Measuring corruption in Africa:
The international dimension matters

AFRICAN GOVERNANCE REPORT IV

United Nations
Economic Commission for Africa

2016

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FOREWORD

Governance and corruption are controversial issues of great significance for sustainable development. Fostering structural transformation requires more than a national policy and strategy in order to operate effectively in an increasingly globalized world. Globalization continues to alter countries' growth trajectories, with grave implications for the poor by affecting their access to assets and markets. African countries need to translate opportunities offered by globalization into inclusive growth, increased poverty reduction and sustainable development. However, integration into global markets has some risks as countries become more susceptible to global trends, including corrupt practices by multinational corporations and other vested external interests.

A number of indicators have been developed to assess levels of corruption in Africa. Some of these measurements, such as the Corruption Perceptions Index, World Governance Indicators, Ibrahim Index of African Governance and Afrobarometer, are influential because they have shaped foreign policy, investment decisions and aid allocation, as well as country risk analysis on the continent. African countries are being "named and shamed". However, given the limitations of the measurement methodologies no single indicator of corruption should be used. There is a need to address the corruption problem in Africa in its totality, including asset repatriation and money laundering. Indeed, it should be made clear that those who steal funds and assets and the receivers of such goods are equally guilty of fuelling corruption on the continent.

The current tendency in measuring corruption on the continent is to focus on individuals' perception of the extent of corruption. Although addressing individual and heterogeneous experiences is important, a focus on individuals alone overlooks a fundamental cause of corruption for many people: the deliberate exclusion, current or historical, of particular social groups from effective participation in society. It is thus important to address these power-related features of deprivation by empowering the poorest members of society, including women, as a means of combating corruption and weak economic governance. There is unanimous agreement that this process is better achieved through democratization and civic engagement.

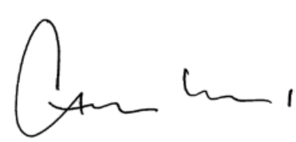
Delivering social equity as a means of combating corruption demands governance reforms that empower poor and marginalized groups and give them a voice, and that enhance accountability to increase service providers' incentives to respond to the needs of the poor. Responsible and accountable service provision, in turn, enhances government revenue thus expanding fiscal space, as this spurs citizens' willingness to pay taxes. Investing in the social capital of the most vulnerable is also paramount. Another core pillar of the inclusion effort is guaranteeing access to and protection of property rights. However, providing property rights is a complex issue given that they are derived from many sources (Government, customs and religious laws), and the history of access-rights is usually context-specific. Strategies for legal and other reforms need to take these complexities into account to help provide for marginalized groups, combat corruption and expand access to essential services.

This fourth edition of the *African Governance Report* focuses on the importance of measuring corruption and of understating its international dimensions. The report challenges the traditionally narrow notion of corruption as the "abuse of public office for private gain". This definition places too much emphasis on public office and on the ostensible legality of the act, neglecting the corrupt tendencies prevalent in the private and non-State sectors. Policymakers must understand the importance and implications of viewing corruption as a broader phenomenon where private agents share significant responsibility, and where many unethical acts, which can be regarded as corrupt, may not necessarily be illegal or located within the public sector. For example, many powerful domestic and foreign private firms engage in undue influence to shape State policies, laws and regulations for their own benefit. Sometimes, these private entities make election campaign contributions, which may be legal but unduly undermine democracy. Moreover, favouritism of particular firms in the awarding of public procurement bids and contracts is widespread in Africa. Equally, many corrupt practices taking place on the continent are generated and abetted by non-African players.

It is arguable that the greatest challenge to Africa's structural transformation agenda is not corruption of the sort that has come to light in corporate and public sector scandals - issues of fraud and bribes can be effectively tackled with improved supervision and more stringent enforcement of governance rules. In general, fundamental economic governance problems are to be found on an entirely different level – the inability of management in both the public and private sectors to act effectively and enhance programme delivery and optimize results. Furthermore, effective regulatory frameworks should strike a balance between fostering private sector development and enhancing social transformation anchored on better service delivery. In this regard, a wider approach to the structural transformation agenda needs to be adopted by focusing on actions that not only tackle corruption but also enhance wider economic governance.

In this context, the fourth edition of the *African Governance Report* implores all stakeholders to rethink corruption measurements in general, and in the African context in particular. As the report shows, there is a strong need for such a rethink. For example, current approaches for measuring corruption completely ignore the international dimension of corruption in Africa. There is ample evidence that the operations of foreign players on the continent are causing significant illicit financial outflows. Such omissions present serious gaps in current measurements.

In my view, African countries and partners should move away from pure perception-based measures of corruption and focus on alternative approaches, which are fact-based and built on more objective quantitative criteria and include the international dimensions of corruption. The present report makes the case for such a shift. In the interim, while possible quantitative criteria continue to be explored, it is necessary to ensure that perception-based methods are better anchored on more transparent and representative surveys. These measurements should also be complemented, where possible, with quantitative country/case-specific indicators to produce more sophisticated and useful assessments. Instead of "naming and shaming" the culprits on the basis of some perceived levels, it is necessary to deeply reflect on the problems of measuring corruption in Africa, with special attention to the roles of international players. It is also vital that African policymakers and partners focus on the big economic governance issues critical for the continent's structural transformation and sustainable development in order to effectively address the problems of corruption.



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EXECUTIVE SUMMARY

Effective economic governance institutions are essential, not only for combating corruption, but also for structural transformation and inclusive development in Africa. The current predominantly perception-based measures of corruption are flawed and fail to provide a credible assessment of the dimensions of the problem of corruption in Africa. They focus on country ranking ("naming and shaming") and as such do not provide useful policy insights and practical recommendations to inform policy and institutional reforms to help African countries to stem corruption. Alternative non-perception-based methods of measuring corruption remain inadequately developed and also ignore the international dimension of corruption in Africa. The present report calls upon African countries and partners to move away from purely perception-based measures of corruption and to focus instead on approaches to measuring corruption that are fact-based and built on more objective quantitative criteria. In the interim, perception-based methods anchored on more transparent and representative surveys should be used with caution and complemented, where possible, with quantitative country or case-specific indicators to produce more sophisticated and useful measures of corruption.

Corruption is indeed one of the major impediments to structural transformation in Africa. While attempts to define corruption have their strengths and weaknesses, Khan (2006) provides a credible contextual framework for an analysis of corruption in Africa. He describes corruption as a phenomenon that is "closely linked to poor governance", and states that "pressure to reduce corruption and move towards good governance is both necessary and desirable, but these ends cannot be achieved unless attention is also given to other governance capacities required for accelerating and sustaining growth" (pp. 216–244). Corruption cannot be tackled without considering the broader governance challenges in each African country. The present report notes that the idea that corruption is unique to African countries is based on the myth that "corruption is due to low income", in order "to invent a rationale for discounting bad governance in poor countries" (Kaufmann, 2001, p. 86).

In assessing the magnitude of corruption in Africa, far more attention should be given to decision-making processes and their ultimate implementation, as well as the international dimension of this phenomenon. In this regard:

a. An institutional perspective is critical since many African countries continue to operate within the realms of inadequate institutional structures and processes, which trigger and enable corruption to thrive. A "lack of…institutions has been shown to be one of the most important determinants of corruption" (Shah and Schacter, 2004, p. 42). 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).

b. Accounting for the external and transnational dimension of corruption in Africa facilitates strategic decision-making that is holistic and helps to tackle the problem of corruption 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, exploit unfair sharing of rents, and to secure political privileges in State policies. This report highlights that Africa "probably loses much more from corruption by multinational companies than from corruption by the multitude of local small-and-medium enterprises" (Ndikumana, 2012, p. 3).

The dynamic nature of corruption makes it difficult to give a precise definition, but this difficulty should not in any way belittle the depth and magnitude of the socio-economic devastation caused by corruption. It poses 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 to the extent that it discourages investments. A corrupt environment is bad for society because "the real development priorities of a country are often neglected in favour of those that generate the greatest personal gains for the decision makers" (Samura, 2009, p. 1).

Although a number of requisites are important to achieve the structural transformation of Africa (characterized by structural change, rural-urban shifts and demographic transition from high-fertility-high-mortality to low-fertility-low-mortality scenarios), the application and practice of principles of good governance has a central place, as they define the interaction among the various economic actors and stakeholders. Notwithstanding the gains achieved over the past few years, evidence in 2015 shows stalling progress in the continent's overall governance performance, threatening the very foundation and also efficacy of one of the drivers of structural transformation. The Ibrahim Index of African Governance shows that 6 countries (Botswana, Cabo Verde, Mauritius, Namibia, Seychelles and South Africa) of the 54 have made progress between 2011 and 2014. It is, however, important to note that there have been variations in performance depending on the Index's components, especially in 2015. African countries have also made good progress towards improving the continent's natural resource governance trajectory.

Enhanced governance and related institutions are critical to improving the quality of growth in many African countries. Indeed, while the evidence on regulatory quality confirms the positive correlation between this dimension of governance and gross domestic product (GDP) growth, the evidence on public management indicates that there is a negative correlation with GDP growth. This clearly implies that different aspects of governance in African countries adjust with different time lags on economic growth. Governance therefore needs to be unbundled by policymakers to adequately assess the effects of the different components on growth.

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 where 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.

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 (ECA and African Union, 2011). The setting up of such public institutions is critical in ensuring transparency and accountability. 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 being allocated in the most efficient manner.

In a nutshell:

- Africa needs to maintain good governance and build robust governance institutions so as to accelerate and sustain its economic development efforts, through structural transformation.
- Weak governance institutions are one of the main determinants of corruption, threatening prospects for positive outcomes of the structural transformation process.

Key issues in the corruption measurement debates for Africa's structural transformation

The present perception-based measures of corruption are inadequate to provide a credible assessment of the dimensions of the problem generally, and especially in Africa. The definitional ambiguity surrounding the concept of corruption is particularly unsettling when attempts are made to measure it. The type of definition one chooses to describe corruption will influence the conceptual, methodological and empirical framework adopted to analyse it. In this regard, it is unsurprising that those who drafted the United Nations Convention against Corruption experienced difficulties when trying to come up with a definition of corruption: "It was decided that the text of the Convention would not include a definition of corruption, as this is a polyvalent and changeable term that means different things to different people, and above all because it is an evolving concept" (Argandona, 2006, p. 5).

Practitioners have sought to raise awareness among the general public and policymakers on corruption. The most widely used approach has been to rank countries by how corrupt they allegedly are, using various statistical proxies. Annual reports on corruption have led to heated debates and in the process, have placed corruption at the centre of public policy debates in developing countries. However, corruption measurements are only useful for awareness-raising and not for policymaking.

Since the latter part of the 1990s, a large number of indicators have surfaced – all claiming to explain one or multiple dimensions of corruption both in developing and developed countries. One feature that all of these indicators share is the similarity in the methods they adopt to gather and analyse data. These include: surveys of firms, public officials and individuals; and views of outside observers in non-governmental organizations, multilateral donors and the private sector. These data sources can be used individually or in aggregate measures, which combine information from many such sources. Three issues need to be highlighted in this regard:

a. Current indicators do not present a reliable picture of corruption in Africa, since they are perception-based. For any indicator of corruption to be strong and reliable, it is necessary that the sample be homogeneous. The standard practice is that the different indicators, used in the various corruption indices, are gathered from surveys administered to a limited sample of people;

b. Most of the data are of a quality which would not be useful for policymaking. Generally, data on reported cases of corruption tend to correspond to information about the response of criminal justice systems rather than information about the true extent and nature of the crime itself. As a consequence, a large array of methods has been developed to provide assessments of corruption and monitor its trends and patterns. Given the difficulty to collect data on factual experiences of corruption, methods based on experts' assessments and re-evaluation of available data (e.g. composite indices) have remained prominent (United Nations Office on Drugs and Crime, 2009);

c. The data do not capture the international dimension of corruption, even though the phenomenon is not just an African problem.

The *African Governance Report IV* notes that the increasing level of corruption in Africa is the result of three main factors. First, the level of institutional weakness in many African countries, which makes it possible for political leaders and public servants to misuse national resources and abuse their power without being checked. Second, the continued decline in the living standards of public servants associated with poor incentives in many African countries, which makes corruption a very attractive and viable means of social livelihood. Third, the blind eye often turned to corruptors by western countries. Foreign companies and private interests often take advantage of the weak and ineffective institutional mechanisms available to deal with corrupt practices. This has allowed foreign companies to corrupt State officials in order to gain undue advantage or secure political privileges in State policies.

Following on from the above, it is important not to neglect the existence and significance of the international dimension of corruption in Africa, which is driven primarily by the behaviour of foreign firms and other international stakeholders. Indeed, foreign intervention is an intrinsic part of the policy landscape in many African countries since it comes through conditionality frameworks, which is often tied to official development assistance (ODA) packages. It is obvious that ODA remains critical in financing the continent's structural transformation agenda. Specifically, in terms of meeting the challenges caused by corruption, ODA has been used to support anti-corruption initiatives in many African countries, notably by strengthening the judiciary, national anti-corruption agencies and improving State accountability. In fact, part of the public policy literature advocates that foreign assistance contributes to reducing corruption in a given country.

ODA flows also influence the evolution of corruption in Africa, given its continued significance within

African national budgets. The total amount of ODA to African countries has more than doubled in real terms during the past 15 years.[1] For example, the amount of ODA to African countries increased by 115 per cent between the period 1997/1998 and 2013.[2] Such financial flows play an important role in the economy. Available data indicate that in 2013, ODA amounted to about 2.7 per cent of total income. Such a continent-wide average hides important variations, and there are 16African countries receiving ODA resources corresponding to more than 10 per cent of GDP.

In countries dependent on foreign assistance, the overall socioeconomic and geopolitical landscapes are such that public policies cannot be attributed to the State only. Specifically, foreign assistance is an outlet by which certain political elites in recipient countries engage in rent-seeking behaviours. On this basis, part of the development literature has reached scathing conclusions on foreign assistance, for example that aid can make States less accountable, that there are vested interests for ODA to be channelled to specific activities, and that it incentivizes domestic corruption.

The present report notes that the distinction between types of foreign assistance has a different correlation with corruption.[3] For example, in 2014, Norwegian total bilateral foreign assistance to African countries amounted to 4.938 billion Norwegian kroner. Of this, 1.051 billion kroner (slightly above 21 per cent) was spent for specific purposes/activities.[4] In the African aid architecture, bilateral aid tends to be tied to countries' political agendas, especially in natural resource-rich countries.

The literature is unable to reach consensus on the definition of corruption and the same applies to cross-border corruption. Instead, the debate on cross-border corruption focuses on its various forms. However, the common element of all forms of cross-border corruption is that it occurs across jurisdictions and within the realm of international commercial transactions. Cross-border corruption is a serious concern given "its potential to interact with domestic corruption, often with the effect of intensifying both and making reform more difficult. In its causes as well as in its consequences, cross-border corruption has much in common with domestic varieties; countries that have serious internal corruption problems are likely to be particularly vulnerable to cross-border forms as well" (Johnston, 1998, p. 14).

In practice, cross-border acts include: collusion between suppliers and public officials within the international supply chain; money laundering; customs tariff avoidance; and bribery in international transactions. The report notes that: in 2014, following a three-year trial, the Serious Fraud Office of the United Kingdom of Great Britain and Northern Ireland convicted the Smith and Ouzman company of bribing foreign public officials in Mauritania and Kenya[5]; in early 2015, two subsidiaries of Goodyear Tire and Rubber Company, based in Angola and Kenya, allegedly paid bribes to public officials in order to increase sales, in breach of the United States Foreign Corrupt Practices Act (Alix Partners, 2015); and between 1995 and 2014, out of a total of 1,080 cases of cross-border corruption, 257 (or 23.8 per cent) referred to African countries.

The report also notes that illicit financial flows are import elements of international corruption affecting the African continent. Such flows may originate from three broad types of activities: commercial activities, criminal ones, and corruption. However, it is to be recalled that corruption is also intrinsically linked to commercial and criminal sources of illicit financial flows. Illicit financial outflows which derive from commercial activities "have several purposes, including hiding wealth, evading or aggressively avoiding tax, and dodging customs duties and domestic levies" (ECA, 2015, p.24). Among the criminal activities that may give rise to illicit financial flows, of particular relevance in Africa are "trafficking in people, drugs and arms and smuggling, as well as fraud in the financial sector, such as unauthorized and/or unsecured loans, money laundering, stock

1 All figures reported are the results of the authors' computations using data from the OECD Development Assistance Committee, and in particular table 30 on "Net disbursements of ODA to Sub-Saharan Africa by recipient" and table 25 on "ODA receipts and selected indicators for developing countries and territories".Available from http://www.oecd.org/dac/stats/statisticsonresourceflowstodevelopingcountries.htm. Accessed 31 August 2015. Easterly and Pfutze (2008, p.2) warn about the quality of data, in a situation where "cooperation with the DAC is voluntary and a number of international agencies apparently do not participate in this sole international effort to publish comparable aid data".

2 The average of the years 1997 and 1998 was $20,967 million (at 2012 prices and exchange rates), and it became $44,904 million in 2013.

3 See also, among others, Askarov and Doucouliagos (2013).

4 The computations are from data available from http://www.norad.no/en/front/countries/.

5 More information is available from http://www.ft.com/intl/cms/s/0/28b88282-8a04-11e4-9271-00144feabdc0.html.

market manipulation and outright forgery" (ECA, 2015, p. 31). The stark reality is that illicit financial flows are motivated by the perpetrators' need to safeguard their proceeds from corrupt activities, outside Africa.

Institutions which may drive illicit financial flows consist of an intricate network of African and international financial institutions. This network represents an interconnection of different jurisdictions (characterized by varying degrees of financial secrecy) and informal institutions. In addition, there is the ancillary presence of some foreign firms (multinational corporations) which are also perpetuators of illicit financial flows.

International corruption, to a varying degree, represents a threat to the sovereignty of African countries. Such an implication is directly obvious for those episodes of corruption involving foreign States as the giving hand in the corrupt relationship. However, negative implications for national sovereignty are present even when foreign firms are the corruptor as they might be part of broader strategies aimed at capturing African elites. More generally, international corruption presents a particularly serious problem of accountability to the African polities involved and to their civil societies. The fact that some of the protagonists of the corrupt exchange reside abroad, and can easily escape the local domestic jurisdictions, exacerbates the chronic problem of transparency and accountability experienced in most of Africa. In this respect, an already present democratic deficit manifests itself with particular virulence.

Given the prominence and pertinence of its international dimension, the problem of corruption in Africa cannot be tackled by crafting policies, which are exclusively domestic-oriented. At a minimum, there is a need to sharply increase the transparency of the international financial system and to augment the capacity of States, so as to place an obstacle to illicit financial flows, which are instrumental to the more vicious and damaging occurrences of corruption. Increased State capacity, together with international coordination, is also a necessity for a more proactive role of African jurisdictions in fighting occurrences of cross-border corruption.

Key messages and findings

The key messages and findings of this report are presented below, drawing on the foregoing discussions on the issue of corruption and its measurement in Africa. Both the conceptual framework and current measurement techniques show the flaws of current approaches to understanding the issue of corruption in Africa in a meaningful way. The report calls for a rethink of the problem of measuring corruption. The critical messages of this report are:

a. Corruption has many facets and is often conducted in secrecy, which makes it inherently difficult to measure in a precise and objective manner. In this regard, any results based on empirical measurements of corruption must be treated with some scepticism. The use of perceptions of corruption rather than corruption per se is problematic as perception may change far more rapidly than the actual levels of corruption;

b. Corruption is a complex phenomenon in all countries to varying degrees. There is no international single clear definition of corruption and this definitional ambiguity affects international rankings and attempts at cross-county comparisons. Such comparisons may be done, but have very limited usefulness. In this regard, African countries should engage in improving their own governance agenda rather than undertaking the futile exercise of naming and shaming one other because of the given perception of the levels of corruption;

c. Although corruption is a variable that cannot be measured precisely, the number of indices has grown exponentially over the years, largely to raise awareness among policymakers and the general public. The range of indicators include the Corruption Perceptions Index (Transparency International) and the Worldwide Governance Indicators (the World Bank), and a newer generation of indices, such as the Global Corruption Barometer (Transparency International), the Global Integrity Index (Global Integrity) and the Index on African Governance (Mo Ibrahim);

d. The types and quality of data make corruption measurement difficult. Given that objective data on corruption are difficult to obtain, no measurement framework accurately accounts for actual levels of corruption in a country and, by extension, at the global level with precision. Specific perception-based measures of corruption are imperfect proxies to overall levels of corruption. There is a need to enhance broader data quality. Disaggregated indicators are one of the more effective methods to operationalize corruption data. Whenever possible, quantitative data should be combined with qualitative assessments;

e. There is a need to move the debate beyond the present corruption indicators and assess corruption in a broader African governance context. The levels of institutional weakness in many African countries make it possible for political leaders and officials to misuse national resources and abuse their power without being checked. In this regard, strengthening and building governance institutions is instrumental to tackling all governance challenges affecting the continent, including corruption;

f. The current practice of survey bias towards one group of society over another undermines the quality of the outcome of the corruption measurement;

g. Identifying the major types of corruption in a given country and measuring their individual occurrence (e.g. no aggregation) should provide a better picture of their extent and prevalence in the country. This will better equip policymakers with relevant information to allow them to design and carry out appropriate anti-corruption measures;

h. Although corruption always has an international character, in Africa, the international dimension of corruption has characteristics such that any narrative or measurement on corruption which does not take into account this dimension would be seriously incomplete because of two broad issues:

    i. Foreign assistance can play both a positive and a negative role in terms of its impact on corruption at country level;

    ii. Cross-border financial flows may be both a determinant and a cause of corruption.

Policy recommendations

The policy recommendations of this report are categorized into four interconnected themes: enhancing ownership and participation in development planning; improving transparency and accountability; building credible governance institutions; and improving the regional and global governance architecture.

1. Enhancing participation and ownership is critical for Africa's structural transformation

The report notes that in most African countries, there continues to be minimal participation by the population at large in development planning processes and corresponding policymaking. The lack of a participatory approach creates a significant space for corrupt practices. In this regard:

a. African States should introduce and enforce processes that allow citizens, including vulnerable groups, to participate in development planning and policymaking;

b. Foreign assistance should explicitly focus on establishing institutions that allow citizens to participate in their countries' development processes;

c. Citizens' voices need to be heard and in this regard, civic education should be fostered at all levels. Across Africa, there are examples of civil societies taking a more active role in the delivery of public services and reducing the incidence of corruption, but there remains leverage to do more.

2. Strengthening transparency and ensuring accountability must be given priority

Transparency and accountability are essential requisites in ensuring good governance and, in turn, reducing corruption. In many African countries, weak transparency and accountability undermine the possibility of planning and executing policies, notably those relating to structural transformation. There are three major stakeholders whose combined actions influence the degree of transparency and accountability: the Government and other State actors; the media; and civil society organizations:

a. African countries should approve freedom of information laws and reinforce their implementation. Prior to 2011, the number of countries with freedom of information legislation on the African continent stood at 5, representing just 9 per cent of the entire continent. This number has since increased to 13, representing 24 per cent of all countries in Africa. At present, Angola, Côte d'Ivoire, Ethiopia, Guinea, Liberia, the Niger, Nigeria, Rwanda, Sierra Leone, South Africa, Tunisia, Uganda and Zimbabwe have all adopted freedom of information laws;

b. More transparency is required on information relating to political processes. One practical option is the introduction of Africa i-Parliaments. The second is an Africa-wide initiative, established in 2005, to "empower African parliaments to better fulfil their democratic functions by supporting their efforts to become open, participatory, knowledge-based and learning organizations".[6] The project is supported by the United Nations Department for Economic and Social Affairs and funded by Italian Development Cooperation;

c. Information relating to the activities of public administrations should be made readily available, which would contribute considerably to increasing transparency. This applies notably to public procurement, which remains highly vulnerable to corruption. For instance, readily available data on public procurement would allow the computation of standardized costs of what is being bought, which in turn would enable the auditing of activities in those cases that seem most suspect;

d. It is critical for all African States to ensure fiscal transparency and good public financial governance in order to reduce corruption risks, through the Collaborative Africa Budget Reform Initiative. This Initiative was created in 2007 to deal with these two imperatives. At present, only 13 countries have acceded to the Initiative: Burkina Faso, Central African Republic, Côte d'Ivoire, the Gambia, Ghana, Kenya, Lesotho, Liberia, Mali, Mauritius, Rwanda, Senegal and South Africa;

e. Increased transparency in the use of official development assistance is of paramount importance. Projects such as the International Aid Transparency Initiative (2010a)[7] should be embraced and fully implemented by African countries. The Initiative aims at enhancing aid transparency so as to improve aid effectiveness. It is articulated around the International Aid Transparency Initiative Standard, which is a template for countries to report detailed data on development cooperation activities. Thirteen out of the 40 partner countries are from Africa. These are: Benin, Burundi, Burkina Faso, the Republic of the Congo, the Democratic Republic of the Congo, Ghana, Liberia, Madagascar, Malawi, Nigeria, Rwanda, Sierra Leone and United Republic of Tanzania;

f. The media is an essential actor in ensuring good governance. A thriving free media is a prerequisite for any country's successful socioeconomic development. Such a standard is not respected in several African countries and rectifying such a situation should be a priority. African countries have a moral duty towards their populations to guarantee the statutory independence of the media. In practical terms, they should, for instance, ensure the safety of local and international media organizations and journalists;

g. African countries should strive to provide a civil society organization-friendly environment, by encouraging civil society organizations to engage actively with legislators, auditors and other oversight institutions. It is to be recalled that civil society organizations have an important role in guaranteeing a country's fight against corruption. In this regard, African Governments and the private sector should support these organizations by strengthening their capacity through training programmes, among others.

3. Building credible governance institutions should define the transformation agenda beyond the issue of corruption

The report acknowledges that reforming public institutions is complex and appears to be a daunting challenge for many African countries, more so if the evidence presented is based on weak and irrelevant indicators. Many of the recommendations relating to governance institutions have already been advanced, but implementation remains an enormous challenge. Too often, Africa has replicated institutions from abroad without any domestication plan. Institutions, and sometimes even constitutions, have been imported, while an endemic lack of institution-building has entrapped African States with administrations that are often inefficient. Such isomorphic mimicry results in

6 See http://www.parliaments.info/.

7 For a discussion on open data, see Lucio Picci (2012).

implementing reforms without their core underlying functionalities.

Correcting the endemic problems which many African countries continue to encounter in terms of institution-building is not easy. Part of the policy recommendations aimed at increasing transparency and strengthening implementation mechanisms contribute to enhancing institutional building. African States should more effectively define their institution-building processes, allowing and encouraging them to be part of a national discourse on good governance. Some of the critical areas for governance reforms include:

a. Strengthening the capacities of accountability and oversight institutions, as part of wider governance reforms. This implies that African countries have to invest in strengthening the capacities of their parliaments, audit institutions, ombudspersons, judiciaries (including anti-corruption and commercial courts), media and civic associations;

b. Improving public sector management to ensure effective use of financial and human resources. In this regard, African countries should set up regional centres of excellence to enhance skills in accounting, auditing and decentralized budgeting.

4. Fostering international cooperation and improving the regional and global governance architecture is a required urgent action in Africa

Corruption in Africa has a significant international dimension. In this regard, African countries and international stakeholders should collaborate to significantly improve the global governance architecture. In recent years, various global initiatives have been established to tackle corruption. For instance, through the Organization for Economic Cooperation and Development's Automatic Exchange of Information Portal, financial institutions have to report to their tax agencies the accounts held by non-resident individuals and entities. Nevertheless, a lot more remains to be done, for instance:

a. Advanced economies should be fully committed to their obligations under the OECD Anti-Bribery Convention of 1997 and ensure rigorous enforcement. Indeed, pressure should be exercised on non-complying countries to ensure that firms fully internalize the risks of prosecution when deciding how to carry out business in African countries;

b. Relevant international organizations should take a more proactive stance in encouraging and promoting collaboration aimed at effective forms of exchange of information on financial flows;

c. African States should be proactive in their participation in international activities aimed at combating illicit financial flows, while fully implementing regional initiatives. To this end, the African Peer Review Mechanism should incorporate issues of illicit financial flows for country review evaluations;

d. There is a need for African countries and development partners to discuss illicit financial flow issues through solution-exchange virtual platforms. To this end, Africa should work closely with its global partners (e.g. the European Union, the G20) to foster transparency and accountability in the banking and financial systems;

e. Global anti-corruption campaigns are generally directed towards demand-side corruption, although the supply-side is equally important. The role of private sector actors in fuelling corruption (both domestically and internationally) should not be ignored. In this regard, international conventions should make provisions for punitive measures, which also target the private sector.

