



# Investing in inclusive governance yields dividends in Africa

**By Pranish Desai, Monique Bennett, Nnaemeka Ohamadike and Christine Dube**

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## Executive Summary

Over the long term, there is a clear association between accountable and inclusive governance on the one hand and broad-based economic development on the other.<sup>1</sup>

We find empirical support for this assessment at the global, African, and regional levels within Africa across both shorter and more extended periods of time. The explanation is that a long-term governance environment which embraces accountability is also more politically stable, enabling consistent policymaking, which can sustain economic dynamism and meet citizens' needs. Concerningly, there are African countries, including Angola, which have recently sought to repress rather than encourage participation. This has been one contributing factor to the recent stagnation and reversals which Angola has experienced in critical measures of human development pertaining to education, health and economic outcomes. This intelligence report identifies the critical implications that this finding has for companies with committed financial interests in African countries:

- The importance of inclusive governance is that a more participatory, accountable and non-discriminatory society will also see corresponding improvements in broad-based economic development, which benefits businesses and citizens in tandem.
- The private sector has both an incentive and a responsibility to actively invest in mechanisms that encourage accountable governance in African countries where they operate.

- Investing in these mechanisms minimises the reputational risk companies open themselves up to by engaging in opportunistic behaviour which bolsters rather than blocks repressive behaviour by African governments.
- Through supporting inclusive governance initiatives emanating from African civil society and local communities, companies can demonstrate that they have a long-term commitment to fostering economic development in the world's fastest-growing continent.

## Call to Action

Companies operating in African countries have an important role in helping to foster inclusive and accountable democratic institutions. By helping governments and civic society promote inclusive governance initiatives, companies can contribute to a stable political and economic environment, thereby securing the long-term future of their investments and benefiting citizens.

1 Acemoglu, D., & Robinson, J. (2012). "Why Nations Fail: The Origins of Power, Prosperity and Poverty". New York City: Crown Books.; Acemoglu et al. (2014). "Institutions, Human Capital and Development". Annual Review of Economics. 6 (1); Acemoglu, D., & Robinson, J. (2019). "The Narrow Corridor: States, Societies and the Fate of Liberty". New York City: Penguin Press.

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## Recommendations

Inclusive governance plays a critical role in promoting positive development outcomes, both globally and in Africa.<sup>2</sup> As such, it is imperative for companies to take an active role in fostering an institutional ecosystem within their host countries and communities that incentivises inclusive governance. By doing so, businesses can contribute to the success of their own operations while also supporting sustainable development in their host regions. With these goals in mind, we offer the following recommendations:

- Companies operating in Africa should proactively build strong, mutually beneficial relationships with civil society, local communities and governments within the countries where they operate.
- As part of their broader commitment to Environmental, Social and Governance (ESG) performance, companies should commit to a transparent operating and procurement process when pursuing contracts with – or attaining licences from – governments, thereby creating an environment where government accountability is financially incentivised.<sup>3</sup>
- Extending their ESG horizons beyond traditional corporate social responsibility (CSR) and compliance initiatives, companies can invest in governance capacity building and strengthening democratic accountability mechanisms.<sup>4</sup>
- By supporting and advocating for the drafting of, and subsequently conforming to, robust anti-corruption policies, companies can insulate themselves from the long-term reputational damage which bribe-paying produces. This will also reduce the incentive for host governments to indulge in unproductive rent-seeking behaviour.

- The private sector should also engage in helping to build the capacity of civil society to hold African governments to account. Adopting this approach can help ensure a politically stable operating environment as governments will be deterred from engaging in short-term domestic repression which in turn sows the seeds of future unrest.
- Companies should encourage citizens and communities to participate in governance through funding training workshops and holding advocacy engagements on the condition that such events encourage participation from all demographic groups present within a country.

