Transparency, Regulation and Economic Performance in Africa

ABSTRACT

The paper examines the effect of regulation on income inequality for 26 Sub-Sahara African countries over the 1970-2005 period. The study's results based on GMM estimations show that that transparency, investment, and regulation are positive and significantly correlated with economic growth, while general government final consumption expenditure and the financial depth variables (money and quasi money) are not significantly correlated with economic growth. The results of the study indicate that international programmes like the Extractive Industry Transparency Initiative and Publish What You Pay framework are helping to promote good governance, as the openness enhances accountability and therefore reduces the "resource curse" problem in many of the countries.

Keywords: Transparency, Regulation, resource curse, economic growth

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Introduction

The drive towards globalization and informatization in the last few years has brought a paradigm shift worldwide in political, economic, and cultural environment, leading to substantial changes in governance of governments and corporations (Kang, 2005). A key issue associated with this dynamism in international political economy and especially in light of the global financial crisis is the trend toward more transparency and regulation of the world economic system. Transparency is a catchall phrase that refers to the clarity and effectiveness of activities with impact on public policy (Drabek and Payne, 2007). In this paper, we define transparency as the unfettered access to timely and reliable information on decisions and performance of government or organizations (Sternfeld, 2010). Transparency in government means that citizens must be able to see through its workings, as to know exactly what happens when state officials transact public business

Transparency is considered very important because of its potential to positively impact on foreign direct investment and economic growth. This is because transparency helps to promote access to information about the current economic situation, as well as the rules of the game which is crucial to foreign investors. Parry (2008) has noted that transparency permits a clearer assessment of the past fiscal performance, current fiscal position, fiscal risks, and the future direction of fiscal policy. Though these issues have been taken seriously in developed countries, it is only recently that it is being on the agenda of developing countries, where transparency is known to play a key role in aid effectiveness, corruption, environmental degradation, enhance the well-functioning of financial markets, capital allocation, and in the efficiency of investment decisions (Durnev et al., 2008; Drabek and Payne, 2007). Many authors have described transparency in various ways. For example, Oxelheim (2010) describes transparency as the buzz word of modern economics and politics,

Drabek and Payne (2007) see it as a novel topic in finance and economics, Fiorini (2008) refers to it as the solution to corruption and money laundering, Lindstedt and Naurin (2009) discussed it as an important medicine against corruption, former IMF boss thinks of transparency as the golden rule of the new international financial system, Baldrich (2009) claims it is a prerequisite for an efficient public sector, Sperling (2011) as a means to political legitimacy and Brito and Perraut (2010) as a remedy for immediate crisis.

Because of the many benefits of transparency, Brito and Perraut (2010) describe transparency as an unalloyed good and a hallmark of democratic government. The authors claim that if transparency facilitated the access to information to everyone then it must benefit everyone. And consequently, it becomes a key ingredient that lubricates the wheels of growth. In other words, transparency is a foundation on which economic freedom and growth is based on. Transparency then becomes a tool to promote fairness but more importantly protect and ensure the public good (Ravi, 2010). In recent times, one of the most common policy prescriptions for overcoming the so called "resource curse," particularly, for extractive industries, has been the call to greater transparency and accountability from governments (Williams, 2011). This is consistent with the findings of Korhonen (2004) that greater levels of democracy of a country's political institution can alleviate the resource curse. It is not surprising therefore that Coyne (2009) describes transparency as an important characteristic of effective political institutions and Toader et al. (2010) argue that transparency is at the very foundation of good governance. This is because transparency in the end is about empowerment and trust between and among stakeholders (Global Environmental Management Initiative (GEMI) Report, 2004).