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

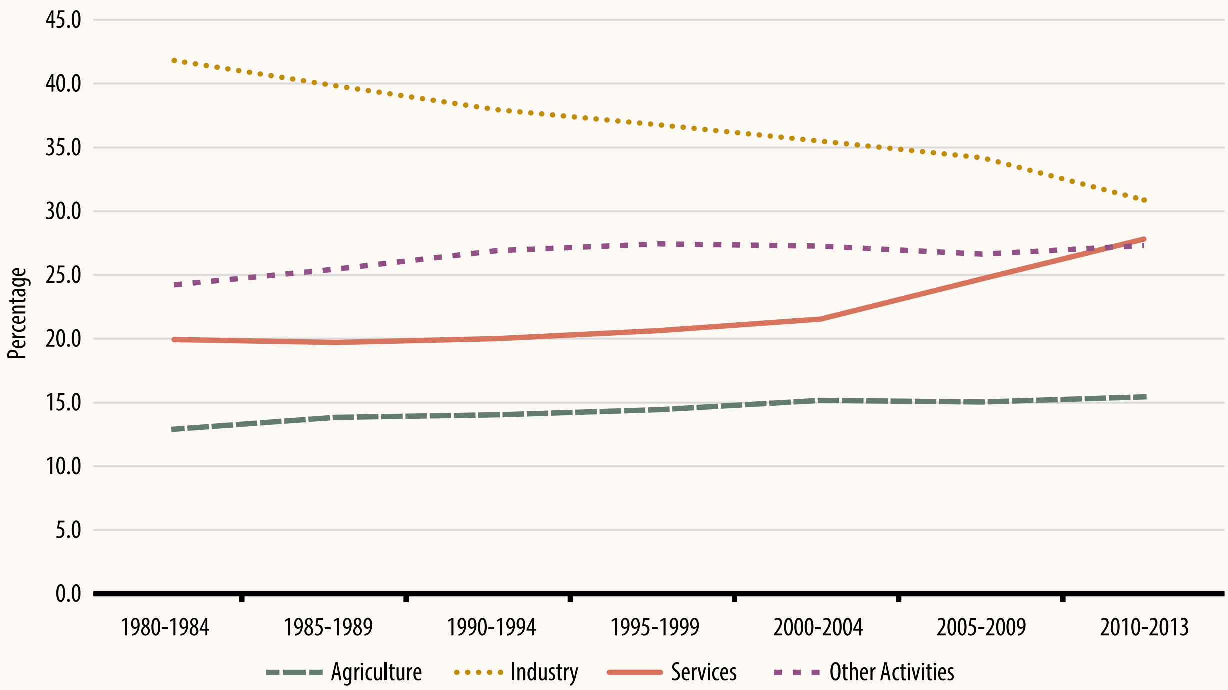
Post-apartheid **South Africa** has shown strong patterns of structural change in its economy. In terms of the country's GDP composition, services account for an estimated 65 per cent and its industrial sector accounts for 31.6 per cent. South Africa has a robust mixed economy, which includes mining, 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,[8] whose unfavourable geographic location and inadequate composition of natural endowments make manufacturing a less viable path for development,[9] 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.

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 (1995) 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.

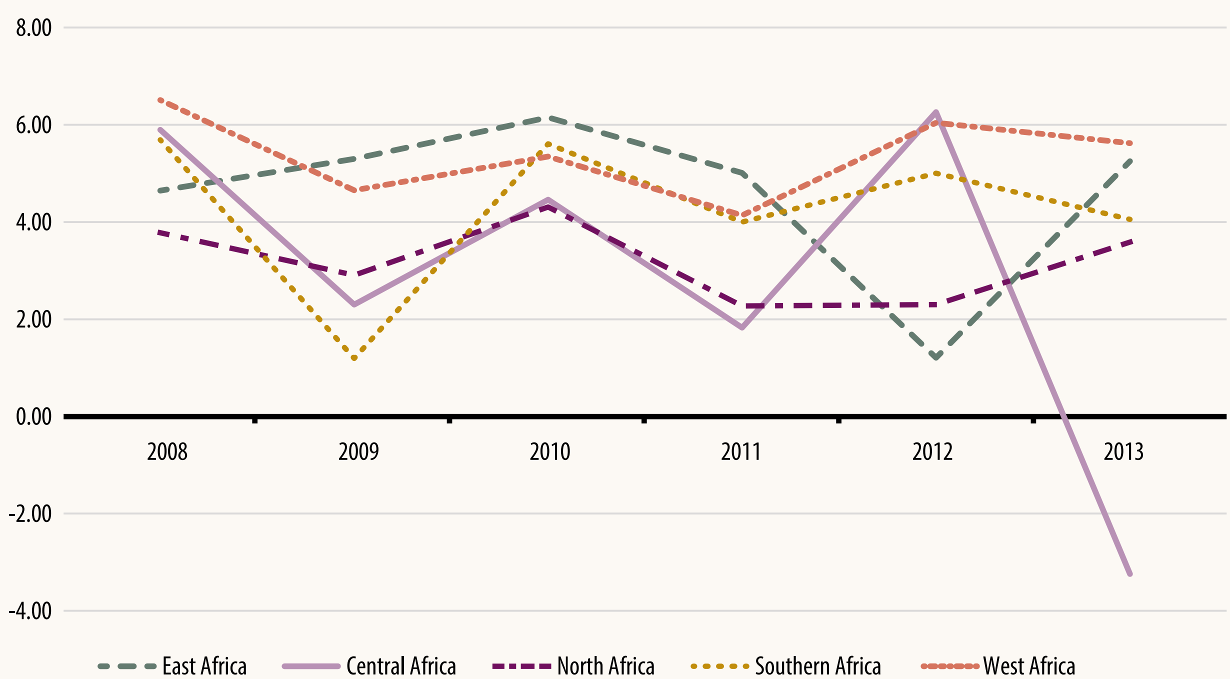
Drawing attention to the need for countries to play a central role in defining and determining their path and priorities for structural transformation is therefore an imperative for development planning. This is because there are differences among countries, notably in terms

8 Africa is home to the majority of the so-called "least developed countries", with 34 of the 48. 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).

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.

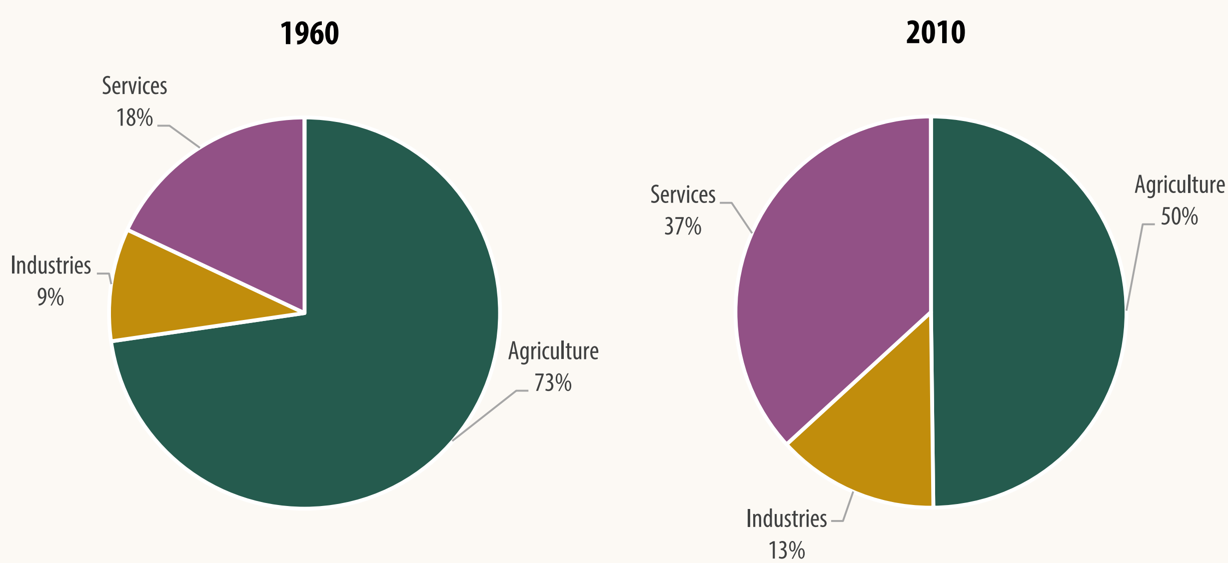
In order to prevent fragility and vulnerability to slowdowns resulting from internal and external shocks, and also sustain economic recovery, the 2014 edition of the *Economic Report on Africa*, which is produced annually by ECA, calls for the prioritization of economic diversification for countries 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).

Figure 3

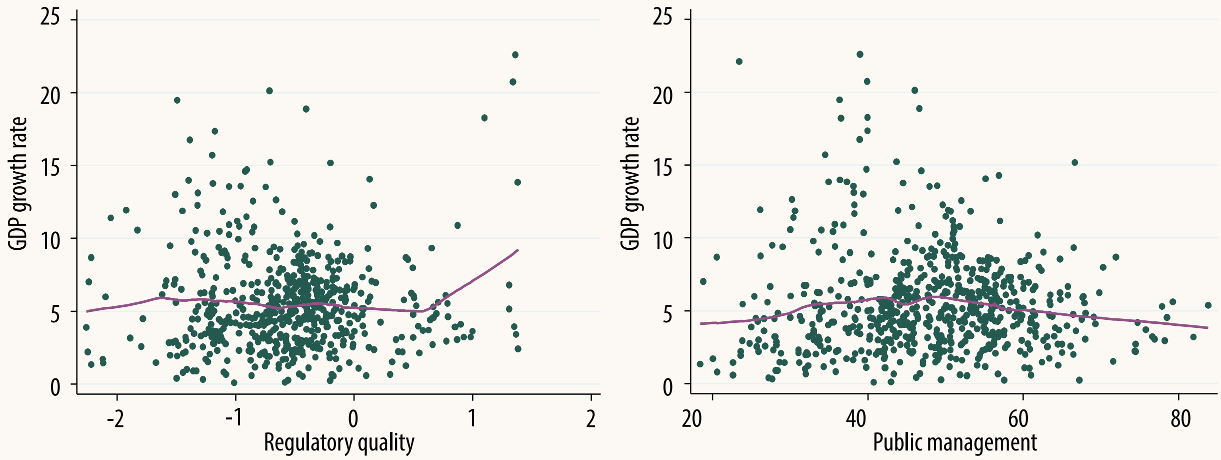
REAL GROSS DOMESTIC PRODUCT PER SUBSECTOR FOLLOWING THE GLOBAL CRISIS



Source: de Vries, Timmer and de Vries, 2013.

Figure 4

DIFFERENT EFFECTS OF GOVERNANCE ON GROSS DOMESTIC PRODUCT GROWTH FOR AFRICAN COUNTRIES



Source: Analysis by ECA staff, using Worldwide Governance Indicators data and Ibrahim Index of African Governance data, 2015.

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).

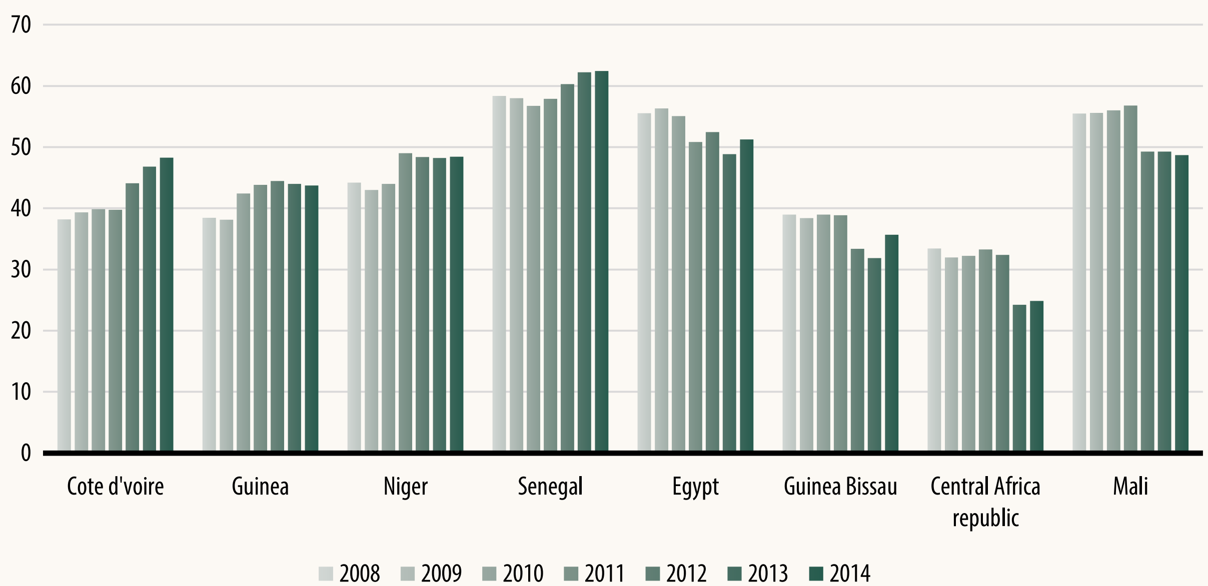
In the African context, the definitions and principles of governance were first set out in the African Union's New Economic Partnership for Africa's Development (NEPAD) strategy, in 2003. The NEPAD strategy highlights that the pre-conditions for development in Africa include peace, security and political 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



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.

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).

> "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.

> 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.

The *African Governance Report III* highlights that weaknesses in political governance can be traced back to the colonial era. Several regimes were exploitative and extractive, and in many cases institutions were established to cement political powers instead of creating an environment of accountability. These institutions have continued to exist even after independence (Chuhan-Pole and Angwafo, 2011). Such deep-rooted challenges were not appropriately addressed by post-independent African rulers, notwithstanding their emphasis on unity, development and national integration. In fact, for most of Africa, the post-colonial governance architecture has been characterized by authoritarian strategies such as centralization and one-party regimes. Adejumobi (2000, p. 7) highlights that then, "the dominant doctrine was one of a dictatorship of development rather than a democracy of development".

Political stability and transparent processes are essential for African countries to achieve inclusive development. 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.

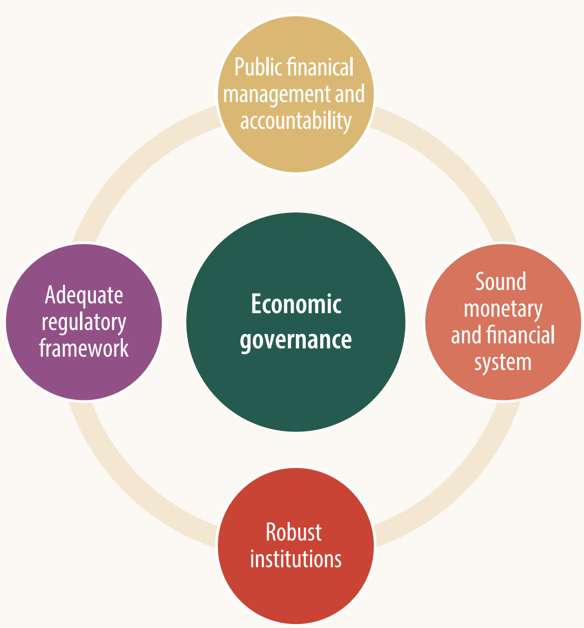
According to Henderson and others (2002), economic governance is the structure and practice of economic policymaking and management. In concrete terms, good economic governance is about institutions of Government having the capacity to: manage resources efficiently; formulate, implement and enforce sound 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.

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.

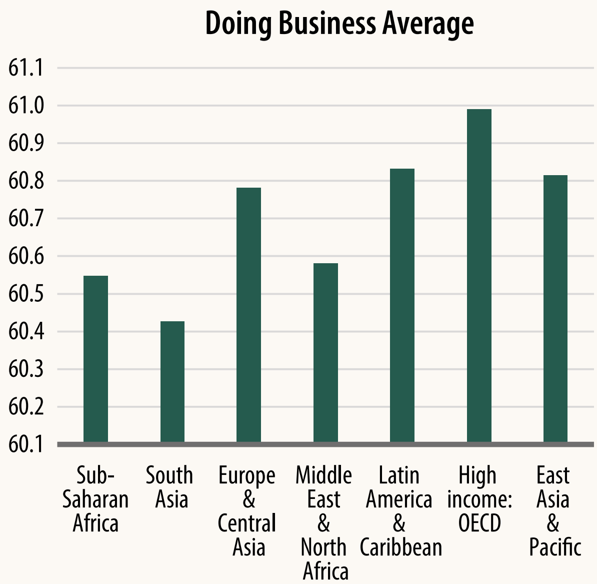
Source: Allan and Overy, 2009.

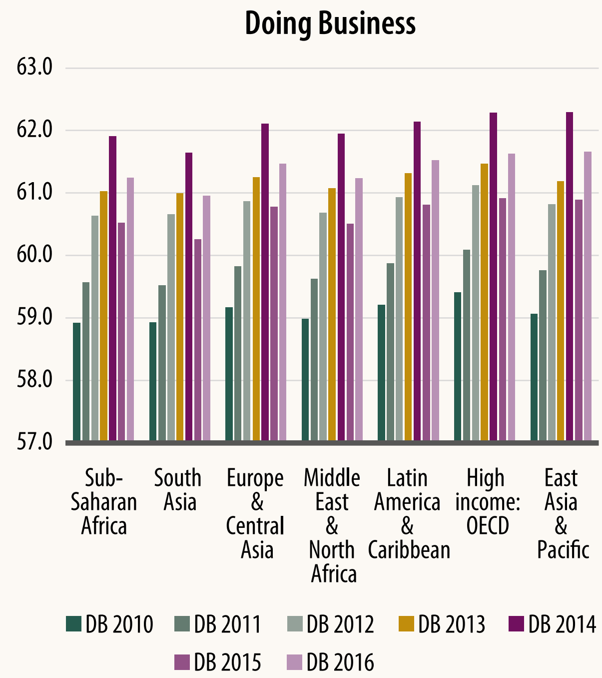
Improving economic governance for private sector development

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

Figure 7

TRENDS IN PERFORMANCE ON EASE OF DOING BUSINESS INDICATORS





Source: World Bank, 2015a.

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.

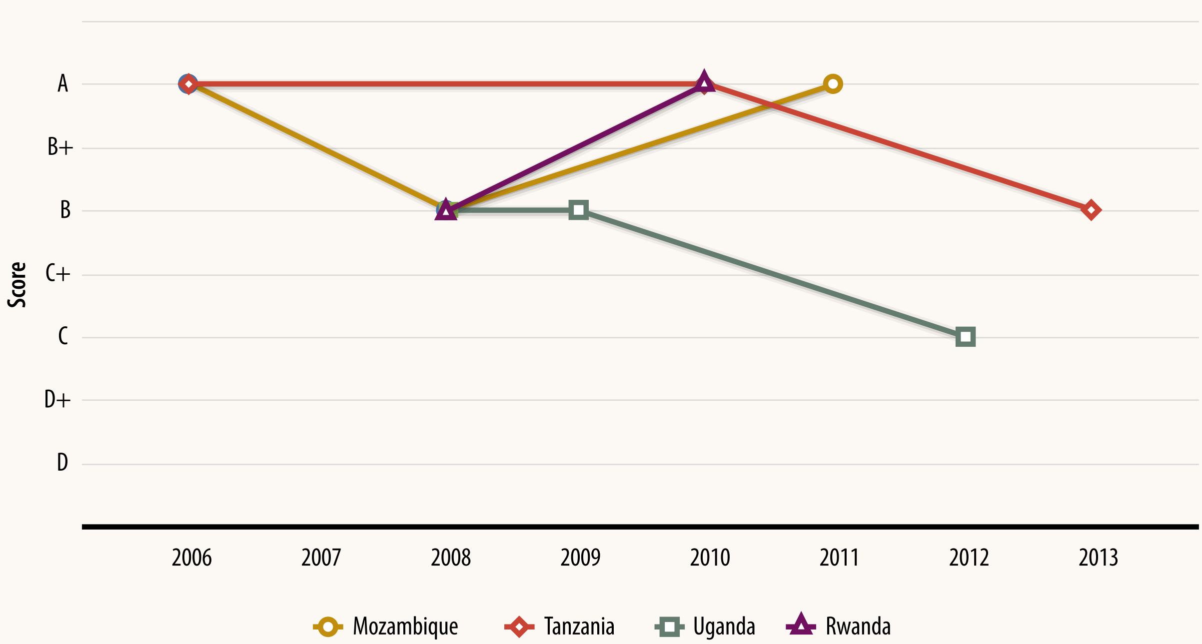
D. Corruption as an impediment to economic governance

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).

Figure 8

AGGREGATE EXPENDITURE OUT-TURN COMPARED TO ORIGINAL APPROVED BUDGET



Source: Public Expenditure and Financial Accountability database, 2015).

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”[11]. 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”.[12] The most popular definition of corruption today is “the abuse of entrusted power for private gain”.[13] 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.

11 Available from http://www.oxforddictionaries.com/definition/english/corruption.

12 Available from http://www.ldoceonline.com/.

13 Transparency International and the World Bank’s definition of corruption.

Corruption can also occur with 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 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."

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.

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.

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 socioeconomic settings where personal incomes cannot meet the basic needs of civil servants, the quality of public

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.

Sources: (1) *Public Procurement System Challenges in Developing Countries: the Case of Zimbabwe* (International Journal of Economics, Finance and Management Sciences, 2013, vol. 1, No. 2, pp. 119–127); (2) *Mining and corruption – crying foul in Guinea* (The Economist, 2014). Available from http://www.economist.com/news/business/21635522-africas-largest-iron-ore-mining-project-has-been-bedevilled-dust-ups-and-delays-crying-foul; (3) *Recent case of corruption involving UK companies and UK-backed International Financial Institutions* (Parliament UK, Appendix 1). Available from http://www.publications.parliament.uk/pa/cm200001/cmselect/cmintdev/39/39ap06.htm; (4) *Report on Fraud and Mismanagement of Malawi Government Finances* (National Audit Office Malawi, 2014). Available from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/285877/20140221_National_Audit_Office_Malawi_-_Forensic_Audit_Report_-_FINAL_ISSUED.pdf.

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.

Box 7

UNITED NATIONS CONVENTION AGAINST CORRUPTION AND THE AFRICAN UNION CONVENTION ON PREVENTING AND COMBATING CORRUPTION: ENUNCIATION OF CORRUPTION

Both the United Nations and African Union conventions address the concepts and effective mechanisms to combat corruption. Neither of the conventions provides a precise definition of corruption, but rather they stipulate a range of corrupt practices that are criminalized under several national penal laws. The United Nations Convention criminalizes corrupt practices such as bribery, money laundering, abuse of power, embezzlement and trading in influence. Similarly, the African Union Convention criminalizes a wide range of acts, including domestic and foreign bribery, illicit enrichment, money laundering and concealment of property. The common denominator of such corrupt practices is that they consist of inducing undue advantage from public officials and private entities for personal gain. Given the difficulty in encapsulating a holistic notion of corruption, the African Union Convention on Preventing and Combating Corruption contains an open-ended clause (article 4.2). This clause is applicable, by mutual agreement, between two or more African States, to any other act or practice of corruption and related offences not described therein.

Source: United Nations Convention against Corruption and the African Union Convention on Preventing and Combating Corruption (Transparency International, 2003).

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.

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.

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.

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 mismanagement, 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 anyway belittle the depth and magnitude of the socioeconomic 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.

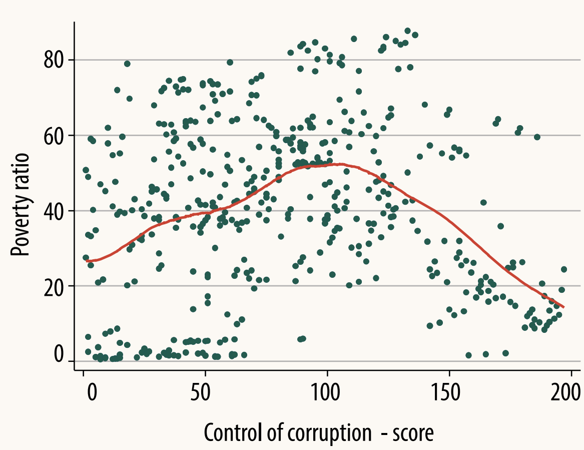
Corruption is undoubtedly adversely affecting key economic sectors in Africa. In the extractive sector, illegal logging and mining, diversion of oil revenue and illicit appropriation of public assets have emerged as the overwhelming challenges of corruption (Igbayato and Imoudu, 2008). Inadequate or 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

Figure 9

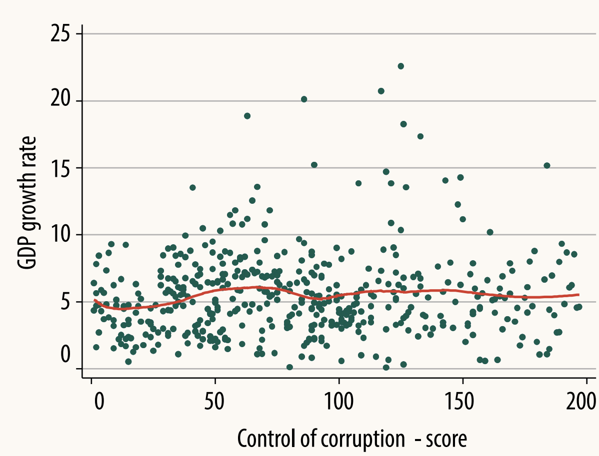
NON-PARAMETRIC RELATIONSHIP BETWEEN POVERTY HEADCOUNT AND CONTROL OF CORRUPTION



Source: Produced by ECA staff.

Figure 10

NON-PARAMETRIC RELATIONSHIP BETWEEN GROSS DOMESTIC PRODUCT GROWTH RATE AND CONTROL OF CORRUPTION



Source: Produced by ECA staff.

modern 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-Lobaton, 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.

Source: Assessing the Efficiency and Impact of National Anti-Corruption Institutions in Africa (ECA, 2010, pp. 58–59).

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 to16 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.

CHAPTER 2

Why are current perception-based measures of corruption inadequate for Africa?

Chapter 1 highlighted the importance of tackling corruption, in particular the need to reconsider its measurement in the context of Africa. Current perception-based measures of corruption are inadequate in providing a credible assessment, given the specificities of the African context. While it is important to review how African countries have performed against these measures, to understand the implications for policy development and institutional building, the question for Africa's policymakers is: what is the usefulness or otherwise of such perception-based measures, noting that a wider governance agenda must be brought into the debate? In order to answer this question it is critical to assess the conceptual and methodological frameworks underpinning most corruption measurements. In addition, it is equally critical to understand the main limitations of popular corruption measurements. There is, therefore, a need to move away from naming and shaming and ranking countries, which does not provide useful policy insights and recommendations to inform policy reforms.

A. What are perception-based measurements of corruption and what methodologies do they use?

Definitional ambiguity impacts on measurement of corruption

Corrupt practices are carried out behind closed doors and away from the eyes of the general public, which makes measuring corruption difficult. Furthermore, the perception of corruption varies from country to country and from region to region. What is clearly labelled as a corrupt practice in advanced economies may fall in a grey area in Africa, and may even be an outright acceptable practice in other parts of the world.

Corruption takes many forms and may originate from different sources. Of critical importance is the fact that types of corruption differ from one another in terms of the source of power that is exploited and the impact on the economy and wider society. One type could be in the form of small bribes from an official in exchange for a service, while another might be the aggrandizement of society's assets by a leader as personal property – grand or political corruption.

When it comes to bribes, the service in question would have been a right of the individual. The official has some power to impose costs (in the form of delays and opportunity costs of permit denial) on the beneficiary before granting the service. A bribe is thus demanded to reduce that cost. This form of bureaucratic corruption tends to occur when a regulatory regime exists and the resource allocation decisions are made – the official in question is interfering with the implementation of decisions or the regulatory regime.

Economic models of bureaucratic corruption undertake to analyse problems of information asymmetry (to identify which agents are corrupt and which will participate in propagating corruption) and uncertainties about costs (associated with probabilities and penalties of detection, as well as with the purchase of loyalties of other agents) alongside other explanatory variables such as demand and supply factors. Rose-Ackerman (1978), Murphy, Shleifer and Vishny (1993), Dabla-Norris (2002), Ahlin and Bose (2007), and Lambert-Mogiliansky and others (2007), among many others, provide examples of such economic models. Acemoglu and Verdier (2000) illustrate the role of corruption in Governments' attempts to correct market failures.

In political or grand corruption, the leader maximizes personal wealth rather than the welfare of the population. To do so, the leader must acquire near to complete control of political powers within the country. A portion of the wealth amassed through corruption is used to buy the loyalty of those who will help the dictator to remain in power, and to undermine civic society and the public institutions that could rise up in opposition to such breaches of the social contract. Grand corruption drives misallocation of resources and an extreme degree of concentration of wealth into the hands of a few kleptocrats. Grand corruption also has the tendency of killing democratic political institutions in a country. For example, in Uganda, the lifting of the constitutional two-term presidential limit in 2011 sparked political controversy, as this coincided with the provision of funds to parliamentarians, allegedly to support their constituency development work. This action resulted in a public perception of possible political corruption.

