

**‘Afro-Pessimism’ vs. ‘Irrational Exuberance’  
...or a New Day for Africa Governance?:  
*A comparative empirical perspective on  
governance in African countries***

**Daniel Kaufmann & colleagues, *World Bank Institute***

**[www.worldbank.org/wbi/governance](http://www.worldbank.org/wbi/governance)**

***Presentation at the JJ/WBGSP Scaling-Up Program  
Conference, by the Joint Japan/World Bank Scholarship  
Program, Washington, DC, November 12th, 2007***

.....  
**‘If it cannot be measured, it cannot be controlled’  
*Lord Kelvin***

**‘Not everything that counts, can be counted, and  
not everything that can be counted, counts’  
*Einstein***

# Evidence challenges Myths...

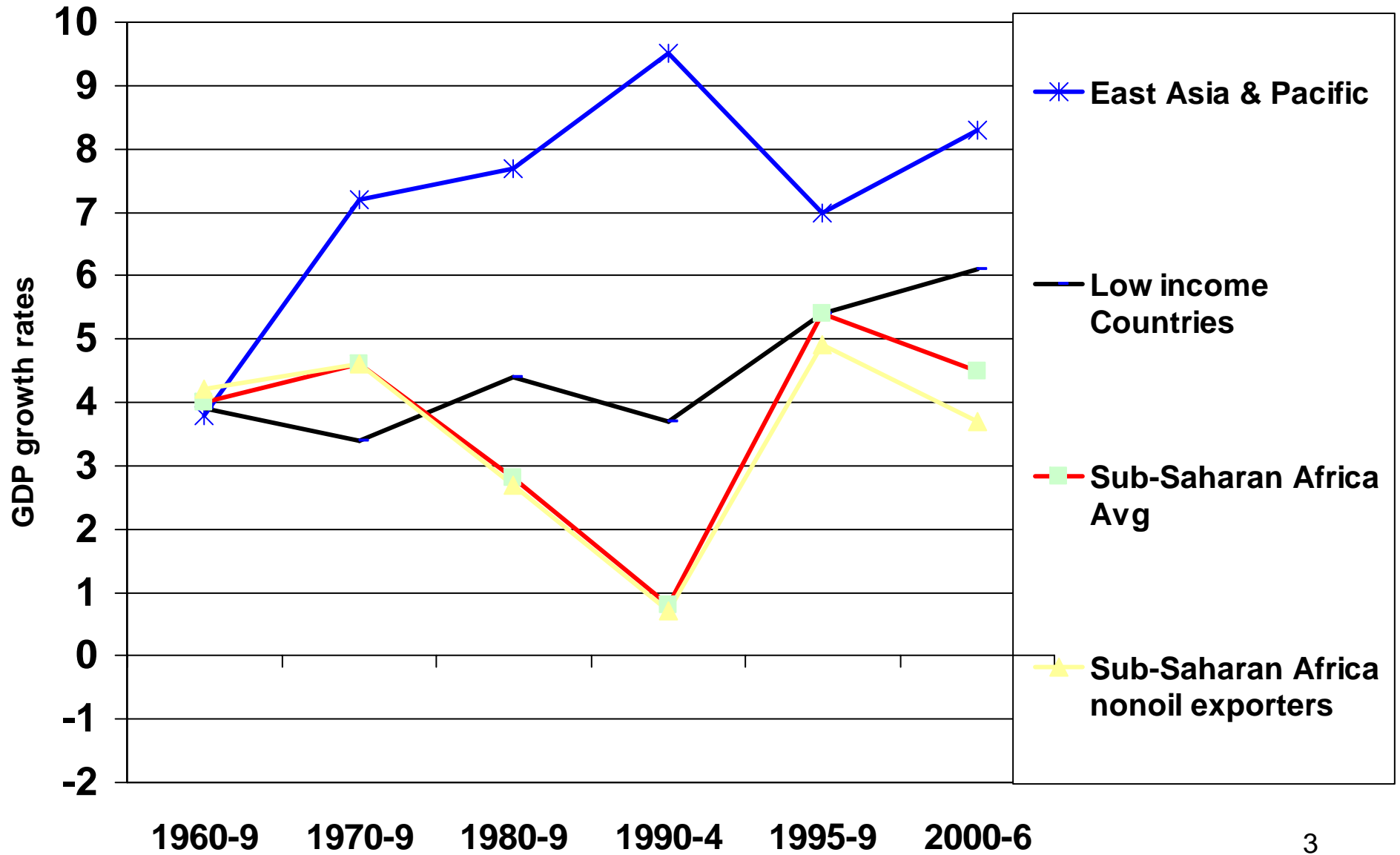
## Moving Away from Myths and Fallacies:

- *Afro-pessimism* – from focusing too long on poor performers, failures, or on long term averages...
- *'Irrational Exuberance'* – by focusing on the recent short term, declaring premature victory (*'elevator economics'*)
- *Generalizations* about the whole African continent – excessive averaging & stereotypes
- *Old notions* of what drives *investment*

## Towards a new Reality:

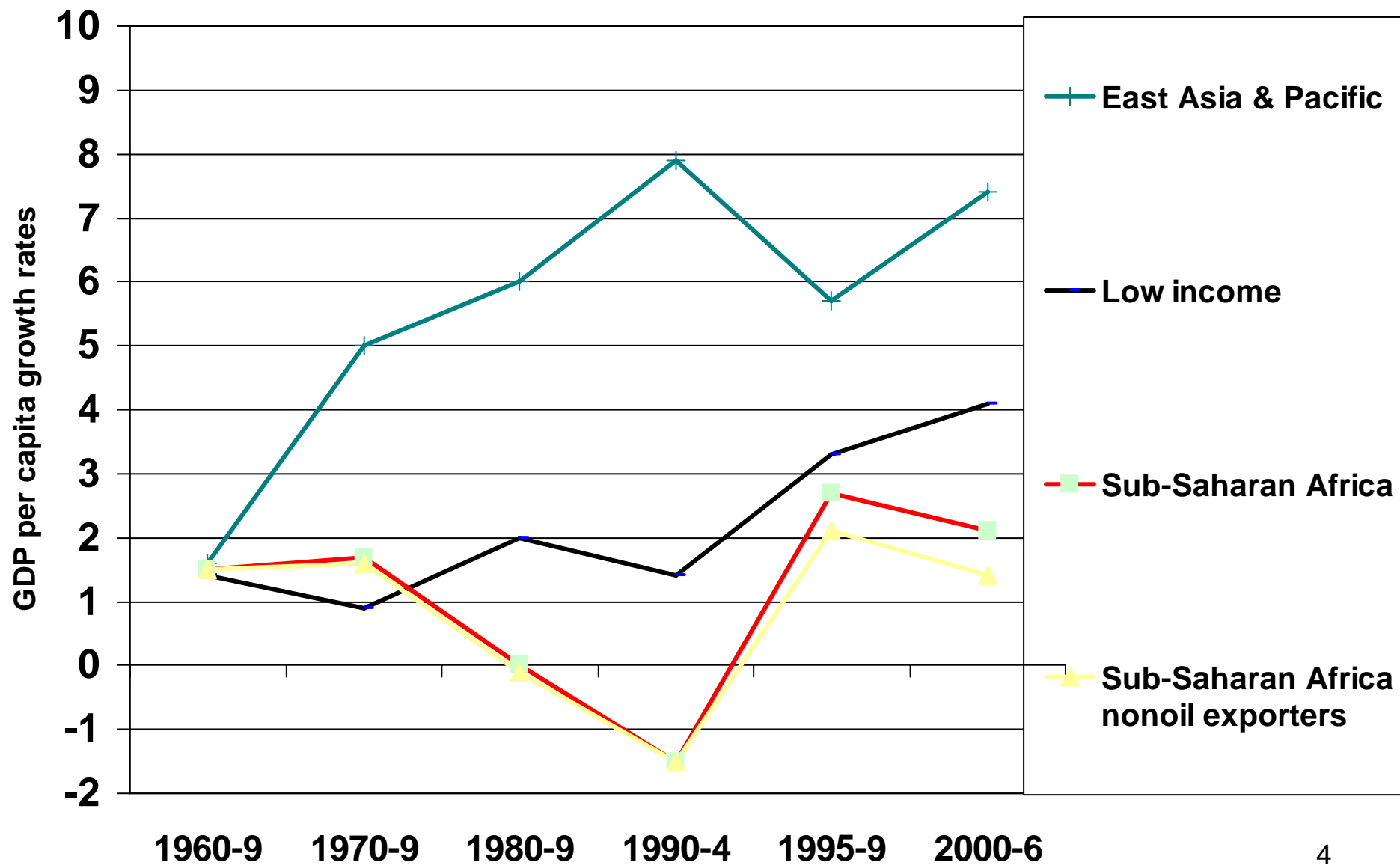
- *'Governance Matters'* for investment climate
- Understanding the rich *complexity, variety and contrasts* across the continent, from one country to the next
- Learning from *good performers: some leaders, countries, and institutions* are showing 'the possible'
- Role of the *International Community and Private Sector*<sup>2</sup>

# GDP growth Rates, 1960-2006 (WDI)



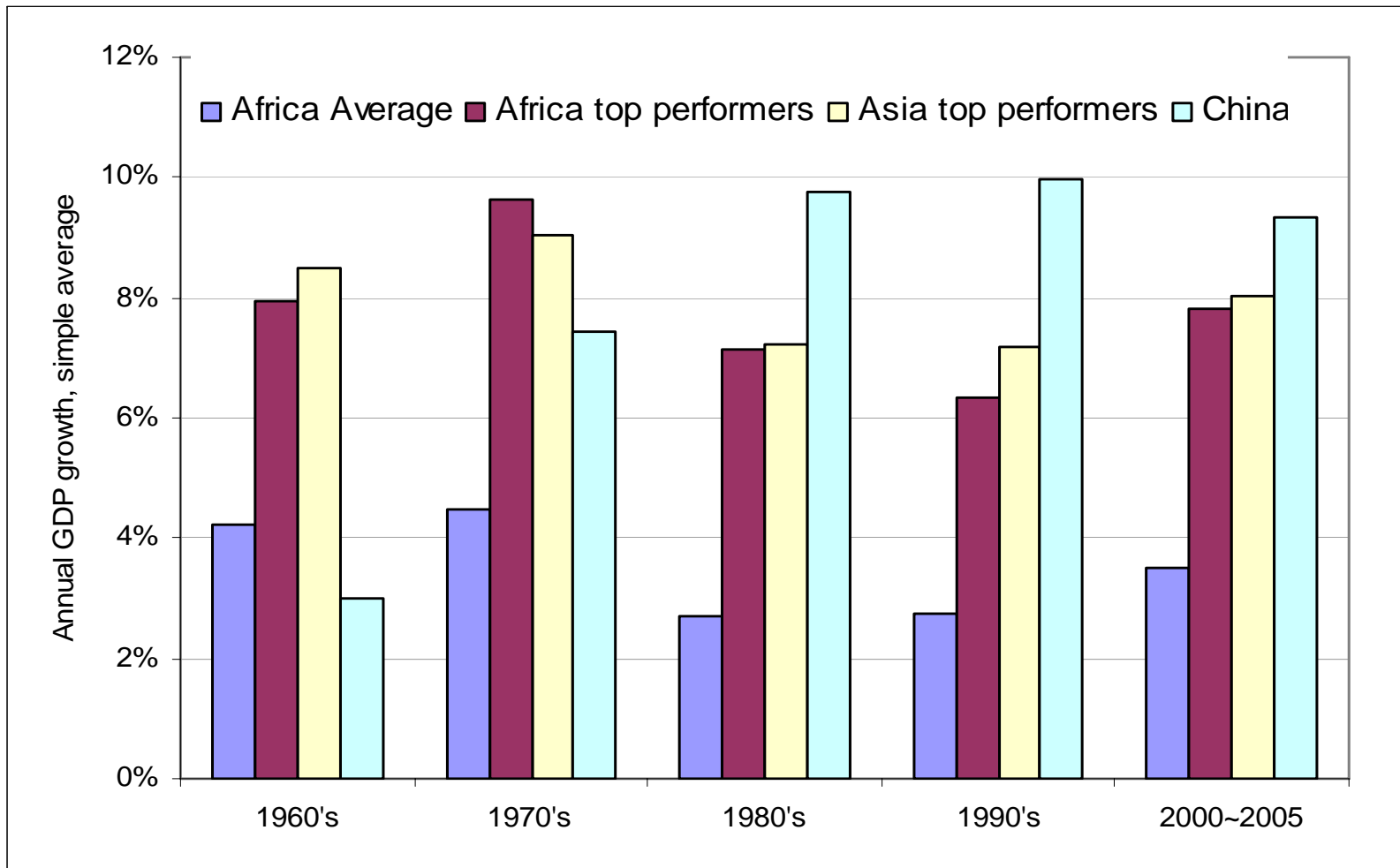
Source for data: WDI.

# GDP Per Capita Growth Rates, WDI 1960-2006

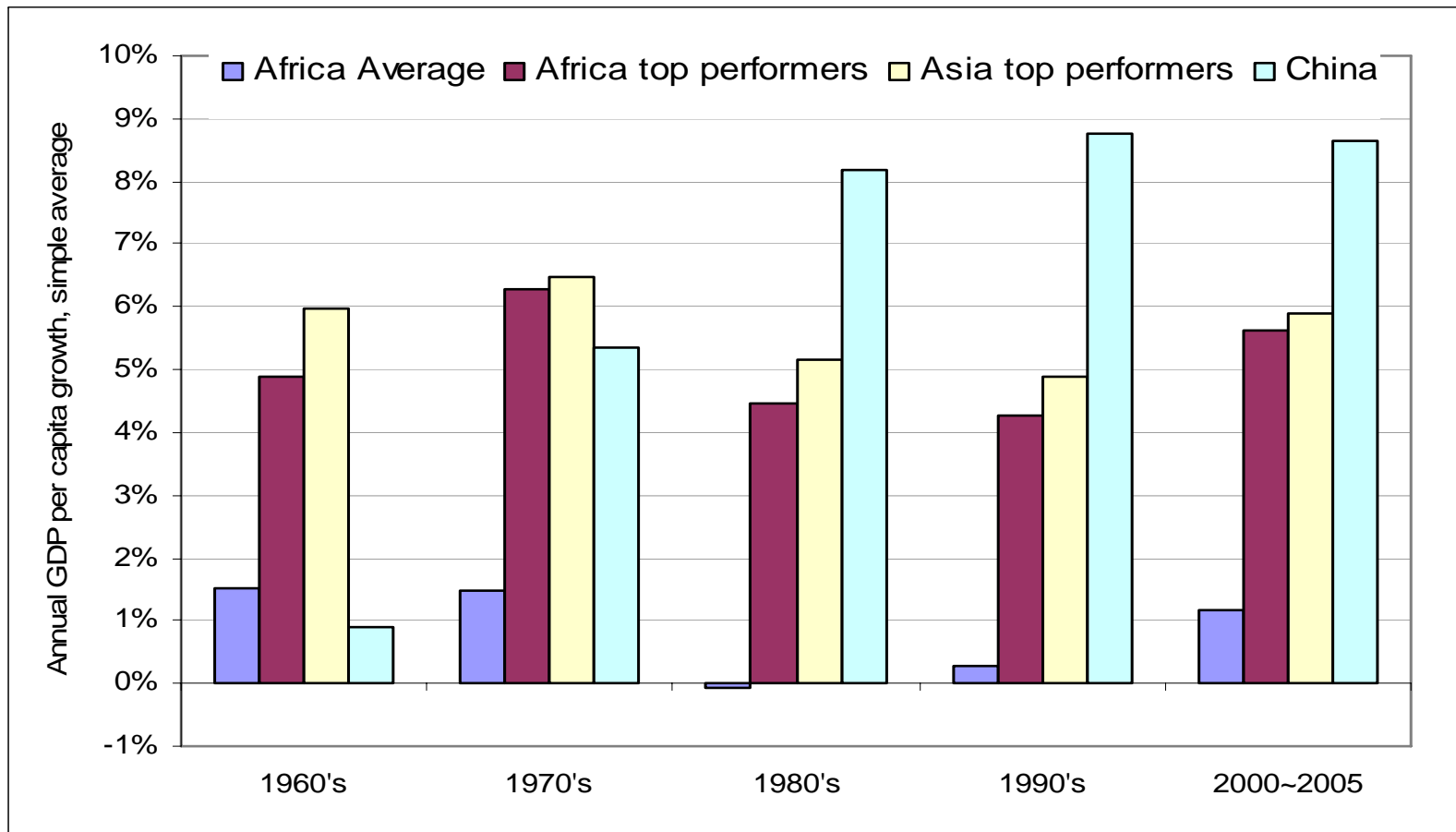


Source for data: WDI.

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



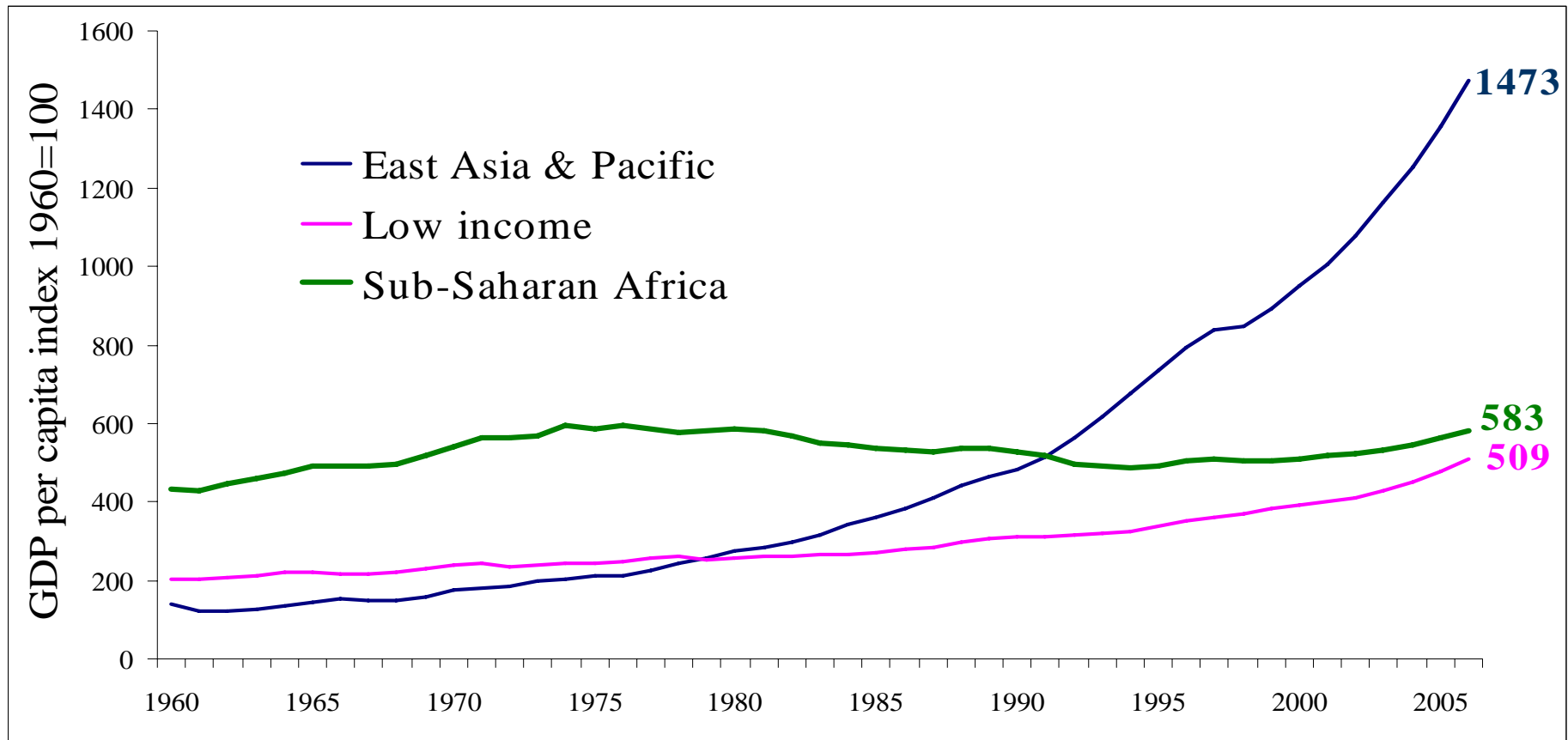
# ...BUT HIGH POPULATION GROWTH TAKES ITS TOLL ON PER CAPITA INCOME.