Attempts to reform the governance structures of national, supranational and multilateral organizations all over the world have made transparency an issue of highest concern. However, the road leading from improved transparency to increased economic

growth has not been mapped out in a coherent way in developing countries. Recent reports and studies suggest that it is an empirical matter and even more important that country characteristics matter (Williams, 2011; Morris & Shin, 2002; Oxelheim, 2008). Regional and country specific studies are therefore more likely to provide appropriate information about the challenges and impact of enhanced transparency. Accordingly, this study examines the case for Sub Saharan African (SSA) countries to explain how the quality and quantity of transparency and regulation have impacted on the growth of the economies concerned. Further, we examine the differential effects of transparency and regulation, if any, to examine the thesis that transparency might be more important than regulation) in enhancing government performance. One of the reasons for this argument is that while regulation simply tries to provide a tighter set of rules governing financial transactions, transparency requires that the shadow financial system itself be largely dismantled.

Finally, we consider the recent argument about the threshold effects of transparency (Oxelheim, 2008), the idea that there is an optimal level of transparency beyond which becomes irrelevant or even negative. The study will be based on a sample of 30 SSA countries over the period 1960-2010, using the GMM estimation techniques. The findings of the study would provide policy directions for countries in the region to help address weaknesses in fiscal management, strengthen the investment environment, and improve overall governance infrastructure, which are key requirements of economic growth which the continent desperately needs. The rest of the study is organized as follows. The section that follows provides a brief review of the literature after which the research methodology is described. The results are then presented and discussed and finally, the policy implications and conclusions are given.

Literature Review

There are many reasons given for positive effect of transparency on economic growth but in almost all the cases the fundamental assumption is based on the fact that transparency can be used to address the principal–agent problem (information asymmetry). Markets work most efficiently when all parties have good information about what they are buying and selling, which allows everyone to evaluate the trade accurately. Because each party values what she gets more than what she gives up, value is created for both, leading to a more efficient market (Brito and Perraut, 2010). Highly transparent then simply means highly informative. More information means less uncertainty associated with doing business or the conditions of governing (Sternfeld, 2010).

The openness associated with transparency serves as a check on political actors as citizens are able to readily observe their actions and respond accordingly (Coyne, 2009). The market participants therefore have the information they need to allocate resources efficiently (Ball, 2009). For businesses therefore, increased transparency reduces uncertainty, which in turn could lower the cost of capital, increase liquidity, improve value estimates and consequently enhance organizational performance (Durnev et al., 2008). Accordingly, from the micro-level, it is expected that transparent markets will be more accountable by providing more choice or access to product and services that better meets the needs of citizens. When external stakeholders are empowered to make informed choices, corporate behavior is influenced. Through transparency, consumers and communities get empowerment and, in return, the company builds trust enabling it to manage its affairs more effectively and efficiently (Global Environmental Management Initiative (GEMI) Report, 2004). Also, information asymmetry between inside managers and outside investors can generate significant external financing costs in the capital markets and, hence, limit firms' ability to finance their growth opportunities (An, Cook and Campono, 2011)).

At the macro-level, access to information of not only the structure but also of the functions, policy intentions and projects of government can help to improve the quality of policy decisions (Parry, 2009). This suggests that increasing transparency could help to reduce corruption and improve overall governance infrastructure. The benefits include the creditability of government due to enhanced understanding and support of citizenry and a conducive environment for business or economic activity. It is in light of this that Al-Jurf (2010) asserts that there can be no good governance without transparency and Palanithurai (2010) claims that transparency is the first step in combating corruption. As noted by Carl Gershman (NED President at the Conference on FDI, Transparency and Growth), there can be no accountability without transparency, the lack of which will result in abuse by government , leading to bad loans, bankruptcies, unemployment, stagnant growth and consequently social turmoil. Obviously, by defining the scope and responsibilities of the government in an open and clearly defined manner, transparency limits corruption and diversion of public funds and therefore facilitates development (Baldrich, 2008). Also, Alt and Lassen (2006) claim that transparency helps to reduce the incentive to accumulate debt and Alesina et al. (2008) stress that when voters cannot observe deficits, debs and taxation are usually larger than their efficient levels.

