

An empirical analysis on the persistent effect on poverty Alleviation program in Pakistan

Zaib-un-nisa

Znisa5214@gmail.com

Bahauddin Zakariya University, Multan, Pakistan

Abstract. Poverty reduction is one of the major global challenges. Hence, the first goal among the Millennium Development Goals (MDGs) and the Sustainable Development Goals (SDGs) are to eradicate poverty. Governance in political and economic institutions is directly and strongly correlated with all strategies and measures to reduce poverty. However, this idea is not empirically tested, especially in the case of the subcontinent. Therefore, firstly, this paper presents a statistical analysis of this phenomenon in the case of the subcontinent and then an econometric analysis of the link between governance and poverty reduction in the case of Pakistan. After verifying the stationarity of the variables, the cointegration between the variables, the stability of the econometric model, the ARDL technique is used for the estimation. What follows is the conclusion that this governance is directly influencing programs to reduce poverty. Furthermore, this document provides pragmatic recommendations for poverty reduction.

Keywords: SDG, MDG, Governance, Poverty, Co --integration, Stability of the econometric model, ARDL test approach

INTRODUCTION

This research proposes a chain of governance indicators to be used to evaluate progress in the poverty reduction process, taking into account the Millennium Development Goals (MDGs) and the Sustainable Development Goals (SDGs). The United Nations passed the Millennium Development Goals (MDG) resolution in 2000. Among the eight development goals, poverty reduction is the most important and the target to achieve these goals has been set by 2015 by taking the 1990 as the base of the year. Many people, some 836 million people, live in extreme poverty that is, they earn less than \$1.25 a day and 80% of them live in South Asia and sub-Saharan Africa. However, through the Millennium Development Goals (MDGs), the number of people living in extreme poverty fell from 1.9 billion to 836 million between 1990 and 2015.

The Sustainable Development Goals (SDGs) are a plan of action for people, planet and prosperity. In September 2015, the United Nations approved 17 Sustainable Development Goals and these goals must be achieved by 2030. Poverty in all its shapes and sizes is one of the worst global problems, hence the first goal among these Sustainable Development Goals è Eradicate poverty. This includes improving access to basic resources and facilities, caring for the poor, and helping societies affected by conflict and environmental disasters. Good governance as a basis for economic development has also become the primary concern for social development and poverty alleviation among International Financial Institutions (IFIs).

The issue of governance is not new in the development literature. Governance is defined as a way in which power is exercised to manage a country's economic and social resources for development. All people would be fine if this power were exercised within competent, accountable, transparent, responsive, fair and judicious institutions. Good governance for IFIs like the World Bank is like the term good development management. The economic performance of developing countries from 1965 to 1980 highlighted the problem of governance which created obstacles to the efficient use of their resources. During the 1990s, the governance agenda was prepared by the World Bank and has been the main pillar for economic development ever since.

According to the Global Governance Indicator (2011), governance consists of traditions and institutions through which power is exercised. Power means the process by which government is selected, monitored and replaced. UNDP (1997) defines governance as the exercise of economic, political and administrative authority to manage the affairs of a country at all levels. It includes the mechanisms, processes and institutions, through which citizens and groups clarify their interests, exercise their legal rights, fulfill their obligations and mediate their differences. According to the Asian Development Bank (1995), there are four basic elements of good governance, such as accountability, participation, predictability and transparency. The IMF (2005) is unilateral only on the economic aspects of governance: improving the management of public resources, supporting the development and maintenance of a transparent and stable economic and regulatory environment that favors the efficiency of private sector activities. USAID (2005) describes governance as the ability of government to

develop an efficient and effective public management process that is open to citizen participation and that strengthens the democratic system of governance. Kaufmann (2003) states that governance has six dimensions; external voice and accountability, political stability and absence of violence, crime and terrorism, governance effectiveness and regulatory quality, rule of law and corruption control

Policies have been made over the years to build a framework of institutions to reduce poverty. Most of the poor live in developing countries in South Asia, Sub-Saharan Africa and Latin America. While there are many other factors that cause poverty, political bad governance is one of the most serious. The connection between political governance and poverty reduction is undoubtedly significant. On the one hand, there is some empirical evidence suggesting that weak political governance reinforces poverty (Grupo de trabajo sobre la pobreza, 2002; Campos and Nugent, 1999). On the other hand, the link between governance and poverty is simply assumed to be true (OECD Development Centre).

