Irrational Exuberance vs. 'Afro-Pessimism': *Lessons from an empirical perspective on governance in Africa*

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www.govindicators.org

Background for Presentation at the GAC Workshop April 23, 2008

Inputs and collaboration from Aart Kraay and Massimo Mastruzzi and staff from the World Bank's Africa region is acknowledged. Errors and views are the author's.

Issues: Empirics inform on Fallacies vs. Realities?

Moving Away from Fallacies:

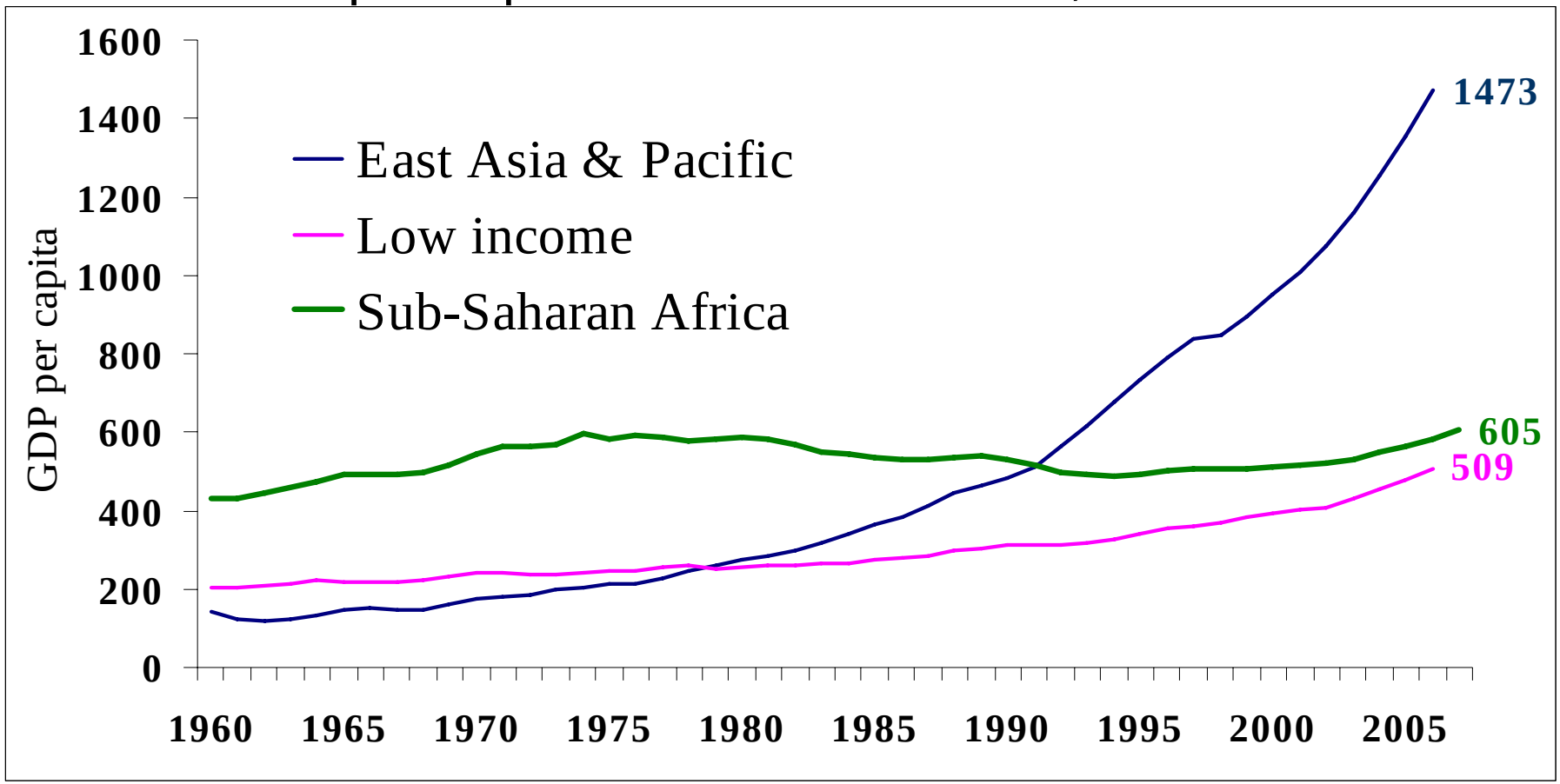
- ***Unmeasurability of Governance &*** **only rely on objective or 'official' data**
- ***'Afro-pessimism'*** **– lack of governance changes, and poor perfomers, *or***
- ***'Irrational Exuberance'*** **– by focusing on growth in very recent short term, declaring victory prematurely**
- ***Generalizations*** **about the whole African continent – excessive averaging**
- ***Governance a 'Luxury Good'***

Towards a new Reality:

- ***Governance is measured***
- ***'Governance Matters'*** **for development**
- **Understanding the *variety and contrasts* across countries in the continent**
- **Learning from *good performers*: *some leaders, countries, and institutions* showing 'the art of the possible'**
- **Role of the 'Demand Side' of Governance, & of the *International Community & Private Sector***

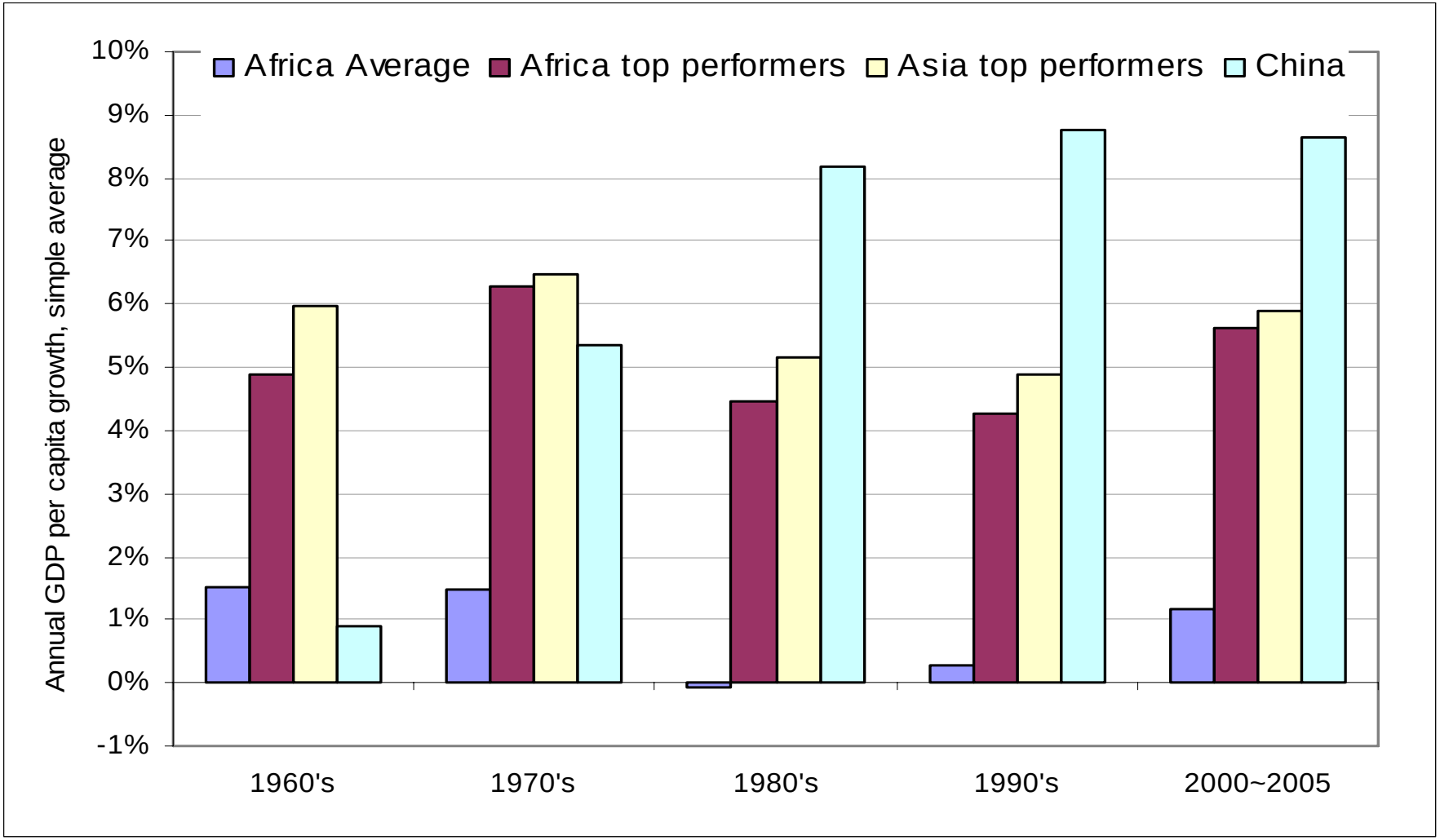
The 'Long View'– Sobering but some hope… While Africa Stagnated, East Asia Soared

GDP per capita: Africa & East Asia, 1960-2006



-- Chart depicts income per capita in 2000 constant terms. In 1960, actual per capita income of East Asia region was $141, while Sub-Saharan Africa average was $432; in 1974 it was $202 and $595, respectively, in 1994 it was $677 and $486, and in 2006 it was $1473 for East Asia and $583 for Africa.
-- Source: WDI, Low-income economies are those in which 2006 GNI per capita was $905 or less (53 countries of which 33 from Sub-Saharan Africa).

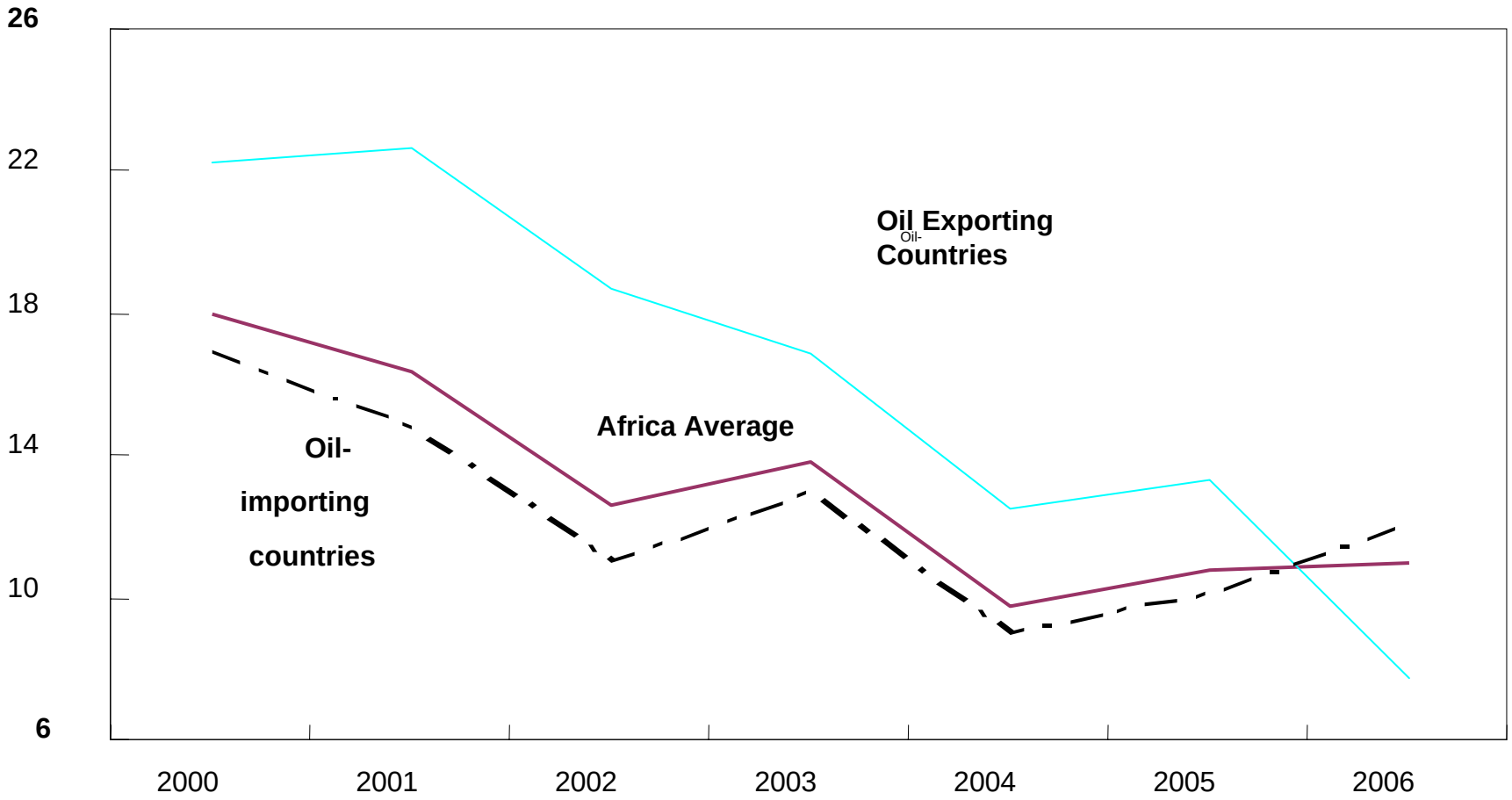
AFRICA'S FIVE FASTEST GROWING ECONOMIES STACK UP WELL WITH ASIA…



Source: WDI, 1960-2005

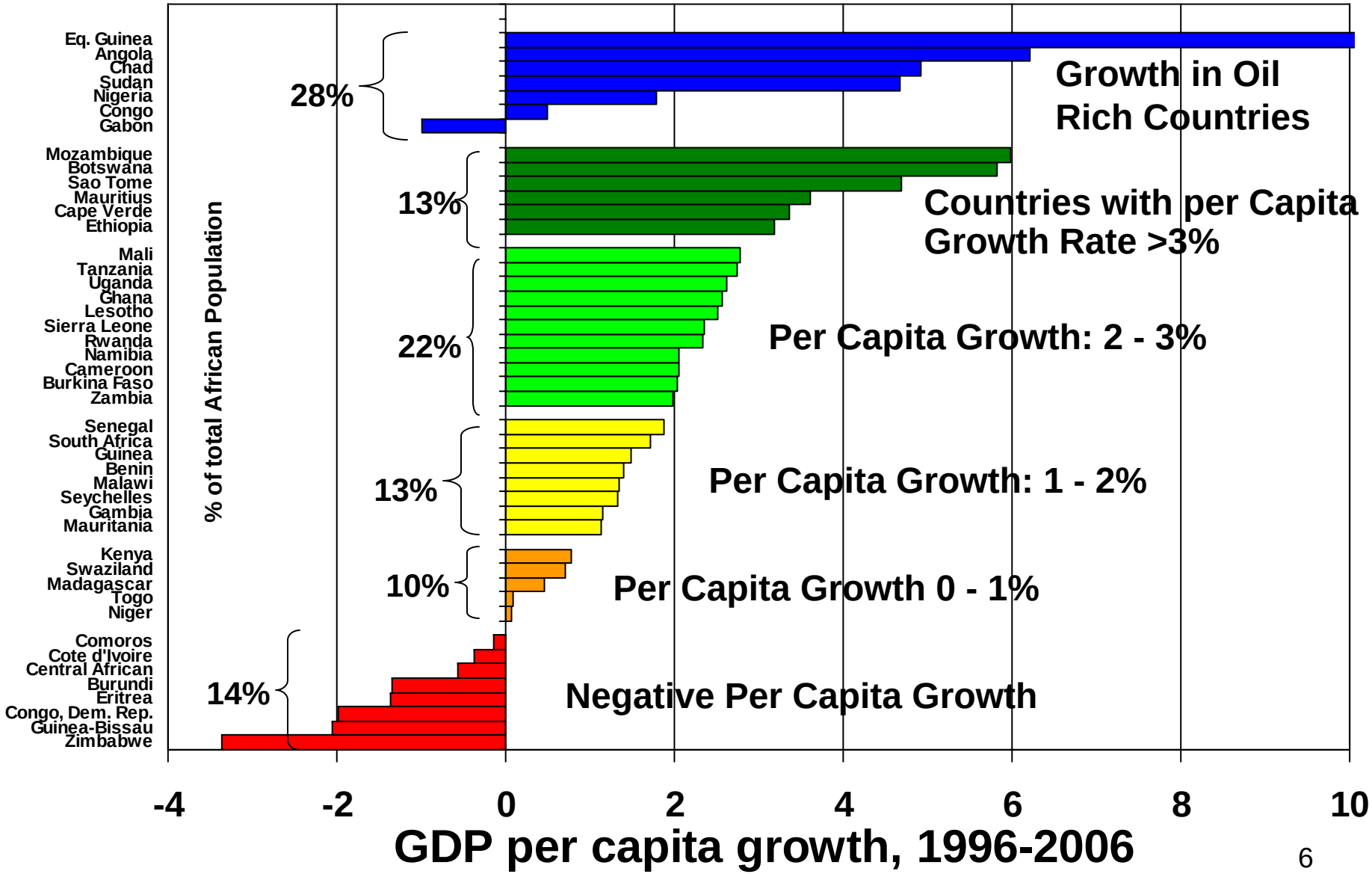
Macroeconomic Management has improved

Inflation Rates, 2000-06 (in %)



Source: IMF, SSA Regional Economic Outlook.