Empirically, Durnev and Guriev (2007) report that transparency enhances the growth rate by improving capital allocation. Similarly, Sternfeld (2010) in a study of Tunisia and Egypt show that transparency is particularly critical for the influx of FDI and growth of the two courtiers. According to the authors, transparency provides open access to information about the economy and the overall market structure, which are critical to foreign investors. Using a panel data set of Real Estate Investment Trusts (REITs), An, Cook, and Zumpano (2011) find corporate transparency to be positively associated with REIT growth. These results suggest that greater transparency facilitates firm growth by relaxing information-based

constraints on external financing. In light of this finding, the authors conclude that more transparent REITs are less likely to crash. Parry (2007) in a study of 12 Latin American countries report that improvement in fiscal transparency enhances the prospect for sound performance and a more favourable investment climate. Williams (2011) employed a GMM estimation technique for 105 countries over the period 1960-2004 and show that a strong negative relationship between transparency and point export revenues. The lack of transparency, according to Williams (2011), is associated with a subsequent decrease in economic growth. The assumption behind this relationship is the idea that disclosure of royalty payments and concession fees associated with natural resource extraction projects impede attempts of corrupt officials to misappropriate their nations' oil or mineral wealth, while at the same time strengthening domestic institutions (Firger, 2010). The EITI report (2010) shows that the initiative has helped to build trust and dialogue in many African countries, empower community members and civil society organizations, and in the process improved the business climate. Even more important, that it has helped governments to manage resources, and enhance growth and investment opportunities for development

It could be argued from the discussions so far that transparency helps to improve efficiency and fairness of markets, corporations, and national governments and above all fosters accountability and legitimacy (Oxelheim, 2008: Bosomtwi -Sam and Dobuzinski, 2003). Thus, government is more likely to implement policies that meet citizens' aspirations and welfare and not the interests of politicians or/and their agents (Ravi, 2010).

On the contrary, Oxelheim (2010) analyzes the gains in transparency from the implementation in International Reporting Standards (IFRS) in Europe in 2005 and reports no improvements in the impact of transparency on firms. Durnev et al. (2008) also claim that the benefits of greater transparency are limited to companies that operate in countries with developed capital markets, strong investor protection and securer property rights. Similarly,

using data from 51 countries over the period 1990-2005, Durnev and Guriev (2008) report that in countries with poor institutions, governments are more inclined to expropriate natural-resource rents. This makes firms operating in natural resource sectors (as in many SSA countries) especially vulnerable to expropriation and provides them with incentives to withhold or manipulate information about their performance.

Rational economic theory indicates that transparency would be lower in industries that are more vulnerable to expropriation, particularly in countries that have poor protection of property rights. Durnev and Fauver (2008) in an examination of firm governance choices in the midst of expropriation report that firms are less likely to be transparent. The study's results show that firms in industries that are subject to greater risks of expropriation disclose less information, practice worse governance, and manage earnings more. The results presented above are not surprising because as noted by Morris and Shin (2002), it is not always true that more public information will lead to improved welfare. Morris and Shin (2002) had shown that the provision of more precise public information can, in principle, be detrimental to welfare. Muto (2007) show that central bank transparency does not necessarily improve social welfare. It can potentially yield a welfare loss depending on expectations of the central bank and private agents and also the conjecture of the private economic agent. Gavazza and Lizzeri (2008) argue that imperfect transparency of transfers may lead to under provision of public goods. The authors show that the transparency of the political system does not unambiguously improve efficiency: transparency of spending is beneficial but transparency of revenues can be counterproductive because it endogenously leads to increased wasteful government spending.