There are many ways to view corruption other than in between the two extremes of petty and grand corruption. Aidt (2003) outlines four types of corrupt activities. It is worthwhile to exclude fraud and the mere existence of poverty (or worsening of income distribution) as signs of corruption. Similarly, influencing public policy through legitimate routes, either by providing information or by making political contributions, is not necessarily evidence of corruption. Political Action Committees in the United States and similar lobbying groups in other countries have a legitimate role to play in modern democracies and their activities need not be considered corrupt. Equally, policy decisions responding to the demands of specific voting groups, and hence in the personal interest of a politician, may not be considered corrupt.

The definitional ambiguity surrounding the concept of corruption is particularly unsettling when attempts are made to measure it. The type of definition one chooses to describe corruption will influence the conceptual, methodological and empirical framework adopted to analyse it. In this regard, it is unsurprising that the drafters of the United Nations Convention against Corruption experienced difficulties when trying to come up with a definition of corruption: "It was decided that the text of the Convention would not include a definition of corruption, as this is a polyvalent and changeable term that means different things to different people, and above all because it is an evolving concept" (Argandona, 2006, pp. 5).

The effects of corruption on the economy can be summarized as follows: higher prices for consumers; reduced tax revenue; Governments' inability to finance budget expenditures; and substandard public infrastructure and its poor maintenance. Corruption also leads to uncertainty in economic transactions, whilst undermining the people's trust in its institutions and leadership.

> The literature highlights that the Corruption Perceptions Index contributes to awareness-raising and gives a reasonable signal on the overall extent of corruption within countries.

Awareness-raising on corruption through country rankings

Realizing the impacts of corruption on development, practitioners have sought to raise awareness in the general public and policymakers. The most widely used approach has been to rank countries by how corrupt they are, using various statistical proxies. Annual reports on corruption have led to heated debates and in the process have placed corruption at the centre of public policy debates in developing countries. As this chapter will demonstrate, corruption measurements are only useful for raising awareness as opposed to policymaking, given the difficulty of measuring it precisely.

Transparency International has led the way by attempting to quantify and qualify corruption through its annual publication of the Corruption Perceptions Index. As Johnston (2005, p. xi) states: "I have methodological reservations about Transparency International's famous Corruption Perceptions Index […] but I also have great respect for what Transparency International – and its index – have done to put corruption issues on page one and keep them there".

The World Bank, along with many others, has also entered the crowded field of measuring corruption, through its World Governance Indicators. There are numerous measurements of corruption developed by private firms specializing in political and economic risk analysis. These include the Economist Intelligence Unit and Business International (now a part of the Economist group). Others are produced by advocacy groups (e.g. World Economic Forum and Freedom House); opinion-poll firms (e.g. Gallup), media houses (e.g. The Wall Street Journal), and groups of analysts, sometimes working in collaboration with international organizations and agencies (see table 1). The literature highlights that the Corruption Perceptions Index contributes to awareness-raising and gives a reasonable signal on the overall extent of corruption within countries (Heywood and Rose, 2014). Such awareness-raising has in turn contributed to bringing corruption to the forefront of the development agenda. For example, in South Africa, following the country's considerable slippage in the Corruption Perceptions Index rankings over time, Corruption Watch has become more assertive in leading anti-corruption campaigns.

Monitoring the general movements of indicators over time is critical to the efforts in evaluating the

Table 1

COMMON PERCEPTION-BASED MEASUREMENTS OF CORRUPTION USED FOR AWARENESS-RAISING

Measurement	Source	Objective	Methodology
Control of Corruption Index	Millennium Challenge Corporation, United States	Addresses the extent to which public power is exercised for private gain	Analyses petty and grand corruption. Combines up to 21 different sources and surveys, depending on availability. Each source and survey receives a different weighting, depending on its estimated precision and country coverage Survey informants are business leaders, general public and country analysts
Corruption Perceptions Index	Transparency International, Germany	Assesses the level of corruption in the public sector only	Minimum number of surveys used for each country is 3, while some countries are evaluated with the use of as many as 14 to 15 surveys The Corruption Perceptions Index surveys ask questions that relate to the misuse of public power for private benefit (bribery of public officials, kickbacks in public procurement, etc.) or questions that probe the strength of anti-corruption policies, thereby encompassing both administrative and political corruption
Global Integrity Index	Global Integrity Report, Global Integrity, United States	Measures the existence and effectiveness of practices that prevent corruption (e.g. access that citizens and businesses have to a country's Government, their ability to monitor its behaviour, and their ability to redress and advocate for improved governance)	It uses almost 300 disaggregated indicators. The disaggregated indicators assess both de jure and de facto corruption prevention measures and are anchored to scoring criteria to help ensure consistency of scoring across individuals and cultures. Survey scores and report are peer-reviewed to ensure accuracy and replicability Survey informants are independent social scientists, researchers and investigative journalists
Bribe Payers Index	Transparency International, Germany	Captures supply-side of corruption i.e. the likelihood of firms from the world's industrialized countries to bribe abroad	Its source of data is 11,200 business executives from 125 countries. The Bribe Payers' Survey is based exclusively on 2 questions about the business practices of foreign firms operating in a given country. These two questions became part of 2006 World Economic Forum's Executive Opinion Survey
Country Policy and Institutional Assessment	World Bank	To assess transparency, accountability and corruption in the public sector. It is primarily used for International Development Association country resource allocation	Expert rating (World Bank staff)
Global Corruption Barometer Index	Transparency International, Germany	To assess regional and global trends and make cross-country comparisons with respect to people's perceptions and experiences of corruption	The surveys focus on public opinions as to how people perceive and experience corruption in their country

(...)

Measurement	Source	Objective	Methodology
Afrobarometer	Partnership of many Institutions	To measure the social, political and economic atmosphere in Africa	Cross national surveys, this includes face-to-face and house to house. The survey respondents are African social scientists and decision makers, journalists, and African civil societies
African Governance Indicators	African Governance Reports I, II and III, (ECA)	To monitor political, economic and corporate governance trends on the African continent. It introduced corruption as a stand-alone indicator in AGR II	Three research instruments are used: desk research, expert surveys, and household surveys For AGR III, focus group discussions were also used
World Governance Indicators	World Bank	To report aggregate and individual governance indicators for 215 economies (period starting 1996), for six dimensions of governance: voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption	Thirty two data sources that report the views and experiences of citizens, entrepreneurs, and experts in the public, private and non-governmental organization sectors from around the World, on the quality of various aspects of governance. The World Governance Indicators draws on four different types of source data: surveys of households and firms; business information providers; non-governmental organizations; and public sector organizations
Business Environment and Enterprise Performance Survey	World Bank and European Bank of Reconstruction and Development	To assess a broad range of business environment topics, including access to finance, corruption, infrastructure, crime, competition, and performance	Firm-level surveys: manufacturing, retail, and core (residual sectors) Survey respondents are business owners and firms' managers. Surveys include face-to-face
International Crime Victim Surveys (ICVS)	ICVS Working Group	To provide information on crime and victimization. It investigates households' experiences of crime, and analyses petty and grand corruption	Combines up to 140 surveys and each receive a different weighting. Survey informants are urban households and face-to-face or telephone interviews (or both), shifting focus from firms (in 2000) to individuals. Meetings, discussions or forums with top international political leaders, top business leaders, selected intellectuals, and journalists
Gallup International "Voice of the People"	Gallup International made up of the five largest independent market research and polling firms	To solicit public opinion on social and political issues	Every year, the survey is conducted in approximately 50 countries, with a minimal sample size of 500 per country. Wherever possible, in each country a nationally representative sample of 500 adults, male and female, aged 18 and older will be used
Ibrahim Index of African Governance	Mo Ibrahim Foundation	To provide an annual assessment of governance in every African country	Composite index that uses 86 proxy indicators to measure governance. For 2013, the Index is calculated using data from 32 independent sources. Annual refinements are made to the Index, which is based either on the inclusion or exclusion of indicators
Public Expenditure Tracking Survey	World Bank	To trace the flow of resources from origin to destination and determine the location and scale of anomaly. The surveys give insights into cost efficiency, decentralization and accountability	Quantitative survey of the supply side of public services. The survey collects information on financial flows, outputs (services delivered) and accountability arrangements, among others. Dissemination will include publications (working papers and journal articles) and in-country seminars

Source: Compiled by the ECA Government and Public Sector Management Section staff using various sources.

Table 2

RANKING OF SOUTH AFRICA IN VARIOUS GOVERNANCE-RELATED INDICES

Source	Index/report	Date	Ranking	Observations
World Economic Forum	Global Competitiveness Index	2013	53rd out of 148 countries	Second highest ranked country in Africa after Mauritius (45th). South Africa performs well on: quality of its institutions (41st), property rights (20th), and efficiency of legal framework in challenging and settling disputes (13th and 12th respectively)
World Economic Forum	Africa Competitiveness Report	2013	2nd out of 38 African countries	South Africa is seen as being as innovative as Brazil and India. The country is reported to boast high-quality scientific research institutions, strong investment in research and development
The Heritage Foundation	Economic Freedom	2013	74th out of 177 countries	It is ranked 6th out of 46 countries in Africa, excluding North Africa. Its economy is "moderately free"
Transparency International	Corruption Perceptions Index	2013	72nd out of 177 countries	South Africa is 10th out of the African countries
Mo Ibrahim-Foundation	Ibrahim Index of African Governance	2013	4th out of 52 countries	The country ranked 4th on sustainable economic opportunity, as compared to 8th on safety and rule of law and 4th on overall governance

Source: Compiled by ECA staff from various sources.

effectiveness of anti-corruption interventions at the national level. Measurements of corruption also serve as a diagnostic tool for international financial institutions, enabling them to evaluate the progress they are making in their engagement with developing countries. It is interesting to note that historically, almost all institutions producing these indicators were based in developed countries. In the past few years, however, some attempts have been made by institutions such as ECA[14] and the African Development Bank to "Africanize" the design and the application of corruption measurement instruments. There is therefore an increasing realization that an African perspective on the issue of measuring corruption is critical in shaping the structural transformation debate.

How accurately these indices measure corruption in a country and to what extent they are reliable instruments to compare the degree of corruption across countries is, however, highly questionable. Indeed, these measurements are like a double-edged sword in that the ranking of countries also implicitly acts as a naming and shaming tool. This naming and shaming has serious effects on a country's development since it can go as far as creating a deterrent for both development partners and investors. For Africa, the reality might actually be that the corruption on the continent might not be worse than other regions. This is because these common measures of corruption are primarily perception-driven and reflect highly subjective views of a few individuals and firms. For example, if one looks at the case of South Africa, there are wide variations in its rankings depending on the governance-related index, thus conveying very different messages (see table 2) on the country. This illustrates the persistent perception gaps associated with these measures.

Data issues in corruption measurement

It is a fact that since the latter part of the 1990s, a large number of indicators have surfaced, all claiming to explain one or multiple dimensions of corruption – both in developing and developed countries. One feature that all of these measurements commonly share, is the similarity in the methods they adopt to gather and analyse data (see table 1). These include, firm surveys, public officials and individuals, and the views of outside observers in non-governmental organizations, multilateral donors, and the private sector. These data sources can be used individually or in aggregate. Whilst the measurements being used may be useful as indicators of the prevalence of corruption, they do not help much

14 *African Governance Reports* – the first report was published in 2005 and subsequently in 2009 and 2013.

by way of advancing policy reforms in Africa. Critics cast doubt over their methodological approach and reliability of data sources.

> Greater economic integration has increased the chances that corruption in one region or country will have an impact on the economic and political activities in other parts of the world.

Current corruption indicators do not present a reliable picture of the phenomenon in Africa. Most of the indices are perception-based and are highly subjective, and can even be misrepresentative of the realities on the ground. The question which arises is whether these measurements are actually capturing what they aim to capture. Most of the data are collected from victimization surveys and expert opinions, which, for the most part, measure people's opinions of corruption. There are two reasons why the victimization surveys are still perception-driven: the data reflect how people perceive the prevalence of corruption in reality and a given time; and objective data are difficult to collect or are too expensive (or both). Indeed, views of people selected to respond to survey questionnaires are shaped by media, culture, experiences, among others. The survey questions often deal with respondents' engagement with public servants and institutions, and seem to be more concerned about how corruption affects a selected group in a society. But corruption does not affect only one group or a segment of the population; it could very well affect all categories of the society. Furthermore, as long as the results of such exercises reflect only the views of a minority, policymakers are not encouraged to push for fundamental reforms.

The corruption indices tend to be underpinned sample bias. Survey respondents are often a small circle of individuals, such as businessmen, media personalities and non-governmental employees. For any indicator of corruption to be strong and reliable, it is necessary that the sample be homogeneous. The standard practice is that different indicators are used in the various corruption indices, which are gathered from surveys based on questions to a limited sample of people. For example, business people are most likely representatives of multinational companies and represent the views of only a small number of people. However, a good score for corruption on the company level does not result in a good score for corruption on the private level. This means that most influential factors, such as the experience of poor and disenfranchised people, are ignored.

In the light of the data constraint, corruption indicators are also **ill-suited for cross-country comparisons over time**. Comparing corruption between country X and Y is like comparing apples with oranges, since each country has itsunique historical experiences and culture. For example, natural resources-rich countries are prone to certain types of corruption, which may never be experienced by resource-poor countries. These factors, which definitely influence public perceptions, have to be the same across countries to allow for comparisons and the ranking of countries. Results of such rankings can never be accurate, but their consequences, especially on developing countries, should never be underestimated. For instance, Quazi, Vemuri, and Soliman (2014), use a dynamic panel regression for 53 African countries to evaluate the effects of corruption on foreign direct investment. Interestingly, their findings show that there is a positive correlation between corruption and foreign direct investment, but which in time degenerates into a negative relationship, depending on regulatory quality.

Finally, the present corruption indicators do not capture the international dimension of corruption, which is highly prevalent in African countries. Three trends have contributed to the globalization of corruption. First, greater economic integration has increased the chances that corruption in one region or country will have an impact on the economic and political activities in other parts of the world, as demonstrated by the scandalous collapse of the Bank of Credit and Commerce International (see box 10). Second, developments in communication technology have revolutionized the international financial system and enhanced the ability of traders to engage in corruption and other IFFs. The rise of electronic fund transfers makes it difficult for countries to deal effectively with corruption and IFFs. This implies that corrupt activities can be effectively hidden from the public, making it virtually impossible for such illicit funds to be recovered in the event of conviction. In this regard, policing agencies need to innovate and come up with technology that can effectively monitor traffic in these electronic networks. Third, while continued globalization exacerbates the problem of corruption by roping many and diverse players, it also offers opportunities for its control.

B. How have African countries performed over the years based on the perception measures?

Transparency International's Corruption Perceptions Index is the most popular measure of corruption. In terms of visibility, the most direct competitor of the Index is arguably the World Bank's Control of Corruption indicator. Simple Google searches indicate very different levels of visibility, with over 400,000 results for the "Corruption Perceptions Index", and only about 27,000 for the "corruption control index" (the "corruption control indicator" delivers fewer than 6,000 hits).

Using the Google Trends website (https://www.google.com/trends), figure 11 provides the results for an informal analysis of the evolution of the visibility of these indicators over the past decade based on three alternative search strings. Searching the string "control of corruption" barely delivers any results (the red line in the graph). On the other hand, searching "corruption control

Box 10

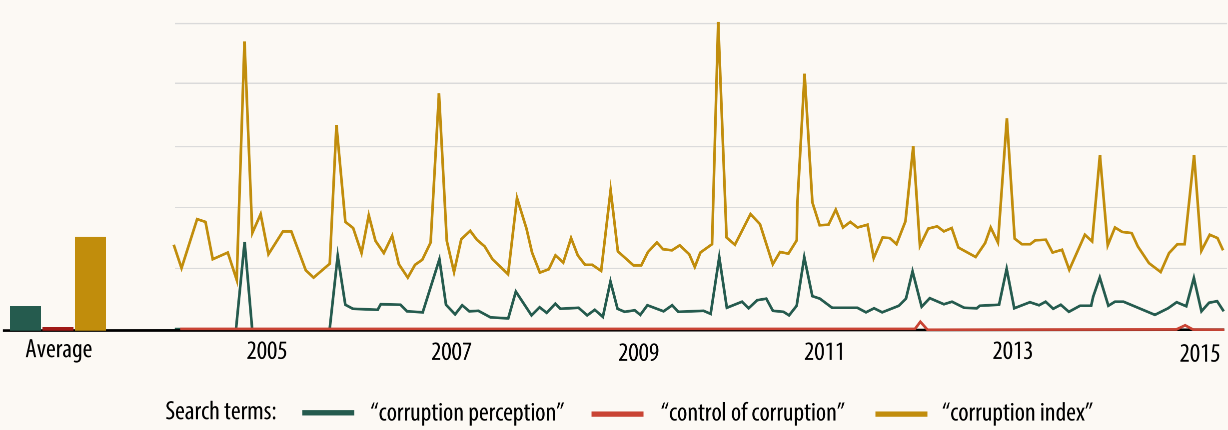
CORRUPTION AND THE INTERNATIONAL DOMINO EFFECT

The Bank of Credit and Commerce International, established in 1972, was registered in Luxembourg, with branches in Pakistan and the United Kingdom. It started operations in Africa seven years later. Before its collapse in 1991, the Bank was present in 73 countries. At the time of its collapse, the Bank's liabilities stood at around $20 billion. Its crimes included: fraud; money laundering; support of terrorism; arms trafficking; facilitation of income tax evasion; prostitution; and illicit purchase of real estate. According to The Guardian, a British newspaper, "it took 21 years and $656 million of fees paid to two firms of lawyers and accountants, but on Thursday the files were finally closed on the banking scandal that was the Bank of Credit and Commerce International. It ranged from arms trafficking to prostitution and ended with a $20 billion collapse." (17 May 2012).

Source: "Files close on BCCI banking scandal" (*The Guardian*, 2012). Available from http://www.theguardian.com/business/2012/may/17/files-close-bcci-banking-scandal.

Figure 11

GOOGLE TRENDS ANALYSIS OF THE CORRUPTION PERCEPTIONS INDEX



Source: Computed by ECA staff from the Transparency International database, 2015.

index" results in the blue time series. Even more significantly, searching a generic "corruption index" string delivers the highest number of results as evidenced in the yellow time series – the vast majority of which refers to the Corruption Perceptions Index. Both the yellow and the blue series spike at the beginning of December every year, which is when the Index is released.

Comparing yearly Corruption Perceptions Index rankings for Africa

Transparency International has warned against comparisons of their Corruption Perceptions Index across time, due to year-by-year changes in the methodology and country coverage.[15] Table 3 indicates country coverage every year since 1995,[16] overall (column b),

15 A recent update of the methodology should assure that "a country's Corruption Perceptions Index score will better capture changes in perception of corruption in the public sector of that country over time. However, due to the update in the methodology, 2011 CPI scores are not comparable with CPI 2012 scores" (Transparency International, 2012, p. 1).

16 For 1995, when Belgium and Luxembourg were aggregated, we assumed the same Corruption Perceptions Index score for the two countries separately. Strictly speaking, for that year, country coverage would be 40, plus a value referring to a conjunction of two countries.

Table 3

TRANSPARENCY INTERNATIONAL'S CORRUPTION PERCEPTIONS INDEX COUNTRY COVERAGE

(a) Year	(b) Country coverage of Corruption Perceptions Index. World. (ti_cpi_numb)	(c) Size of maximum set of countries covered in a given year, and in all following years until 2014. World. (ti_cpi_numb_foll)	(d) Country coverage of Corruption Perceptions Index. Africa. (ti_cpi_numb_africa)	(e) Size of maximum set of countries covered in a given year, and in all following years until 2014. Africa. (ti_cpi_numb_africa_foll)
1995	42	40	1	1
1996	54	46	6	2
1997	52	50	2	2
1998	85	75	18	17
1999	99	82	19	17
2000	90	82	22	17
2001	91	91	17	17
2002	102	102	21	21
2003	133	131	29	29
2004	146	143	36	36
2005	159	151	44	41
2006	163	158	46	45
2007	180	167	53	52
2008	180	168	53	52
2009	180	168	53	52
2010	178	169	53	52
2011	183	173	53	52
2012	177	173	53	52
2013	178	174	54	53
2014	175	175	53	53

Source: Computed by ECA staff.

and for Africa (column d). The country coverage of the Corruption Perceptions Index has significantly increased overtime: the analysis covered fewer than 50 countries in its first years of existence, while in recent years, it has measured perceived corruption in approximately 180 countries.

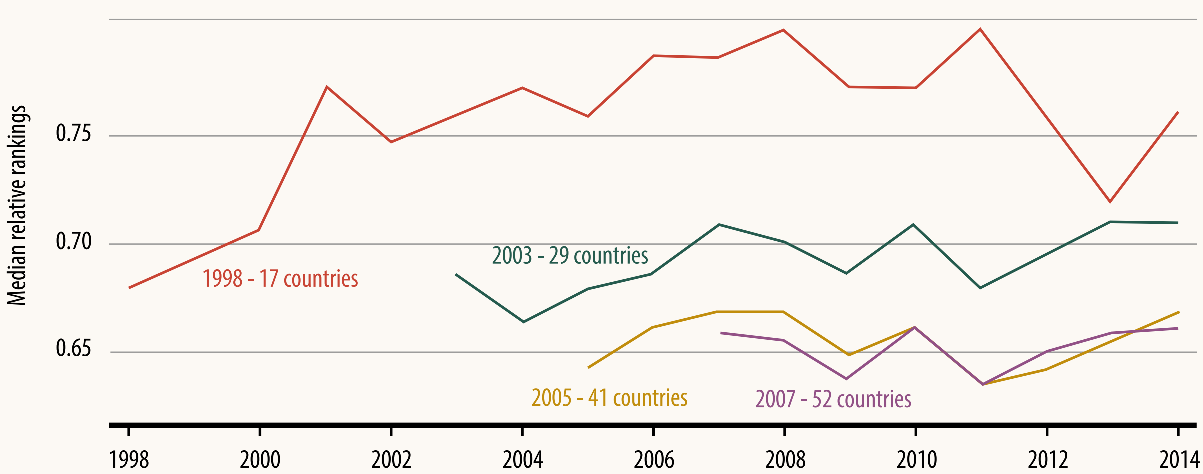
In time, comparisons of rankings may be made by considering groups of countries which are continuously present within a time window. Columns (c) and (e) of table 3 indicate the size of the maximum set of such countries for the World and for Africa, respectively, that have been continuously present starting in a given year, and until 2014. For example, South Africa was the only African country covered in the 1995 release of the Corruption Perceptions Index, so that the 1995 entry of column (d) for 1995 is equal to 1. South Africa has also been continuously included in subsequent releases of the Index, so that the 1995 entry for column (e) also equals 1. In 1996, on the other hand, the Index included a total of six African countries. However, only two of these were covered every year since. So for 1996, the entries in columns (d) and (e) are 6 and 2, respectively.

Selecting a group of countries (as was done above) allows for comparisons in time, computation of the median ranking of African countries, and by dividing it by the total number of countries. The results are shown in figure 12. For example, in 1998, the median ranking of the African countries that were present continuously from 1998 onwards was equal to 51. The size of the maximum group of countries that were present continuously from that year until 2014 is equal to 75 – see table 3, column (c). The relative median ranking is then equal to 51/75, or 0.68, which corresponds to the value read on the longest line in figure 12, for the year 1998. Note that high (relative) median rankings imply high levels of perceived corruption. Such relative median rankings may be seen as estimating median percentiles. The example given above could affirm that approximately 68 per cent of countries would be perceived to be less corrupt than that group of 17 African countries for which the Corruption Perceptions Index was available in 1998, and also in all subsequent years until 2014.

Figure 12 also shows a selected number of sequences of comparable relative median rankings for Africa, where

Figure 12

TRANSPARENCY INTERNATIONAL'S CORRUPTION PERCEPTIONS INDEX: COMPARABLE MEDIAN RELATIVE RANKINGS OF AFRICA



Note: Each line indicates median relative rankings for the maximum set of African countries for which the Corruption Perceptions Index is available every year, starting with the earliest indicated, until 2014. The size of the maximum set of African country is indicated together with the start date for comparison.

Source: Computed by ECA staff from the Transparency International database, 2015.

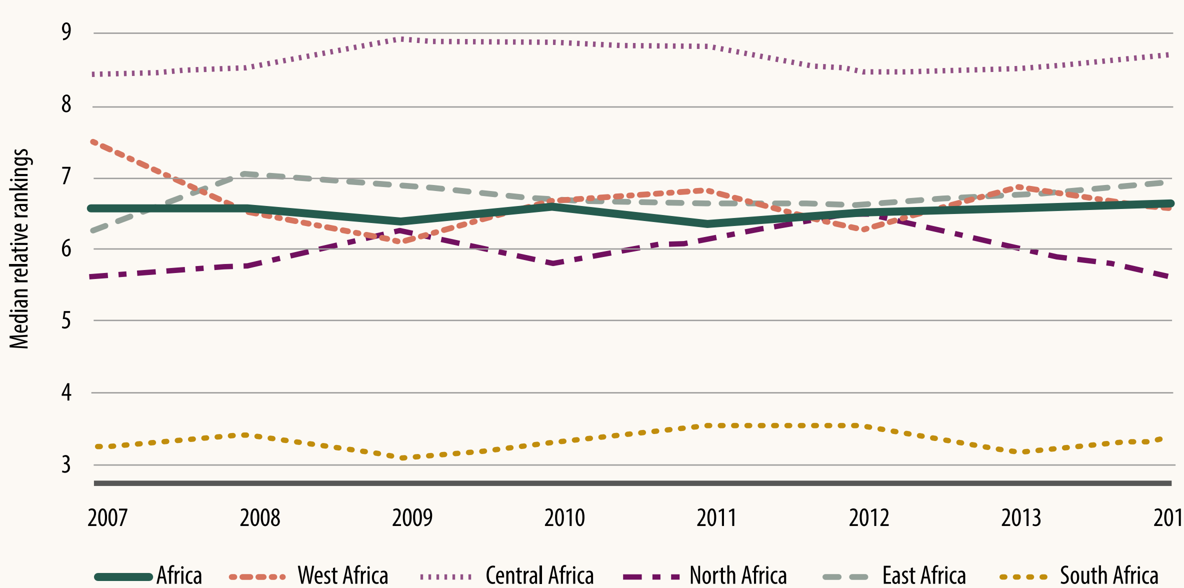
years have been chosen to correspond with years of significant increases in coverage. The blue (and longest) line corresponds to a group of 17 African countries, which was continuously covered from 1998 onward. For those African countries, it was observed that perceived corruption had worsened significantly up until 2008, with a change close to 10 percentile points. After 2010, there was a marked improvement in perceptions, but then it worsened again in 2014. The series of comparable relative ranking starting in 2003 includes 29 countries. The relative rankings stay fairly constant in time, at values of around 0.7, and always lower compared to the previous group – the increase in size from 17 to 24 countries must have included countries with relatively low levels of perceived corruption.

The relative rankings of African countries from 2005, and also from 2007, do not show important changes in the relative median ranking for Africa. The latter case includes 52 countries, which corresponds to virtually all African countries. In all comparable groups, there has been a worsening of the perceptions of corruption in the past few years.

The analysis of relative median rankings in perceived corruption shows that Africa is perceived to be significantly corrupt, with a median ranking around the 65th percentile, based on the largest group, which becomes comparable in time starting in 2007. If one focuses on a reduced set of countries (14 out of 54) for which the Corruption Perceptions Index is available since 1998, there is a worsening of the perception of corruption until 2008, and then an improvement. For bigger sets of African countries, for which the Index is continuously available for shorter periods of time, no important changes in time in the perceptions of corruption, relative to the rest of the world, have been observed. Notwithstanding the important efforts that have been made by African countries to control corruption, the perceptions of corruption, as presented by Corruption Perceptions Index, have not improved.

Figure 13

CORRUPTION PERCEPTIONS INDEX: COMPARABLE RELATIVE RANKINGS OF AFRICAN SUBREGIONS



Note: Each line indicates, for each subregion, median relative rankings for the maximum set of African countries for which the Corruption Perceptions Index is available continuously between2007 and 2014.

Source: Computed by ECA staff from the Transparency International database, 2015.