Growth has recently picked up in a number of countries in Africa, yet very diverse



Source: Africa's Silk Road (2007). Authors calculations based on 2007 ADI Report.

Governance in Africa: work in progress

- **Governance defined and measured**
- **The WGI, margins of error, and caution**
- **Africa's governance performance: diversity in levels and in trends – variance galore**
- **Complementing aggregate WGI with other data sources**
- **Some preliminary implications**

<u>What Is Governance?:</u> the *traditions and institutions by which authority in a country is exercised.*

This includes:

- **The process by which governments are selected and replaced:**
  1. ***Voice and Accountability***
  2. ***Political Stability & No Violence/Terrorism***
- **Capacity of state to formulate and carry out good policies and deliver services**
  3. ***Government Effectiveness***
  4. ***Regulatory Quality***
- **Respect of citizens and state for rules of the game**
  5. ***Rule of Law***
  6. ***Control of Corruption***

Worldwide Governance Indicators

- **Data on six dimensions of governance covering 212 countries over 1996-2006**
- **Based on hundreds of underlying indicators taken from 33 different data sources**
- **Aggregate and individual indicators available interactively at www.govindicators.org, largest governance database**
- **Full transparency on degree of imprecision: taking margins of error seriously**
- **Unobserved Component Model (UMC) used to aggregate individual sources**

Why Measure Governance?

- **Governance matters for:**
  - **Development outcomes**
  - **Effectiveness of foreign aid**
- **WGI are not a "scorecard" or a "horserace"**
  - **entry point for serious empirical analysis**
- **Data on governance empowers reformers and advocates for change**
  - **enables evidence-based policymaking**

"If you cannot measure it, you cannot improve it"

Lord Kelvin

Whose Views Do the WGI Reflect?

- **WGI capture views of tens of thousands of stakeholders worldwide**
  - **household and firm survey respondents sharing their successful and failed interactions with governments**
  - **experts in NGOs, private and public sectors sharing their international perspective on governance successes and failures**
- **WGI do *not* reflect views of World Bank**
  - **almost all data sources from outside WB**
  - **WB allocation of IDA resources based on CPIA**

Sources of Governance Data

- ***Cross-Country Surveys of Firms:*** **Global Competitiveness Survey, World Competitiveness Yearbook, BEEPS**
- ***Cross-Country Surveys of Individuals:*** **Gallup World Poll, Global Corruption Barometer, Latinobarometro, Afrobarometer**
- ***Expert Assessments from Commercial Risk Rating Agencies:*** **Global Insight, Political Risk Services, BERI, Economist Intelligence Unit, Merchant International Group, IJET Travel Consultancy, Asia Risk Consultancy**
- ***Expert Assessments from NGOs, Think Tanks:*** **Reporters Without Borders, Heritage Foundation, Freedom House, Bertelsmann Foundation, Amnesty International, IREX, Global Integrity, Binghamton University, International Budget Project**
- ***Expert Assessments from Governments, Multilaterals*****: World Bank CPIA, EBRD, *AFDB, ADB,* State Department, OECD, IFAD**

Why Aggregate Indicators?

<u>Basic Premise:</u> ***individual data sources provide a noisy "signal" of broader concept of governance, e.g.:***

- **trust in police → RULE OF LAW**
- **freedom of press → VOICE & ACCOUNTABILITY**
- **bureaucratic quality → GOV'T EFFECTIVENESS**

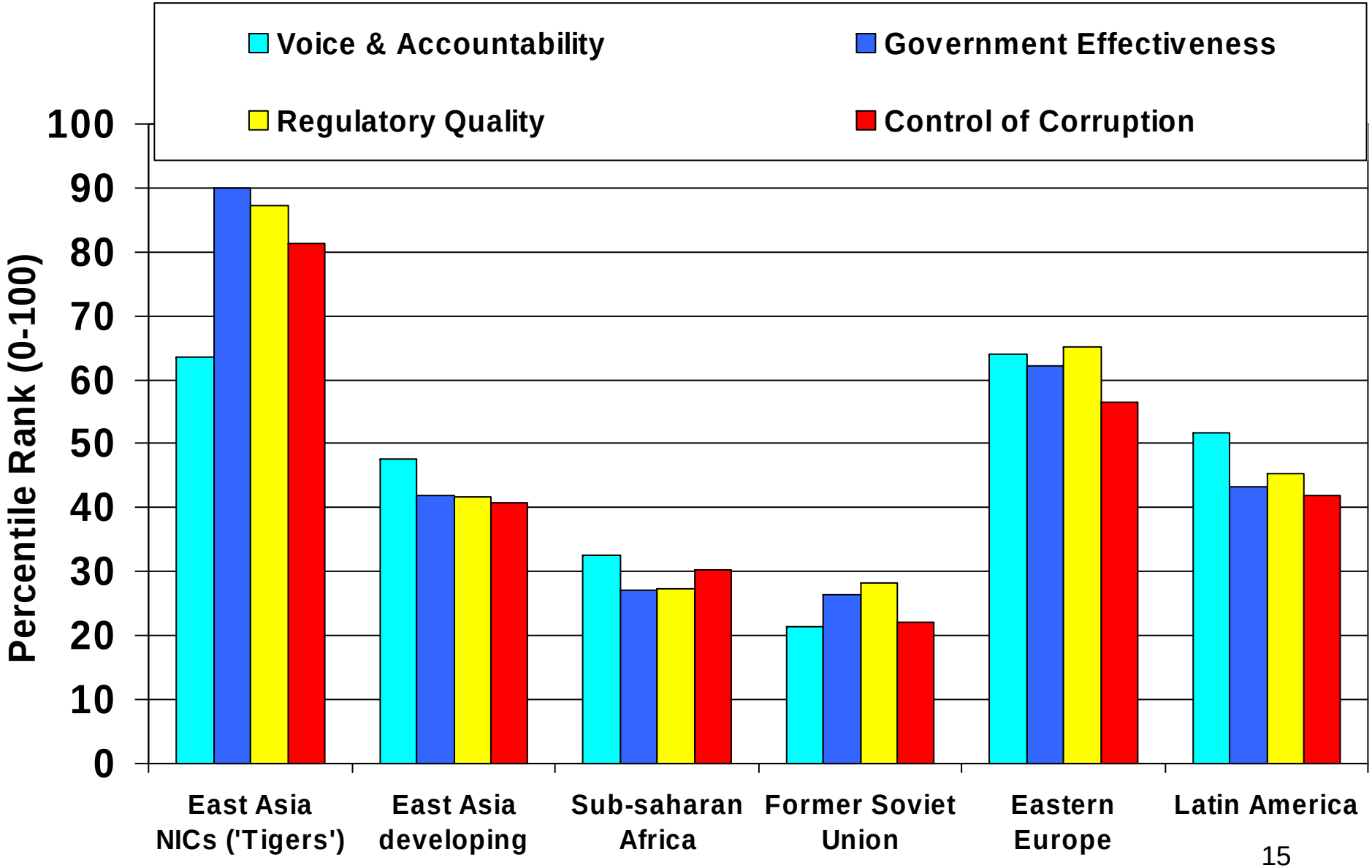
<u>Benefits of Aggregation</u>

- **aggregate indicators are more informative about broad concepts of governance – simple intuition of averaging**
- **less likely to generate extreme outliers**
- **generate explicit margins of error for country scores**

Three Principles for Using Governance Indicators

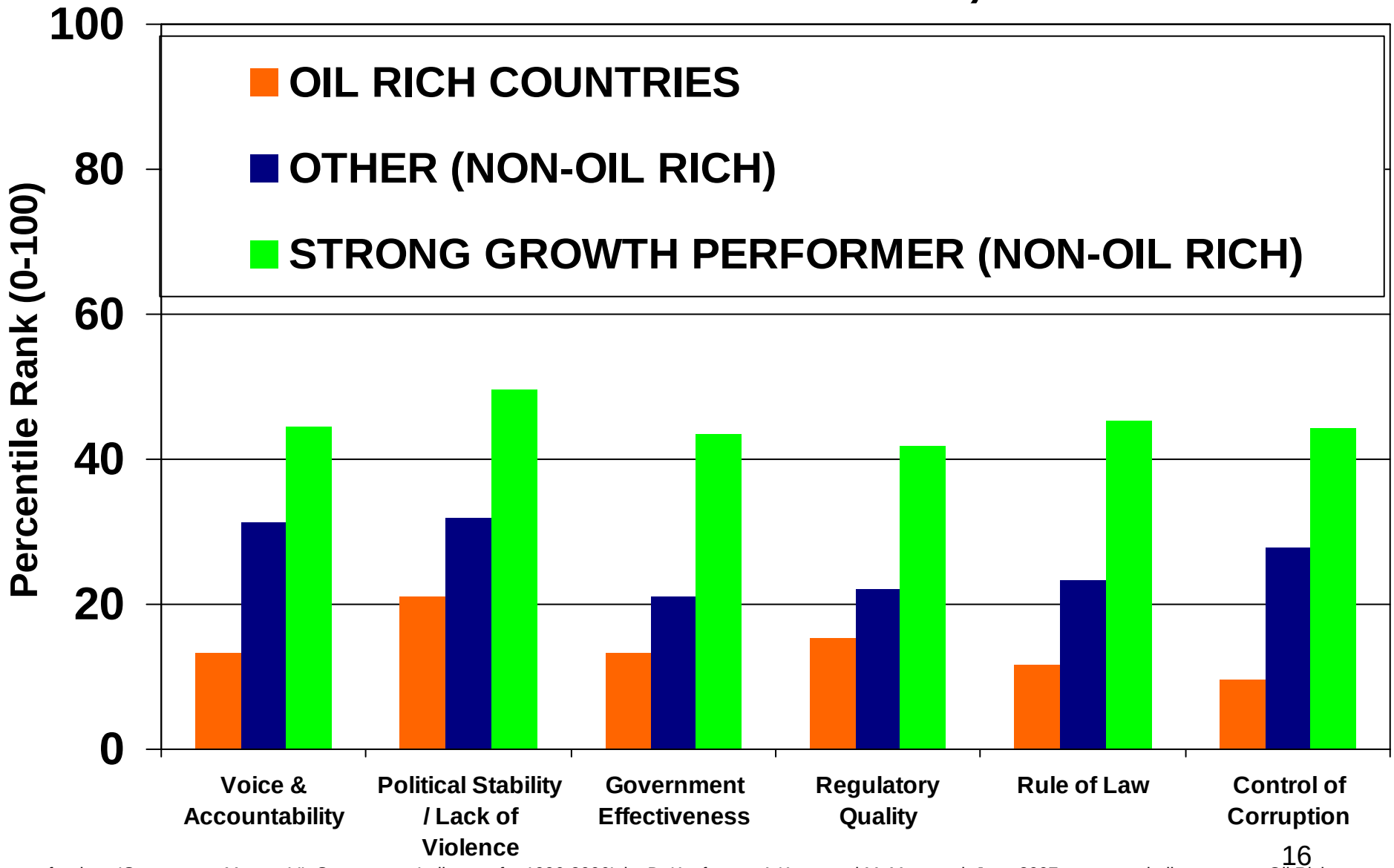
1. ***All indicators have measurement error***
   - **rely on variety of data sources**
   - **reduce noise by aggregation**
2. ***There are no silver bullets***
   - **subjective/perceptions vs. objective/statutory**
   - **aggregate vs. individual indicators**
   - **regular cross-national monitoring/research vs. detailed country diagnostics/country policy advice**
   - **complements vs. substitutes**
3. ***Links from policy actions to outcomes are complex***
   - **“actionable” versus “action-worthy” indicators**

Governance Indicators 2006, Selected Regions



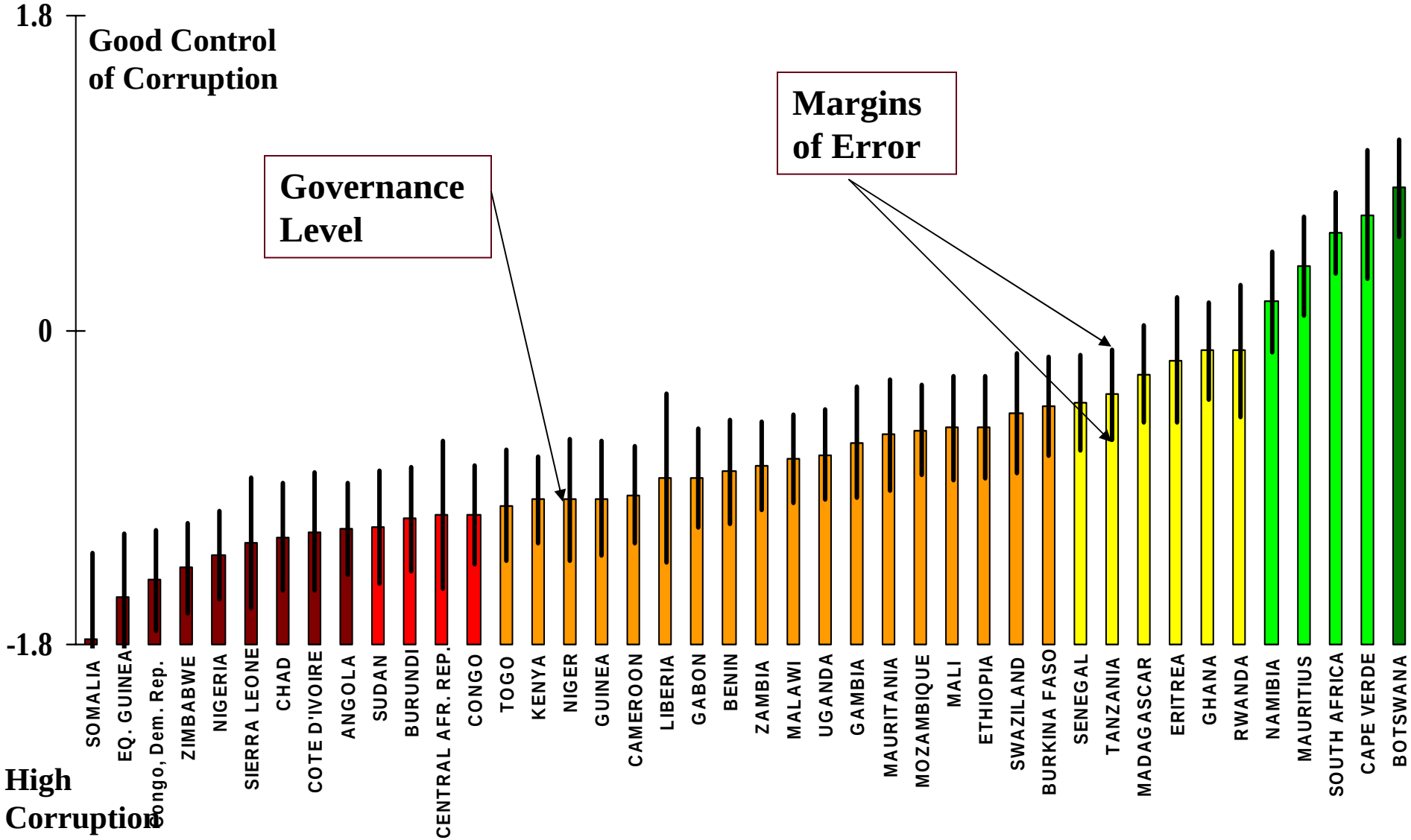
Source for data: 'Governance Matters VI: Governance Indicators for 1996-2006', by D. Kaufmann, A.Kraay and M. Mastruzzi, June 2007 - www.govindicators.org.

