CHAPTER 1

Economic governance institutions, corruption and structural transformation
The main challenge for African countries remains how to sustain positive socioeconomic outcomes that are resulting from the structural transformation processes. Three main conclusions emerge from this chapter. First, although a number of requisites are important to achieve structural transformation in African countries, good governance still holds a central place. Indeed, the Africa-owned Agenda 2063 clearly reaffirms that “Africa shall be a continent where democratic values, culture, practices, universal principles of human rights, ... justice and the rule of law are entrenched” (African Union Commission, 2015). Second, in assessing the magnitude of corruption in Africa, far more attention should be given to decision-making processes and their implementation. The institutional perspective is critical, as highlighted in Agenda 2063, which states that “Africa shall also have capable institutions and transformative leadership in place at all levels. Corruption and impunity will be a thing of the past”. Third, in order to maintain its positive structural transformation trajectory, Africa needs to maintain good governance and build robust governance institutions, not only to combat corruption, but also to accelerate and sustain its efforts towards social and economic development.

A. Overview of structural transformation in Africa

Understanding structural transformation

Structural transformation is increasingly being embraced by African countries to guide their development plans and help fulfil their visions for prosperous societies. In addition to being placed at the centre of development aspirations on the continent, Agenda 2063 reaffirms the commitment of member States to strengthen structural transformation. As a concept, structural transformation is not new in development literature. It is commonly defined as the change in the composition of GDP, such that the manufacturing and services sectors have a progressively larger contribution than agriculture, to growth (ECA and African Union, 2011). Structural transformation also implies a shift in the use of factors of production, as labour is moved from low productivity (agriculture) to high productivity sectors (industry, including agro-industry). According to McMillan and Rodrik (2011, p. 1), “countries that manage to pull out of poverty and get richer are those that are able to diversify away from agriculture and other traditional products. As labour and other resources move away from agriculture into modern economic activities, overall productivity rises and incomes expand”.

During the 1960s, the primary sector accounted for the largest share of Africa’s GDP, but by the turn of the twenty-first century this share had fallen by about 20 percentage points (African Development Bank and others, 2013). The 2013 African Economic Outlook highlights that certain countries enjoyed structural changes in their economies from 2000 onwards. While there are a few success stories (see box 1), the translation of the paradigm into reality has been slow and limited, as a number of countries have not been able to sustain growth, and demonstrate people-centred inclusive development. The reason is because there is a lack of economic diversification, especially in countries that are overdependent on natural resource extraction, and which are therefore vulnerable to external shocks, including volatile global commodity prices.

Structural transformation is increasingly being embraced by African countries to guide their development plans and help fulfil their vision for prosperous societies.

Notwithstanding the slow decline in the agricultural sector’s contribution to GDP, there has nonetheless been an increasing contribution by the services sector to GDP in many African countries (see figure 1). Growth in the services sector offers input into other sectors and also offers a credible option for economic transformation. For instance, infrastructure services, including energy, telecommunications and transport, are essential for firms to be competitive. On the other hand, social services, including health care, education, water and sanitation, are critical to social development and the building of a healthy and well-trained workforce (ECA and African Union, 2015).
Box 1

AFRICAN STRUCTURAL TRANSFORMATION SUCCESS STORIES

Post-apartheid South Africa has shown strong patterns of structural change in its economy. In terms of the country’s GDP composition, services account for an estimated 65 per cent and its industrial sector accounts for 31.6 per cent. South Africa has a robust mixed economy, which includes mining, manufacturing, food processing, clothing and telecommunications. Since 2009, the State-owned Industrial Development Corporation has approved more than $45 billion in funding to the industrial sector for projects in agro-processing, automobile, steel and engineering. South Africa has taken advantage of its domestic mining industry to initiate development of its own local technological expertise. In this regard, it is now recognized as a net exporter of equipment and specialist services.

Mauritius continues to be a commonly cited success story, with the island moving from a low-income to a middle-income country. Structural change in Mauritius has been led by a highly productive services sector. The Mauritian economy is highly diversified and its industrial and services sectors account for 95.4 per cent of GDP composition. Mauritius has also been able to develop and expand its tertiary sector. The island’s transformation has been backed by robust institutions, such as the Mauritius Export Development and Investment Authority and the Export Processing Zone Authority. These institutions ensure competitiveness, stability and re-investment of export earnings into productive sectors.

Source: Compiled by ECA staff from various sources.

Figure 1

TRENDS IN GROSS DOMESTIC PRODUCT SECTORAL COMPOSITION (PERCENTAGE)

Source: United Nations Department for Economic and Social Affairs (UNstats), 2015.
Countries with special needs and in special situations, most of which are in Africa, are especially placed to benefit from well-formulated and effectively implemented structural transformation agendas. For small island developing States and landlocked developing countries, whose unfavourable geographic location and inadequate composition of natural endowments make manufacturing a less viable path for development, a developed services sector becomes an important policy priority. Even in least developed countries, an expansion of the services sector is evidence of an improvement in the countries’ productive capacity which, as a development multiplier, can allow countries to produce efficiently and competitively, thus helping to intensify the pace of structural transformation.

8 Africa is home to the majority of the so-called “least developed countries”, with 34 of the 48. Many small island developing States and landlocked developing countries are a subset of least developed countries.

9 In Lesotho and Botswana, services value added was, respectively, 62 per cent and 60 per cent GDP in 2014 (ECA and African Union, 2015).

The importance of changing the structure of an economy, and its ultimate impact on human well-being, has been widely debated in the development economics literature. The two-sector model by Lewis (1955) highlighted that underemployed labour from the agriculture sector should be released to the industrial sector, since this would generate revenue. In Conditions of Economic Progress (1957), Clark focused on three sectors (agriculture, manufacturing and services), whose contribution to growth changes as an economy moves from a traditional State to a modern industrial one. Kuznets (1966) remains one of the most popular references – Modern Economic Growth: Rate, Structure and Spread – when discussing structural transformation. According to Kuznets, although modern economic growth imperatively entails significant structural changes in an economy, there cannot be a one-size-fits-all transformation.

Drawing attention to the need for countries to play a central role in defining and determining their path and priorities for structural transformation is therefore an imperative for development planning. This is because there are differences among countries, notably in terms

Figure 2
REAL GROSS DOMESTIC PRODUCT PER SUBREGION FOLLOWING THE GLOBAL CRISIS

Source: United Nations Department for Economic and Social Affairs (UNstats), 2015.
of history, culture and the pace of development. Thus, African countries should structurally transform their economies at their own pace and not simply replicate what is presented as best practices.

Relevance of structural transformation for Africa’s growth and development

While there are opportunities and favourable conditions to optimize positive outcomes, sustaining structural transformation remains a challenge for many African countries. Overall economic performance in the region has been positive in recent years, notwithstanding the unevenness across regions (see figure 2). In addition, volatility in global commodity markets is becoming an emerging challenge.

The continent has been growing at a rate of at least 5 per cent over the past 15 years, second only to the East and South Asia region. Some of the fastest growing countries in the world are African countries, including Angola and Ethiopia; this growth is projected at 4.5 per cent in 2015, and 4.8 per cent in 2016, even while accounting for weakening commodity prices and uncertainty in the global economy (ECA and African Union, 2015). This growth is driven by a number of factors: private consumption and investment, increased consumer confidence, an expanding middle class and urbanization, which have led to greater domestic demand. Increased investments are being driven by improved business environments and lower costs of doing business in several countries, including Côte d’Ivoire, Ghana, Kenya, Mauritius, Rwanda and the United Republic of Tanzania. The impressive GDP growth rates have also been possible through progress in economic management, gains in private sector development, as well as increased focus on financing in public infrastructure. Moreover, the continent has been able to demonstrate its resilience with a fairly quick growth recovery in each subregion following the 2008 global crisis (see figure 2).

However, these gains are under threat from the effects of external shocks, such as declining commodity prices in global markets and political instability. In 2015, countries including Burundi, South Sudan, the Central African Republic and Nigeria remained vulnerable to insecurity and political strife. The effects of falling commodity prices are already being felt in countries such as Zambia that depend on primary products for foreign exchange and revenue.

Countries with special needs and in special situations, most of which are in Africa, are especially placed to benefit from well-formulated and effectively implemented structural transformation agendas.