## Impact

- TotalEnergies's investment, the largest foreign investment in Mozambique, has faced significant challenges in recent years due to attacks by insurgency fighters.<sup>5</sup> In response, TotalEnergies has employed private militia to secure its investments.
- The failure to invest in inclusive governance initiatives and engage with local communities exposes private sector organisations to risks and instability, undermining their commitment to responsible corporate citizenship.
- TotalEnergies's situation in Mozambique serves as a poignant reminder of the imperative for inclusive governance mechanisms to address socioeconomic challenges, benefiting both businesses and citizens alike.

<sup>2</sup> Alence, R. (2023). "Why African democracies govern better." Africa in Fact Issue 65. Available: <https://gga.org/why-african-democracies-govern-better/>

<sup>3</sup> In instances where the company is committed to transparency, but the host government is not, the company should actively encourage the government to also commit. For instance, production sharing agreements and royalty arrangements from extractive industry projects should be made publicly available. As long as these are hidden from public view, the company incurs considerable reputational risk.

<sup>4</sup> If companies invest in this capacity building, the provision of basic services would improve, and government effectiveness would grow, provided that service delivery remains free from political interference.

<sup>5</sup> See: "Humanising Security in Cabo Delgado", <https://digitalmallblobstorage.blob.core.windows.net/wp-content/2021/10/Cabo-Delgado-April-campaign-report-final.pdf>; Offshore Technology. (2021). "Risky Business: Investment and Insurgency in Mozambique." Available: <https://www.offshore-technology.com/features/risky-business-investment-and-insurgency-in-mozambique/>

# Analysis

## Introduction

At its core, “inclusive governance” is based on the idea that fostering greater and wider participation within the governance process can enhance broad-based economic development.<sup>6 7</sup> Especially over the longer term, there is growing evidence to justify the supposition that democratically accountable societies are also more likely to experience more substantial development outcomes over a range of indicators.<sup>8</sup>

The importance of inclusive governance applies within societies themselves, particularly when greater participation is encouraged regardless of religious, ethnic, gender, regional, age and economic status differences.<sup>9</sup> Enhancing capacity and inclusivity in local governance also has a demonstrable positive effect on localised patterns of political stability and economic development.<sup>10</sup>

To realise these benefits in a continent with substantial developmental potential such as Africa, ensuring that our governance institutions encourage participation and inclusivity is of paramount importance. A prudent, long-term approach from the private sector can play a critical role in driving this process. The private sector typically sees a limited role for itself in these kinds of endeavours, but this intelligence report indicates that it is in a firm’s best long-run interests to invest in mechanisms that support inclusive governance because they produce stable operating environments. In other words, by investing in participative, transparent, and accountable governance, firms are simultaneously reducing above-ground risk and improving their triple bottom line.

## The global outlook

Through analysing the relationship between proxy indicators of inclusive governance and broad-based development, we can see a clear correlation between the two variables. Figure 1 portrays how this relationship operates at the global level, with citizens’ Voice & Accountability (VA)<sup>11</sup> scores representing inclusive governance, while Human Development Index (HDI)<sup>12</sup> scores denote broad-based development.

The two variables derive from unique input data enabling such a comparison. VA scores are taken from the Worldwide Governance Indicators (WGI), which aggregates survey data to determine the extent to which citizens perceive that they can participate in selecting their government. It also captures the extent to which they believe their country enables access to freedom of expression, freedom of association and free media.<sup>13</sup> These are critical mechanisms by which governments can be held to account by citizens in between elections in democratic contexts, and indeed they sustain the processes by which democracies themselves are consolidated.

The HDI is adapted from the United Nations Development Programme (UNDP) and it provides a more holistic view of economic development than traditional income per capita measures.<sup>14</sup> In addition to income, the HDI also reflects national outcomes in health and education. Both variables are updated annually and the most recent data we have access to is for 2021.