Sub-Saharan Africa – Resource-Rich vs. Non Resource Rich Countries, 2006



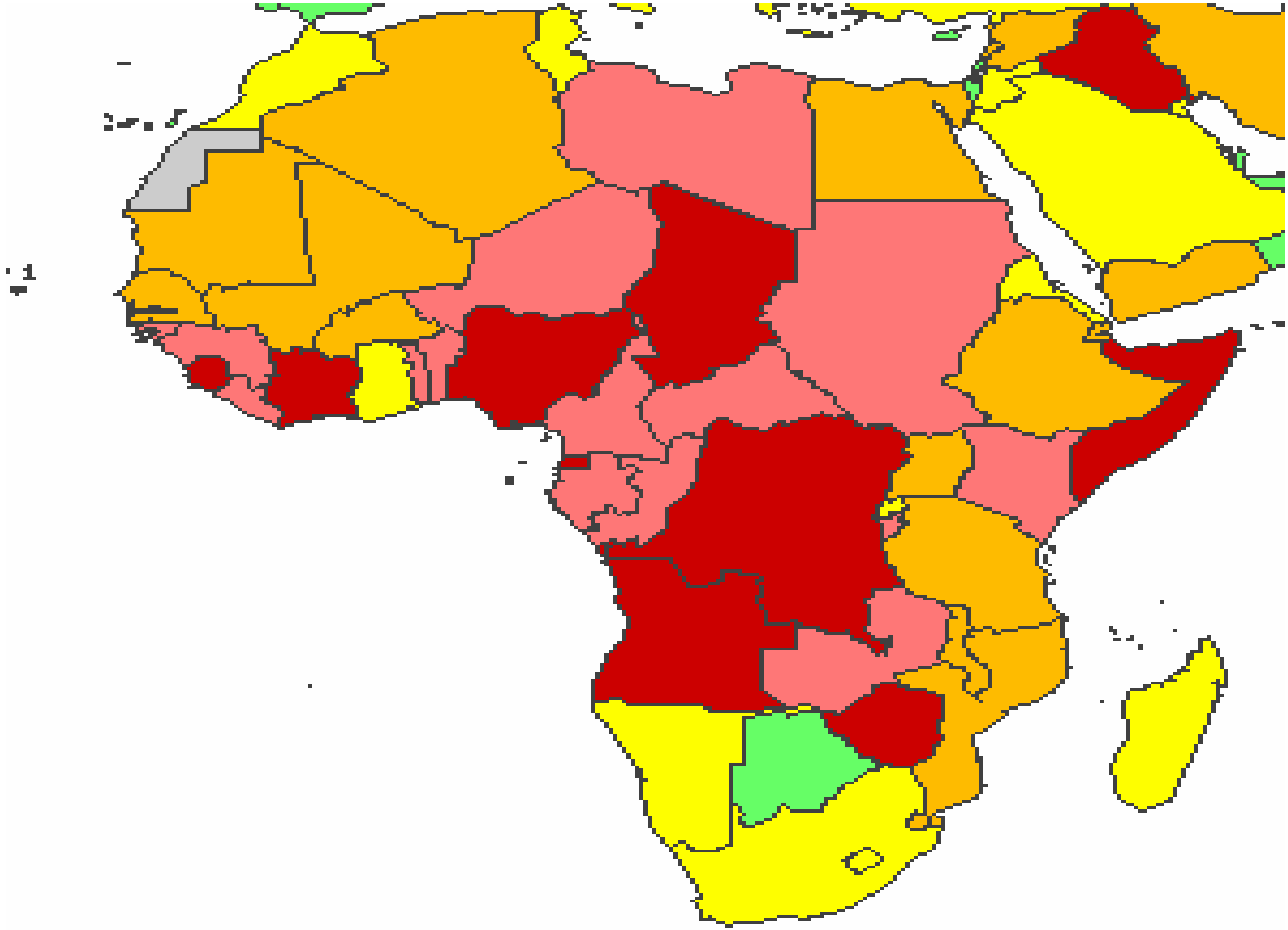
Source for data: 'Governance Matters VI: Governance Indicators for 1996-2006', by D. Kaufmann, A.Kraay and M. Mastruzzi, June 2007 - www.govindicators.org. Oil Rich countries included Gabon, Congo, Nigeria, Chad, Sudan, Angola and Equatorial Guinea

Control of Corruption, African countries, 2006



Source for data: 'Governance Matters VI: Governance Indicators for 1996-2006', by Kaufmann, Kraay & Mastruzzi, June 2007 ,www.govindicators.org. Colors are assigned according to the following criteria: Dark Red: country is in the bottom 10th percentile rank ('governance crisis'); Light Red: between 10th and 25th percentile rank; Orange: between 25th and 50th percentile rank; Yellow, between 50th and 75th; Light Green between 75th and 90th percentile rank; and Dark Green: between 90th and 100th percentile (exemplary governance). Estimates subject to margins of error.

Control of Corruption, 2006: Africa Map



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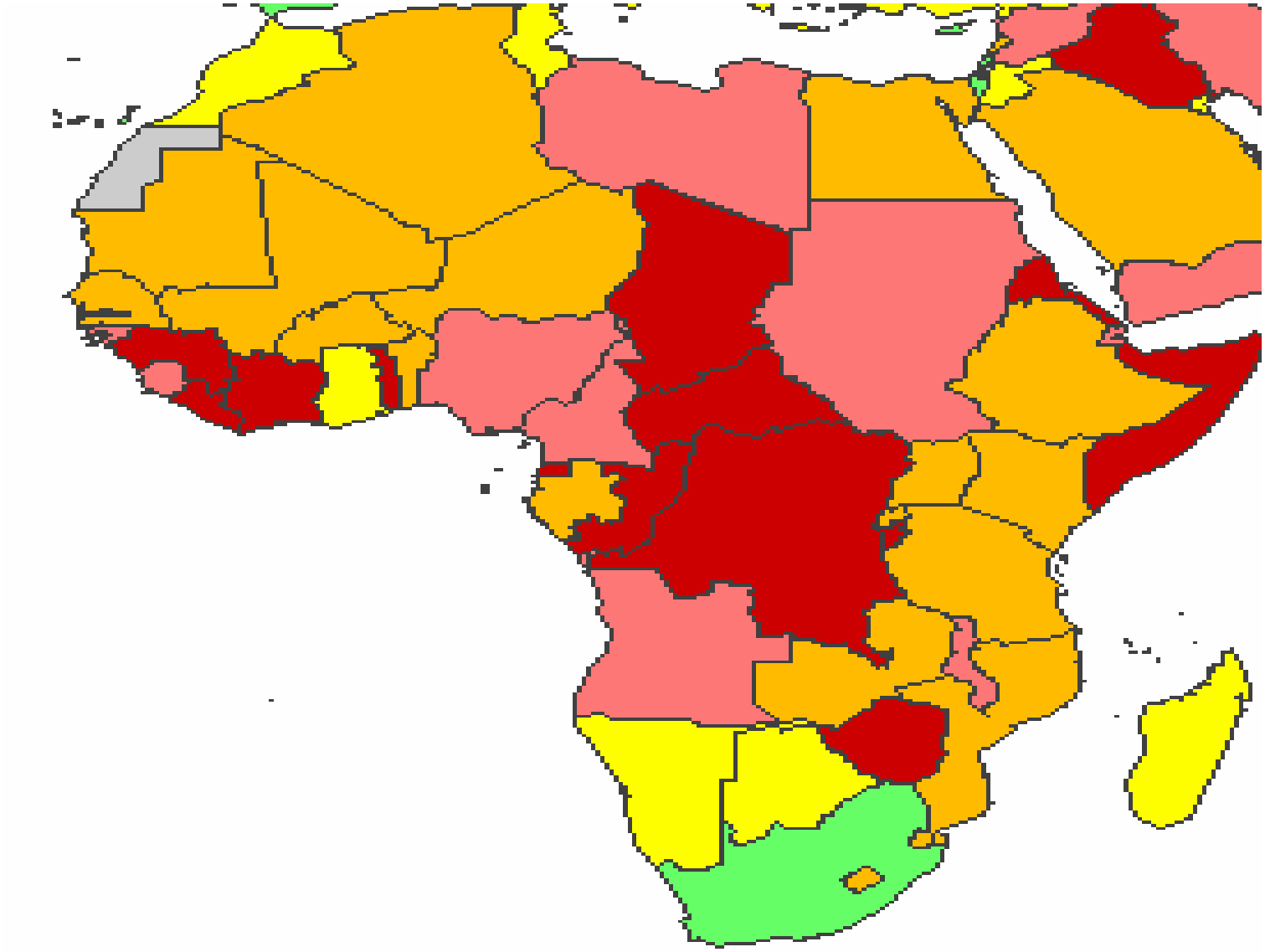
Government Effectiveness, 2006: Africa Map



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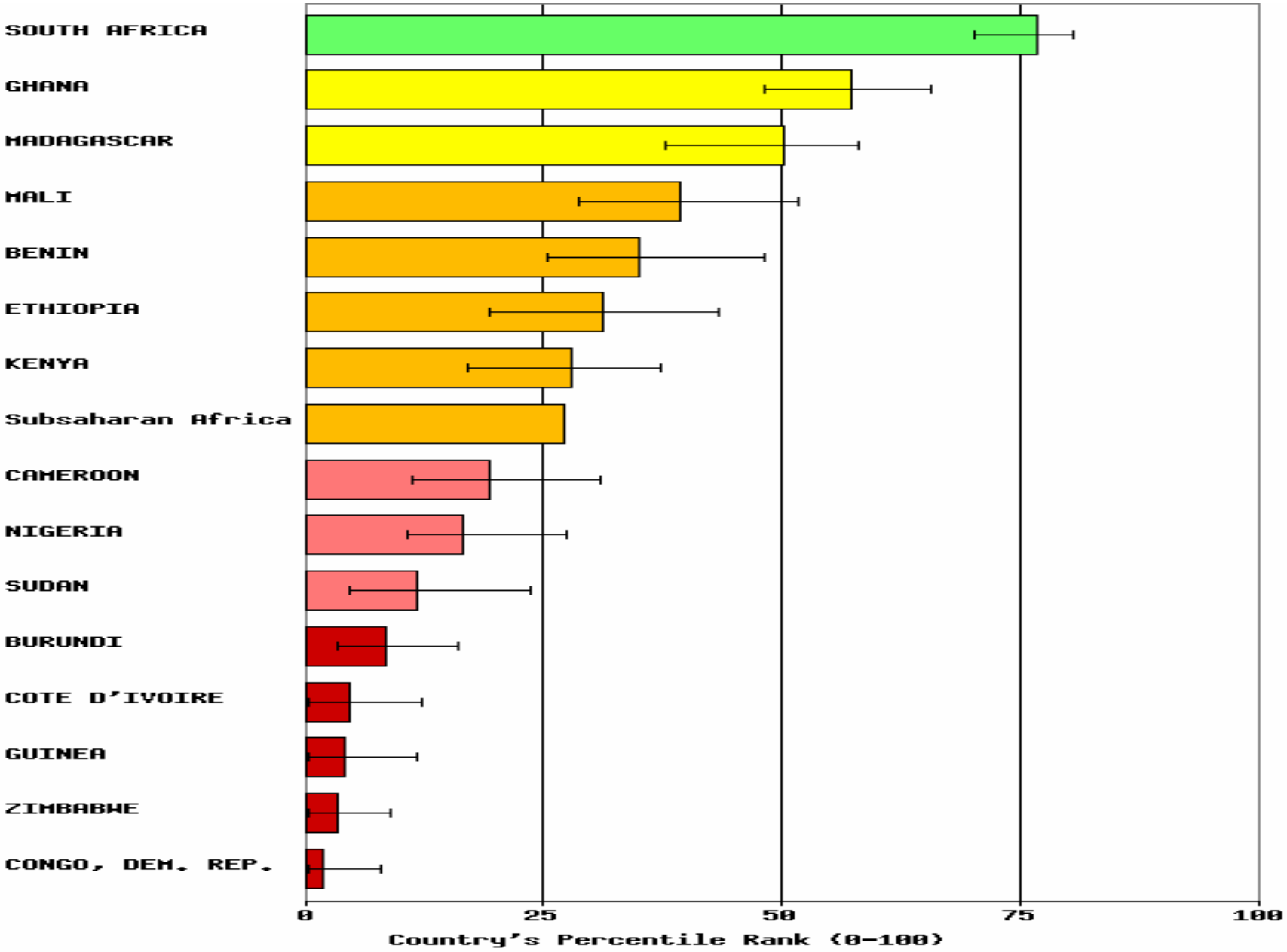
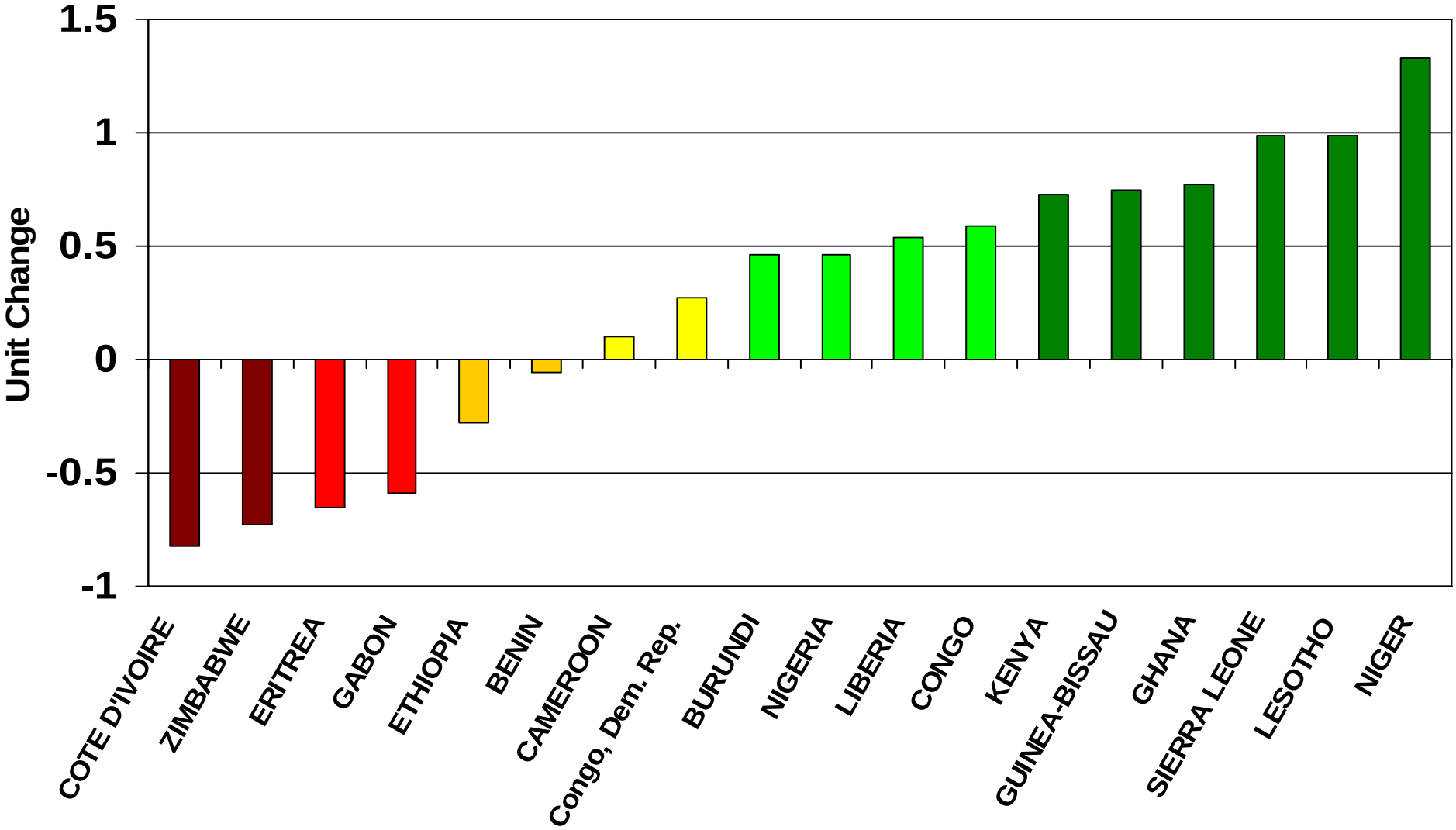
Government Effectiveness, 2006: Selected Countries



Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2007: Governance Matters VI: Governance Indicators for 1996-2006

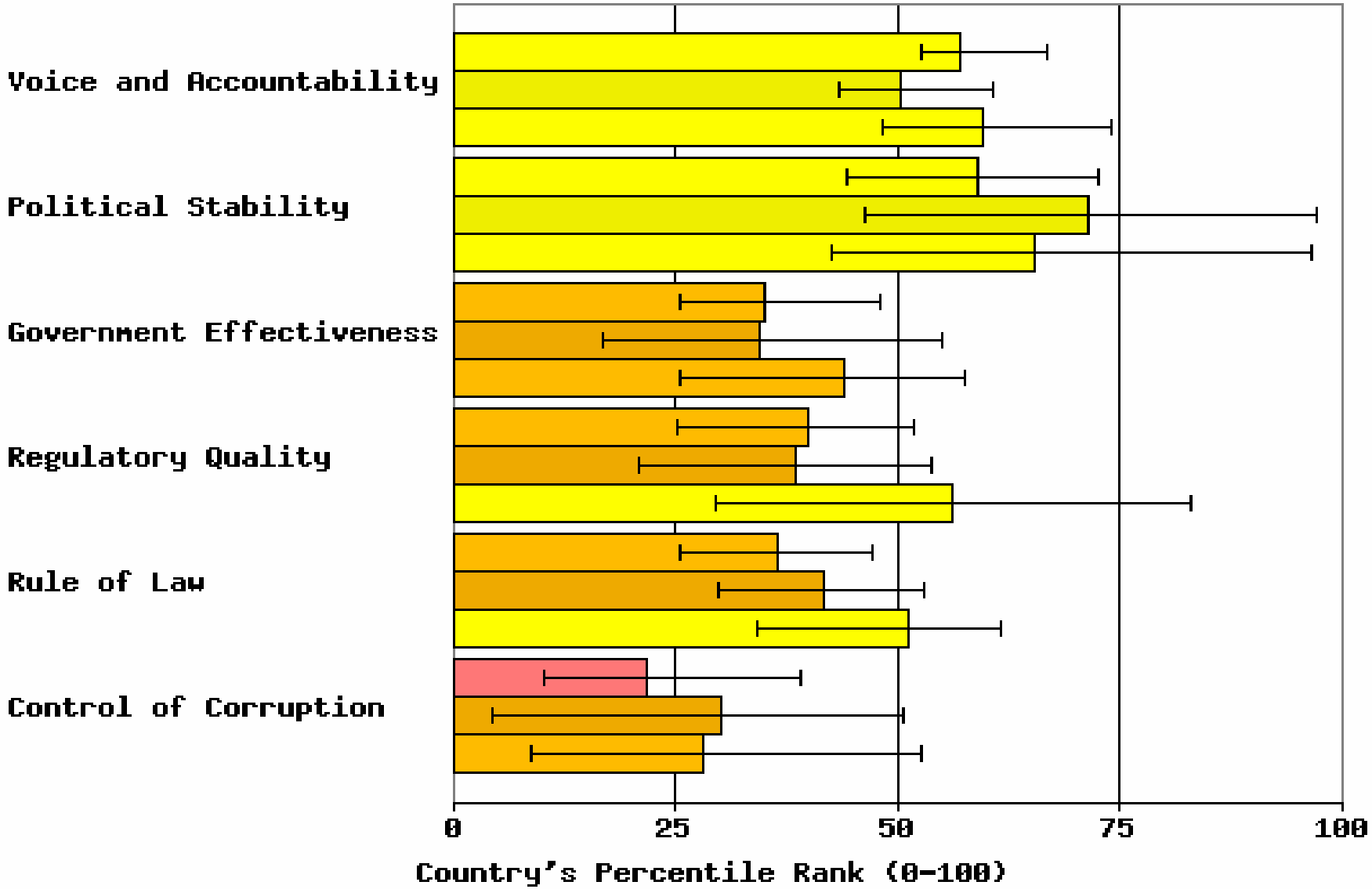
Over-time Changes in WGI's Voice & Accountability, selected African Countries, 1998-06



Source for data: 'Governance Matters VI: Governance Indicators for 1996-2006', by D. Kaufmann, A.Kraay and M. Mastruzzi, June 2007 - www.govindicators.org. Dark and light Green reflect significant improvement at 90 and 75% confidence level, respectively, and likewise regarding light and dark Red for deteriorations. By contrast, changes in Yellow (only selected countries shown) are not highly significant statistically (once margin of error taken into account).

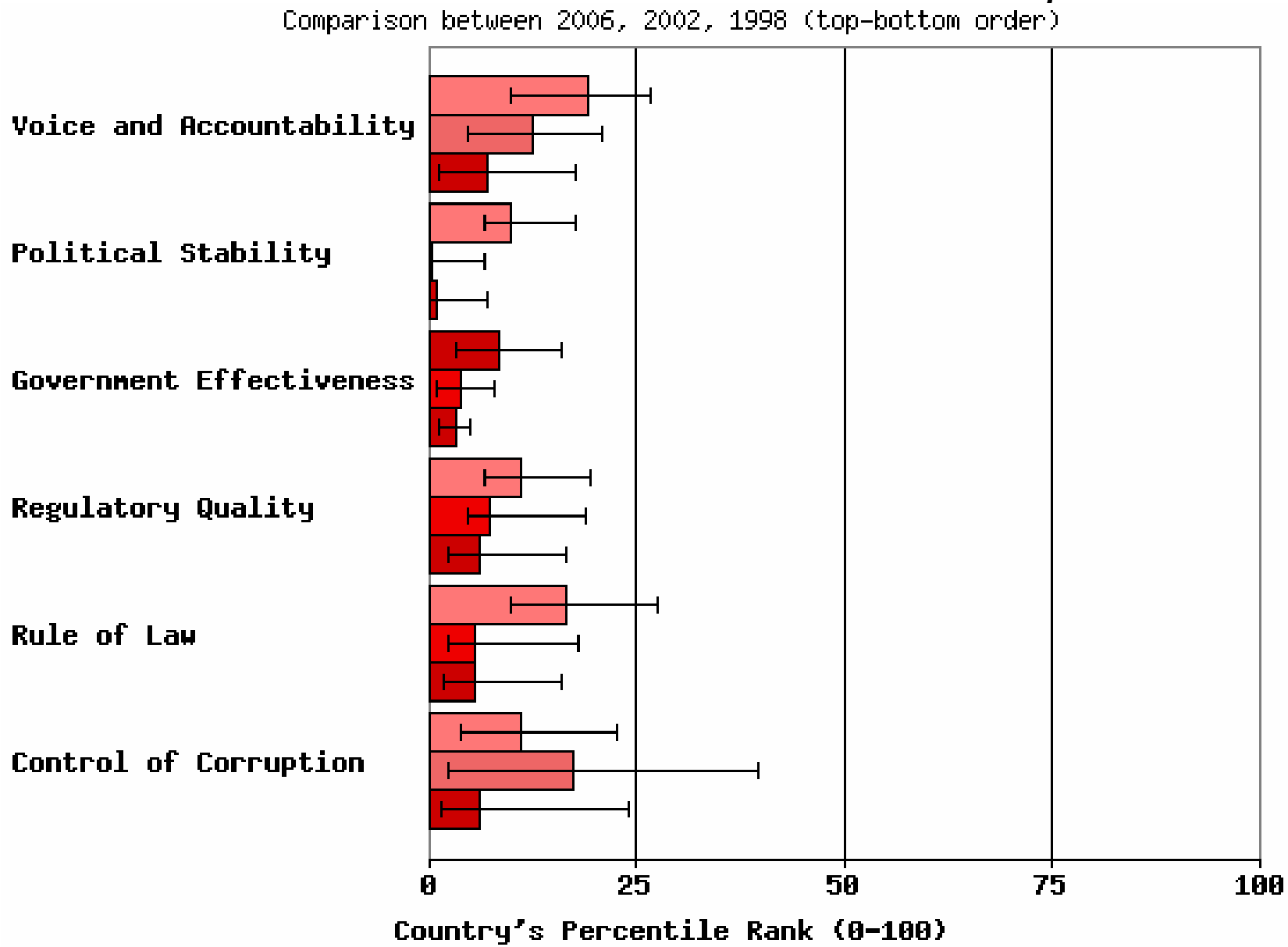
Governance Indicators for Benin, 1998-2006

Comparison between 2006, 2002, 1998 (top-bottom order)



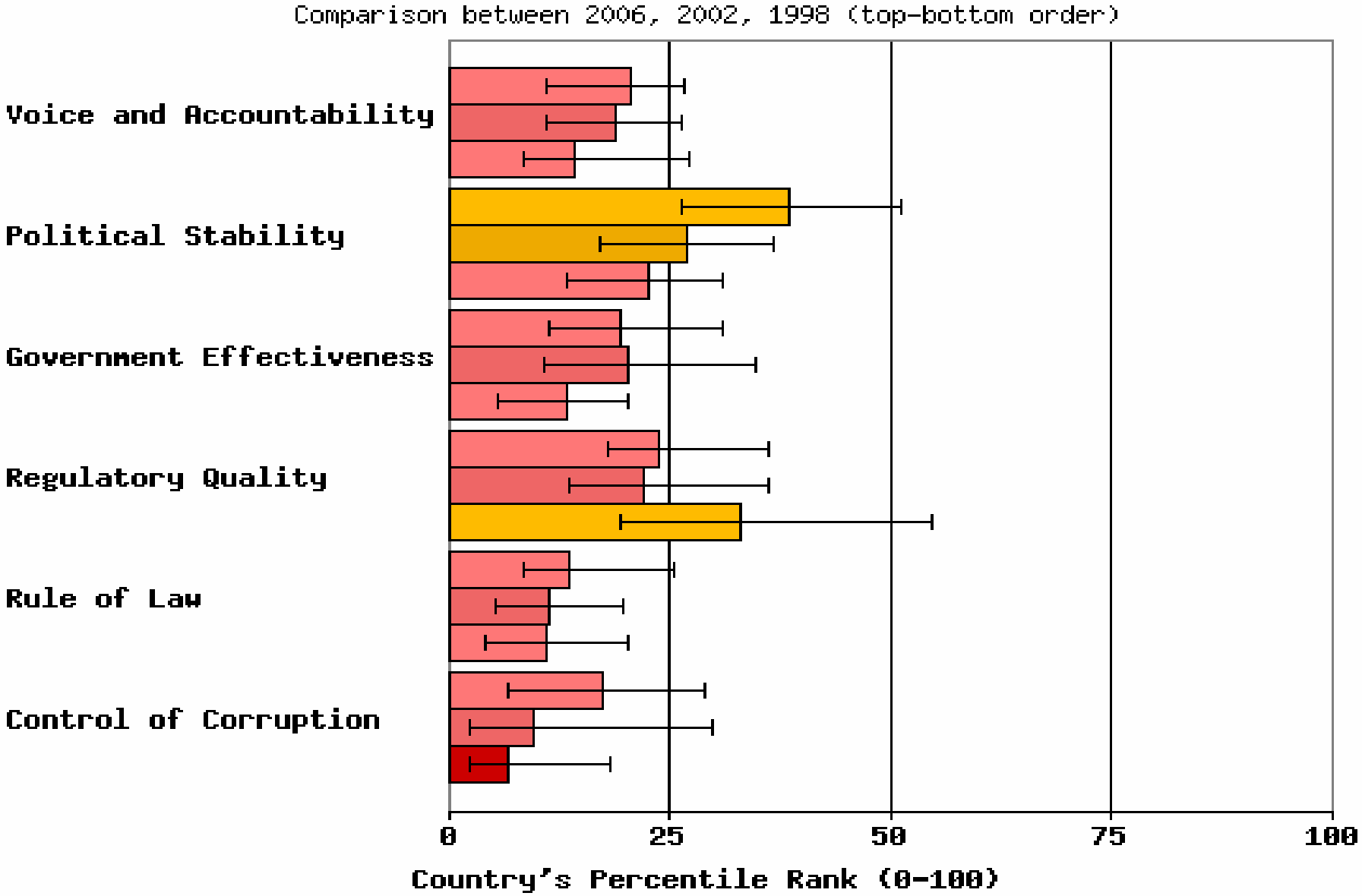
Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2007: Governance Matters VI: Governance Indicators for 1996-2006