Poor economic performance undermines the quality of economic development, making it difficult to finance other areas of the economy, including inclusive social and sustainable human development. Trends in social performance indicate that there have not been inclusive and sustainable outcomes, as structural transformation has not had far-reaching effects throughout economies. According to the 2015 Millennium Development Goals report, Assessing progress in Africa toward the Millennium Development Goals, only three out of the eight Goals are on track—universal primary education; gender equality and the empowerment of women; and combating HIV/AIDS, malaria and other diseases (ECA and others, 2015, pp. 79 and 80). Significant gaps remain and Africa’s progress in reducing poverty has been slower compared to that of other developing regions.

Achievement of full and productive employment and decent work remains a challenge as a majority of the labour force, especially women and young people, remain in vulnerable employment. Excluding North Africa, Africa also remains the most food deficient of all regions of the world, with 805 million people still chronically undernourished. Although there has been some progress towards the achievement of universal primary education, completion rates remain a challenge. Africa, excluding North Africa, continues to record the lowest youth literacy rates, with more girls unable to read than boys, thus weakening gender equality and the empowerment of women. Under-five mortality rates remain the highest, with the continent accounting for
almost half of all child deaths globally and also registering the highest maternal mortality ratio globally. Widening income inequality is worsening efforts to reduce poverty and also perpetuating geographical and regional divides. It is against this backdrop that in recent years there has been consensus in Africa that countries must restructure their economies to reach a significant improvement in the quality of their growth.

Financing of productive capacity is also being threatened, weakening aspirations for infrastructure development, which is a catalyst for the continent’s structural transformation. Developments in infrastructure have the ability to include people and connect economies. The continent’s pervasive infrastructure deficit thus short-changes the ability for technological innovations to contribute to social and economic development. Steps are now being taken through expansion of information and communications technology, transport and communication infrastructure; maximization of energy capacity, including renewables; and modernization of water and sanitation systems. Projects such as the Trans-Africa Highway, the African High Speed Rail Network, the Grand Inga Dam and the Pan-African e-Network are a few concrete examples of action-oriented initiatives that are being put in place.

In order to prevent fragility and vulnerability to slowdowns resulting from internal and external shocks, and also sustain economic recovery, the 2014 edition of the Economic Report on Africa, which is produced annually by ECA, calls for the prioritization of economic diversification for countries that are dependent on single primary commodities (ECA and African Union, 2014) and the adoption of prudent economic and governance policies that are conducive to the enhancement of productive activities.

Explaining trends in Africa’s structural transformation

Structural transformation of African economies has been much slower than for other developing countries, especially those in Latin America and East Asia (ECA and African Union, 2014). This is due to the inability of African markets to attract the labour force to sectors with the highest productivity. The literature on Africa highlights that during the 1960s, labour productivity increased as labour moved out of agriculture to the manufacturing sector, then between the 1970s and 1990s there was a decline in productivity. This was followed by labour moving out of the agricultural sector overtime (see figure 3).

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**Figure 3**

REAL GROSS DOMESTIC PRODUCT PER SUBSECTOR FOLLOWING THE GLOBAL CRISIS

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industries</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>73%</td>
<td>9%</td>
<td>18%</td>
</tr>
<tr>
<td>2010</td>
<td>50%</td>
<td>13%</td>
<td>37%</td>
</tr>
</tbody>
</table>

There has also been an increasing migration of labour from the agriculture sectors to the informal sectors, since in many countries the manufacturing and services sectors have been unable to absorb the labour. Policymakers thus need to ensure that labour markets are creating opportunities for high-productivity employment, and policymaking should also be geared towards increasing the supply of high-quality and productive jobs. It is equally critical for African countries to promote business environments that are conducive to private sector development, in order to provide job opportunities.

B. Good governance as a requisite for Africa’s structural transformation

Although a number of requisites are important to achieve structural transformation, the application and practice of principles of good governance has a central place as it defines the interaction between actors of the public sector and those within other sectors. Interestingly, several studies have shown that there is a “messy dependence of economic growth on the good governance level” (Engjell, 2015, p.38). This is applicable to many African countries (see figure 4). While the graph on regulatory quality confirms the positive correlation between this dimension of governance and GDP growth, the graph on public management indicates that there is a negative correlation with GDP growth. In concrete terms, this means that economic growth improves with good regulatory frameworks. Figure 4 also demonstrates that different aspects of governance in African countries adjust with different time lags on economic growth. Accordingly, governance needs to be unbundled by policymakers to adequately assess the effects of the different components on growth.

Given the complexity surrounding governance, it is not a concept that can easily be defined and this confirms the fact that there is yet to be consensus on one precise definition. From the perspective of ECA, good governance embraces the following dimensions: political representativeness, institutional effectiveness and robust economic management. The first dimension relates to qualitative and quantitative aspects of representation; the second one implies institutional capacity and efficacy, and the last one relates to the efficiency and credibility of economic systems (Adejumobi, 2002). According to the World Bank (Kaufmann, Kraay and Mastruzzi, 2010, p. 4), governance relates to:

Traditions and institutions by which authority in a country is exercised for the common good. This includes: the process by which those in
authority are selected, monitored and replaced; the capacity of the Government to effectively manage its resources and implement sound policies; and the respect of citizens and the State for the institutions that govern economic and social interactions amongst them.

The African Development Bank (2014, p. 5), on the other hand, in its 2014–2018 Governance Strategic Framework, defines governance as being “accountable and responsive Governments and institutions capable of driving inclusive and sustainable growth”. Governance, in the end, is concerned with how public institutions conduct public affairs through their decision-making and how they manage resources in the process.

Even if the term “good governance” is a fairly new concept in the development lexicon, it has strong implications for Africa’s successful implementation of its structural transformation agenda. The 1990s was a time when international organizations such as the United Nations highlighted that most of the socio-economic and political crises in developing countries were the result of weak governance. The concept of good governance places emphasis on transparency, accountability, participation and institutional reforms. Good governance implies creating political and economic processes that are conducive to sustainable economic development. A country with good governance is transparent, accountable and safeguards the rule of law, whilst ensuring that the concerns of the most disadvantaged are prioritized in the State’s decision-making processes.

The debate around good governance has motivated policymakers and international organizations to define the principles necessary for its actualization. The

**Box 2**

**PRINCIPLES OF GOOD GOVERNANCE OF THE UNITED NATIONS DEVELOPMENT PROGRAMME**

**Rule of law**: A fair legal system with laws, regulations and codes that are enforced impartially. This includes the obligation of the State to fully protect human rights, particularly those of the disadvantaged and vulnerable groups. In this regard, it is imperative for the State to ensure that the rule of law is administered fairly and that access to information of procedural rights is accessible.

**Equity and inclusiveness**: All the population must have opportunities to improve their well-being.

**Participation**: Inclusion of both men and women in the society is a vital element of good governance. This can happen through legitimate and transparent institutions.

**Consensus**: The State needs to facilitate and mediate to ensure that differing interests are taken into account to ensure an overall consensus. This process of consensus building generally involves collaboration rather than compromise.

**Effectiveness and efficiency**: Institutions and processes should fulfil the needs of populations, while making effective use of resources.

**Transparency**: This implies that information is freely accessible to the public. It promotes openness in decision-making processes.

**Accountability**: This is one of the strongest principles of good governance, in both the public and private sectors.

**Responsiveness**: Public institutions, notably those focusing on public service delivery, must serve all stakeholders in a timely manner.

*Source: United Nations Development Programme (1997).*
United Nations Development Programme is one of the pioneers in defining such principles, as presented in its 1997 policy document, *Governance for Sustainable Human Development*. These principles have become universally accepted as the pillars of good governance (see box 2).

In the African context, the definitions and principles of governance were first set out in the African Union’s New Economic Partnership for Africa’s Development (NEPAD) strategy, in 2003. The NEPAD strategy highlights that the pre-conditions for development in Africa include peace, security and political governance; and economic and corporate governance, focusing on public financial management. With the advent of Agenda 2063, African countries have demonstrated a resounding commitment to pursue the implementation of good governance. Indeed, out of the seven aspirations of Agenda 2063, one is “An Africa of good governance, democracy, and respect for human rights, justice and the rule of law” (African Union Commission, 2015).

