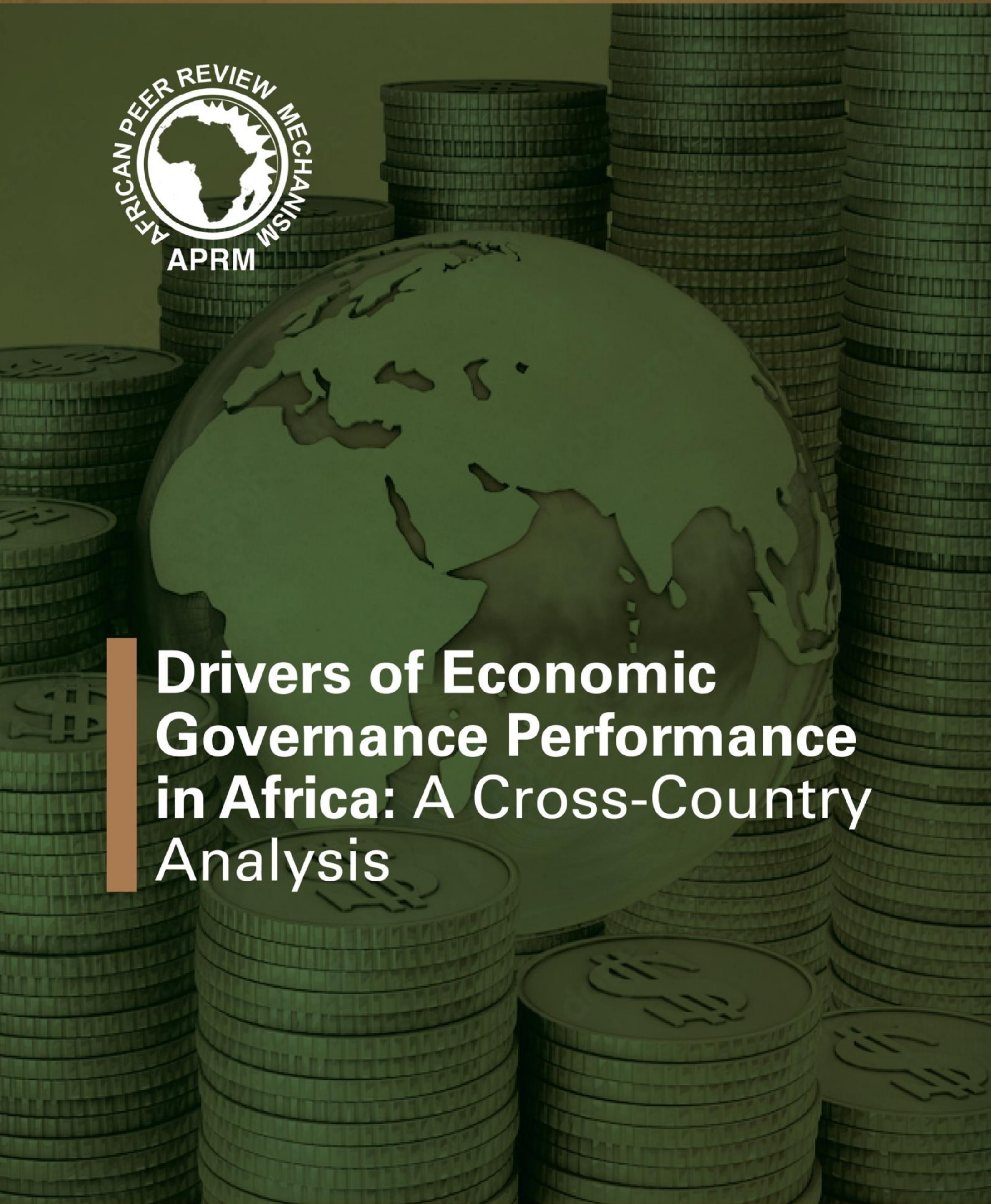
APRM



Drivers of Economic Governance Performance in Africa: A Cross-Country Analysis

An Organ of the African Union

African Peer Review Mechanism
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ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
APRM	African Peer Review Mechanism
AU	African Union
BEI	Business Environment Index
COC	Control of Corruption
CRM	Country Review Mission
EPRF	Effective Policy Regulatory Framework
GDP	Gross Domestic Product
GEI	Government Effectiveness Index
IDEG	Index of Drivers of Economic Governance
IIAG	Mo Ibrahim Index of Economic Governance in Africa
IMF	International Monetary Fund
IMFS	Integrity of Monetary and financial system
M & E	Monitoring & Evaluation
MDGs	Millennium Development Goals
NEPAD	New Partnership for African Development
PCA	Principal Component Analysis
PSM	Public Sector Management Index
RQI	Regulatory Quality Index
RGDPC	Real Gross Domestic Product Per Capita
SDGs	Sustainable Development Goals
SEO	Sustainable Economic Opportunity
SMEs	Small and Medium Enterprises
SME	Stability of Macroeconomic Environment
SPMA	Sound Public Financial Management and Accountability
WB	World Bank
WDI	World Development Index

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FOREWORD

The African Peer Review Mechanism (APRM) is a self-monitoring governance mechanism voluntarily acceded to by Member States with the aim to foster the adoption of policies, standards and practices that will lead to political stability, high economic growth, sustainable development and regional integration. I am therefore honored and proud to present this report which provides information on current developments in Economic Governance on the continent and explores ways to address challenges that hinder progress in African Countries.

Economic Governance and Management is a major thematic pillar of the APRM and through our work we have observed at ground-level the economic challenges that are faced by Africa countries. Since the 1980s, African Governments have embarked on several economic reforms aimed at strengthening economic management capacities and ensuring stable and inclusive growth towards sustainable development. These reforms have met different challenges, some of them in related with governance.

Despite these many challenges, there have been noticeable improvements and developments that contribute to economic growth across the continent. Such developments include the broad multi-stakeholder consultative processes that are now characteristic and systematically undertaken in the Republic of Uganda in the development of national budgets. This process invites and allows citizens to make inputs into plans and budgets at various levels of government to ensure that key national development instruments reflect their priorities in transforming livelihoods. The South African tax system, by the Revenue Services (SARS) also offers another exemplary development which demonstrates a clear link between revenue collection and national development programmes. SARS is an administratively autonomous organ of the State which has consistently exceeded the country's revenue targets and collects a commendable 26 percent of tax to GDP ratio to ensure revenue optimization. The APRM, through its work, has identified numerous other efforts by African countries and would like to facilitate further progress in economic governance and management.

This study has therefore been commissioned to articulate the challenges of African economic governance and develop an index to analyze drivers of economic governance in the sampled countries. It also aims to provide robust and actionable recommendations, including a monitoring and evaluation framework that will help to track and report on progress in assessing the performance of African countries in economic governance and management. The study was undertaken towards strengthening the contribution of the APRM, as part of the African Union's efforts at socio-economic transformation.

I therefore call on Member States, stakeholders and partners to collectively seize opportunities available to us to improve the quality of life of citizens on the continent through improved governance in Africa as a key enabler for development.

Prof. Eddy Maloka
CEO, APRM Continental Secretariat

EXECUTIVE SUMMARY

This Report highlights the objectives, methodology, findings, conclusions and policy recommendations of the study on the drivers of economic governance in selected African countries. To put the purpose of this study in its proper context, good economic governance exists in countries when institutions of governance have the capacity to manage resources efficiently, formulate, implement, and enforce sound policies and regulations which can be monitored and accounted for through respect for rule of law and enforcement of rules of economic interaction. In addition, such a policy environment must also ensure that economic activity is not hampered by corruption and other activities inconsistent with public trust. When the outcomes of economic governance reflect these policy characteristics, it is often referred to as its drivers. The key elements of good economic governance include transparency in policy formulation and implementation; accountability that will mitigate corruption and the level of institutional development that can enhance the growth of the private sector and the economy as a whole. Therefore, this study identified relevant quantitative indicators which captured the foregoing qualitative policy attributes in economic governance and used such measures to empirically assess the performance of drivers of economic governance in the sampled African countries.

The Report notes that the overarching broad purpose of this study was to strengthen the APRM process to deliver on objectives of Economic governance and management, which is a critical thematic area in her objectives. The essence is to use the instrumentality of the peer review mechanism to build capacity to strengthen economic policy formulation and its implementing institutions to enthrone transparency, accountability, create an enabling environment for private development and growth, and ultimately engender sustained economic growth and development through diversification, poverty reduction and leveraging on fourth industrial revolution. However, the state of economic governance and management among African countries are not at the same level, therefore designing questionnaires that will capture difference in policy environment that will inform realistic assessment and recommendations became a necessity that was engendered by this study.

Therefore, the specific objectives of the study include (a) conceptualize and identify key outcome- based determinants (drivers) of economic governance in Africa, (b) define relevant constituent indicators and variables of economic governance in Africa (c) Gather relevant data and construct index of drivers of economic governance (d) develop an econometric model to empirical estimate the impact of the index on economic growth of member countries and lastly proffer policy recommendations.

The Report presents two main methodologies for the study, the first is Principal Component analysis and the second is cross country panel regression analysis. The two methodologies were complemented by a review of stylized facts on the impact of other index of economic governance from both Mo Ibrahim and World Economic forum economic governance data. Some relationships between the indexes and economic performance indicators were identified and discussed as a guide to the development of index of drivers of economic governance. The result indicated that the first 6 principal components of the 14 variables of economic governance accounted for over 76 per cent of the variation in all right- hand side variables. The result was used in the construction of an index of economic governance covering stable macroeconomic environment, sound public sector financial management and accountability, integrity of monetary and financial system and effective policy regulatory framework and social development. The Index was aggregated, normalized and used to rank and classify countries into GOOD, MEDIUM and FAIR economic governance performers among the sampled countries. On the Cross-Country Regression Model, Real Gross Domestic Product Per capita (RGDPC) was used as a dependent variable, while IDEG and its components were used as explanatory variables in the Cross-Country Panel Regression Analysis. Country dummies were introduced to identify the differential impact of the constructed index on individual countries economic performance between 2013 and 2017. The results show differences in the economic governance performance among the sampled countries and conclusions were drawn on specific policy areas that attention should be paid to during country assessment and review missions

The Results show that Index of drivers of economic governance was statistically significant and therefore justifies the apriori expectations that improvement in the economic drivers can exert positive impact on the economic growth among the sampled countries. However, when the disaggregated components of the index was interacted with the economic growth variables, stability of macroeconomic environment and effective policy regulatory framework all showed relative statistical significance. Sound public financial management and integrity of monetary and financial system were not as robust. The inference from the results were that there was need to strengthen the stable macroeconomic environment, while specific policies must be developed to address both public financial management and Monetary and financial system in the sampled countries.

The policy implications were also presented in the Report which suggests that countries that were classified as having 'GOOD' economic governance showed relative good performance in their macroeconomic stability variables, namely, Low and stable inflation rates, relatively low investment permissible real interest rates and average growth rate of about 5 per cent in the period under review (2013=2017). On the other hand, there was high government expenditure, but relatively low debt service ratio to their GDP and manageable budget deficits as reflected in moderate gaps in their budget balance. Foreign Direct investments were still low given the aftershocks of the Global Financial Crises. Terms of trade remained low because of the discriminatory trade practices against African countries which accounted for imbalances in their current account. Performance of their regulatory institutions and its impact on ensuring achievement of Social development goals showed promise and reflected in their relative achievements in both the MDGs and SDGs. However, there was still room for improvement in the impact of economic governance on their overall economic growth performance.

When the data on the countries that were classified as 'MEDIUM' in the performance of the drivers of their economic governance was analysed, it was discovered that they performed relatively fair in the macroeconomic stability as inflation rates were relatively high, external reserves were growing but fragile and GDP growth rates were low at an average of between 1.2 to 3.5 per cent during the period under review. In addition, their public expenditure recorded showed some promise as government expenditure was low, but correspondingly, debt profile were high but corresponding low levels of debt service ratio to GDP. Monetary and financial system remained fragile with low levels of FDI and poor terms of trade. Performance in the MDGs and so far with SDGs was not quite encouraging.

The countries that were classified as 'FAIR' performers in their economic governance were found to perform poorly in their macroeconomic stability indicators with high inflation rates, low external reserves, high interest rates and less than 2 per cent annual growth rates during the period under review. Their public finance management were also not encouraging with low government expenditure, high debt to GDP ratio and high Budget deficits among others. Their monetary and financial system exhibits high levels of fragility with low FDI and terms of trade deficits that impacted their current account balances. The strength of their regulatory institutions showed some promise as on the average, their human development index in education and health and achievements in MDGs and SDGs were relatively good. Overall, there is the need to improve the economic governance environment through policy reforms that target the important drivers of the economic growth and development of their economies as identified by the study.