Like any reforms, transparency has limits. Despite the enthusiasm currently surrounding transparency, any claim that transparency is a" simple and all-encompassing cure all" will prove to be a disappointment. This is because as rational economic agents, people always weigh the benefits and cost of an action. So that a mere enforcement of rules on increased transparency could lead to criminal activity being displaced to alternative lawbreaking methods (Yang, 2008). Blinder (2004) has also argued that the benefits of transparency do not arise from mere disclosure but also clarity and the substantive content of the information. Likewise, not all communication may always be effective in enhancing transparency, e.g. as it may reduce clarity and common understanding among market participants or because there are limits to how much information individuals can digest (e.g. Kahneman 2003). The balance of these effects (benefits and costs) depends on the details of the market or economy under scrutiny, as well as how and why the information is communicated (Ehrmann and Fratzscher, 2007). Thus, under certain conditions, transparency beyond certain levels could be detrimental to both private economic agents and overall social welfare (Bosomtwi-Sam and Dobuzinski, 2003). Standing (2010) has argued that sometimes too much information or openness encourages political correctness or pandering to popular sentiments and in certain cases creates a bureaucratic burden for authorities. Even more important, Standing (2010) asserts that too much disclosure will place considerable strain on government departments, and this may introduce an obsession with public reporting and form –filling that will come at the expense of efficiency and creativity. The result will be an increase and not a decrease in transaction cost.

The review above suggests that a one size fits all strategy might not be appropriate for all countries at all times. Indeed, recent research has focused on optimal transparency which seems to suggest the optimal transparency levels might

be different for different countries. In light of the issues discussed above, this study seeks to examine the effect of transparency on economic growth for 30 SSA over the period 1970-2009.

METHODOLOGY AND DATA

The thesis explores the impact of transparency and its threshold effects on economic growth of selected countries in SSA using dynamic panel estimation approach as follows:

$$\ln gdp = \beta_0 + \beta_1 \ln gdp_{it-1} + \beta_2 trp_{it} + \beta_3 \ln cv_{it} + v_i + u_{it} \quad (3)$$

Where trp is transparency, lngdp and lncv are the natural logarithms of real gdp per capital and set of control variables such gross fixed capital formation, foreign direct investment , financial deepening, trade, regulation, general government final consumption expenditure. The terms, v_i and u_{it} are the country specific effects and the idiosyncratic shocks respectively.

The study also seeks to explore the impact of inverted u-shape and interactions of transparency on economic growth as follows:

$$\ln gdp = \alpha_0 + \alpha_1 \ln gdp_{it-1} + \alpha_2 trp_{it} + \alpha_3 \left(trp_{it} * trp_{it} \right) + \alpha_3 \ln cv_{it} + v_i + u_{it} \quad (3.1)$$

and

$$\ln gdp = \lambda_0 + \lambda_1 \ln gdp_{it-1} + \lambda_2 trp_{it} + \lambda_3 \ln cv_{it} + \lambda_4 \left(trp_{it} * \ln cv_{it} \right) + v_i + u_{it} \quad (3.2)$$

We implement the Arellano and Bond (1995) difference GMM (AB) and Arellano and Bover (1995)/Blundell and Bond (1998) system (BB) GMM estimators since the dynamic

panel data analysis methodologies are robust to conventional estimation problems such as autocorrelation, endogeneity and fixed effects. The BB GMM estimator employs the diagnostic tests (1) Sargan/Hansen test of over-identification-evaluates the validity of the used instruments, (2) the serial correlation (autocorrelation) test (1st and 2nd orders)-determines if the first differenced residuals are serially correlated and (3) the F/Wald test determines the overall significance of the economic variables.

The study use draws annual data from the World Development Indicators (WDI) and Global Development Finance (GDF) for a panel of 26 SSA countries over the period 1970-2005. For the correction of any cyclical variations, the data have been collapsed to averages of a five-year period.

Data Analysis

We start our analysis by first considering the bounds creation recommendation on the lagged dependent variable by Bond (2002) using the OLS as the upper bound since it is an upper biased estimator and fixed effects as the lower bound since it lower biased estimator. In Table 1, transparency is significant in only models 1, 6 and 10 and regulation is also significant in only models 3, 4 and 5. In addition, the lagged dependent, gross fixed capital formation and foreign direct investment variables are all significant at various levels for all the models. Trade, general government final consumption expenditure and money and quasi money are not significant for the all the models. Even with the good regression diagnostics, all the models do not take into consideration the above model specification problems