Governance Indicators for Burundi, 1998-2006



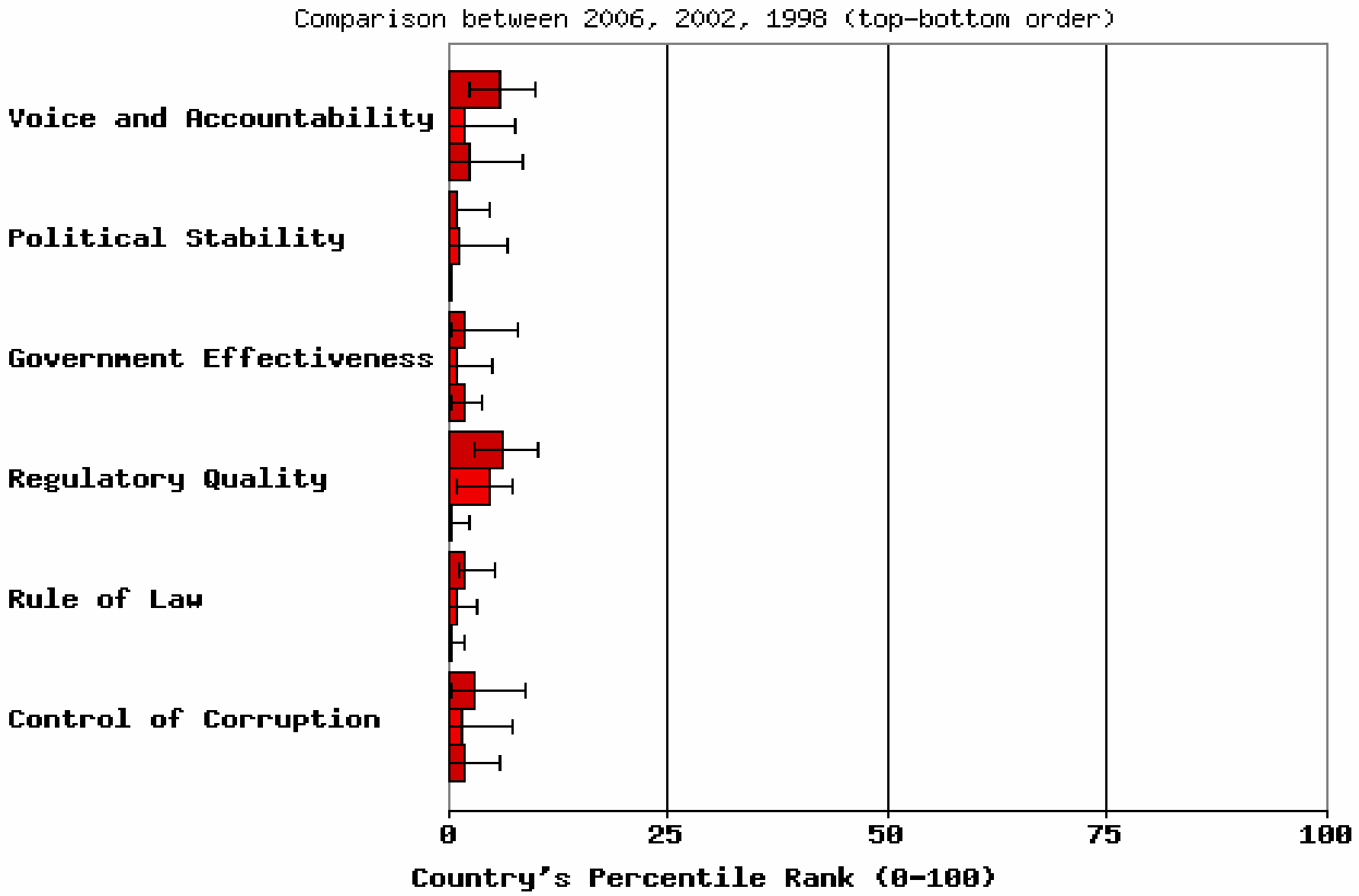
Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2007: Governance Matters VI: Governance Indicators for 1996-2006

Governance Indicators for Cameroon, 1998-2006



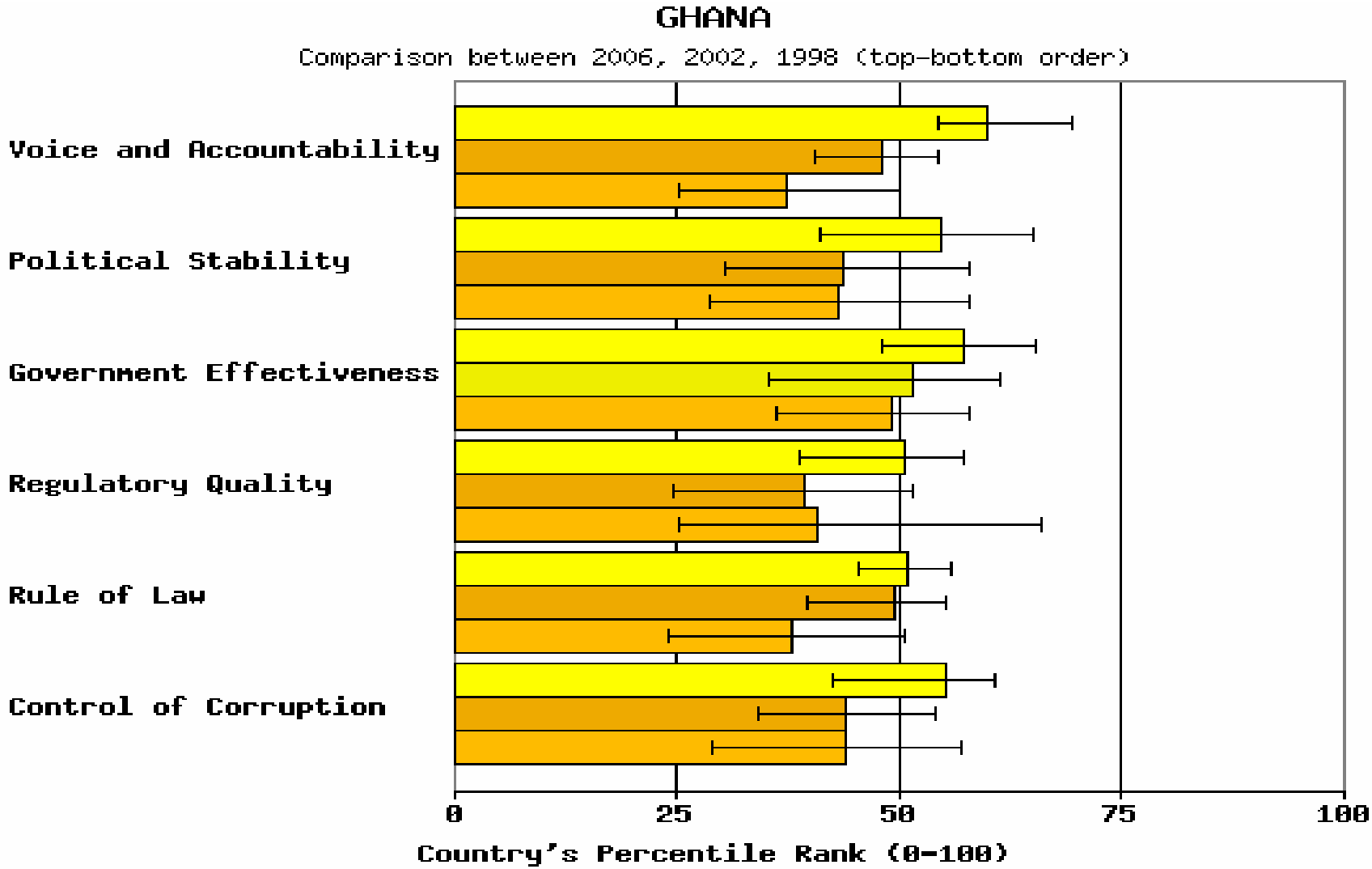
Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2007: Governance Matters VI: Governance Indicators for 1996-2006

Governance Indicators for Congo DRC, 1998-2006



Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2007: Governance Matters VI: Governance Indicators for 1996-2006

Governance Indicators for Ghana, 1998-2006



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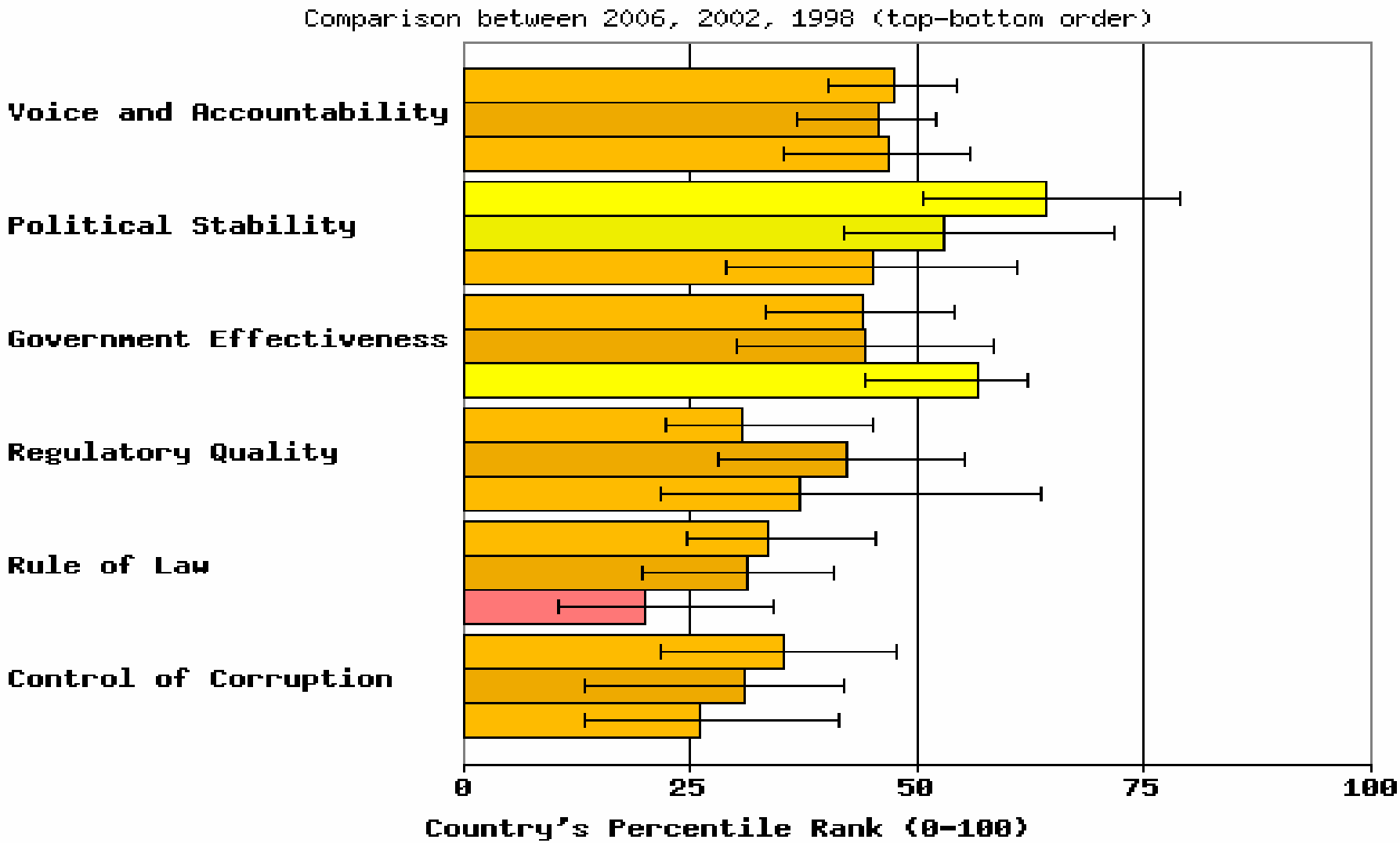
Governance Indicators for Mozambique, 1998-2006



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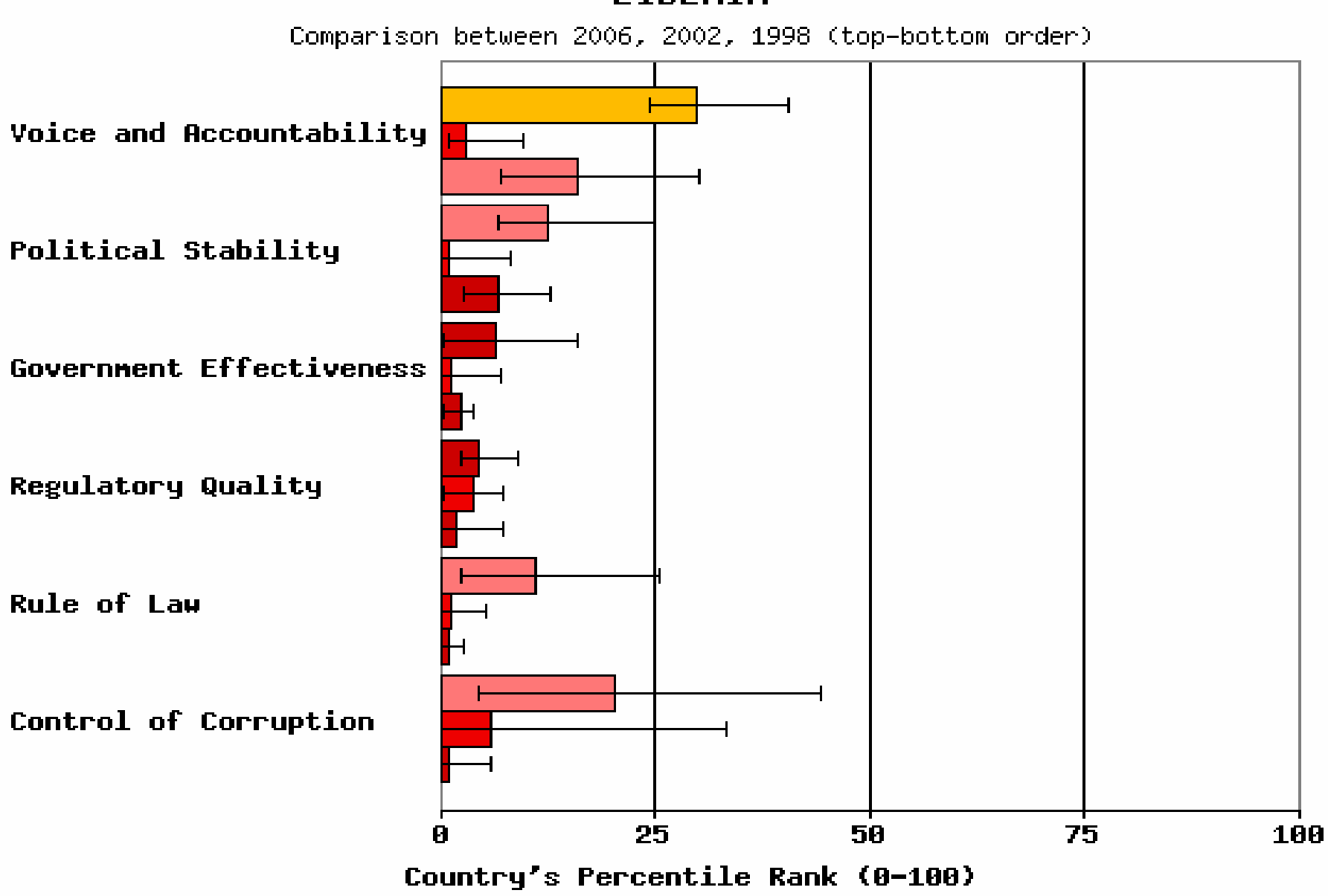
Governance Indicators for Liberia, 1998-2006



