercept of 29.317 gives the level of economic insecurity holding public expenditure at constant zero. The positive coefficient of public expenditure of 0.461 means that a unit increase in public expenditure would result in an increase of 0.461 units in economic security index thus increase in economic insecurity among EAC member countries. Arising from the regression results that showed the coefficient associated with public expenditure was less than the 0.05, the first condition for rejecting the hypothesis that governance had no significant moderating impact on the affiliation of public expenditure and economic security in EAC member countries was satisfied.

The regression results were fitted in equation 1 below as follows:

$$ES_{jt} = 29.317 + 0.461P_{jt} + \epsilon \dots \dots \dots (1)$$

Table 3: Regression Analysis on the Influence of Governance on the Relationship Between Public Expenditure on Economic Security in East Africa Community, Step Two.

Dependent Variable: ESI				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	28.47512	2.434793	11.69509	0.0000
Public Expenditure	0.438299	0.104370	4.199465	0.0001
WGI	-1.782983	2.438791	-0.731093	0.4671
AR (1)	0.855900	0.062677	13.65573	0.0000
R-squared	0.805616	Mean dependent var		35.64000
Adjusted R-squared	0.797403	Durbin-Watson stat		2.336570

Prob (F-statistic)	0.000000		
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Source: Research Data

Table 3 shows R² (0.806) value that indicates that, in the regression model, public expenditure and governance explains 80.6% of the magnitude of variation in economic security index thus economic insecurity among EAC member countries. The overall computed p (0.000) value is lower than 0.05 implying that both public expenditure and governance have significant effect on economic security among EAC member countries. Further, the p (0.000) value allied with public expenditure was lower than the 0.05 implying public expenditure had a direct significant impact on economic security among EAC member countries the presence of governance notwithstanding. However, the p (0.4671) value allied with governance was more than 0.05 revealing that governance had no significant moderating impact on the affiliation of public expenditure and economic security EAC member countries. The regression model was fixed in equation 2 as indicated below:

$$ES_{jt} = 28.475 + 0.438P_{jt} - 1.783U_{jt} + \epsilon \dots \dots \dots (2)$$

The intercept of 28.475 shows the level of economic security index thus economic insecurity holding public expenditure and governance at constant zero. The positive coefficient of public expenditure of 0.438 means that increment in public expenditure is linked to an increase of 0.438 units in economic security index thus increase in economic insecurities among East African Community Member countries. The negative coefficient of governance of -1.783 means a unit increment in governance would result in a decrease of 1.783 units in economic security index thus decrease in economic insecurities among EAC member countries. Arising from the regression results showing the coefficient associated with governance being greater than 0.05, the second moderating condition for rejecting the hypothesis that governance had no significant moderating effect on the affiliation of public expenditure and economic security among EAC member countries was not satisfied.

Table 4: Regression Analysis on the Influence of Governance on the Relationship Between Public Expenditure on Economic Security in East Africa Community, Step Three.

Dependent Variable: ESI				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	44.83222	4.972095	9.016767	0.0000
Public Expenditure	-0.471042	0.264080	-1.783708	0.0788
WGI	20.70343	6.501393	3.184461	0.0022
Public Expenditure x WGI	-1.054075	0.286622	-3.677576	0.0005
AR (1)	0.856314	0.066629	12.85192	0.0000
R-squared	0.837272	Mean dependent var		35.64000
Adjusted R-squared	0.827973	Durbin-Watson stat		2.140364
Prob (F-statistic)	0.000000			

Source: Research Data

Table 4 shows R² (0.837) value that indicates that, in the regression model, public expenditure, governance and the product of public expenditure and governance (interaction term) explains 83.7% of the magnitude of variation in economic security index thus economic insecurity among EAC member countries. The overall computed p (0.000) value was lower than 0.05 implying that public expenditure, governance and interaction term have significant effect on economic security among EAC member countries. The p (0.078) value allied with public expenditure was greater than 0.05 level of significance revealing that in the presence of governance, public expenditure had no direct significant impact on economic security among EAC member countries. Further, the p (0.002) value associated with governance and the p (0.000) value associated with the interaction term were less than 0.05 indicating that governance and the interaction term had significant moderating impact on the affiliation of public expenditure and economic security among EAC member countries. The regression model in equation 3 was fitted as follows:

$$ES_{jt} = 44.832 - 0.471P_{jt} + 20.703U_{jt} - 1.504P_{jt} \cdot U_{jt} + \epsilon \dots \dots \dots (3)$$