6 The Organisation for Economic Co-operation and Development. (2020). “What does ‘inclusive governance’ mean?”. Available: [https://www.oecd-ilibrary.org/development/what-does-inclusive-governance-mean\\_960f5a97-en](https://www.oecd-ilibrary.org/development/what-does-inclusive-governance-mean_960f5a97-en)

7 Good Governance Africa. (2023). “Africa in Fact Issue 65: Inclusive Governance”. Available: <https://gga.org/africa-in-fact/>

8 Acemoglu et al. (2019). “Democracy Does Cause Growth”. *Journal of Political Economy*. 127 (1).

9 Russell, S. (2023). “Editorial – Good governance is inclusive”. *Good Governance Africa. Africa in Fact Issue 65*. Available: <https://gga.org/editorial-good-governance-is-inclusive/>

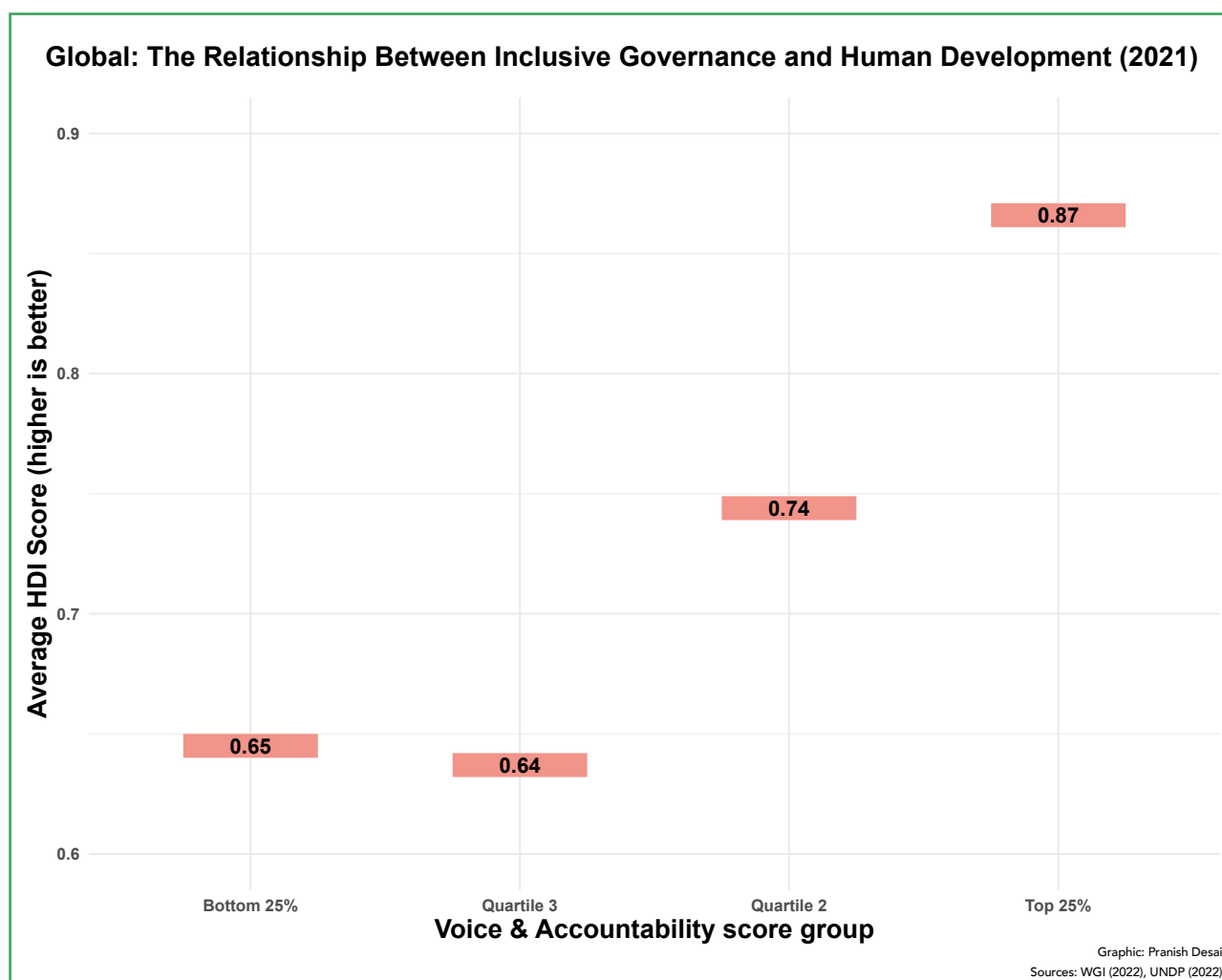
10 Desai, P., Bennett, M., & Dube, C. (2022). “The role of local governance in achieving political stability”. *Good Governance Africa. Intelligence Reports*. Available: <https://gga.org/the-role-of-local-governance-in-achieving-political-stability/>