**Recent trends in governance performance in Africa**

Notwithstanding the gains achieved over the past few years, evidence in 2015 shows stalling progress in overall governance performance, threatening the very foundation and also efficacy of one of the drivers of structural transformation. According to the Ibrahim Index of African Governance, which was created in 2007 and publishes annual data, measuring and ranking the quality of governance in every African country, only 6 of the 54 countries have achieved progress in all four components of the Index (Botswana, Cabo Verde, Mauritius, Namibia, Seychelles and South Africa). However, the 2015 edition of the index shows that of the 10 countries that deteriorated the most between 2011 and 2014, 5 are previous top performers, including Botswana and Cabo Verde. The countries that have deteriorated the most in terms of overall governance performance are South Sudan, the Central African Republic, Mali, Guinea-Bissau and Libya.

**Figure 5**

**Changes in governance trends from 2009 to 2014, as per the Ibrahim Index of African Governance**

![Figure 5](image)

*Source: Ibrahim Index of African Governance (2014).*
The four pillars of this composite index, and the sub-categories for which data for indicators on governance are collected, are: safety and rule of law (rule of law, accountability, personal safety, national security); participation and human rights (participation, rights, gender); sustainable economic opportunity (public management, business environment, infrastructure, rural sector); and human development (welfare, education, health). Continent-wide, some improvements in overall performance have been made in 33 countries since 2011, facilitated by some gains in human development, and participation and human rights; there is, however, deterioration in safety and rule of law, and sustainable economic opportunities.

This stalling in performance is not representative of country-specific variations, where performance has been improving. In 2015, some countries that have not generally been associated with being good governance performers (including Côte d’Ivoire, Kenya, Madagascar, Morocco, Senegal, Togo, Tunisia and Zimbabwe), in addition to other countries (such as Ethiopia and Rwanda) are now being considered rising power houses for their commendable improved performance. African countries must maintain good levels of governance, onto which they can confidently anchor their structural transformation.

Good governance is a fundamental requisite to successfully achieve sustainable structural transformation. This is especially the case for Africa, where 38 out of 54 countries are natural-resource rich, depend on them for their income, and have, for the most part, been experiencing the resource curse. The paradox of plenty continues to afflict many of Africa’s resource-rich countries, whereby they perform worse than resource-poor countries. The resource curse manifests itself in different ways, including so-called Dutch disease and frequent boom and bust cycles due to revenue volatility. It also undermines both economic and political governance and can even trigger sociopolitical strife (e.g. blood diamonds in Liberia).

**Box 3**

**NATURAL RESOURCES GOVERNANCE INITIATIVES**

The **Extractive Industries Transparency Initiative** is a multi-stakeholder initiative involving multinational and State-owned companies, Governments, industry associations, international financial institutions and civil society organizations. Its objective is to improve governance in natural resource-based development. More specifically, it aims to increase transparency in the payments made by companies and the revenue received by Governments with respect to the exploitation of extractive resources (such as oil, gas and minerals). Under this initiative, Governments and private firms are expected to fully disclose their financial payments and receipts from the extractive sector. At present, 21 African countries have joined the initiative (Burkina Faso, Cameroon, Chad, the Congo, Côte d’Ivoire, Ethiopia, Ghana, Guinea, Liberia, Madagascar, Mali, Mauritania, Mozambique, the Niger, Nigeria, Sao Tome and Principe, Senegal, Sierra Leone, Togo, the United Republic of Tanzania and Zambia). Two countries have had their membership suspended (Central African Republic and the Democratic Republic of the Congo). Only three African member countries (Ghana, Liberia and Nigeria) have completed the validation process.

The **Kimberly Process Certification Scheme** was launched in May 2000, and aims to promote transparency and accountability in the diamond trade. It requires member States to certify that diamonds mined within their borders are conflict-free. Eleven African countries are members of the scheme, which has helped to reduce conflicts and civil wars and improve revenue in diamond-rich African countries.

The **Publish What You Pay** initiative was launched in 2002 by a coalition of civil societies. The initiative calls for “the mandatory disclosure of payments made by oil, gas and mining extractive companies to each national government”. By encouraging private firms to publish what they pay to Governments, it enables citizens in resource-rich countries to hold their Governments accountable. At present, 26 African countries have joined.

*Source: Compiled by ECA staff from various sources.*
Measuring corruption in Africa: The international dimension matters

Generally, African countries have made good progress towards improving the continent’s natural resource governance trajectory. At present, 17 African countries have been designated as compliant with the Extractive Industries Transparency Initiative, while 18 countries meet the minimum requirements of the Kimberly Process Certification Scheme (ECA and OECD, 2014). Twenty-six African countries have signed up to the Publish What You Pay initiative (see box 3).

In addition, in order to promote transparency and accountability, the continent has strived to establish specific frameworks for natural resources management. These include the African Union’s Declaration on Land Issues and Challenges in Africa, the Voluntary Guidelines on the Responsible Governance of Tenure and the Africa Mining Vision. Even with these milestones, implementation gaps are a major hurdle to Africa’s natural resources governance. These gaps should be examined because natural resources (including minerals) provide a significant potential for revenue generation, which is needed in order for the continent to carry out the structural transformation agenda. In 2011, resource-based and semi-processed goods accounted for about 80 per cent of African export products. Africa’s comparative advantage in natural resources can therefore form the basis by which structural transformation can be sustained on the continent (African Development Bank and others, 2015). However, putting in place the right governance framework is a critical precondition to harnessing Africa’s natural resources for transformation.

In addition, countries are party to several governance initiatives, both regionally and internationally (see box 4).

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The African Peer Review Mechanism provides a golden opportunity for African countries to assess whether public resources are actually being used efficiently.

Importance of good political governance for structural transformation

In terms of political governance, the third edition of the African Governance Report notes that over the past three decades, there has been progress made in conducting elections in Africa (ECA and United Nations Development Programme, 2013). Indeed, between January 2013 and June 2014, 26 countries held presidential and parliamentary elections with reduced election violence. Political participation has been opened to most social groups, especially women. Rwanda has the

Box 4

AFRICAN-OWNED GOVERNANCE INITIATIVE: AFRICAN PEER REVIEW MECHANISM

The African Peer Review Mechanism is an African-created and owned initiative that aims at improving governance in all African countries. It is rooted in African values of individual responsibility and seeks to commit African countries to good governance values. The mechanism is a mutually agreed instrument, voluntarily acceded to by the member States of the African Union. The goal is to monitor country progress in implementing NEPAD priorities and programmes. It focuses in particular on democratic, corporate, political and economic governance. At present, 34 African Union member States have signed the memorandum of understanding: Algeria, Angola, Benin, Burkina Faso, Cameroon, Chad, Congo, Djibouti, Egypt, Equatorial Guinea, Ethiopia, Gabon, Ghana, Kenya, Lesotho, Liberia, Malawi, Mali, Mauritania, Mauritius, Mozambique, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, South Africa, Sudan, Togo, Tunisia, Uganda, United Republic of Tanzania and Zambia. Seventeen out of the 34 countries have already undergone the review process. These are: Algeria, Benin, Burkina Faso, Ethiopia, Ghana, Kenya, Lesotho, Mali, Mauritius, Mozambique, Nigeria, Rwanda, Sierra Leone, South Africa, Uganda, United Republic of Tanzania and Zambia.

Source: Concept note of the African Governance Report IV.
highest percentage of women members of parliament globally at 63.8 per cent (International Parliamentary Union, 2015). At the regional level, a pan-African governance architecture was established in 2011 to enhance the capacity of the African Union to promote, evaluate and monitor governance trends (Mutual Review of Development Effectiveness, 2014). However, overall, inappropriate political governance continues to affect many countries on the continent, which incites civil unrest and violent uprisings.

From the perspective of ECA, good political governance means ensuring that national constitutions reflect a democratic and accountable government. It also means ensuring that political representation and civil participation are promoted to ensure that all citizens are involved in all political processes (African Peer Review Mechanism, 2015).

Developmental States for structural transformation in Africa

In order for African countries to successfully transform their economies, they need to demonstrate a development-oriented leadership, as correctly highlighted in the developmental State literature. This means that each State has to implement nationally adapted policy measures to achieve stable macroeconomic conditions, and efficient and effective public service delivery.

According to Gharni, Lockhart and Carnahan (2005), a developmental State calls for two key attributes: infrastructure development and political commitment. They also highlight that the State should have adequate control over its geographical territory, while showing capacities to design and implement sustainable policies. Moreover, they identify several characteristics of a developmental State. The characteristics which are relevant to African countries are: investment in human capital; robust public financial management; market formation; and maintaining the rule of law.