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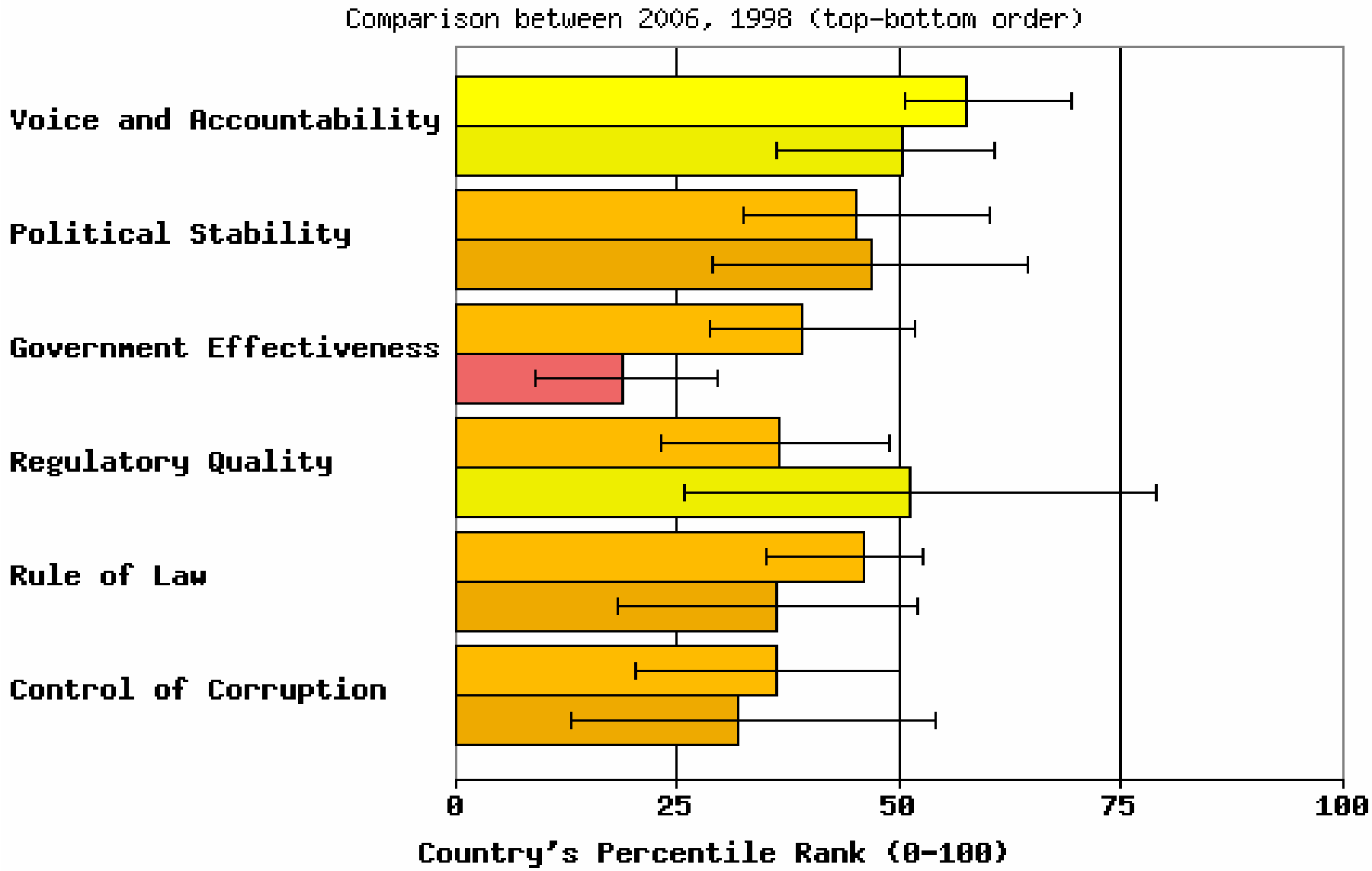
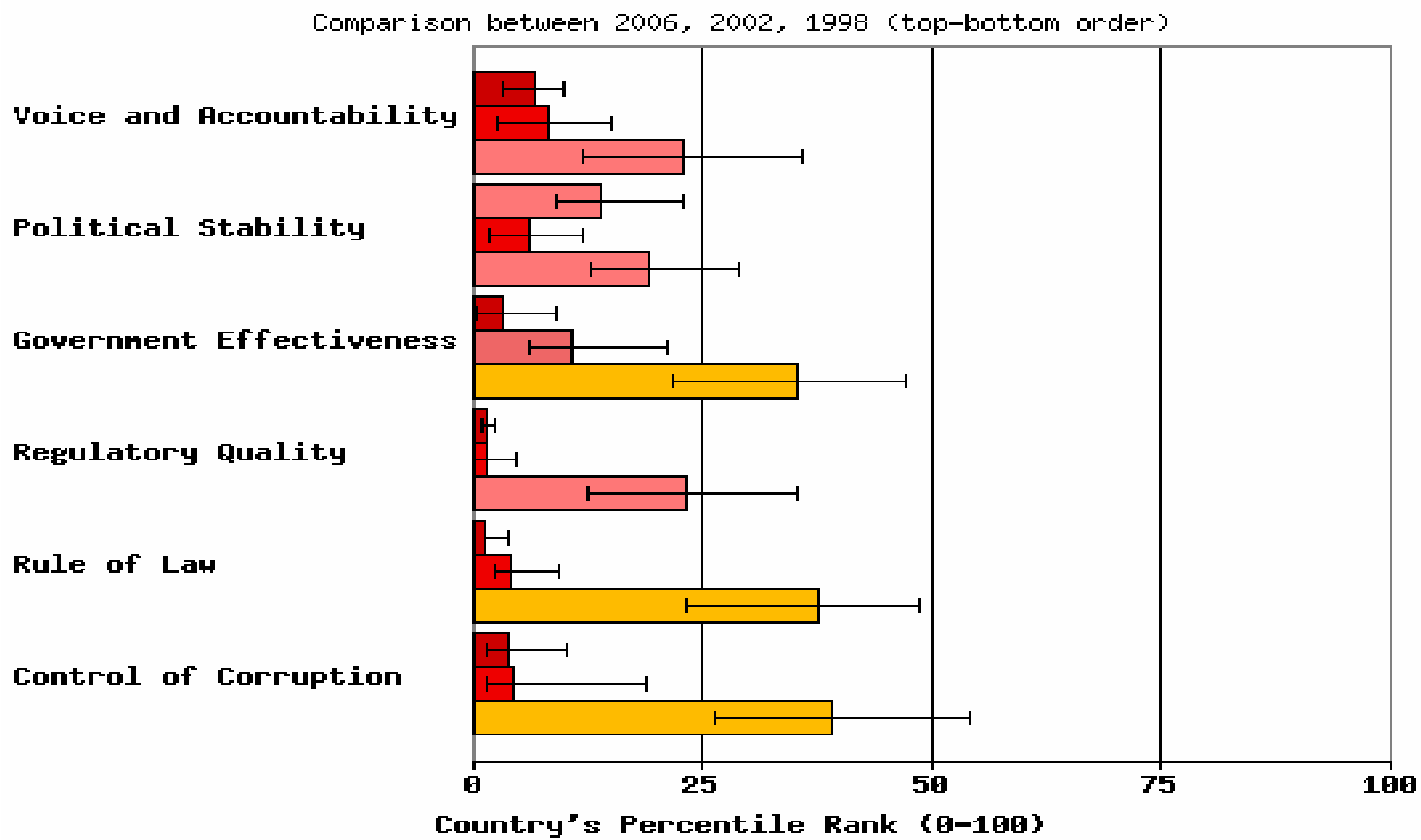
Governance Indicators for Mali, 1998-2006



Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2007: Governance Matters VI: Governance Indicators for 1996-2006

Governance Indicators for Zimbabwe, 1998-2006



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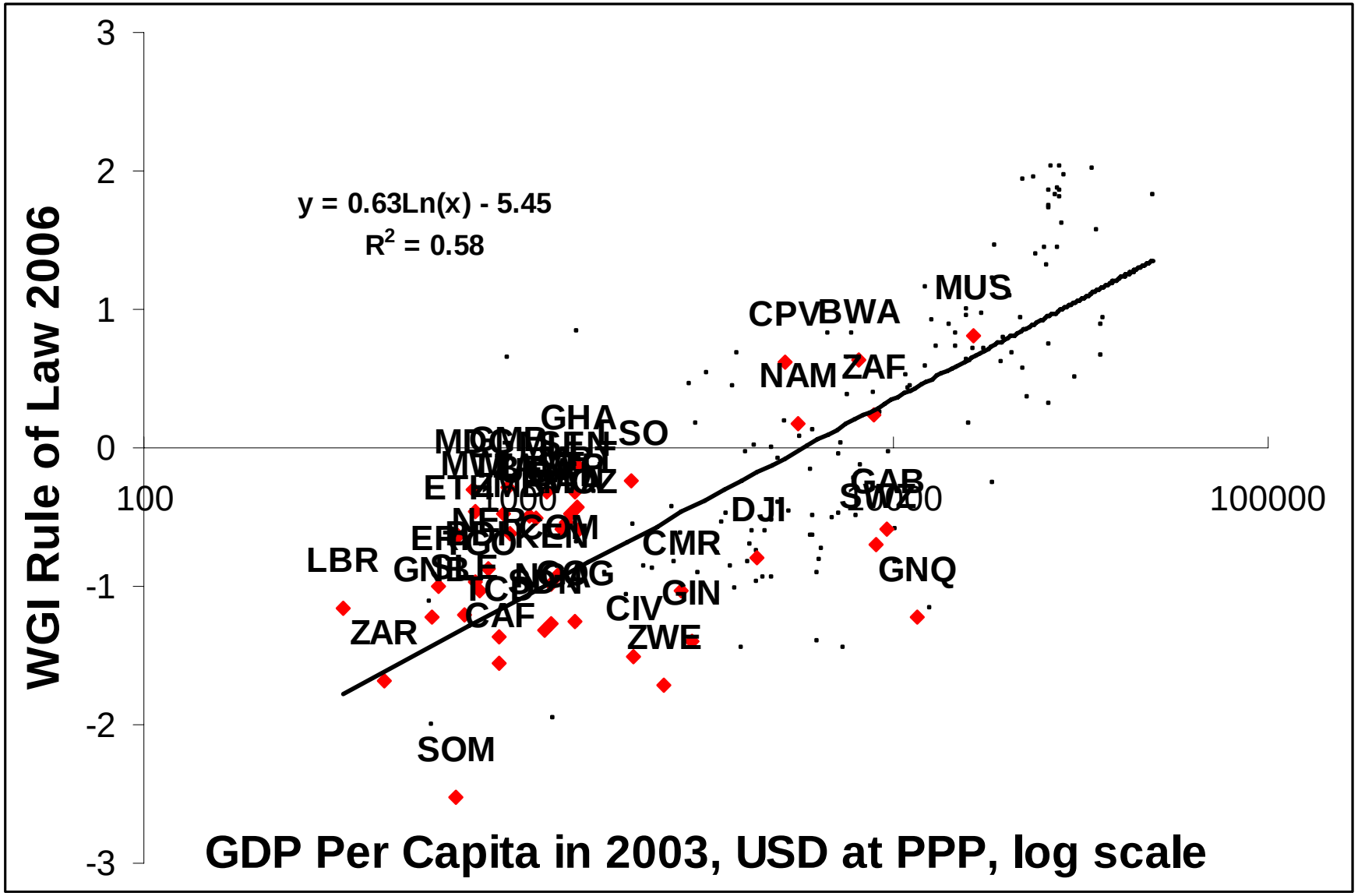
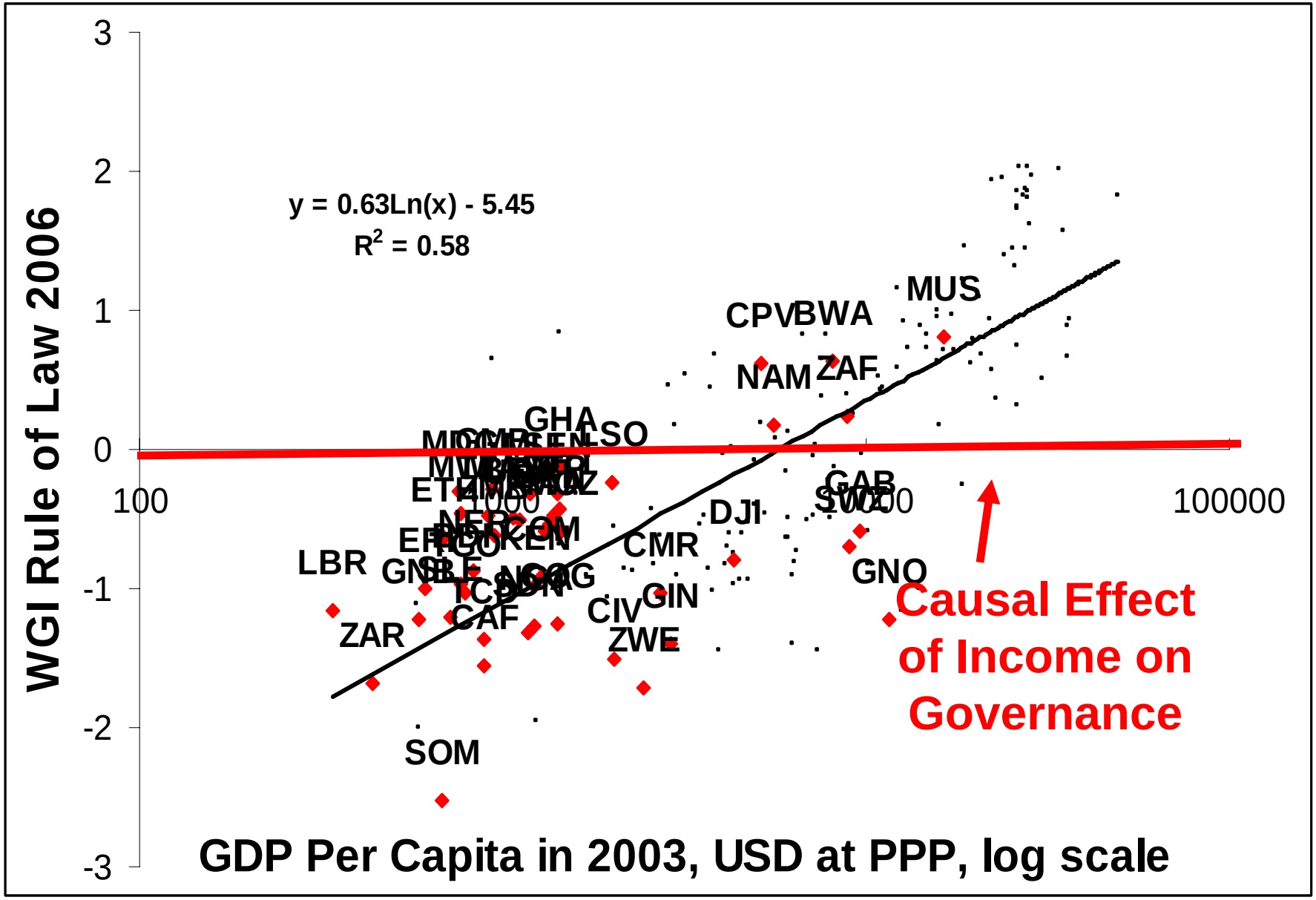
Governance and Development