# The 'Long View' – Sobering but some hope...

## While Africa Stagnated, East Asia Soared

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

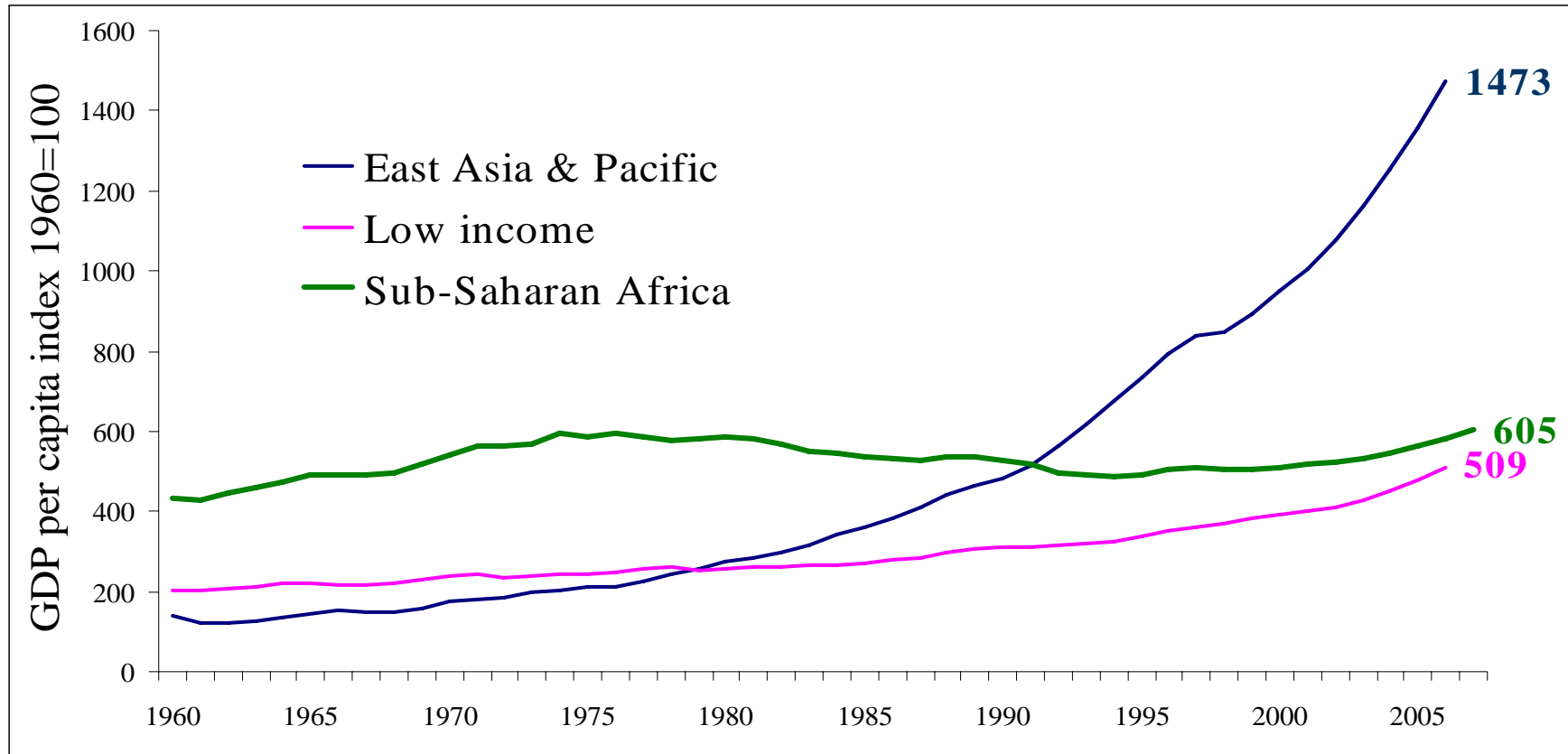


-- Chart depicts income per capita in 2000 constant terms. In 1960, actual per capita income of East Asia region was \$141, while Sub-Saharan Africa average was \$432; in 1974 it was \$202 and \$595, respectively, in 1994 it was \$677 and \$486, and in 2006 it was \$1473 for East Asia and \$583 for Africa.

-- 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).

# While Africa Stagnated, East Asia Soared

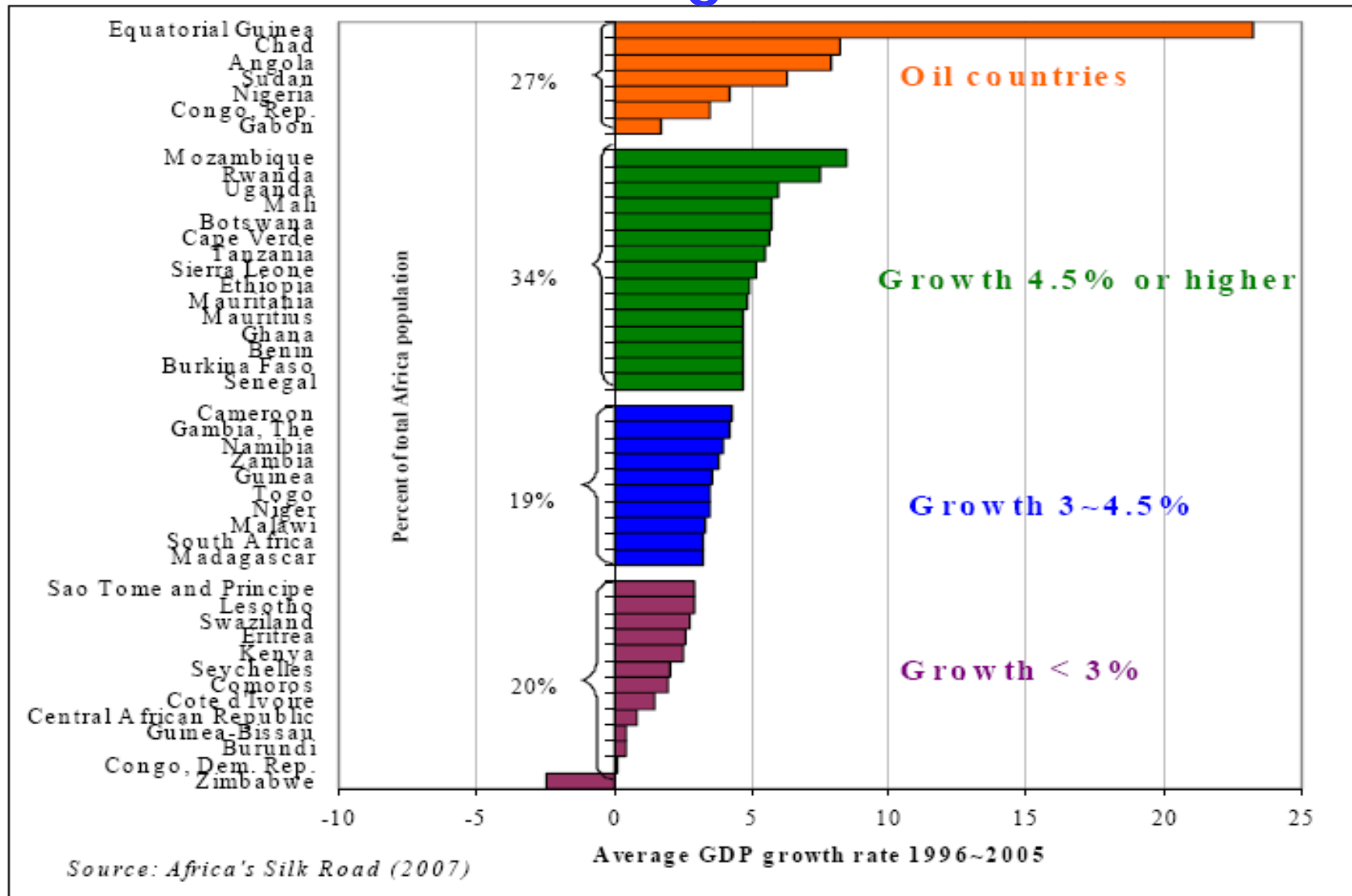
GDP per capita: Africa & East Asia, 1960-2007



-- 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 (and projected to \$605 for 2007).

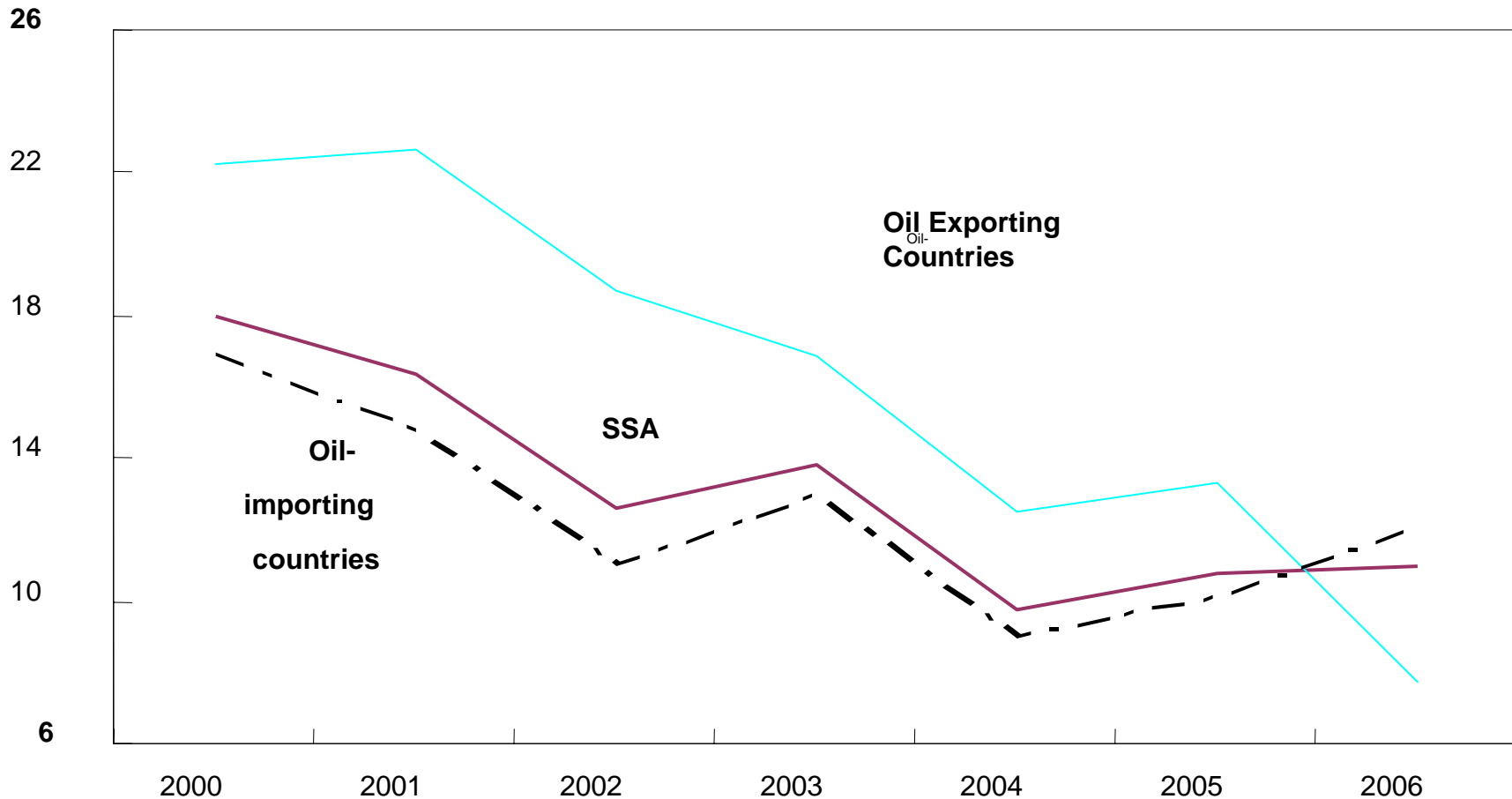
-- Source: WDI, Low-income economies are those in which 2006 GNI per capita was \$905 or less (53 countries of which 33 from Sub-Saharan Africa).

# Economic Performance has improved in Africa, and is Becoming More Diverse



# Macroeconomic Management has improved (and also trade policy for instance)

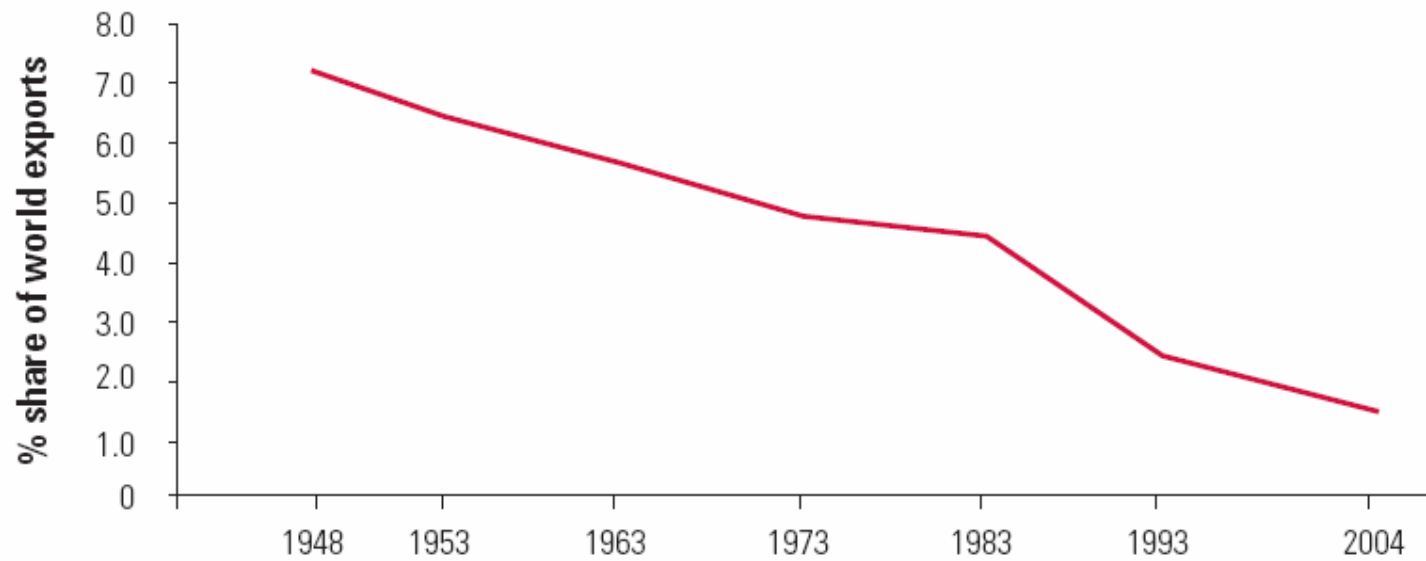
## Inflation, 2000-06 (in %)



Source: IMF, SSA Regional Economic Outlook.

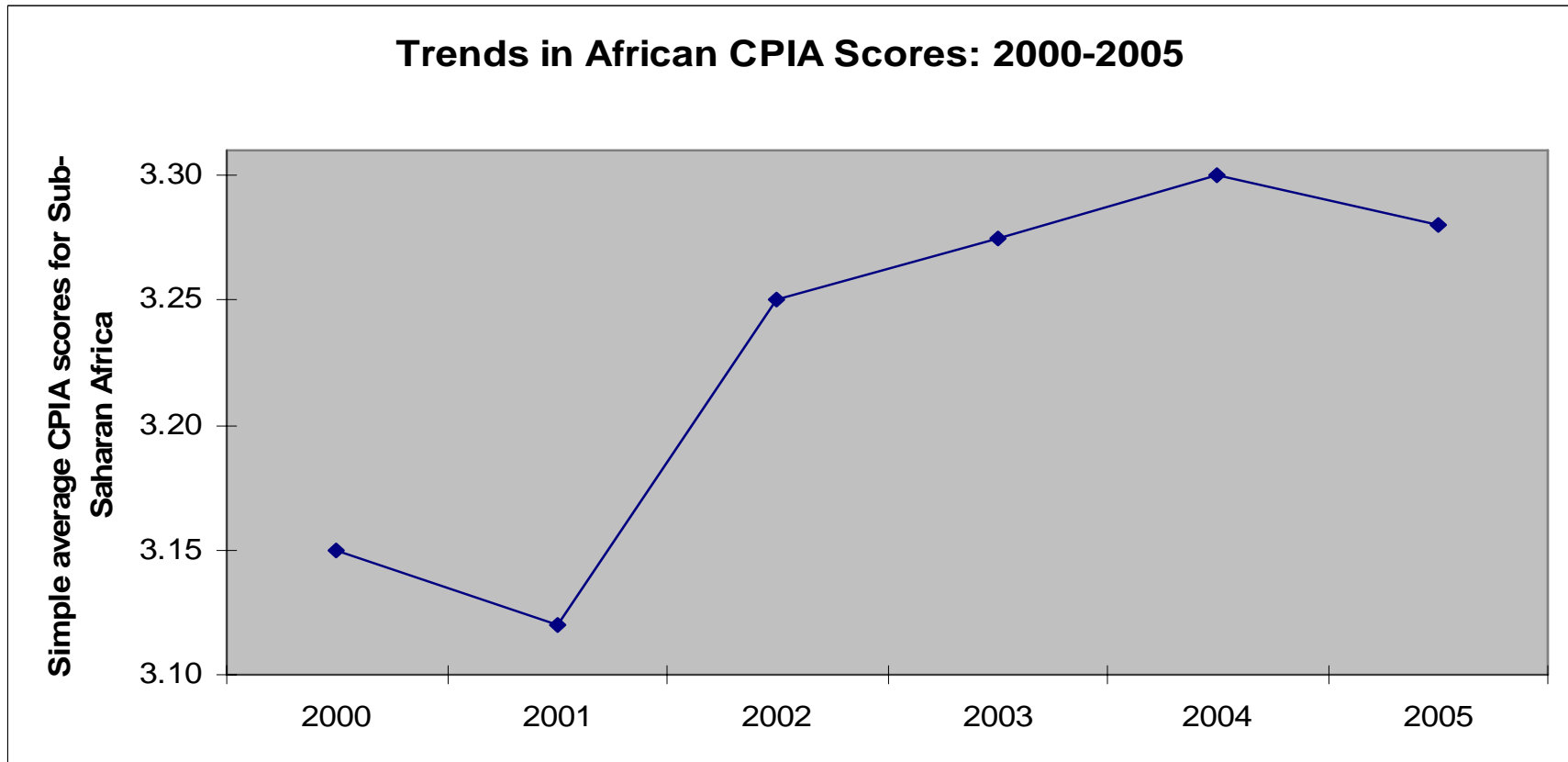
**...Now, what is the Governance Situation...?** 10

# Africa's Share of World Trade is Falling



Source: Africa's Silk Road (2007)

# Structural policies have improved



*A structural shift?*<sub>12</sub>

# **Worldwide Governance Indicators Project: Defining Governance Broadly**

***Governance consists of the traditions and institutions by which authority in a country is exercised.***

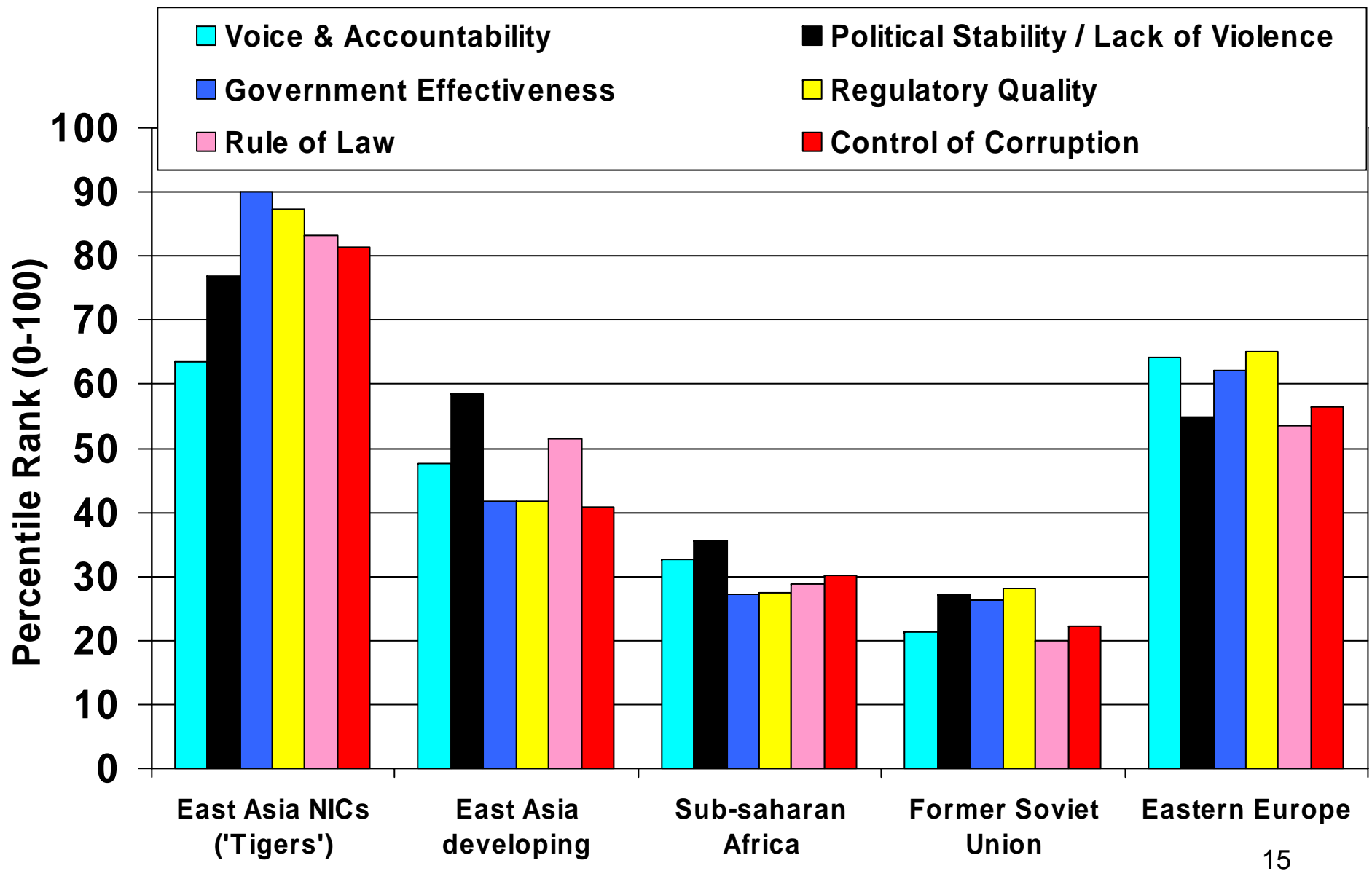
***This includes:***

- the process by which governments are selected, monitored and replaced,***
- the capacity of the government to effectively formulate and implement sound policies, and***
- the respect of citizens and the state for the institutions that govern economic and social interactions among them.***