The 2011 edition of the Economic Report on Africa further indicates that Africa needs positive and strong State intervention in order to deal with market failures. Although the public sector should not be the only engine of growth, it should facilitate economic processes and market functions. Rodrik (2006) has argued that efficiently run institutions contribute in sustaining long-term economic growth. In the African context, this also implies having institutions that ensure transparent checks and balances so that resources are allocated in the most efficient manner.

The South-East Asian countries provide examples on the feasibility of structural transformation through a developmental State. For instance, Johnson (1982) associates the success of structural transformation in Japan with the State’s ability to provide independence to the economic bureaucracy. The leadership ensured a continued developmental ethos in key institutions (Chalmers, 1982). The need for developmental States in
Africa is also critical to ensure good governance in the process of structural transformation.

Good governance is undeniably one of the pillars needed to ensure a smooth transformation. It comprises institutions and processes that allow populations to participate in their country’s socioeconomic development. It also ensures that Governments are accountable to citizens in the allocation and use of public resources for the delivery of services.

C. Economic governance institutions in structural transformation

Rationale for focusing on economic governance institutions

The principles of good governance for Africa have been explicitly articulated in the Declaration on democracy, political, economic and corporate governance (NEPAD secretariat, 2003). In this context, the principles of economic governance focus on transparency in monetary and financial policies; fiscal transparency; budget transparency; public debt management; and effective banking supervision and auditing practices that conform to international standards. According to ECA (2002), there are a number of core elements including: public financial management and accountability; integrity of the monetary and financial system; and an adequate regulatory framework (see figure 6). For African countries to achieve successful transformation, it will require good performances in all of these areas. Economic governance ensures an engaged Government that has the capacity to manage resources effectively. Good economic governance is also characterized by a zero tolerance policy to corruption, transparency and accountability.

According to Henderson and others (2002), economic governance is the structure and practice of economic policymaking and management. In concrete terms, good economic governance is about institutions of Government having the capacity to: manage resources efficiently; formulate, implement and enforce sound policies and regulations; monitor and be held accountable; enforce the respect for rules and norms of economic interaction; and ensure that economic activity is unimpeded by corruption and other activities that are inconsistent with public trust.

Successful growth strategies have consistently been preceded or accompanied by the creation of political and economic institutions, which are critical mechanisms for ensuring good governance. Functional and effective institutions, alongside well-articulated policies which focus on productivity enhancement, are a means of accelerating economic growth and structural transformation (ECA, 2014). The need for institutions is also highlighted by Agenda 2063, which states that: “Africa will be a continent where the institutions are at the service of its people. Competent, professional, rules and merit-based public institutions will serve the continent and deliver effective and efficient services. Institutions at all levels of government will be developmental, democratic, and accountable” (African Union Commission, 2015).

Economic governance institutions are a specific set of institutions, whose performance has an overall effect and influence on the quality of economic governance and ultimately on structural transformation outcomes. In the African context, targeted interventions are still needed to strengthen institutions in key sectors and areas of policymaking, including development

Figure 6

IMPORTANT DIMENSIONS FOR GOOD ECONOMIC GOVERNANCE

Source: Produced by ECA staff.
planning, private sector development and macroeconomic management.

The African Peer Review Mechanism provides a golden opportunity for African countries to assess whether public resources are actually being used efficiently. The Mechanism’s Public Service Accountability Monitor provides a set of five indicators for economic governance (see box 5), with evidence-based tools for monitoring each indicator.

**Opportunity for economic governance in development planning**

Development planning is not an easily definable concept. This notwithstanding, it provides “a systematic approach to identifying, articulating, prioritizing and satisfying the economic and social needs and aspirations of a country within a given (often limited) resource envelope” (ECA, 2015a, p. 3). Development planning has appeared to facilitate the success of several South East Asian countries, which are known to have established “legitimate, credible, accountable and capable systems of governance operationalized within a development planning framework” (ECA, 2015a, p. 3).

African countries have practiced development planning since the immediate post-independence period (ECA and African Union, 2011), although political and institutional factors, such as poor administrative capacity, have negatively affected its implementation. More and more countries are adopting development plans that move away from focusing on poverty eradication, to becoming connected to broad long-term national visions for society-wide transformation. Examples include: Namibia – Vision 2030, alongside its fourth National Development Plan; and Ethiopia – Vision 2020 and its second Growth and Transformation Plan. Even so, challenges remain, including ineffective plan designs, over ambitious targets, weak individual and inadequate institutional capacities, exogenous shocks and political instability, which discontinue and distract plan implementation.

An increasing challenge is also the mandate and location of central planning agencies. Common structures include “stand-alone” autonomous entities; and the integration with another line Ministry (such as under the Ministry of Finance, the Prime Minister’s Office or the Office of the President) – all with varying reasons (e.g. to enhance commitment, coordination and alignment of priorities with resources. In this era of the 2030 Agenda for Sustainable Development, it will be important that planning agencies are able to integrate the three dimensions of sustainable development in a coherent manner that can help direct resources and also reach goals. Availing more power, financial and technical resources, and support to central planning agencies are said to help strengthen their effectiveness, and thus help capitalize on opportunities possible through development planning. Inclusive and effective institutions that facilitate all aspects of the planning cycle, including implementation, are one of the key elements of successful development planning.

**Improving economic governance for private sector development**

The private sector, as a major driver of economic growth, has a strong role to play in the structural transformation

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**Box 5**

**AFRICAN PEER REVIEW MECHANISM INDICATORS FOR GOOD ECONOMIC GOVERNANCE**

1. **Strategic planning and resource allocation** to ensure that African countries commit to sound economic management and balanced economic development.

2. **Expenditure management** to ensure macroeconomic stability; transparency and accountability in the management of public funds; and transparent procurement and tendering processes.

3. **Internal controls and monitoring of performance** to strengthen internal accounting, auditing and follow-up systems; monitor all expenditure; and produce regular, publicly available in-year reports.

4. **Handling of misuse of resources**, whereby the African Union requires public officials to commit themselves to codes of conduct that negates corruption.

5. **Accountability to oversight institutions** to ensure effective delivery of public services and hold senior officials to account.

*Source: Allan and Overy, 2009.*
Measuring corruption in Africa: The international dimension matters

process, through the development and strengthening of value chains in manufacturing, and of innovations in the services sector. Good governance improves growth by improving the business environment that facilitates private sector development. Regulatory reforms that improve the business environment can influence the development of the private sector by eliminating bureaucratic obstacles, reducing cost and time constraints to doing business, and improving the efficiency of legal institutions. The quality and implementation of reforms and regulations that reduces the complexity and cost of doing business, is strongly correlated with better perceptions of the quality of the business environment. Research also finds that reforms that make it easier to start a business are associated with more business creation, job creation, economic growth and trade openness (World Bank, 2015a).

Trends in the state of private sector development can be ascertained through the Doing Business Survey,10 which shows the easiness or difficulty with which local entrepreneurs can open and run small and medium enterprises, while complying with relevant regulations (see figure 7).

Africa has been committed to improving its business environment for private sector development. The continent had the second largest share of economies implementing at least one reform, following Europe and Central Asia. Of the 47 African countries featured in the Survey, 35 are said to have implemented at least one ease of doing business regulatory reform between 1 June 2013 and 1 June 2014. Benin, the Democratic Republic of the Congo, Côte d’Ivoire, Senegal and Togo, were among the 10 top improvers in the world, with the most reforms making it easier to do business. These top performers were inspired by regional initiatives, including the Council of Ministers of the Organization for the Harmonization of Business Law in Africa – of the Uniform Act on Commercial Companies and Economic Interest Groups, and also measures under the framework of the West African Economic and Monetary

10 The survey measures and tracks changes in regulations affecting 11 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labour market regulation. The data set covers 47 economies in sub-Saharan Africa.
Union, which adopted the Uniform Law on the Regulation of Credit Information Bureaus to encourage financial inclusion.

All economies for whom data are collected have implemented regulatory reforms to ease of doing business. Rwanda has implemented the largest number of reforms, followed by Mauritius and Sierra Leone. Increased commitment to approaches that can help strengthen institutions should be encouraged continent-wide, so as to help maintain the already visible momentum towards improving private sector development.

The lack of good governance in Africa commonly implies weak institutions, ineffective checks and balances, inadequate regulatory and legal frameworks, and poor enforcement mechanisms – which are all factors that incite corruption.