Recommendations

A. General Recommendations.

The Index of Economic governance, according to the study impacts economic growth in the countries classified as ''GOOD''. However, attention should be paid in the general policy environment to sustain what has been achieved through maintenance of strong macroeconomic stability environment, fully aligning their budgets with national development plans, broaden public participation in public policy formulation and pursue anti- corruption policies and strategies more to conserve resources for economic growth and development. On the other hand, Countries classified as ''MEDIUM'' should focus on capacity development in policy development and implementation; focus on policies that will mitigate macroeconomic instability; pay more attention on policies to enhance sound public finance management and implement competitiveness policies to growth export trade and enhance diversification of the economy. Countries classified as ''FAIR'' performers in the study needs to embrace policy reforms that; (a) strengthen transparency in policy Institutions and build their capacity to enhance the quality of economic governance policies in the country by promoting wide debate on economic policy formulation that address macroeconomic stability and sound public finance management. (b) Improve on data collection and information processing and sharing on the economy to guide investment decisions (c) Enforcement of the principles and codes of economic governance and Management in APRM will enhance the performance of economic governance drivers to improve the economies generally.

B. Specific Recommendations

Stability of the macroeconomic Environment

I. Strengthen anti- inflationary measures such as reduction in imports, increased food supply and security and diversification of the economy through industrialisation and leveraging on Fourth Industrial Revolution
II. Pursue banking system reforms to enhance credit creation and broaden access to credit in the economy
III. Real effective interest rates should be low to drive credit demand and sustain investment in the economy.

Sound Public Financial system management and Accountability

I. Pursue transparency in the budgetary process through citizen participation to enhance value for money in government expenditure
II. Procured debt should be targeted at capital expenditure, especially infrastructure development with the capacity to return on investment to sustain debt servicing and repayment of capital.
III. Pursue vigorous anti-corruption programmes through the use of ICT and enlightenment programmes to plug leakages in domestic resource mobilisation for social and infrastructural investment

Integrity of Monetary and Financial System

I. Purse central Bank independence to enhance transparent monetary policy implementation and ensure stable economic environment to attract foreign investment.
II. Strengthen financial institutions through financial inclusion policies to enhance access to credit, strict surveillance to mitigate financial fragility in the economy
III. Enhance trade policies by adopting the African Free Trade Agreement to increase inter- African Trade and boost economic growth.

Effective Policy Regulatory Framework and Social Development

I. Strengthen Policy regulatory institutions through constant oversight by the legislature
II. Align objectives of Policy regulatory institutions to achievement of Sustainable Development Goals (SDGs)
III. Promote policy reforms that target poverty reduction through social intervention and income distribution programmes.

1.0 Introduction

Since the 1980s, African countries have embraced economic reforms intended to deepen and ensure sustainable growth and development of their economies. Specifically, World Bank stabilisation policies and the International Monetary Fund (IMF) Structural Adjustment Programme were targeted at developing and transition economies given their persistent economic instability and consequent sluggish growth. However, the implementation of these programmes, especially in Africa over the years has not delivered sustained economic growth and development as envisaged (Basu, 2003). Prominent among some of the reasons adduced for the poor performance of these externally imposed economic policy reforms are weak institutions, corruption, policy reversals and low resource mobilisation, etc. The World Bank (1992) in its report on 'Governance and Development' provided a detailed analysis to indicate how important it is now to look comprehensively at the institutional environment in order to pursue a constant and progressive effort in economic development in developing and transition economies. In the same vein, Chong and Calderon (1997, 2000) argued that improved institutional quality positively affects economic growth, reduces incidence of poverty and income inequality among other benefits.

Consequently, drivers[1] of good economic governance are concerned with the impact of institutional quality on economic performance. Institutional quality is measured by combining measure of different inter dependent factors, including socio economic, political, geographic and other societal factors that provide a strong base for efficient management of government activities. In a broader sense, economic governance contributes to a stronger economy, creation of investment opportunities, job growth and poverty reduction. It is also crucial in fighting corruption whose enablers can be located in both private and public sectors of the economy. In the private sector, economic governance indicators include greater international competiveness of small and medium scale enterprises (SMEs); facilitates market access; provides access to long –term capital; facilitates dynamic entrepreneurship and guarantees resource efficient private sector. In the public sector, economic governance is driven by reliable public financial management; transparent resource mobilisation; stable and deep financial sector; efficient business environment; and favourable conditions for sustainable trade and reliable basic public sector. The cumulative impact of economic governance translates into poverty reduction and reduction in global economic risks through sustainable and inclusive growth.

It is widely believed that with resurgent Africa driven by economic reforms and infrastructural development, the continent could be at the threshold of benefiting from the transformation that comes with the Fourth Industrial Revolution. It is important to note that Africa had been at the receiving end, but not the driving seat of the previous three industrial revolutions. The first industrial revolution was anchored on the use of water and steam engine to mechanise production. The second industrial revolution was driven by electric power to create mass production, the third industrial revolution is building on the third through harnessing digital revolution that has been occurring since the middle of the last century (Klaus Scwarb, 2015). The Fourth Industrial revolution which is anchored on big data, artificial intelligence (AI) and technological revolution will blur the difference between the physical, digital and biological spheres to drive phenomenal economic growth and social transformation. However, the challenges that face Africa which must be addressed in the context of fourth Industrial revolution is inequality and rising debt.

The issue of African debt is emerging as a big concern in sustainable economic development and growth. In order to bridge the huge infrastructure gap and enhance budgetary resources, Africa is facing the next level of 'Debt Overhang'' mainly coming from China and other advanced economies. Africa can only escape the next debt trap by reforming its institutions and embarking on wide spread recalibration of their economic and political priorities. Economic priorities must emphasize strengthening institutions that can sustain economic reforms, effective budgetary systems, enthronement stable macroeconomic environment and competitiveness. These economic priorities can address fiscal consolidation and budgetary effectiveness that can target poverty reduction. Debt reduction strategies can also benefit from diversification of the economy that will benefit from effective economic governance to build other resource bases away from commodities and hydro carbon and focus on improving manufactured exports, trade and services as the main earners of foreign exchange for African countries.

In order to effectively address these challenges facing economic governance in Africa, APRM developed a set of standards and codes[2] from which APRM questionnaires were developed to address poor economic governance. These standards and codes include promoting macroeconomic policies that support sustainable development; implementing transparent, predictable and credible government economic policies; promoting sound public financial management; fighting corruption and money laundering; and accelerating regional cooperation and integration. However, the achievements of these principles and codes differ among countries. Therefore, to develop a common index with which to assess the level of performance requires the development of indicators from the broad variables that capture the above standards and codes. The critical task in this study is how to develop questions that capture the relevant economic governance variables that will be used to construct quality of economic governance index.

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1.1 Background.

Given the important role the APRM play in tracking progress towards meeting regional and international development aspirations and commitments of African content, including AU Agenda 2063 and the Sustainable Development Goals (SDGs), the African Union in January 2017 expanded the mandate of the Mechanism from core review to include monitoring and evaluation role for African Union for the AU Agenda 2063 and SDGs. To effectively execute the mandate of Monitoring and evaluation, the APRM would develop M& E frameworks which will showcase the benchmarks, indicators and expected deliverables of policy implementation reviews of the thematic areas of the APRM. However, a significant prerequisite for the development of the indicators and benchmarks is the study of the critical elements of the thematic areas to build important data and evaluation mechanisms that could be used in the monitoring of outcomes on a periodic basis. This is the main impetus for this study which will focus on the driver of economic governance performance for member states of African Peer Review Mechanism (APRM).

To adequately prepare the APRM for effective implementation of the additional mandate of monitoring and evaluation, the Board of the African Development Bank approved the APRM Institutional Support Project on 28th March 2018.

[1]Drivers of economic governance are outcome- based indicators which have been identified in the section on research issues and questions.

[2] APRM Standards and Codes are developed for the International governance codes and principles by OECD

The project is aimed at not only strengthening the APRM and contributes to the delivery of the aforementioned additional mandate, but to sharpen its monitoring and evaluation tools and processes. Specifically, the grant from African Development Bank will be used to not only address the immediate challenges of the APRM, but will also be used to hire consultants to review and refine the APRM tools and processes. One of the major requirements of effective monitoring and evaluation is the development of indicators and criteria with which to monitor and measure progress periodically.

1.2 Objectives.

The broad objective of the study is to conduct an empirical analysis and assessment based on APRM working definitions on the factors that drive economic governance in Africa. The specific objectives are therefore as follows:

(a) Conceptualise and Identify key determinants (drivers) of economic governance performance in Africa

(b) Define the relevant constituent indicators and variables of economic governance performance in Africa

© Gather data and construct an index to measure the quality of economic governance performance in Africa

(d) Empirically estimate with a cross-country Panel Regression model the determinants (drivers) of economic governance across selected African Countries

(e) Use the results to analyse comparative performance of economic governance based on APRM added mandate of Monitoring and Evaluation (M&E)

(f) Proffer policy recommendations based on the results of the study

1.3 Research Issues and Questions

In the 1980s and 1990s, African countries embarked on economic reform programmes aimed at diversifying their economies away from commodity dependence to address the persistent issues of macroeconomic instability, poor growth and weak backward integration. Over dependence on commodity exports for much needed fiscal sustainability for most African countries had become unreliable over time. This is as a result of the declining price of commodities in the global markets and the deliberate attempt by advanced economies to stifle African countries opportunities in global trade through unfair trade rules and practices at both the Doha Round and Seattle conventions. While most African countries embraced the

International Monetary Fund Structural Adjustment Programme and World Bank economic diversification programmes, sustained success could not be guaranteed due partly to low capacity of their economic and political institutions to carry the weight of such reforms, leading to sub-optimal result in most African countries. Currently, most African countries are weary of Bretton Woods Institutions led economic reforms and are prepared to look inwards to leverage on home grown peer- reviewed solutions to address decades of growth stagnation, rising unemployment and pervasive poverty.

The African Peer Review Mechanism (APRM), thus developed series of objectives that will guide development of questionnaires to anchor their Country Review Missions (CRMs) process to assess the level of development and impact of economic governance on economic performance of reviewed countries. These objectives include whether economic governance policies and activities promote macroeconomic policies to support sustainable development? Do African countries pursue transparent, effective and predictable government economic policies that properly integrate their monetary and financial systems? Do African countries have in-place sound public finance management systems; are there processes to combat corruption in public administration and money laundering under an effective policy regulatory framework? Do their economic policies promote regional corporation and integration? etc. Therefore, given that economic governance in Africa is often faced with challenges of policy discontinuity, undemocratic practices, resource constraints and poor management of public funds, the indices for measuring economic governance is bound to be changing over time and their impact on the achievement of the APRM objectives may not be guaranteed over time. In the light of the foregoing, the research questions to guide the evaluation of the drivers of economic governance performance in Africa are as follows:

a. Are all African countries at the same level of development of economic governance indicators relevant to the APRM objectives?
b. Do economic governance indicators deliver uniform economic growth and development performance across all economies in Africa?
c. If economic governance practices diverge in the context of economic performance, what are responsible for such divergence?
d. Is there a need to develop a robust economic governance index that will aid uniform assessment of African countries based APRM objectives?

1.4 Justification.

This study is justified based on a number of gaps already existing in the available literature in this regard. First, there are yet no empirical reasons to explain the divergence of results in economic governance reform outcomes across African countries. At best, what is obtainable is that all African countries are adjudged not performing well in economic governance reforms due to weak institutions, lack of consistency in policy implementation and perhaps the impact of external shocks. This study fills this gap by identifying idiosyncratic factors that account for divergence of results in African countries in the mixed methodology review of our empirical results and literature from country review missions. In addition, our study will add value to existing literature when we use our model to identify fixed or random effects in economic governance outcomes in our cross country Panel Regression models.

Second, our study provides a preliminary test- run on the construction of economic governance index using results from the sampled countries. Currently, what is obtainable are economic governance index which is constructed without having the APRM objectives in mind. It is obvious that such indexes will not prove optimal when it is used for analysis based on APRM base questionnaires often mapped to the APRM objectives. It is only governance indexes constructed with indicators relevant to APRM objectives that will prove relevant in developing a Monitoring and Evaluation framework for the 'expanded mandate and reinforcement of modalities for ensuring the implementation of the National programme of Action. This action often emanates from the reviews and tracking progress over time through a well-articulated M & E framework'. This study will attempt to develop a prototype M and E framework that will be based on results of the study to guide the implementation of the added mandate of M and E to APRM review process.

Third, this study will test run some indicators which will enhance the revision of the existing APRM Base Questionnaires. The Cross Country Regression model which will be used for this study will be handy to test other indicators in subsequent research in this direction.