Comparing yearly Corruption Perceptions Index rankings for African subregions

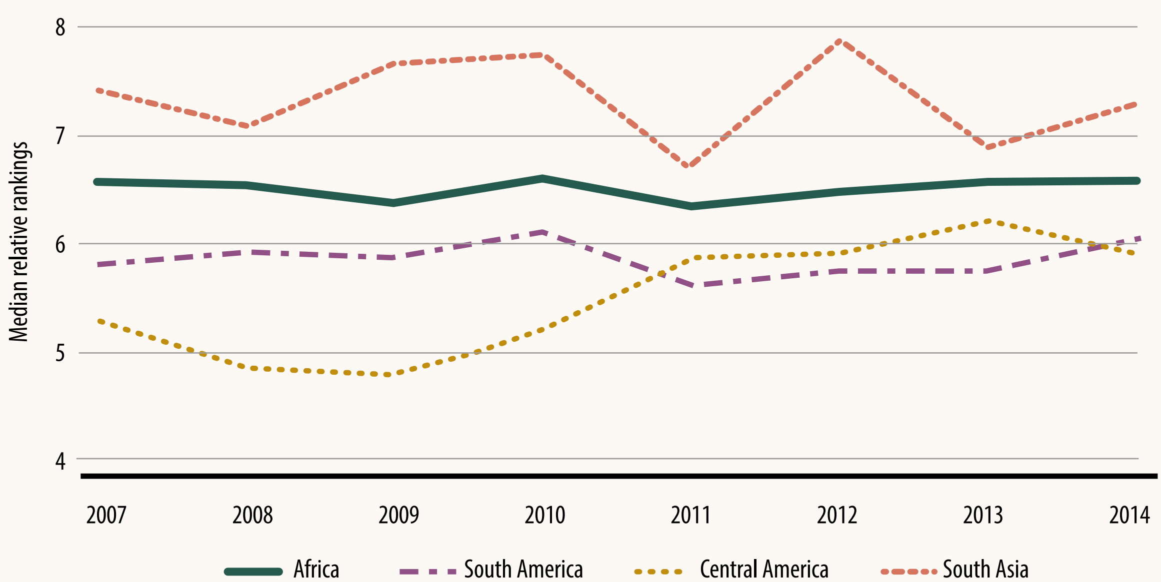
Figure 13 shows the results of a computation of relative median ranking for the five African subregions using UN Division of Statistics (see http://unstats.un.org/unsd/methods/m49/m49regin.htm), only for the group of 52 countries for which the Corruption Perceptions Index is available without interruptions from 2007 onward. The thick line refers to the relative median ranking for Africa as a whole, and it corresponds to the line starting in 2007 in figure 12. The different vertical scale of figure 12 compared to figure 13 makes the time series appear much smoother in the latter figure. The relative median rankings of North, West and East Africa are rather similar to that of Africa as a whole – with North Africa appearing in most years to be slightly less corrupt than the continent as a whole. On the other hand, the present report observes that Central Africa is perceived to be significantly more corrupt and Southern Africa less corrupt, than the continent as a whole.

Between 2007 and 2014, there was no observed important variation in the overall story. As already noted with regard to figure 12, there has been a slight worsening of perceptions on Africa overall since 2011. Looking at African subregions, one observes that the perceptions of the level of corruption in North Africa have improved somehow in 2013, and again in 2014.

Figure 14 compares the Index relative median ranking for Africa as a whole, with a selection of world regions, which are characterized by very high levels of perceived corruption. The figure illustrates that Africa performs better than South Asia, but worse than South and Central America. Of the selected regions, only Central America exhibits a marked degree of improvement, moving up approximately one decile in the five years starting in 2009.

Figure 14

TRANSPARENCY INTERNATIONAL'S CORRUPTION PERCEPTIONS INDEX: COMPARABLE RELATIVE RANKINGS OF AFRICA AND OTHER REGIONS



Note: Relative rankings are for the group of 52 countries for which the Corruption Perceptions Index is available without interruptions from 2007 onward.

Source: Computed by ECA staff from the Transparency International database, 2015.

Impact of the perception of corruption in Africa

Ndikumana (2006) argues that the increased focus on corruption in Africa is the result of greater democratization and freedom of the press, which has provided the political space for the public to scrutinize corruption and demand more accountability on the part of Governments. Equally, more civil society activity has brought the issue of corruption to higher levels in national and international policy debates (see box 11).

Another critical factor in driving the spotlight on corruption is the pressure for economic reforms in many African countries and the role of governance in economic performance (Hillman, 2004). International donor agencies have been at the forefront of pushing reforms and putting anti-corruption activities at the core of their development assistance conditionalities. This focus on corruption is a result of the realization that aid in the hands of corrupt leaders is not only economically wasteful but can also be politically destabilizing. Aid to corrupt regimes concentrates power further in incumbent regimes, to the detriment of the progressive forces of social and structural transformation.

Corruption, whether real or perceived, affects economies in five or so ways. Ndikumana (2006) lists the following transmission channels: private investment, public infrastructure, tax revenue, human capital accumulation and productivity, and political instability. These channels are explored briefly:

a. *Corruption undermines economic growth via reduced private investment.* Corruption discourages investment as bribes, kickbacks, and other forms of illicit payments increase uncertainty and transaction costs, thereby reducing profitability (Mauro, 1995; Tanzi and Davoodi, 2002). Corruption is a "special tax", largely secret and uncertain. The corruption tax is uncertain partly because agreements between the investor and the bureaucrat are illegal and therefore not enforceable in any commercial court. Equally, the tax cannot be internalized, which undermines the investment climate. Corruption has been shown to have significant effects on investment. Pellegrini and Gerlagh (2004) estimate that a one standard deviation decline in the corruption index drives private investment by 2.46 percentage points. The resultant rise in private investment in turn pushes GDP growth by about 0.34 percentage points, thus compounding the direct effect of the decline in corruption on growth.

Box 11

COST OF CORRUPTION IN AFRICA

The effects of corruption are felt in the political, social and economic spheres. Although the direct cost of corruption may be high in terms of lost revenue or funds diverted from their intended use, the indirect cost in terms of economic distortions, inefficiencies and waste resulting from corrupt practices, are more problematic over the long term and thus make it more difficult to deal with. Corruption increases the cost of doing business and wastes resources, which in turn, radically reduces revenue accruing to the State. It also results in poor service delivery, "moonlighting" or multiple concurrent sources of employment and refusal to perform normal functions without additional payment. Moreover, corruption deepens poverty and makes it difficult for ordinary people to get ahead as the result of their own efforts. There is increasing evidence that the social and economic cost of corruption disproportionately affects the poor, who not only suffer from the lack of services and an efficient Government, but who are also powerless to resist the demands of corrupt officials. Different arguments have been put forward to explain the pervasiveness of corruption in Africa; these include poverty, the personalization of public office, the political culture, and the inability of leaders to overcome their colonial mentality in respect of their perception of public office.

Source: Lawal (2007, pp. 1–4).

> More often than not, Governments end up building "roads that go nowhere", simply because these activities generate kickbacks or serve the political interests of decision makers.

b. *Corruption undermines the quantity and quality of public investment and growth.* As the work of Moser (2008) on Madagascar showed, corruption erodes the quality of public investment because the choice of public investment is driven by the expected private gains for decision makers rather than the public good. More often than not, Governments end up building "roads that go nowhere" (Driscol, 1998), simply because these activities generate kickbacks or serve the political interests of decision makers. Generally, the maintenance of public infrastructure does not get adequate attention, partly because new projects generate higher kickbacks (Mauro, 1998; Tanzi and Davoodi,2002). Corruption may therefore lead to poorer, not better public infrastructure as a result of these rent-seeking behaviours (Tanzi and Davoodi, 2002).

c. *Corruption retards growth by reducing tax revenue.* Corruption erodes the tax base by negating the investment climate and perpetuating leakages due to tax evasion and embezzlement by tax collectors, which undermine growth (Murphy, Shleifer and Vishny, 1993). As tax revenue declines, funding for public infrastructure is constrained, which retards growth. Ghura (1998) found that, for 39 African countries over the period 1985–1996, corruption was one of the strongest predictors of tax revenue. This suggests that measures taken to reduce corruption are likely to enhance tax revenue significantly.

d. *Corruption slows down growth through inefficient use of human capital.* Arguably, corruption, on the whole, channels skills into unproductive activities, thereby adversely affecting productivity in the specified sector of the economy. For example, when civil servants use valuable time chasing bribes, kickbacks and other forms of illicit bonuses rather than delivering services and implementing government regulations. Corruption also distorts decision-making by inducing individuals to choose rent seeking rather than develop the skills that are necessary for individuals to be productive members of society. Corruption generates inefficiency in programme funding, where the budget is often squandered or misappropriated. A World Bank tracking study on education financing in Uganda found that in 1996, only 36 percent of the contributions from the central Government reached schools (World Bank, 2002). In essence, corruption prevented the country from achieving its full potential of human capital formation with dire implications for economic performance and growth.

e. *Corruption increases the risk of political instability and its negative consequences on growth.* Corruption by heightening rent seeking and conflict over resources increases the risk of political and social instability. Elite control of power to optimize opportunities for rent seeking speeds up the process by which the citizenry becomes disenfranchized. Any intra-elite struggle over rent can contaminate the general social and investment climate with negative consequences for State legitimacy and economic growth. The lethal cocktails of intra-elite rent-seeking struggle and demand for reform by the citizenry more often than not ignite social and political conflict, thus undermining economic performance and structural transformation.

Perception of corruption measurements and institutional reforms in Africa

It is not clear from the literature the extent to which the perception-based measures of corruption have informed the efforts of countries to undertake institutional building. This is not to say that Africa has not setup anti-corruption or accountability institutions. According to the literature, the introduction of New Public Management reforms in African countries in the 1990s was motivated by a fierce critique of bureaucracy as being inefficient and possibly corrupt. This triggered a push for reforms, which allegedly gave birth to internally focused, rule-driven and hierarchically structured organizations (Owusu, 2012; Chipkin and Lipietz, 2012). Chipkin (2013), drawing on the South African experience, argued that because of the political economy around black empowerment after 1994, the post-Apartheid public service was not led by autonomous and values-driven managers that focused on outcomes, unrestrained by bureaucratic rules and regulations. Instead, the reforms and innovations were associated with a general neglect of administrative processes in government departments, and in some instance, outright corruption. Chipkin (2013) also reported that a diagnostic of the Limpopo provincial administration showed that administrators found evidence of looting and departments operating without basic administrative processes. Departmental records were reportedly chaotic; contract documents were missing; there was no asset registry; and provincial data were unreliable or simply non-existent. The pace of technological change had not been accompanied by sufficient training. Public servants could not operate the information technology systems effectively and so relied on earlier and unauthorized processes to do their jobs.

The New Public Management reforms also prompted high turnover rates at the senior-management level, associated with a constantly changing world of work. This resulted in the juniorization of the senior-management function and creation of high levels of instability. When senior managers hold their positions for short periods, processes and systems do not have time to stabilize as a new manager introduces his or her own management model. Instability is sometimes compounded by "management interventions" to "turn around" distressed organizations with limited attention paid to the objective of ensuring institutional maturity.

> "Effective control of corruption must be based on institutional reforms, including constitutions, to constrain the ability of the State to intervene in private transactions."

It is arguable that non-compliance with policies, processes and regulations is not necessarily a symptom of corruption, negligence or incompetence. It might point to the weak quality of the governance institutions and the inability of organizational practices to be effective. It is also arguable that corruption is not simply a problem of the indiscipline of officials, but the failure in delivering the objectives of good governance. Corruption weakens the institutional character of the State and reduces its sovereignty and legitimacy as citizens refuse to respect the social contract. Effective control of corruption must be based on institutional reforms, including constitutions, to constrain the ability of the State to intervene in private transactions. Broadly, three institutional characteristics can be distinguished (although others are also possible): efficient; captured; and weak (see box 12).

In light of the foregoing, it is difficult to assess how perception data on corruption can be meaningfully used to identify the taxonomy needed for a practical approach to institutional building or reforms. African countries need solid foundations on which to develop the rules that determine the "incentives" available to economic and political actors.

C. Limitations of perception-based measures for policymaking

Most data on corruption would not be useful for policymakers in Africa, because the focus is on peoples' attitude towards the prevalence of corruption and not the nature of the act or its exact magnitude. Generally, victims of corrupt practices will perceive a country to be more corrupt, whereas those that have not experienced such practices will think otherwise. For example, data on reported cases of corruption tend to correspond to information about the response of criminal justice systems rather than the true extent and nature of the crime itself. Given the difficulty to collect data on factual experiences of corruption, methods based on the assessments of experts have remained dominant (United Nations Office on Drugs and Crime, 2009). Certain measurements of corruption, notably the Corruption Perceptions Index and Worldwide

Box 12

POSSIBLE INSTITUTIONAL CHARACTERISTICS OF A STATE

- An **efficient institution** is one where officials pursue the "public good" by acting neutrally and in a disinterested manner vis-à-vis their own views and interests. These officials may be those of the bureaucracy or those with other broader affiliations, such as political ideology, religion or other group interests.
- In the context of a **captured institution**, officials operate on the basis of particularity. In essence, they do not claim, nor do they try to work in the interests of the public good, but service their own interests or those of particular constituencies and interests to which they pay allegiance.
- A **weak institution** is distinct from the other two and by definition weak. It is incapable of producing an "effect of universality", not because relevant economic agents work in their own interests or those of a particular social group (capture). Under a weak institution, there are no common "rules of the game" (North, 1991) to define social relations in predictable conventions and routines. Equally, equipment and other productive resources are used in capricious and unpredictable ways with no consideration to societal well-being.

Source: Compiled by ECA staff from various sources.

Governance Indicators, are influential because of their importance in foreign policy, investment, aid, and country risk analysis. It is the core argument of the *African Governance Report IV* that no single indicator of corruption should be used, given the limitations of the methodologies.

Knack (2007) was among the earlier researchers who expressed serious reservations about the usefulness of the Corruption Perceptions Index and the Worldwide Governance Indicators in capturing the level of corruption in a given country. While they recognized the importance of both indices in terms of their contributions to awareness-raising, they also demonstrated the inherent limitations in explaining various aspects of corruption. These include, what Knack (2007) describes as a definitional distinction between measures of administrative corruption and State capture. He gives an example of bribes, which aimed at influencing the content of rules and laws (e.g. State capture), or alternatively, to influence their implementation, which is known as administrative corruption. Furthermore, he identifies the problems associated with aggregating data from various sources to construct perception indices. He (with similar views shared by Khan, 2006) argues that "conceptual, methodological and empirical materials strongly support the message that no single corruption measure, nor single data source on corruption, is most appropriate for all purposes" (p. 282).

Along the same line of argument, Rohwer (2009) gives a comparative analysis between the Corruption Perceptions Index and the Worldwide Governance Indicators, which casts doubts about the accuracy and effectiveness of the two most popular corruption perception measurements. She recognizes the importance of composite indicators, as used by both indices, in summarizing information from diverse sources and thus minimizing the impact of possible measurement error in an individual indicator. She also raises concerns about the limitations that come with such an approach. More specifically, she argues that "it is unclear what exactly the Corruption Perceptions Index and the Worldwide Governance Indicators are measuring, when sources, which measure such different aspects of corruption, are averaged together" (p. 49).

Many analysts have observed that the sources used in the building of the indices vary from country to country, and also tend to vary from year to year for a given country, which could well distort trend analysis.[17] Perhaps among the strongest and most recent criticisms lodged against the Corruption Perceptions Index comes from Cobham (2013). In an article in "Foreign Policy", he questioned the accuracy of the Index

17 This point seems to have been addressed in the Transparency International's other perception measurement, the Global Corruption Barometer, where the results are comparable across countries and over time.

report, which, in his opinion, is prepared using highly subjective methods of data collection and analysis. His article provides an excellent sense of the types of individuals and groups whose opinion forms the basis of the Index – which is derived by combining 13 different perception surveys. Cobham (2013, p. 1) points to the striking commonality in the people whose perceptions are actually assessed in all of the 13 surveys:

> *A group of country economists; recognized country experts; two experts per country; experts based primarily in London (but also in New York, Hong Kong, Beijing and Shanghai) who are supported by a global network of in-country specialists; staff and consultants; over 100 in-house country specialists, who also draw on the expert opinions of in-country freelancers, clients and other contacts; 4,200 business executives; 100 business executives ... in each country; staff; 100 business executives from 30 different countries/territories; staff (experts); 100 business executives per country/territory; and finally, over 2,000 experts and 66,000 other individuals from around the world have participated [to date].*

His criticism, which is similar to others mentioned earlier, focuses mostly on the method of aggregation to produce a single corruption index. Furthermore, he claims that the correlations between the various components of the Corruption Perceptions Index run between 80 per cent and 100 per cent, resulting from similarities between the individuals who were sampled.[18] The result lacks any sense of diversity. He cites Brazil as an example, where the perception of corruption had changed when the experiences of a group of citizens were considered instead of restricting it to elite perceptions only. Cobham also highlights that even the original creator of the Index, Johann Graf Lambsdorff, called for an end to its wide usage. He quoted Lambsdorff as saying: "In 1995, I invented the Corruption Perceptions Index and have orchestrated it ever since, putting Transparency International in the spotlight of international attention. In August 2009, I had informed Cobus de Swardt, Managing Director of Transparency International, that I am no longer available for doing the Corruption Perceptions Index". While the creator of the Index did not give a full account of the reasons for his departure, it was obvious among experts in the field that he had serious reservations about the way it was being used.

18 Correlation is a statistical technique that can show whether and how strongly pairs of variables are related.

"Both the Corruption Perceptions Index and the Worldwide Governance Indicators, as most other indices, fall short of exploring the international dimension of the problem."

Both the Corruption Perceptions Index and the Worldwide Governance Indicators, as most other indices, fall short of exploring the international dimension of the problem, particularly asset repatriation and money laundering. It is clear that both the money launderers and the receivers of such laundered funds (those who steal funds and assets and the receivers of such items) are equally guilty. In other words, grand corruption in Africa would prove unattractive without the participation of these external actors. If the survey questions designed to rank countries according to perceived level of corruption included the above corrupt practices, some of the top ranking countries in corruption perception indicators could very well find themselves in the company of some of the worst offenders.

D. Rationale for re-thinking perception of corruption measurements and broader issues

Assessing corruption in a broader governance context

There is extensive literature to support the view that perception-based corruption indicators are subjective. For instance, Olken (2005a) measures the perception of corruption to a more objective measure of graft, for a road project in a rural village in Indonesia. For the most part, the villagers were able to recognize corruption in the marked-up prices of materials, but not in the deliberate increase in quantities of the materials. This led Olken to conclude that "perception data…should be used with considerable caution" (2005b, p. 29). Moreover, in her assessment of advances in measuring corruption, Sequeira (2012) highlights "reporting bias" as being one of the main drawbacks with perception-based measurements. She explained that respondents can be influenced by the "most commonly held perceptions of corruption in a given country, even if they are not substantiated by the respondent's actual experience, in the same way that international experts and businessmen expect poorer countries or more dysfunctional governments to also be more corrupt" (p. 5).

Notwithstanding the considerable body of literature critiquing the corruption perception indicators, there are still very few studies that have proposed viable and credible alternative ways of measuring corruption. Rydland, Arnesen and Østensen (2007) argue that although the clandestine nature of corruption presents challenges, it does not imply that corruption is impossible to measure.

> Objective data...does not specifically deal with issues relating to the degree of corrupt practices in a given country and are therefore deemed unsuitable for comparative purposes.

This begs the question of how we can measure corruption in African countries. Literature on the subject indicates that such studies generally use two kinds of data –"objective facts" or "events" and subjective perceptions. Objective measures of corruption may include a number of situations, such as the adoption of anti-corruption laws, the number of people tried and convicted on corruption and related charges, or the number of corruption cases brought to the media's attention. Objective data only expresses the Government and the media's level of determination and their capacity to expose and combat corruption. It does not specifically deal with issues relating to the degree of corrupt practices in a given country and are therefore deemed unsuitable for comparative purposes. Most scholars who are on the side of using objective indicators fall back into favouring the use of proxy measures, such as indicators that monitor observable changes in government policies or actions and the changes in the economy that create incentives for corruption or reveal its effects (Johnston and Kpundeh, 2002). Examples of objective indicators are: contract intensive money; how long it takes to clear customs or set up a business; the speed of service delivery; and telephone waiting times (Knack and Kugler, 2002). Again, these objective indicators do not measure the real level of corruption, and can only function as imperfect proxies.

Subjective measures are generally still deemed to be the best approach, notwithstanding their own serious limitations (Kaufmann, Kraay and Mastruzzi, 2006). For instance, Duncan (2006) highlights that the ethnographic approach of measuring corruption "has been able to provide reliable data on many specific sectors" (p. 151). Indeed, one of the most cited studies that use this approach is by Wade (1982, 1984) who identified levels of corruption in the Indian water sector (cited in Hite, 2006). According to Wade (1982, p. 291), "corruption can only be properly understood by using more informal, more 'anthropological' means".

Admittedly, corruption measurements, constructed using subjective measurements, do indeed provide a general and broad picture of the state of corruption across regions and countries. Nevertheless, they are not very useful when it comes to designing and implementing specific reform policies aimed at combating corruption.

In light of the above discussions, there are four reasons why it is necessary to re-assess the way in which the results of corruption perception measurements are presented and utilized. First, corruption remains a social phenomenon, which is intrinsically linked to the problem of governance. Critics, such as Johnson (2000), have raised concern over the growing tendency to treat corruption as merely "a problem of political and economic liberalization". The neo-liberal thinking, that the free market will eventually correct such abnormalities in economic transactions, is continually being challenged by various researchers and by social and economic realities. Institutions such as the World Bank, among others, vigorously pushed this idea throughout the 1970s and 1980s under what was known as the Structural Adjustment Programme. Proponents of such thinking, including Birdsall and Fukuyama (2011), openly admit to the fact that "for the last three decades, Washington-based development institutions have taken the view that growth is threatened more by government incompetence and corruption than by market failures" (p. 50). However, as argued by many experts, policies associated with the Structural Adjustment Programme are in fact responsible for undermining the capacities of institutions of governance, resulting in rampant corrupt practices, which to this day remain entrenched across the continent. In this regard, strengthening institutions of governance is instrumental in tackling governance challenges, including corruption.

Moving the debates beyond composite indicators

Measurement tools that aggregate data sources, such as the Corruption Perceptions Index or the Worldwide Governance Indicators, have their strengths and weaknesses. While composite indicators can be useful in summarizing a lot of information from several sources, and in so doing, can limit the influence of measurement error in individual indicators and potentially increase the accuracy of measuring a concept as broad as corruption, they run the risk of losing conceptual clarity.

Composite aggregation masks the broad concept of corruption. It is unclear what the corruption indices actually tell us because the types of corruption and their meaning vary from one country to the next (Thompson and Shah, 2005). For example, the original purpose for a perception-based indicator was to raise awareness of corruption and to provide researchers with better data for analysing the causes and consequences of corruption. The real problem is that there are different forms of corruption and the composite index cannot capture the various elements with the necessary precision.

> "The real problem is that there are different forms of corruption and the composite index cannot capture the various elements with the necessary precision."

Moreover, the extent of corruption in a country or region may depend on the frequency of corrupt acts, the amount of bribes paid, or the gain that contractors achieve through corruption (ibid). It is sometimes unclear what each of the different indicators used in the aggregated indices really measure, as different indicators measure different kinds of corruption. For example, the World Bank Country Policy and Institutional Assessment examines ineffective audits, conflicts of interest, policies being biased towards narrow interests, policies affected by corruption, and public resources diverted to private gain, while the World Economic Forum assesses the amount of bribes paid (Lambsdorff, 2008). However, composite indicators are effective in summarizing a lot of information from several sources, thus limiting the influence of measurement error in individual indicators of corruption.

Composite indicators may also worsen transparency in assessing levels of corruption. It is relatively well known that some indicators rely on sources, which are not publicly available (e.g. the International Country Risk Guide). More importantly, aggregated indices are generally ambiguous because some of their components are too vague. For instance, if the International Country Risk Guide provides little guidance as to how various aspects of corruption are weighted or what data are used, it is impossible to fully explain what the Worldwide Governance Indicators– control of corruption – indicator is measuring or what the measurement is based on (Knack, 2006).

In addition, the normalization of different indicators reduces the sensitivity to detect changes in a specific indicator over time. This makes both the scores and rankings incomparable across time as the survey would have a different sample composition. Changes in a country score maybe driven by adding a new data source or dropping an outdated one. However, one can make a comparison for a single country at two data points, if it is based on a common set of sources. It is therefore important to keep in mind any changes in the methodology or in the definition over time.

Another issue, when constructing composite indicators, is the strong likelihood of correlation of errors among sources. A specific weighting scheme may have to be adopted to deal with the problem of correlation. The weighting is based on the assumption that data errors are uncorrelated across sources and countries. In this regard, sources that tend to be highly correlated among themselves are simply assumed to be more informative. Accordingly, the practice is to attribute higher weights to these sources rather than those that are less closely correlated. Data that have low weights go into the composite indicator with a lower influence.

It is therefore critical to note that the weighting scheme is very sensitive because of the elements of the composite indicator. Arndt and Oman (2006) argued that if some given data were to be aggregated in one composite indicator and some were very similar, the weights of the similar sources will be overbalanced, whereas the data from sources, which differ, will have nearly no weight in the constructed composite indicator. There are at least four reasons why the errors of the used data are not uncorrelated across sources and countries (ibid):

a. Respondents who are used in one source are often informed of, and influenced by, the assessments of other experts supplying such data for other sources;

b. Experts who provide their views for different sources are often informed of, and influenced by, perceptions and assessments from the same third parties;

c. Crises and perceived changes or longer-term socioeconomic trends in a country often influence the data for perception-based measures of corruption;

d. Since the interpretation of survey questions is context-and culture-specific, perception errors from different data sources relying on respondents from the same country or culture, tend to be correlated.

There are also concerns over allocation of weights in a corruption index. For example, in the case of the Corruption Perceptions Index, the scores always fall between zero and ten. Galtung (2006) argues that this methodology is defective as it is natural to compare a country with its neighbours in order to have a baseline of comparison when respondents or even expert panels rank countries. Unfortunately, even with reform efforts and country assessments being on a positive trend by some of the Corruption Perceptions Index sources, its ranking in comparison to neighbouring countries may take years to change. Any such change is hard, even if other countries in a given region try to do the same. Hence, the matching percentiles technique punishes small improvements in a country's ranking. The question which then arises is what the plausible weighting scheme in any corruption index is. Knack (2006) argues that a weighting scheme should ensure: sources representing truly independent assessments are weighted more heavily; those with more extensive publicly available documentation and detailed justifications are weighted more heavily; and those sources with larger and more nationally representative samples and with more questions on corruption are given more weight.

> Even with reform efforts and country assessments being on a positive trend by some of the Corruption Perceptions Index sources, its ranking in comparison to neighbouring countries may take years to change.

Need for the truth about measuring perception of corruption

Measurements of corruption have become an ever-growing empirical field with various attempts to improve our understanding of the phenomenon. These empirical exercises are forcing a rethink of the conventional approaches to tackling corruption. They also represent efforts of moving away from simply blaming public officials for corruption, or advocating voluntary and often not enforceable codes of conduct to having a holistic view. For African countries to progress in their fight against corruption on all fronts, requires the measurement of corruption itself, in order to diagnose problems and monitor results. This recognition has renewed interest in the development fraternity

Box 13

DIFFERENT APPROACHES OF MEASURING CORRUPTION

Over the years, corruption has been measured using three broad approaches:

- *Collation of informed views of relevant stakeholders*. These include surveys of firms, public officials and individuals, and the views of outside observers in non-governmental organizations, multilateral donors, and the private sector on the perceived levels of (or experienced) corruption. These data sources can be used individually or in composite measures.
- T*racking institutional characteristics*. This method focuses on identifying institutional factors that provide opportunities or incentives (or both) for corruption, such as procurement practices, budget transparency, among others. This approach does not measure actual corruption, but provides useful indications of the possibility of corruption.
- *Audits of specific projects and programmes*. The practice here is to have a detailed comparison of spending with the physical output of projects. Such audits can provide information about malfeasance or leakages in specific projects, but not about countrywide corruption more generally. These tend to be one-time confined to specific projects and countries, and thus not useful for cross-country comparisons or for monitoring over time. So the question for the United Nations is: would the value-add be in following-up on fighting corruption as opposed seeking to change on the edges these approaches to measuring corruption?

Source: Kauffman (2005).

(Kauffman, 2005). This in turn has also sparked new debate on how best to measure corruption and monitor progress in reducing it. The present report reflects on some of the main issues in these debates (see box 13).

E. Conclusions

Corruption can and is being measured through a wide variety of approaches, either by itself or as a dimension of governance. Given the imperfections of any individual approach, it is preferable to rely on different approaches – subjective and objective, individual and aggregate, cross-country and country-specific – in order to monitor tangible results on the ground and develop anti-corruption programmes.

It is a fact that one cannot measure what is hidden. A precise measure of corruption is, by all experts' account, impossible. Data on money illegally exchanging hands are made purposely difficult to trace. It is for this reason that almost all corruption-related indicators resort to measuring public perception rather than corruption itself. It is therefore difficult to know that it even exists, much less to measure its magnitude.

ECA recognizes that, notwithstanding the importance of perception-based measurements, there are serious limitations, in particular for African countries. It is essential that most of the perception measurements being used, rethink their conceptual understanding and technical measurements of corruption to align themselves with current development thinking and practice. To put it simply "there is little value in a measurement if it does not tell us what needs to be fixed" (United Nations Development Programme, 2008, p. 8).