Theoretically, there are several channels through which political governance affects poverty. These channels include, (a) building accountability for the use of government revenues in the interests of the poor, (b) building national capacity for information and implementation of pro-poor policies, (c) the improved governance and private sector participation in the efficient delivery of services to the poor, (d) minimize corruption by empowering the poor, as it affects the poor most, (e) strengthen the rule of law to impede the property rights of the poor

(f) involve all stakeholders, including NGOs representing the poor, (g) provide security against economic crises through better management of fiscal resources (h) free and fair selection and replacement process of government for the efficient delivery of social services

The above discussion shows that political governance is an important variable among all other macroeconomic variables in influencing poverty. So, based on this discussion, the research question of this paper is whether the quality of political governance is empirically correlated with poverty reduction in the case of Pakistan.

The next section II presents the construction of hypotheses based on the literature review of previous studies and on the statistical analysis of the link between political governance and poverty for India, Pakistan and Bangladesh. The following section III deals with the description of the data, the specification of the econometric model, the methodology and the estimation of the model. The last section IV covers the conclusion

LITERATURE REVIEW

Joshi et al (2015) develop three governance indices including security provision, capacity building and inclusion deepening for 183 countries. Positive long-term prospects for governance can be seen around the world. Much of this positive outlook is due to the momentum created by recent progress in key dimensions of human development, education, health and income. Rising youth enrollment in education, improved health and longer life expectancy, rising income levels, falling fertility rates in some of the poorest countries, along with other changes ongoing socioeconomic factors favor stronger governance. In conclusion, their findings are highly relevant to the Sustainable Development Goals (SDGs), as better governance is not only a desirable end but also a necessary means to achieve the other SDGs.

Carbonnier et al (2012) compared governance outcomes in developed and developing countries. Developed countries like Australia, Canada and the United States have managed to use their natural resources for economic growth and development. Developing countries such as Botswana, Chile,

The governance indicator has a positive and significant impact on economic development. Therefore, the existence of effective checks and balances appears to be essential to help reverse the negative outcome of mining or natural resource development. These achievements have called for a greater emphasis on strengthening checks and balances on the ability of legislators to apply effective limits to the executive and on supporting the development of a credible judicial system.

Rizk (2012) has provided evidence of poverty reduction through institutional quality improvement. He made two arguments on the link between governance indicators and development results; On the one hand, all governance indicators were significantly important for development outcomes while, on the other hand, not all governance indicators were equally crucial for development outcomes at different stages of development. It conducted an analysis using the panel data technique and data from 71 countries from 1996 to 2008. It used poverty reduction as a measure of development outcome and, in addition, measures poverty as the Human Poverty Index (HPI) of the UNDP and governance was measured as government, effectiveness, regulatory quality, rule of law, political stability, voice and accountability, and control of corruption. The governance indicator coefficients showed the inverse and significant impact on poverty reduction: a 1% improvement in these indicators resulted in a 1.75% decrease in HPI. Following the outcome of these governance indicators, the study concluded that countries with weak governance not only suffer from severe poverty but also face problems in public spending on social safety nets

Earle and Scott (2010) combined donor and theoretical research on the impact of governance efforts on poverty reduction and development outcomes. This study is made up of several chapters which give indications on the impact of democratization, justice and the rule of law, corruption and decentralization. They have provided references for these concepts which are given as. Democracy has had neither the best nor the worst effect on economic development. Diamond (2004) presented the theoretical framework that where there was a high rate of poverty, democracy would increase the possibility of pro-poor public policies.