Sustaining economic governance in macroeconomic management

Sound macroeconomic management encourages investment in productive sectors. Effective public financial management practices and institutions are especially useful with the objective of ensuring sound fiscal discipline and efficient allocation and utilization of resources. Comprehensive diagnostic work on public financial management performance in African countries is regularly undertaken, notably by the World Bank and the European Union, under the Public Expenditure and Financial Accountability framework. This framework assesses a country’s public financial management performance, from its budget planning to the Legislature’s scrutiny of budgetary audits. These diagnostics show that there are wide variations in economic governance in Africa. Whilst many countries have implemented stringent reforms to strengthen budget planning and design, the continued challenge remains in the transparency and accountability in budget execution (Andrews, 2008). Indicator PI-1 of the Public Expenditure and Financial Accountability framework assesses the credibility of the budget by ascertaining how much aggregate expenditure deviates from the original budget. As figure 8 indicates, although countries such as Mozambique and Rwanda have registered progress by reducing such deviations, the performances of other countries (e.g. Uganda and the United Republic of Tanzania) have significantly deteriorated.

Corruption is one of the key underlying factors that seriously undermines the quality of economic governance in both developing and developed countries. The lack of good governance in Africa commonly implies weak institutions, ineffective checks and balances, inadequate regulatory and legal frameworks, and poor enforcement mechanisms – which are all factors that incite corruption. Furthermore, corruption occurs in a system in which the authority of government officials is unmonitored and governance has failed (Carnegie Endowments for International Peace, 2014). This facilitates instances of grand and petty corruption by domestic and foreign private investors, and by public officials in Africa.

D. Corruption as an impediment to economic governance

Understanding the concept of corruption

As both a product and cause of poor governance and weak institutions, corruption is one of the major costs and impediments to structural transformation in Africa. The phenomenon of corruption dates as far back as ancient India, where corrupt acts were extensively documented in The Arthashastra by Kautilya (Tanzi, 1998; International Monetary Fund and Kumar, 2012). Kautilya, a Minister in the Kingdom of Chandragupta Maurya, expressed extensive views on corruption and highlighted different forms of corrupt practices and proposed recommendations to tackle the problem. The concept of corruption was also debated in Ancient Rome and Greece, notably by Plato and Aristotle (Dobel, 1978).
Since that time, the ongoing debate on corruption confirms that there continue to be diverging views on the definition and understanding of the phenomenon. For instance, the Oxford English dictionary defines corruption as “dishonest or fraudulent conduct by those in power, typically involving bribery” and is associated to “the action or effect of making someone morally depraved”. On the other hand, the Longman dictionary defines corruption as the “impairment of integrity, virtue or moral principle”, which is linked to “inducement to do wrong by unlawful means”. The most popular definition of corruption today is “the abuse of entrusted power for private gain”. This was a definition initially introduced by Transparency International. However, it is limited, and similar to many other definitions (Rose-Ackerman, 2006a; Huberts and Lasthuizen, 2006; Banerjee, Hanna and Mullainathan, 2012), it places more emphasis on the actions of public officials for their own individual benefit.

While attempts to define corruption have their strengths and weaknesses, Khan (2006) provides a credible contextual framework for an analysis in Africa. He describes corruption as a phenomenon that is closely linked to poor governance. Khan also states that pressure to reduce corruption and move towards good governance is both necessary and desirable, but that these ends cannot be achieved unless attention is also given to other governance capacities that are required for accelerating and sustaining growth. He goes on to make the case that corruption cannot be addressed without considering broader governance challenges and argues that corruption exhibits unique characteristics in each developing country. Kaufmann (2001) argues that the idea that manifestations of corruption in developing countries can be unique to them is based on the myth that corruption is due to low incomes, thus inventing a rationale for discounting bad governance in poor countries.

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Figure 8
AGGREGATE EXPENDITURE OUT-TURN COMPARED TO ORIGINAL APPROVED BUDGET


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13 Transparency International and the World Bank's definition of corruption.
Corruption can also occur within and between individuals in the private sector, and also by both domestic and foreign actors. Focusing on corrupt practices rather than on a definition or measurement (or both) will allow policymakers to better understand the entire spectrum of actors and corrupt practices, and thus better address the phenomenon. Shah and Schacter (2004) provide an approach that can be used to analyse corruption and that goes beyond mere definitions. They assert that corruption can take three broad forms: grand, petty and State capture. The wide range of corrupt acts and practices, which fall under the three broad areas, are enunciated in the United Nations Convention against Corruption as well as the African Union Convention on Preventing and Combating Corruption. They include bribery, embezzlement, fraud and extortion, nepotism, kickbacks and patronage, unlawful gifts and commissions, money laundering, insider-trading, and white-collar crime. Several studies argue that bribery is the most commonly practiced form of corruption in the world whereby beneficiaries use extra legal means of payment to acquire government favours and resource allocation (Rose-Ackerman, 1999). In Africa, the most common forms of corrupt practices are bribery, tax evasion and accounting irregularities, notably through concealment (Burke and Cooper, 2009). Public choice theorists argue that officials in Africa exploit the system to their advantage, due to government control of economic activities. This argument highlights that they can go as far as influencing economic policies for rent-seeking activities.

**Grand corruption** refers to “the purposeful and secretive violation of the standards of moral behaviour in a certain political community by politicians [and/or any other corrupt party or parties]” (Robben, 1998, p. 220). It includes embezzlement of public funds, political patronage and clientelism, which are acts of crime that are stipulated in the United Nations Convention against Corruption and the African Union Convention on Preventing and Combating Corruption. In grand corruption, the leader maximizes personal wealth rather than the welfare of the population. To this end, the leader should have near or complete control of political powers within the national territory. A portion of the wealth amassed through corruption is used to buy the loyalty of those who will help the leader remain in power. This in turn undermines civic rights and public institutions that may rise in opposition to such breaches of the social contract. Grand corruption drives resource misallocation and results in the concentration of wealth in the hands of a few kleptocrats. It also has the tendency of eroding democratic political institutions of African countries. In a scenario where the assets of the State are seemingly infused with those of the leader, for example in fiefdoms and sheikdoms, the usual notion of grand corruption becomes meaningless.

Grand corruption drives resource misallocation and results in the concentration of wealth in the hands of a few kleptocrats. It also has the tendency of eroding the democratic political institutions of African countries.

It has to be noted that some leaders have benevolent tendencies whereby corruption is accompanied by the sharing of some of the wealth with the population. It is arguable that such benevolence is a divide-and-rule technique of sharing rents. In other words, it is a mere reflection of the high cost of buying public loyalty and the loyalty of those who help to maintain the corrupt structures. For instance, Di Tella and Franceschelli (2009) provide evidence of this tendency in Argentina, with the Government making promises of contracts to the media in exchange for non-reporting of corruption. A slightly less corrosive form of corruption arises when oligarchs ensure that political decisions are in accordance with their economic interests. Johnson and Kwak (2010) cite such examples in the United States during the eighteenth century. Most studies look at individual cases (such as Klitgaard 1990) and at the persistence of corruption. Exceptions include Charap and Harm (2002) and Jain (1993). This is essentially because grand corruption is difficult to model.

Grand corruption presents an obstacle for African countries in pursuing their aspirations for high growth rates, through domestic resource mobilization. One of the main ways through which Governments mobilize
resources is through taxation. This is often compromised by significant leakages, as a result of tax evasion by tax payers, and the embezzlement of government revenue (Culpeper and Bhushan, 2010) (see box 6). In addition, corruption hampers economic growth by reducing investments from the private sector. Corruption, in the form of bribes or kickbacks and other illicit payments, creates uncertainty because agreements between investors and corrupt bureaucrats are difficult to enforce.

**Box 6**

**EXAMPLES OF GRAND CORRUPTION IN AFRICA**

**Guinea (1990s):** The Simandou iron-ore mining project is the largest of its kind in Africa. It includes the construction of a railway and the exploration of four mining blocks in the region of Simandou. The contract for the four blocks was initially awarded to Rio Tinto, and thereafter two blocks were taken away from the firm. These were awarded, with no tender process and through an alleged verbal contract, to the firm BSG Resources. Allegations continue to be made that substantial bribes were given in order to ensure that the blocks were split up between the two firms. This scandal continues to be the subject of an inquiry by the Federal Bureau of Investigation.

**Kenya (2005):** The so-called Anglo-Leasing Scandal centred on the abuse of lease financing to fund security-related projects. Specifically, the scandal exposed the corrupt awarding of contracts for a new passport printing system. These contracts, amounting to over $100 million, were awarded to non-existent firms. Several members of the Government were allegedly involved.