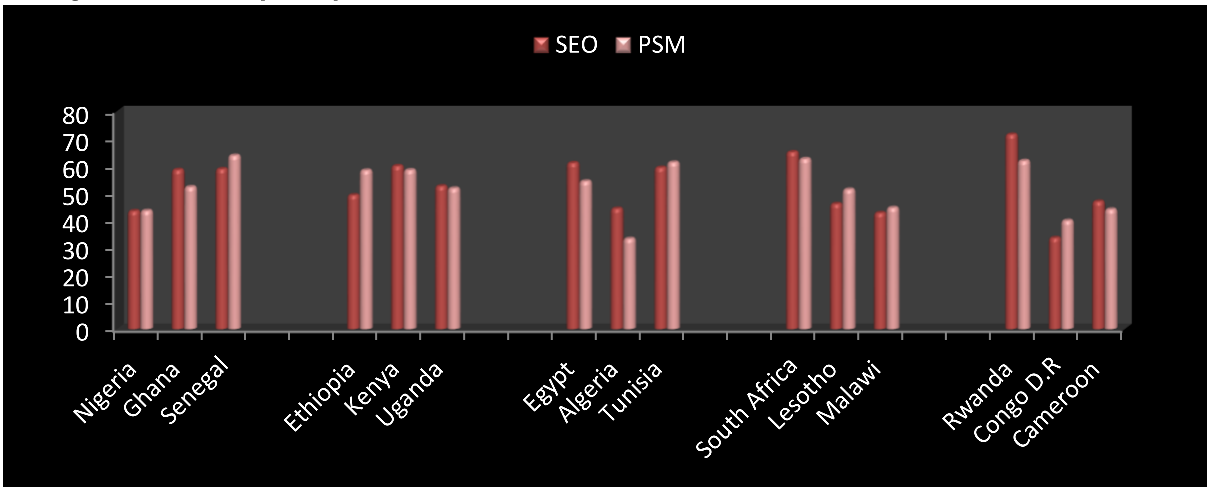
2.0 Economic Governance Performance in Africa: Analysis of Some Stylized Facts

African Peer Review Mechanism Principles and Codes identify four main outcome-based indicators otherwise referred as drivers of economic governance performance. These are stable macroeconomic environment, sound public finance management and accountability, integrity of the monetary and financial system and effective policy regulatory framework. The key principles contributing to an environment of good economic governance are transparency, accountability, non-discrimination and participation. Economic governance is one specific aspect of general governance that refers to all rules constituting the general framework for economic activities (Swiss Confederation, 2017). Therefore, only well- functioning, transparent economic, financial and fiscal policies can contribute to economic growth and sustainable development. Likewise only strong and well governed and transparent public institutions can deliver their services to the population effectively. In this section, we present a comparative analysis of the economic governance indicators of Mo Ibrahim Index of African governance (IIAG) for 2017 and that of the World Bank World Governance Index (WGI) for 2017 as a way of broadening our understanding of the indicators necessary for our study.

2.1. Sustainable Economic Opportunities (SEO) and Public Sector Management Index (PSM)

In the Mo Ibrahim Index for African Governance, measurement of overall economic governance is proxied by Sustainable Economic Opportunities (SEO). The SEO is a composite index of several economic governance indicators, one of which is Public Sector Management (PSM) . Specifically, PSM is driven by such indicators as diversification of exports, effectiveness of budgetary and financial management, budget balance, fiscal policy and tax and revenue mobilization. The Mo Ibrahim Index for economic governance is persuaded that if these indicators are in place that sustainable economic opportunities will be enhanced in the country.

Fig 1: **Sustainable Economic Opportunities (SEO) and Public Sector Management Index (PSM)**



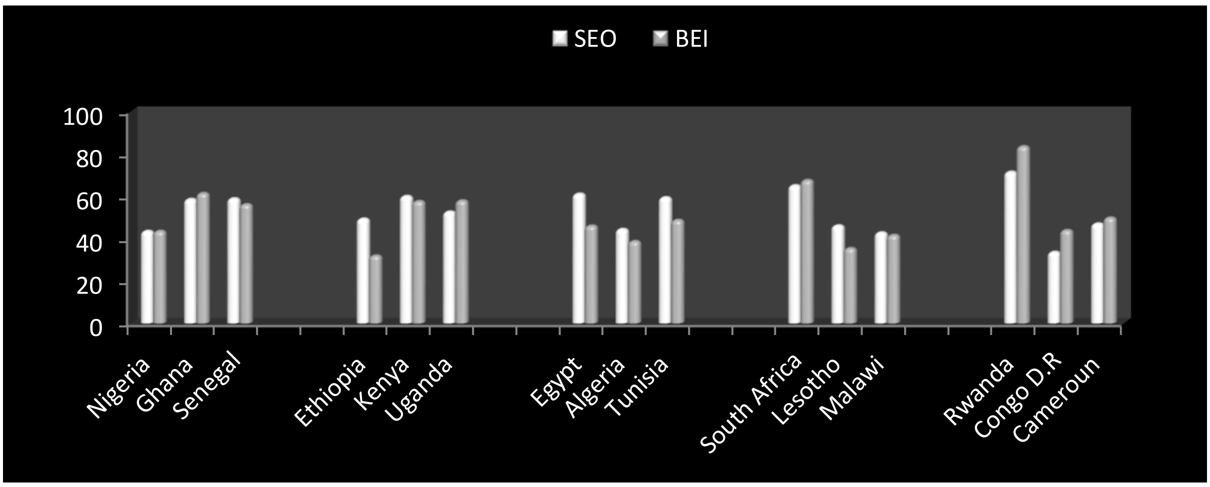
Note: the ranking is ordinal and is progressive with 100% as the highest and 0 as the lowest

In this economic governance indicator, it is observed that there is high level of correlation between effective public sector management and availability of sustainable economic opportunities. In our sampled countries, low performers in this economic governance indicator are Congo DR, Algeria and Cameroon, where the score of the index is less than 50 per cent. The champions in this index include Rwanda, South Africa, Egypt, and Senegal where this indicator is above 50 per cent. On the average, East Africa seem to be leading other regions in this index given all the sampled countries are above 50 per cent in their ranking, while North Africa follows closely with Egypt and Tunisia above the 50 per cent benchmark.

2.2 Sustainable Economic Opportunities (SOE) and Good Business Environment (BEI)

The MO Ibrahim economic governance index is based on the fact that sustainable economic opportunities can be guaranteed by good business environment. The indicators of good business environment include effective business regulatory environment, employment creation, efficiency of customs procedures that facilitates trade, robustness of banks and regional integration policies.

Fig 2: Good Business Environment (BEI) and Sustainable Economic Opportunities (**SEO)**



In the Mo Ibrahim economic governance index, there seem to be a high level of correlation between conducive business environment and existence of sustainable economic opportunities. Only in countries such as Ethiopia, Egypt, Tunisia and Lesotho did we observe that effective business environment is not actually a major driver of sustainable economic opportunities to some degree. The champions in effective business environment as an indicator of the good driver of economic governance include Rwanda, South Africa, Kenya, Ghana and Uganda. The low performers include Congo D. R, Lesotho, Malawi and Ethiopia.

2.3 World Bank World Governance Index (WGI) Rankings

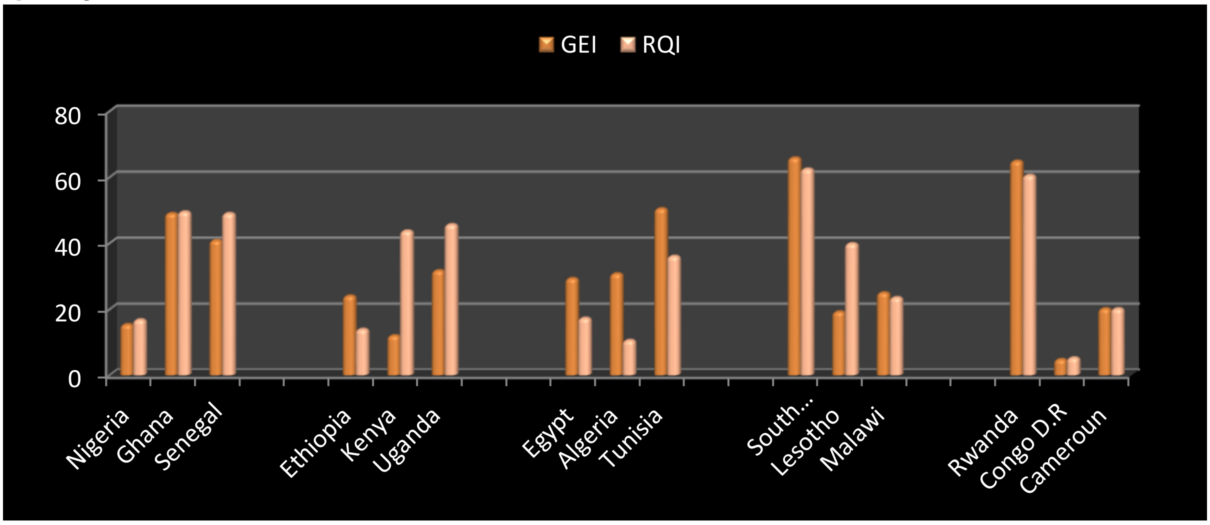
The World Bank World Governance index has a component of economic governance index measured by Voice and Accountability, Government effectiveness, Regulatory Quality and Corruption Control indicators. The economic index is constructed on the assumption that the level to which citizens participate in electing their leaders (Voice and Accountability) as well as freedom of association, freedom of speech and freedom of the press go a long way to ensuring that leaders are held accountable for their economic policies that enhance economic governance, growth and development of the country.

Therefore, existence of a link between government effectiveness, which is defined as quality of public services and quality of policy formulation (economic and political) and credibility of government's commitment to implementation of such policies go a long way to enhance the overall quality of economic governance.

2.4.Government Effectiveness Index (GEI) and Regulatory Quality Index (RQI)

The result of the relationship between Government Effectiveness and regularity quality indices in the World Governance index is mixed. In countries such as Kenya, Uganda, Algeria, Egypt and Lesotho, government effectiveness does not seem to depend on regulatory quality. Therefore, the notion of 'Strong man' rather than ''Strong institutions'' seem to be the driving force behind economic governance performance.

Fig 3: The relationship between Government Effectiveness and Regulatory Quality Indices.



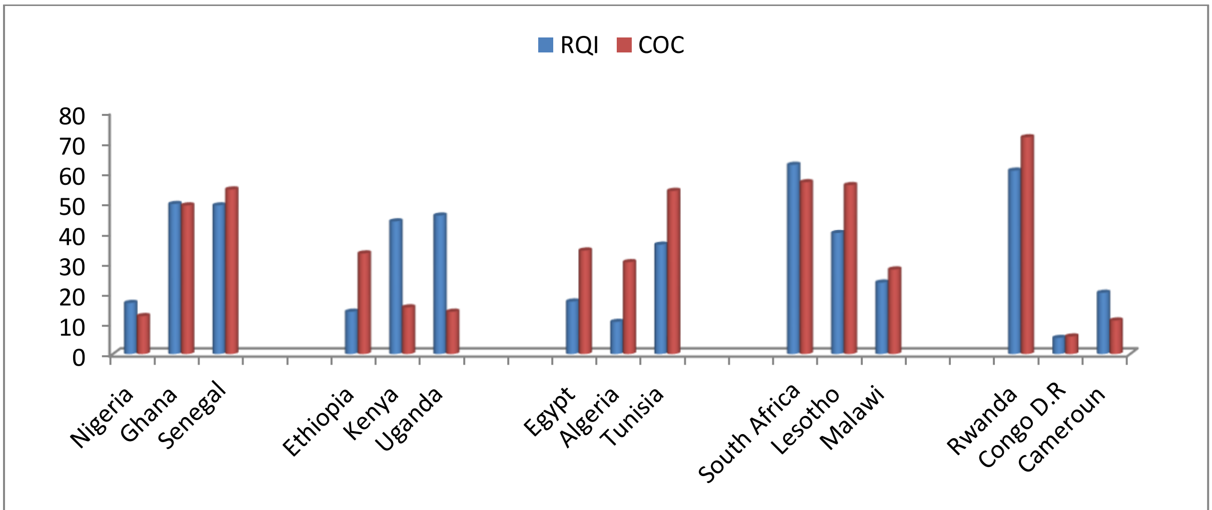
In most of the countries that recorded divergence in the relationship between government effectiveness and regulatory quality there existed a history of prolonged absence of democratic culture. On the other hand, the high performers in this index are South Africa, Rwanda, Ghana and perhaps Senegal. In these countries there were remarkable improvement in their democratic culture in recent times and this reflects in the quality of their regulations on how economic policies were implemented and its effect on economic governance performance. The ''FAIR'' performers are Congo DR, Cameroon, and Nigeria, countries with long history of military rule, dictatorships and political instability.