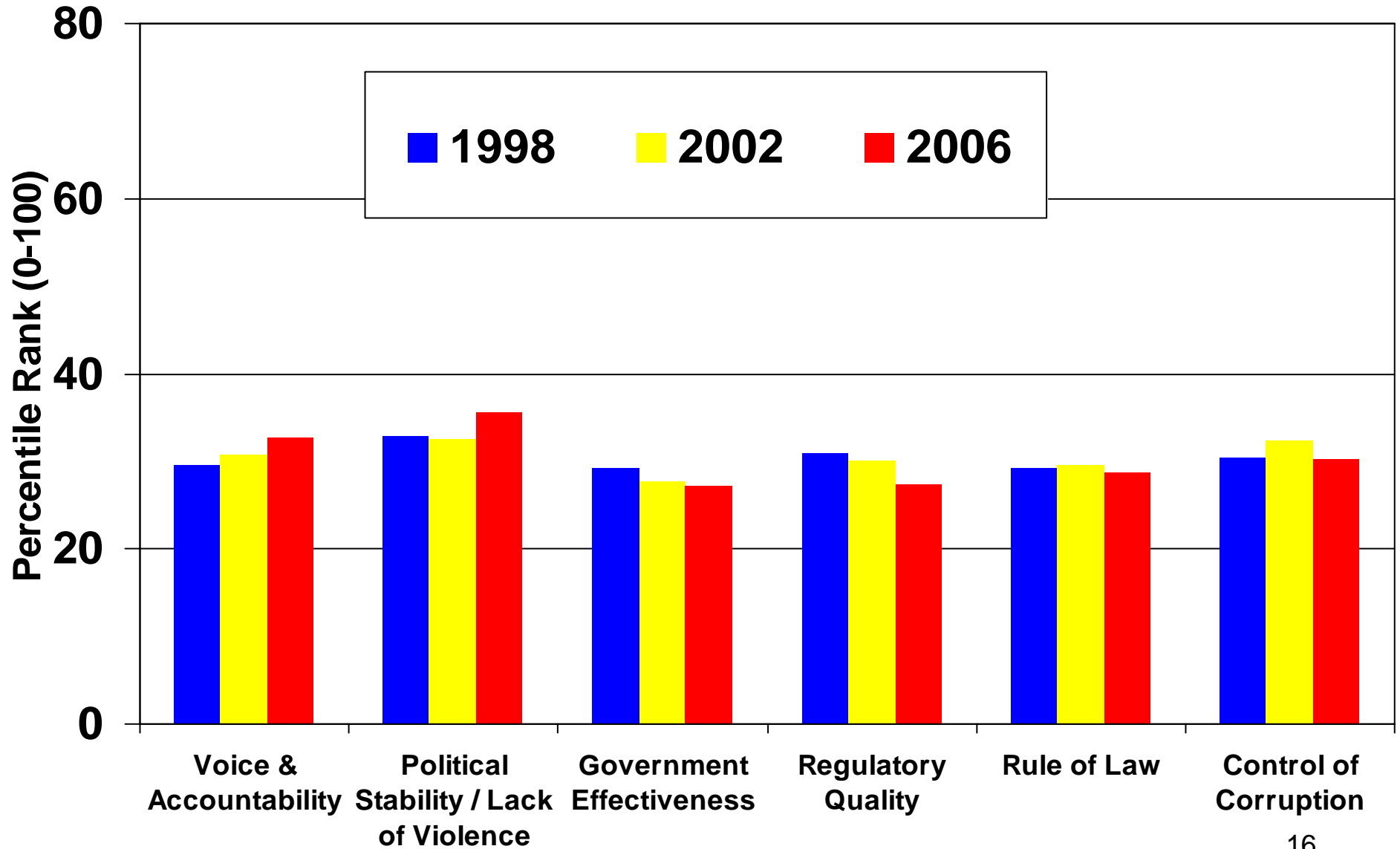
# **Worldwide Governance Indicators**

- **Six aggregate governance indicators covering 213 countries over past decade**
  - **Voice and Accountability**
  - **Political Stability/Absence of Violence**
  - **Government Effectiveness**
  - **Regulatory Quality**
  - **Rule of Law**
  - **Control of Corruption**
- **Based on 31 data sources from 25 organizations, capturing views of tens of thousands of informed stakeholders**
- **Widely used by analysts, officials, civil society, and researchers to monitor governance and study its causes and consequences**

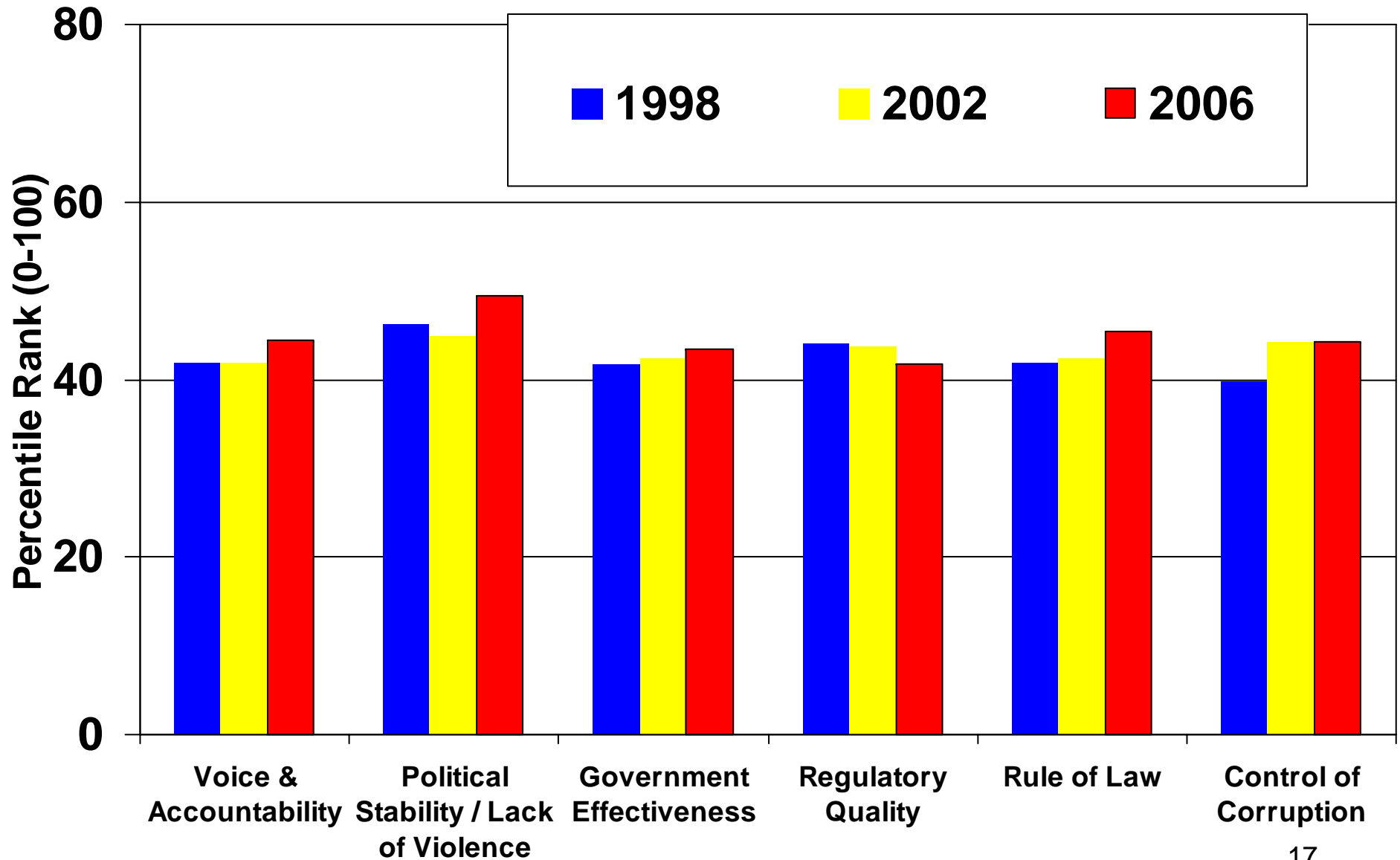
# 2006 Governance Indicators, Selected Regions



# Sub-Saharan Africa Average, 1998-2006



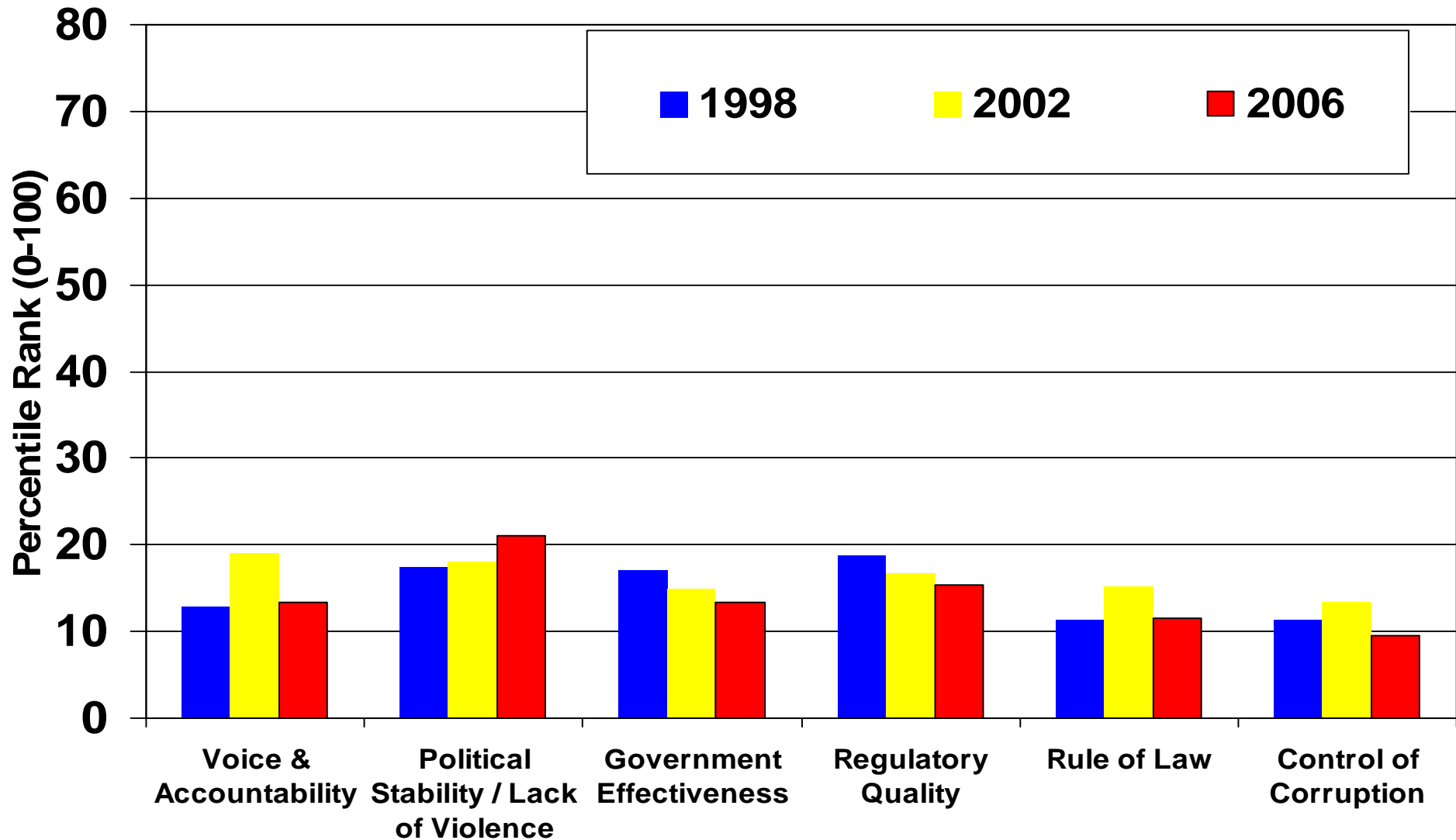
# Sub-Saharan Africa Over Time - High Growth Performers, Non Resource-Rich Countries, 1998-2006



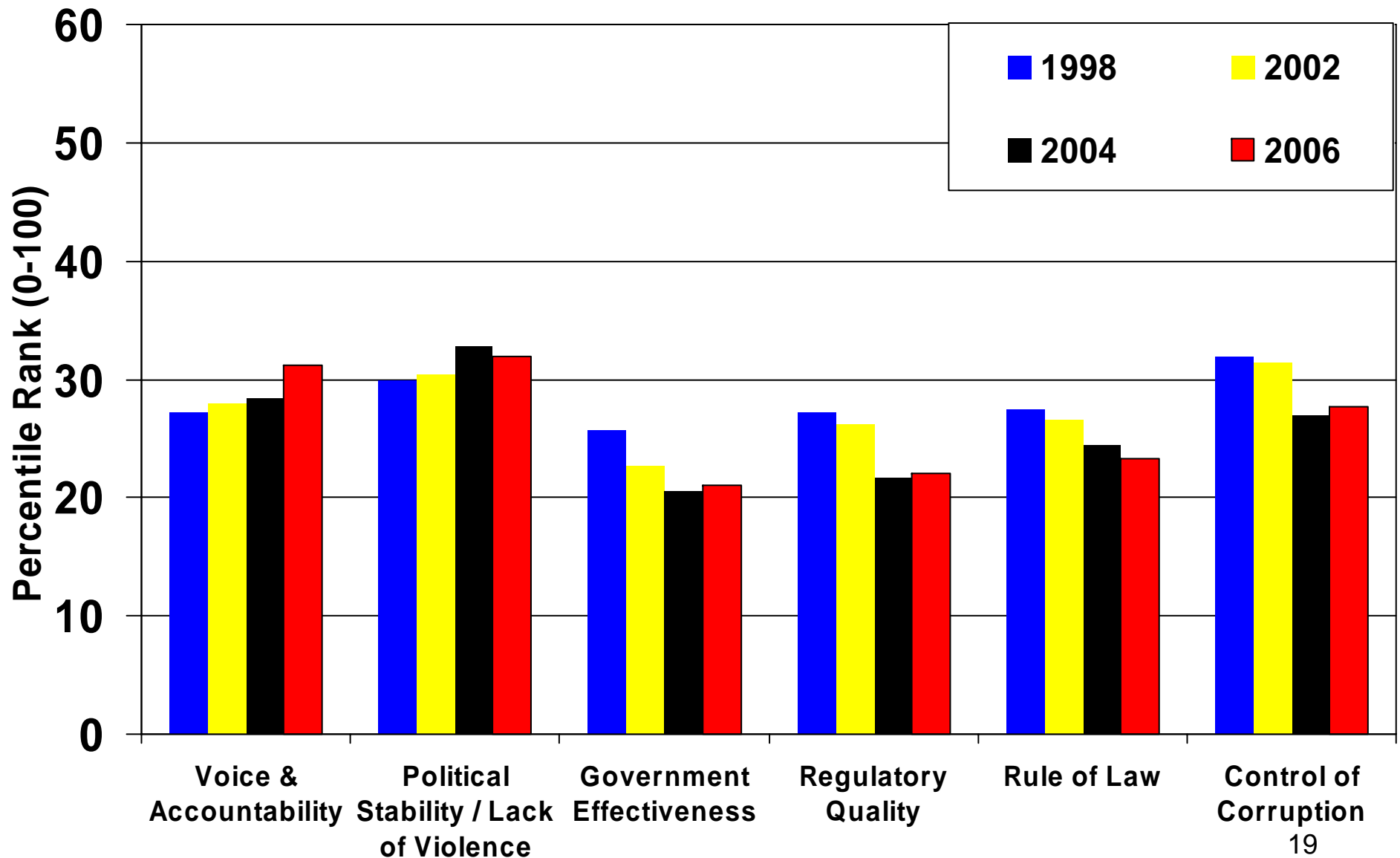
Source for data: 'Governance Matters VI: Governance Indicators for 1996-2006', by D. Kaufmann, A. Kraay and M. Mastruzzi, June 2007 - [www.govindicators.org](http://www.govindicators.org). High Performers, Non Oil Rich countries included Mozambique, Rwanda, Cape Verde, Uganda, Mali, Botswana, Ethiopia, Tanzania, Mauritius, Mauritania, Benin, Ghana, Senegal, Burkina Faso, Gambia, Cameroon and Namibia.

# Sub-Saharan Africa Over Time

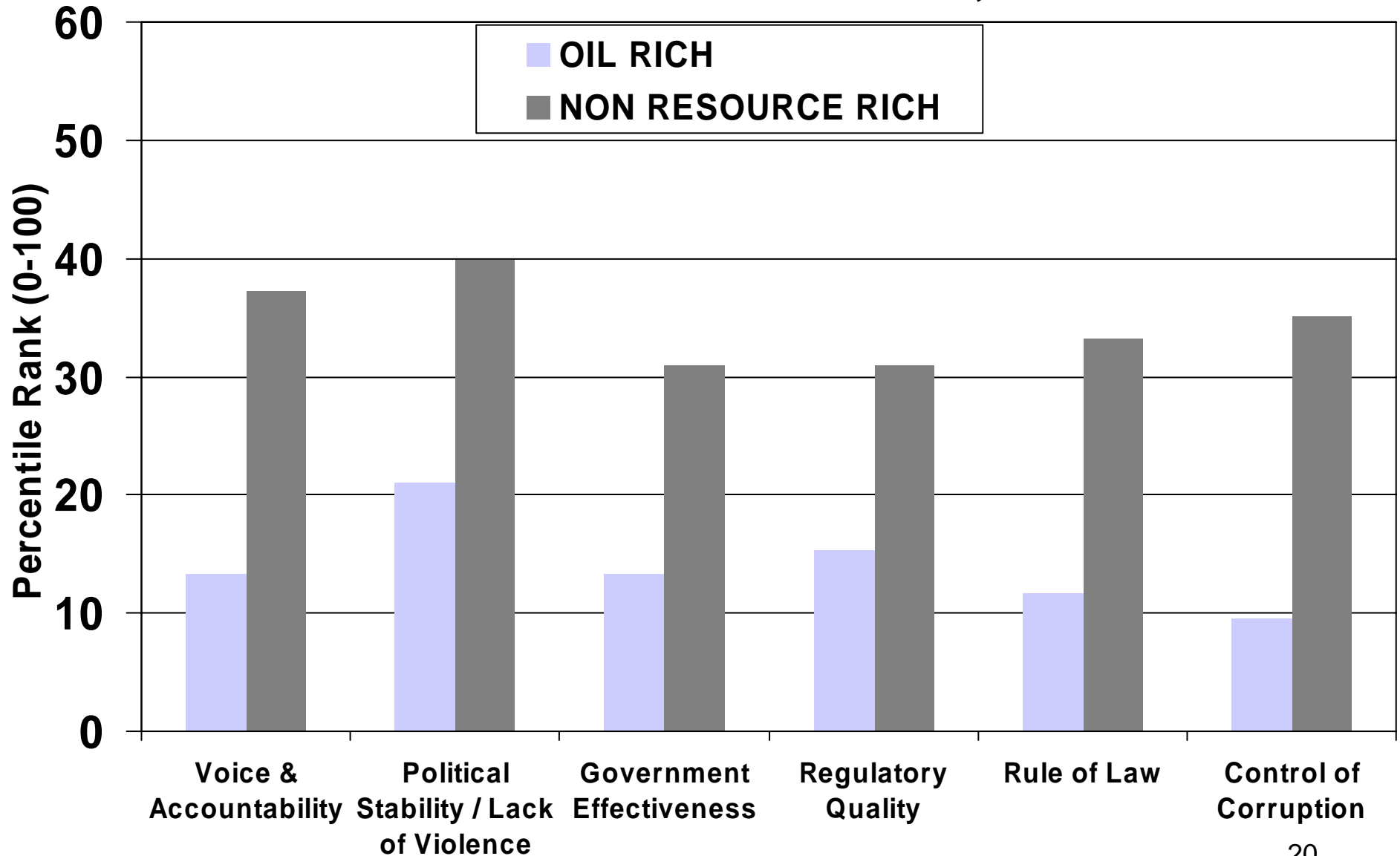
## Resource-Rich Countries, 1998-2006



# Sub-Saharan Africa Over Time - Low Performers Non-Resource Rich Countries, 1998-2006



# 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](http://www.govindicators.org). Oil Rich countries included Gabon, Congo, Nigeria, Chad, Sudan, Angola and Equatorial Guinea