**Uganda (2010):** The firm Muhlbauer Technology Co. Ltd was awarded a contract to print national ID cards through a questionable single-source contracting process, even though the Public Procurement Authority had recommended otherwise. The company was allegedly given over $100 million, but fewer than 500 cards had been issued by 2012.

**Malawi (2012):** The Integrated Financial Management Information System (IFMIS) is designed to enable Governments to monitor their budget and cash position. In the case of Malawi, IFMIS reviews identified significant control weaknesses in the system. The Government of Malawi suspected that a number of perpetrators were exploiting these weaknesses through collusion, resulting in financial loss to the Exchequer. The perpetrators were able to transfer funds from government bank accounts to vendor accounts for goods and services which were never supplied, and then delete the transactions from IFMIS. As of 20 February 2014, the National Audit Office of Malawi confirmed that up to 6,096,490,705 Malawi kwacha (about $15.5 million) could be classified as theft and subject to appropriate legal action. In addition, the so-called Cashgate scandal comprised of widespread looting by government officials, who abused the country’s procurement systems, including the questionable awarding of contracts to Apollo International Ltd., purportedly amounting to over $75 million.


*Petty corruption* is also an impediment to domestic resource mobilization and the structural transformation agenda of the continent. Petty corruption is commonly defined as the use of public office for private benefit – smaller transactions of bribes in the course of delivering a public service. It is practiced by middle and low-grade public officials and generally involves relatively small values of money compared to systemic corruption. Such practice is common in socio-economic settings where personal incomes cannot meet the basic needs of civil servants, the quality of public
institutions is low, there is an absence of transparency and accountability in rules, and the penalty imposed on the perpetrators is weak. Common forms of administrative corruption include bribes to issue licenses, avoid or lower taxes, escape customs procedures, and win public procurement contracts.

One of the main reasons for the prevalence of petty corruption in the African context is that public services and providers spearhead widespread financial mismanagement (Plummer and Cross, 2007). Petty corruption impacts the most on the provision of public services as it results in distorted distribution. It can occur within local administration, health-care institutions, the police and various other institutions. This form of bureaucratic corruption tends to occur when a regulatory regime exists, but is being tampered with by public officials.

Although the literature on Africa generally emphasizes corruption in the public sector, there is also private sector-driven corruption. Corruption can occur between firms and individuals or between actors in the private sector and the public sector, through State capture, whereby the private sector “captures” institutions of Government for its own benefit. However, research work and anti-corruption projects and initiatives all focus on cleaning up corruption in the public sector, which is often regarded as incompetent, inefficient and corrupt, while the private sector is portrayed as efficient, reliable and less corrupt. This view has been influenced by neo-liberal economic perspectives, which argue that the private sector is the main engine of economic growth and perceive Governments as being obtrusive (ECA and African Union Advisory Board on Corruption, 2011).

Notwithstanding the empirical evidence of pervasive corruption within Africa’s public sector, the private sector also plays an active role in inciting corruption. In effect, corruption in the private sector is usually facilitated by weak regulatory and institutional frameworks. Public versus private sector corruption is often almost impossible to distinguish because of the intrinsic linkages between State and non-State actors. Private sector actors, including multinational corporations, use corrupt practices such as trade mispricing, transfer pricing, deliberate bankruptcy and tax evasion, which create huge financial gaps for any country. Global Financial Integrity estimates that multinational corporations and other private institutions instigate 60 to 65 per cent of global illicit financial flows. The literature highlights that “corruption most probably accounts for a large portion of illicit flows out of least developed countries” (Reed and Fontana, 2011, p. 8). While there are no specific estimates provided for Africa, many of these multinational corporations operate on the African continent. This is confirmed by estimates, which suggest that yearly, an average of between $859 billion and $1.06 trillion flows out of Africa by corrupt means (Global Financial Integrity, 2013).

It is challenging to distinguish the type of corruption with the most impact on Africa’s resource mobilization efforts, because every dollar counts. Indeed, as far back as the 1990s, the African Union estimated that every year over $148 billion was stolen from the continent by its leaders, which represents 25 per cent of annual GDP lost to corruption (Kimenyi and Mbaku, 2011).

**Framing corruption in the African context**

The *African Governance Report II* highlighted that “corruption remains the single most important challenge to the eradication of poverty and the creation of predictable and favourable investment” (ECA, 2009, p. 12). According to the 2000 World Business Environment Survey, of the 10,032 surveyed firms from 81 countries around the world, 74 per cent concurred that “corruption was an obstacle to the operation and growth of their businesses” (Asiedu and Freeman, 2008, p. 4). Corruption has also been found to lower capital productivity and net capital inflows (Lambsdorff, 2003). A decline in the

"The private sector also plays an active role in inciting corruption. Global Financial Integrity estimates that multinational corporations and other private institutions instigate 60 to 65 per cent of global illicit financial flows."
investment rate also reduces the rate of growth, which has a negative effect on structural transformation.

In the African context, the African Union adopted the African Union Convention on Preventing and Combating Corruption in July 2003, which came into force in 2006. This legal framework contains provisions in terms of private-to-private corruption and political party funding (see box 7).

In assessing the magnitude of corruption in Africa, far more attention should be given to the decision-making process and its ultimate implementation. Indeed, the institutional perspective is critical since many African countries continue to operate within the realms of inadequate institutional structures and weak processes, which trigger and enable corruption to thrive. According to Shah and Schacter (2004, p. 42) “a lack of...institutions (a key component of accountability) has been shown to be one of the most important determinants of corruption”. Fighting corruption requires the efforts of various governance institutions, including through the enforcement of anti-corruption laws, rules and regulations, and the promotion of good practices. It also benefits from the strengthening of anti-corruption principles, including transparency, participation, accountability and integrity (Chêne, 2011).

Tax legislation and regulations tend to be overly complex in African countries. This creates loopholes for corrupt practices (PwC Global, 2013). For instance, in Uganda, in 2010 it was estimated that 43 per cent of firms paid bribes to tax officers (Culpeper and Bhushan, 2010). Furthermore, taxpayers are able to circumvent the tax system, since many countries’ tax administrations have limited electronic filing and payment systems (PwC Global, 2013). Another factor that brings about corruption is the discretionary power granted to fiscal authorities to provide tax exemptions. This discretionary right can be exploited to advance political, sectarian or ethnic interests (Ndikumana, 2006). This notwithstanding, African countries are striving to adopt online tax payments, which ensure a more secure way of filing. Countries such as Kenya, Morocco, Rwanda and South Africa have recorded successes. Moreover, the East Asian countries provide interesting lessons for Africa on ways in which to address systemic corruption (see box 8 - next page).

There is a cultural dimension to consider when assessing the actual severity of corruption in Africa. The honourable gesture of gift-giving, from an African principle of social solidarity and loyalty, is often deemed to be a corrupt practice in a Western setting. In many African societies, gift-giving is done either to maintain harmony or in response to services rendered.
This cultural perspective is crucial when assessing the magnitude of corruption in Africa, since certain practices that are captured as corrupt acts in measurements are actually cultural norms and practices. However, caution should also be exercised when placing excessive emphasis on the cultural dimension in order not to lessen the fact that the phenomenon of corruption remains an important problem for many African countries. Indeed, by over-focusing on culturalism, there is a high risk of associating bona fide corrupt practices with local cultures, as “culture [is] an easy explanatory trap” (Sindzingre, 1997, p. 396).

Accounting for the external and transnational dimension of corruption in Africa facilitates strategic decision-making that is holistic and helps to tackle the problem at its root. Foreign multinational corporations often capitalize on weak institutional mechanisms in order to bribe State officials and gain unwarranted advantage to pay little or no taxes, unfair sharing of rents, and secure political privileges in State policies. Corruption by these corporations is costing Africa much more than corruption by local small and medium enterprises (ECA, 2005). Ndikumana (2012, p. 3) highlights that Africa “probably loses much more from corruption by multinational companies than from corruption by the multitude of local small and medium enterprises”.