11 Worldwide Governance Indicators. (2022). “2021 Voice and Accountability scores”. World Bank. Available: <https://info.worldbank.org/governance/wgi/>

12 United Nations Development Programme. (2022). “2021 Human Development Index scores”. Available: <https://hdr.undp.org/data-center/human-development-index#/indicies/HDI>

13 WGI. (2022).

14 UNDP. (2022).



**Figure 1:** Global: The Relationship Between Inclusive Governance and Human Development (2021)

By grouping 188 countries into four groups<sup>15</sup> according to their most recent VA scores, we can see how moving from lower-performing groups to better-performing groups corresponds with enhanced average HDI scores. For instance, the top 25% of countries according to VA also score, on average, nearly 18% better on the HDI than the next highest group. The distinction is even more stark when we compare the top-performing VA group and the bottom half of countries. Overall, the top-performing group of countries scores 35% better on the HDI than the bottom half of countries.<sup>16</sup>

### An African perspective

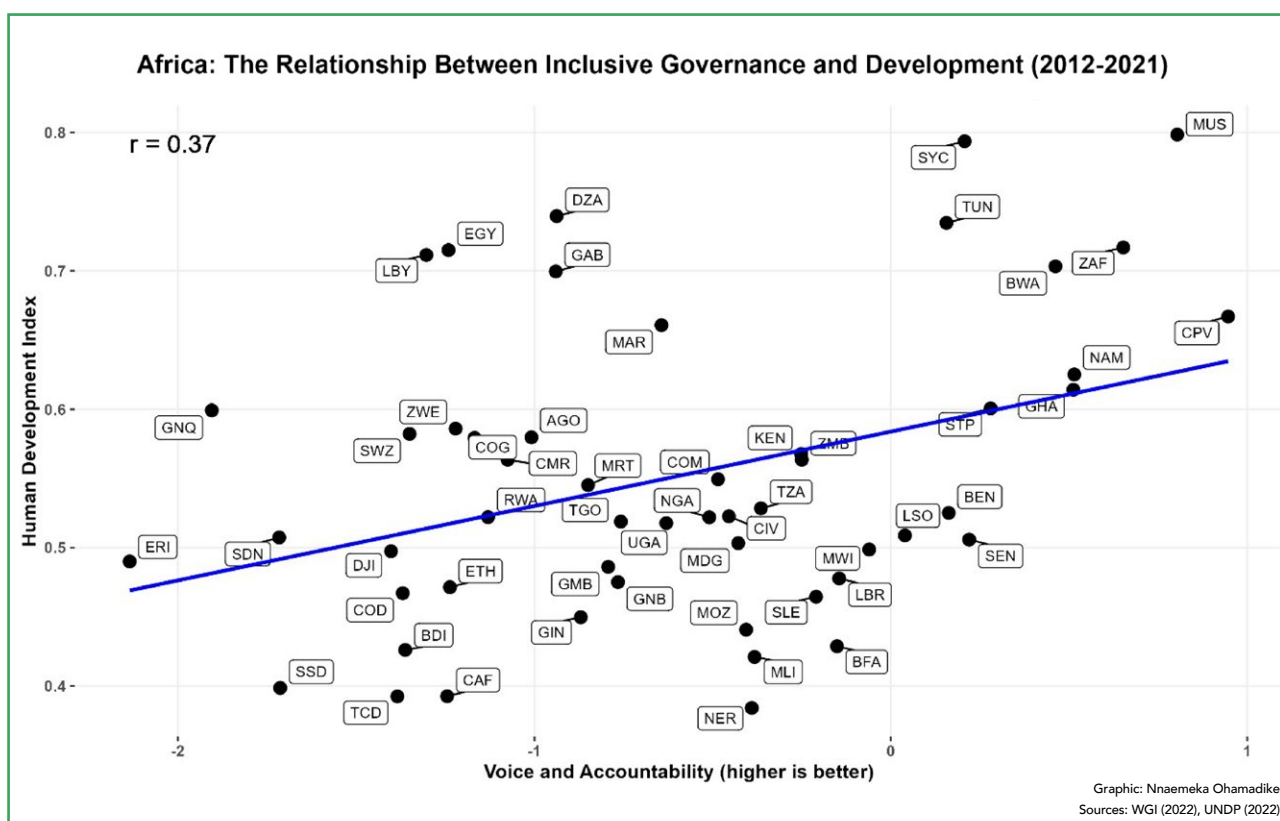
To better understand this relationship, we analysed the past decade (2012-2021) HDI and VA scores of 53 African countries. After averaging the annual scores on a country-level basis, we performed bivariate analysis to determine any correlation between the two variables. Our findings, presented in Figure 2, reveal a positive correlation between VA and HDI indicating that countries with higher levels of VA tend to have better HDI outcomes, and vice versa, over the ten-year period we examined.