The intercept of 44.832 gives the level of economic security index thus economic insecurity holding public expenditure, governance and the interaction term at constant zero. The negative coefficient of public expenditure (-0.471) means that public expenditure is associated with decrease in economic security index thus decrease in economic insecurity holding other factors constant. The positive coefficient of governance (20.703) means that governance is associated with increase in economic security index thus increase in economic insecurity holding other factors constant. The negative coefficient of the interaction term (-1.504) between public expenditure and governance means that governance weakens the association of public expenditure and economic security index thus economic insecurity among EAC member countries. Arising from the regression results

showing the coefficient associated with governance and that linked with the interaction term being less than 0.05, the third condition for rejecting the hypothesis that governance had no significant moderating impact on the affiliation of public expenditure and economic security among EAC member countries was satisfied.

In view of the regression results not satisfying all the three conditions for rejecting the study hypothesis, the study failed to reject it. However, two of the three moderating conditions were satisfied meaning that governance had partial moderating effect on the affiliation of public expenditure and economic security among EAC member countries. The study therefore concluded that governance is a partial moderator without significant moderating impact on the relationship between public expenditure and economic security among EAC member countries.

Governance as measured by the composite Worldwide Governance Index ranges from -2.5 to 2.5 with -2.5 indicating the maximum negative governance while 2,5 indicates maximum positive governance. The governance measurement from the EAC member countries, considered in the study, was mainly towards the negative side implying that governance in these countries was on the lower side. This places a higher premium on governance and its significance on the relationship of public expenditure and economic security. Better governance quality is positively correlated with public expenditure efficiency (Sayari & Rabeh, 2022).

V. Conclusion

The three moderating regression conditions were not met thus the study did not reject the hypothesis that governance had no significant moderating impact on the association between public expenditure and economic security among EAC member countries. The study therefore concluded that governance had no significant moderating impact on the relationship between public expenditure and economic security among EAC member countries. The coefficient public expenditure in the second step was positive while the coefficient of governance was negative revealing that public expenditure, holding other factors constant, was associated with decrease in economic security thus increase in economic insecurities while governance in that combination was associated with increase in economic security thus decrease in economic insecurities.

The coefficient public expenditure in the third step was negative with the coefficient related to governance being positive. The coefficient of the product between public expenditure and governance (interaction term) was negative. These study results meant that public expenditure, holding other factors constant, was associated with increase in economic security thus decrease in economic insecurities while governance in that combination was associated with decrease in economic security thus increase in economic insecurities. The negative coefficient of the interaction tern showed that governance weakens the connection of public expenditure and economic security. The ultimate conclusion was that weaknesses in governance among EAC member countries worsened the impact of public expenditure on economic security.