The problem of corruption measurement is even more acute when it is based on perception. Not only have these measurements been used to name and shame countries, they have also been used for assessing the business environment by investors, donors and other development partners, with dire implications for Africa's development. For example, foreign direct investment and aid allocations have been influenced by the perception of corruption in many African countries even when such indicators may be misleading.

CHAPTER 3

Critical review of non-perception-based measures and mixed indices of corruption

The present report focuses on exploring and evaluating various governance indices, with the overarching goal of highlighting the reasons why new approaches of measuring corruption should be explored for African countries.

In this chapter, several indices that have been recognized as being rigorous, broad and objective in their approach will be reviewed. These are: the African governance indicators of the *African Governance Report*; the Ibrahim Index for African Governance; the Global Competitiveness Index; and the Country Policy and Institutional Assessment. These indices are deemed to be less perception-based and provide a wider and regular assessment of the entire African region. It is, however, important to note from the onset that these measurements assess governance as a whole, with corruption representing only one, albeit key, dimension of governance. Measurements of governance are significant because monitoring the general trends of governance indicators over time is critical to evaluating the effectiveness of policies, such as anti-corruption interventions, at the national level. It is therefore essential that users of these indicators are aware of which one is relevant and for what purpose.

As noted in chapter 2, there are generally three types of corruption measurements. They are classified as **proxy indicators**, **objective indicators** and **perception-based indicators**. Proxy indicators assume that corruption is a phenomenon, which can never be directly and empirically estimated. These measures are therefore taken to approximate by aggregating as many opinions and signals of corruption, or alternatively, by measuring actions taken against corruption through anti-corruption, good governance and public accountability mechanisms. On the other hand, objective indicators are measurements that are constructed using fact-based data. Typical examples might include the presence of anti-corruption laws and regulations or the funding received by the anti-corruption agency. Perception-based indicators use opinions and perceptions of corruption in a given country among its citizens and experts. These include assessments of citizens' or firms' actual experiences with corruption, such as whether they have been offered or whether they have given a bribe.

Each of the above approaches or methods carries their own comparative advantage. The argument in this chapter, however, is that each one of the approaches on their own falls short of providing a credible picture of either governance or corruption for African countries. The general perception that fact-based indices are more accurate is, by many experts account, simply wrong and misleading. If indeed, objective-based indicators told the complete story about the state of corruption in Africa, policymakers and the development community would have readily embraced them. The results from objective-based indicators are often criticized for their failure to reflect the reality, and generally for their ineffectiveness in shaping policies or guiding reforms. This is also the same criticism given to the other two types of indicators. The prevailing sentiment among leading experts and institutions working on governance indicators is that a composite index on corruption, which combines fact-based surveys and data with perception-based surveys, will generate a much more dynamic tool. Such a composite index would better reflect realities on the ground and be effectively utilized, both by African policymakers and governance advocates.

In the process of reviewing and evaluating the above indices, several facts about corruption measurement tools and their limitations have become abundantly clear. First, all governance issues, including corruption, are contextual and vary across regions and countries. For this reason it would be very difficult to design one standard measurement that addresses all the needs of all countries.

Second, the political dynamics underlying governance and many of the corrupt practices that are often not captured by purely fact-based measurements should be considered. For example, the level of institutional weaknesses in many African countries, which makes it possible for political leaders, public officials and private sector agents to misuse national resources and abuse their power, is a difficult exercise to measure.

Third, another dimension that the traditional measurements of corruption have overlooked is the external dimension, which is a scourge on African countries. Indeed, when it comes to assessing the full magnitude of corruption in Africa, alternative non-perception-based methods have also turned a blind eye to the international dimension of this phenomenon. Foreign companies often take advantage of the weak and ineffective institutional mechanisms in African countries, to gain an unfair advantage or secure political privileges in national policies and regulations.

A. Review of methodologies of selected governance-related measurements

Several credible governance-related indicators, which were recently developed, seem to have made attempts to deal with the commonly raised criticisms against the popular perception-based measurements. These indicators have adopted well-researched methodologies and have made tremendous efforts to minimize errors and address methodological questions. They include, among others, the African governance indicators of the *African Governance Report* (ECA), the Ibrahim Index of African Governance (Mo Ibrahim Foundation), the Country Policy and Institutional Assessment (World Bank), and the Global Competiveness Index (World Bank). Table 4 reviews the methodologies of the four selected measurements. The table focuses on the overall objective – country coverage, frequency, data sources, and aggregation technique – for each of the measurements.

Over and above the characteristics of the governance-related measurements outlined in table 4, there are specific issues that should be taken into consideration to appreciate the nature of these measurements.

Table 4

SUMMARY OF METHODOLOGIES OF GOVERNANCE INDICATORS

Index	Overview	Research method	Sample size	Number of indicators	Variables assessed	Data source	Aggregation technique
African governance indicators **(African Governance Report, ECA)**	• Overall objective: to provide a mechanism for monitoring progress towards the creation of a capable State in Africa, as well as developing in-house and regional capacity for future research on governance. • Geographical coverage: African countries • Frequency: every two years, since 2009 • Approach: no explicit definition of governance, but it provides "core elements of good governance" (e.g. political governance, institutional effectiveness and accountability, and economic management and corporate governance)	• Three research techniques used: • Instrument I: national expert survey; • Instrument II: household surveys; • Instrument III: desk research.	• 100+ national experts • 2,000 – 3,100 households per country	• Instrument I: 83 indicators used in expert panels • Instrument II: 39 indicators in national sample household surveys. • Instrument III: more than 150 indicators in desk-research.	• Political governance • Economic governance • Public Financial Management • Private sector development • Corporate governance • Institutional checks and balances • Institutional effectiveness and accountability • Human rights and rule of law	• ECA data • Country reports, produced by National Research Institutions	• Each governance index is constructed using average scores, which are put together and re-scaled to bring each of them to a common range of 0–100.
Country Policy and Institutional Assessment I – World Bank	• Overall objective: to guide lending activities by the World Bank • Geographical coverage: 77 countries • Frequency: annually, since 2005 • Approach: assesses the quality of countries' policy and institutional frameworks. 'Quality' is specifically defined as 'how conducive the framework is in order to foster poverty reduction, sustainable growth and the effective use of development assistance.'	• Country surveys: 3–15 surveys can be used per country • Desk review of secondary sources	• Representative sample of countries that covers all six regions	• 16 criteria grouped into the four clusters	• Economic management • Structural policies • Policies for social inclusion and equity • Public sector management and institutions	• World Bank staff ratings • External secondary sources	• Each of the four clusters has a 25 per cent weight in the overall rating. Within each cluster, all criteria receive equal weights, although components within a criterion may be weighted differently. • The overall score is obtained by calculating the average score for each cluster, and averaging scores of the four clusters. For each of the 16 criteria, countries are rated on a scale of 1 (low) to 6 (high).

(...)

Index	Overview	Research method	Sample size	Number of indicators	Variables assessed	Data source	Aggregation technique
Country Policy and Institutional Assessment II – African Development Bank	• Overall objective: to guide lending activities by the African Development Bank • Geographical coverage: 54 countries • Frequency: annually, since 2013 • Approach: assesses the quality of countries' policy and institutional frameworks. 'Quality' is specifically defined as "how conducive the framework is in order to foster poverty reduction, sustainable growth and the effective use of development assistance."	• Country Surveys: 3-15 surveys can be used per country • Desk review of secondary sources	• Representative sample of countries that covers all six Regions	• 18 criteria grouped into the five clusters	• Macroeconomic policies • Structural policies and regulation • Social context and human development • Governance • Infrastructure development and regional integration	• African Development Bank staff ratings • External secondary sources	• Each of the five clusters has a 20 per cent weight in the overall rating. Within each cluster, all criteria receive different weights, although components within a criterion may be weighted differently. • The overall score is obtained by calculating the average score for each cluster, and averaging scores of the four clusters. For each of the 18 criteria, countries are rated on a scale of 1 (low) to 6 (high).
Global Competitiveness Index	• Overall objective: to assess economic competiveness • Geographical coverage: 144 countries • Frequency: annually, since 2006 • Approach: assesses the impact of a number of key factors that contribute to creating conducive environment for competitiveness	• Desk-based reviews of collated data • External sources	• Not applicable since the Index is based exclusively on secondary data	• 12 pillars of competitiveness	• Institutions • Infrastructure • Macroeconomic Stability • Health and primary education • Higher education and training • Goods market efficiency • Labour market efficiency • Financial market sophistication • Technological readiness • Market size • Business sophistication • Innovation	• Publicly available administrative data • Data from the World Economic Forum's annual Executive Opinion Survey	• An arithmetic mean is used to aggregate individual indicators within a category.
Ibrahim Index of Governance	• Overall objective: to provide a statistical measure for monitoring governance performance in African countries and to support good governance and leadership building in Africa. • Geographical coverage: all African countries • Frequency: annually, since 2007 • Approach: defines governance as the "provision of the political, social and economic goods that any citizen has the right to expect from his or her State, and that any State has the responsibility to deliver to its citizens."	• Desk-based reviews of collated data • External sources	• Not applicable since the Index is based exclusively on secondary data	• 93 indicators divided into four clusters	• Safety and rule of law • Participation and human rights • Sustainable economic opportunity • Human development	• 33 external sources	• Data from the 33 external sources are transformed to a common scale and aggregated into a composite index. • The data for each of the 93 indicators are put on a standardized range of 0–100, where 100 is always the highest possible score.

Source: Compiled by ECA staff from various sources.

African governance indicators

African governance indicators, produced by ECA, were developed to assist policymakers in identifying the gaps between policies, constitutional and other legal provisions and actual practice, as well as building in-country research capacity to measure and monitor governance, among others. As outlined in box 14, institutional and the executive's effectiveness and accountability need to be scrutinized and nurtured in order to combat corruption in Africa.

Country policy and institutional assessment

The Country Policy and Institutional Assessment provides for an extensive assessment of the policy and institutional environment, whilst devoting attention to issues of corruption explicitly (see box 15, next page). Just like for the previously mentioned governance measurements, the other clusters of the assessment also has significant implications for the success of any anti-corruption initiatives.

Since 2013, the African Development Bank has revised its Country Policy and Institutional Assessment computation such that there are five clusters, as indicated in table 4. This revision of the assessment tool was done "to better adapt it to the specific circumstances of Africa and the African Development Bank's mandate"[19] by adding a new cluster to the questionnaire. This new cluster encompasses two additional criteria of which one relates to infrastructure. This addition is critical, notably in the context of an assessment on corruption, because the infrastructure sector is prone to corruption, which occurs from the mismanagement of public procurement and weaknesses in corporate governance.

19 Questionnaire for the 2013 country policy and institutional assessment (African Development Bank Group, 2013).

Box 14

ECONOMIC GOVERNANCE CONCEPTS ASSESSED AND CORRESPONDING INDICATORS

Institutional effectiveness and accountability:

- Legislature's effectiveness; constitutional checks and balances status; legislature's independence; legislature's control; parliamentary debate relevance; parliamentary opposition strength; legislature's corruption status; judiciary's independence; and executive's independence.
- Judiciary effectiveness; legislature's independence; judiciary's independence; judges appointment mode; court access; justice access; judiciary's corruption status; and executive's independence.

Executive's effectiveness:

- Management of State structure: legislature's independence; judiciary's independence; executive's independence; senior appointees' composition; executive's corruption status; civil service accountability; government accountability; government services' efficiency; local government accountability; resource allocation; local government capacity; and government responsiveness.
- Civil service transparency: accountability and accessibility; civil service management; civil service accountability; civil service perceptions; government accountability; and government transparency.
- Efficiency of government services: access to government services; services' relevance to the poor; services' relevance to women; local government accountability; resource allocation; and government responsiveness.
- Decentralization of structures: local government accountability; resource allocation; local government capacity; community participation; and government responsiveness.

Control of corruption:

- Legislature's corruption status: justice access; judiciary's corruption status; executive's corruption, government services' efficiency; access to government services; tax collection; and control of corruption.

Source: Extracted from the African Governance Report I, Methodology (ECA, 2005).

Box 15

COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT CLUSTERS AND INDICATORS FOR THE WORLD BANK

Economic management

- Macroeconomic management
- Fiscal policy
- Debt policy

Structural policies

- Trade
- Financial sector
- Business regulatory environment

Policies for social inclusion and equity

- Gender equality
- Equity of public resource use
- Building human resources
- Social protection and labour
- Policies and institutions for environmental sustainability

Public sector management and institutions

- Property rights and rule-based governance
- Quality of budgetary and financial management
- Efficiency of revenue mobilization
- Quality of public administration
- **Transparency, accountability and corruption in the public sector**

Source: World Bank (2010).

Box 16

IMPORTANCE OF INFORMATION AND COMMUNICATIONS TECHNOLOGY IN COMBATING CORRUPTION

A body of literature highlights that having access to information and communications technology reduces the probability of corruption. Real-time reporting of information will obviously reduce the scope of engaging in corrupt practices. Moreover, mobile messaging can be used by the authorities to be better informed of the nature and incidences of corruption, through whistle-blowing. For example, using Afrobarometer data, Bailard (2009) found that there was a negative relationship between mobile phone diffusion and corruption in 13 Namibian provinces in 2006. Those findings confirmed that if adequately utilized, mobile technology can decrease corruption and increase detection of corrupt practices. The rapid penetration of mobile technology in Africa presents policymakers with an easy and real opportunity to step up the fight against corruption.

Source: Gaskins (2013); Luminita (2013); and Bailard (2009).

Global competitiveness index

The Global Competitiveness Index is based on 12 pillars with a view to capturing a broad range of factors affecting an economy's business climate, which are important determinants of sustained economic growth (see table 4). All of the three clusters – basic requirement, efficiency enhancers, and innovation and sophistication factors – have a direct influence on inhibiting the possible occurrence of corruption. Box 16 provides one example of using information and communications technology to combat corruption.

Ibrahim Index of African Governance

In this index (see table 5), the "accountability" subcategory focuses explicitly on corruption. However, it is to be noted that the other subcategories have indirect links to State capacity to combat corruption.

This index is used extensively by the media, civil society and foreign investors to assess the overall governance performance of African countries and their effectiveness in service delivery. Its relative usefulness for decision-making notwithstanding, the index focuses

Table 5

IBRAHIM INDEX OF AFRICAN GOVERNANCE SUBCATEGORIES AND INDICATORS

Subcategory		Indicator
1	Rule of law	• Property rights • Judicial process • Judicial independence • Sanctions • Transfers of power
2	Accountability	• Accountability, transparency and corruption in the public sector • Access to information • Online services • Corruption and bureaucracy • Corruption in government and public officials • Diversion of public funds • Accountability of public officials • Public sector corruption investigation • Prosecution of abuse of office
3	Personal safety	• Safety of the person • Police services social unrest • Violent crime • Political violence • Human trafficking
4	National security	• Government involvement in armed conflict • Domestic armed conflict • Cross-border tensions • Internally displaced people • Political refugees

Source: Mo Ibrahim Foundation: Extracted from the Ibrahim Index of African Governance.

exclusively on results rather than processes, but the latter is equally important for good economic governance. For example, the performance for Morocco had slightly declined between 2006 and 2011, yet those scores did not give useful insights into the processes, which led to such a decline (see table 6). It is noteworthy that understanding the processes is critical to policy reforms, including combating corruption.

B. Analysis of strengths and limitations of the governance-related measurements

As discussed in the previous sections, it is undeniable that the corruption and associated governance-related measurements have their strengths and limitations to which policymakers need to pay attention.

Table 6

IBRAHIM INDEX OF GOVERNANCE COUNTRY PERFORMANCE 2006–2014: MOROCCO

Rank (../52)	Indicator	2006	2007	2008	2009	2010	2011	2012	2013	2014	2009-2014
16	Overall Score	54,5	55,5	54,6	54,3	53,7	54,2	55,5	57,2	57,6	+3,4
18	Safety & Rule of Law	62,0	62,5	59,9	59,1	58,8	57,7	58,8	58,5	57,8	-1,2
21	Rule of Law	55,3	56,7	57,4	57,0	56,3	56,0	56,6	57,1	54,0	-3,0
13	Accountability	38,8	39,7	39,4	38,9	39,3	40,3	43,5	44,8	44,8	+5,9
19	Personal Safety	68,8	68,8	57,9	55,4	54,7	54,7	55,0	52,0	52,6	-2,8
29	National Security	84,9	84,9	84,9	85,0	85,0	80,0	80,0	80,0	80,0	-5,0
42	Participation & Human Rights	36,7	37,2	36,7	35,3	33,8	34,8	37,0	37,1	36,6	+1,3
44	Participation	23,8	24,2	21,3	18,3	17,6	19,0	21,6	22,7	22,7	+4,4
26	Rights	46,5	45,8	45,3	45,6	45,2	47,4	52,0	51,9	49,1	+3,5
48	Gender	39,8	41,7	43,4	41,9	38,7	37,9	37,4	36,8	38,0	-3,9
3	Sustainable Economic Opportunity	56,1	58,5	58,0	58,4	58,3	58,6	59,9	67,1	69,8	+11,4
4	Public Management	62,3	64,4	61,2	63,4	60,9	59,4	58,0	59,6	63,1	-0,3
5	Business Environment	60,3	59,0	57,6	56,9	59,3	60,4	63,1	67,8	69,2	+12,4
4	Infrastructure	47,6	49,5	52,3	52,4	52,2	53,5	57,7	67,2	71,0	+18,6
3	Rural Sector	54,2	61,0	60,7	61,0	60,8	61,3	60,6	73,9	75,9	+14,9
12	Human Development	63,4	63,8	63,8	64,4	63,6	65,6	66,2	65,9	66,3	+1,9
19	Welfare	55,9	54,1	54,7	56,8	57,8	58,9	57,8	56,8	56,8	0,0
14	Education	49,2	51,9	50,9	49,8	54,1	58,5	59,9	59,9	60,5	+10,7
10	Health	85,1	85,3	86,0	86,6	79,0	79,5	80,9	81,1	81,7	-5,0

Source: Mo Ibrahim Foundation: Ibrahim Index of African Governance 2011, 2012, 2014 and 2015.

Strengths

These measurements have all contributed to the global discourse and awareness-raising on corruption, in particular in African countries. In addition, Kaufmann and Kraay (2007, cited by Urra, 2007) identify the following four main benefits of aggregate indicators: allow a broader country coverage than individual ones; provide a functional summary from a vast array of individual indicators; average out and therefore reduce measurement error as well as the influence of bias of individual sources; and allow for the calculation of explicit margins of error.

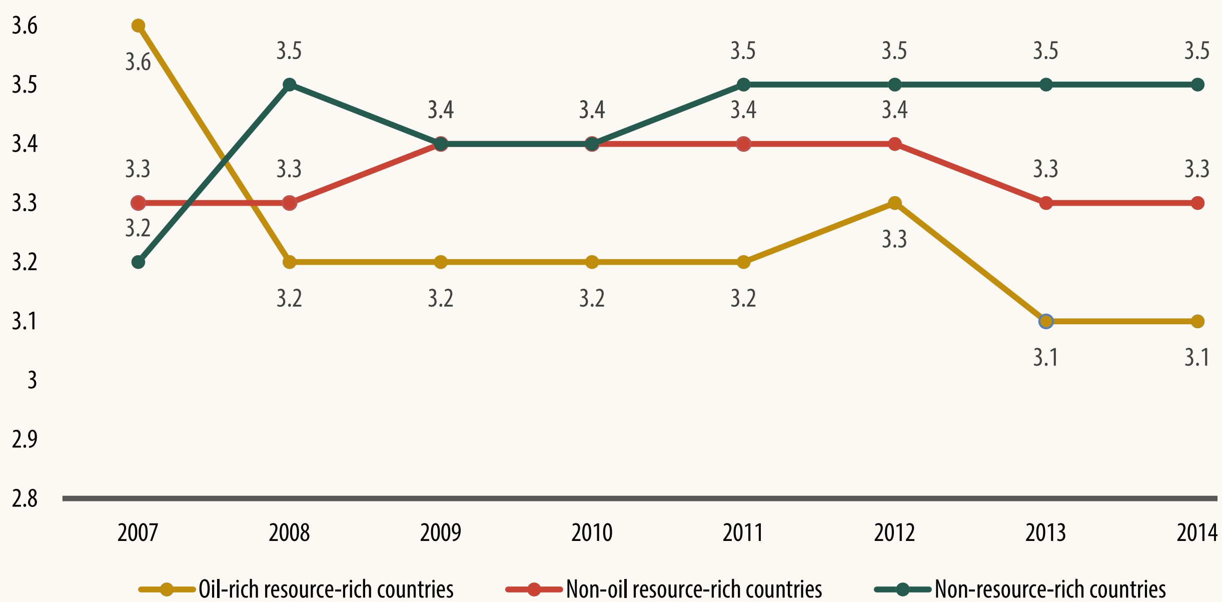
As regards the African governance indicators, emphasis is placed on the local buy-in from African countries, which is backed up by a body of empirical knowledge at country and subregional levels. As far as the relevance and effectiveness of qualitative approaches are concerned, the work of ECA on governance measurement has proven to be the generally accepted. This highlights the fact that when surveys are carefully designed, implemented and repeated over time, they can provide powerful and convincing comparative data. The *African Governance Report* data can be used as performance benchmarks by Governments and all major stakeholders in tackling the concerns expressed by the citizenry and serve to monitor how faithfully the compact between them is carried forward.

With regard to the Country Policy and Institutional Assessment, one of its strengths is the consistency in the data sources. This actually allows for inter-country comparisons. For instance, according to the 2015 Country Policy and Institutional Assessment Report, since 2008, the quality of economic management has varied across a group of countries. Mineral rich countries persistently scoring low at 3.1, compared to non-oil resource-rich countries at 3.5 and non-resource-rich countries at 3.3 (see figure 15).

As noted earlier, the Ibrahim Index of African Governance receives very high media coverage through which it has made significant contributions in making governance issues high on the agenda of leaders and development experts. In line with the 2005 Paris Declaration and the 2015 Addis Ababa Action Agenda, it is gratifying that

Figure 15

PERFORMANCE ON ECONOMIC MANAGEMENT CLUSTER BY GROUP, SUB-SAHARAN AFRICA 2007–2014



Source: World Bank (2015b).

both the African governance indicators of the *African Governance Report* and the Ibrahim Index of African Governance are African-led and owned initiatives, informing the works of the African Union and the regional economic communities.

Limitations

A quick look at the governance measurements would show that there are a lot more perception-based indicators than facts-based indicators focusing on Africa. There are two reasons behind this: the data required to construct facts-based indicators are often unavailable or unreliable for developing countries; and there appears to be much more demand for perception-based indicators from donors, business investors and policymakers. The four measurements[20] reviewed in the previous section are all constructed using a combination of fact-based and perception-based data.

The African governance indicators itself, warns its users of its limitations by noting that because much of the analysis is based on perceptions, considerable caution should be exercised in cross-country comparisons, since the political, social and economic environments differs significantly from one country to another. Perception-based elements provide a picture of the state of governance in each country only as perceived by the citizens of each country at the time of the research. Policymakers thus have to be cautious not to be too prescriptive. Furthermore, the *African Governance Report* contains recommendations, which are essentially informed by country-specific realities as governance must be contextualized and home-grown for it to be sustainable.

On the other hand, the general criticism over the Country Policy and Institutional Assessment centres on the fact that the ratings are focused on policies and institutions and excludes outcomes. The assessment also does not generally recognize the process of change in governance. It is undeniable that since the assessment ratings are generated for resource allocation by the World Bank and the African Development Bank, the adopted methodologies tend to be biased towards their respective understanding of what constitutes good policies and institutions. Indeed, the assessment continues to be controversial among several development specialists and policymakers in Africa. Some common recurring criticisms of the assessment are that: it essentially reflects the Washington consensus; it is prescriptive in its underlying assumptions about the character of good policies and institutions; it does not take into account a country's historical experiences and ignores country-specific characteristics; and its process lacks internal consistency and is not sufficiently robust.

> Corruption studies and results should be carried out and calculated on a country-by-country basis without any reference to comparisons between countries.

While the Global Competitiveness Index is widely used by international financial institutions, its critics are mostly focused on the meaninglessness of putting together countries and economies, which have varying socioeconomic contexts and which are at different development stages, in one basket to rank their performance. Consequently, most development specialists outside of the World Bank and its affiliates are hesitant about relying on the assessment of this index to make governance-related decisions. Although it assesses several aspects related to governance, such as public trust in institutions, judicial independence and corruption, these are limited measures of governance. As was noted earlier, even objective-based assessments such as the Global Competitiveness Index are ideologically biased towards business. The premise of the index is that a favourable business environment is essential to economic growth and development. This is clearly reflected by the questions and respondents of the Executive Opinion Survey. The index points out that the ranking is based on relative positioning, thus one country movement on the list is not necessarily due to changes in the country but rather in other countries – in other words, if one country cannot keep-up with the pace of changes in other countries it falls behind in the ranks, even if it is registering positive changes. Again,

20 The African governance indicators, the Country Policy and Institutional Assessment, the Global Competitiveness Index, and the Ibrahim Index of African Governance.

for reasons cited above and for reasons that the Global Competitiveness Index is designed to assist in pushing the Washington Consensus and not Africa's development agenda, it fails to tell the full story on governance in general or the level of corruption in particular.

The Ibrahim Index of African Governance has also come under the spotlight since it relies exclusively on secondary data without triangulating with expert-based assessments to get a better picture of what the state of governance is in a given African country.

It is important to be mindful of the fact that all governance indicators are attempts at approximating some unobserved broad dimensions of governance. Such an undertaking is bound to be fraught with difficulties. There is first and foremost the evident problem associated with translating perceptions into quantities. This is coupled with the fact that perceptions do not necessarily represent objective reality. As was noted from the analysis of the four measurements, the standard governance measures bring together a large amount of complex information into a single number for a country for a given year. The result can be quite heterogeneous and the weight assigned to a particular type of data can be arbitrary. For governance-related indicators (which includes the corruption dimension) to be useful, the indicators need to contain sharp definitions and clear specificity, comprising a plan for specific actions, a strategy for reforms, and a metric for measuring impacts.

In summary, as this chapter has demonstrated, while current measurements may be useful as indicators of the prevalence of corruption or bad governance, they do not help much by way of advancing policy reforms in Africa. Critics cast doubt over the methodological approaches and reliability of sources.

C. Lessons learned

There are important lessons to be learned from the above strengths versus weaknesses analysis:

- **Lesson 1:** Building and strengthening institutions of governance is key to tackling all governance challenges, including corruption.
- **Lesson 2:** Corruption studies and results should be carried out and calculated on a country-by-country basis without any reference to comparisons between countries.
- **Lesson 3:** The current practice of survey bias towards one group of society over another undermines the quality of the outcome of the exercise.
- **Lesson 4:** The major type of corruption in a given country should be identified and its occurrence measured on its own (without aggregating it). This will provide a better picture of the extent and prevalence of the major types of corruption in each country. In addition, this will better equip policymakers with tools for designing and carrying out appropriate intervention measures.
- **Lesson 5**: Illicit financial flows are an indication of dysfunctional public institutions and a lack of accountability on the part of public officials. No single measurement of corruption or governance would be complete without taking into account the social and economic impact of such financial flows.

First, there is consensus that corruption remains a social phenomenon, which is intrinsically linked to the problem of governance. The ECA African governance indicators were among the few bold attempts to situate corruption in the broader governance context.

Second, with regard to corruption, the most popular and sought after data is the annual publication of cross-country comparison of corruption. As demonstrated in the previous chapter, comparing corruption between country X and Y is like comparing apples and oranges. Each country has its own unique historical and cultural experiences. For example, countries rich in mineral resources are prone to certain types of corruption, which may never be experienced by resource poor countries. Furthermore, it is common knowledge that the views of the people selected to respond to survey questionnaires are shaped by the media, culture, experiences, among others. The type and nature of these factors that influence public perceptions and thoughts have to be similar across countries for us to be able to compare and rank countries according to the degree of perceived corruption. Results of such ranking can never be accurate but their consequences, especially on poor countries, should never be underestimated. Access to FDI is often affected by these rankings. Furthermore, banks and financial lenders use them for country risk analysis. It is for this reason that the present report, as others have done in the past, rejects the idea of attaching so much value to ranking countries with such diverse background as deserving any merit.

Third, respondents to the survey questionnaire are often concentrated around a small circle of individuals, such as businessmen, media personalities and non-governmental employees. The contents of the survey questions often deal with respondents' engagement with public servants and institutions. The survey seems to be more concerned about how corruption affects a selected group in a society. But corruption does not affect only one group or a segment of the population, depending on how widely practiced it could very well affect all categories of the society. Furthermore, as long as the results of such exercises reflect only the views of a minority, policymakers are not encouraged to carry out major reforms.

Fourth, the practice of aggregating sources of data to minimize errors in measuring corruption is often used by the major perception-based corruption measurements. This practice would be accepted if the additional sources that are brought to the model were more reliable. But, as experts have shown, the lack of reliability with each additional source added makes the model less reliable.