To further enhance our understanding of this relationship within Africa, we examined data at the regional level.

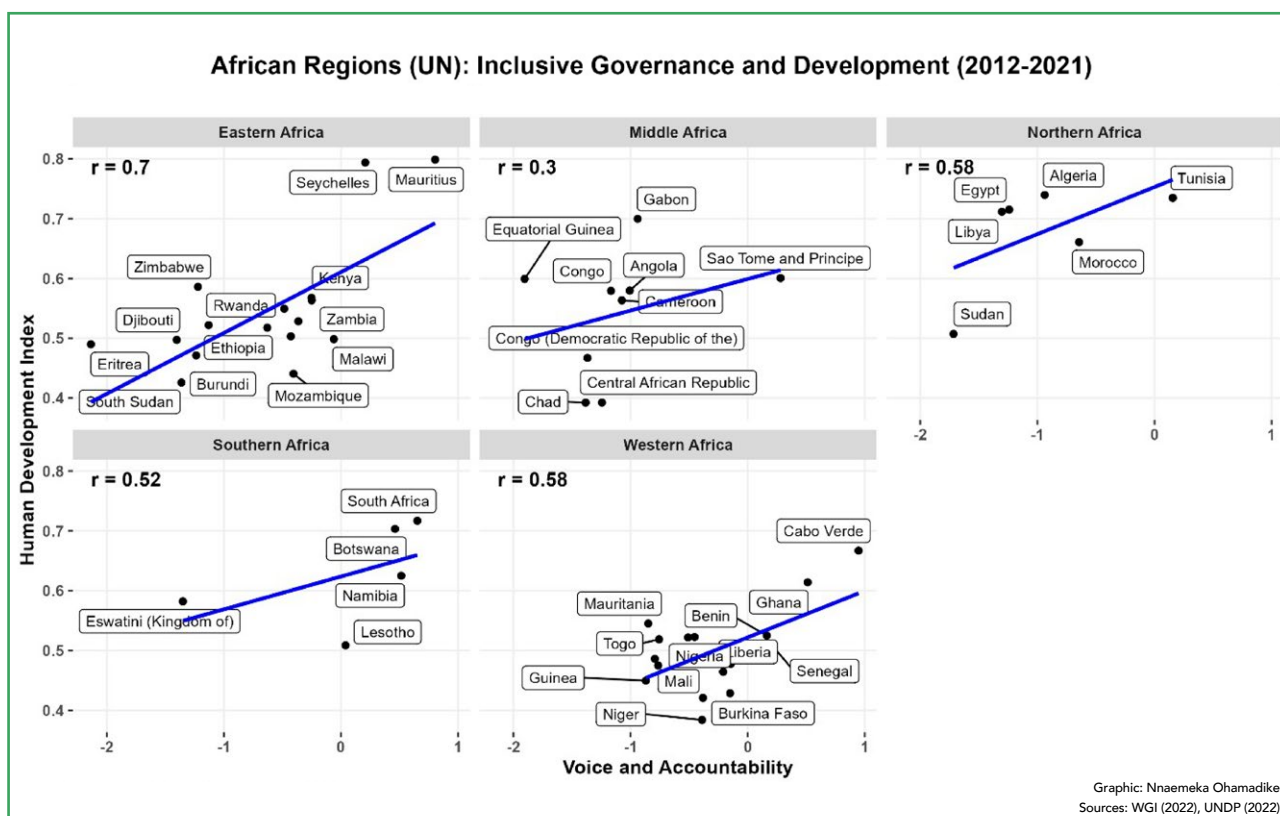
<sup>15</sup> This results in four groups of 47 countries each.