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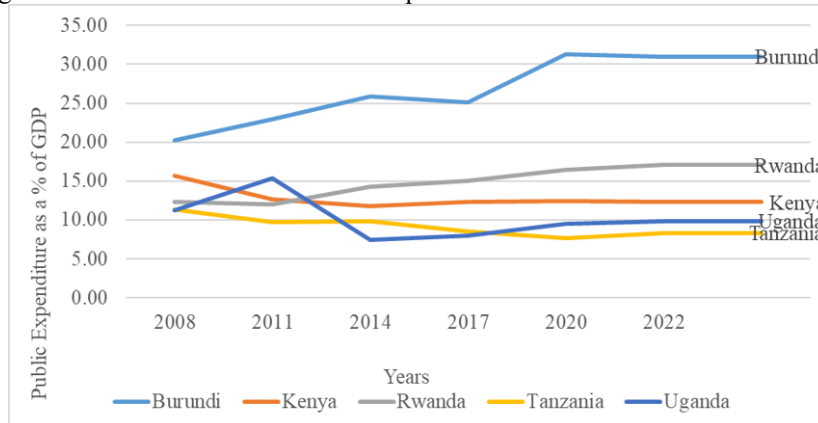
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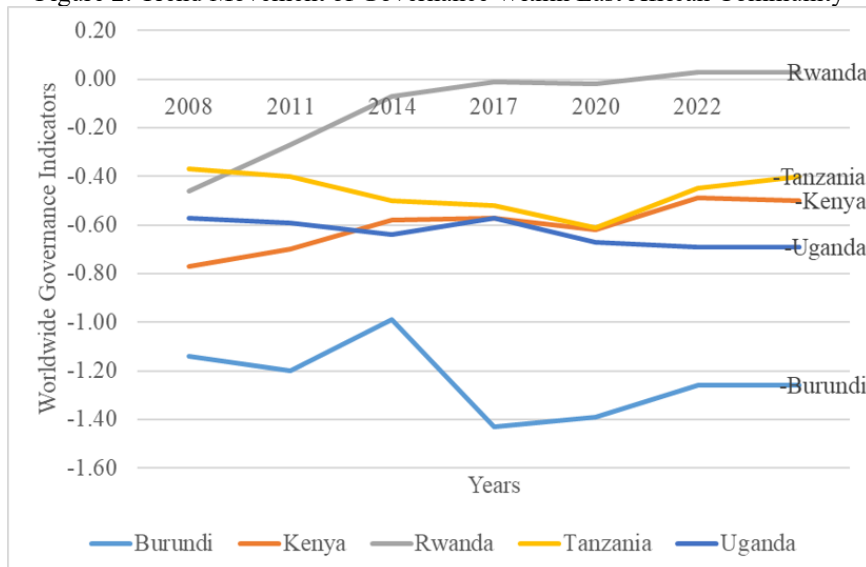
Appendices

Figure 1: Trend Movement of Public Expenditure Within East African Community



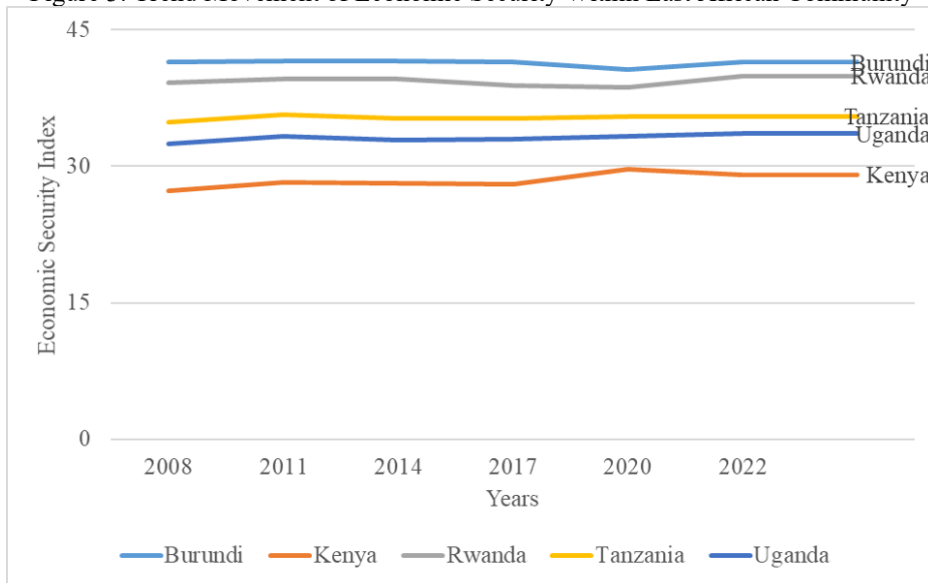
Source: Research Data

Figure 2: Trend Movement of Governance Within East African Community



Source: Research Data

Figure 3: Trend Movement of Economic Security Within East African Community



Source: Research Data