Table 1: Ordinary Least Squares and Fixed Effects Regression Estimates

	Ordinary Least Squares(OLS)					*Fixed Effects(FE)*				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
L.lngdp	0.967*	0.966*	0.973*	0.971*	0.966*	0.787*	0.795*	0.814*	0.816*	0.797*
	(82.36)	(79.70)	(90.64)	(91.84)	(83.16)	(20.81)	(20.50)	(18.73)	(18.80)	(18.18)
lnggfce	0.0296	0.0300	0.0233	0.0243	0.0156	0.00593	0.00187	0.0204	0.0195	0.00771
	(1.00)	(1.00)	(0.80)	(0.84)	(0.53)	(0.16)	(0.05)	(0.54)	(0.52)	(0.20)
lngfcf	0.175*	0.175*	0.158*	0.156*	0.152*	0.170*	0.171*	0.164*	0.162*	0.157*
	(7.99)	(7.96)	(7.26)	(7.32)	(6.93)	(7.64)	(7.68)	(7.33)	(7.24)	(6.98)
lnm2	0.00414	0.00380	0.0100	0.0149	0.00333	-0.0013	-0.0023	-0.0047	-0.0030	-0.00492
	(0.27)	(0.24)	(0.72)	(1.07)	(0.23)	(-0.08)	(-0.15)	(-0.31)	(-0.20)	(-0.32)
lntd	-0.0119	-0.0109	-0.0108	-0.0136	-0.00253	-0.0312	-0.0327	-0.0399	-0.0387	-0.0229
	(-0.39)	(-0.35)	(-0.37)	(-0.48)	(-0.09)	(-0.79)	(-0.83)	(-1.01)	(-0.98)	(-0.57)
lnfdi	0.0217*	0.0215*	0.0136***	0.0155**	0.0145**	0.0248*	0.0270*	0.0220*	0.0235*	0.0210*
	(2.86)	(2.81)	(1.86)	(2.15)	(1.99)	(3.09)	(3.22)	(2.79)	(2.95)	(2.69)
tr	0.212***	0.0851			0.157	0.283**	0.941			0.278***
	(1.95)	(0.14)			(1.46)	(2.07)	(1.24)			(1.94)
s_tr		0.118					-0.628			
		(0.22)					(-0.88)			
reg			0.0218*	-0.057***	0.0203*			0.00738	-0.033	0.00684
			(3.38)	(-1.69)	(3.13)			(1.06)	(-0.97)	(0.99)
s_reg				0.00721**					0.0036	
				(2.37)					(1.22)	
cons	-0.420*	-0.39**	-0.426*	-0.216	-0.439*	0.809*	0.616***	0.779**	0.871*	0.723**
	(-3.97)	(-2.20)	(-4.25)	(-1.63)	(-4.38)	(2.92)	(1.75)	(2.52)	(2.74)	(2.35)
	Diagnostics									
R-sq	0.989	0.989	0.991	0.991	0.991	0.838	0.839	0.829	0.832	0.835
adj. R-sq	0.989	0.989	0.990	0.991	0.991	0.799	0.799	0.781	0.782	0.787
F	2016.4	1753.4	2098.7	1900.6	1852.1	95.47	83.49	76.44	67.37	69.05

//*** significant at 1, 5 and 10 percent respectively, t statistics in parentheses*

From the AB GMM estimator in table 2, transparency is significant (models 11 and 16). In all the models, gross fixed capital formation and foreign direct investment are significant at various levels. Again, trade, general government final consumption expenditure and money and quasi money are not significant for the all the models. We can conclude from model 6

that, the interaction between transparency and foreign direct investment is positive and significant.