# Higher Growth and governance ratings differ significantly among groups of countries, WGI 2006

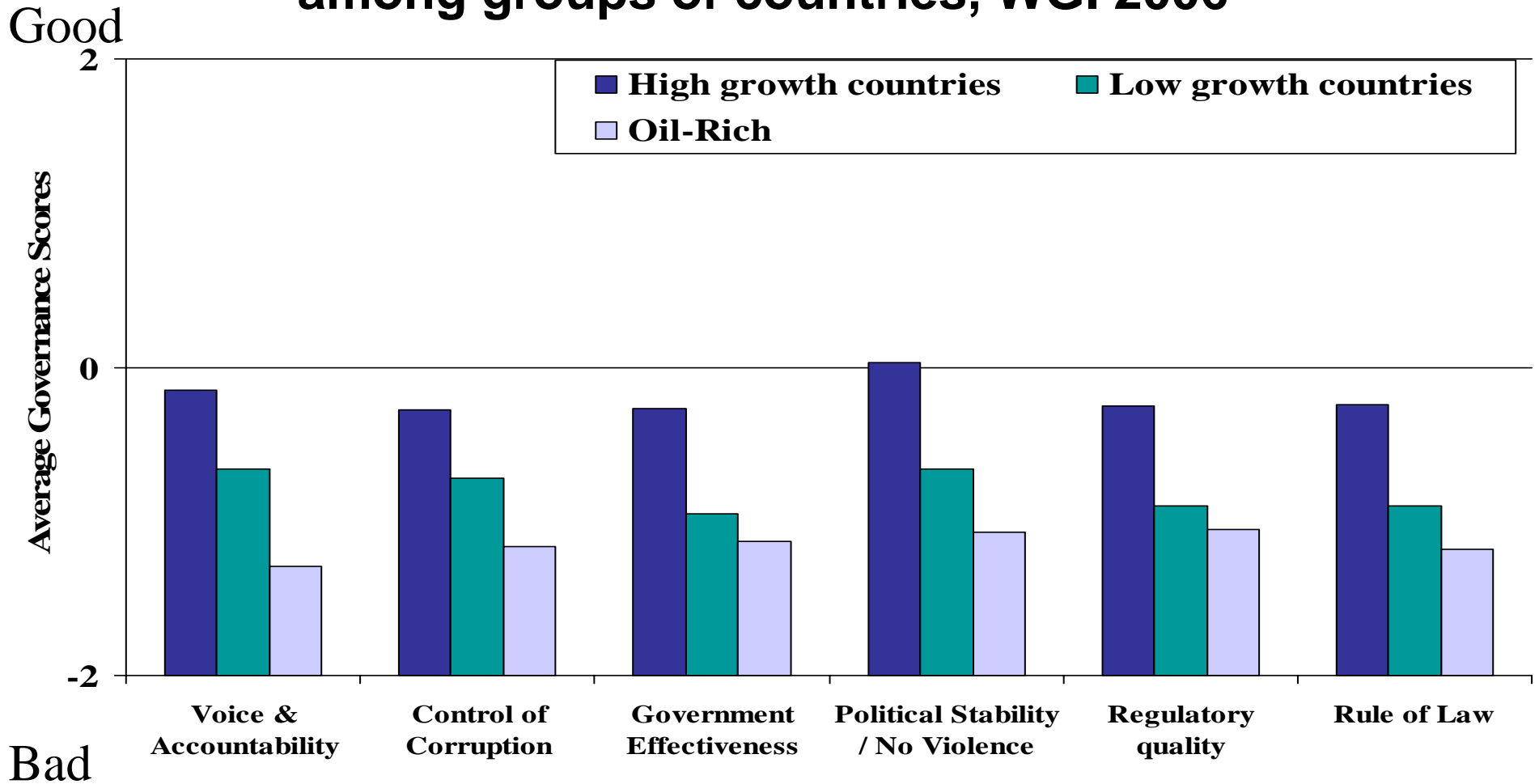
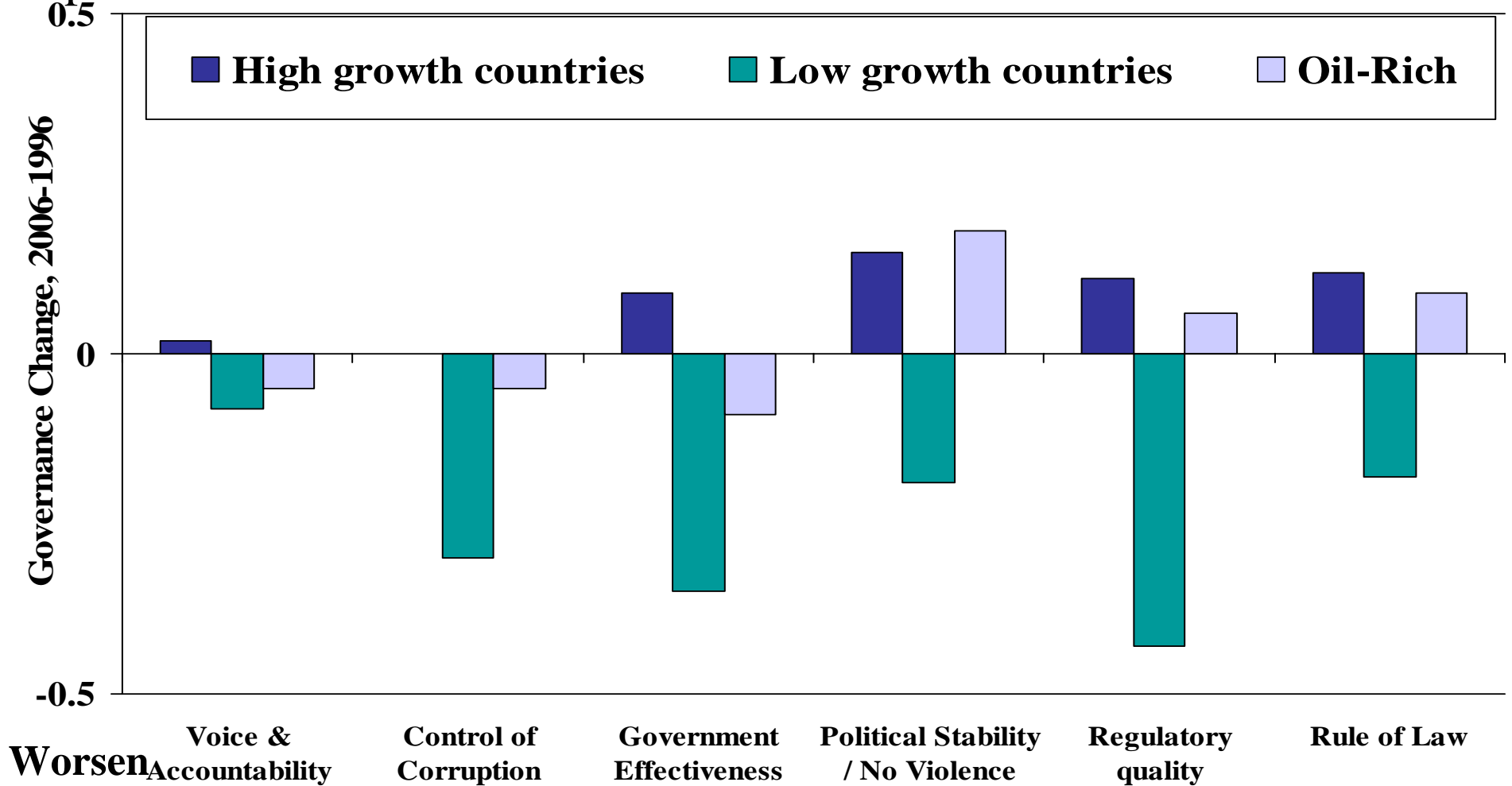


Chart shows average WBI governance scores by the AAP categories of countries. Oil rich countries consistently have the worst scores, followed by low performers, and finally by high performing countries. Statistically, high performers have better scores across all governance categories than other countries. Interestingly, and in contrast to *The Economist's* generalization, oil rich countries have statistically equal scores to other countries in voice and accountability, control of corruption, and rule of law. But oil producers have significantly lower scores on the remaining indicators.

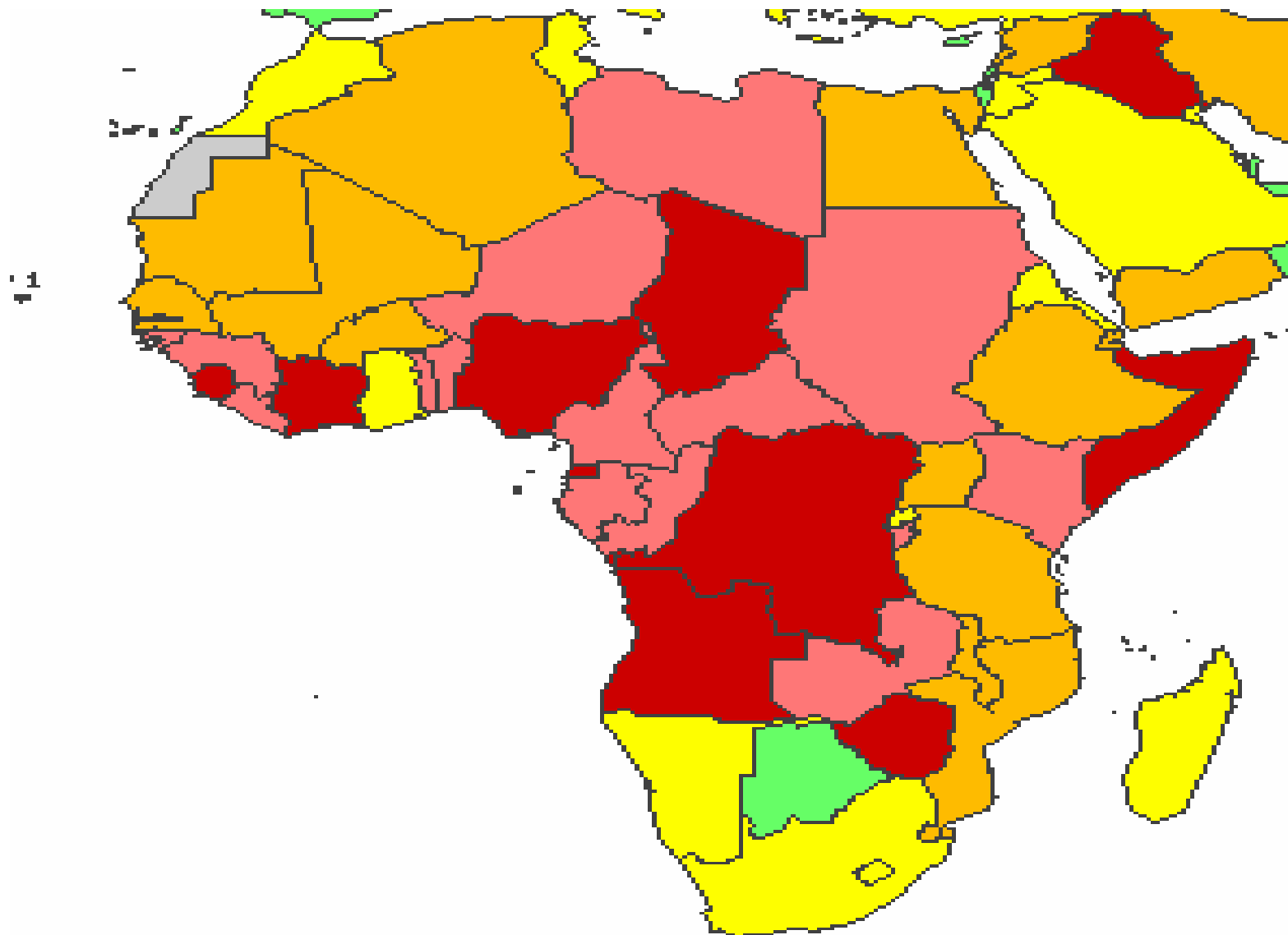
# Governance has improved in higher growth countries, WGI 1996-2006

Improvement



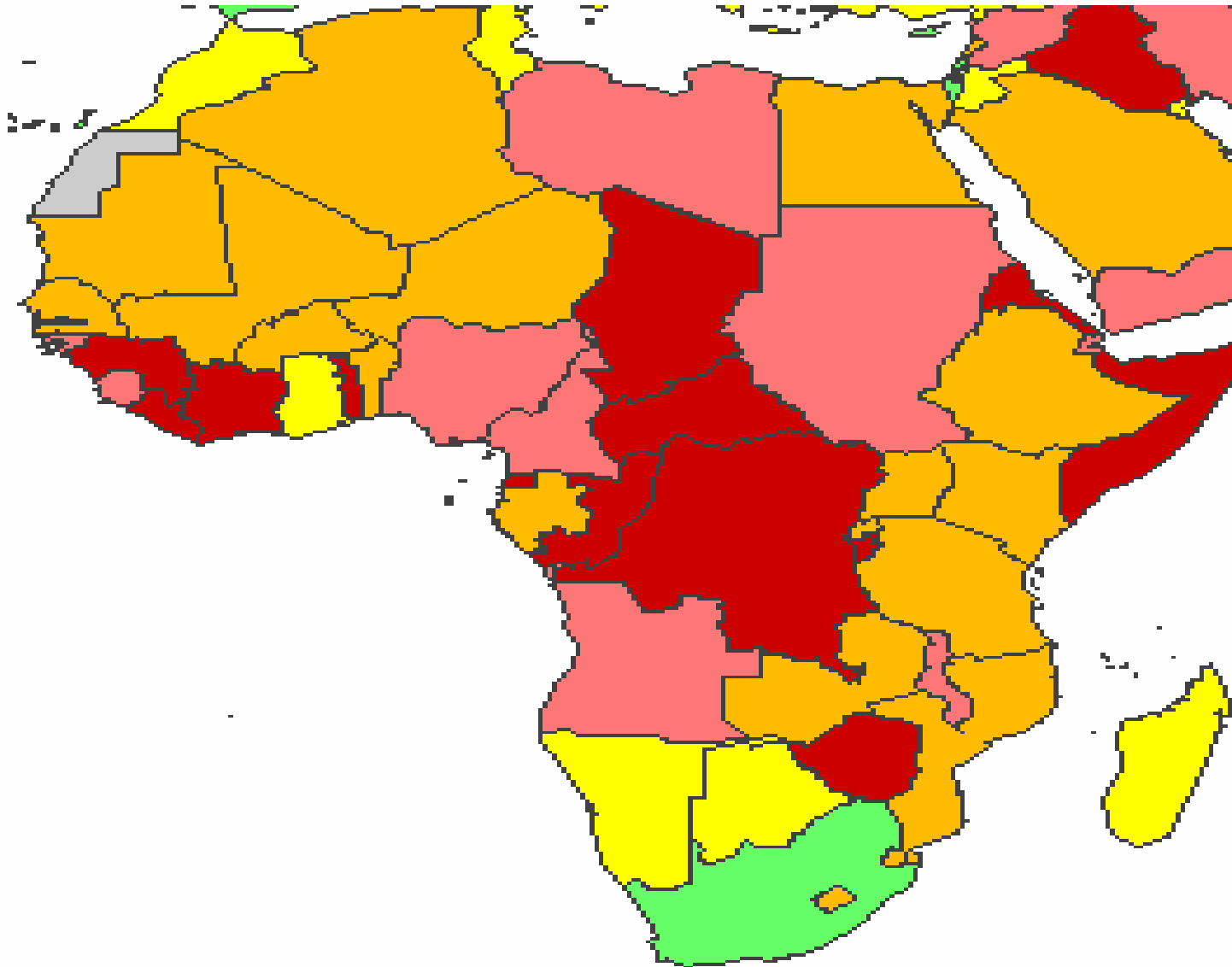
**Worsening** High performing countries had both a growth acceleration and improvements in all governance indicators. Slow growers experienced growth and governance deteriorations. Oil rich countries present a mixed picture. They had a significant jump in growth rates, accompanied by improvements in political stability, regulatory quality and rule of law and deteriorations in voice and accountability, control of corruption, and government effectiveness.

# Control of Corruption, 2006: Africa Map



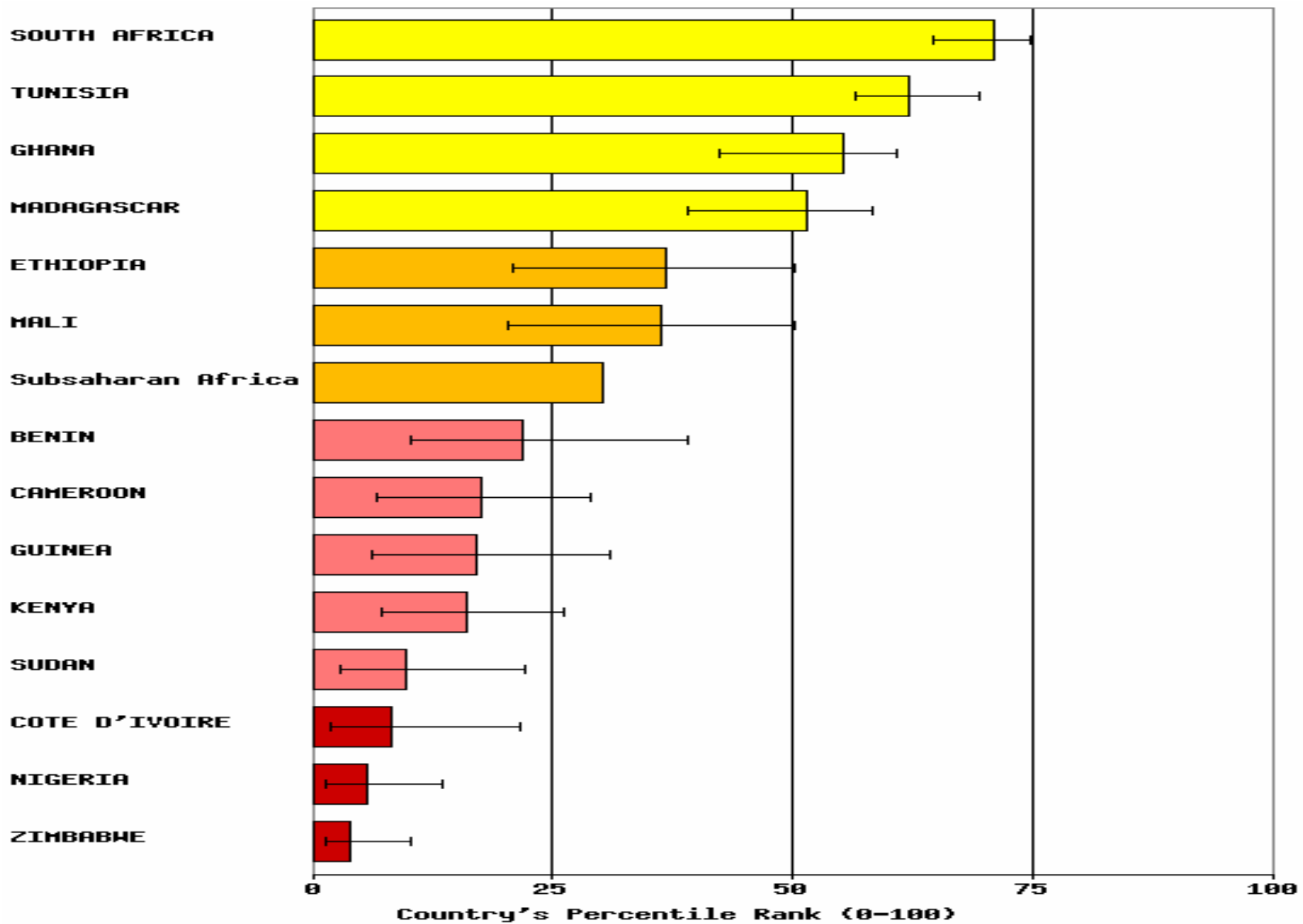
Source for data: : 'Governance Matters VI: Governance Indicators for 1996-2006', D. Kaufmann, A. Kraay and M. Mastruzzi, July 2007  
(<http://www.worldbank.org/wbi/governance/govdata/>); Colors are assigned according to the following criteria: Dark Red, bottom 10<sup>th</sup> percentile rank; Light Red between 10<sup>th</sup> and 25<sup>th</sup> ; Orange, between 25<sup>th</sup> and 50<sup>th</sup> ; Yellow, between 50<sup>th</sup> and 75<sup>th</sup> ; Light Green between 75<sup>th</sup> and 90<sup>th</sup> ; Dark Green above 90<sup>th</sup>.