- **Is governance "better than expected" given low income levels in Africa?**
  - **2/3 of countries in Africa fall "above the line" in a scatterplot of governance against per capita income → doing relatively ok on governance?**
- **This scatterplot interpretation (implicitly) assumes a strong positive effect of income on governance**
  - **but actually most if not all of the causation is in the other direction – *better governance raises per capita income***
  - **Weak rationale for "income discount" for governance challenges in poor countries**

Rule of Law and Per Capita Income



Higher Income Does Not *Cause* Better Governance



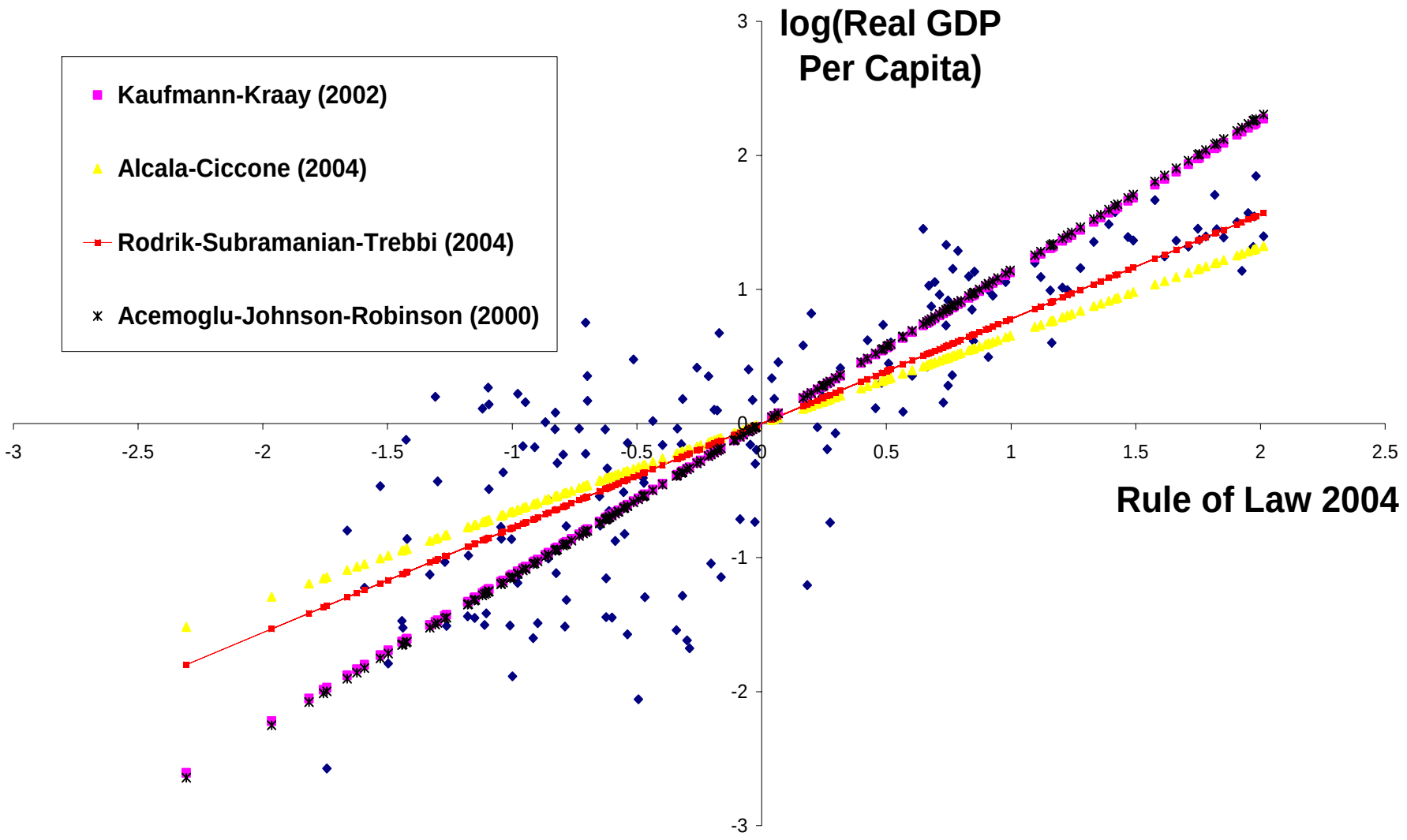
Governance Matters: The 300% 'Dividend'

- **Large Development Dividend of Good Governance:** ***a one-standard-deviation improvement in governance (say, corruption control) raise incomes per capita in a country by about 300% in long-run***

- **But is such a *decline in corruption* unrealistically large?: NO -- *One S.D. is the difference from*: Somalia → Togo or Guinea-Bissau → Namibia or Rwanda → Botswana or Portugal → Netherlands or Sweden**

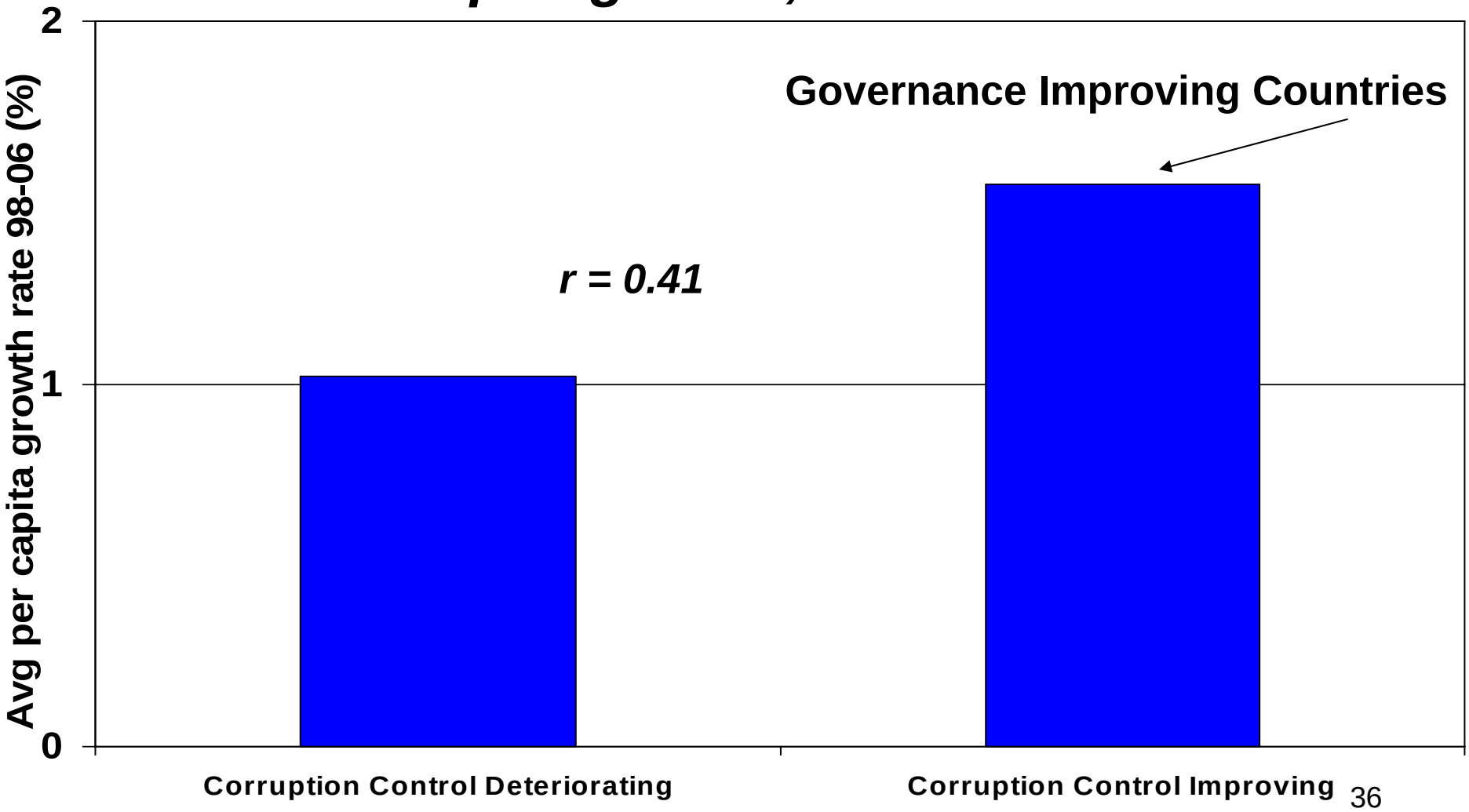
- **The impact is from governance to incomes, and not viceversa -- higher *incomes alone will not automatically do***

Governance Matters -- The 'Development Dividend' Isolating Causality: From governance to income)



Even in the Shorter Term African countries can benefit from improvements in Governance?

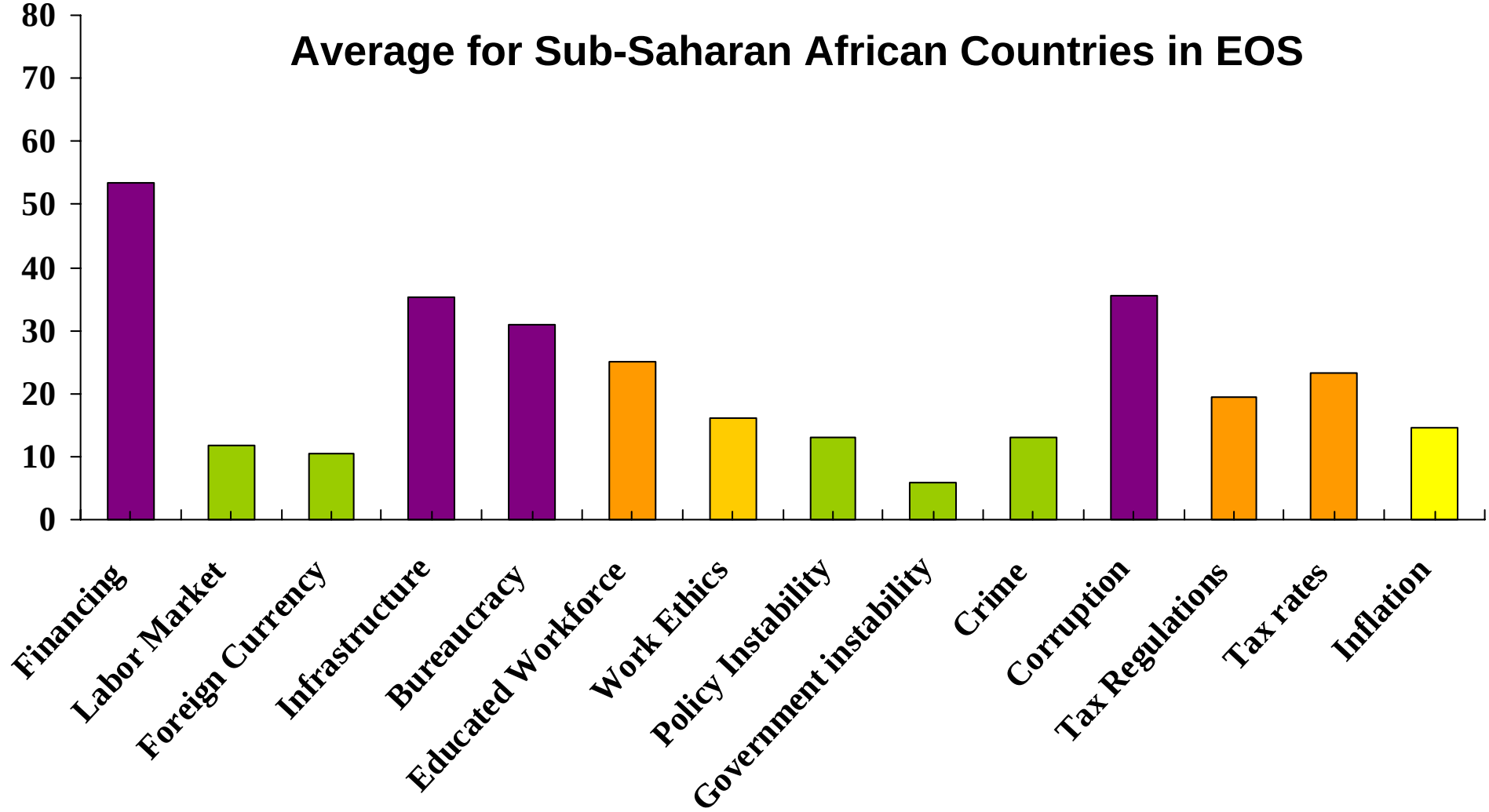
Changes in Control of Corruption & Income per capita growth, 1998-06



Source for data: 'Governance Matters VI: Governance Indicators for 1996-2006', by D. Kaufmann, A.Kraay and M. Mastruzzi, June 2007 - www.govindicators.org, and World Bank database. The Africa sample excludes 7 oil-rich countries; the correlation is somewhat lower when included.

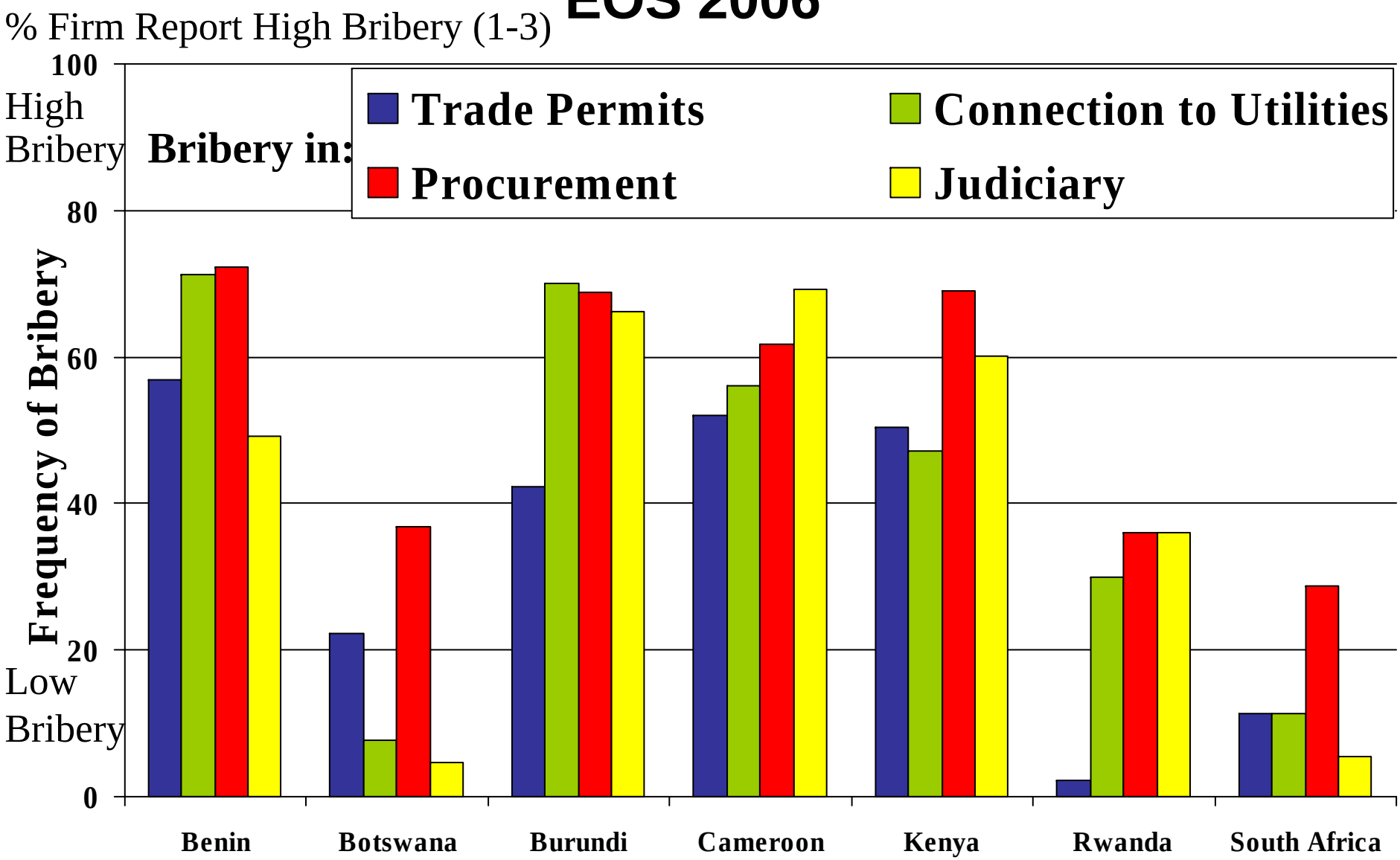
Complementing WGI & Learning from Disaggregated Data
Firms Speak: Top Constraints to Business, *EOS 2006*

% firms reporting constraint among top 3:



Source: EOS 2006. The question posed to the firm was: Select among the above 14 constraints the five most problematic factors for doing business in your country. Note that the overall EOS sample covers 125 countries, and in some regions –particularly in the Middle East, Africa and the FSU, many countries are not surveyed. Thus, regional averages need to be interpreted with caution, since typically countries not surveyed tend to rate lower in governance than those surveyed.