Table 2: Arellano and Bond Difference GMM Regression Estimates

Variables	*(11)*	*(12)*	*(13)*	*(14)*	*(15)*	*(16)*	*(17)*	*(18)*
l.lngdp	0.789*	0.805*	0.799*	0.808*	0.796*	0.805*	0.779*	0.812*
	(10.94)	(11.26)	(11.25)	(12.72)	(10.36)	(11.91)	(10.37)	(12.30)
lnggfce	0.00533	0.000731	0.0376	0.0433	-0.0139	0.0221	0.00433	0.0390
	(0.12)	(0.02)	(0.59)	(0.80)	(-0.30)	(0.56)	(0.11)	(0.70)
lngfcf	0.146*	0.150*	0.142*	0.138**	0.167*	0.165*	0.144*	0.151**
	(5.43)	(7.75)	(2.83)	(2.75)	(3.62)	(7.35)	(5.43)	(2.79)
lnm2	-0.0103	-0.0121	-0.00552	-0.0033	-0.00476	-0.0122	-0.0102	-0.0022
	(-1.15)	(-1.42)	(-0.38)	(-0.22)	(-0.33)	(-1.32)	(-1.15)	(-0.13)
lntd	-0.0192	-0.0283	-0.0155	-0.0059	-0.0150	-0.0526	-0.0759	-0.131
	(-0.40)	(-0.80)	(-0.32)	(-0.12)	(-0.30)	(-1.29)	(-1.38)	(-1.29)
lnfdi	0.0252**	0.0284**	0.0235**	0.0264*	0.0206**	-0.0269	0.0254**	0.0254*
	(2.55)	(2.73)	(2.45)	(3.07)	(2.09)	(-1.05)	(2.57)	(3.00)
tr	0.386**	1.207			0.843	0.335***		
	(2.07)	(1.30)			(1.54)	(2.06)		
s_tr		-0.764						
		(-0.92)						
reg			-0.00091	-0.0429	0.0538			-0.0834
			(-0.07)	(-1.04)	(0.93)			(-1.06)
s_reg				0.00379				
				(0.98)				
tr_reg					-0.0990			
					(-0.99)			
tr_fdi						0.106**		
						(2.25)		
tr_trade							0.102**	
							(2.31)	
reg_trade								0.0207
								(1.09)
				Diagnostics				
AR(1)								
AR(2)								
Hansen	136	136	112	112	112	136	136	112
F Test								

//*** significant at 1, 5 and 10 percent respectively, t statistics in parentheses*

Table 3 presents the regression estimates of Arellano and Bover/Blundell and Bond (BB) System GMM. Transparency is significant in models 19 and 24. The domestic and foreigninvestment variables are significant, whilst trade, general government final

Table 3. Arellano and Bover/Blundell and Bond (BB) System GMM Regression Estimate

Variables	***(19)***	***(20)***	***(21)***	***(22)***	***(23)***	***(24)***	***(25)***	***(26)***
l.lngdp	0.958*	0.959*	0.974*	0.973*	0.965*	0.962*	0.955*	0.968*
	(50.48)	(47.25)	(66.99)	(73.53)	(67.27)	(47.14)	(52.63)	(71.81)
lnggfce	0.0547	0.0578	0.0263	0.0232	0.0208	0.0457	0.0585	0.0374
	(1.03)	(1.10)	(0.57)	(0.53)	(0.44)	(0.91)	(1.13)	(0.92)
lngfcf	0.169*	0.168*	0.160*	0.157*	0.151*	0.170*	0.168*	0.160*
	(5.21)	(5.21)	(5.70)	(5.65)	(4.96)	(5.35)	(5.28)	(5.91)
lnm2	-0.00178	0.000992	0.0110	0.0139	0.00388	-0.00089	-0.00064	0.0151
	(-0.09)	(0.05)	(0.45)	(0.57)	(0.19)	(-0.04)	(-0.03)	(0.64)
lntd	-0.00759	-0.00940	-0.0210	-0.0148	-0.0074	-0.00806	-0.0406	-0.235*
	(-0.18)	(-0.21)	(-0.60)	(-0.51)	(-0.21)	(-0.19)	(-1.13)	(-2.96)
lnfdi	0.0244**	0.0248**	0.0155	0.0151***	0.0155	-0.0168	0.0251**	0.0209**
	(2.21)	(2.16)	(1.57)	(1.73)	(1.67)	(-0.54)	(2.29)	(2.27)
tr	0.237***	0.251			-0.216	0.241***		
	(1.79)	(0.47)			(-0.53)	(1.78)		
s_tr		-0.0306						
		(-0.06)						
reg			0.0204**	-0.064***	-0.0148			-0.139**
			(2.61)	(-1.76)	(-0.36)			(-2.22)
s_reg				0.00769**				
				(2.34)				
tr_reg					0.0665			
					(0.89)			
tr_fdi						0.0747		
						(1.38)		
tr_trade							0.0645***	
							(1.93)	
reg_trade								0.0390**
								(2.68)
_cons	-0.424**	-0.442***	-0.401**	-0.202	-0.233	-0.435**	-0.297	0.460
	(-2.26)	(-1.80)	(-2.58)	(-0.96)	(-0.77)	(-2.25)	(-1.63)	(1.27)
Diagnotics								
AR(1)								
AR(2)	161	161	142	142	142	161	161	142
Hansen								
F Test								