> In the cross-border flow of illicit money, about 3 per cent of the global total [are] the proceeds of bribery and theft by government officials; drug trafficking, racketeering, counterfeiting, about 30 to 35 per cent; commercial tax evasion, mainly through trade mispricing, some 60 to 65 per cent.

Last, one of the most alarming reports on corruption, which was recently brought to the public's attention, was published by Global Financial Integrity. The report (2008, p.1) noted that:

> *Much attention has been focused on corruption in recent years, that is, the proceeds of bribery and theft by government officials. In the cross-border flow of illicit money, we find that funds generated by this means are about 3 per cent of the global total... Criminal proceeds generated through drug trafficking, racketeering, counterfeiting and more are about 30 to 35 per cent of the total. The proceeds of commercial tax evasion, mainly through trade mispricing, are by far the largest component, at some 60 to 65 per cent of the global total.*

The loss as a result of such financial flows is estimated to be a total of $854 billion between 1970 and 2009. According to Global Financial Integrity, "this massive flow of illicit money out of Africa is facilitated by a global shadow financial system comprising tax havens, secrecy jurisdictions, disguised corporations, anonymous trust accounts, fake foundations, trade mispricing, and money laundering techniques".

D. Conclusions

It is a fact that one cannot measure what is hidden. A precise measure of corruption is, by all accounts, impossible. Data on money illegally exchanging hands are made purposely difficult to trace. It is for this reason that almost all corruption-related indicators resort to measuring public perception rather than corruption itself. As has been noted early in the chapter, there are several types of corruption – bribery, embezzlement, fraud and extortion, among others. These activities are all carried out away from public view and it is therefore difficult to know that they even exist, much less to measure their magnitude. Consequently, we recognize the importance of perception-based measurements. However, it is essential that most current perception measurements need to rethink their conceptual understanding and technical measurements of corruption to align themselves with current development thinking and practice.

CHAPTER 4

International dimension of corruption

Africa is increasingly becoming an important global player, and the international influence affects its geopolitical and socioeconomic landscape. This simple fact also applies to the domain of corruption. Africa's rich history, diverse cultures and its role in the world arena imply that the international dimension of corruption cannot be neglected. Three main conclusions emerge from this chapter. First, although there is an ambiguous impact of foreign aid on corruption, it cannot be ignored given the critical role of foreign assistance to African countries. Second, cross-border illicit financial flows in Africa are both a critical determinant and a consequence of corruption. Third, the extent of observed cross-border corruption indicates the essential role of foreign actors in promoting corruption in Africa. Lastly, this chapter highlights the importance of domestic and foreign governance institutions in examining the international dimension of corruption in Africa.

A. Potential effects of foreign intervention on corruption

Colonial and post-colonial influence on corruption

The international character of corruption in Africa has several dimensions and features, which can be associated to certain historical developments. These have partly been debated in a broader colonial and post-colonial discourse. The legacy of the colonial era has had a lasting impact on governance in Africa. Colonial powers used different forms of ruling States, which created a system of "colonial chiefs in chiefless societies" (Tignor, 1971). Tignor underscored that "the appointment of chiefs, who were only accountable to their colonial governments, led to a culture of corrupt practices... Without corruption, the whole system would have collapsed, since the vast para-administrative and military organizations had to be…financed" (p. 351).

The colonial bureaucratic model was characterized by white bureaucrats, and various indigenous rulers and chieftains (Blundo and Olivier de Sardan, 2006, p. 38). Gift-giving, in pre-colonial Africa, was part of traditional diplomatic customs. It was also used to obtain services, reinforce friendships and secure peace (p. 32). This gift-giving culture continued into the colonial era, with an "increased monetization" of social relationships. In certain countries, this has remained deeply rooted, such that small envelopes, which are paid out to State officials, are deemed to be an acceptable form of gift-giving.

The overall reality of colonial rule, however, was one where coercion, violence and corruption were essential elements in integrating colonial subjects into production structures. The colonial experience contributed to the emerging notion that "authority need not come from the people, rather it is bestowed on someone anointed from above" (Mbembe 2000, pp. 51–53). Often times, power was exercised illegitimately and with brutality, and public services offered opportunities for rapidly accessing wealth and prestige (Njoku, 2005; see also Tignor, 1971). Also, "[since]…the colonial government was regarded as…illegitimate, traditional restraints on stealing, misappropriation of State property" (Le Vine, 1975, p. 50) were often overlooked.

There is strong evidence that the post-colonial period has had an equally significant impact on Africa's governance architecture. In particular, "the post-colonial State…represented a historical mutation of African societies, taken over the long term: never before, it seems, has the dominant class managed to acquire such marked economic supremacy over its subjects" (Bayart, 1993, p. 87; also cited in Smith, 2010, p. 12). In several instances, the political coalitions, which emerged victorious after the struggle for independence, were quick to try and gain control over their countries' resources. In that regard, post-colonial Ghana is a classic example, as highlighted by Le Vine (1975). He indicates that an "interclass of new men" assumed political power in Ghana in 1951 and "its leaders brought to power, attitudes, values, and a political style that owed…little to the political norms, held either by the British or [the] colonial elite" (p. 51). During the post-colonial period, African ruling classes strived to gain personal advantage, which implied that resources were unequally distributed (Bayart, 2006). Besides such broad historical and cultural foreign influences, there are also factors that are today more palpable when it comes to judging the international character of corruption as it is experienced in Africa.

Effect of foreign assistance on corruption

Foreign intervention is an intrinsic part of the policy landscape in many African countries. It is obvious that ODA remains critical in financing the continent's structural transformation agenda. ODA also has an influence on governance in general and corruption in particular, in ways that may be both positive but also negative, and according to causality chains, which are often nuanced. Distinguishing among the various forms of foreign assistance is important, because of the different impact that each one may have on corruption. Foreign assistance in Africa may be bilateral or multilateral and may take the form of transfers to African Governments, with conditions on how they should be spent, which vary greatly from case to case. Also, each type of foreign assistance might be characterized by different degrees of transparency and accountability in the use of funds, and levels of managerial skills in project execution. In particular, when aid is tied to rigid conditionality regimes, this may demotivate countries for taking ownership over anti-corruption reforms.

The total amount of ODA to African countries has more than doubled in real terms since the beginning of the millennium (see figure 16).[21]

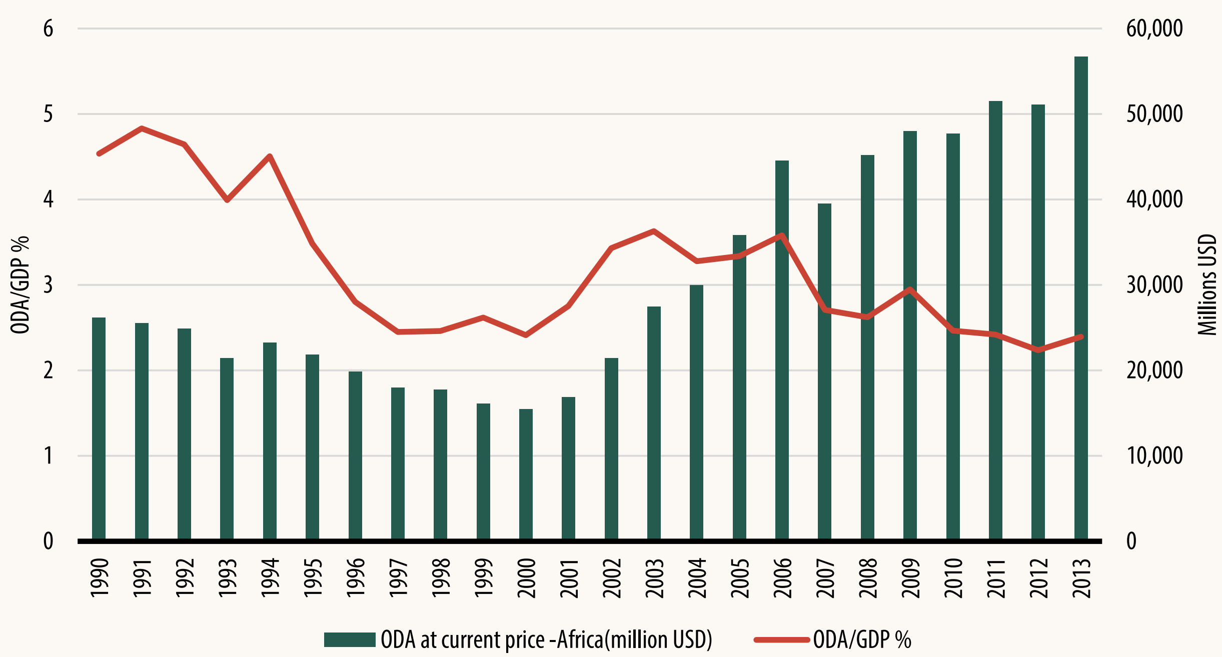
It is important to recall that Alesina and Dollar (2000) found "considerable evidence that the direction of foreign aid is dictated as much by political and strategic considerations, as by the economic needs and policy performance of the recipients. Colonial past and political alliances are major determinants of foreign aid" (p. 33). Similar results are found by Hoeffler and Outram (2011), and particularly so for bilateral (vs. multilateral) assistance, while Easterly and Pfutze (2008, pp. 29–52) note that "a lot of aid still goes to corrupt and autocratic countries and to countries other than those with the lowest incomes".

Foreign assistance has an undeniable desired effect in combating corruption in African countries, when it is directed at projects which successfully aim at fighting corruption and at improving the quality of public governance. Specifically, it has been used to support anti-corruption initiatives in many African countries, notably by strengthening the judiciary, national

21 All figures reported are the results of our computations using data made available by OECD Development Assistance Committee (DAC). See table 30, on *"Net Disbursements of ODA to Sub-Saharan Africa by Recipient"*, and table 25, on *"ODA Receipts and Selected Indicators for Developing Countries and Territories"*. Easterly and Pfutze (2008) warn about the quality of the data, in a situation where "cooperation with the DAC is voluntary and a number of international agencies apparently do not participate in this sole international effort to publish comparable aid data" (pp. 29–52).

Figure 16

OFFICIAL DEVELOPMENT ASSISTANCE TO AFRICA



Source: Data taken from OECD Development Assistance Committee, 2015 (see footnote 21).

anti-corruption agencies and improving State accountability. For example, a country that traditionally has demonstrated a commitment in this area of intervention is Norway. Good governance and the fight against corruption "is one of the main areas of priority in Norwegian aid and development policy" (Norad, 2015). In 2014, one fifth of Norwegian bilateral foreign assistance to African countries was directed to anti-corruption initiatives.[22] Foreign assistance may also have an indirect beneficial effect in combating corruption, whenever it succeeds to improving overall State capacity. Also, there are projects which target broader governance dimensions that can help in reducing corruption.

> Foreign assistance has an undeniable desired effect in combating corruption in African countries, when it is directed at projects which successfully aim at fighting corruption and at improving the quality of public governance.

It is, however, to be recalled that ODA flows also influence the evolution of corruption in Africa adversely, given its continued significance in African national budgets. Indeed, Charron (2011) presents empirical evidence showing that "the more ODA a State receives relative to its GDP, the worse their democratic and bureaucratic performance and corruption levels become" (pp. 66-88). However, in these countries, the overall landscape is such that public policies cannot be ascribed to the State only, but also to the set of non-governmental organizations, which are financed from abroad. Aid dependence might drive certain States to become less accountable to their citizens, with the potential risk of cultivating inadequate economic policies and weak institutions. Furthermore, foreign assistance is an outlet by which certain political elites in recipient countries engage in rent-seeking behaviours. On this basis, part of the development literature has reached scathing conclusions on foreign assistance, for example, that aid can make States less accountable, that there are vested interests for ODA to be channelled to specific activities, and that it incentivizes domestic corruption (Knack, 2001, 2004). It is to be noted that any assessment of the relationship between foreign assistance and corruption should recognize the important shift that has occurred during the past decade, whereby much greater attention is devoted to the quality of governance.

Different types of foreign assistance appear to have a different impact on corruption. In the African aid architecture, bilateral aid tends to be more tied to countries' political agendas, especially in natural resource-rich countries. Asongu and Jellal (2013) found that "foreign aid channelled through government's consumption expenditure increases corruption".[23] While the available evidence on the overall effect of foreign assistance on corruption is ambiguous, arguably its positive effects have become more prominent during the past two decades, when major international organizations, including the United Nations and the African Union, have put corruption at centre stage.

B. Understanding cross-border corruption

In as much as the literature is unable to reach consensus regarding a definition of corruption, the same applies to cross-border corruption. Instead, the debate on cross-border corruption focuses on its various forms. In practice, cross-border corruption acts include: collusion between suppliers and public officials within the international supply chain; money laundering; customs tariff avoidance; and bribery in international transactions.

The common element of all forms of cross-border corruption is that it occurs across jurisdictions and most often, within the realm of international commercial transactions. In 2014, following a three-year trial, the United Kingdom Serious Fraud Office convicted the Smith and Ouzman company of bribing public officials in Mauritania and Kenya;[24] in early 2015, two subsidiaries of Goodyear Tire and Rubber Company, based

22 Source of computations are from data available from http://www.norad.no/en/front/countries/.

23 See also, among others, Askarov and Doucouliagos (2013).

24 More information is available from http://www.ft.com/intl/cms/s/0/28b88282-8a04-11e4-9271-00144feabdc0.html.

in Angola and Kenya, allegedly paid bribes to public officials in order to increase sales, in breach of the United States Foreign Corrupt Practices Act (AlixPartners, 2015). Cross-border corruption is a serious concern, because of "its potential to interact with domestic corruption, often with the effect of intensifying both and making reform more difficult. In its causes as well as in its consequences, cross-border corruption has much in common with domestic varieties; countries that have serious internal corruption problems are likely to be particularly vulnerable to cross-border forms as well" (Johnston, 1998, p. 14).

Cross-border corruption may involve both private and public actors. One particularly serious type of cross-border corruption occurs when both the giving and the receiving hand are public officials, which could have a broader repercussion on the geopolitical landscape of the country. Moreover, domestic and foreign corruption may interact in complex ways. For instance, Médard (1997) defines a franco-African international model of corruption (*modèle franco-africain de corruption internationale*), according to which, the French political leaders bribed African counterparts so as to protect their own interests. Cross-border corruption by State actors is difficult to detect, and the available evidence mostly derives from retrospective studies. At the same time, it is important to recognize that the distinction between public and private actors might at times be blurred.

Cross-border corruption involving foreign firms

Cross-border corruption involving foreign firms has traditionally been prominent in Africa, in a context where local firms have rarely been available to obtain the most lucrative contracts. A noteworthy example relates to the extractive sector, which involves an array of actors ranging from multinational corporations to State-owned entities and public officials. The extractive sector is more vulnerable to corruption given the magnitude of the contracts. For example, in the 1990s, the Simandou iron-ore mining project in Guinea was the largest of its kind in Africa. It included 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 foreign firm. Those blocks were awarded, with no tender process and through an alleged verbal contract, to the foreign firm BSG Resources. Allegations continue to be made that substantial bribes were given in order to ensure that the blocks were split-up between two foreign firms. This scandal continues to be the subject of an inquiry by the Federal Bureau of Investigation (The Economist, 2014).

"Cross-border corruption involving foreign firms has traditionally been prominent in Africa, in a context where local firms have rarely been available to obtain the most lucrative contracts."

Cross-border transactions of all types have increased in the past two decades, which has also augmented the scope for corrupt practices. In parallel with these developments, there has been a process of progressive criminalization of such type of corruption leaving a trail of evidence, which needs to be tapped into to better understand the phenomenon. This has in effect been acknowledged by various countries in their legal frameworks. For instance, as far back as 1977, the United States enacted the Foreign Corrupt Practices Act, which prohibits the payment of bribes by United States citizens and United States corporations and their agents to foreign officials, to obtain business advantages in foreign countries. The Act was amended in 1998, to cover bribery committed by foreign firms and persons who, directly or through agents in the territory of the United States, to obtain a business advantage in foreign jurisdictions through bribing foreign officials. The Act also requires companies whose securities are listed in the United States to maintain accurate books and records and have a system of internal controls.

The United States Securities and Exchanges Commission (SEC) and the Department of Justice are jointly responsible for enforcing the Foreign Corrupt Practices Act. The SEC Enforcement Division established a specialized unit to further enhance its enforcement of the Act. Companies and individuals that have

Box 17

FOREIGN CORRUPT PRACTICES ACT: EXAMPLES OF CASES ENFORCED BY THE SECURITIES AND EXCHANGES COMMISSION

2015

Hitachi

SEC charged the Tokyo-based conglomerate with violating the Foreign Corrupt Practices Act by inaccurately recording improper payments to the ruling political party of South Africa in connection with contracts to build power plants. Hitachi agreed to pay $19 million to settle charges. (28 September 2015)

Goodyear Tire and Rubber Company

SEC charged Goodyear with violating the Foreign Corrupt Practices Act when its subsidiaries paid bribes to land tire sales in Kenya and Angola. The company agreed to pay $16 million to settle the charges. (24 February 2015)

2014

Layne Christensen Company

SEC charged the Texas-based water management, construction, and drilling company with violating the Foreign Corrupt Practices Act by making improper payments to foreign officials in several African countries in order to obtain beneficial treatment and reduce its tax liability. (27 October 2014)

2013

Weatherford International

SEC charged the Swiss-based oilfield services company with authorizing bribes and improper travel and entertainment for foreign officials in the Middle East and Africa to win business. Weatherford agreed to pay more than $250 million to settle cases with SEC and other agencies. (26 November 2013)

Parker Drilling Company

SEC charged the worldwide drilling services and project management firm with violating the Foreign Corrupt Practices Act by authorizing improper payments to a third-party intermediary in order to entertain Nigerian officials involved in resolving the company's customs disputes. Parker Drilling agreed to pay $4 million to settle SEC charges. (16 April 2013)

2012

Noble Corporation executives

SEC charged three oil services executives with bribing customs officials in Nigeria to obtain illicit permits for oil rigs in order to retain business under lucrative drilling contracts. (24 February 2012)

2010

ENI and Snamprogetti Netherlands BV

SEC charged an Italian company and its former Dutch subsidiary in a decade-long bribery scheme with offences that included deliveries of cash-filled briefcases and vehicles to Nigerian government officials to win construction contracts. Snamprogetti and ENI jointly paid $365 million to settle SEC and criminal charges. (7 July 2010)

Technip SA

SEC charged the Paris-based global engineering company of bribing Nigerian government officials over a 10-year period in order to win construction contracts worth more than $6 billion. Technip agreed to pay $338 million to settle SEC and criminal charges. (28 June 2010)

Source: United States Securities Exchange Commission.

committed violations of the Act may have to return the ill-gotten finances and pay interests or penalties. Various companies and their subsidiaries in Africa have been indicted for their involvement in bribery in Africa. Notably, a significant percentage of these cases fall in the extractives sector (see box 17).

Cross-border corruption by foreign firms was explicitly addressed multilaterally through the ratification of the OECD Anti-Bribery Convention, and the consequent enactment of national legislation by the signatory countries (see box 18).

The Convention represents an important step forward in the fight against cross-border corruption. Its overarching goal is to combat the bribery of foreign public officials by OECD countries. It is also deemed to be a legal innovation because it relies on each country's enforcement mechanism and judicial system, although it is an international agreement. However, one key limitation of the Convention is that it focuses exclusively on the public administration and not the private sector. In addition, enforcement mechanisms are not applied uniformly across countries, in particular in Africa.

Box 18

ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT ANTI-BRIBERY CONVENTION

The OECD Anti-Bribery Convention is an anti-corruption instrument which prohibits the bribery of foreign public officials in international business transactions. It was signed in December 1997 and came into force in 1999. Forty one countries are signatories to this Convention, including all 34 OECD member States and 7 other non-OECD States (Argentina, Brazil, Bulgaria, Colombia, Latvia, Russia, and South Africa). The Convention requires all parties or signatories to take necessary measures to establish that it is a criminal offence under its law for any person or agent to offer, promise or give any undue monetary advantage to a foreign public official in order to obtain or retain business or advantage in the conduct of international business.

Article 1 (1) states: "Each Party shall take such measures as may be necessary to establish that it is a criminal offence under its law for any person intentionally to offer, promise or give any undue pecuniary or other advantage, whether directly or through intermediaries, to a foreign public official, for that official or for a third party, in order that the official act or refrain from acting in relation to the performance of official duties, in order to obtain or retain business or other improper advantage in the conduct of international business".

Enforcement: The Convention establishes a peer-driven monitoring mechanism to ensure the full implementation of the obligations of signatory countries. The OECD Working Group on Bribery in International Business Transactions is responsible for monitoring the implementation and enforcement of the OECD Anti-Bribery Convention.

However, there are enforcement challenges: 15 years after entering into force only four countries, including Germany, Switzerland, the United Kingdom and the United States, "are actively investigating and prosecuting companies that cheat taxpayers when they bribe foreign officials to get or inflate contracts, or obtain licenses and concessions" (Transparency International, 2015a). Inadequate complaints mechanisms, poor inter-institutional and international communication, lack of awareness, delays in processing, and complex money laundering techniques as well sophisticated shell companies cases are a major obstacle for enforcement (Gernand, 2014).

In Africa, the cases involve multinational corporations from OECD countries in payment of bribes to foreign officials for illegal oil dealings in resource-rich countries such as Angola and Libya (Transparency International, 2015b).

Source: OECD, Transparency International.

The entry mode of multinational corporations to partake in corrupt practices has been extensively documented, but needs to be recalled (see figure 17).

The flowchart in figure 17 provides the entry modes multinational corporations into activities that may lead into corruption (Canabal and White, 2008). Peng (2009) argues that these modes vary by their scale of entry, based on two categories: equity and non-equity (Tian, 2007). Equity entry modes consist of a sharing arrangement between a foreign multinational corporation and a local firm by dividing resources, risk and operational control between the partners (Julian, 2005). But there are also instances where one entirely owns the operations, such as in Greenfield investments or the acquisition of an existing firm (Razin and Sadka, 2007). Non-equity modes comprise of exports and contractual agreements such as licensing, franchising, turnkey projects and research and development contracts (Teixiera and Grande, 2012).

Through the entry modes, some of the corrupt activities that multinational corporations may engage in (Ndikumana, 2013, p. 10), include:

a. Obstructing competition rules or anti-trust behaviours designed to secure monopoly profits;

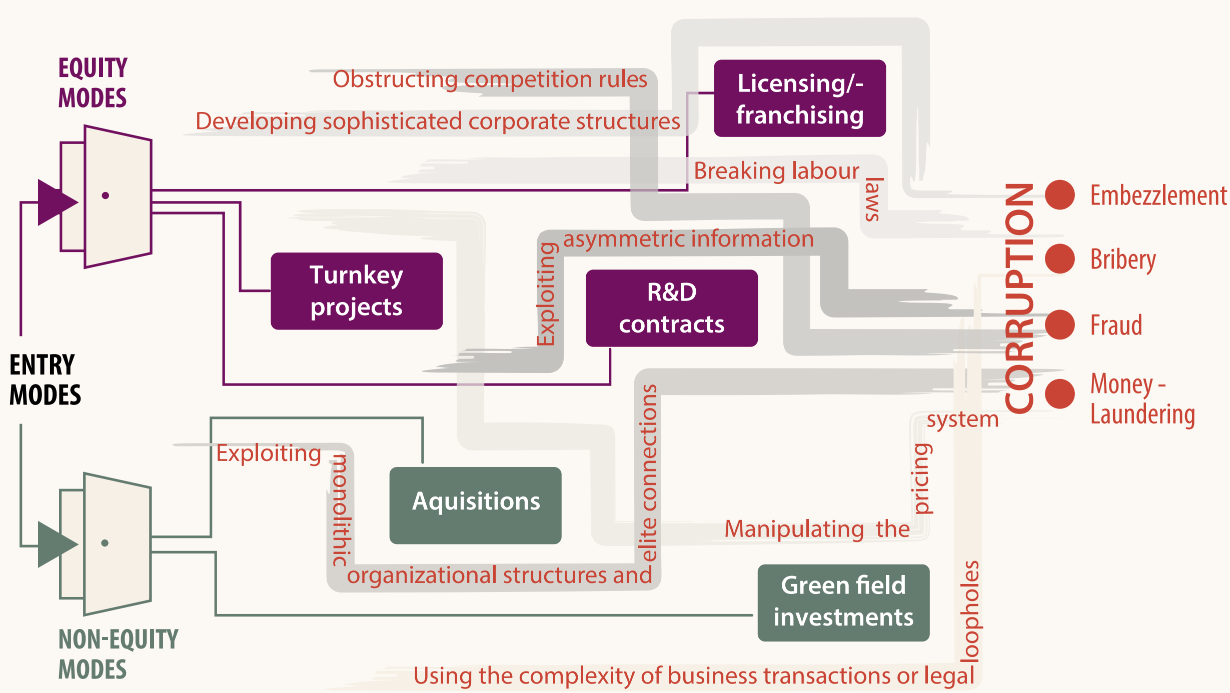
b. Breaking labour laws to advance business interests (by minimizing wages and other labour-related obligations) or to promote the interests of business associates (including patronage in the hiring process);

c. Manipulating the pricing system through tax evasion and usury charges to customers (including Governments where the public sector is a consumer of services);

d. Exploiting asymmetric information, whereby multinational corporations leverage insider information, business or industry specific information that may not be accessible to the

Figure 17

ENTRY MODES FOR MULTINATIONAL CORPORATIONS IN CORRUPTION



Note: R&D: research and development contracts

Source: Adapted from Teixiera and Grande (2012).

regulator, the consumer, the worker and the public in general, to secure above-normal profits;

e. Using the complexity of business transactions or legal loopholes that make it difficult for the regulator and the law enforcement agencies to monitor and access the legality of transactions;

f. Developing sophisticated corporate structures that blurs the boundaries of ownership and domiciliation in the context of globalization chequered with increasing integration of trade and finance;

g. Exploiting monolithic organizational structures and elite connections – a common feature of the industrial sector in most African countries characterized by a high concentration of ownership often in the hands of family-based networks that are generally connected to the current and past ruling elite.

The above points are key sources of access to markets, large government procurement contracts, and preferential treatment in taxation and import and export licensing (ibid). The monopolistic privileges get reinforced by regulatory barriers that constrain a firm's entry into select sectors. The monopolistic structure of the industrial sector prevents the emergence of new entrepreneurs, because incumbency privileges allow the multinational corporations that are present to undercut prospective entrepreneurs, notably using their links to the political regime. As a result, this limits the penetration of new technologies and modern business practices as well as access to finance, thereby undermining productivity growth.

Quantitative assessment of cross-border corruption in Africa

It is possible to obtain indications of cross-border corruption levels affecting African countries, using the Public Administration Corruption Index (PACI). This index has been recently developed by Escresa and Picci (2015a). The present report uses an adapted methodology of the index (see appendix A).[25] In a nutshell, the index uses information on cross-border corruption cases in a given country "to evaluate levels of corruption in all other countries. Moreover, it considers cases arising not only from a single jurisdiction, but from all relevant ones" (Escresa and Picci, 2015a, p.3).

> "Between 1995 and 2014, out of 1,080 cases of cross-border corruption in Africa, 1,075 firms (99.5 per cent) involved non-African firms."

Table 7 presents cross-border corruption cases involving foreign firms. Between 1995 and 2014, out of 1,080 cases of cross-border corruption in Africa, 1,075 firms (99.5 per cent) involved non-African firms.[26] This highlights the fact that the corrupting agents are almost invariably non-African, confirming that the external dimension of corruption is very much present on the continent.

25 In considering these results, please note that the first five-year period precedes the coming into force of the OECD Anti-Bribery Convention, so that almost all cases refer to firms based in the United States.

26 In addition, between 1995 and 2014, out of a total of 1,080 cases of cross-border corruption, only 257 (or 23.8 per cent) involving African countries' public officials originated on the continent (see table 10, column v.).

Table 7

NUMBER OF CROSS-BORDER CASES OF CORRUPTION BY FOREIGN FIRMS

Years	Total number of cases in Africa	
	From rest of the World	Africa
1995–1999	135	0
2000–2004	383	3
2005–2009	350	0
2010–2014	207	2
Total: 1995–2014	1 075	5

Note: See appendix A, and Escresa and Picci (2015a, b) for an illustration of the methodology used to compute the Index.

Source: Escresa and Picci (2015b).

Table 8

PUBLIC ADMINISTRATION CORRUPTION INDEX FOR AFRICA AND ITS SUBREGIONS, 1995–2014

	Africa	North Africa	West Africa	Central Africa	East Africa	Southern Africa
1995-1999	1 300.5	462.0	4 345.0	5 599.0	1 446.4	207.2
2000-2004	916.7	683.8	1 815.8	2 567.3	1 218.9	135.4
2005-2009	1 221.9	1 027.7	1 801.6	6 221.1	3 548.5	45.5
2010-2014	811.1	516.6	723.7	5 204.4	2 493.2	104.5

Note: See appendix A, and Escresa and Picci (2015a, b) for an illustration of the methodology used to compute the Index.