Clearly defining the actors – the “givers” and the “takers” – in corrupt practices, acknowledging the place for State capacity and taking into account the role of the private sector in corrupt practices can help to isolate culprits from perpetrators. Corruption is usually connected to activities of the State (Tanzi, 1998). In this regard, the manner in which the State operates and undertakes its activities define the magnitude and character of corrupt practices. Activities, through State regulatory procedures, taxation policies, spending decisions, provision of goods and services, political competition (including party financing) and other discretionary decisions, influence the behaviour of other actors such as the private sector and individuals. Similarly, State capacity, through the quality of its bureaucracy, level of public sector wages, nature of institutional controls and penalty systems and leadership quality, also has an effect.

**Limitations of measuring corruption in Africa**

Given the complexity of the corruption phenomenon in Africa, it makes the task of measuring it all the more difficult. As will be discussed in chapters 2 and 3, the present perception-based measurements of corruption are of very limited relevance in the African context.

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**Box 8**

**ADDRESSING SYSTEMIC CORRUPTION IN SINGAPORE AND HONG KONG**

**Singapore** has been successful in shifting from being a country with high to low levels of corruption. The country continues to record low corruption indices and is deemed to be performing better than Australia, Canada, Germany, Indonesia, Japan, Malaysia, the Netherlands, the Republic of Korea and Thailand. The success in the country’s approach in addressing grand corruption is attributed to: determination and commitment to fight the scourge of corruption from the Government and leadership; strong anti-corruption strategies focusing on effective laws, an independent judiciary and strong enforcement; and robust anti-corruption institutions, under the aegis of the Corrupt Practices Investigations Bureau. The Bureau requires that ministers review their work practices to reduce corruption and seeks to reduce incentives by providing good remuneration, bonuses and favourable working conditions to politicians and public servants.

**Hong Kong**, the Special Administrative Region of the People’s Republic of China, was afflicted by pervasive corruption in the 1960s and 1970s. However, Hong Kong has been able to transform itself into one of the least corrupt societies, renowned for its high integrity in the Government. The success in its fight against corruption is accredited to: strong government commitment to fight corruption through the Independent Commission against Corruption, which is headed by a Commissioner and functions independently of the police force; a well-developed and harmonized set of strategies against corruption, including investigation, prevention and community education; and adequately funded anti-corruption institutions with well-remunerated staff.

*Source: Compiled by ECA staff from various sources.*
It is also undeniable that research on non-perception approaches to measuring corruption remains scarce. Duncan (2006) indicates that non-perception based methods can be categorized into two groups: macro-level and micro-level. Duncan explains that macro-level methods attempt to measure corruption for the whole economy, for example by tax auditing. In contrast, micro-level approaches consist of tracking budgetary expenditures or measuring inefficiencies (wastage) at the sector level. However, such approaches have serious limitations for at least four reasons:

a. **Lack of data**: A non-perception based corruption index requires comprehensive data, which are not readily available for many African countries. In this context, Governments need to demonstrate financial commitment in data collection. Furthermore, national statistics offices and all line ministries should have adequate human capacity to ensure regular data updates;

b. **Unidentified share of corruption in inefficiency**: Although sector inefficiencies can be attributed to corruption, the exact portion that can be allocated to corruption is unknown. There are many other causes of inefficiency and wastage where there is absolutely no intention of wrong-doing. Examples include: poor management, institutional weaknesses and poor meritocracy, and inadvertent negligence;

c. **Difficulty in tracking resources**: Availability of quality data remains difficult as a result of misreporting. For instance, in the case of the three Ugandan public expenditure tracking surveys, because of the lack of adequate public accounts, only certain districts were surveyed. Since many African countries seldom use strict allocation rules, it is left to district administrations to assign the allocation of resources. This raises challenges for the measurement of leakage for in-kind transfers because the cost of these transfers might be unknown at facility level. Detailed accounting is essential to avoid inaccurate calculations and conclusions of leakage and corruption. In fact, Governments have contested the claims of the surveys, such as Mali and Rwanda (Gurkan, Kaiser and Voorbraak, 2009);

d. **Limited skills and capacity**: Lack of qualified accounting personnel in institutions can also make it hard to explain leakage; in other words, it is difficult to determine whether funds are a result of corruption, diversion or simply poor recording. For instance, the Department for International Development notes that public expenditure tracking surveys will not have any effect without a clear commitment from Governments to "disseminate the results widely, to engage all levels of governments in changing the way in which sector policies are developed and resources are managed" (para.11). Moreover, experiences with the surveys have shown that they do not actually lead to sustained reforms to curb corruption. Their findings have thus far not resulted in wide public debates to create pressure for reforms. The surveys can only have an impact if the findings are acted upon by Governments (Sundet, 2008).

"Detailed accounting is essential to avoid inaccurate calculations and conclusions of leakage and corruption."

**Corruption in Africa and its socio-economic impact**

The dynamic nature of corruption makes it difficult to give it a precise definition, but this difficulty should not in any way belittle the depth and magnitude of the socio-economic devastation caused by corrupt acts and practices. They pose significant economic costs to developing countries, including the subversion of development plans and programmes, and the diversion of resources that may have been invested more efficiently. It is worth recalling here that corruption distorts the market as it discourages investments. According to Samura (2009), “the real development priorities of a country are often neglected in favour of those that generate the greatest personal gains for the decision-makers.”

There is a growing consensus that corruption is a constraint to economic performance (Tanzi, 2002; Svensson 2005; Gyimah-Brempong, 2002). Cross-country data show that countries with low income are generally plagued
with high levels of corruption for whatever reasons, which in turn, hinders these countries from growing fast and reaching higher levels of living standards. However, as the simple correlation in Figure 9 suggests, the relationship between corruption, wider governance and poverty is complex. Countries with similar levels of corruption may have vastly different levels of income. There is a minimum threshold for control of corruption to any meaningful impact on poverty.

Figure 10 shows that the correlation is suggestive of an overall negative relationship between control of corruption and economic growth, although the relationship is less pronounced than what one would have expected upon review of the literature. However, this relationship also appears to be complex as countries with similar levels of corruption achieve different levels of growth. Nonetheless, empirical evidence supports the notion that the amelioration of corruption has a statistically significant effect on growth.

Corruption is undoubtedly adversely affecting key economic sectors in Africa. In the extractive sector, illegal logging and mining, diversion of oil revenue and illicit appropriation of public assets have emerged as the overwhelming challenges of corruption (Igbayato and Imoudu, 2008). Inadequate or absent regulatory and legal frameworks, combined with a lack of relevant oversight institutions, are common features that contribute to poor enforcement. A 2008 study on Guinea, Liberia and Sierra Leone highlights that corruption is the most singular factor that has skewed the economic and political trajectory of the Manu River Union states, culminating in economic decadence, political mess and gross abuse of the economic, social and cultural rights (Abraham, 2008).

Corruption is widespread in the delivery of public services. Evidence suggests that the water, sanitation and sewage sector is “vulnerable to massive distortion in resource allocation and significant procurement-related corruption, and to the opaque budgeting and financial management practices of weak institutions, typical of the civil service” (Plummer and Cross, 2007, pp. 222–223). Similar conclusions have been reached about the education, health, and electricity sectors.

Infrastructure is an essential element of structural transformation as it helps to shift the economy’s focus from the agricultural to manufacturing and industrial sectors. Private sector actors, both domestic and foreign, require improved quality of, and access to
measured infrastructure services. Improved quality of infrastructure implies greater ease of doing business and increased competitiveness within the economy. All these factors should, in turn, drive a quicker economic transformation, from low to high productive economic sectors. The infrastructure sector is plagued by corrupt activities, primarily because “the high values of projects and large flows of money involved make the sector vulnerable” (Foster and Briceño-Garmendia, 2010, p. 1). Corruption within the infrastructure sector: reduces the quality of infrastructure projects; leads to poor maintenance; diverts funds required for completed projects; and increases the overall cost of infrastructure services. An example of the risk of poor quality construction has been shown in Nigeria, where 40 per cent of building failures have been attributed to construction faults and fraudulent practices (Ameyaw, Sarfo and Osei-Tutu, 2013).

Given the secretive nature of carrying out a corrupt act or accepting private illegal gains, it is difficult to accurately quantify and provide the cost of corruption on any economy. It is reported that the problem of corruption has reached alarming proportions in many African countries. In 2004, it was estimated that 50 per cent of tax revenue in Africa and $30 billion in aid was eroded in the form of corruption (ECA, 2002). If this tendency continues, extensive and institutionalized corruption could rapidly overturn the “Africa rising” narrative and the continent’s structural transformation objectives.