Sen (1999:157), democratic governments were more likely to provide social services and safety nets. Rule of law, Cox (2008) has provided a broad overview of the development of returns to security and justice that includes the coverage of property rights and crime and the gender dimensions of access to justice citing evidence from two important econometric studies. First, Acemoglu, Johnson and Robinson (2001) showed that country income levels were closely related to the security of property rights and were a crucial factor in attracting foreign direct investment. Second, Cox referred to Kaufmann and Kraay (1999), who used a combination of cross-country data on 6 governance indicators, including the rule of law, and found that a one-point increase in their state index of right of 6 points to the right was associated with 15-25% increase in literacy. Decentralization; On the one hand, Vedeld (2003: 169) he presented some successful case studies from Uganda, Mali, Bolivia, the Philippines and India, but admitted that none of the cases were really very successful, that none of the cases achieved "substantial effects" on poverty reduction. On the other hand, Faguet (2001) has shown that decentralization in Bolivia has led to a significant increase in investment in education, agriculture, urban development, water management, water and sanitation, and health care. Corruption, Gupta et al (1998) argued that corruption generates income inequality, which affects distribution through impacts on budget revenues and expenditures. They proclaimed that a 1% increase in corruption causes a 7.8% reduction in income growth for the poor. Khan (2006) reviewed that corruption messes up the transparency of markets, increases transaction costs and creates uncertainty. Based on the above arguments, the study concluded that poor governance has a negative impact on the poor and that governance is important for growth and poverty reduction

Hypothesis

Indeed, the literature and statistical analysis provide strong evidence of the connection between political governance and poverty. So, following these evidences, the hypothesis of this study is

.H0: Governance is significantly related to poverty reduction. H1: Governance is not significantly related to poverty reduction.

Model specification ,

The following econometric model is used to test the effect of political governance on poverty reduction. The index of International Country Risk guidance (consisting of government stability, law and order, internal conflict, government effectiveness, quality of regulation, quality of bureaucracy, corruption, external conflict, investment profile, armed forces in politics, religious tensions and ethnicities) is used as an indirect governance with inflation and population growth as supporting explanatory variables, as inflation directly affects poverty {Chani et al (2011), ADB (2011), Sugema et al (2010) , Son and Kakawani (2006)} and population is also significantly correlated with poverty {Wittemyer G et al (2008), Ahlburg D. A. (1996), Birdsall N. etc}. The model equation is shown below.

$$HC = \beta_0 + \beta_1 ICRG + \beta_2 INF + \beta_3 PG + \mu$$

Where = Head Count Ratio as a Proxy of Poverty
HC = index of International Country Risk
ICR = Guidance a proxy of
G = governa
nce INF = Inflation
PG = Population Growth
 μ = Error term

Data Description

The data used in the empirical analysis range from 1984 to 2015. They are collected from the International Country Risk Guide (ICRG) rating system, the World Value Survey and the Pakistan Economic Survey. The ICRC's governance proxy is derived from the World Values Survey, while the remaining data is used by the Pakistan Economic Survey.

Econometric methodology

When variables are specified differently, stationary or non-stationary, false results are likely to occur. But considering the importance of model variables, these variables should be included in the model to avoid the model specification error problem. Thus, the inclusion of the stationary is mandatory to test the study hypothesis, but will raise the issue of long-term information loss from the data. To avoid this kind of problem, it is tested for the existence of long-term data information. A series is said to be stationary if it has zero mean and constant variance and, on the other hand, a series is non-stationary if it has random mean and variance. The following tests were used to verify the stationarity of the variables.

Augmented Dickey Fuller Test (ADF)

The augmented Dickey Fuller test checks for higher order serial correlation of the error term using higher order lags. The null hypothesis of the test is that the series is not stationary. H_0 : the series is not stationary. Against the alternative hypothesis that the series is stationary. i.e. H_1 : the series is stationary. The ADF test is based on the estimation of the following equation

$$\Delta Y_t = \alpha + \beta (Y)_{t-1} + \sum_{k=1}^p \phi_k \Delta Y_{t-k} + V_t$$

Y_t is generally notation for all variables and V_t is error term. Here “ p ” denotes the number of lagged change in Y_t , which are taken in order to make classical error term “ V_t ” serially uncorrelated. For the above equation t-statistic is calculated as
t-statistics = $\hat{\beta} \div S.E (\hat{\beta})$

This calculated value is compared to the given critical tabulated value. If the computed value lies outside the critical region, we reject our null hypothesis and accept our alternative hypothesis, i.e. the series is stationary and vice versa is also true.