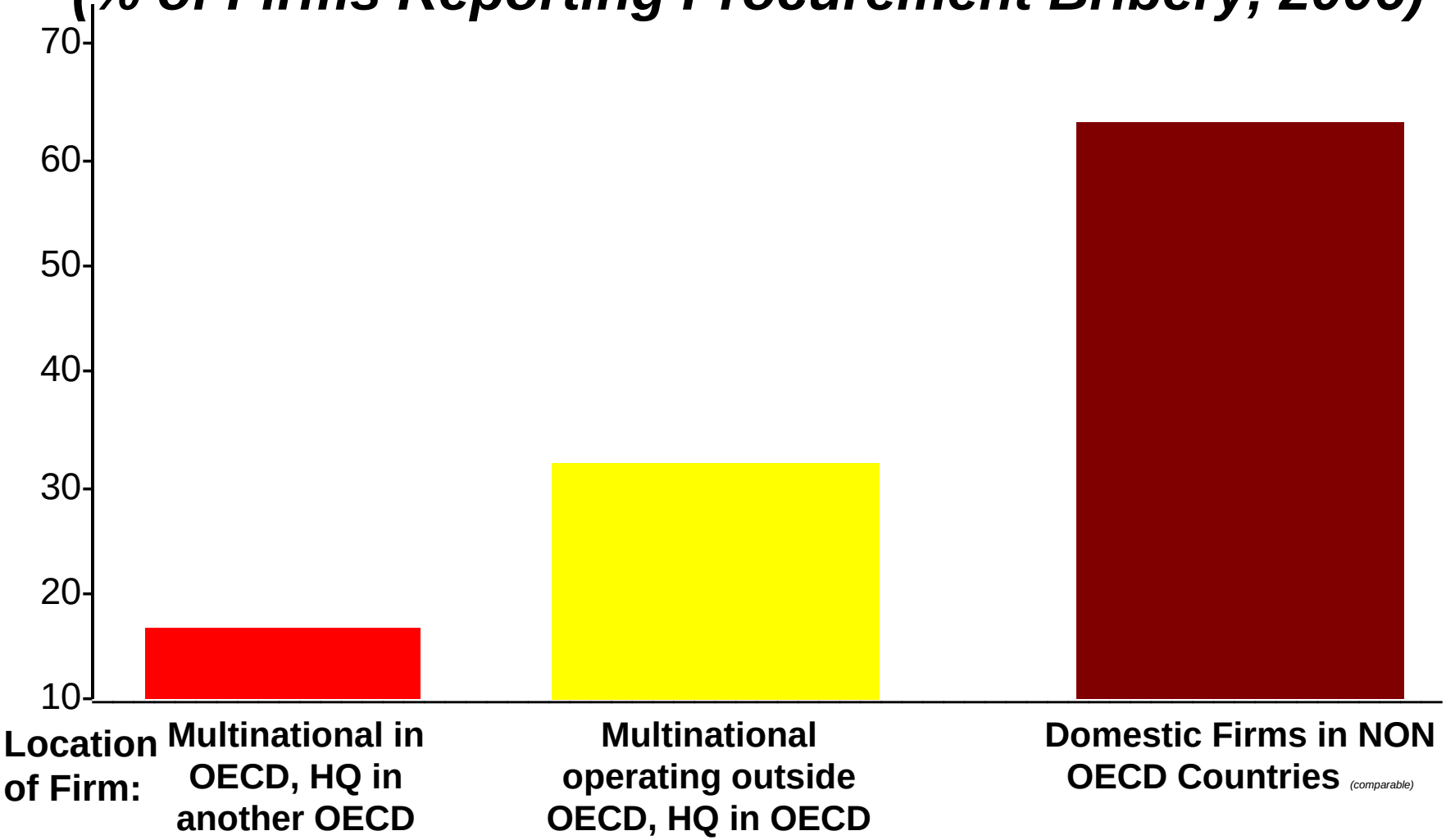
Unbundling Different Manifestations of Bribery, EOS 2006



Source: EOS firm survey, WEF2006. Questions: In your industry, how commonly firms make undocumented extra payments or bribes connected with permits / utilities / taxation / awarding of public contracts / judiciary? (common…never occurs). How commonly do firms like yours make undocumented extra payments to lower level public servants / high ranking politicians, political parties, and senior public servants to secure business?

Responsibility of the Private Sector & Multinationals on Anti-Corruption

(% of Firms Reporting Procurement Bribery, 2006)



Source: EOS2006. Questions: When firms **like yours** do business with the government, how much of the contract value must they offer in additional payments to secure the contract?". Y-axis shows percentage of firms who admitted paying bribes. Last bar excludes small with less than 50 employees.

Complementing WGI: Country-specific, in-depth <u>Governance & Anti-Corruption diagnostic surveys</u>

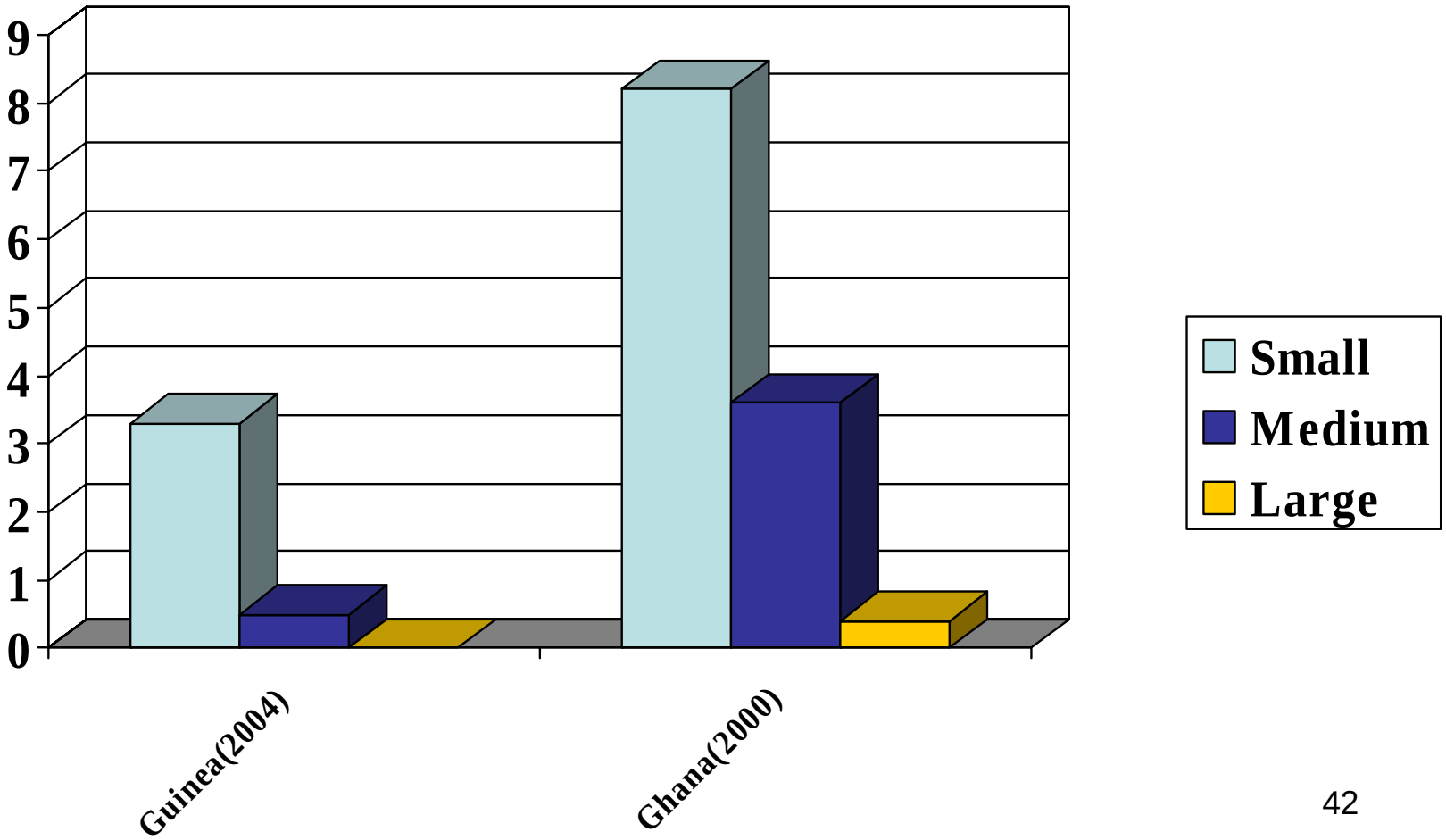
- **A demand-driven, participatory action-oriented process to improve governance**
- **Key features:**
  - ***Three surveys*: households, firms, and public officials**
  - **Questions focus both on *experience* and *perceptions***
  - **Questions are tested and adapted to local realities**
  - **Rigorous technical requirements in *implementation***
  - ***Local institution* implements, with advise from outside**
- **Outcomes: enhanced local capacity, baseline governance data, and action plan for policy reform**
- **In Africa, examples of such diagnostics in Ghana, Zambia, Mozambique, Sierra Leone, Madagascar, Guinea, Nigeria, Malawi, Benin, and Burundi.**

The power of diagnostic data and key dimensions for analysis

1. **Participatory and Transparency Tool, for all stakeholders within the country to be involved**
2. **‘Unpackage’ corruption – administrative, state capture, bidding, theft of public resources, purchase of licenses**
3. **Identify weak and strong institutions**
4. **Assess the costs of corruption on different stakeholders**
5. **Identify key determinants of good governance**
6. **Input to develop concrete policy recommendations**

Corruption acts as a regressive tax, and small firms pay more in bribes, 2000-2005

(% of gross monthly revenue paid in bribes, as reported by firms)



Governance Indicators, by agency

(based on responses of public officials from 20 agencies, Guinea 2004)

	Audit Mechanisms	Enforcement of Rules	Quality of Rules	Politicization	Resources	Transparency	Citizen Voice	Wage Satisfaction	Service	State Capture	Overall Corruption
Ministère de la justice	63	51	55	44	37	47	72	19	67	44	39
Ministère de la Sécurité	62	50	57	44	38	47	74	18	69	38	35
Ministère de l'Administration et de la Décentralisation	61	53	54	42	39	49	75	29	70	45	45
Ministère des Finances	76	72	60	40	43	58	80	28	67	51	30
Ministère de l'Enseignement Supérieurs et Recherche Scientifique	62	50	56	44	35	46	74	20	69	47	42
Ministère de l'Urbanisme et Habitat		76		42	33		64	75	38	5	
Ministère de la Santé Publique	70	63	57	43	35	60	70	30	58	40	44
Service Communal		62	51	34	40	52	64	13	49	49	
Service Sous Préfectoral	58	43	55	45	32	43	72	13	64	52	37
Ministère de la Communication		52	61	44	38	46	75	42	65	69	
Ministère de la Jeunesse et Sports	60	52	56	42	42	53	73	11	71	52	42
Ligue Islamique Nationale	62	60	59	41	41	49	75	28	64	43	33
Ministère de l'Agriculture	61	58	57	42	38	45	77	30	65	36	36
Ministère de l'enseignement Pré Universitaire	67	69	57	41	50	50	72	42	76	45	31
Ministère de la Fonction Publique		44	60	45	44	44	71	25	56	10	
Organisation Non Gouvernementale (ONG)		59	53	41	48	44	82	8	70	54	
Entreprise Micro – Finance					32		73	8	80	13	
Ministère de l'Energie, Mines et Environnement		70		49	55		52	25	74		
Whole Country	62	50	57	45	34	46	75	20	68	42	37

The indicators above take values between 0-100. To interpret them please keep in mind that:
-The higher the value of the governance indicator the better the quality of that dimension .
-The higher the value of the corruption index, the more severe the problem.

Concluding: Some Issues for Debate

- **Governance Matters, and so does Measuring it**
- **Learning from considerable Country and Institutional Variation** – ***in Africa & other regions***
- **Candid & Realistic Role of Donors, Private Sector & Multinationals**
- **Away from focus on symptoms and on superficial reforms by 'fiat'**
- **Towards deeper Incentive-driven reforms**
- **Back to basics?: Contestable Politics, Competition, Transparency, 'Voice' & Free Press; Judiciary Reforms**

Concretely: 10 Transparency Reform Components

1. **Public <u>Disclosure of Assets & Incomes</u> of Candidates, Public Officials, Politicians, Legislators - *& dependents***
2. **Public <u>Disclosure of Political Campaign</u> contributions by individuals and firms, and of campaign expenditures**
3. **Public Disclosure of <u>Parliamentary Votes</u>, *w/out exceptions***
4. **Effective Implementation of <u>Conflict of Interest Laws</u>, separating business, politics, legislation, & government**
5. **Publicly <u>blacklisting firms bribing</u> in public procurement**
6. **Effective Implementation of <u>Freedom of Information Law</u>, with easy access to all to government information**
7. **<u>Fiscal/Financial transparency</u>: EITI, *budgets, ROSCs***
8. **<u>E*procurement</u>: transparency (web) and competition**
9. **<u>Media Freedoms</u> & Media Development**
10. **Country <u>Diagnostic *(& Scorecard)*</u> on Governance & A-C**

Data for Analysis and Informing Policy Advice, *Not for Precise Rankings*

Any data on Governance, Institutions, and Investment Climate are subject to a margin of error. They are not intended for precise country rankings, but to highlight relative strengths and weaknesses and draw analytical and policy lessons. The data and indicators do not necessarily reflect official views on rankings by the World Bank or its Board of Directors. Errors are responsibility of the main authors. This presentation draws from collaboration and inputs from Massimo Mastruzzi as well as from staff from the Africa region.

For access to the data and to bibliographical references, visit www.govindicators.org