The impact of corruption on foreign direct investment appears to depend, in part, on the level of corruption in the investor’s country. For example, Habib and Zurawicki (2002) report that investors from relatively corrupt countries are deterred less in their investment decisions by high levels of corruption abroad. Such results might follow the presence of a “comparative advantage” of investors from corrupt countries, when dealing with corruption, or by other country-specific factors, including cultural ones.

The adverse effects of corruption on international trade have also been extensively researched. Musila and Sigué (2010), who focus on African countries, find that corruption has a negative effect on the flow of exports and imports. Dutt and Traca (2010) conclude that corruption mostly hampers trade, but in high-tariff environments the opposite might hold, following an “evasion” effect occurring when corrupt officials allow exporters to evade tariff barriers. Besides affecting volumes of trade, corruption likely influences trade composition. For example, Méon and Sekkat (2004) find that corruption decreases the size of manufactured exports as a percentage of GDP.

There is also considerable evidence that corruption is correlated with the characteristics and size of the shadow economy (Johnson, Kaufmann and Zoido-Lobatón, 1998), as citizens circumvent an extortionary State by operating off the book. At the same time, corruption is also an enabler of the unofficial economy, such as when corrupt tax inspectors help individuals and firms to evade taxes (see Choi and Thum, 2005). Thus, corruption might augment the informal economy.

In terms of domestic resource mobilization, there is evidence that countries with high corruption rates have lower tax revenue to GDP ratios (Friedman, and others, 2000). This is highly relevant for Africa, which relies heavily on custom tariffs, given that corruption is rampant within customs administrations (Arifari, 2006). Tanzi and Davoodi (1997) report that an increase in corruption is associated with a decline in total revenue relative to GDP, and to an even greater decline in the ratio of taxes to GDP, indicating that taxes suffer more than other revenue from corruption, and also that direct taxes suffer more from corruption than indirect taxes.

From a population welfare perspective, corrupt practices increase inequality and perpetuate poverty. When national resources are diverted, expenditure on health and education also declines (Mauro, 1997). Reduced investment in social services disproportionately affects the poor, perpetuating inequality and poverty (Gyimah-Brempong, 2002). The health sector, for example, remains prone to corruption, probably due to the fact that many African countries have shortages of health workers in proportion to their populations. Interestingly, petty corruption rarely satisfies the needs of individuals seeking to bypass rules and regulations. For example, a 2011 survey conducted in selected countries showed that in Uganda, users of health services and other government services who paid a bribe took longer to complete their dealings with the service and saw more individual staff. Those who paid health-care staff unofficially were not more satisfied with the service (Paredes-Solís, and others, 2011).

Low levels of economic growth due to corruption also increase poverty, and administrative corruption is highly correlated with poverty as poor people have
to dispose of their income in order to access services and business opportunities, further limiting social mobility. For instance, “the average urban Kenyan pays 16 bribes to both public and private institutions in a month” (African Development Bank, 2006, p. 7).

The Republic of Korea has managed to alleviate petty corruption by developing an Integrity Perception Index to assess the governance performance of public institutions (see box 9).

**Role of governance institutions in fighting corruption**

Corruption has a crippling effect on development, since it undermines the rule of law and weakens the credibility of institutions. Indeed, many public institutions, including the executive, legislative and judicial organs, are themselves affected by corruption in Africa. The first edition of the *African Governance Report* (ECA, 2005) highlighted that many African countries had ineffective institutions for transparency and accountability. This fact remains a critical challenge. There are undeniable shortcomings in the systems of internal control and with the supreme audit institutions. The findings of the 2005 edition of the report indicated that the performance of African countries was weak because of deficiencies in the oversight functions by parliament, as well as a lack of cooperation by the executive branch of Governments. Audit units in many African countries are also poorly staffed or are partners in corruption. Interestingly, the 2005 report also found that about one third of legislatures were perceived to be largely free from subordination to external agencies in all major areas of legislation. However, in reality, over half of Africa’s legislatures are under varying degrees of subordination to external agencies (ECA, 2005).

Structural transformation requires robust governance institutions such as national planning authorities, independent oversight bodies (e.g. legislature, an independent judiciary), representative political institutions, effective central banks and other investment regulatory bodies (Nnadozie, 2009, cited by ECA, 2011 p.83). The setting up of such public institutions is critical to ensuring transparency and accountability. Indeed, Rodrik (2006) correctly argues that efficiently run institutions contribute to sustaining long-term economic growth. In the African context, this also implies having institutions that ensure transparent checks-and-balances so that resources are being allocated in the most efficient manner.

**Box 9**

**GOOD PRACTICE FROM THE REPUBLIC OF KOREA IN FIGHTING PETTY CORRUPTION**

The Integrity Perception Index of the Republic of Korea is intended to build a system of checks and balances between public officials and citizens, and to provide citizens with the opportunity to evaluate public institutions in their delivery of services. Institutions that are selected for the survey are public ones that are engaged in the issuance of licenses and permits, control, supervisory tasks, and use and management of government subsidies, among others.

The methodology employed is through telephone surveys to selected public service users who have had first-hand experience with the proposed public institutions over the previous year. The interviewees are selected from a list of public service users submitted to the Korea Independent Commission against Corruption. The survey is conducted by an independent research institute. The results and analysis of the survey are presented to the Commission and ultimately published in the form of an integrity perception index, which is disseminated to the public through the media. The institutions that perform well are exempted from the survey the following year.

Since it was introduced in 2002, this exercise has improved public service delivery in the country, as public institutions give due attention to the Integrity Perception Index and strive to improve their rankings through deliberate efforts to address integrity challenges.

For natural resource-rich African countries, it is essential that there be oversight institutions that have an autonomous supervisory role on the resource sector. This oversight includes regular reporting of mineral revenue and provision of information on mineral-related contracts with multinational corporations. Moreover, it is imperative for all African countries to depoliticize the civil service to ensure that their priorities are exclusively on the appropriate functioning of governance institutions.

Parliaments can ensure good governance, not only by helping to fight corruption through the laws they make, but also by setting a good example. Codes of conduct and guidelines on how to determine possible conflicts of interest can be instituted to ensure accountability in actions; and transparency in reporting of assets owned by parliamentarians and other public officials.

The role of national anti-corruption agencies has also been found to be effective at helping to prevent and combat corruption. These agencies can take on investigative, preventative, and communicative functions; they differ based on their functions and the branch of government to whom they report. A study of eight African countries shows that these agencies however, have different strengths and face different constraints and challenges along the lines of a lack of independence and capacity, and limited authoritative power (ECA, 2010). In contexts where governance is weak, these institutions could be used as tools for political victimization. Thus political will and commitment, from the highest levels of government, to fight corruption is key to the effectiveness of national anti-corruption agencies (ECA, 2010).

E. Conclusion

Over the past 10 years, the African continent has demonstrated robust growth rates and economic indicators continue to record notable progress. Thanks to this progress, Africa is increasingly referred to as the “rising star” or the “emerging continent”. This is in sharp contrast to 16 years ago, when the front cover of The Economist magazine dubbed Africa “the hopeless continent” (13 May 2000).

Africa’s rising narrative is due to prudential macroeconomic issues; the return of peace to many conflict-countries; exploitation of the demographic dividend; and a rising middle class. In order for the continent to maintain its “Africa rising” narrative, it should strive to significantly improve the quality of its growth, via structural transformation, as this chapter has shown. Given the 7 per cent threshold required to significantly improve populations’ incomes on the continent, African countries need to accelerate the transformation of their economies to effectively reduce poverty.

For the above to be achieved, a number of challenges have to be tackled, including rising unemployment, increasing inequality, lack of financing for development and corruption. Africa also needs to meet its political and economic governance challenges, while ensuring that strong governance institutions are in place and are sustainable.

Economic governance remains at the core of efforts to maintain the continent’s development momentum. The African Peer Review Mechanism, among other governance initiatives, provides the continent with the relevant framework to deliver on its structural transformation agenda, within the broader context of Agenda 2063.

At present, corruption remains one of the key economic governance challenges, which has to be urgently resolved. There is growing consensus that corruption causes severe wastage and misallocation of resources, thus delaying growth and socioeconomic development through missed investment opportunity, lowered growth and widening inequalities. Corruption also affects government revenue, undermines private sector development and worsens inefficiency in the public sector, thus weakening institutional development. Equally, the problem of corruption is compounded by the continued inability to adequately measure the phenomenon in an African context. These serious concerns, if not confronted, could easily reverse the positive progress achieved so far by many African countries.