Source: Escresa and Picci (2015b).

At the subregional level, Central Africa appears to be the most affected by cross-border corruption (see table 8). Between 2005 and 2009, the index had reached above 6,000, which is unsurprising given that all countries in this subregion are rich in natural resources. The ensuing governance problems are related to Africa's natural resources sector, which has been analysed throughout this report. Conversely, Southern Africa seems to be the least vulnerable to cross-border corruption. East Africa is the only subregion that has shown improvements over time; this partly reflects the increased efforts by the partner States of the East African Community (EAC) to combat cross-border trade corruption. For instance, Governments of EAC have identified one-stop border posts as a potential response to customs clearance issues, such as corruption. In April 2013, EAC passed its One Stop Border Posts Act, which makes it mandatory for partner States to "implement one-stop border processing arrangements, by establishing and designating control zones at the respective border posts" (Whitehead, 2013).

C. Cross-border illicit financial flows

Cross-border illicit financial flows often go hand in hand with corruption, and represents an essential ingredient of its international character. Whereas such statement holds true in general, it is particularly pertinent when discussing corruption in Africa because of the magnitude and character of illicit financial flows on the continent. There is a shared perception that illicit financial flows in Africa are of a significant magnitude and that they have increased during the past decade. This is partly because of the increased sophistication of the financial sector in the digital age, which makes it possible to shift financial resources around the world, literally, with a click of a button.

African countries are fully cognizant that illicit financial flows are increasingly draining important resources from the continent. It is in this context that in 2011, the fourth Joint Annual Meetings of the African Union Conference of Ministers of Economy and Finance and Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development, established the High-level Panel on Illicit Financial Flows from Africa. In 2015, the High-level Panel published its final report (ECA, 2015b). According to the final report, illicit financial flows may originate from three broad types of activities: commercial, criminal, and corruption. It is, however, to be recalled that corruption is also intrinsically linked to commercial and criminal sources of such flows. Illicit financial outflows, which derive from commercial activities, "have several purposes, including hiding wealth, evading or aggressively avoiding tax, and dodging customs duties and domestic levies" (ECA, 2015b, p. 24).

Among the criminal activities that may give rise to illicit financial flows, of particular relevance in Africa are "trafficking of people, drugs and arms to smuggling, as well as fraud in the financial sector, such as unauthorized or unsecured loans, money laundering, stock market manipulation and outright forgery" (p. 31). The stark reality is that illicit financial flows are motivated by the perpetrators' need to safeguard their proceeds from corrupt activities, outside Africa. A further preoccupation, which has increased in recent years, is that illicit financial flows may serve to finance terrorist activities, both in African countries and elsewhere. Corruption is a cause of such flows because corrupt persons often need to expatriate the proceeds of their illegal deeds. Furthermore, corruption of officials in the financial sector is an enabler of many of the practices supporting illicit financial flows. However, and particularly when large sums of money are involved, corruption is also a consequence. In other words, ensuing proceeds are illegally safeguarded abroad, to stash the money away for future use.

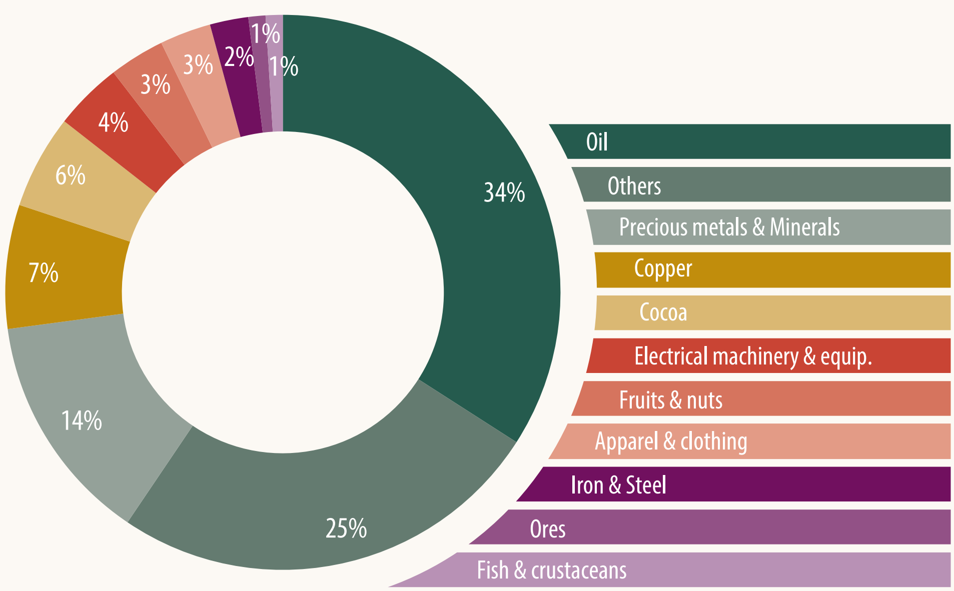
Illicit financial flows in Africa are very unequally distributed by country (ibid, p. 93, table A3.1), and some sectors of the economy (and those countries where those sectors are prominent), specifically natural resources (be them oil or minerals), are at a bigger risk of generating such flows. A sectoral breakdown of the data for 2010 (see figure 18), the last one for which data are available, reveals that two sectors – oil and precious metals and minerals – represent the bulk of the total amount of illicit financial flows recorded between 2000 and 2010.

Multinational corporations in Africa's extractives sector

In many resource-rich African countries, corruption is perceived to be one of the main triggers of illicit financial flows, which in turn, is deemed to be largely driven by the involvement of multinational corporations. From the onset, it is to be recalled that corruption-driven illicit financial flows result from inadequate governance in the extractives industry. Figure 18 is a reflection of the "natural resource curse", where natural riches are not conducive to economic development, but they strengthen rent-seeking motives, which make it

Figure 18

ILLICIT FINANCIAL FLOWS SECTORAL BREAK-UP



Note: Shares refer to the year 2010. The sectors with the highest shares are shown, and all the others are aggregated in the "Others" category.

Source: ECA, 2015b.

particularly difficult to develop the strong institutions that would be needed to administer those resources in an equitable way.

The extensive literature has confirmed that several factors render Africa's extractive sector highly susceptible to corruption-driven illicit financial flows. First, this sector continues to be heavily controlled by the political elite. In parallel, the extractives sector remains an important source of revenue generation, which makes it an easy target for vested monetary interests. The complexity of the legal and regulatory frameworks and the number of stakeholders involved (including government agencies and multinational corporations) in the sector make it challenging to ensure transparency and accountability. As rightly indicated by Le Billion (2011, p. 3), "this opens the door to manipulation, particularly if auditing capacity is limited or corrupt". For instance, in the mining subsector, corruption-related illicit financial flows can occur at each stage of the mineral value chain (see table 9).

Multinational corporations take advantage of the present gaps and loopholes in the legal and regulatory frameworks in Africa. This is combined with the reality that compliance of laws and regulations are a serious problem in the extractives sector. These corporations have progressively established corrupt approaches, which have allowed them to repatriate hefty sums of mineral revenue from the continent without paying their dues. Such approaches include: market rigging, insider trading, payment of illicit political donations, embezzlement, fraud and payment of bribes and commission kickbacks (Baker, 2005).

Table 9

CORRUPTION-RELATED ILLICIT FINANCIAL FLOWS IN THE EXTRACTIVES SECTOR IN AFRICA

Mineral value chain stages	Corruption
Licensing	• Risk level: high • Key method: bribery; kick-backs; commissions; nepotism • Loopholes: lack of information on contracts; unfair bidding and award processes
Exploration	• Risk level: low • Key method: unlawful gifts and commissions • Loopholes: unfair bidding and award processes
Development	• Risk level: high • Key method: bribery; kick-backs; commissions; fraud • Loopholes: lack of enforcement of mineral sector regulations (e.g. procurement irregularities; contractual changes)
Production	• Risk level: high • Key method: bribery; kick-backs; commissions; fraud • Loopholes: procurement irregularities; non-compliance and [or] weak enforcement of production regulations
Transport, storage and marketing	• Risk level: high • Key method: bribery; kick-backs; commissions; fraud; • Loopholes: lack of enforcement of mineral sector regulations (e.g. procurement irregularities; contractual changes)
Processing and marketing	• Risk Level: High • Key method: bribery; kick-backs; fraud • Loopholes: price manipulation; irregular award of import licenses

*Source***:** Adapted from *Extractive sectors and illicit financial flows: what role for revenue governance initiatives* (Le Billion, 2011).

The secretive nature of corruption is even more apparent when it comes to production sharing agreements, which are signed between African Governments and international oil and mining companies (see box 19).

Multinational banks as conduits of corruption

The problem of illicit financial flows in Africa has been compounded by the existence of financial secrecy jurisdictions. The term "secrecy jurisdictions" is at times interchangeably used to refer to tax havens or offshore financial centres. Globally, there is no common definition of tax havens or secrecy jurisdictions because of the various facets of this challenge, which cannot be captured, by a single definition (Tax Justice Network, 2015). According to the report of the High-level Panel on Illicit Financial Flows from Africa, "secrecy jurisdictions are cities, States or countries whose laws allow banking or financial information to be kept private under all or all but few circumstances" (ECA, 2015b, p. 9). Secrecy jurisdictions establish legal structures and facilities that make it easier for people or entities to escape compliance with laws and regulations of other jurisdictions elsewhere through secrecy.

> Indeed, banks sometimes "knowingly establish infrastructure to facilitate the movement of illicit financial flows to financial secrecy jurisdictions."

According to Christensen (2009), "the combination of tax havens and offshore financial centres creates a highly secretive and underregulated globalized infrastructure, which functions as an offshore interface between the illicit and the licit economies". As a result of this opacity, financial secrecy jurisdictions are the main destinations of illicit financial flows from the continent. They have exposed many African countries to the risk of such flows through international financial transactions.

The High-level Panel report findings show that illicit financial flows are facilitated by financial intermediaries, through transactions originating from smaller bank branches in Africa. Indeed, banks sometimes "knowingly establish infrastructure to facilitate the movement of illicit financial flows to financial secrecy jurisdictions" (ECA, 2015b, p. 37).

Jurisdictions such as the United States and the United Kingdom, in addition to tax havens such as Switzerland

Box 19

CHALLENGES OF PRODUCTION SHARING AGREEMENTS IN AFRICA'S EXTRACTIVES SECTOR

Production sharing agreements are rarely, if ever, made public, since both Governments and multinational corporations overly-leverage the confidentiality clauses contained in them. These agreements stipulate the revenue-sharing between Governments and multinational corporations; the exemptions (including tax) and confidentiality clauses; and can even include what are termed as "stabilization clauses", which freezes these agreements from revision in the future. It is evident that if the public and the media are unable to access them, it provides scope for signatories of these agreements to carry out illegal deals.

In order to maintain their commitment to populations, several African countries are striving to publish production sharing agreements, although it is not done regularly or for all contracts. According to the Resource Contracts database, the following countries have published these agreements, to date: Algeria (1); Angola (4); Benin (2); Burkina Faso (7); Cameroon (7); Chad (5); Congo (27); Democratic Republic of Congo (76); Egypt (8); Equatorial Guinea (6); Gabon (6); Gambia (2); Ghana (8); Guinea (88); Kenya (8); Libya (3); Liberia (22); Madagascar (3); Mali (13); Mauritania (22); Morocco (5); Niger (1); Nigeria (4); Senegal (2); Sierra Leone (4); Somalia (4); Tunisia (4); Uganda (4) and United Republic of Tanzania (5).

Source: Global Witness (2014).

and the British Virgin Islands, are among the leading destinations for the outflow of illicit financial resources from Africa (see box 20). According to Global Financial Integrity (2013), about 45 per cent of illicit flows end up in offshore financial centres and 55 per cent in developed countries. Resource rich countries, mainly Nigeria, Algeria and Zambia, remain the key sources of these illicit financial losses.

The Financial Secrecy Index, published every two years by the Tax Justice Network, provides a global assessment of financial secrecy and is now widely used by development practitioners. Table 10 shows that the index re-echoes the findings of the 2015 High-level Panel report – that the leading destinations of illicit financial flows from Africa are also top financial secrecy jurisdictions. These countries include Germany, Japan, the United Kingdom and the United States (including its territories), among others.

Why it is hard yet important to measure corruption by multinational corporations

As discussed in chapters 2 and 3, corruption is difficult to measure because it takes place away from the public eye. While international corporations maintain a good public image through periodical financial statements and corporate social responsibility, they are also very astute at concealing activities or practices that are not accepted or are illegal, such as corruption. There exists a gap "between a company's cleverly crafted do-gooder image and its actual operations…Such practices seems to be part of the 'enterprise culture' that persuades many to believe that 'bending the rules' for personal gain is a sign of business acumen" (Otusanya, Lauwo and Adeyeye, 2012, p. 5).

Box 20

BANKS, TAX HAVENS AND CORRUPT BEHAVIOUR IN AFRICA

The Nigerian Government took Barclays, NatWest, Royal Bank of Scotland (RBS), HSBC and UBS to court in London for abetting corruption between 1999 and 2005. The banks had allegedly assisted senior government officials to channel billions of pound sterling through the United Kingdom to tax havens.

The Global Witness report (2010) shows the mechanisms by which the banks aided officials to bring their corrupt loot into the United Kingdom. A Global Witness official notes that: "Banks are quick to penalize ordinary customers for minor infractions, but seem to be less concerned about dirty money passing through their accounts [...] Large scale corruption is simply not possible without a bank willing to process payments from dodgy sources, or hold accounts for corrupt politicians".

The report singled out RBS for allowing the former Governor of Bayelsa State, Diepreye Alamieyeseigha, to channel ill-gained funds of about £2.7 million into the United Kingdom. Nearly £1.56 million of the money in question came from bribes paid by a State contractor to win a contract to build a fence around the governor's official lodge. The main concern had been over the conduct of RBS and whether it had carried out the necessary due diligence by checking its customers and sources of their funds.

The report goes on to note that both the banks and the Financial Services Authority have not taken the corresponding actions to match the problem. This is what fuelled the flow of illicit funds out of the continent.

On paper, anti-money laundering regulations require banks to identify rogue customers, but these are not adequately enforced. It is thus critical that foreign Governments prepare their regulators to take corruption seriously and signal to the financial sector that dirty money is not welcome in those jurisdictions.

Source: Global Witness (2010).

Table 10

FINANCIAL SECRECY – TOP 25 SECRECY JURISDICTIONS IN 2015

Rank	Secrecy jurisdiction	FSI – Value [1]	Secrecy score [2]	Global scale weight [3]
1	Switzerland	1 466.1	73	5.625
2	Hong Kong	1 259.4	72	3.842
3	Unites States	1 254.7	60	19.603
4	Singapore	1 147.1	69	4.280
5	Cayman Islands	1 013.1	65	4.857
6	Luxembourg	816.9	55	11.630
7	Lebanon	760.2	79	0.377
8	Germany	701.8	56	6.026
9	Bahrain	471.3	74	0.164
10	United Arab Emirates (Dubai)	440.7	77	0.085
11	Macao	420.1	70	0.188
12	Japan	418.3	58	1.062
13	Panama	415.6	72	0.132
14	Marshall Islands	405.5	79	0.053
15	United Kingdom	380.2	41	17.394
16	Jersey	354.0	65	0.216
17	Guernsey	339.3	64	0.231
18	Malaysia (Labuan)	338.7	75	0.050
19	Turkey	320.9	64	0.182
20	China	312.1	54	0.743
21	British Virgin Islands	307.6	60	0.281
22	Barbados	298.3	78	0.024
23	Mauritius	297.0	72	0.049
24	Austria	295.3	54	0.692
25	Bahamas	273.0	79	0.01

Notes:

- Territories marked in dark red are overseas territories (OTs) and Crown Dependencies (CDs) where the Queen is Head of State.
- Territories marked in ochre are British Commonwealth territories, which are not OTs or CDs but whose final court of appeal is the Judicial Committee of the Privy Council in London.

1. FSI, financial secrecy index, is calculated by multiplying the cube of the secrecy score with the cube root of the global scale weight. The final result is divided through by one hundred for presentational clarity.
2. Secrecy scores are calculated based on 15 indicators.
3. Global scale weight represents a jurisdiction's share in global financial services exports. For a full explanation of the methodology and data sources, please read our FSI-methodology document, here: FSI-Methodology.

Source: Tax Justice Network (2015).

As noted in chapter 2, Kaufmann (2005) debunked the argument that corruption greases the wheels of business thus fostering operational efficiency. Otusanya, Lauwo and Adeyeye (2012) note that in the name of corporate social responsibility, private operators with privileged links to corrupt bureaucrats, or who can afford to pay the bribes, maximize their profits more than their counterparts, who do not have such advantages. There is, however, little evidence to show that such profits support the argument of "corruption as efficient grease". De Rosa, Gooroochurn and Görg (2010) provide a firm-level analysis, which does not support the view that payment of a bribe helps to buy lower red tape to speed up bureaucratic processes. Ndikumana (2013) argues that corruption imposes significant costs on private sector activity in the form of production and transaction costs, uncertainty, and market distortions. On the whole, a number of studies confirm that the negative effects of corruption typically dominate any positive effects at both the micro-and-macro levels,[27] (with the potential of generating 'vampire states' by displacing potential entrepreneurial talent toward speculative and rent-seeking activities, including State institutions. In an environment with endemic corruption, talented individuals may find it optimal to invest in wealth appropriation rather than wealth creation.[28]

In much of the discussion of the role of multinational corporations in driving corruption, attention has been focused on the demand side (the taker) and the supply side (the giver). In this context, the recommended reforms target a better management of the discretion and power of public officials. Neo-liberal authors have gone to the extreme of arguing that market forces can help to combat corrupt practices by punishing inefficient managerial and business performances, and by reducing bottlenecks and administrative problems in the public sector. These two market-based processes thus reduce the ability of public officials to extract extra economic rents (Rose-Ackerman, 1996; World Bank, 1997). By extension, the neo-liberals presuppose that corrupt practices do not flourish in the market economies. Unfortunately, this view contrasts sharply with the reality showing the role of the private sector in perpetuating corrupt practices through a variety of business vehicles (United States Senate Sub-Committee on Investigations, 2005; Africa All Party Parliamentary Group, 2006).

> "In an environment with endemic corruption, talented individuals may find it optimal to invest in wealth appropriation rather than wealth creation."

Increasing scholarly attention is now focused on the role of multinational corporations in facilitating corruption.[29] A number of studies have paid attention to exploring corporate social responsibility. For example, Otusanya, Lauwo and Adeyeye (2012) highlight the fact that the literature in this area remains dispersed and with significant gaps, which include taking into account the tendency for companies to offer bribes and engage in other corrupt practices.

It is clear from the above discussions that private sector corruption, driven by the behaviours of multinational corporations, requires as much attention as public sector corruption because of its equally negative effects on economic activity and broader socioeconomic development. The same as in the public sector, corruption by these corporations is abetted by weaknesses in the regulatory and institutional framework that make it difficult to monitor the enforcement of rules and fraud deterrent mechanisms (Ndikumana, 2013). Corruption emerges through at least three broad mechanisms, two of which have already been discussed under the illicit financial flows section:

a. Multinational corporations manipulate the pricing mechanisms to gain monopoly profits by mispricing and transfer pricing. While transfer pricing may be legal in principle, they are nonetheless illicit from a moral perspective. On the other hand, mispricing of imports and exports leads to heavy losses in foreign exchange and

27 See, for example, Gyimah-Brempong, 2002; Ndikumana and Baliamoune, 2009; Ndikumana, 2005; Baumol, 1990; Murphy, Shleifer and Vishny, 1991.

28 See, for example, Murphy, Shleifer and Vishny, 1991 and 1993; Acemoglu and Verdier, 1998; Tornell and Lane, 1999; Torvik, 2002.

29 For more information, see Sikka, 2008 and 2010; Bakre, 2007, 2008a and 2008b; and Otusanya, 2010.

trade tax revenue. Some studies estimate that between 1970 and 2010, export misinvoicing in Africa (excluding North Africa) amounted to $859 billion (Ndikumana and Boyce, 2012);

b. Multinational corporations engage in encouraging money laundering, which is a process of allowing dirty money – or funds obtained from the sale of illegal goods, such as drugs, human trafficking, or smuggling of legal goods, and all forms of fraud and corruption – to be integrated into the formal banking system (Ndikumana and Boyce, 2012; Boyce and Ndikumana, 2012);

c. Multinational corporations exhibit corrupt tendencies by exploiting insider information. In this regard, these firms derive monopoly profits by selling or using information gained from their privileged positions as decision makers or employees within a particular institution such banks. Insider trading at times encourage irresponsible speculative decision-making that, for example, brought a dozen of Nigerian banks to their knees in 2009 (Apati, 2011).

Ndikumana (2013) argues that corrupt multinational corporations rob Africa twice by, "paying little or no taxes; and bribing government officials to negotiate deals that short change African countries through unfair sharing of rents and generous tax holidays and pervasive tax reliefs" (p. 3). He cautions that the continent might be losing much more from corruption by multinational corporations than from corruption by the multitude of local small- and medium-sized enterprises (as these enterprises tend to attract more attention from Governments in their efforts to combat corruption). The tendency has been one where, even when corruption by multinational corporations has been detected, the prosecution and punishment by African authorities have been uneven, with the burden of proof falling asymmetrically on the African party.

Le Billon (2011) notes some progress in expanding the scope of anti-corruption legislations to cover offenses made by multinational corporations, especially those from the United States, through the Foreign Corrupt Practices Act since 2006. Countries such as the United Kingdom have also followed suit. It is important to acknowledge that corruption also occurs in transactions among private sector agents only (e.g. where officials are not directly involved). In this regard, multinational corporations or their employees engage in transactions that increase their individual or corporate benefits to the detriment of others or society.

The examples from Burundi and Nigeria (see box 21) show common features about corruption in the private sector or multinational corporations. First, corruption flourishes with weak governance and supervision of private sector activity: in the examples above, managers of banks have circumvented the rules to advance their interests because of ineffective supervision and regulation. Second, corruption results from either complacency or complicity of the political elite: generally, bankers have enjoyed being under the protection of the

Box 21

SYSTEMIC MISALLOCATION OF RESOURCES BY BANKS IN SELECT AFRICAN COUNTRIES

Nkurunziza, Ndikumana and Nyamoya (2012) report systematic misallocation of resources in Burundi resulting from corrupt and nepotistic lending policies, whereby managers of banks, their associates and employees have access to credit at below market rates, while the outsiders are rationed and pay usury interest rates. The study reports bi-modal distribution, where the rates charged on loans vary from 0 to 7.5 per cent (with a mode of 4 per cent) for insiders and from 18 to 23.5 per cent for outsiders. Managers, employees, and politically influential individuals have enjoyed this privileged treatment. The political leverage of these individuals not only allows them to obtain the loans at cheap rates, but also gives them a license to default on their loans with impunity. Apati (2011) finds a similar tendency in Nigeria whereby the banking sector prospered at the expense of the real economy due to perverse incentives that promoted speculation over real investment. He showed how corruption and speculation enabled banks to artificially inflate their net worth by manipulating funds and the market. Some of the leading Nigerian banks were reportedly overvalued by up to 50 per cent.

Source: Nkurunziza, Ndikumana and Nyamoya (2012); Apati (2011).

politicians (who also tend to have financial interests in the banks). Lastly, corruption emerges from the actions or influence of former politicians turned into bank owners (directly or indirectly) through bank managers who are their nominees or cabals.

One last word of caution is that any analysis of corruption by private sector players should not focus only on problems of corruption by large multinational corporations in Africa. Corruption by domestic firms should also be taken as a real problem if the discussion on cross-border corruption in this report is anything to go by. Clearly, corruption often entails complicity between private agents and public officials who either provide privileges to the former or turn a blind eye to the illicit behaviour of rent-seeking private operators (Ndikumana, 2013). Protected by influential politicians, corrupt private actors may behave with impunity. In essence, private sector corruption has a political economy dimension that must be taken into account in any anti-corruption strategies.

Institutional character of illicit financial flows

Illicit financial flows are supported by a set of formal and informal institutions (North, 1991). The relevant informal institutions are defined by a number of techniques and practices, which specifically allow the actors involved to reach their goals.[30] Among the formal institutions, the financial ones in Africa and elsewhere play a paramount role. These institutions constitute an intricate network, with interconnections in different jurisdictions characterized by varying degrees of financial secrecy. In addition, there is the ancillary

30 For a listing, see ECA, 2015, pp. 88 and 89.

Box 22

METHODOLOGICAL DIFFERENCES IN MEASURING ILLICIT FINANCIAL FLOWS IN AFRICA

Current estimates of illicit financial flows have mainly examined "discrepancies in recorded capital flows or discrepancies in recorded trade flows". Such methods do not estimate the total amount, but only the part that results in under- or over-reporting of either capital or trade flows. While there is a presumption that these types of activities constitute the majority of illicit financial flows, the fact is that the share of the total flows they represent is not known with any precision.

In particular, Kar and Spanjers (2014) detect illicit financial flows from developing countries using two methods. On the one hand, they use the "gross excluding reversals" methodology, which "estimates trade misinvoicing by looking for imbalances in reported export and import values between a country of interest and the world". Also, they adopt the so-called "hot money narrow" method, which "is based on the Net Errors and Omissions term in the IMF Balance of Payments Statistics database" (p.4).

ECA (2015b) adopts a computation method of illicit financial flows, at both country and sectoral levels, which considers trade mispricing using misinvoicing. Such types of flows, according to one estimate, could represent about 54 per cent of total illicit financial flows over the period 2000–2009, "although the share […] has declined since 2004". These figures are however rather flimsy, more of a guesswork nature than estimates. ECA results indicate illicit financial flows at $242 billions, which is higher than comparable estimates from Kar and Cartwright-Smith (2010) at $161 billion. Both sources of data agree in indicating that illicit outflows from Africa have grown in time, and that they grew faster after 2006.

Regardless of the methodology adopted for the purpose of computing illicit financial flow, such outflows are of major importance: "Africa is estimated to be losing more than $50 billion annually in illicit financial flows. But these estimates may well fall short of reality because accurate data do not exist for all African countries, and these estimates often exclude some forms of illicit financial flows that by nature are secret and cannot be properly estimated" (ECA, 2015b, p. 13).

Sources: Kar and Cartwright-Smith (2010); ECA (2015b); Kar and Spanjers (2014).

presence of foreign firms, which are also perpetrators of illicit financial flows.

The staggering size of illicit financial flows brings to the fore the inadequacies in current institutional frameworks. The fact that such flows are possible to the scale observed constitutes not only a result of corruption, but also its enabling factors. This is particularly true for those networks (so tragically common in Africa) whose position of power allows for corrupt practices, which are repeated over time and that may lead to the accumulation of hefty sums of money. The decision to invest in such corruption networks crucially depends on the existence of the complex set of institutions that facilitate a relatively safe transfer of the "loot" abroad. In the African context, such institutions have a marked international nature.

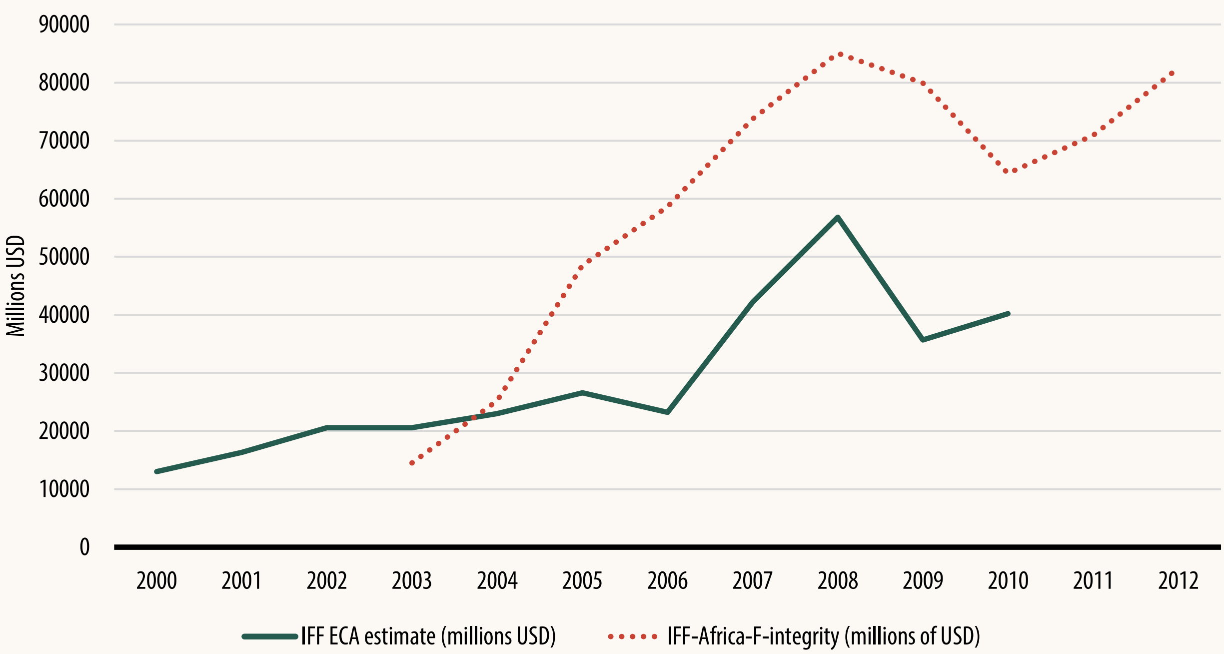
D. Consequences of the international dimension of corruption

The first obvious impact of the international dimension of corruption is the significant drain in resources to African countries. However, the loss is difficult to assess since it is only proxied by illicit financial flows, which in themselves are close to impossible to quantify (see box 22). Just as in the case of corruption, the perpetrators of such flows strive to keep their illicit activities secret, and the only available measures of the phenomenon are indirect ones.