2.5: Regulatory Quality (RQI) and Control of Corruption (COC) Index

The causal relationship between regulatory quality and fight against corruption in the World Governance Index is one that will be of interest in analysing economic governance in African countries. It has been observed that fighting corruption should, as a matter of necessity, be driven by enforcing regulation and reforming institutions rather than focusing on jailing the culprits through corrupt court processes. Specifically, Regulatory Quality Index captures the perception of the ability of government to formulate and implement sound policies and regulations that permit and promote private sector development. On the other hand, Control of corruption captures perceptions of the extent to which public power is exercised for private gains, including both petty and grand forms of corruption, as well as 'state capture' by a few elites and private interests.

In our sampled countries as presented in fig. 4, it was noticed that Egypt, Algeria, Tunisia, Ethiopia and Cameroons are countries with divergence between regulatory quality and control of corruption index. The implication of the asymmetry between the two indices is that corruption is fought without appropriate institutional regulatory framework that will ensure that opportunities for corruption were heavily controlled through regulation of both public and private institutions.

Fig 4: **Regulatory Quality Index (RQI) and Control of Corruption Index (COC)**



In our sample, countries that regulatory quality drives fight against corruption include, Rwanda, South Africa, Ghana and Senegal, while countries with the lowest rankings in Regulatory Quality and fight against corruption include Congo D.R, Nigeria, Cameroon and Malawi. In these countries, the causal relationship between weak regulation of public institutions and rise in corrupt cases are very obvious. The champions of countries that use regulation to tackle corruption are Rwanda, South Africa, Leostho, Ghana and Senegal. In these countries, the correlations between their rankings in both indexes are quite noticeable as presented in Fig 4.

2.6. Economic Governance and Informal Sector Economic Activity in Africa.

The relationship between informal sector and economic governance has been a subject of interest in ascertaining the role of governance in improving informal sector firms and activities in Africa. In Table 1 below, we present informal sector and governance data to see whether any trend relationship exist between them on sustainable basis. Column 1 presents the size of informal sector as a percentage of GDP, while Column 2 presents GDP growth rates. In column 3 we present MO Ibrahim ranking of rural sector activities, while Column 4 presents World Bank Sustainable Economic opportunities (SOEs)

Table1: **Economic Governance indicators and informal sector Performance in Africa**

Sample Countries	Size of I.E / GDP (%)	GDP Growth Rates (%)	Rural Sector (Rank)	SEO
Nigeria	65	0.8	47.2	43.5
Ghana	80	8.14	49.2	58.6
Senegal	60	7.08	56.6	58.9
Ethiopia	38.6	9.50	60.2	49.3
Kenya	70.0	4.86	64.5	60.0
Uganda	50	3.86	58.7	52.6
Egypt	55	4.18	74.6	61.1
Algeria	30.4	1.30	42.8	44.4
Tunisia	29.0	1.82	61.5	59.4
South Africa	28.4	1.41	64.1	65.1
Lesotho	72	-2.27	53.6	46.1
Malawi	60	4.0	49.5	42.8
Rwanda	64	6.11	84.1	71.5
Congo D.R	82.3	3.72	34.8	33.6
Cameroon	40	3.54	48.6	47.0

Source: Authors compilation from macro data of sample Countries and IIAG and WGI (2017)

in the sampled countries, while there was a high correlation between the indicators of economic governance (Rural Sector) and Sustainable Economic opportunities (SOE), there is no correlation between these economic governance ranks and the performance of the informal sector of the economy. It is however possible that improvement in general economic governance in a country may exert some positive impact on the performance of the rural informal economy.

3.0 Literature Review

3.1 Theoretical Literature

Theoretically, the quality of institutions of a country remains the core driving force for economic governance that produces beneficial outcomes for economic growth and development. North

(1990) defines institutions as ‘the basic rule of the game, the broad legal regime and the way it is enforced; widely held norms that constrain behaviour of economic and political agents. It has been observed that economic theories alone, such as the ones that govern micro and macroeconomics which explain the forces that determine transactions and economic interactions leaves out important constraints, pressures and mechanisms that induce individual and agencies behaviours. Therefore, it is this noticeable gap in the development and use of economic theories that the role of institutions tends to fill. The essence of focusing on institutions is to illuminate the factors that mould goal-oriented behaviours of economic agents and the actions of several parties that determine what is to be achieved (Nelson and Samprat, 2001).

Institutions are therefore divided into two broad categories for the purposes of evaluating their theoretical relevance in economic and social development of a country. These are political institutions and economic institutions. The impact theoretical relationship between political freedom and economic growth is that, first, economic growth increases as political freedom increases; second, economic growth decreases as policy uncertainty as measured by inflationary pressures or quality of governance decreases; third, economic growth decreases as political instability increases. On the other hand, the impact relationship between economic institutional variables and economic growth are, first, economic growth decreases as property rights (as measured by judicial independence) decreases. Second, economic growth decreases as government expenditure (measuring size of government) increases and finally, economic growth decreases as the structure and use of market measures (government investment of the economy) decreases. Bates (2001) argues that these relationships between political and economic institutional impact on economic growth derives from the fact that economic development occurs when persons form capital and invest, making present sacrifices in order to reap future gains. Specifically, economic governance is driven by the following theories.

3.11 Neo-Classical Growth Convergence Hypothesis

The question of why countries grow faster than others has roots in the Neo-Classical Growth hypothesis theory. The theory states that economic liberalisation (ie opening up of national markets to economic freedom) draws additional domestic and foreign investments and thus increases the rate of capital accumulation (Todaro and Smith, 2003). These theories emphasise the need for economic agents to increase savings in order to generate the required capital with which to invest and growth the economy sustainably.

3.1.2: Transaction Cost Economics (TCE).

The Transaction Cost Economic Theory of economic governance is anchored on the role of information, of transactions and of property rights which define the efficiency of markets. The Neo-Classical growth theory had advanced the argument that individuals, acting on self-interest, take rational decisions that lead to efficient markets. Arrow (1951) and Debreu (1951) based on this theory provided insight and conditions under which it would be feasible for prices in markets to shape the decisions of consumers and firms such that all consumers would maximize their utility,and all firms will maximize their profits. As this allocation of self-interest inducing behaviour is invoked in designing economic governance objectives, it enables all agents to simultaneously maximize their objective conditions, which translates into equilibrium in a free market economy. Therefore, economic governance codes and principles are governed by these theories which ensure that conditions that will enable economic agents to maximise their interest will translate into economic growth and better standard of living for all.

3.2 Drivers of Good Economic Governance in Africa: Linking Theory to Policy

Based on the foregoing theoretical insights, African governments embrace improving economic governance for the following reasons (a) to enhance their ability to implement development and poverty reduction projects with scarce resources; (b) to execute public management functions in an accountable manner; (c) create a credible policy environment in which domestic and international investors can have confidence and trade can be enhanced; (d) to strengthen the absorptive capacity to attract and mobilise development assistance flows; (e) to demonstrate transparent and participatory economic policy making and execution as well as an open flow of information available to all stakeholders; and finally to signal adherence to institutional functioning free of corruption.

Therefore, It was on the above national priorities for African economic governance that a number of indicators were identified and used to develop drivers of economic governance which will provide guidance on how Africa countries can be evaluated on economic governance issues. These drivers include (a) Stability of macroeconomic environment which emphasised the achievement of low inflation, increased foreign reserve; low and effective real interest rates and increasing real GDP per capita. The second driver is Sound public financial management and accountability which is regarded as a harbinger for transparency in public financial management. The indicators include efficient government expenditure; low debt to GDP ratio, and reasonable level of budget balance which speaks to improved revenue generation to ensure lower budget deficits. The third driver of economic governance is to maintain the integrity of monetary and financial system which is measured by such indicators as the level of foreign direct investment inflow, high trade to GDP ratio, and high current account balance. The last but by no means the least of the drivers of economic governance is effective regulatory framework and its impact on social development. The indicators in this driver of economic governance include how far regulatory institutions are created and monitored whose effect can be established by the level of achievement of social goals such as low infant mortality rates, high level of adult literacy rate and high level of poverty reduction.

3.3: Good and Bad Economic Governance: Making Sense of the Difference

It is generally believed that good economic outcomes are derived from good economic governance. Therefore, by definition, economic governance is a broad concept consisting of a wide range of issues that guide effective mobilising of fiscal resources, maintenance of stable macroeconomic environment, and ensuring social development among many others. Good economic governance therefore exists in those countries where the government have demonstrated capacity to manage resources efficiently; formulate, implement and enforce sound policies and regulations; can be monitored and held accountable; in which there is respect for the rules and norms of economic interactions; and in which economic activity is unimpeded by corruption and other activities inconsistent with public trust. The key elements contributing to good economic governance include transparency, accountability, and enabling environment for private sector development and growth and of course institutional development and effectiveness.

More specifically, economic governance is necessary in order to enhance the capacity of the state to deliver on its economic mandate. Such mandates include eradicating poverty and improving economic growth among many others. However, many African countries are constrained to meet the aforementioned objectives due to their deficiencies in their economic governance structures. Some of these deficiencies include lack of appropriate institutional framework to guide economic policy making and execution; a similarly weak or uninterested parliament; and lack of consultative mechanism for engaging the private sector, for inputs into sect oral planning, or other national economic decision-making process.

The existence of these deficiencies therefore creates an environment of bad economic governance that impedes the achievement of stated economic growth and development objectives. In other words, these deficiencies contribute to unstable macroeconomic framework, a lack of transparency and lack of efficiency in fiscal expenditure, and imbalances in sect oral allocations using the budget; unpredictable decision-making processes that affect national economic activities and relationship with other economic and international bodies. In contrast, good economic governance will lead to the enthronement of well –defined governance institutions and structures that will harmonise and complement fiscal, monetary, trade policies and establishment of monitoring and regulatory authorities for promotion and coordination of economic activities. It further involves enhanced institutional framework that will improve the development and implementation of sound economic policies and capable of adjusting as necessitated by government through reforms.

3.4 Empirical Literature.

Knack and Keefers (1995) employed two independent international investor services, namely; international Country Risk Guide and Business Environment Risk Intelligence to assess the growth convergence of a number of developing countries. The measure was used to investigate why developing countries are finding it difficult to “catch up’” with advance economies as predicted by the Solow (1956) model. The results show that institutions played a major role in the difficulty experienced by developing countries in “’catching up”” with advanced economies. While poorer countries may have advantage of low cost of access to advanced technology, the gain was often diminished by the weak institutions.

Alverez et al (2000) did a comparative analysis of the “depth “or ‘’constancy”’ of human capital development as determinant of growth across section of countries in the world. The results indicated that education as a measure of human capital development was more persistent than measures of government control measures on the executive. However, the procedure was flawed based on the fact that institutional outcomes of measures of government constraints of the executive have very little to do with constitutional constraints, raising concerns of the effect of government changing rules of economic governance

Chong and Calderon (2000) in a study of a number of both developed and developing countries show that improving institutional quality positively affects economic growth, reduce incidence of poverty and income inequality. In the same vein, Ross (1997) in their own study showed that countries which have more developed institutions, in terms of legal and regulatory framework are endowed with better developed financial intermediaries such as banks, insurances firms and others tend to grow faster. The important note from the above two studies is that the quality of governance matters for effective promotion of economic growth and development.

On the measurement of economic governance, Kaufman et al, and Huther and shah (2009) applied a simple measure of good governance to the debate on fiscal decentralisation in selected countries around the world. The study used Principal component and Cross-country regression methodology to construct and test the impact of good governance on fiscal decentralisation. The result indicates net positive effect of economic governance on fiscal decentralisation in most countries studied.

Basu (2003) employed principal component analysis and cross- country regression analysis to estimate the quality of economic governance in several countries. The outcome of the study was used to rank countries based on the performance of their economic governance index. The result shows that the better the economic governance, the better the economic performance of most countries studied in such indices as per capita income, decline in poverty levels and stability of macroeconomic variables.

Han et al (2014) used a combination of models featuring principal component analysis, generalized method of moments and cross-county panel regression analysis to investigate the impact of governance indicators in explaining development performance in Asian Countries. The study finds that government effectiveness, political stability, control of corruption, rule of law and regulatory quality all have a more significant positive impact on country growth performance than voice and accountability and the rule of law. In Asian countries with a surplus in government effectiveness, regulatory quality and corruption control are observed to grow faster than those with deficit in these indicators.

3.5 Intersection between Economic Governance and Corporate Governance Drivers.

The analysis of the relationship between Economic Governance and Corporate governance could best be understood in the frame of the relationship between macro and micro economics. Most macroeconomic phenomena have its roots in micro foundations. For instance, while economic governance deals with policies that address the challenges of the aggregate economy which includes macroeconomic issues such unemployment, growth, inflation, trade and external balance etc, Corporate governance deals with the firms, and public institutions that play at the micro levels of the economy in such areas of corporate profits, employment generation and attracting investments that will enhance the performance of the aggregate economy.