<sup>16</sup> We note that the third quartile of countries ranked by VA score slightly worse on average than the bottom quartile of countries. While the difference is too small to be regarded as meaningful, it is worth considering why the two lowest quartiles score so closely to one another on the HDI. One explanation for this is that because of the rises in political contestation and more competition over resource allocation, government effectiveness fluctuates as states transition from outright autocracy toward nascent democracy. However, the broader overview demonstrates the long-term benefits of accountability for development.





**Figure 2: Africa: The Relationship Between Inclusive Governance and Development (2012-2021)**



**Figure 3: African Regions (UN): Inclusive Governance and Development (2012-2021)**



Photo: Osvaldo Silva / AFP

Figure 3 shows that the positive correlation between VA and HDI holds true for all regions of Africa as defined by the UN, albeit to varying degrees. Specifically, Eastern Africa exhibits the strongest positive correlation, whereas Middle Africa shows the least strong positive correlation. The weak relationship in Middle Africa is primarily a function of the outlier status of the oil-rich Equatorial Guinea. Due to its substantial reliance on oil rents, Equatorial Guinea maintains a higher HDI score than we might expect based on its VA score.<sup>17</sup>

Overall, the positive correlation between VA and HDI in Africa at both the regional and continental levels is representative of a global trend.<sup>18</sup> It underscores the vital role of VA in promoting human development and highlights the need to prioritise efforts towards enhancing institutions that promote participation and inclusivity across the continent.

### Case study: Silencing dissent causes humanitarian crisis in Angola

The importance of inclusive governance in broad-based development is exemplified in the case of Angola. Angola has experienced significant political and economic development since the end of its long-standing civil war in 2002.<sup>19</sup> Following years of conflict, the government launched several initiatives aimed at promoting inclusive governance, increasing VA, and fostering broad-based development. These efforts yielded mixed (and some clearly positive) results in the first decade following the civil war, with both VA and HDI steadily rising.