Figure 19 shows two alternative computation of illicit financial flows, using the methods of both ECA (2015) and Kar and Spanjers (2014). It demonstrates that outflows have sharply increased over time. The ECA estimate is more conservative compared to that of Kar and Spanjers, but both agree on in indicating an important growth in illicit outflows from Africa over the

Figure 19

ALTERNATIVE ESTIMATES OF ILLICIT FINANCIAL FLOWS



Note: Missing observations reflect the different coverage of the two measures considered.

Source: Data from ECA (2015); and Kar and Spanjers (2014).

past decade, and of their hefty overall size. In particular, several estimates affirm that when comparing illicit financial flows out of Africa with foreign assistance, "Africa is a net creditor to the world rather than a net debtor, as is often assumed" (ECA, 2015, p. 34).

In the light of the foregoing, it is clear that corruption in Africa is not exclusively the making of Africans. The corruption indices, which continue to rank African countries poorly, are misguiding policymakers and investors. This is because current perception-based indices misrepresent the contextual realities of African countries and completely ignore the escalating international dimension of corruption.

International actors continue to provide meaningful financial and technical assistance to African countries. However, the results of these strategic alliances and partnerships, which date as far back as colonial times, have not always been fruitful. Indeed, one of the unfortunate consequences has been foreign-driven corruption, which is more flagrant in countries that are endowed with natural resources.

The behaviour of multinational corporations in African countries is often driven by their bargaining power and level of "corruption premium" to corrupt officials (McMillan and Waxman, 2007). The bargaining relationship between African Governments and multinational corporations is significantly affected by country-specific legal loopholes and institutional weaknesses. For example, if compliance mechanisms are enforced rigorously, Governments will feel obligated to negotiate deals, which are in favour of the country's development objectives. On the other hand, if Governments are not accountable to their citizens, the likelihood of negotiating corruption-ridden deals is significantly heightened. There is thus need for a calculated decision to be made about personal enrichment or delivering on the country's aspirations.

Table 11

NUMBER OF CROSS-BORDER CASES OF CORRUPTION BY PUBLIC OFFICIALS

Years	Rest of the World				Africa				Ratios * 100
	i. Total n. of cases	ii. First enforced in FO	iii. First enforced in HQ or TC	iv. ii/i*100 percentage	v. Total n. of cases	vi. First enforced in FO	vii. First enforced in HQ or TC	viii. vi/v*100 percentage	ix. v/(i +v)*100 percentage
1995–1999	97	8	89	8.25	38	1	37	2.63	28.15
2000–2004	299	31	268	10.37	87	9	88	10.34	22.54
2005–2009	264	70	194	26.51	86	5	81	5.81	24.57
2010–2014	163	56	107	34.35	46	17	29	36.95	22.01
Total 1995–2014	**823**	165	658	20.04	**257**	32	225	12.45	23.80

Abbreviations: FO, foreign country; HQ, headquarters country; TC, third-country legislation.

Notes:

- Column *iv* = *Column ii / Column i *100.* It represents the percentage of cases first enforced in the country of residence of the allegedly corrupt public officials (FO), over the total number of cases, for the rest of the World.
- Column *viii* = *Column vi / Column v *100.* It represents the percentage of cases first enforced in the country of residence of the allegedly corrupt public officials (FO), over the total number of cases, for Africa.

Source: Escresa and Picci (2015b).

The bargaining power of a Government is affected by a host of country-specific institutional factors. A Government's accountability to its people is likely to influence its bargaining power. In a country where the outcome of negotiations is more transparent, the Government will feel more pressure to push for a better deal. In an extreme case, the Government's threat point is determined by the possibility of civil unrest and plant closure. The country must therefore balance the revenue it stands to lose if it takes too tough a stance with the possibility of political upheaval. The current reality of the continent is a need for greater transparency and accountability in order to avoid the loss of revenue from corruption, both domestic and foreign.

When it comes to the external dimension of corruption, available data show that to a certain extent African countries free-ride on the enforcement efforts of non-African countries. Table 11 shows that in most cases of cross-border corruption involving public officials from Africa, corruption is initiated in non-African countries.

> The international character of African corruption manifests itself in the interplay of a rich set of actors, such as those allowing for huge amounts of illicit financial flows to occur, and for a disproportionate share of cross-border bribes paid by foreign firms, which benefit greedy African public officials at the expense of the African people.

This implies that African countries have to invest in strengthening the capacities of their parliaments, audit institutions, ombudspersons, the judiciary (including anti-corruption and commercial courts), the media, and civic associations.

E. Conclusion

Several reasons concur to the general conclusion that corruption in Africa, probably more so than in other continents, cannot be adequately understood without considering its international dimension. These factors, in their multifaceted aspects, are the results of African history and of its complex interactions (past and present) with the rest of the world. They include cultural elements, and the ways in which citizens see the State and its actions. Lastly, the international character of African corruption manifests itself in the interplay of a rich set of actors, such as those allowing for huge amounts of illicit financial flows to occur, and for a disproportionate share of cross-border bribes paid by foreign firms, which benefit greedy African public officials at the expense of the African people.

Given the relevance of its international dimension, the problem of corruption in Africa cannot be tackled by crafting policies which are purely domestic in scope. At a minimum, there is a need to sharply increase the transparency of international financial systems and to augment the capacity of States, so as to place an obstacle to those illicit financial flows that are instrumental to the more vicious and damaging high-profile occurrences of corruption. Increased State capacity, together with international coordination, is also a necessity for a more proactive role of African jurisdictions in fighting occurrences of cross-border crimes, in a situation where the great majority of cases involving African public officials and the private sector has so far been enforced first outside Africa.

Strengthening the capacities of accountability and oversight institutions, as part of wider governance reforms, is therefore critical. This need is particularly pressing when considering the often weak enforcement of anti-corruption legislation in African countries. The pronounced international dimension of corruption in Africa highlights the necessity to find solutions that are not exclusively domestic in nature, while focusing on global governance institutions.

CHAPTER 5

Conclusions and policy recommendations

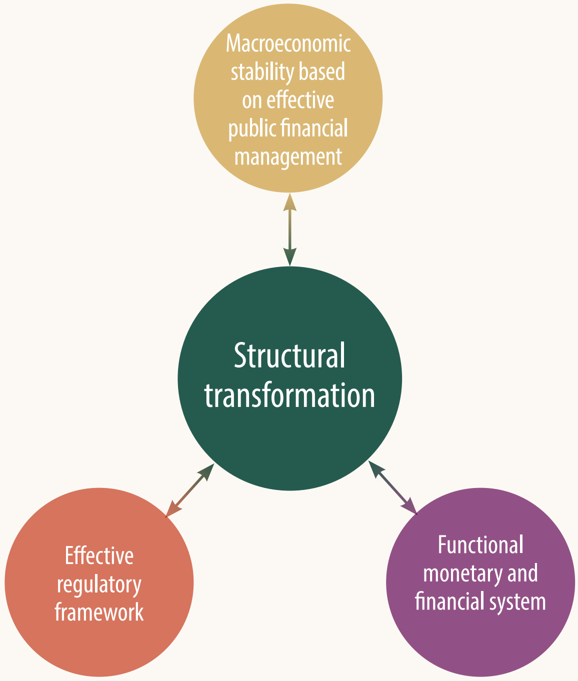
A. Conclusions

The African narrative remains positive, with notable improvements in economic management, which has resulted in an impressive growth trajectory. However, the continent is still plagued by high poverty rates and worsening income inequality. In addition, governance performance across the region presents a mixed picture, making it challenging for the continent to carry out its structural transformation agenda and to achieve inclusive development.

Although some progress has been made in governance, notably through public financial management and anti-corruption initiatives, a lot still remains to be done in the fight against corruption. Corruption presents a major threat to the positive progress the continent has been making towards inclusive economic growth and structural transformation. Good governance is critical for structural transformation and vice versa given the complex nexus between the two (see figure 20).

Figure 20

GOOD ECONOMIC GOVERNANCE-STRUCTURAL TRANSFORMATION NEXUS



Source: Developed by ECA Staff.

In terms of the governance landscape, corruption undermines the rule of law, respect for human rights, accountability and transparency, and weakens government institutions. This in turn erodes the public's confidence in the legitimacy of their Governments and compromises good governance.

Corruption remains problematic in many African countries and one of the main triggers is inadequate governance. In particular, the lack of transparency and accountability, weak oversight institutions, limited enforcement mechanisms and insufficient capacity have to be addressed urgently.

The seriousness of the corruption phenomenon is fully recognized by African countries and efforts are being made to tackle it. However, corruption in Africa is not exclusively the making of Africans. The corruption indices, which continue to rank African countries poorly, are misguiding policymakers and investors. This is because current perception-based indices misrepresent the contextual realities of African countries and completely ignore the escalating international dimension of corruption.

International actors continue to provide meaningful financial and technical assistance to African countries, but the results of these strategic alliances and partnerships, which date back as far as colonial times, have not always been fruitful. In fact, one of the unfortunate consequences has been foreign-driven corruption, which is more flagrant in countries endowed with natural resources. The current reality of the continent is a need for greater transparency and accountability in order to avoid the loss of revenue from corruption, both domestic and foreign.

B. Policy recommendations

It is against this backdrop that the *African Governance Report IV* proposes the following policy recommendations, which can strengthen the governance landscape of African countries so that they are better able to tackle domestically and internationally fuelled corruption. The policy recommendations are categorized into four interconnected themes: improving transparency and accountability; enhancing ownership and participation; building credible governance institutions; and improving the regional and global governance architecture. In addition, the report proposes specific areas for further research:

1. Strengthening transparency and ensuring accountability

Transparency and accountability are essential requisites for ensuring good governance and, in turn, reducing corruption. Weak transparency and accountability in many African countries undermine the possibility of planning and executing policies, notably those relating to structural transformation, as highlighted in chapter 1.

All African States should ensure fiscal transparency and good public financial governance in order to reduce corruption risks. To that end, the Collaborative Africa Budget Reform Initiative was created in 2007. However, to date, only 13 countries have acceded to the initiative: Burkina Faso, the Central African Republic, Côte d'Ivoire, the Gambia, Ghana, Kenya, Lesotho, Liberia, Mali, Mauritius, Rwanda, Senegal and South Africa. Moreover, increased transparency in the use of ODA is of paramount importance. Projects such as the International Aid Transparency Initiative should be embraced and fully implemented by African countries. The initiative aims at enhancing aid transparency so as to improve aid effectiveness. Thirteen out of the 40 partner countries are from Africa. These are: Benin, Burkina Faso, Burundi, the Congo, the Democratic Republic of the Congo, Ghana, Liberia, Madagascar, Malawi, Nigeria, Rwanda, Sierra Leone and the United Republic of Tanzania.

> "Illicit financial flows are an African problem, with a global solution. There is, therefore, a need for African countries and development partners to discuss illicit financial flow issues through solution-exchange virtual platforms."

Readily available information relating to the activities of public administrations would also contribute considerably to increasing transparency. This applies in particular to public procurement, which remains highly vulnerable to corruption. For instance, readily available data on public procurement would allow for the computation of standardized costs, which in turn would enable the auditing of activities in those cases that seem the most suspect.

In order to deal with information asymmetry, as highlighted in chapter 2, African countries should approve freedom of information laws and reinforce their implementation. Prior to 2011, the number of African countries with freedom of information legislation stood at 5, representing just 9 per cent of the entire continent; this number has since increased to 13, representing 24 per cent of all countries in Africa. At present, Angola, Côte d'Ivoire, Ethiopia, Guinea, Liberia, the Niger, Nigeria, Rwanda, Sierra Leone, South Africa, Tunisia, Uganda and Zimbabwe have all adopted freedom of information laws.

More transparency is required on information relating to political processes. One practical option is the introduction of Africa i-Parliaments. This Africa-wide initiative was created in 2005 to "empower African Parliaments to better fulfil their democratic functions, by supporting their efforts to become open, participatory, knowledge-based and learning organizations".[31] It is supported by the United Nations Department for Economic and Social Affairs and funded by the Italian Cooperation.

Transparency and accountability are necessary requisites in the fight against corruption. It is equally fundamental for African Governments to enhance the participation and ownership of the anti-corruption agenda by all stakeholders, in order to successfully carry out their structural transformation objectives. It is to be recalled that transparency is a prerequisite for enhancing participation and ownership.

2. Enhancing participation and ownership

In most African countries, there continues to be minimal participation by the population at large in development planning processes and corresponding policymaking. The lack of a participatory approach creates a significant space for corrupt practices.

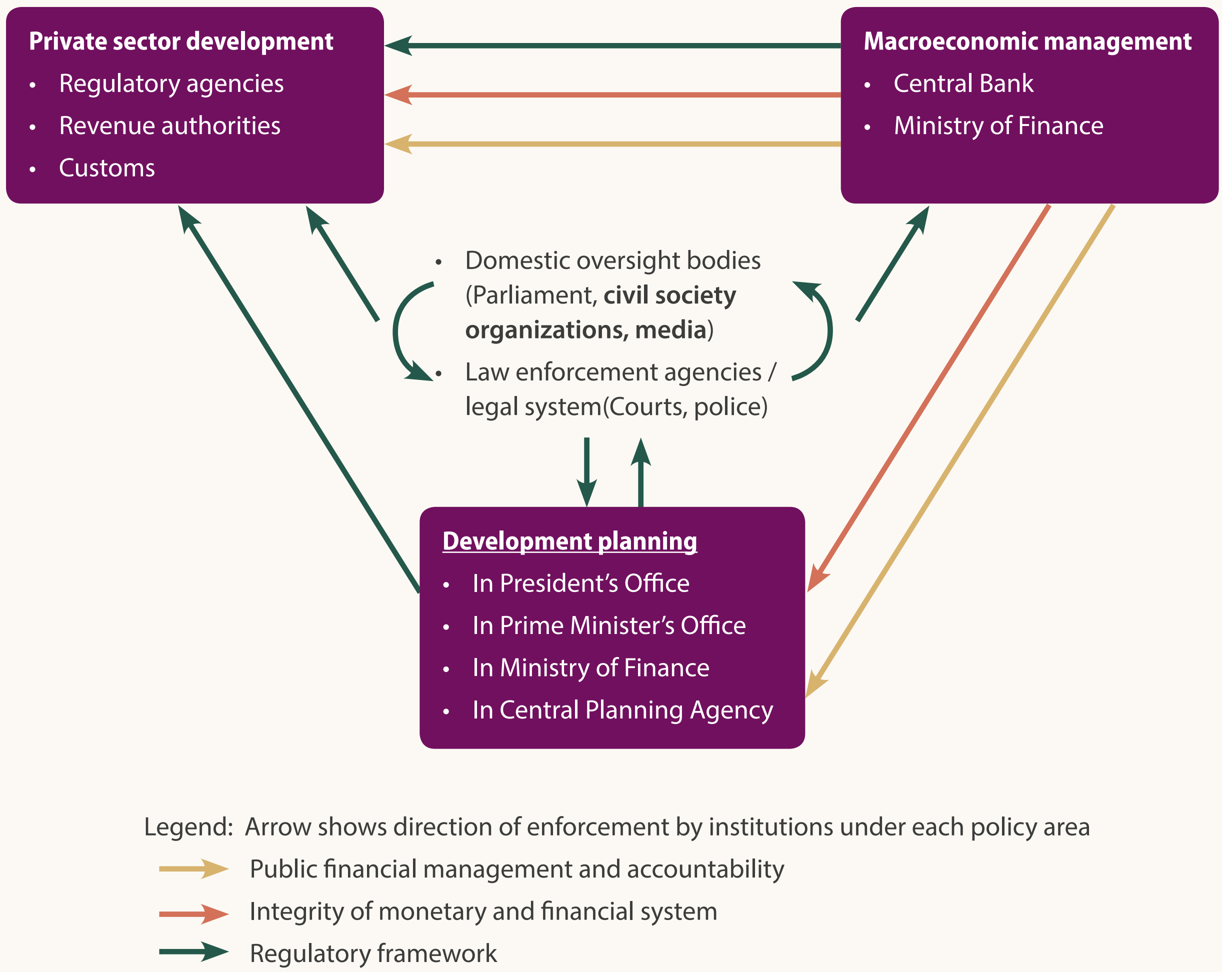
31 See http://www.parliaments.info/.

African States should introduce and enforce processes that allow citizens, including vulnerable groups, to participate in development planning and policymaking. Citizens' voices need to be heard, and in this regard, civic education should be fostered at all levels. African countries should really strive to foster a civil society organization-friendly environment, by encouraging civil society organizations to actively engage with legislators, auditors and other oversight institutions (see figure 21). It is to be recalled that civil society organizations have an important role in guaranteeing a country's fight against corruption.

The media is also an essential actor in ensuring good governance. A thriving free media is a prerequisite for any country's successful structural transformation. Such a standard is not respected in several African countries and rectifying such a situation should be a priority.

Figure 21

LINKAGE BETWEEN INSTITUTIONS AND ECONOMIC GOVERNANCE



Source: Produced by ECA Staff.

3. Improving the quality of governance institutions

Transparency and accountability, in addition to enhanced participation and ownership, are the fundamentals required to ensure the legitimacy of institutions. Such legitimacy is a necessary condition for well-functioning institutions (see figure 22).

Too often, Africa continues to replicate institutions from abroad without any domestication plan. Institutions and sometimes even constitutions have been imported, while an endemic lack of institution-building has entrapped African States with administrations that are often inefficient. Such isomorphic mimicry results in implementing reforms without their core underlying functionalities (Kararach, 2014). Correcting the endemic problems, which many African countries continue to encounter in terms of institution-building, is not easy.

Many of the recommendations relating to governance institutions have already been formulated, but implementation still remains an enormous challenge. Effective economic governance institutions are essential, not only for combating corruption, but also for implementing the continent's structural transformation agenda.

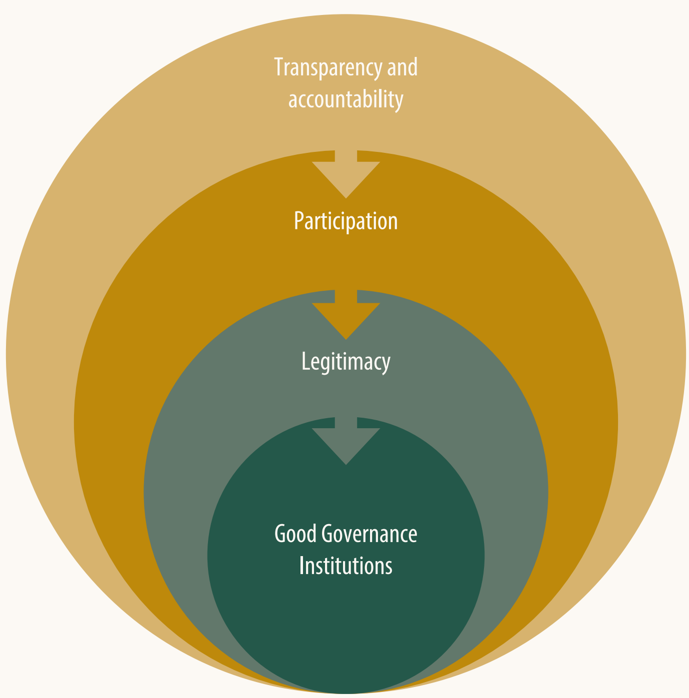
4. Fostering international cooperation and improving regional and global governance architecture

The *African Governance Report IV* has highlighted that corruption in Africa has a significant international dimension. In this regard, African countries and international stakeholders should collaborate to significantly improve the global governance architecture. In recent years, various global initiatives have been established to tackle corruption. For instance, through the Organization for Economic Cooperation and Development's Automatic Exchange of Information, financial institutions have to report to their tax agencies the accounts held by non-resident individuals and entities.[32] Advanced economies should be fully committed to their obligations under the OECD Anti-

32 See http://www.oecd.org/tax/transparency/automaticexchangeofinformation.htm

Figure 22

PREREQUISITES FOR GOOD GOVERNANCE INSTITUTIONS



Source: Produced by ECA Staff.

Bribery Convention and ensure rigorous enforcement. Indeed, pressure should be exercised on non-complying countries to ensure that firms fully internalize the risks of prosecution when deciding how to carry out business in African countries. Relevant international organizations should take a more proactive stance in encouraging and promoting collaboration aimed at effective forms of exchange of information on financial flows. African States should be proactive in their participation in international activities aimed at combating illicit financial flows, while fully implementing regional initiatives. To this end, the African Peer Review Mechanism should incorporate issues of illicit financial flows for country review evaluations.

Illicit financial flows are an African problem, with a global solution. There is, therefore, a need for African countries and development partners to discuss illicit financial flow issues through solution-exchange virtual platforms. To this end, Africa should work closely with its global partners (e.g. the European Union, the G20) to foster transparency and accountability in the banking and financial systems. Global anti-corruption campaigns are generally directed towards demand-side corruption, although the supply-side is equally important. The role of private sector actors in fuelling corruption (both domestically and internationally) should not be ignored. In this regard, international conventions should make provisions for punitive measures, which also target the private sector.

5. Areas for further research

Future efforts to **construct a more objective indicator** of both corruption and governance should reflect the following basic observations:

a. Know what you want to measure or benchmark, and find the appropriate measurement tool;

b. Disaggregated indicators are one of the more effective methods to operationalize corruption data;

c. Rely on using credible data sources to construct indicators;

d. Whenever possible, combine quantitative data with qualitative assessments;

e. Look for actionable data;

f. Lean toward locally generated assessments;

g. Transparency of methodology is crucial at all levels.

APPENDIX A

Adaptation of the method for the computation of the Public Administration Corruption Index to the case of groups of countries

The basic adaptation of the formula of the index (equation 1 in Escresa and Picci, 2015a) that is needed in order to compute that index for groups of countries, does the following: the number of observed cases, and of expected cases, which concur to the computation of the formula for the index, are summed within subregions of countries, and then those sums are used to compute the index at the subregional level. Its values represent multiples of a benchmark of one hundred, corresponding to a world average of sort. The index has a zero lower bound, which obtains when there is no detected corruption, and no upper bound whereby corruption is an arbitrary multiple of the 100 benchmark – corresponding to a world average of sort. To clarify, the index is illustrated below for individual countries (equation 1 in Escresa and Picci, 2015a), to which the reader is referred to for further details:

$$PACI_z = \frac{\sum_{i=1}^{N} cases\text{–}obs\text{–}HQ_{iz}}{\sum_{i=1}^{N} E(case\text{–}obs\text{–}HQ_{iz})} \cdot 100 \text{ with } i \neq z. \qquad (1)$$

The index refers to a generic country *z*; $cases$ - obs - HQ_{iz} denotes observed cases involving firms headquartered in *i* and public officials in country *z*, which are enforced first in the headquarters' country *i*. The index for country *z* compares the total number of observed corrupt transactions involving country *z*'s public officials and firms headquartered in a given country *i*, for all $i \neq z$, that were first enforced in *i*, with the expected number of similar transactions that would be observed if their spatial distribution reflected bilateral trade shares between country *i* and *z* – the expression in the denominator.[33]

Shortly, it will be illustrated how such expected number is determined in the present context (expression 3 below).

To compute the PACI for groups of countries, the necessary aggregation of the relevant variables has to be performed (Escresa and Picci, 2015b). Equation 1 becomes:

$$PACI_r = \frac{\sum_{i=1}^{N} \sum_{v=1}^{N_r} cases\text{–}obs\text{–}HQ_{iv}}{\sum_{i=1}^{N} \sum_{v=1}^{N_r} E(case\text{–}obs\text{–}HQ_{iv})} \cdot 100 \text{ with } i \neq v \text{ for all } v \text{ belonging to subregion } r. \qquad (2)$$

The index refers to a generic subregion *r*, composed by N_r countries. The interpretation of the symbols is otherwise the same as above. The *PACIr* for subregion *r* compares the total number of observed corrupt transactions involving public officials in any country belonging to the subregion *r*, and firms headquartered in a given country *i*, for all $i \neq v$, that were first enforced in *i*, with the expected number of similar transactions that would be observed if their spatial distribution reflected bilateral trade shares between country *i* and countries belonging to subregion *r*.

The numerator, $\sum_{i=1}^{N} \sum_{v=1}^{Nr} cases\text{–}obs\text{–}HQ_{iv}$, is the total number of observed corrupt exchanges between officials from any country *v* belonging to subregion *r* and firms from all *i* headquarters' countries, enforced in those countries.

33 See expression 2 in Escresa and Picci (2015a). In fact, the formula adopted for the computation of PACI is its so-called "composite" version of the index, corresponding to Equation 3 in Escresa and Picci (2015a). It represents a generalization of Equation 1 above, which shows the adaptation of PACI to our present needs not to unnecessarily complicate our presentation.

The denominator is the total number of cross-border corruption cases involving public officials from any country *w* belonging to subregion *r*, and firms headquartered and first enforced in country *i*, if cases of corruption were distributed in each country according to $\sum_{v=1}^{Nr} X_{iv} / \sum_{j=1}^{N} X_{ij}$, which is the ratio of exports of country *i* to *v*, to the total amount of country *i* exports to the rest of the world:

$$\sum_{i=1}^{N} \sum_{v=1}^{Nr} E(case - obs - HQ_{iv}) = \sum_{i=1}^{N} \sum_{v=1}^{Nr} \frac{X_{iv}}{\sum_{j=1}^{N} X_{ij}} \sum_{j=1}^{Nr} case - obs - HQ_{ij} \qquad (3)$$

The denominator represents the total number of cross-border cases involving any *v* country belonging to subregion *r*, and first pursued elsewhere, that we'd expect to observe if the level of corruption of public officials were the same in all countries. Under this hypothesis, the numerator would be equal to the denominator, and the expected PACI would be equal to 100. The lowest value that the index may take is zero, which corresponds to the case where no corrupt occurrences are observed.

As in Escresa and Picci (2015a, 2015b), for the purpose of computing the subregional PACI, a more comprehensive formulation is adopted, which also considers cases first enforced in third-country jurisdictions. The following equation corresponds, for the case of subregions, to equation (3) in Escresa and Picci (2015a):

$$PACI_r^{All} = \frac{\sum_{i=1}^{N} \sum_{v=1}^{Nr} cases\text{–}obs\text{–}HQ_{iv} + \sum_{w=1}^{D} \sum_{i=1}^{N} \sum_{v=1}^{Nr} cases\text{–}obs\text{–}HQ_{iv}}{\sum_{i=1}^{N} \sum_{v=1}^{Nr} \frac{X_{iv}}{\sum_{j=1}^{N} X_{ij}} \sum_{j=1}^{Nr} case\text{–}obs\text{–}HQ_{ij} + \sum_{w=1}^{D} \sum_{i=1}^{N} \sum_{v=1}^{Nr} \frac{X_{iv}}{\sum_{j=1}^{N} X_{ij}} \sum_{j=1}^{Nr} case\text{–}obs\text{–}HQ_{ij}} \qquad (4)$$

The interpretation of the $PACI_r^{All}$ is conceptually the same as that of the $PACI_r$ (Eq. 1), but it considers all available cases of observed cross-border corruption, first prosecuted either in the country where firms are headquartered or within the jurisdictions of third countries. This is the version of the index that is used in this report.

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This fourth edition of the *African Governance Report* focuses on the importance of measuring corruption and of understanding its international dimensions. The report challenges the traditionally narrow notion of corruption as the "abuse of public office for private gain". This definition places too much emphasis on public office and on the ostensible legality of the act, neglecting the corrupt tendencies prevalent in the private and non-State sectors. Policymakers must understand the importance and implications of viewing corruption as a broader phenomenon where private agents share significant responsibility.

The report implores all stakeholders to rethink corruption measurements in general, and in the African context in particular. There is ample evidence that the operations of foreign players on the continent are causing significant illicit financial outflows. Such omissions present serious gaps in current measurements.

African countries and partners need to move away from purely perception-based measures of corruption and focus instead on approaches to measuring corruption that are fact-based and built on more objective quantitative criteria. In the interim, perception-based methods anchored on more transparent and representative surveys should be used with caution and complemented, where possible, with quantitative country or case-specific indicators to produce more sophisticated and useful measures of corruption.

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