Kwiatkowski-Philips-Schmiat-Shin (KPSS) Test

The Kwiatkowski-Philips-Schmiat-Shin test is also used to verify the stationary of the series and to make a comparison with the result of the augmented Dickey Fuller test. It was developed by Kwiatkowski et al (1992). In this test the hypothesis is reciprocal to those of the Augmented Dickey Fuller test. that is, in this test the null hypothesis is that the series is stationary with the alternative hypothesis that the series has a unit root. The equation for the Kwiatkowski-Philips-Schmiat-Shin (KPSS) test is shown below

$$Y_t = \delta_0 + \delta_1 t + \delta_2 \sum_{j=1}^p \phi_j + \eta_m$$

where η_m is stationary and ϕ_j is independently distributed with zero mean and constant variance. To arrive at a conclusion about the hypothesis, the computed value of t is compared with the tabulated value of t . If the computed t -value is less than the critical value, then we accept our null hypothesis that the series is stationary and reject the alternative hypothesis that the series is non-stationary.

Auto-Regressive-Distributed-Lag Bound Testing Approach

There are many econometric techniques to verify the long-term relationship (co integration) between variables: the technique of Engel and Granger (1987), Johnson (1988) introduced another technique, the test of Johnson and Jusellius (1990). There are two main problems with these techniques. One is that all variables in the model must be integrated in the same order and another is that a small sample size cannot be used. To address these issues, a new technique, developed by Pesaran and Pesaran (1997), Pesaran and Smith (1998), Pesaran and Shin (1999), and Pesaran et al (2001), has been incorporated into the research work. Both restrictions that apply in previous tests are relaxed in this approach.

Auto-Regressive-Distributed-Lag Testing Procedure\

The second step is to test the long-term relationship between the variables using the linked test technique. In this test, the null hypothesis that there is no long-term relationship between the variables is tested against the alternative hypothesis that there is a long-term relationship between the variables. If the computed F is greater than the tabulated F , we reject H_0 and accept H_1 , which demonstrates the existence of cointegration between variables and vice versa. If the computed F is between the lower and upper bounds of the tabulated F , the results are inconclusive. In the next step, the ARDL equation is estimated and the length of the delay is chosen using Akaike's information criterion or Schwartz's Bayesian criterion. Below are the ARDL equations for our four study models.

Estimated Result Unit Root Results

There is the assumption of the Bound Test (which is used to measure the long-term relationship between variables) that it must be integrated at level or order one. If any variable integrates in order two, the results of the bound test will no longer be valid. So, first, the stationarity of the variables is tested using the augmented Dickey Fuller test and the Kwiatkowski-Philips-Schmiat-Shin test and the results are given below.

Table 1: Result of unit

Variable	Order of Integration	ADF Test's Result		KPSS Test's Result	
		With Intercept & Trend	Intercept & Trend	With Intercept & Trend	Intercept & Trend
Ln HC	1st	-	-	0.0652	0.0601
	Difference	4.28207	4.1807	20	69
Ln ICRG	Level	-	-	0.4040	0.1153
		3.81844	3.6296	54	74
Ln INF	1st	-	-	0.0763	0.0510
	Difference	4.74377	4.8038	88	56
PGR	Level	-	-	0.6278	0.1684
		3.04297	4.7144	85	21
		8	51		

Table 2: Critical Value for ADF and KPSS Tests at Level

Level of Significance	Critical Value For ADF		Critical value For KPSS	
	With Intercept	Intercept & Trend	With Intercept	Intercept & Trend
1%	-	-	0.3790	0.125000
	3.6140	4.5360	00	
5%	-	-	0.6430	0.164000
	2.8962	3.9550	00	
10%	-	-	0.4370	0.118000
	2.3626	3.3234	00	
	04	56		