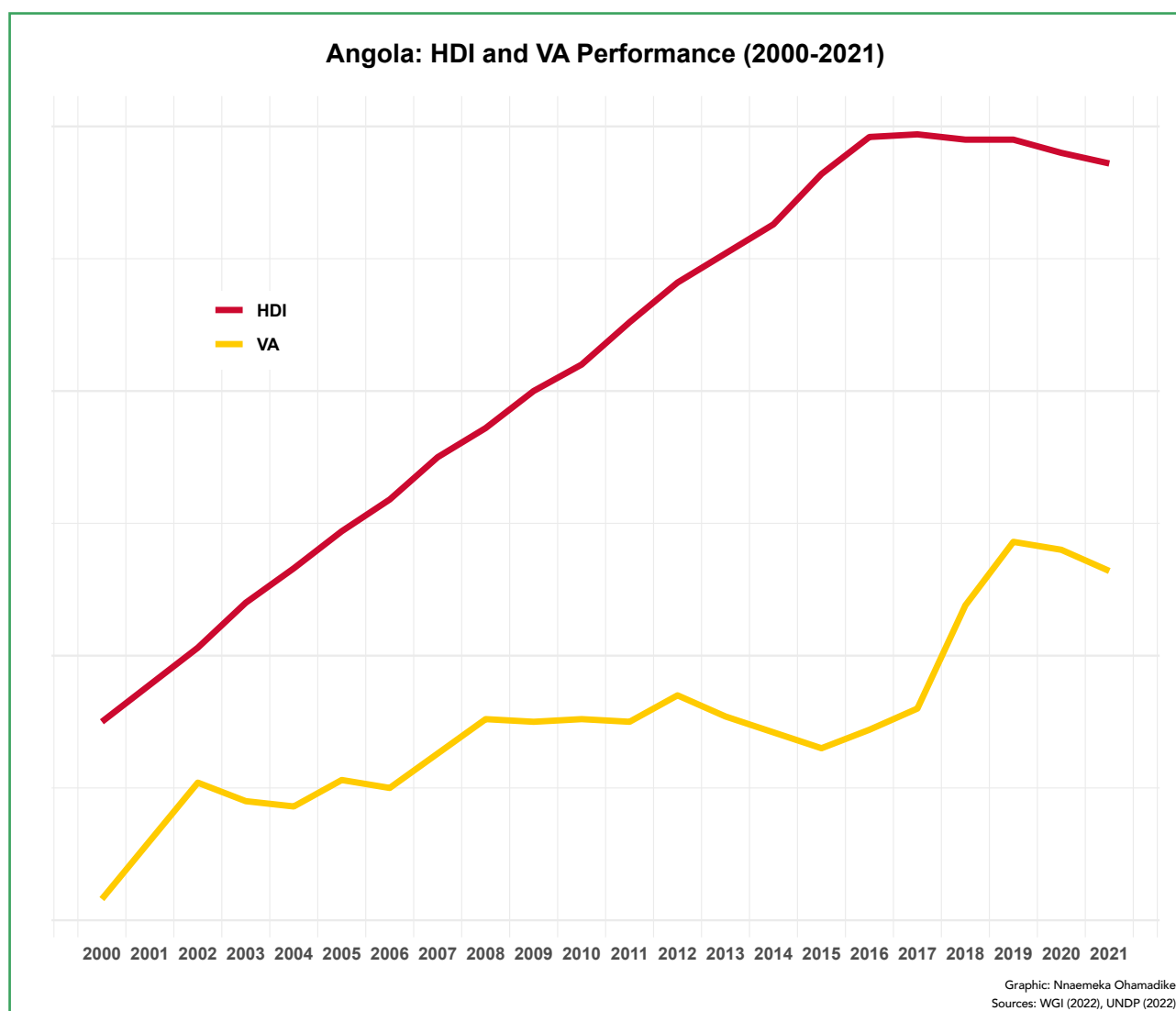
However, as Figure 4<sup>20</sup> depicts, there has been greater volatility in VA scores in Angola over the last decade. Angola's HDI scores began to stagnate in 2016 due to, inter alia, vacillating commitment to accountable government,

<sup>17</sup> Equatorial Guinea has the lowest VA score for Middle Africa, yet ties with Sao Tome and Principe as having the second highest HDI in the region. One reason for this is that entrenched autocrats have a limited incentive to provide some level of public goods to reduce the risk of unrest which threatens the viability of their rule. Furthermore, Equatorial Guinea has a population of less than 2 million people, a factor which allows it to maintain relatively high average income levels and HDI scores (in the African context) despite the pervasive inequality and poverty levels within the country.

<sup>18</sup> We clarify that we are not aiming to demonstrate causation in this report as the academic literature on this topic provides resolution on that (see footnotes 1 and 8). However, we are suggesting that inclusive governance and broad-based economic development have a mutually reinforcing relationship which strengthens over time.

<sup>19</sup> Soares de Oliveira, R. (2015). "Magnificent and Beggar Land: Angola Since the Civil War". Oxford: Oxford University Press.

<sup>20</sup> The two slopes depict the year on year change in values for the two key indicators for the twenty year period.