# Government Effectiveness, 2006: Africa Map



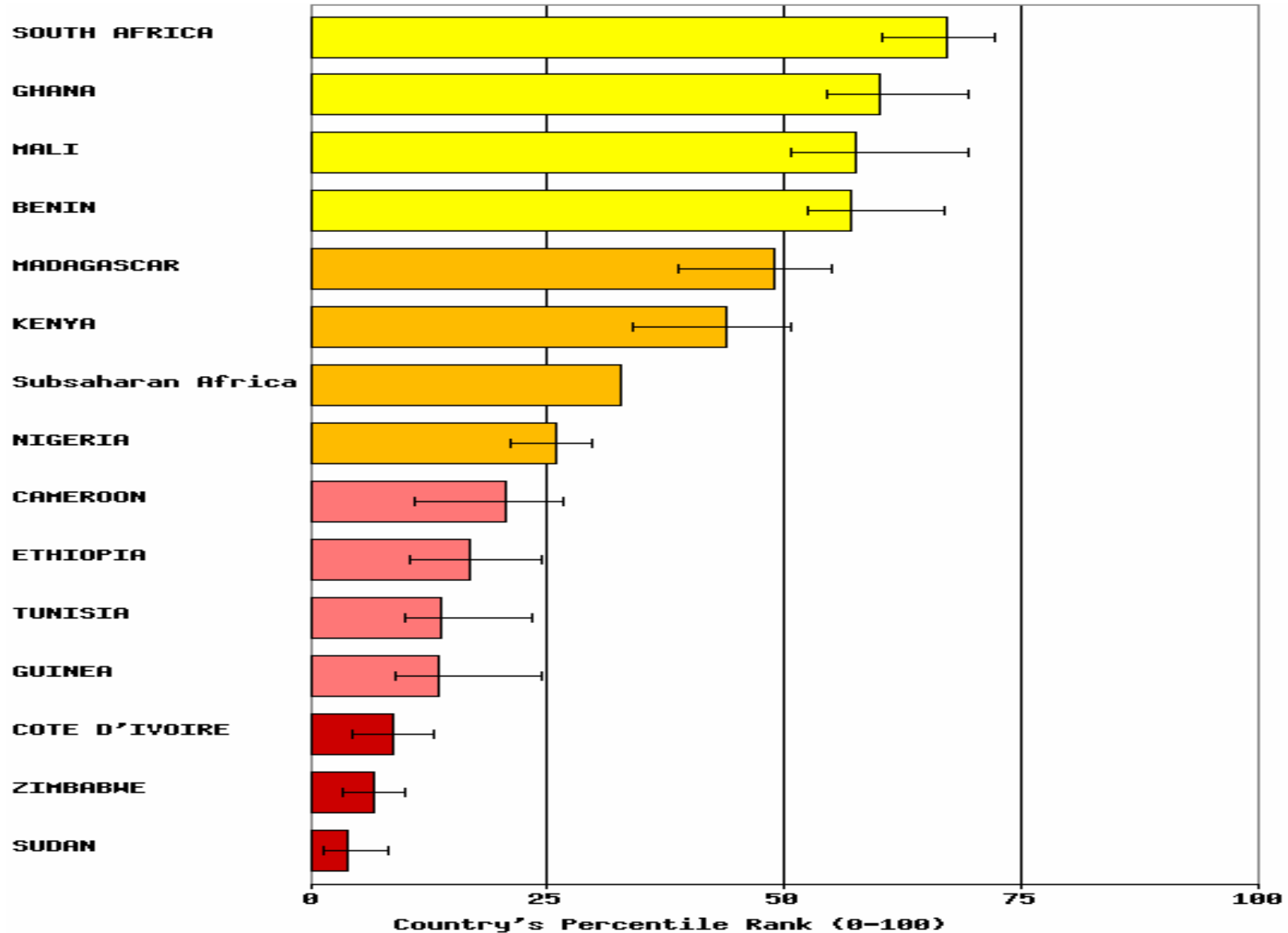
Source for data: : 'Governance Matters VI: Governance Indicators for 1996-2006', D. Kaufmann, A. Kraay and M. Mastruzzi, July 2007  
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# Control of Corruption, 2006: Selected Countries

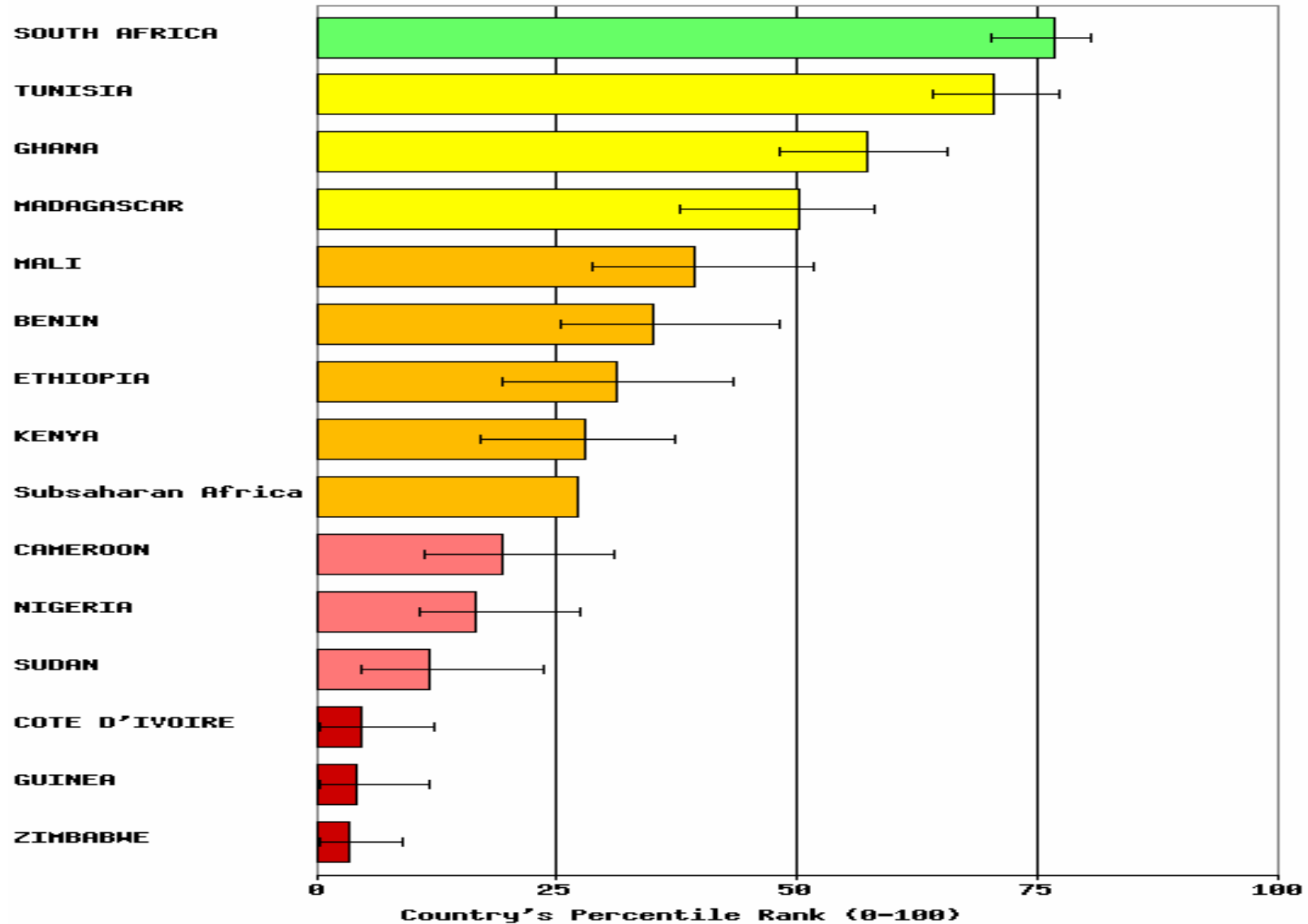


Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2007: Governance Matters VI: Governance Indicators for 1996-2006

# Voice & Accountability, 2006: Selected Countries

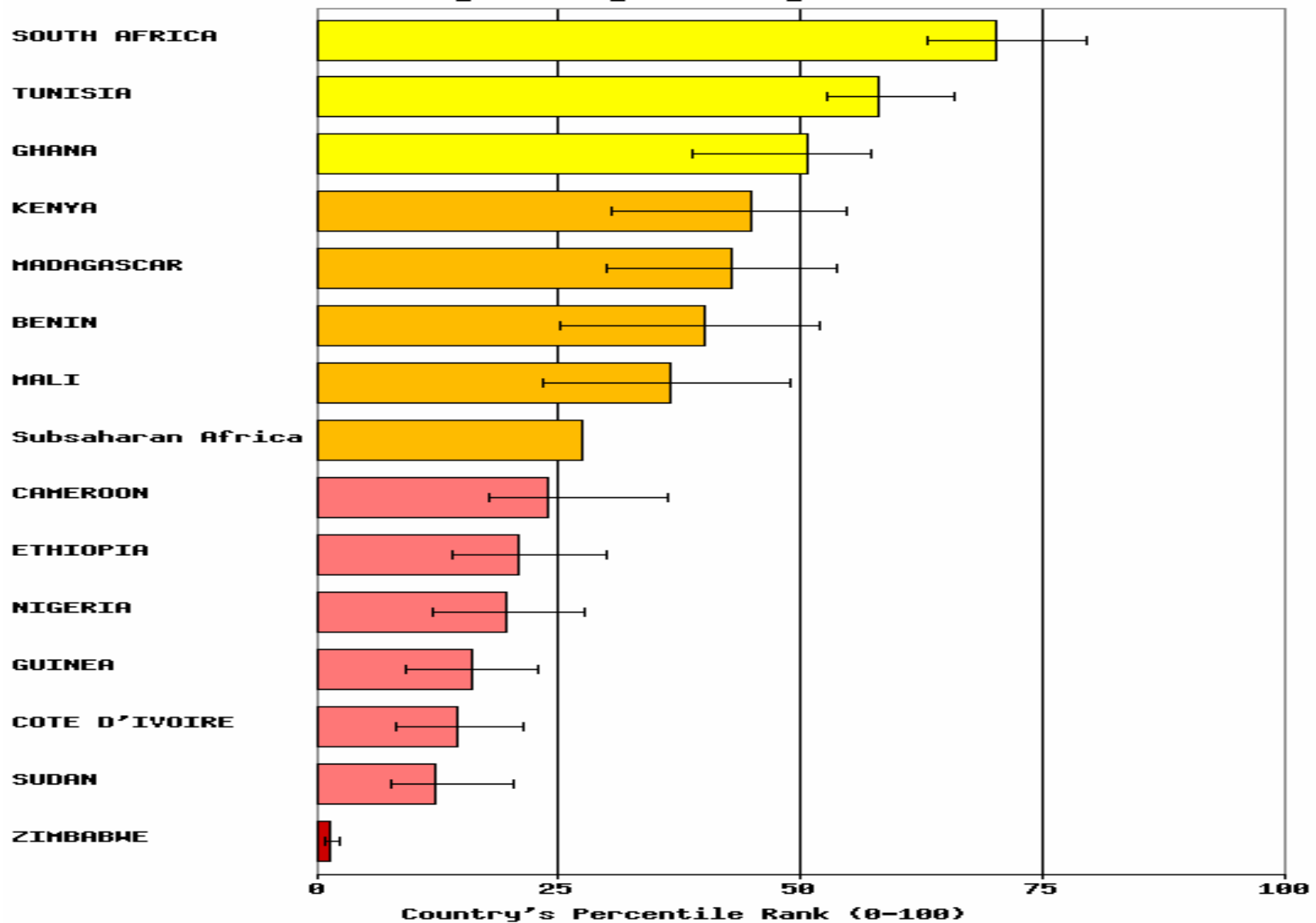


# Government Effectiveness, 2006: Selected Countries



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

# Regulatory Quality, 2006: Selected Countries

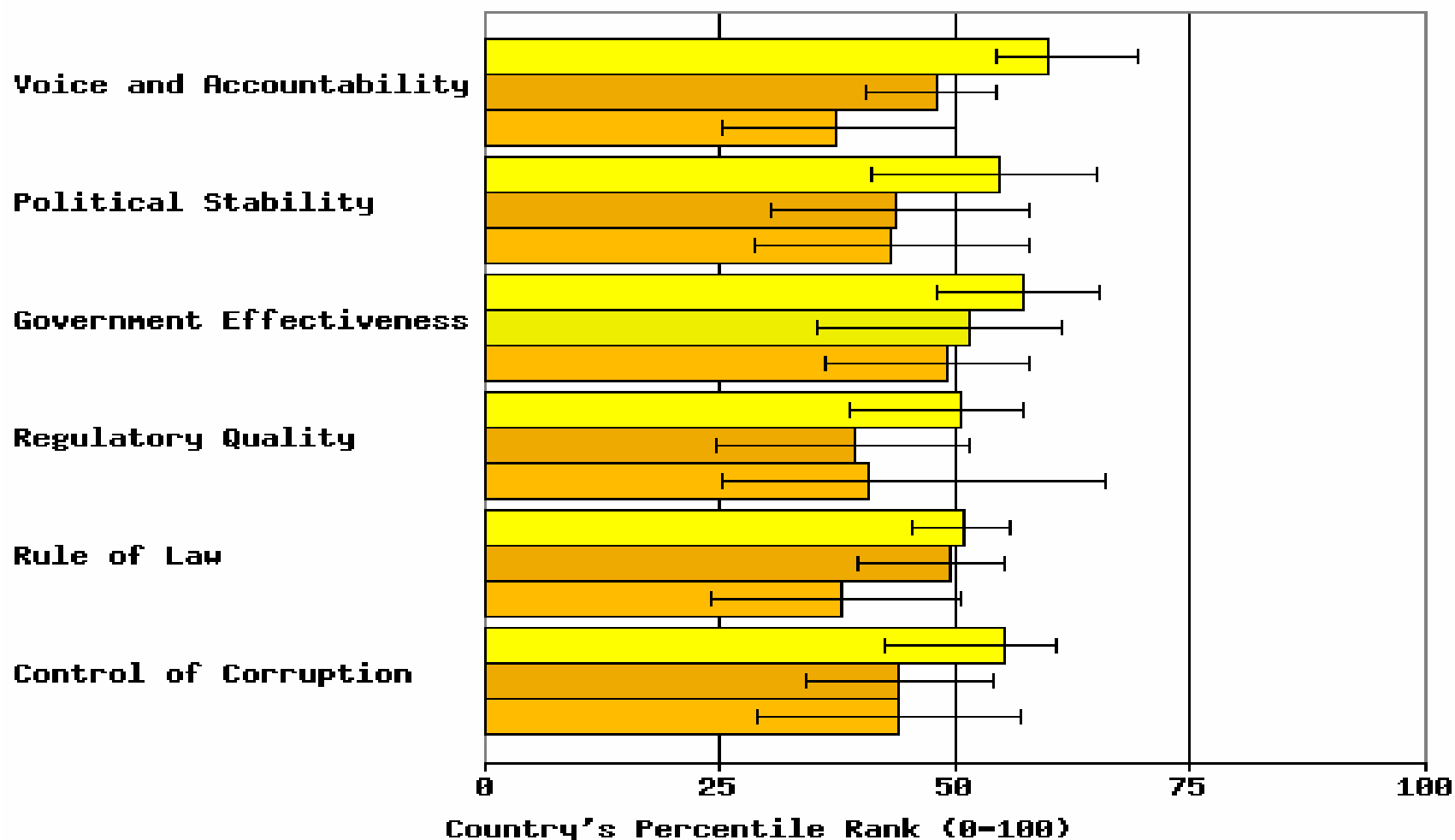


Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2007: Governance Matters VI: Governance Indicators for 1996-2006

# Governance Indicators for Ghana, 1998-2006

## GHANA

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



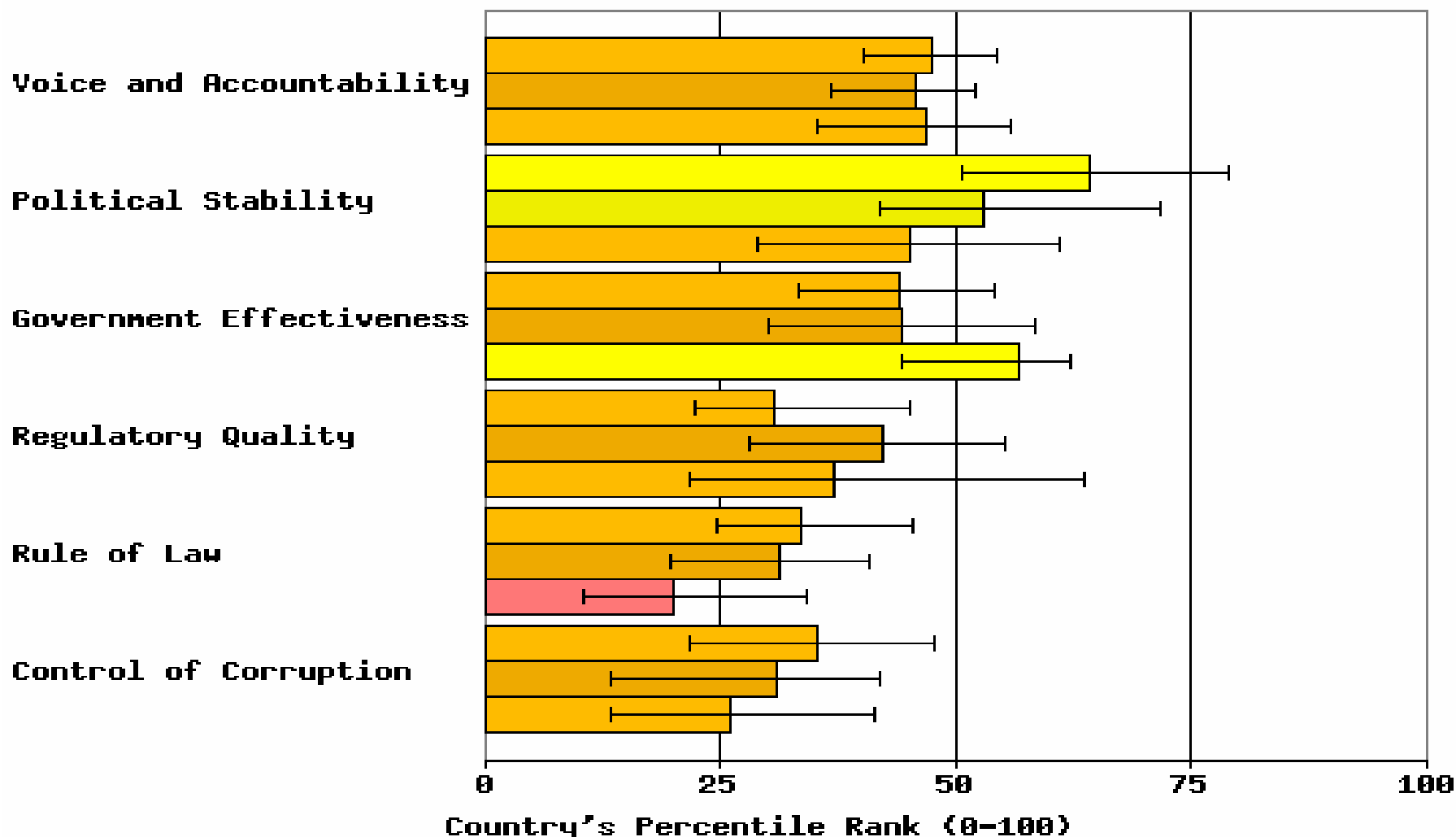
Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2007: Governance Matters VI: Governance Indicators for 1996-2006

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# Governance Indicators for Mozambique, 1998-2006

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



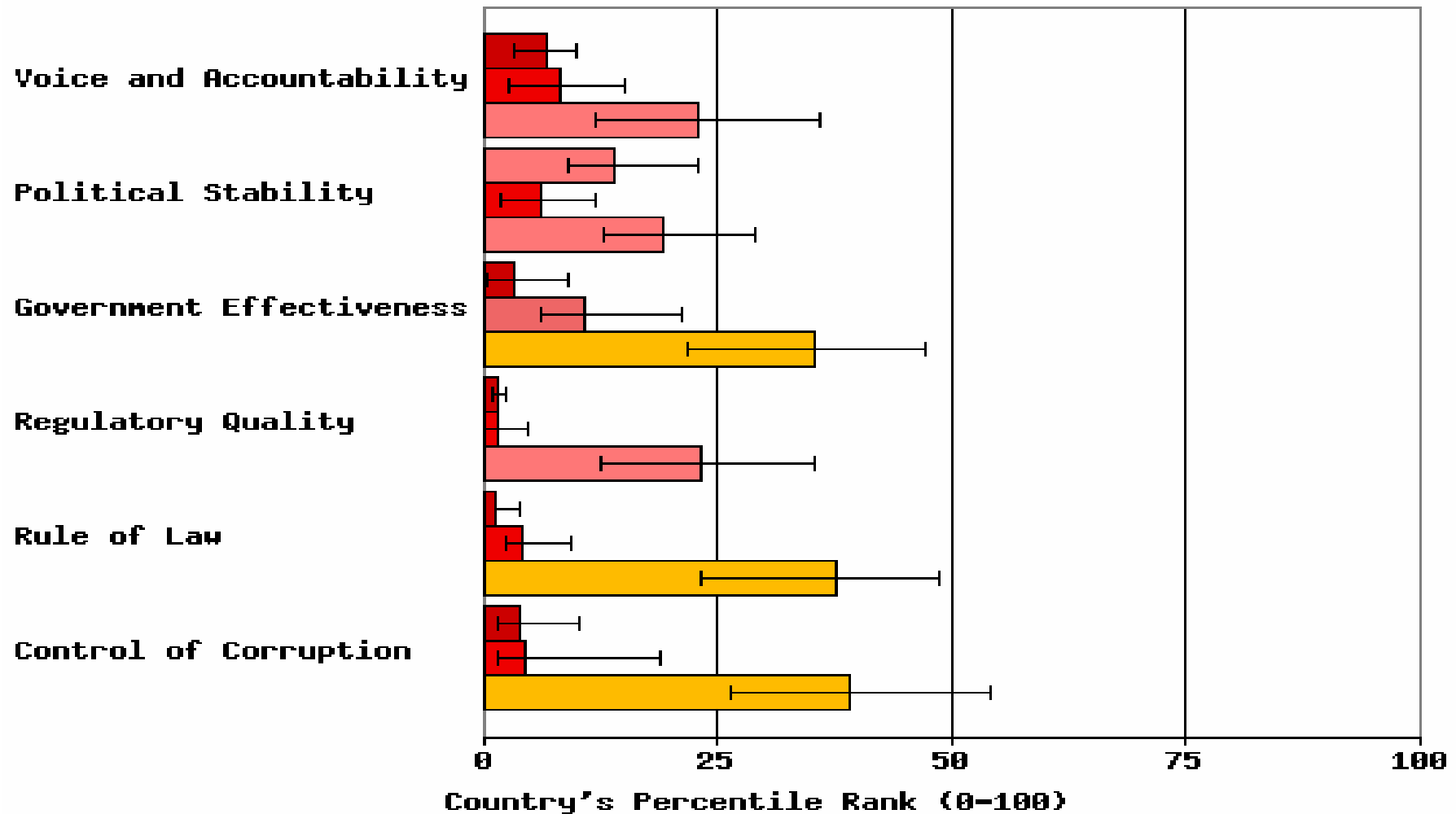
Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2007: Governance Matters VI: Governance Indicators for 1996-2006

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# Governance Indicators for Zimbabwe, 1998-2006