*/**/*** significant at 1, 5 and 10 percent respectively, t statistics in parentheses*

consumption expenditure and money and quasi money are not significant for the all the models.

Policy Implications and Conclusions

The results of the study indicate that transparency, investment, and regulation are positive and significantly correlated with economic growth. The literature reviewed and findings of the study provide four main policy implications.

First, the positive and significant effect of transparency is good news for SSA countries, where it is known to have played a role in promoting growth by reducing the resource curse. A key strategy to enhance the benefits of transparency is to deepen the democratic dispensation in the region. When government finances are open to public scrutiny, and when laws and the procedures for making them are open to discussion, governments enjoy greater legitimacy and stability, which are critical for socioeconomic development. Korhonen (2004), for example, has shown that democracy, the foundation on which transparency is built does help in reducing or curing the resource curse. The way forward is not just more information but better information. This suggests that greater consideration should be given to what type of information, how, to whom and for what purpose. In this light, the current focus on transparency as a means of resolving the uncertainties of a liberalized international system is in the right direction (Best, 2003).

The international attention to Extractive Industry Transparency Initiative (EITI) and Publish What You Pay principles then are critical issues to focus on and promote as they can reduce rent seeking and corruption which is known to reduce the productivity and the performance potential of many African countries. This is consistent with the view that lack of transparency may be undermining responsible and equitable or accountable management of Africa's resources (Standing, 2010).

The EITI report (2010) on Africa shows that the EITI process has generated positive changes in the extractive sectors relating to trust building, governance, economic management, civil society management, and improved business environment of the 21 African countries currently signed on the EITI framework. This has been possible according to report, because EITI helps to address information asymmetry problems by creating a platform for dialogue for information sharing for governments, companies and civil society. In Liberia, for example, EITI is helping to provide a tool for building confidence and trust in communities affected by oil, gas and mining activities. The key advantage of the EITI is that the reporting process and the amount of revenues accruing to the governments are well documented and publicly disclosed. Knowing how much money is coming into government from different sources is an important first step in ensuring adequate oversight and accountability of how these resources are being utilized. In Cameroon, the report notes that the initiative has helped to improve government capacity to collect and manage taxes efficiently and in Nigeria, it has aided in reducing corruption in the oil sector. Since 2003, when Nigeria signed on the EITI initiative, it has helped to give information on how much oil is being produced per day and even important how much revenue is being generated and this has reduced corruption and mismanagement of the oil resources. These revelations led to the inclusion of a fundamental clause in the proposed Petroleum Industry Bill (PIB) on compliance of all industry operations with EITI in 2007.

Second, the positive effect of regulation on economic growth show that though regulation may have significant costs, the net effect in this case is positive. To consolidate the positive effects of regulation, African countries would need to enhance the overall institutional or governance infrastructure (Loayza et al., 2005). Dhaher (2011) has observed that weak institutional quality and lack of expertise have prevented many developing countries from experiencing positive effects of regulation. Even more important is the need to

build capacity and expertise in formulating regulation policy. This will help to reduce the tendency for these countries to copy and implement regulatory policies that are adopted wholly from the developed world which are not appropriate to the African context.