**Figure 4: Angola: HDI and VA Performance (2000-2021)**

and lower oil prices in late 2014, which reduced its ability to distribute rents and invest in public goods. More concerning is the fact that there has also been a slight reversal in human development in Angola since 2018, especially during the Covid-19 pandemic.

Although the 2022 election results reveal a significant decline in the ruling party's dominance<sup>21</sup>, indicating potential improvements in VA despite recent downturns, concerning trends such as public sector corruption and abuses by security forces in the lead-up to the election threaten political stability and socioeconomic development

in the country. Notable examples include the January 2021 police shooting of dozens of activists who were peacefully protesting the high cost of living in Cafunfo, Lunda Norte province, as well as security forces chasing down protesters in surrounding neighbourhoods and forests, and the subsequent discovery of dumped bodies in the nearby Cuango River.<sup>22</sup>

After a peaceful protest was violently suppressed on 8 February 2021, the Criminal Investigation Service of the country also arrested José Mateus Zecamutchima, a member of the Lunda Tchokwe Protectorate Movement, an

<sup>21</sup> Harvey, R. (2022). "Angola post-election analysis: at a crossroads, or more of the same?" Good Governance Africa. Available: <https://gga.org/angola-post-election-analysis-at-a-crossroads-or-more-of-the-same/>

<sup>22</sup> Amnesty International. (2022a).



organisation that seeks autonomy and self-determination for the eastern region of Angola.<sup>23</sup> He was subjected to an unfair trial and imprisonment, accused of being associated with wrongdoers, engaging in armed rebellion, and leading the rebellion to overthrow the government and was frequently denied contact with his family and lawyer.<sup>24</sup> Similarly, police in Cabinda detained several protestors on 30 May 2021 after forcibly ending their procession and confiscating their belongings, which was part of a larger five-province protest against drought-induced hunger, unemployment, and high living costs.<sup>25</sup>

Although some positive changes have occurred regarding media freedom in Angola since 2017 through the inclusion of voices from civil society, criticism of the government itself remains scarce. The legal and regulatory environment for Angolan journalists is restrictive under national legislation despite the existence of constitutional guarantees for freedom of expression and the press. Angolan law protects individuals' "right to honour" and has significant criminal penalties for individuals found guilty of defamation. Government officials have used these laws to prosecute journalists when faced with criticism.<sup>26</sup>

An increase in repressive acts by the government leading up to the 2022 general election has resulted in a deteriorating humanitarian situation compounded by drought-induced hunger in the country's southern region, reports Amnesty International.<sup>27</sup> The crackdown on human rights, including unlawful killings, arbitrary arrests of young people demanding accountability and their socio-economic rights, violent repression of peaceful protests, and lack of access to justice for victims and their families, has contributed to the declining VA and HDI in the country in recent years. This highlights the need for a rapid return to more inclusive governance if Angola is to produce broad-based development and reverse its severe inequality.

## Conclusion

Whether we look at the relationship between inclusive governance and broad-based development at the global, African or regional level, it is apparent that the two are mutually reinforcing. Through supporting measures which encourage accountable behaviour from African governments, and fostering greater participation from civic society and citizens, companies which operate in Africa will be adopting a prudent, long-term approach. This can help ensure that their operating environments are politically and economically stable, transparent and sustainable, thereby reducing their long-term risk.

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<b>Date:</b>	1 June 2023
<b>QR code:</b>	 CM_ED_20200103_360

<sup>23</sup> Ibid

<sup>24</sup> Amnesty International. (2022b). Amnesty International Report 2021/22: The State of the World's Human Rights. Available: [https://amnesty.is/assets/202122-english-a\\_2022-03-21-z23.pdf](https://amnesty.is/assets/202122-english-a_2022-03-21-z23.pdf)

<sup>25</sup> Amnesty International. (2022a).

<sup>26</sup> Marques de Moraes, R. (2022). "Justice Capture in Angola". Maka Angola. Available: <https://www.makaangola.org/2022/12/justice-capture-in-angola/>

<sup>27</sup> Ibid



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