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

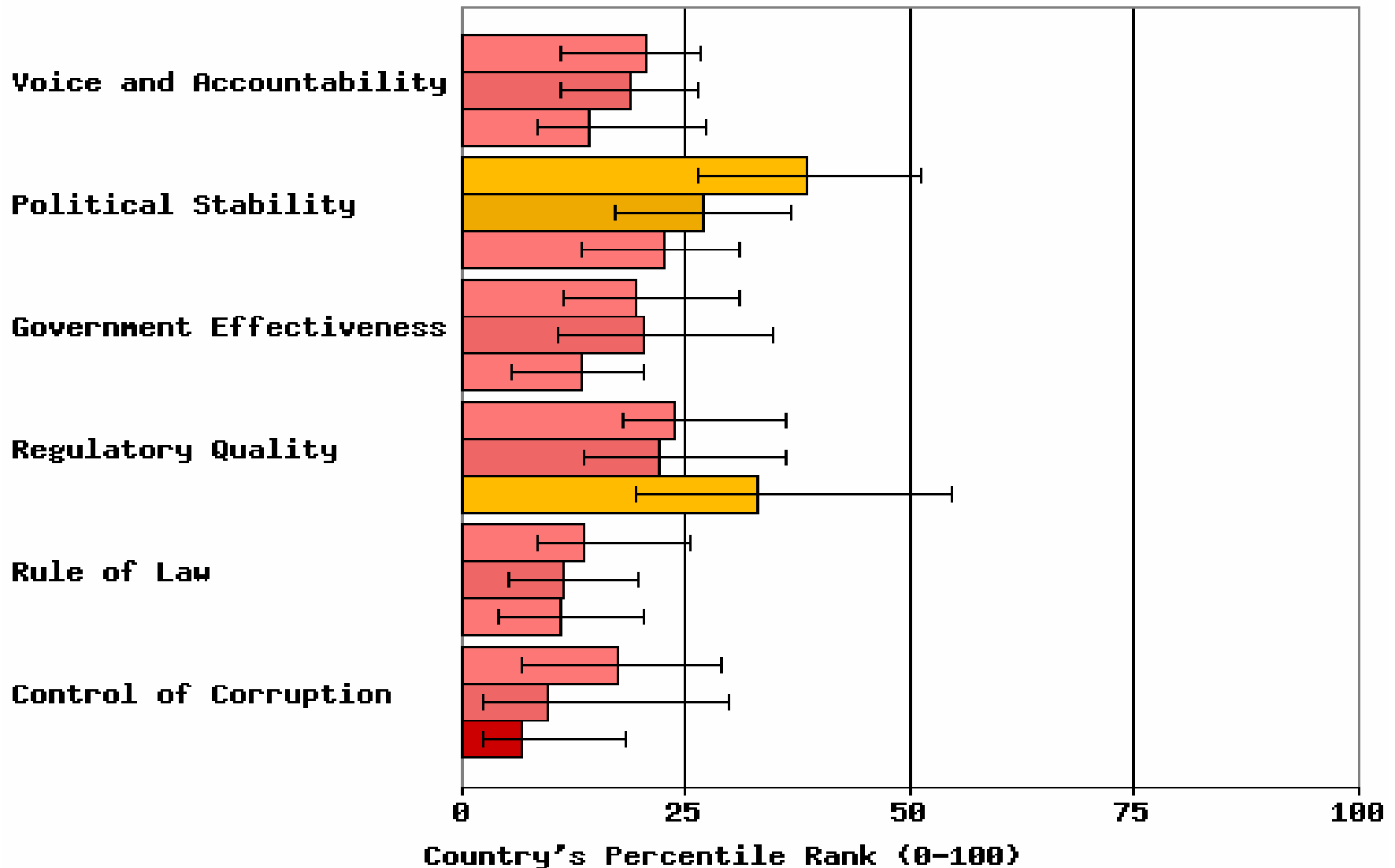


Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2007: Governance Matters VI: Governance Indicators for 1996-2006

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# Governance Indicators for Cameroon, 1998-2006

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



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**Careful about generalizations, because of enormous Variance, at many levels...**

**Already observed:**

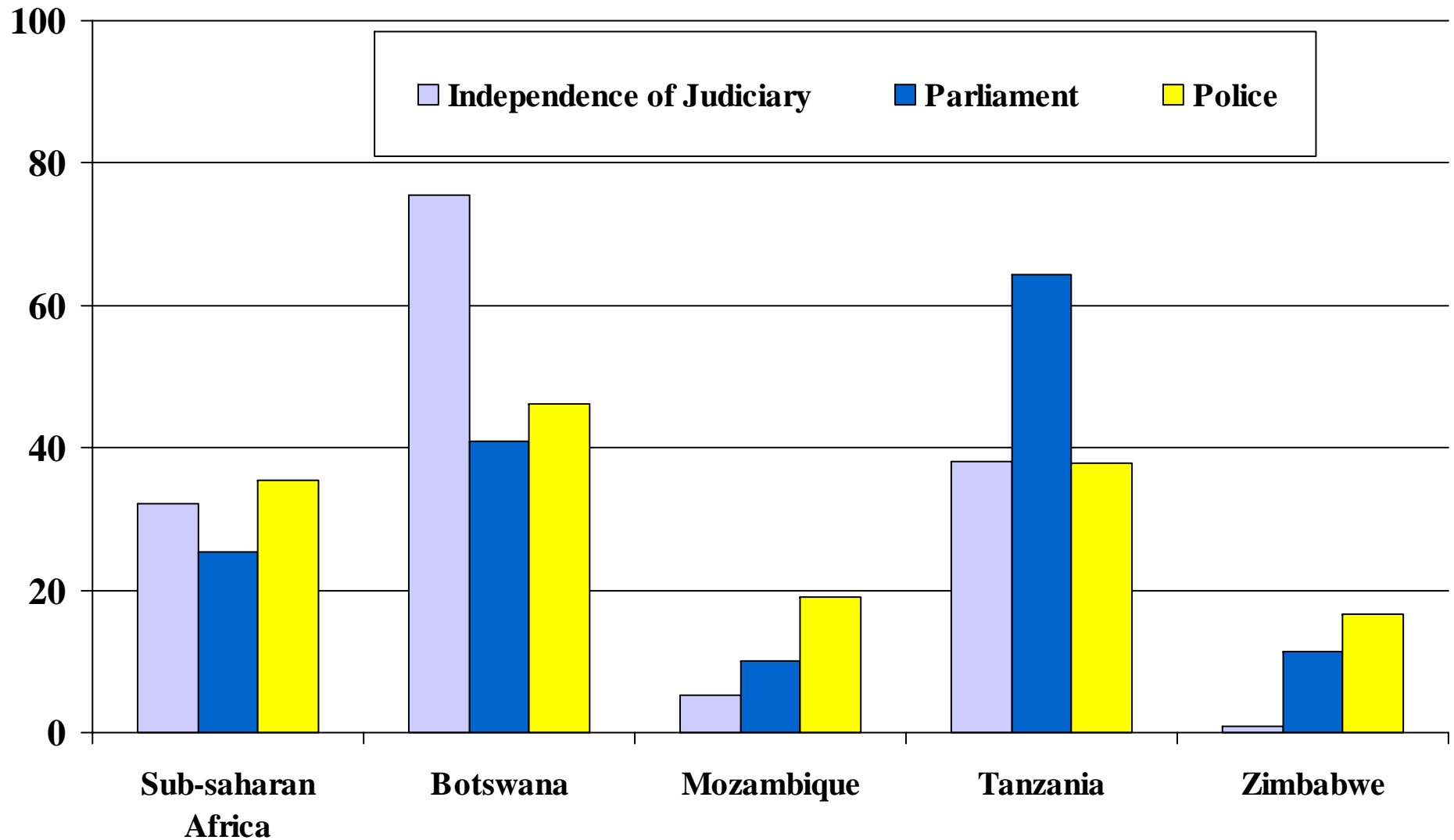
- Variance across countries in Africa**
- Variance over time**
- Variance across different dimensions of Governance within the same country**

**Now:**

- Variance across different institutions within the same country**
- Variance across different manifestations of bribery, of types of corruption...**

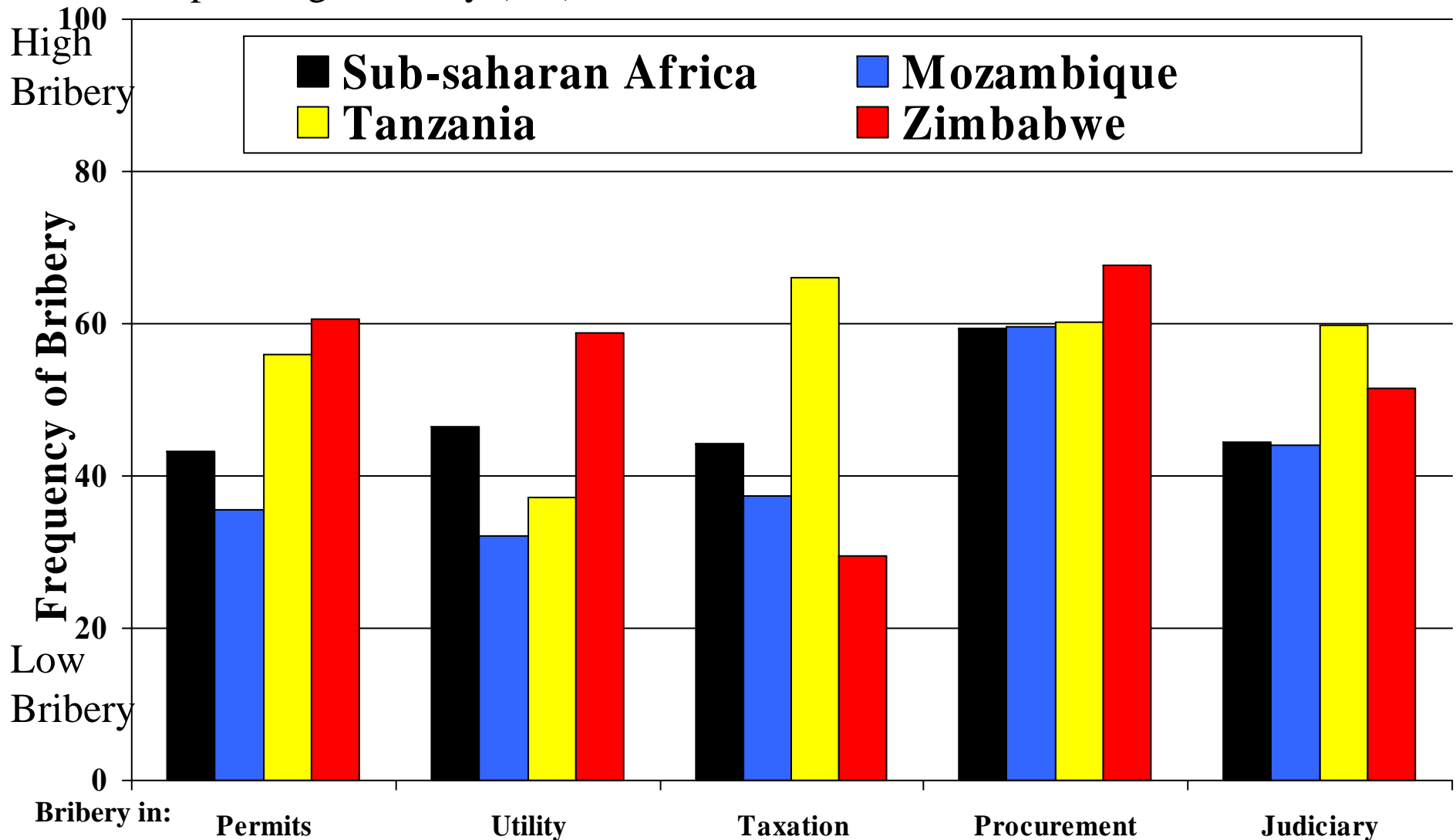
# Quality of Institutions, 2006

% Firms reporting satisfactory quality



# Unbundling Different Manifestations of Bribery, EOS 2006

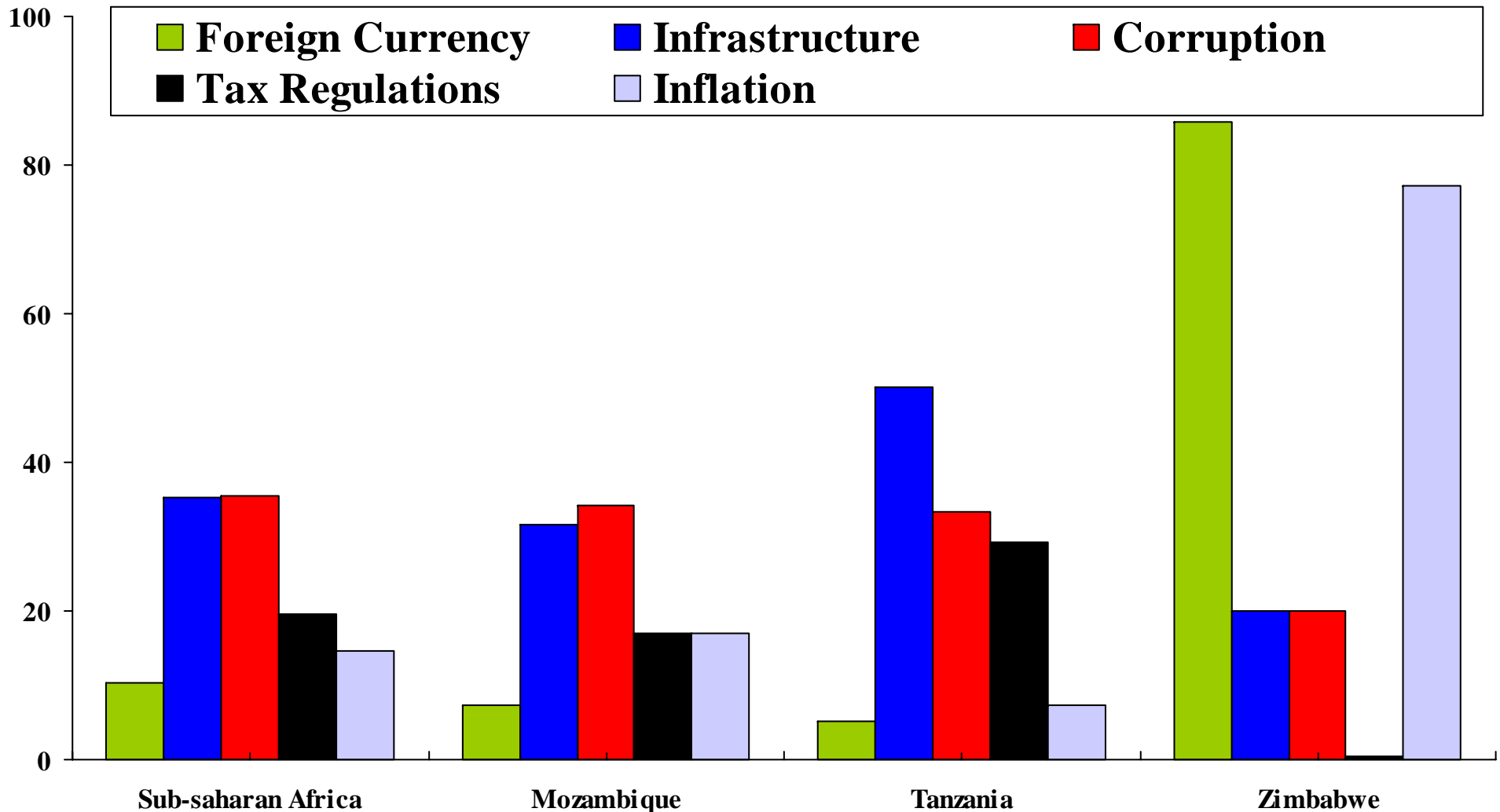
% Firm Report High Bribery (1-3)



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?

# Top Constraints to Business, *EOS 2006*

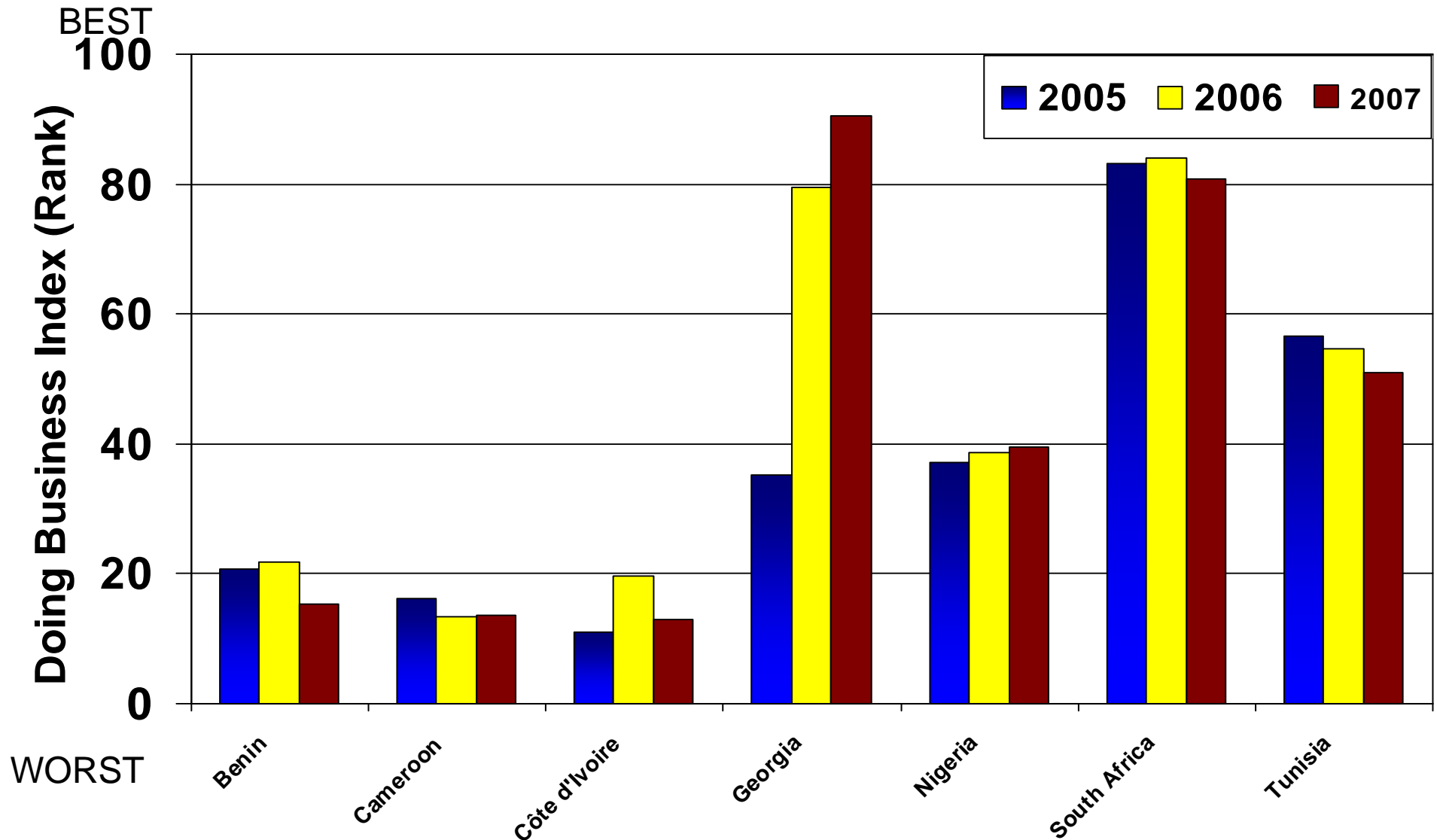
% firms reporting constraint among top 3:



36

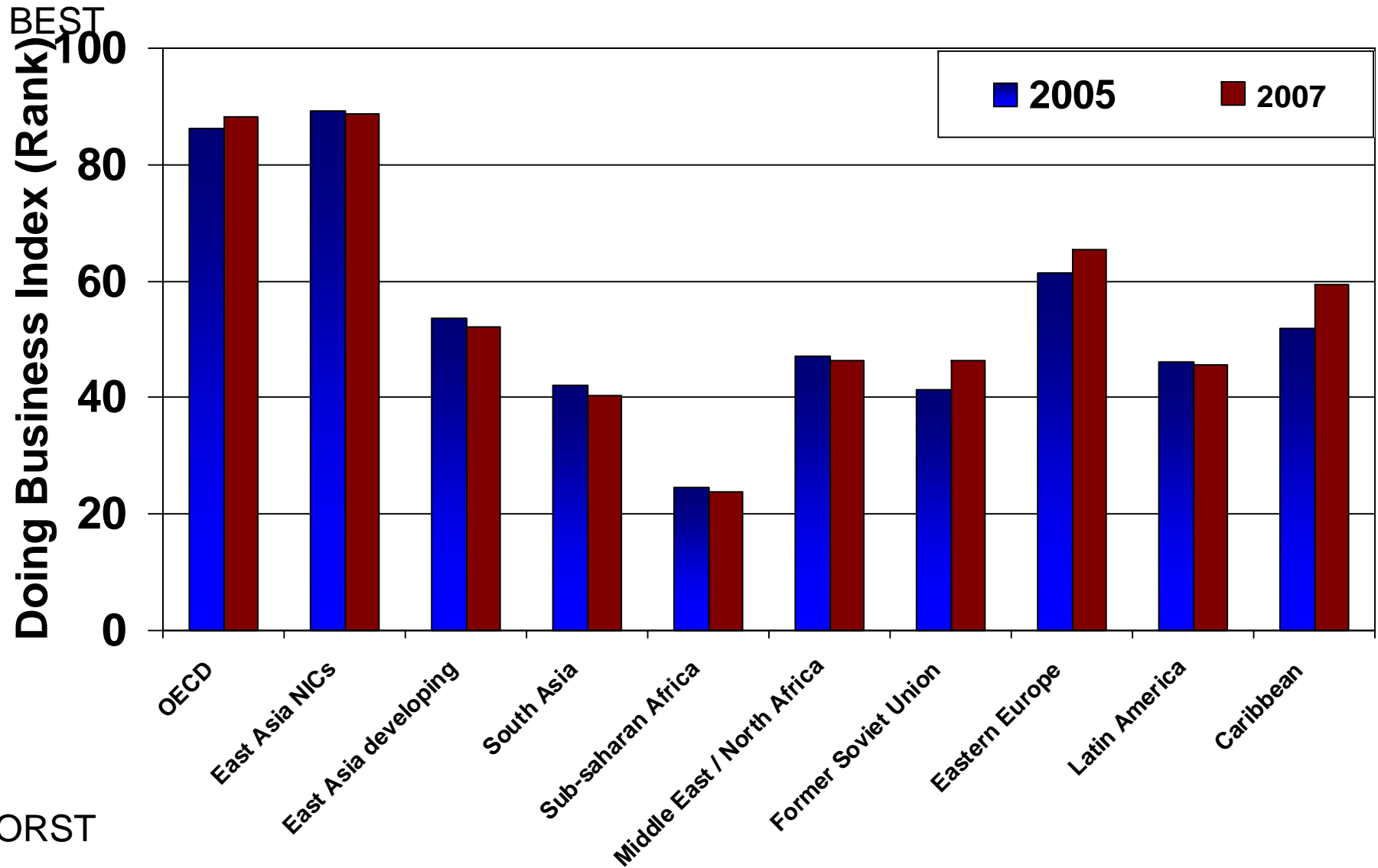
Source: EOS 2006. The question posed to the firm was: Select among the above 14 constraints the five most problematic factors for doing business in your country. Note that the overall EOS sample covers 125 countries.