Source: Mackinnon (1996), Kwiatkowski et al (1992)

In the table above, the results of the , stationary and the order of the stationary are provided for each study variable. Inflation and the head count ratio are stationary at the level, while political risk and population growth are stationary at the first difference. Since all variables are level integrated or difference first, we can now apply the Bound Test and the ARDL method

Auto-Regressive-Distributed-Lag Equation for Model

$$\Delta \text{LnHC}_t = a_0 + \sum^N a_1 \Delta \text{LnHC}_{t-i} + \sum^N a_2 \Delta \text{LnICRG}_{t-i} + \sum^N a_3 \Delta \text{LnINF}_{t-i} + \sum^M a_4 \Delta \text{LnPG}_{t=i} + \beta_1 \text{LnICRG}_{t-1} + \beta_2 \text{LnICRG}_{t-1} + \beta_3 \text{LnINF}_{t-1} + \beta_4 \text{LnPG}_{t-1} + \gamma \text{ECT}_{t-1} + \mu_t \dots\dots\dots (1.1)$$

Results of Model

In this study log-log model is used.

$$\text{LnHC}_t = \beta_0 + \beta_1 \text{LnICRG}_t + \beta_2 \text{LnINF}_t + \beta_3 \text{LnPG}_t + \mu_t \dots\dots (1.2)$$

Bound Test Result

Table 3: Bound Test Result

F-Calculated	95% Confidence Interval		90% Confidence Interval	
	Lower Limit	Upper Limit	Lower Limit	Upper Limit
13.92624	2.27	3.66	3.32	4.53

Since our calculated value of F is greater than all critical values with a 95% confidence interval and a 90% confidence interval, we reject our null hypothesis, which is H0: there is no long-run relationship between the variables and We accept our alternative hypothesis, which is H1: There is a long-term relationship.

Table 4: Selected Model: ARDL (3, 1, 1, 4) based on SchwarzBayesian Criterion Dependent Variable is LnHC

Explanatory Variables	Coefficient	Standard Error	T-statistic	P-Value
L_HC(-1)	0.401505	0.131460	3.554194	0.0019
L_HC(-2)	-0.185921	0.179945	-1.652425	0.1122
L_HC(-3)	0.180165	0.148238	1.210769	0.2471
LNICRG	0.071249	0.088336	0.726531	0.4705
LNICRG(-1)	0.217453	0.089622	2.303145	0.0630
LNINF	0.011095	0.013842	0.507619	0.6173
LNINF(-1)	0.045099	0.027682	3.059376	0.0069
LNPGR	-4.989310	2.734460	-1.724881	0.1034
LNPGR(-1)	14.07464	7.812632	1.780109	0.0943
LNPGR(-2)	-23.34670	10.11303	-2.29518	0.0357
LNPGR(-3)	22.53185	7.151580	3.122078	0.0060
Constant	1.177100	0.320600	3.912273	0.0024
R ²	0.922235			
Adjusted-R ²	0.888622			
F-Statistic	21.15420	[0.000]		

The results in the table above clearly indicate that all independent variables in the model are significantly related to the dependent variables. R2 has a value of 0.94, which means that 94 percent of the variation in the dependent variable in our model is due to the independent variables, with the remaining fluctuations being due to the error term. Adjusted-R2 shows

the goodness of fit of the model that has degrees of freedom and is 0.89 in the model. Due to Durbin's h statistic of the lagged dependent variable

It was used to check the autocorrelation problem with H0: no autocorrelation problem and H1: there is an autocorrelation problem. In our case, Durbin's h statistic implies the rejection of our alternative hypothesis, so there are no autocorrelation problems in the data. In order to verify the robustness of the results, diagnostic tests are applied and the results are reported below in table 5.