Specifically, stability of the macroeconomic environment which is an economic governance indicator ensures that economic policies are implemented in ways that reduce inflation, ensure stable exchange rates and low effective interest rates all of which protects corporate profits, ensures that firms have access to forex to import raw materials and guarantees access to credit facilities respectively. Sound public financial system management and accountability as a economic governance indicator ensures firm performance through lower unit costs and security of investments, reduction in corruption that could undermine corporate survival and profitability. Integrity of the monetary and financial system guarantees financial stability necessary for effective monetary and fiscal policy that protects the banking system to be able to create credit for firms, enhance improved productivity and markets through good trade policies and encourage investment inflows through positive current account balance. Effective policy regulation and social development lead to policies that improve social welfare such as health and education needed for the healthy and well trained workforce that improve firm productivity and output (See attached Appendix 2)

3.6 Monitoring and Evaluation (M& E) Framework for Economic Governance Drivers

A Monitoring and Evaluation (M&E) Framework was developed to guide the applications of the results of this study in enhancing the objectives, goals, outcomes and outputs of Economic Governance indicators in supporting the achievement of the mandate of Country Review Missions, The framework highlights how to track the indicators, its definition in terms of how it is calculated, the baseline and target levels to achieve and data sources in terms of where the economic governance indicators data could be sourced. The M& E framework also presented frequency which highlighted the period of assessment, responsibility which identified who should be responsible for enforcing economic governance and lastly where the performance indicators of economic governance in a county can be reported and made available to the public. The framework will assist evaluators to construct their questions and also use same to monitor and evaluate the performance of economic governance in each of the sampled countries periodically, (see Appendix 3)

3.7 Country Review Missions and Drivers of Economic Governance

For the recommendations of this study to be useful, there is need to interface it with a report of country Review missions of member counties. In this case the study reviewed the report of the Country Review Assessment Report of Uganda 2017 an attached as Appendix 1. This will establish how the results and recommendations of this study could be useful in evaluating the performance of economic governance and management of member countries during Country Review Process. The review established the objectives, findings, challenges and recommendations. More important is that the recommendations are designed to address the challenges in a consistent manner as presented in Appendix 1

4.0 Methodology, Data and Model Specification

4.1 Methodology

This evaluation of drivers of Economic governance across African countries was conducted along several dimensions. These dimensions are macroeconomic stability dimensions, sound public financial management and accountability dimensions, integrity of the monetary and financial system and effective regulatory framework and social development dimensions. These dimensions which might be considered ‘good’, fair or ‘bad’ in the overall performance of the index will depend on the level of the selected indicators that reflect each of these dimensions. For instance, our economic governance dimension suggests that if the countries in our sample perform well not only each of the indicators that made up the index, but on all other indicators it will improve their economic efficiency. In table below, we identified the indicators that will address issues in the chosen four dimensions.

Table 2: **Drivers of Economic Governance and associated indicators (20013-2017)**

Drivers of Economic Governance	Indicators
Stable Macroeconomic Environment	Inflation (Annual %) External Reserves Real Interest Rates Real GDP per Capita
Sound Public financial Management and Accountability	Government Expenditure Debt (%) of GDP Budget Balance
Integrity of the monetary and financial system	Foreign Direct Investment Trade (% of GDP) Current Account Balance
Effective Policy Regulatory Framework and Social Development	Infant mortality Rate Adult literacy Rate Poverty Rate

Source: Authors tabulations with data from countries central banks, WB, IMF and ILO.

4.2 Data

Our data (secondary) were sourced from sampled countries domestic institutions such as central Bank, statistical agencies, stock market reports etc. Some of the data were also sourced from multilateral institutions such as World Bank, international monetary fund, African development bank from 2013 to 2017. The choice of selecting the indicators was based on APRM standard and codes of economic governance. Our Data for the study of drivers of Economic Governance are secondary data i.e. data that had been collected, processed and published. The motivation to use secondary data is explained by the fact that some of the data required are macroeconomic data and covers the whole economy. Our drivers of economic governance are mainly qualitative, and activity based that is why such adjectives as ''Stable'', ''Sound'', ''Integrity'' and ''Effective are used to qualify 'Macroeconomic environment, public financial management and Accountability, monetary and financial and Policy regulatory framework and social Development respectively. But we need to collect data on the indicators that measure these drivers from which their performance can be better assessed.

4.3 Model Specification

In our empirical study of drivers of economic governance in Africa we adopt Basu (2019) in our model specification. The model combined different dimensions of economic governance indicators to develop an index called Quality of economic governance index (IDEG). To develop the index, the method of Principal Component Analysis was used to decompose the variables and select the principal components that add more value the overall index.

4.3.1 Drivers of Economic Governance Index Construction (IDEG)

The economic governance index was constructed with variables that reflect economic governance indicators such as government expenditure, debt-gdp ratio, inflation rate, gross foreign investment and other indicators as shown in table 1 above. This index was used in the estimating a cross country Panel econometric model of the type:

1Let $IDEG_i = \alpha_0 + \beta_1 X_{1i} + \ldots\ldots\ldots\ldots\ldots \beta_k X_{ki} + \varepsilon i$ (1)

Where IDEG is the index of quality of the drivers of economic governance, and X1, X2 and Xk are the indicators used to construct the (IDEQ) and E is the error term.

To create the index of economic governance we follow Huther and Shah in specifying an identity equation that captures the defined drivers of economic governance which includes stable macroeconomic environment (SME), Sound Public financial Management and Accountability (SPMA), Integrity of the monetary and financial system (IMFS) and Effective Policy Regulatory Framework and Social Development (EPRF)thus:

$IDEG = \sum SME1 * \sum SPMA_2 * \sum IMFS_3 * \sum EPRF_{4.}$ (2)

Where

SME= Inflation (inf) + External Reserves (ER) + Real Interest Rate(RINT) + Real GDP PC

SPFMA = Government Expenditure (GEXP) + Debt (%) of GDP +Current Account Balance(CAB)

EPRFS = Infant Mortality Rate (IMR) + Adult Literacy Rate (ALR) + Poverty Rate (POV)

We therefore employed Principal Component Analysis (PCA) to reduce the number of indicators that will be used in the study. The indicators are replaced with equal number of their principal components (PC), so that 100% of total variation in indicators is accounted for by a fewer number of indicators as selected using the Principal component analysis (PC).

We transform the principal components into their standard form as represented in Equation (5) below

$$X_k = \frac{X_k X_k}{S_{xk}} \qquad \textbf{(3)}$$

Where X is the arithmetic mean of the overall indicators, S xk is the standard deviation of the observation across countries in the sample and K = 1,2, ….n is the countries of study. We also use the PC results to rank the countries according to their performance after normalising the results of all the sampled countries.

4. 3.2 The Cross- Country Panel Regression Model Specification.

We use the Real Gross Domestic Product per capita as the dependent variable and Index of drivers of Economic Governance (IDEG) and composite measures of economic governance indicators to reflect the various drivers of economic governance such as macroeconomic stability environment, sound public financial management and accountability, integrity of the monetary and financial system and Social development indicators as independent variables to run a Cross- Country Regression Analysis. The Panel regression analysis was to establish empirical relationship between the economic growth and measures of Index of economic governance. We have to note that the economic governance index was constructed with variables such as government expenditure, debt-gdp ratio, inflation rate, gross foreign investment and other indicators. This model can furnish a cross country comparism of how drivers of economic governance impact economic growth as a whole and among the different countries sampled. The Panel Regression Analysis will take the form of equation type:

Xit = α_0 + β_1IDEG$_i$ + …………….. β_2kQki + εi **(4)**

Where, Xit is the Real gross domestic per capita, α is a constant, and β is the coefficients of IDEG which the general Index of economic governance and β2 is the coefficient of each of the drivers of economic governance (Q), i indexes of regions (sampled countries, we are studying and Q is the vector of drivers of economic governance. In using this model, we are interested in testing whether our constructed index of Economic Governance is statistically significant. The expected sign on our base model coefficient is β_i>0, if the coefficients of IDEG were positive, then only then could we establish an empirical link that improved economic governance leads to improvement economic growth as represented by real gross domestic product per capita (RGDPC). The significance of the drivers of economic governance with the dependent variable will underscore the fact that improvement of the drivers of economic governance can also improve the overall economic performance of the countries under study.

In order to analyse the relationship between the index of drivers of economic governance measured by the IDEG, and the impact of indicators of economic governance on influencing economic growth, we specify a Panel Regression Model of the type:

$$Y_{it} = \sigma_i + \theta_i + \beta_{1it} X1 + \beta_2 X2_{it} + D1...2 + \ell \qquad \textbf{(5)}$$

Where,

Y is the Real Gross Domestic Product Per Capita, σ, θ, and β are parameters and X_1 is IDEG and X_2 is vector of explanatory variables represented by economic governance indicators and e is the error term.

Equation (4) can be mathematically represented as

RGDPC= σ_1 + βIDEG + βX(Indicators of economic governance) +D1… 4 (Country Dummies) + error term (**6**)

RGDPC = Real Gross Domestic Product Per Capita
IDEG = Index of Economic Governance
X = Indicators of Economic Governance
D1 = Country Dummies
e= Error term

The apriori expectations from equation 5 is to ascertain the empirical relationship between Real Gross Domestic Product per capita as dependent variable was impacted by the Index of Economic Governance (IDEG) and the indicators of economic governance in different sampled countries. The Panel regression outcome will explain whether their differences in impact across the sampled countries and whether the constructed Index of economic governance has relationship in explaining the behaviour of indicators of economic governance in Africa.

5.0 Presentation of Empirical Results

Table 3: Descriptive Statistics of Indicators of Economic Governance Variables

Indicators	# (Sampled Countries)	Mean	SD	CV%	Min	Max
Inflation	15	7.41	6.30	12.70	-1.09	29.50
External Reserves	15	4.96	1.79	9.77	1.25	10.20
Real interest Rates	15	8.10	6.59	13.85	-15.6	22.14
Real GDP Per Capita	15	2.09	2.44	13.64	-4.16	9.69
Govt. Expenditure	15	111.28	10.90	12.13	95.22	153.03
Debt (%) of GDP	15	17.83	24.51	8.52	0.44	86.90
Budget Balance	15	4.51	3.98	5.08	-5.98	16.05
Foreign Direct invest.	15	2.72	1.96	10.62	-0.32	9.88
Trade (%) of GDP	15	59.97	24.41	14.00	20.74	125.25
Current Account Bal.	15	-6.67	5.72	7.00	-22.43	15.30
Infant mortality Rate	15	38.08	18.40	12.13	11.24	72.30
Adult literacy Rate	15	68.01	13.15	2.79	42.73	95.39
Poverty Rate	15	38.16	18.22	13.12	2.70	81.10

Source: World Bank, Central banks of Countries and IMF international Financial Statistics, ILO.

Average inflation rate in the sampled countries is about 7.4 %, while Debt to GDP ratio is about 18 % on the average. Other variables such as Adult literacy rate have average of 68 % in the sampled countries, indicating uncomfortably high rates while average trade to GDP ratio is 60% in the sampled countries. Real GDP growth rate is 2% on the average and Real interest rates is about 8 % on the average in the 15 sampled countries. Current Account Balance was negative (-6.67%) showing the fragility of the external balance of the sampled countries. Poverty rate is at 38 per cent which shows that poverty is still a major issue in African countries despite numerous economic reforms embarked upon in the last three or so decades The most important message from these statistics that a whole lot of economic indicators are still quite below what they ought to be to guarantee sustainable growth in African countries as exemplified by the sampled countries in this study.

5.2 Results of the Principal Component Analysis (PCA)

Table 4 below presents the correlation coefficients of the indicators with which the IDEG was constructed by combining the 13 indicators which was captured in equation 4. The indicators were chosen based on their levels of significance as indicated in the notes.

Table 4: Correlation Matrix for indicators used for constructing IDEG

	INF	CAB	BOB	DEBT	FDI	EXR	GEXP	POVR	RGDPC	RIR	TRD	ALR	IMR
INF	1												
CAB	-0.30583**	1											
BOB	-0.02403*	0.063726	1										
DEBT	-0.14497	0.043325*	-0.2001	1									
FDI	0.483005	-0.32809	-0.0252	-0.157976	1								
EXR	0.378988*	0.139589	-0.04478**	0.2227233	0.012568	1							
GEXP	-0.12034	-0.10411	0.013171	-0.204385	0.01355*	-0.09885	1						
POVR	0.084556	0.047674**	0.036802	-0.418776	0.047986	0.004585	0.133407**	1					
RGDPC	-0.15216*	-0.03144	0.471475	-0.208678	0.253348	-0.06782	0.087639	-0.03697	1				
RIR	0.164055	-0.31472	0.320442	-0.185247	0.366863	-0.13474	-0.09979	0.177127	0.203663	1			
TRD	-0.09364	-0.19908	-0.22409	0.1356331**	0.150993	-0.37554	0.539153	0.050136	-0.1365	-0.11321	1		
ALR	-0.00898	-0.16267	-0.18752	0.2302894	-0.06245*	-0.10065	-0.22857	-0.00328	-0.20157	-0.14035	0.156321	1	
IMR	-0.09084	0.218849	0.032832	-0.383776	0.093026	-0.26421	0.121269	0.512658	0.03454	0.10199	0.077636	-0.20442	1

*, ** represent significant at 5 % and 10% respectively.