# 'De Jure': Index of Doing Business



Source for data: Doing Business, 2005-2007. The Index is an average across 10 indicators: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contract, and closing a business.

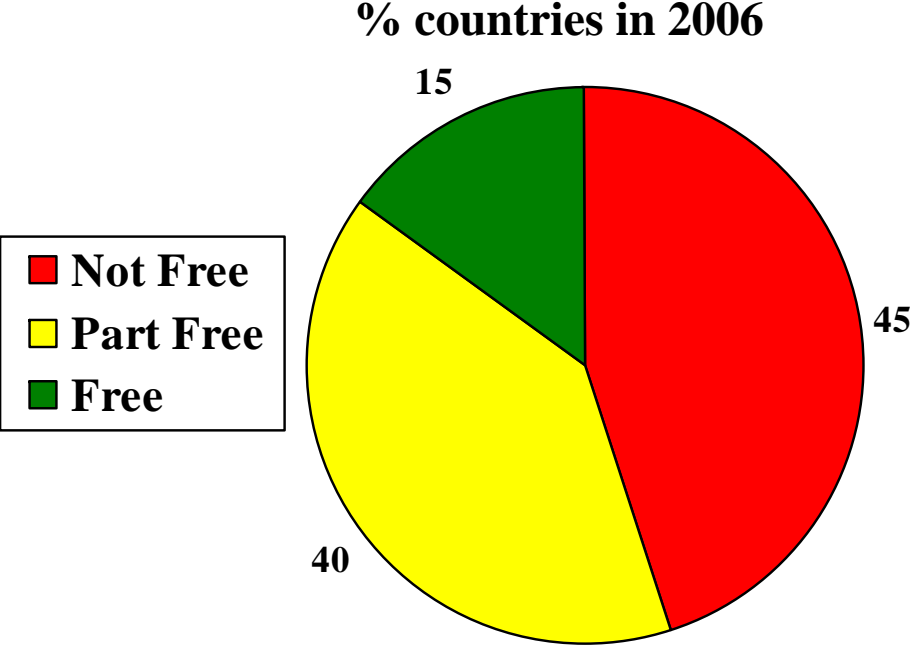
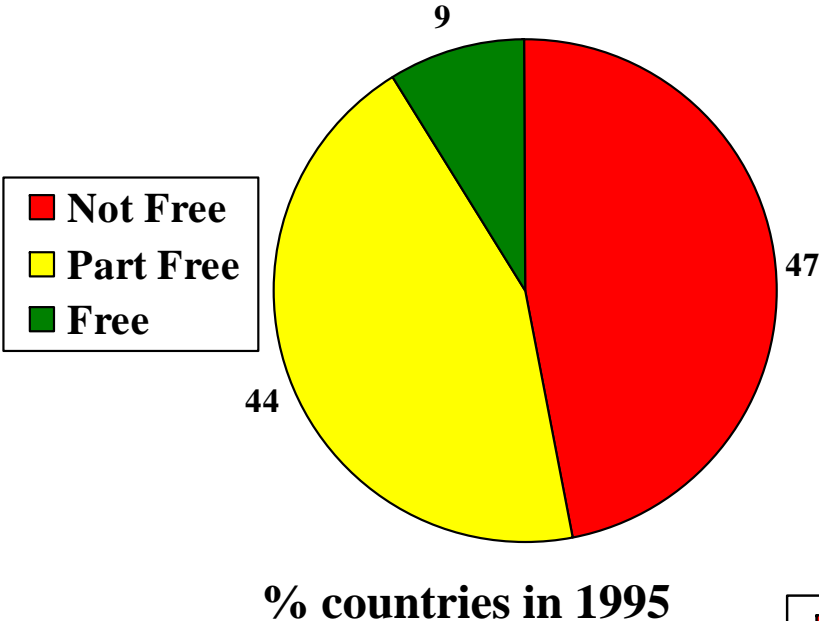
# 'De Jure' Index of Doing Business



WORST

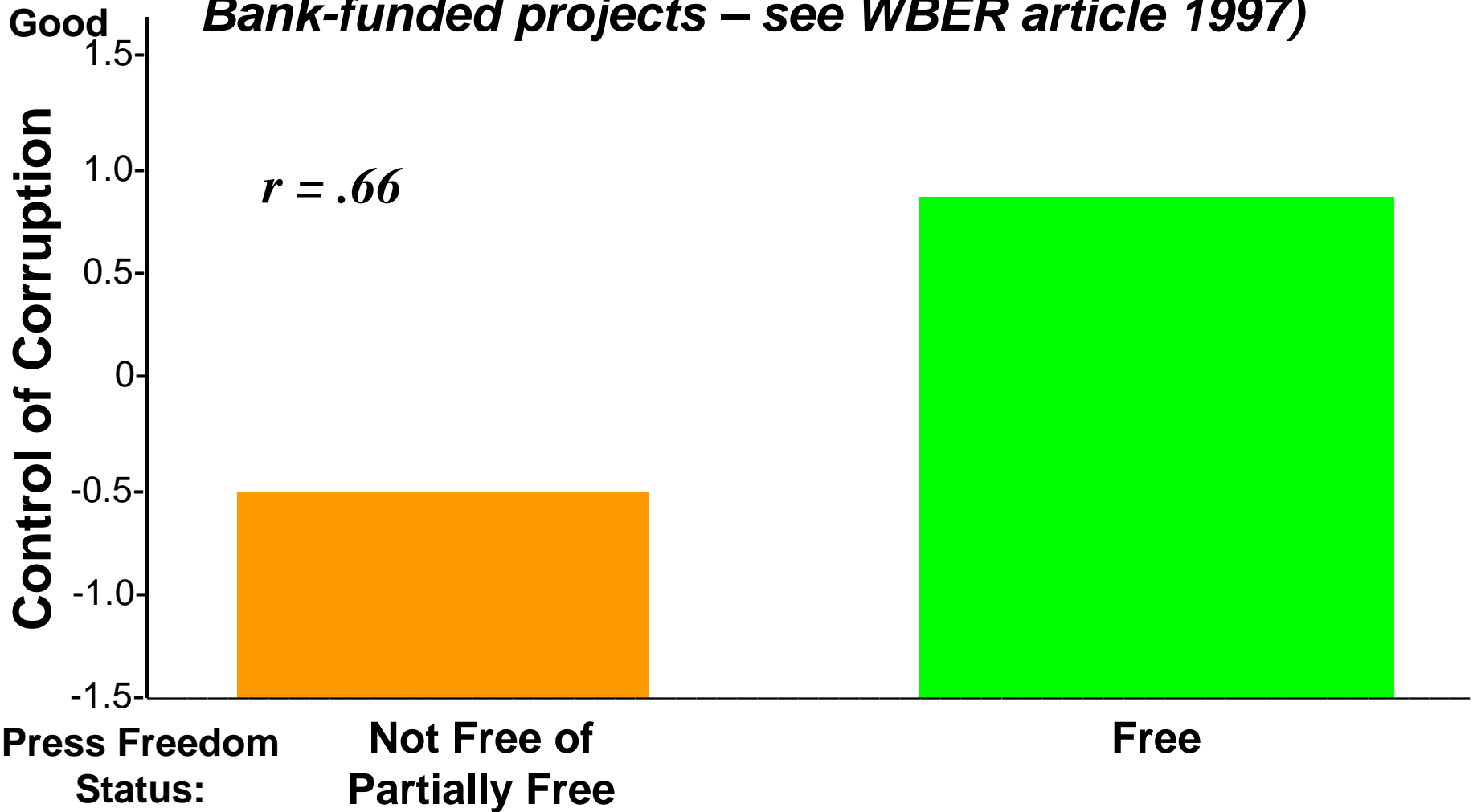
Source for data: Doing Business, 2005-2007. The Index is an average across 10 indicators: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contract, and closing a business.

# Press Freedom (FRH) in Sub-Saharan Africa, 1995 vs. 2006



Source: 2006 Freedom House. Y axis measures percentage of countries in the region with free press (rating of 30 or below), partly free (ratings between 30 and 60) and not free (rating above 60). In 1995 there were 45 countries divided into red (21), yellow (20) and green (4). In 2006 there were 47 countries divided into red (21), yellow (19) and green (7).

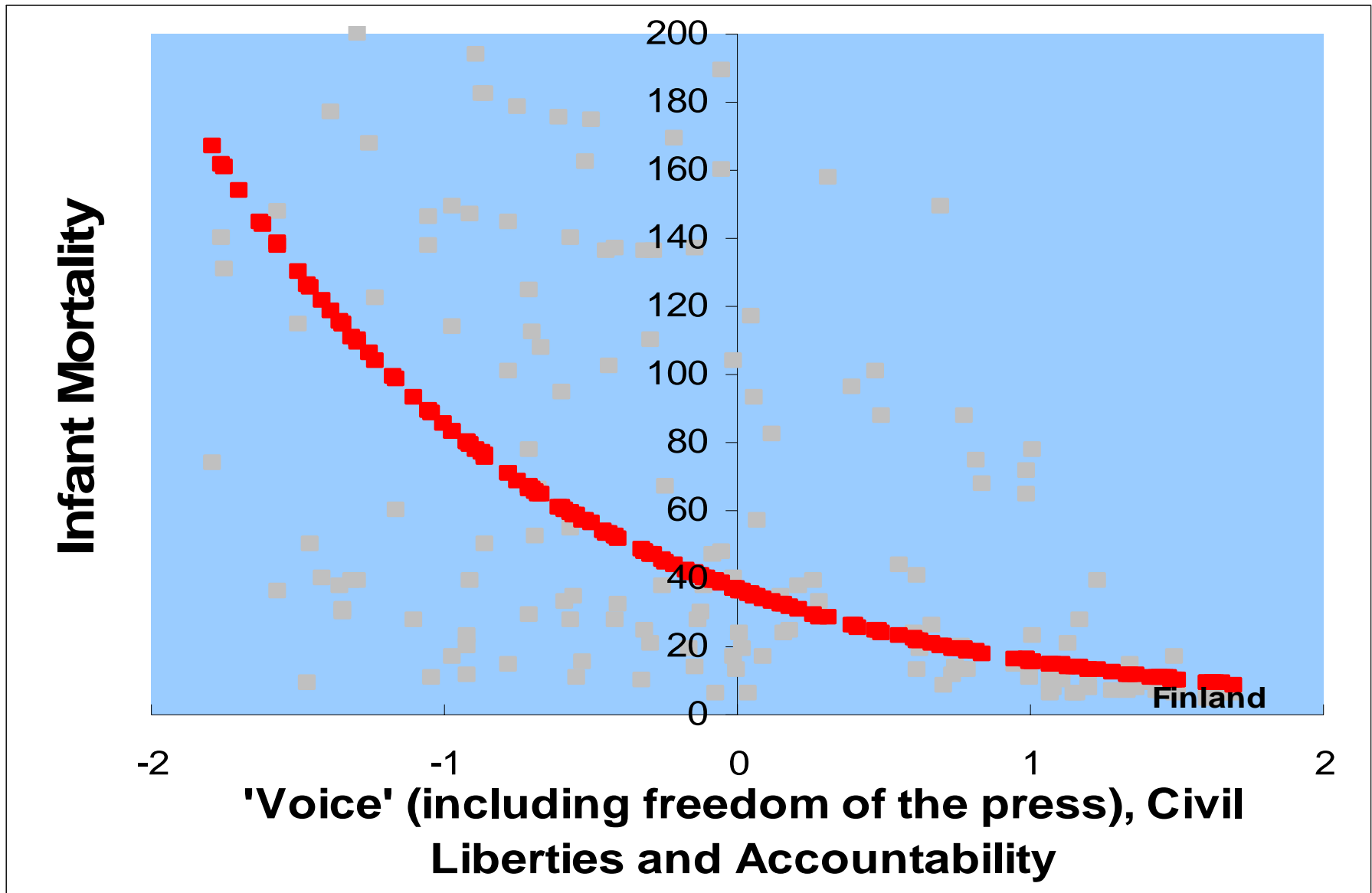
# Freedom of the Press is associated with better Control of Corruption *(& civil liberties more generally is associated with better performance of World Bank-funded projects – see WBER article 1997)*



Source for control of corruption: : 'Governance Matters V: Governance Indicators for 1996-2005', D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006 (<http://www.govindicators.org/>). Source for Press Freedom: 2006 Freedom House's Press Freedom Report. Terciles divided according to Press Freedom ratings (190 countries total). Free: 0-30 (69); Partly Free: 31-60 (54); Not Free: 61-100 (67).



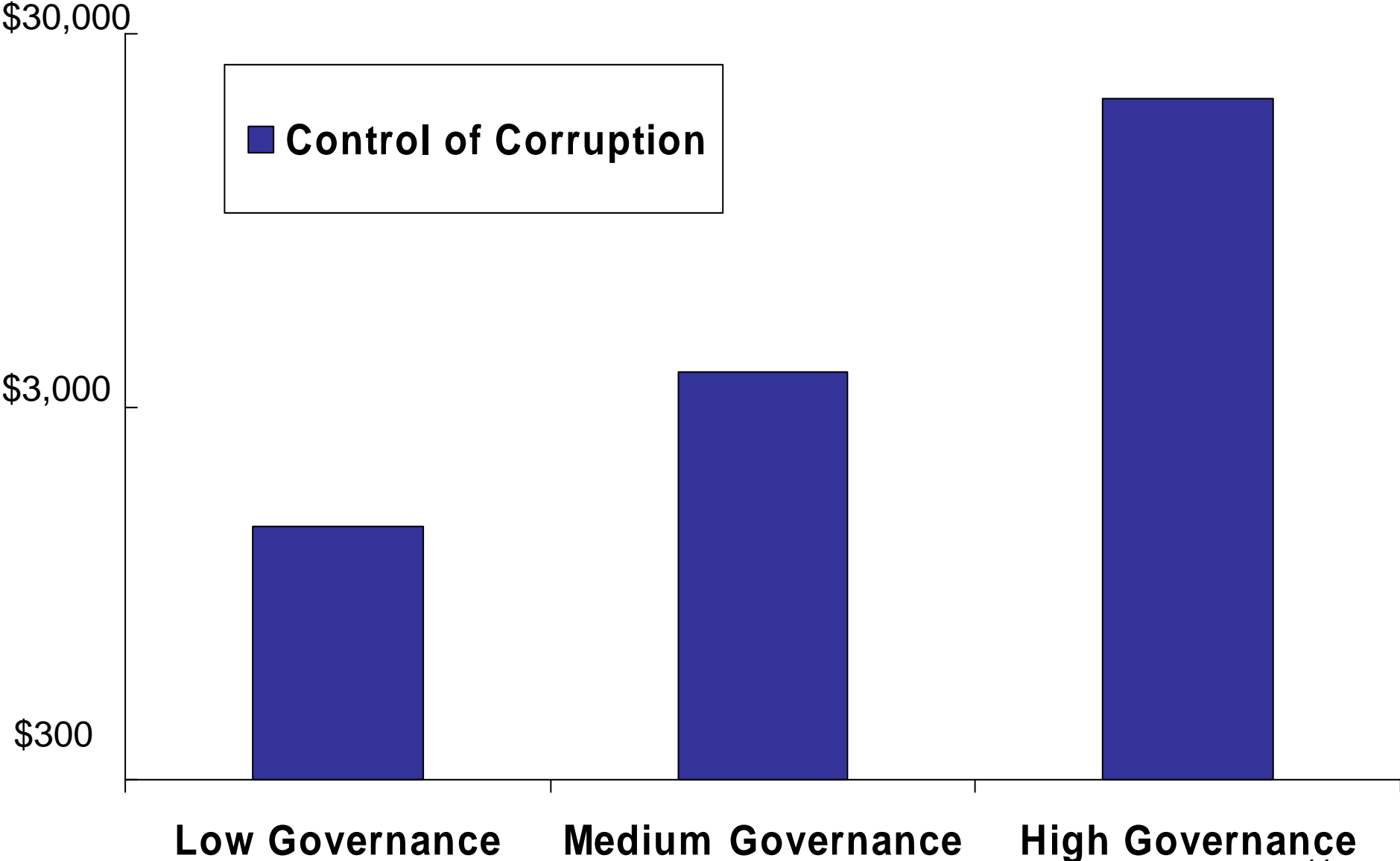
# Voice & Accountability Matters for Development



# Governance Matters: The 300% 'Dividend'

1. Large Development Dividend of Good Governance: *a one-standard-deviation improvement in governance raise incomes per capita in a country by about 300% in long-run*
2. But is such a decline in corruption unrealistically large?: NO -- *One S.D. is the difference from: Eq. Guinea → Iran or Uganda → Mauritius → Portugal → Finland or New Zealand*
3. The impact is from governance to incomes, and not vice versa -- *higher incomes alone will not do*
4. Urgency of interventions to improve governance <sup>43</sup>

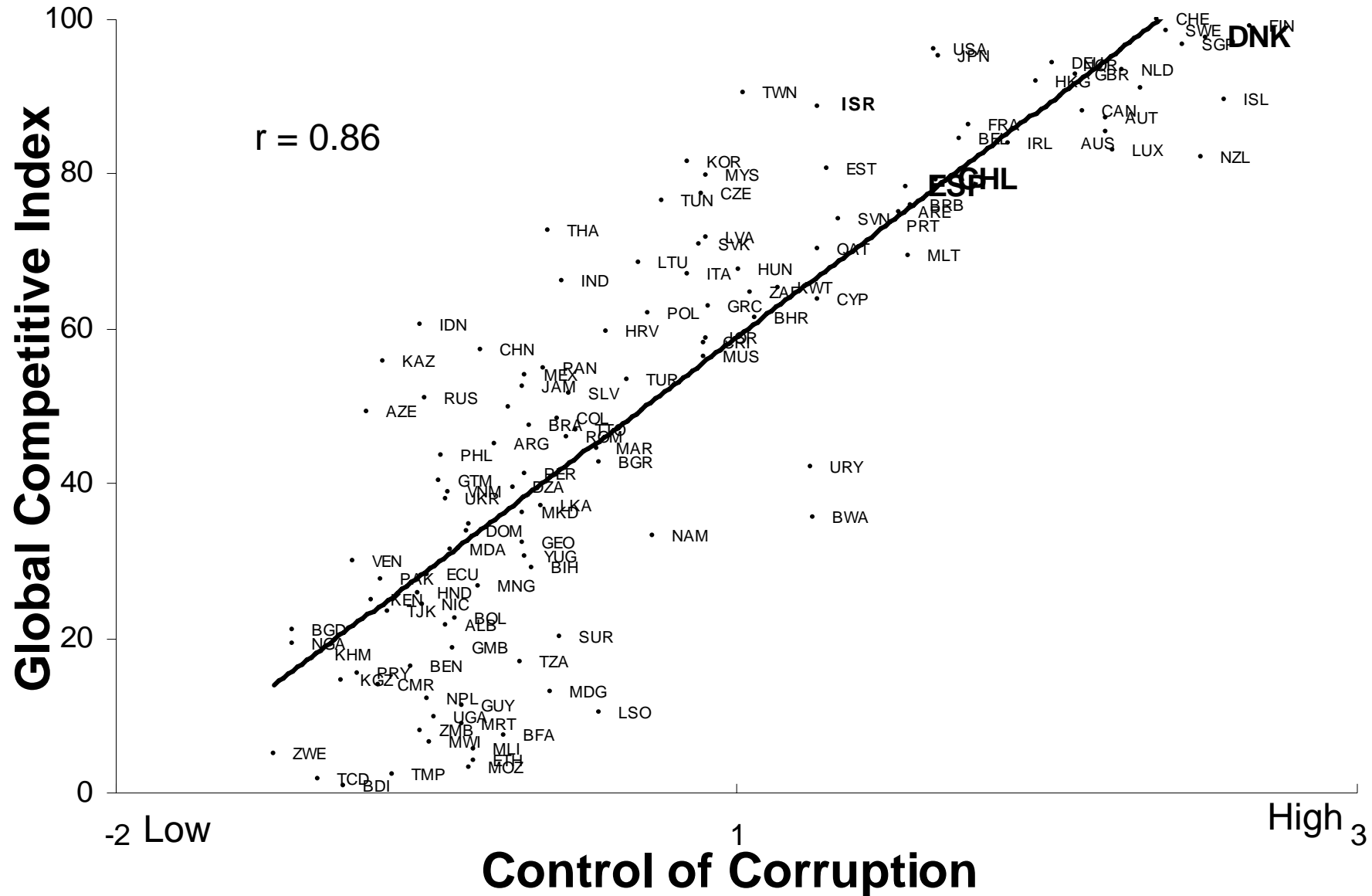
# Development Dividend From Good Governance



Data Source for calculations: KK 2004. Y-axis measures predicted GDP per capita on the basis of Instrumental Variable (IV) results for each of the 3 categories. Estimations based on various authors' studies, including Kaufmann and Kraay.