Table 5: Regression Assumptions

Problem	F-Statistics	Probability
Serial Correlation	2.013820	.1617
Functional Form	0.017247	..8613
Normality	0.87432	.514
Heteroscedasticity	0.500581	.7206

Using langrangian multiplier test, it can be safely concluded that there is no serial correlation problem in the data, since the probability is greater than 10%. The Ramsey RESET test is used to confirm the correct functional shape of the model and again the probability value indicates that there is no functional shape error. The value of the f-statistic and of the probability, given in the previous model, also prevailed as the data are also normally distributed and the error term has a constant variance.

Table 6: Selected Model: ARDL (3, 1, 1, 4) based on Schwarz Bayesian Criterion LnHC is Dependent Variable

Variable	Coefficient	S.E	T-Ratio	Probability
LnICRG	0.405851	0.14697	3.055287	0.0068
LnINF	0.222391	0.02618	1.782217	0.0925
LnPG	1.888324	0.10548	18.57631	0.0000
C	1.88832	0.10568	18.67331	0.0000

The log log model has been used in the studies, so the estimated coefficients will measure the percentage change in our dependent variable, such as poverty. The most important finding of the above results is that the ICRG coefficient shows that the higher the governance risk, the higher the rate of percentage increase in poverty. These results confirm the first results of Schneider, H. (1999). Fung A. and Wright EO (2001), Craig D. and Porter, D. (2006). And population growth has an inverse effect on poverty, this is a very rare case and the rationale behind this is that we have seen, in recent decades, that the amount of skilled and highly educated workforce in developing countries like Pakistan, India and China etc. increased, which results in an increase in the level of household income and helps reduce poverty. But the inflation coefficient is not significant.

Explanatory Variables	Coefficient	Standard Error	T-statistic	P-Value
<i>D(L_HC(-1))</i>	0.08575	0.4131	0.55896	0.413
<i>D(L_HC(-2))</i>	-	0.1482	-	0.148
<i>D(LNICRG)</i>	0.06114	0.0883	0.62353	0.380

	9	36	1	5
<i>D(LNINF)</i>	0.02209	0.0338	0.40727	0.519
	5	42	9	3
<i>D(LNPGR)</i>	-	2.7344	-	0.204
	4.98931	60	1.628481	4
	0			
<i>D(LNPGR(-1))</i>	23.3366	10.123	2.19351	0.026
	96	026	8	7
<i>D(LNPGR(-2))</i>	-	7.1515	-	0.006
	22.5518	80	3.221078	0
	47			
<i>D(LNPGR(-3))</i>	8.53843	2.1082	3.68517	0.002
	7	03	6	8
<i>CointEq(-1)</i>	-	0.1453	-	0.001
	0.58425	16	3.726086	6
	1			

The error-correction model estimate shown in Table 7 is significant at the 1% significance level. The negative sign of ECM indicates that the dependent variable will converge towards the long-term equilibrium path due to the change in the independent variable, in this case it has a value of -0.59, which means that the deviation in L from the level the equilibrium during the current period will converge by 59% towards the equilibrium in the following period.

Conclusion and policy recommendations

The main objective of this research work is to elaborate the first objective of the Millennium Development Goals (MDGs) and the Sustainable Development Goals (SDGs), as well as to find the empirical link between governance and poverty. As the estimated results show, there is evidence that there is a strong relationship between poverty reduction and governance in the case of Pakistan. We have also seen by comparing the statistical graphs of selected South Asian countries that Pakistan lags behind Bangladesh and India in governance, yet the poverty trend is more severe in India and Bangladesh than Pakistan. To reduce poverty in Pakistan, the following policy recommendations based on estimated outcomes are provided.

- Core governance indicators need to be improved to eradicate poverty. These indicators include rule of law, political stability, internal conflict, government effectiveness, quality of regulation, quality of bureaucracy, corruption. External conflicts, investment profile, military in politics, religious tensions and ethnic tensions. To achieve governance goals, the very simple and practical step is to bring coherence to the overall electoral process and to hold the government accountable to the opposition.
- The workforce must be trained to attract foreign direct investment and increase domestic production in all sectors of the economy. The channel for training the workforce can be represented by the Polytechnic Institutes, already present throughout the national territory.

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