Third, the study's finding of positive effect of transparency and the cross product (regulation and transparency) imply that the design of the regulatory framework is also important in maximizing the benefits of regulation. Thus, the emphasis on transparency alone might not be optimal. There is the need therefore to have transparency plus programs. Firger (2010) asserts that transparency coupled with financial and political support can do some good in reducing the resource curse. In speaking of the benefits of transparency based transnational regulation, Firger (2010) claims that making financial and political support, such as export credit guarantees and political risk insurance, conditional upon compliance with new disclosure obligations could help to ensure that firms accurately report their revenue and expenditure streams. In this light, as suggested by Guasch and Hahn (1999), African countries need to deal with political constraints if they are to adopt appropriate regulatory regime. Tchanay (2008) has argued that effective regulation is based on clear and transparent governance environment. The more transparent the regulations, the more likely they are to reduce the potential for corruption and increase the perceived legitimacy of the system. Simple and clear cut language makes careful scrutiny possible and limits the likelihood that political interest groups will capture the benefits of regulation at the expense of public. A move toward greater transparency will occur as people begin to understand some of the hidden costs of regulation. Nwagbaraocha (2011) claims that internal pressures caused by investments flowing into Africa and the efforts of non-African countries to increase the transparency of their companies' operations abroad is a factor driving regulatory change in Africa.

Finally, reforms focusing on increasing transparency should be accompanied by measures for strengthening citizens' capacity to act upon available information if the SSA region is to benefit from increased transparency. There must be a shift from mere participation in the formulation and implementation of policy to real empowerment in the decision making process. Democracy is founded on the principle that the moral authority of government is derived from the consent of the governed, but that consent is not very meaningful unless it is informed (Brito and Perraut, 2008). The effectiveness of the EITI in reducing the resource curse arise not from merely advocating for transparency in government dealing but more critically the training activities that help build management capacity for civil society groups and government institutions involved in the extractive sector. As noted by Marcus (2001), transparency is not only about clarity of government regulatory policies but also the ability of the affected parties to participate in the formulation of new policies to the benefit of all.

Standing (2010) has noted, however, that transparency has limits and may not work well in all circumstances and this is what has to be studied to identify the optimal transparency at different times and in different conditions. Further research is needed to address these issues. In concluding, we will like to state that calling for transparency is an important but insufficient step to achieve overall welfare. Stakeholders must also devote their energies to evaluating and assessing the information that transparency provides or makes possible (Lane, 2002). Obviously, the best way to approach transparency is as a means to achieve accountability, which itself can be regarded as a distinct component of legitimacy. It is the belief of the authors that a good governance framework that emphasizes transparency of the activities of all stakeholders in the economy and particularly associated with government revenues and expenditures can help promote growth and lift many African people out of poverty through efficient resource exploitation.

Obviously, visibility helps to enhance credibility which is critical for business success and overall economic performance. In a BBC debate on benefits of mining in Africa, Clare Short (Former UK Secretary of State) indicated agree that transparency provides an opportunity for dialogue as to how much it costs of mining, how much is being produced, and what proportion of profits are paid in taxes. The Prime Minister of Zambia also indicated that mineral wealth can only be a blessing only when the rules of the game are clear and both the investors and government know and do what they are supposed to. In the end, we need to realize that politics matter. There can be little social progress without political progress. The way forward is toward a political regime that is people centered and not predatory. The World Bank notes that the EITI is not just about promoting more information but also as a step toward good governance, promoting growth and consequently reduce poverty. Mr. Paul Mitchell, President of the International Council on Mining and metals has observed that in creating prosperous communities the key initial factor is a strong commitment to economic and legal reform, of which transparency is a key component as it helps to improve accountability and effectiveness more generally. As he noted, transparency is an essential component of reform programs but the agenda is much broader than transparency alone. He notes that the single most important variable is host countries' commitment to economic and institutional reform, which suggests that transparency becomes just one of the many critical success factors for resource rich countries. What the research shows is that transparency by itself cannot be a panacea for Africa's growth problems but can reduce the dangers of corruption and rent seeking activities.

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