The PCA Eigen values indicated that 5 out of the 13 indicators accounted for over 70 per cent of the index of Economic Governance. Thus, the rest of the indicators only accounted for 23 per cent of the total variation of the IDEG. Therefore, we identified the principal components using the Eigen vector loadings.

Table 5: Standard loading for the main IDEG Components indicators, RGDPC and H^2

IDEG Components	PC1	PC2	PC3	PC4	PC5	H^2
Stable Macroeconomic Environment (SME)	0.77					0.81
Sound Public financial Management and Accountability (SPFMA)	0.79					0.82
Integrity of the monetary and financial system (IMFS)		0.73				0.86
Effective Policy Regulatory Framework and Social Development			0.72			
IDEG				0.76		0.78
RGDPC					0.71	0.84

PC= Principal Component: H^2 = (Value of Cumulative Variance in variables) only absolute loading factors higher than 0.42 was Selected; Authors estimates.

Table 4 indicates that the main indicators of the principal component representing the four main drivers of the IDEG can explain over 70 per cent of the total variation in all the variables in the right hand-side of the equation. This analysis only focused on the four out of 13 indicators used for the Principal Component Analysis. All the Eigen Values were greater than 1 and the principals components explain over 70 per cent of the total right hand side variable variance.

In Table 6 below we present the standardized measures of the indicators of economic governance as captured by equation

Table 6: The value of IDEG and Normalised and Ranked in Sampled Countries (2013 - 2017

	IDEG Value	IDEG Norm. 1.00	IDEG Rank
Rwanda	38.57	0.2373	1
Congo D.R	38.24	0.1532	2
Nigeria	34.36	0.0783	3
Ghana	33.72	0.0772	4
Lesotho	22.79	0.0732	5
Tunisia	21.06	0.0664	**6**
Malawi	19.59	0.0501	**7**
South Africa	18.99	0.0461	**8**
Uganda	16.98	0.0456	**9**
Cameroon	16.92	0.0325	10
Kenya	16.90	0.0208	**11**
Senegal	16.32	0.0156	**12**
Ethiopia	16.21	0.0104	**13**
Egypt	15.71	0.0510	**14**
Algeria	14.25	0.0423	**15**

Following the methodology as explained in equation 2, the estimated Index of Economic governance for a sample of 15 countries drawn from five African Regions of Southern, North, East, West and Central Africa are presented in Table 4. This methodology aggregated all the indicators and normalized them to 1 (one) and used them to rank sampled countries. The aggregated indicators came from the 13 indicators which were constructed from the Principal Components of the indicators. The drivers of economic governance are identified in the model as policies and reform outcomes that enhance Stable macroeconomic environment, Sound public financial management and accountability, Integrity of the monetary and financial system and effective policy regulation and social development. The IDEG values and their corresponding normalized values provide a basis for ranking the countries according to their performance. The result indicates that while Rwanda, Congo D.R and Nigeria are among the first best three countries in IDEG Index, Ethiopia, Egypt and Algeria ranked the last three. The ranking follows an ascending order in that the country with the highest IDEG value and corresponding normalized value is considered the best performing country in drivers of economic governance; while the country with lowest IDEG value and corresponding normalised value is considered poorest performing country in drivers of economic governance.

5.3 Classification of the Performance of Sampled Countries in Economic Governance

In Table 7 below we show the status of the sampled countries in the performance by classifying them into “GOOD’,’’ MEDIUM’’ and ‘’ FAIR’’ performance using the normalised IDEG value which is between 0-1. Countries that fall within 0.06 to 0.23 are considered ‘Good’ performers, while countries that ranked

Table 7: **Classifications of Drivers of Economic Governance ranks based on IDEG Values.**

GOOD Economic Governance	MEDIUM Economic Governance	FAIR Economic Governance
(O.06 - 0.23)	(0.02 – 0.05)	(0.01 and below)
Rwanda	Tunisia	Senegal
Congo D.R	Malawi	Ethiopia
Nigeria	South Africa	Egypt
Ghana	Uganda	Algeria
Lesotho	Cameroon	
	Kenya	

0.02 to 0.05 were ranked as 'Medium ' performers in drivers of economic governance, while countries that ranked between 0.01 and below are ranked as 'FAIR' performers in Index of drivers of economic governance. Our results indicate that Rwanda, Congo DR and Nigeria lead countries that have 'Good' Economic Governance, while Tunisia. Malawi and South Africa lead countries whose economic governance performance are ranked as 'MEDIUM' and Senegal, Ethiopia and Egypt are ranked as ' ''FAIR' performers in drivers of economic governance.

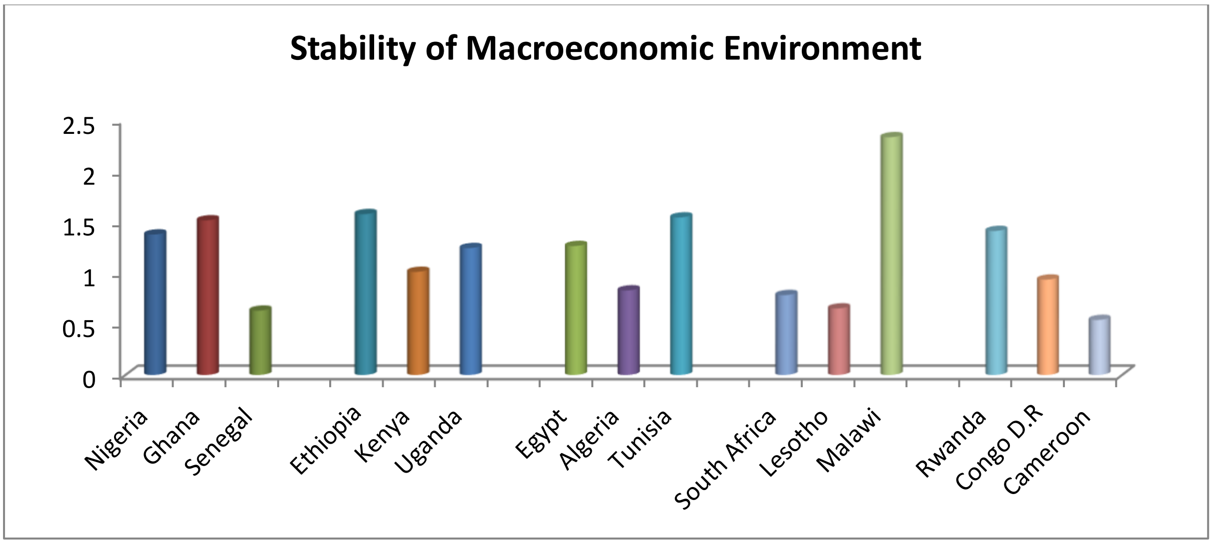
5.4 Results of Comparative Performance of IDEG in Sampled Countries (2013-2017)

The APRM standard and Codes identified four key objectives which captures the performance of policies and programmes that address the effectiveness of economic governance in each of their member countries. These key objectives are (a) 'promotion of macroeconomic policies that support sustainable development' (b) Implementing transparent, predictable and credible government economic policies, (c) promoting sound public financial management (d) Fighting corruption and money laundering and (e) accelerating regional corporation and integration. The effectiveness of these policies can only be measured through the performance of the indicators of economic governance which was used in constructing the IDEG. The results of the constructed Index of drivers of economic governance in the sampled countries is presented in this section.

5.4.1 Stability of Macroeconomic Environment (SME)

Macroeconomic stability is regarded as a major driver of economic governance given its role in attracting investments that provide employment opportunities and improve standard of living while reducing the incidence of poverty in the country. The components of the driver of economic governance that measure the level of macroeconomic stability include low and stable inflation, high level of external reserves, low level of real effective interest rates and steady growth in Real Gross Domestic income per capita

Fig. 5: Analysis of Comparative Performance of Sampled Countries in (SME)

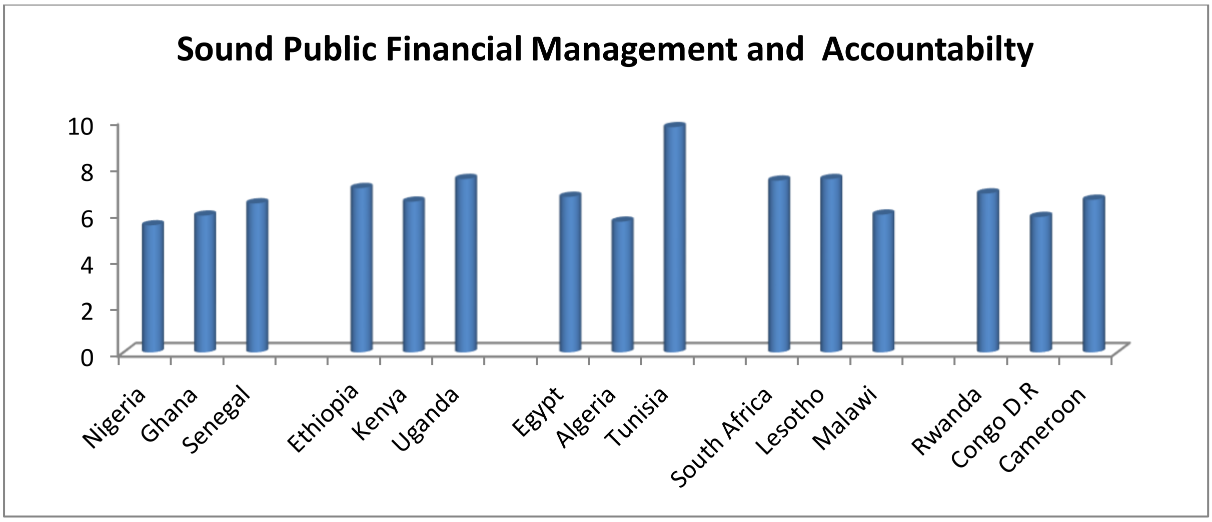


From our empirical results, we compared the performance of the sampled countries in the performance of the drivers of economic governance as defined by our model. For instance, overall, Malawi leads other countries in stability of macroeconomic environment (SME), while Cameroun, Lesotho and Senegal are considered classified as fair performers. On regional bases, averagely, East Africa comprising of Ethiopia, Kenya and Uganda led other regions in macroeconomic stability, while, on the average, central Africa is considered Fair performer in macroeconomic stability despite the moderate performance of Rwanda. The critical outcome indicators that were considered in measuring stability of macroeconomic environment include performance of inflation rate, external reserves, Real interest rates and Real GDP per capita.

5.4.2: Sound Public Financial Management and Accountability (SPFMA)

Another major driver of economic governance is effectiveness of implementation of these policies which can be evaluated through the budgetary system that reflect and guarantee sound public financial management.

Fig 6: Comparative Performance of Sampled Countries on (SPFMA)



Budgets are known to translate policies into programs and effective implementation of budgets through. Transparency, accountability and value for money in public expenditure strengthen economic governance in the sampled countries.

In Fig 7, we present the comparative performance of sampled counties in sound public financial management and accountability measured by the indicators of the quality of government expenditure, Debt to GDP ratio and overall Budget Balance. Surprisingly, Tunisia led the rest of the countries in this index, while fair performers include, Congo D. R, Malawi, and Algeria. On regional basis, the best performing region on the average is East Africa represented by Ethiopia, Kenya, and Uganda and closely followed by Southern Africa represented by South Africa, Lesotho and Malawi.

5.4.3: Integrity of Monetary and Financial System (IMFS)

The level of integrity of the Monetary and financial system is considered a major driver of economic governance because the level of confidence that the monetary and financial system commands in a country has the potential to promote investment, trade and growth. The ability of the monetary system to support credit disbursement and effective business transactions encourage the inflow of both direct and portfolio investments in the economy. The important indicators for this driver of economic governance include, foreign direct investment, Trade as % of GDP and Budget Balance (BOB).