# Global Competitiveness Index vs. Control of Corruption, 2006

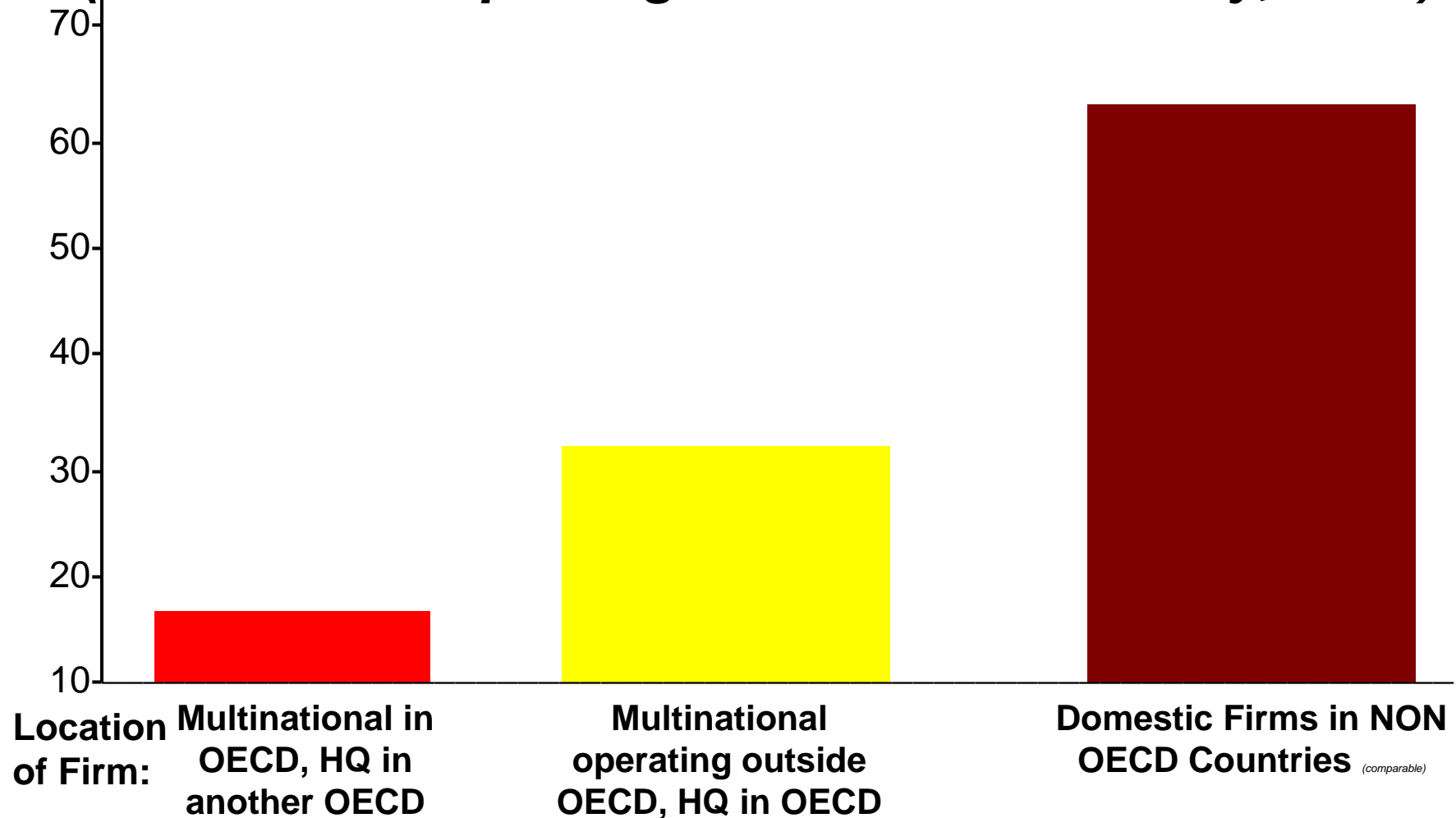
High



Source: EOS firm survey, WEF 2006 and 'Governance Matters VI: Governance Indicators for 1996-2006', D. Kaufmann, A. Kraay and M. Mastruzzi, July 2007 (<http://www.govindicators.org/>).

# 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.

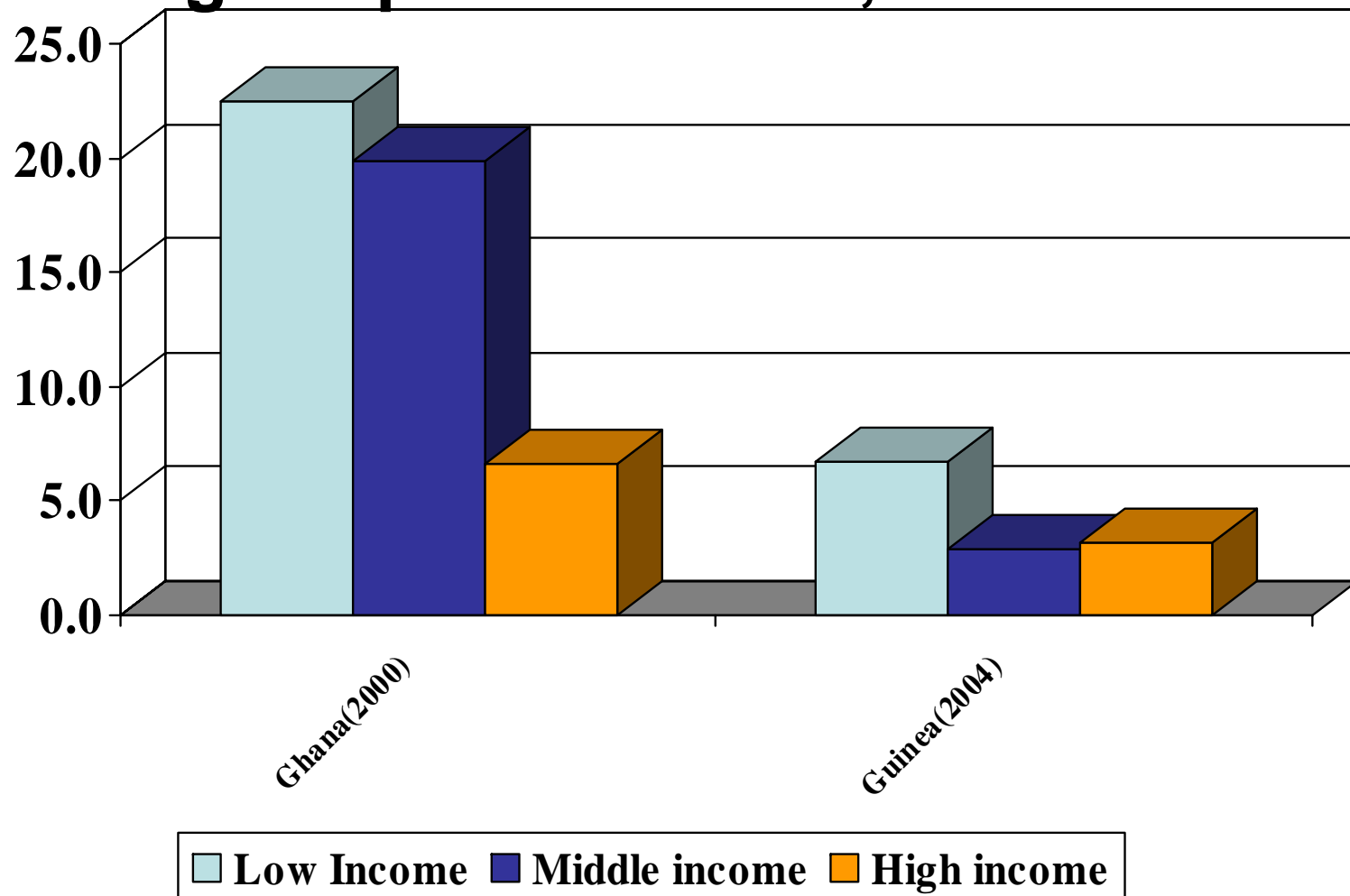
# Country-specific, in-depth Governance and Anti-Corruption diagnostic surveys

- **A demand-driven process to improve governance and build local capacity**
- **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 guidance from international experts
- **Outcomes: greater local capacity, baseline governance data, and action plan for policy reform**

# **The power of diagnostic data and key dimensions for analysis**

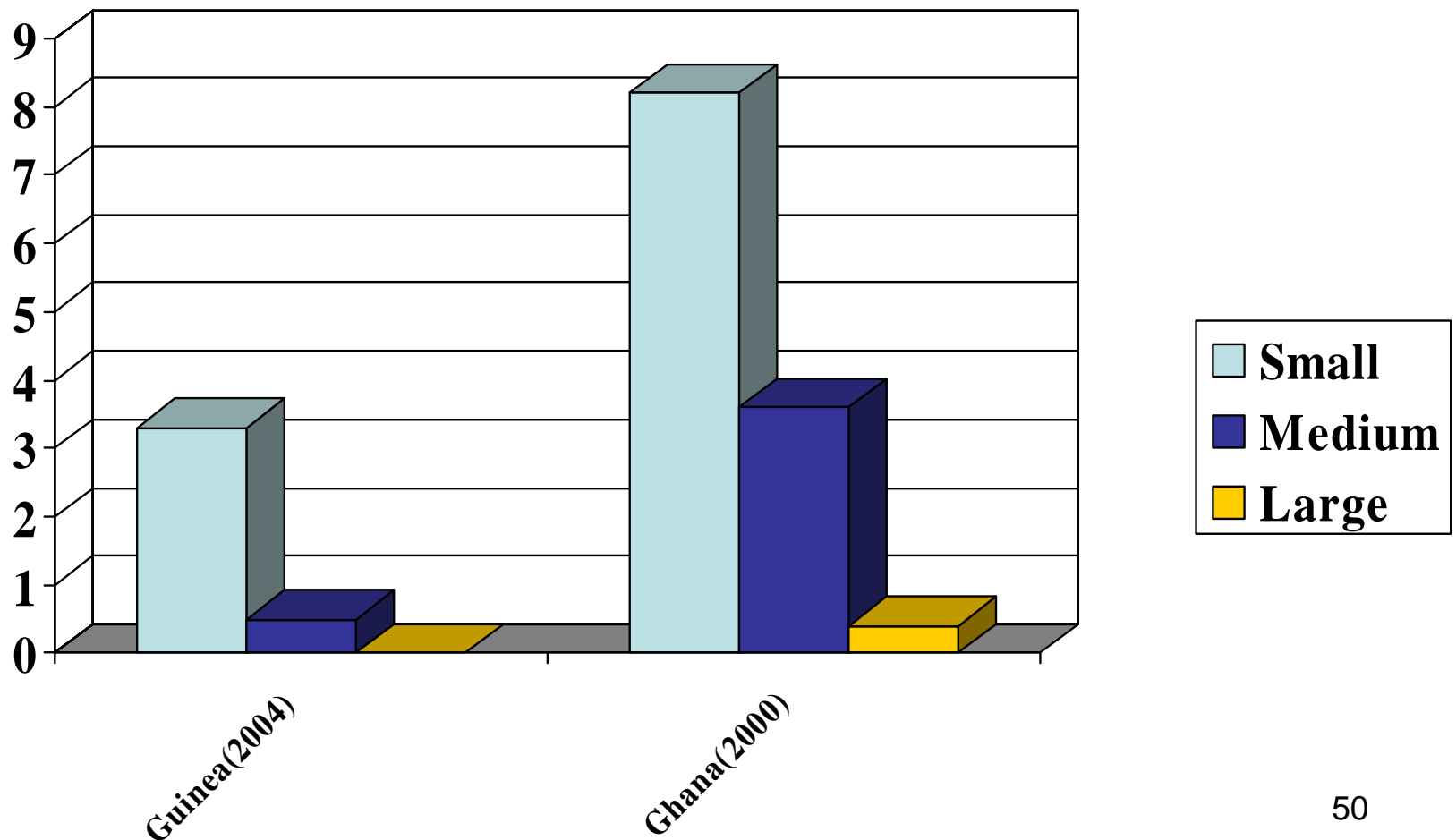
- 1. Participatory and Transparency Tool, for all stakeholders within the country to be involved**
- 2. ‘Unpackage’ corruption – administrative, state capture, bidding, theft of public resources, purchase of licenses**
- 3. Identify weak and strong institutions**
- 4. Assess the costs of corruption on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

# Corruption penalizes especially the poorest citizens (% of monthly income paid for bribes as reported by households who sought a public service, 2000-2005)



# 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, Mnes 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.

# **Country Diagnostics: a few salient lessons**

- **Governance and A-C (GAC) diagnosticc affect the policy debate and serve as an input in the design of a National A-C Strategy**
- **Transparency and public dissemination of the results are key**
- **The approach must be participatory at each stage of the process**
- **To unbundle corruption and institutional weaknesses allows to identify key areas for reform**
- **Quality control and use of rigorous analytical methods enhance the credibility of the results**

# Synthesis

- **Governance and Corruption Control is fundamental for Development and Growth**
- **Data, Analysis, and formulation of action programs: all very important.. Also lessons from others, but...**
- **Concrete Reforms and country leadership is key**
- **World Bank & rich countries can (and do) assist countries in governance reforms, *capacity building, supporting civil society, media, etc. (incl. StAR)***
- **But international community only plays supportive role – the country leads (executive, legislative, civil society, media, private sector, competitiveness...)**
- **Key: Political, Judiciary & Procurement Reforms**
- **Role of the Private Sector and Multinationals**
- **Transparency, Voice, Press Freedom are key**

# Concretely: 10 Transparency Reform Components

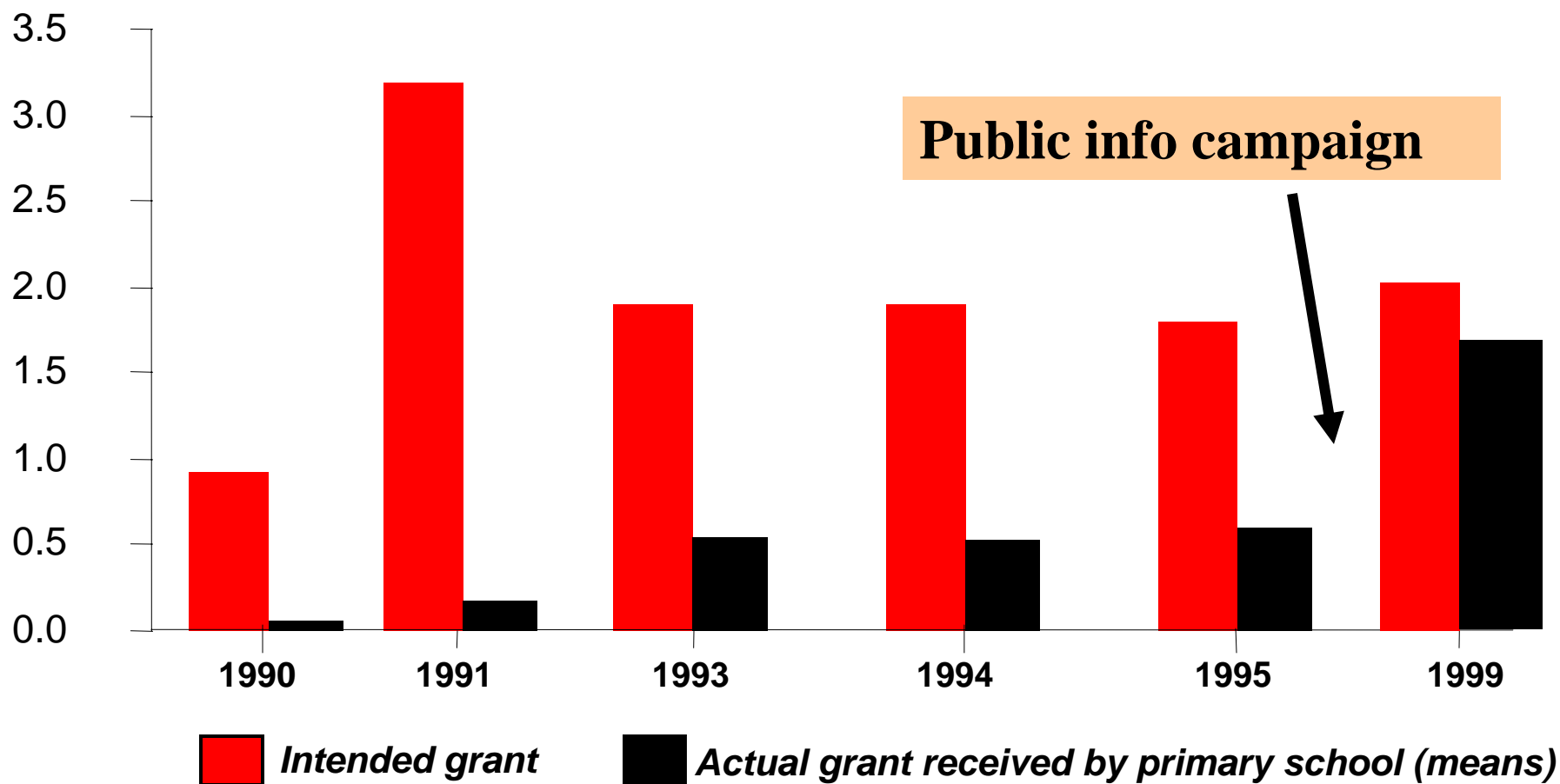
1. Public Disclosure of Assets & Incomes of Candidates, Public Officials, Politicians, Legislators - & *dependents*
2. Public Disclosure of Political Campaign contributions by individuals and firms, and of campaign expenditures
3. Public Disclosure of Parliamentary Votes, *w/out exceptions*
4. Effective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

And GAC, and StAR...

# Power of Data, Transparency and Citizen Oversight

## Tracking Education spending in Uganda

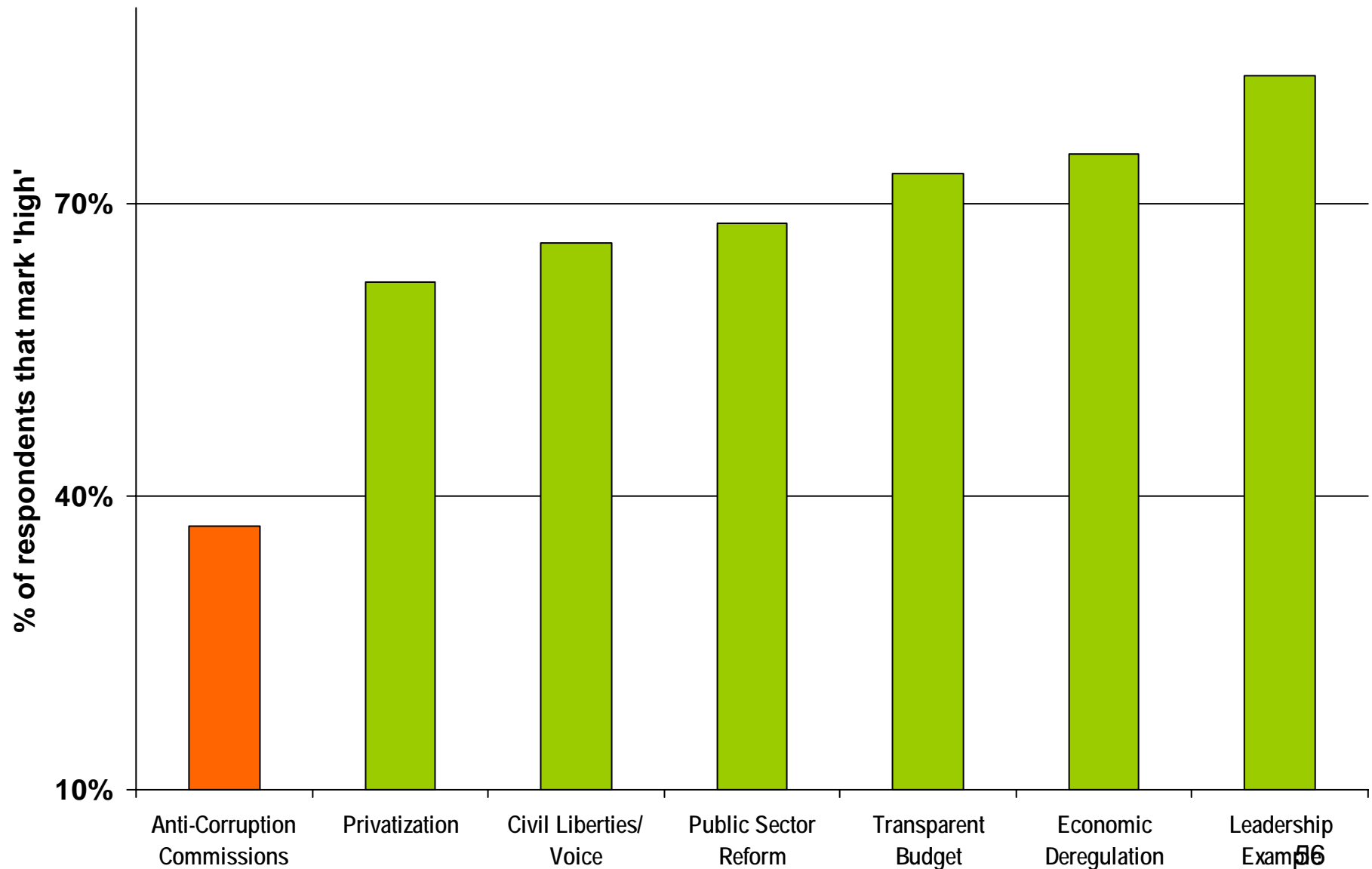
*equiv. US\$ per student*



Source: Uganda Public Expenditure Tracking Surveys

# Most effective Anticorruption Measures?

*Responses from Officials and Leaders in 62 countries*



Source: D. Kaufmann, 'Corruption: The Facts', *Foreign Policy*, Summer, 1997

# **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 author. This presentation draws from collaboration and inputs from Aart Kray and Massimo Mastruzzi as well as staff from the Africa region.*

**Further materials & access to interactive data:**

**General:** [www.worldbank.org/wbi/governance](http://www.worldbank.org/wbi/governance)

**Data:** [www.govindicators.org](http://www.govindicators.org)