Fig 7: Integrity of Monetary and Financial System

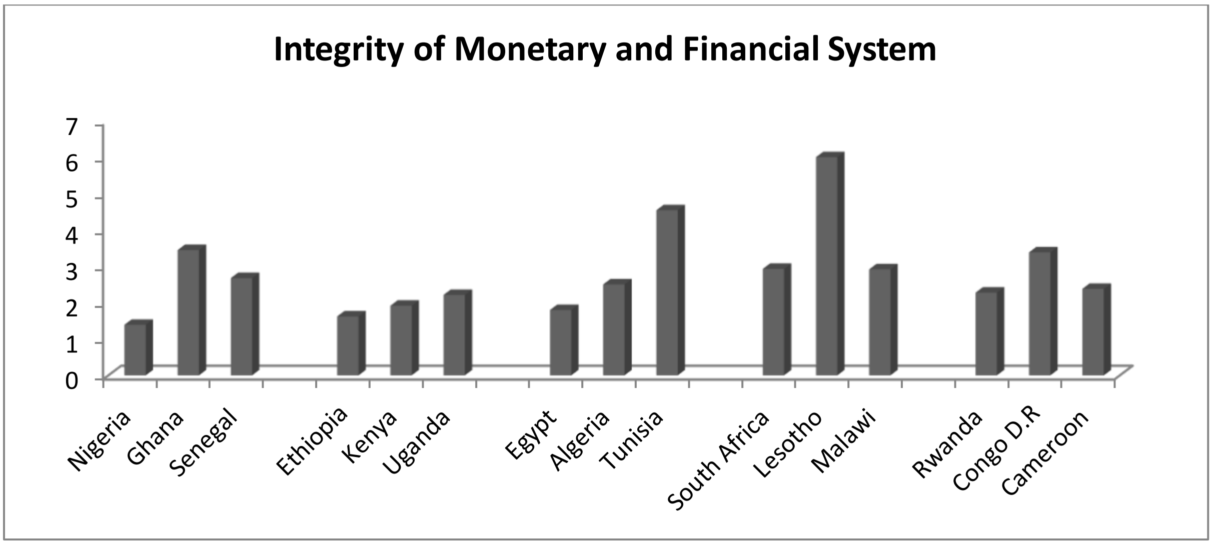
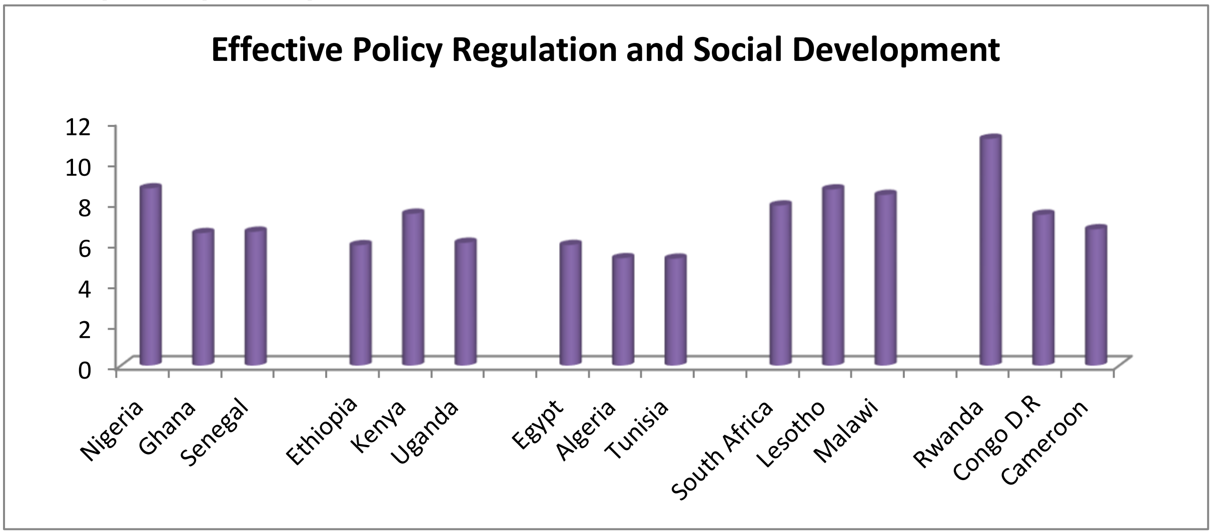


Fig 8 presents the results of the index for integrity of monetary and financial system. In sampled countries, Lesotho is leading Tunisia, Ghana and Congo D.R as countries that performed well in the integrity of monetary and financial system. The poor performing countries in this index are Nigeria, Ethiopia and Egypt. Regionally, and on average basis, Southern Africa represented by South Africa, Lesotho and Malawi are leading best performing regions, followed by North Africa and Central Africa. As earlier noted, integrity of the monetary and financial system drives economic governance because It provides the lever upon which the monetary and financial system supports investment and economic growth as a result of improved economic governance.

5.4.4. Effective Policy Regulation and Social Development (EPRSD)

Policy regulation is critical to ensuring that better outcomes for economic governance is not only achieved but sustained. It is the quality of the regulatory institutions that inform the delivery of the benefits of economic governance. Policy implementations must reflect on how these social development outcomes perform.

Fig 8: Comparative Performance of Effective Policy Regulation and Social Development (EPRSD)



Source: Authors calculations from the normalized and ranked IDEG Components

Often, effectiveness of regulatory framework and institutional strengths is measured by the level of social development in an economy. For instance, achievement of macroeconomic stability will not mean much if it is not translating into economic growth that targets to reduce poverty, infant mortality rate and improve adult literacy rates in the economy. The result of the effective policy regulatory reform and social development indicate that Rwanda, and Nigeria are the leading countries closely followed by Lesotho, South Africa and Malawi. The Medium performers in this driver of economic governance are Kenya Cong D R. and Kenya. The worst performers include the whole of North African Countries of Egypt, Algeria and Tunisia while on regional basis; the best performing region is Southern Africa and closely followed by the Central Africa.

In summary, over all, the results provide insight into how African countries performed in the identified and measured drivers of economic governance in the context of the main drivers of economic governance that include good economic policies, effective institutions with the requisite capacity to formulate, implement economic policies; regulatory capacity to enforce compliance to rules and regulations and the ability to monitor progress which are all necessary in order to enhance the capacity to deliver on its economic objectives as enshrined in the APRM economic governance principles and codes. The Results showed the areas of strength and weakness of sampled countries in each of the indicators that was used in the assessment of the effectiveness of specific countries performance upon which an informed analysis and conclusion can be drawn for policy reform purposes.

5.5 Results of Cross- Country Panel Regression

In Table 8 below, we present the results of the Cross-Country Panel regression results and analysis. Real Gross Domestic Product per capita (RGDPC) was the dependent variable and the constructed Index of economic governance (IDEG) and four drivers of economic governance indices as explanatory variables. Three variants of the Cross-Country Regression models were estimated; namely, Fixed effect, random effect and pooled Regression effect. Each of them had implications for the interpretation of the results obtained. The Fixed Effect results were found to be statistically significant, while the random effect and pooled regression results were not statistically significant suggesting heterogeneity in the impact of the constructed Index of economic governance (IDEG) on economic growth (RGDPC) has differential impact on the sampled countries. This is further corroborated by the high level of significance of the coefficient of Hauseman test (19. 552) at 1 % level. . Both Random effect and Pooled regression effect (which suggests homogeneity of the impact) were found not to be statistically significant. The random effect model also good-fit as reflected in adjusted R^2 (0.86) in Fixed Effect model.

Table 8: Results of the Cross- Country Panel Regression of Economic Governance Index (IDEG)

	Dependent Variable		
	RGDPC		
	✓ Fixed Effect	Random Effect	Pooled Regression
Constant	93.8621	4.0553	-279.63
IDEG	0.0059**	0.5942	0.7271
	(1.325)	(0.0107)	(0.0391)
SME	0.0001*	0.0523**	0.0046**
	(1.369)	(-0.0301)	(0.4394)
SPFMA	0.0295	0.7210	0.0356
	(0.2410)	(0.0230)	(0.0181)
IMFS	0.0124***	0.1561	0.2301
	(0.4325)	(0.0321)	(0.0192)
EPRFSD	0.0031**	0.2709	0.5451
	(0.4901)	(0.0052)	(0.0402)
Country Dummies	yes	yes	yes
Hauseman Test	0.0006*	-	-
	(19.552)	-	-
Wald Test	0.0067**		-
	(12.304)	-	-
		-	
Adjusted R^2	0.86	0.62	0.73

Note: *,**, *** indicates significant at 1%, 5% and 10% respectively**.**

Consequently, The coefficient of IDEG (1.3250) was statistically significant at 10% (0.0059) and positive which indicates that the constructed index of drivers of economic governance influences economic growth performance (measured by RGDPC) in Fixed Effect regression analysis across the sampled countries. The coefficient of stability of macroeconomic environment (0.0001) is significant and positive at 1% indicating that stable macroeconomic environment positively impacted economic growth in the sampled countries. However, the coefficient of sound public financial management (0.2410) was not statistically significant and therefore suggest that public financial management remains a challenge in economic governance matters in the sampled countries. This could be attributed to the poor budgetary systems, including low level of transparency in budget implementation in many African Countries. Likewise, the coefficient of Integrity of Monetary and Financial Systems is statistically insignificant at (0.4325) and therefore contributes very little to economic growth. This can be explained by the high level of underdevelopment of financial systems and consequent fiscal instability that most African countries faced, especially after the global financial crises (2007-2010). Lastly, the coefficient of effective policy regulation and social development was slightly significant (0.4901) at 5% indicating that regulatory institutions in sampled countries are being strengthened to play active roles in implementation of both the MDGs and SDGs that address human social and economic development issues in health, education and poverty reduction.

6.0 Discussion, Policy Implications, Conclusion and Policy Recommendations.

6.1 Discussion

The discussion of the results of the study was contextualized within the economic governance Principles and Codes of APRM (Mixed Methodology). The essence is to identify indicators of strength and weakness of the country in focus for possible policy recommendations that could help in improving their policy environment for sustained economic growth and development. In addition, the result of the analysis will provide guidance to Country Review Mission teams to focus attention in their assessment of the sampled countries and shaping recommendations in building areas of strength and reducing the impact of areas of weakness in economic management strategies. The APRM principles and codes for economic governance and management include (a) promoting macroeconomic policies that support sustainable development (b) implementing transparent, predictable and credible government economic policies, (c) promoting sound public financial management (d) Fighting Corruption and money laundering; and (e) accelerating regional corporation and integration. These APRM principles and codes were substantially mainstreamed in the construction of the Index of drivers of economic governance used for this study.

One of the critical outcomes- based indicators (driver) of economic governance is stable macroeconomic environment measured by the rate of inflation, external reserves, real effective interest rates, and real GDP growth per capita. The results indicated that 20 per cent of the sampled countries showed remarkable stable macroeconomic environment, namely, Malawi, Ethiopia and Tunisia (scored above 70 per cent). These countries also had relatively low and stable inflation, rising external reserves and an average of 4 per cent annual GDP growth rate. The medium and low performing countries (40%) respectively showed that inflation was rising, and growth performances were very low among others. Overall, macroeconomic environment were not quite stable which, perhaps was responsible for sluggish and poor growth rates which was an average of less than 3 per cent per annum. This suggest that countries that performed moderately or low in this outcome-based indicator should receive attention in policy recommendations on macroeconomic stability during CRMs

The performance of sound public financial management and accountability indicates that 67 per cent of the sampled countries performed well, while 33 per cent performed poorly. However, overall impact of this driver of economic governance was not significant from the empirical results. The critical policy implications of this result are that though there was improved government expenditure, Debt to GDP ratio was rising among countries in West Africa and East Africa (average of 35% of GDP). The implication of rising debt to GDP ratio indicates that increasing government expenditure goes to debt servicing rather than investment in infrastructure to support growth. The size of deficits is also rising given that the budget balance gap was high (over 20 per cent on the average) in North Africa and Central African countries. Therefore policies that enhance better public financial management should be given priority attention as the results suggests that budget discipline remains an issue in most African countries as budgetary process are still opaque and not very efficient and thus does not translate into sustained growth of the economy.

The performance of integrity of monetary and financial system indicates that 6.66% of the sampled countries performed excellently well ie Malawi (above 70%). Only 20% of the countries are medium performers (above 50%) and these include Ghana, Tunisia and Congo D. R. Majority of the countries performed fairly (73.3%). Most of the countries that performed poorly are evenly spread across the regions with North and East Africa accounting for more than half of the number. The critical indicators that are driving the performance include foreign direct investment (FDI) averaged (1.67 per cent) which recorded steady decline since after the Global financial crises of 2007-2010. Trade as a percentage of GDP was also an issue given that inter- African Trade is only about 15% of total African Trade. African countries are still short-changed in trade matters given the predominance of advanced economies in dictating the terms and conditions of global trade. Consequently, poor performance of most African countries in trade with the rest of the world translates into poor current account balance leading to sustained external imbalance of most of the sampled countries. The policy implication of this result is that independence of central bank should be pursued more vigorously to enhance monetary policy implementation that will strengthen the financial system and make the banking system more efficient to provide credit for investment and growth and reduce financial fragility in the economy.

Effective policy regulatory framework and its impact on social development is one other major outcome-based indicator of efficacy of economic governance in the sample countries. The results indicate that 46. 7 per cent of the countries sampled recorded high performance (70% and above) in this driver of economic governance, while 53.3 per cent recorded fairly good performance (achieved 50% and above). Though this impressive result could be attributed to the efforts over the years in attaining the MDGs and SDGs, there is still room for improvement in regulatory regimes and reforms to sustain achievement of human development index of health, education and poverty reduction. The policy implication of this results are that policy regulatory institutions needs to be better strengthened to support higher achievement of Sustainable Development Goals (SDGs) by most African countries.

6.2 Conclusion

This report highlights the need to identify the impact of drivers of economic governance on economic performance in Africa using a sample of African countries. The overarching essence of this study is to support the achievement of the APRM Objectives in strengthening economic governance and management among member countries through peer-reviewed assessments and recommendations during Country Review Missions.

The first stage of the study was to review the relevant literature covering theoretical and empirical literature on economic governance in Africa and analysed stylized facts about experiences of in the use of index in analysing African economies. The study then developed indicators with which it constructed Index of drivers of economic governance using the Principal Components Statistical analysis (PCA). The methodology of Cross Country Regression analysis was used to evaluate the relationship between the developed index and economic growth in the sampled countries. The results were then analysed following the findings of the study

The results generally indicate that the constructed Index of drivers of economic governance positively impacted economic growth of some of the sampled countries and therefore any reforms in strengthening drivers of economic governance in African could be useful in driving economic growth on a sustainable basis. To identify the unique contribution of each of the drivers of economic governance on economic growth, the study disaggregated the index to focus on stability of macroeconomic environment, Sound public financial management and accountability, Integrity of the monetary and financial system and effective regulatory framework to enhance social and human development in Africa. What emerged from the results indicate that while stability of macroeconomic environment and effective policy regulatory regime proved statistically significant, sound public financial management and integrity of monetary and financial system were not as robust in the results. The policy implications of these results was analysed and recommendations are provided in the next section.

6. 3 Policy Recommendations

6.3. 1. General Recommendations

The Index of Economic governance, according to the study impacts economic growth in the countries classified as ''GOOD''. However, attention should be paid in the general policy environment to sustain what has been achieved through maintenance of strong macroeconomic stability environment, fully aligning their budgets with national development plans, broaden public participation in public policy formulation and pursue anti- corruption policies and strategies more to conserve resources for economic growth and development. On the other hand, Countries classified as ''MEDIUM '' should focus on capacity development in policy development and implementation; focus on policies that will mitigate macroeconomic instability; pay more attention on policies to enhance sound public finance management and implement competitiveness policies to growth export trade and enhance diversification of the economy. Countries classified as ''FAIR'' performers in the study needs to embrace policy reforms that ; (a) strengthen transparency in policy Institutions and build their capacity to enhance the quality of economic governance policies in the country by promoting wide debate on economic policy formulation that address macroeconomic stability and sound public finance management. (b) Improve on data collection and information processing and sharing on the economy to guide investment decisions (c) Enforcement of the principles and codes of economic governance and Management in APRM will enhance the performance of economic governance drivers to improve the economies generally.

6.3.2. Specific Recommendations

6.3.2.1 Stability of the macroeconomic Environment

I. Strengthen anti- inflationary measures such as reduction in imports, increased food supply and security and diversification of the economy through industrialisation
II. Pursue banking system reforms to enhance credit creation and broaden access to credit in the economy
III. Real effective interest rates should be low to drive credit demand and sustain investment in the economy.

6.3.2.2 Sound Public Financial system management and Accountability

IV. Pursue transparency in the budgetary process through citizen participation to enhance value for money in government expenditure
V. Procured debt should be targeted at capital expenditure, especially infrastructure development with the capacity to return on investment to sustain debt servicing and repayment of capital.
VI. Pursue vigorous anti-corruption programmes through the use of ICT and enlightenment programmes to plug leakages in domestic resource mobilisation for social and infrastructural investment

6.3.2.3 Integrity of Monetary and Financial System

IV. Purse central Bank independence to enhance transparent monetary policy implementation and ensure stable economic environment to attract foreign investment.
V. Strengthen financial institutions through financial inclusion policies to enhance access to credit, strict surveillance to mitigate financial fragility in the economy
VI. Enhance trade policies by adopting the African Free Trade Agreement to increase inter-African Trade and boost economic growth.

6.3.2.4 Effective Policy Regulatory Framework and Social Development

IV. Strengthen Policy regulatory institutions through constant oversight by the legislature
V. Align objectives of Policy regulatory institutions to achievement of Sustainable Development Goals (SDGs)
VI. Promote policy reforms that target poverty reduction through social intervention and income distribution programmes

Note: There was no empirical trend relationship between the performances of the informal economy with indicators of index of economic governance in our sampled country. However, an improvement of the economic governance policy environment may exert some positive impact on the performance of the rural informal economy since they cannot be separated from the rest of the agents within the economy. An Empirical determination of their impact is beyond the scope of this study.

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Appendixes

APPENDIX 1: UGANDA: APRM Country Assessment Report 2017 on Economic Governance and Management Performance

OBJECTIVES	FINDINGS	CHALLENGES	RECOMMENDATIONS
Design Economic Policies for Development	a. Good fiscal Prudence b. Introduction of IFMS c. Improvement in Budgetary Process d. Improved Tax collection and government revenue	(a)Infrastructure development needs more attention (b) Need to improve in Inter-African trade (c) Narrow Tax base	(a) Fully align National Budget to Development Plan (b) Maintain Strong macroeconomic stance and stability (c) Result oriented implementation of economic policies (d) Build capacity for routine monitoring and evaluation reporting
Facilitating Participation of Key stakeholders in policy and programme discussion and implementation	(a) Improved and wide consultation for policy formulation (b) High stakeholder involvement in Policy formulation (c) Planning and budgets obtain inputs from local government and other level s of government	(a) Economic zoning is creating regional inequalities (b)Low absorptive capacity of the economy © Inadequate budgetary provisions (d) Capacity constraints to implement economic policies	a) Broaden participation in public policy formulation b) Design appropriate policies to tackle regional inequalities c) Make budget more transparent and appropriate more resources to strengthen M& E processes
Promoting Sound Public Financial Management	(a) Embarked on Reform to consolidate Grants to local governments (b) Budgetary reform from output to performance based Budgeting	(a) Fiscal Challenges still exist (b) Poor synergy between MDAs (c)	(a) Implement the recommendations of the Auditor Generals Report on reforms of the public sector accounts (b) Implement the capacity building programme on training of public servants (c) Ensure efficiency in public expenditure through peer-to- peer lending (d) Implement the Public Finance Management Act of 2013.
Fighting Corruption and Money Laundering	a) Corruption remains endemic in Public and private institutions b) Uganda is 139/168 in Transparency international Corruption Perception Index c) Elite financial misappropriation	(a) Government should activate the national Audit Act of 2008 (b) In adequate operational capacity of the Local government Accounts committee (c) Implementation of the procurement act is weak	(a) More logistical and human capacity is needed in the office of the Director of Public prosecutions to fight corruption cases (b) Create more awareness in implementing the anti-money laundry Act of 2013 (c) Focus on developing policies that eliminate corruption including normalisation of wages (d) Deeper analysis of the procurement process is needed
Accelerating Regional Integration	(a) trade and investment codes is not aligned with domestic trade policies	(a) Growth contraction is due to lack of incentives for growth sectors	(a) Implement the National Export Development Strategy for trade to grow

	(b) Competitiveness in Uganda is still rudimentary and needs boost (c) Growth can do better what it is now	(b) Weak implementation of the competitiveness and investment climate strategy (c) Cost of credit is very high	(b) Focus on production of high value adding and support for infrastructure to grow export trade (c) Institutions should be well designed to harness resources optimally for exports (d) Develop and implement policies to attract foreign investments into Uganda on a sustainable basis

Appendix 2: Intersection of Economic Governance and Corporate Governance

Economic Governance Drivers	Relevant Policies to improve Performance	Link to firm performance that drive better Corporate Governance
Stability of Macroeconomic Environment	Effective monetary policies to ensure low and stable Inflation rates	Protects the value of profit of firms that support firm growth and higher dividends
	Low inflation policies will l enhance low Real interest Rates	Effective and low real interest rates encourage firms to borrow and build up their investment portfolios and diversify their capital mix
	Effective exchange management policies to build external reserves and maintain stable exchange rates	Stable exchange rates Robust external reserves encourage FDI and FPI inflows that build up investments in the private sector
	Effective Growth plans to drive Real Growth strategies to improve per capita income	Higher Real GDP per capita income will increase disposal income and saving rates to enhance capital accumulation private sector savings for investment in firms and stocks.
Sound Public Financial System management and Accountability	Government expenditure that emphasize priorities in in infrastructure and security	Enhance firm performance through lower unit costs and security of investments
	A functional Debt management strategy to reduce Debt servicing as (%) of GDP	High debt services ratio to GDP will discourage domestic and foreign investors or channel investments to quick yielding instruments at the expense of high value long term investments that negatively impact firm growth.

	Introduce functional Medium Term Expenditure frameworks and fiscal strategy to enhance Budget Balance	Promotes balance in budgeting for capital and recurrent heads both of which will reduce input costs and increase aggregate demand to sustain firm outputs and services
Integrity of Monetary and Fiscal Systems	Effective monitoring of financial institutions and fiscal policies to enhance financial stability to attract foreign investments	Financial stability guarantees well-functioning of the banks and other financial institutions to create credit and sustain lending to the private sector firms
	Pursuit of effective trade policies to emphasis exports of finished products rather than commodities to improve terms of trade with the rest of the world	Functional Trade policies that protects domestic firms while encouraging competition will enhance firm growth and lead to increase in production for exports and reliance on domestic raw materials that will reduce import costs
	Stock market development will enhance capital flows to improve current account balance	Positive Current Account Balance will encourage investment inflows into domestic firms and
Effective Policy Regulatory framework and Improvement in social development indicators	Regulatory framework for social policies in primary and secondary health cared to reduce infant mortality rate	To pave way for a health workforce available for employment in firms of the future to enhance productivity and growth
	Regulatory framework for educational policies to enhance improvement in Adult literacy Rate	Educational outcomes that enhance skills acquisition will benefit the firms and increase productivity and firm and income growth
	Effective Poverty reduction Strategies and regulations of appropriate institutions to reduce extreme poverty and improved socio-economic development	Provide incentives targeted at extreme poor to enhance reduction in poverty rate will enhance growth in income and increase in aggregate demand that will induce higher output of firms and growth in bottom line.

Appendix3 Monitoring and Evaluation (M& E) Framework for Assessing and Improving Economic Governance Assessment for Countries

	INDICATOR	DEFINITION-(HOW IS IT CALCULATED)	BASELINE- WHAT IS THE CURRENT LEVEL	TARGET- WHAT IS THE EXPECTED LEVEL	DATA SOURCE	FREQUENCY	RESPONSIBILITY	REPORTING
GOAL	**Percentage of indicators of Drivers Of economic Governance that a country successfully implements on annual basis**	No. of Indicators of economic Governance that was targeted and gets started and concluded with effective policy implementation compared with the previous year	40 %	60%	Central Bank Statistical base and National Statistical institutions	Annual	Policy makers in Government and Central Bank Officials, ministry of Finance officials	Central Bank Annual Reports and statement of Accounts
OUTCOMES	**Improved macroeconomic environment through low inflation, low interest rates and sustained high growth**	Sustained stability in macroeconomic variables and improved growth performance among peers	Average score of 10 % in ASI and above 100 in World Bank Ease of Doing Business Ranking	Average Score of 20% in ASI and not below 70 in Ease of doing Business Ranking	Mid year and annual economic reports of the central Banks. World Bank and IMF Reports Article 4 Consultation	Every 6 months	Ministers and Head of government economic institutions	Annual Reports of economic institutions and Planning Authorities
OUTPUTS	**No of macroeconomic stability variables that support the growth of the economy in a year**	Reduced rate of unemployment and poverty reduction rate recorded in a given period	0	500	Several Economic Reports on the economic performance in the country	End of the year	MDAs and their management	Annual Reports of MDAs
	The rate of growth of the economy in the country in a year	The total amount of foreign direct investments as percentage of GDP	0	30%	Economic Reports of Government	End of every year	Central Banks and statistical Agencies	Government Economic Reports

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