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Country's Image as Judged by International Indices: Case of Tanzania

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Abstract

This paper presented various international indices and how Tanzania is judged by them. The purpose was to reveal to different stakeholders and policy makers how this country is perceived by outsiders such as foreign donor countries, investors, tourist or international bodies. The methodology involved empirical review of literatures combined with regression analysis to capture the impact of the indices on economic aspects like Foreign Direct Investment (FDI). The findings indicated that Tanzania's performance in most of indices is low though improving. The related effects of this level of performance include persistence level of poverty, limited economic growth, reduced inflow of investments and diminishing trust of citizens to their government. The regression analysis indicated that the indices influence FDI both positively (political stability, government effectiveness, regulatory quality, rule of law and institutional quality) and negatively (control of corruption) in varying degrees. It was recommended that various stakeholders who are decision makers in relation to these indicators such as the government, parliaments, regulatory bodies, NGO's and individuals, take initiative accordingly, in order to reverse the situation where country's scores are low.

Introduction

There are various international indices which signify the global appearance of a country. These are such as human development index, Worldwide Governance Indices (Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption), and Quality of Institutions as judged via Economic Freedom in the World Index (EFW). All these indices may have positive or negative impact to the social, economic, and political future of a country depending on the score that a country attains which results to a country's perception by outsiders such as foreign investors, donor countries, tourist or international bodies. For example, in the view of Ginsburg, (2000), today, the relationship of law and economic development is again at the very forefront of development policy making, as government agencies, international organizations, and the non-profit sector advocate the need for strengthening the rule of law in developing countries.

According to Kaufmann at el (2007), the United States Millennium Challenge Account aid program prominently relies on five of the WGI in its procedures for determining country eligibility. This is in line with the view of Thomas, (2010), that these indices have been used by researchers as well as foreign aid donors such as the United States, who use the indices to allocate aid packages of hundreds of millions of dollars.

This similar trend of thought was presented by Agrast et al (2008) that the rule of law, for example, is a new tool developed to assess countries' adherence to the rule of law. The Index is designed to provide governments, business leaders, non-governmental organizations and civil society with objective information that enables them to measure a nation's strengths and weaknesses with respect to over 100 variables of the rule of law as it operates in practice. This information will be of practical use to many audiences, including investors and entrepreneurs seeking to make reliable risk assessments, human rights advocates who want to identify key gaps in the implementation of human rights protections, and policy makers who wish to undertake reforms to improve compliance with the rule of law.

Among the international bodies or blocks are such as World Bank, OECD and EU. According to Investment Climate Advisory Services World Bank Group (ICASWB) (2010) these have designed several sets and typologies of regulatory indicators. Their extent and purposes of utilization vary widely. The World Bank uses regulatory indicators for stimulating momentum for regulatory reform through the collation of comparative statistics and reports, the appraisal of proposed regulatory innovation projects in specific countries, and, together with other indicators, regulatory indicators contribute to major decisions on aid.

Details of Indices - Source, Meaning and Interpretation

The following discussion gives the details of every index to be used in this paper so that those who do not know them they understand the source, meaning, and the interpretation of the indicator.

1. **Human Development Index (HDI)**

According to Human Development Report (2009) Human Development Index is a summary composite index that measures a country's average achievements in three basic aspects of human development: health, knowledge, and a decent standard of living., an HDI of 0-0.499 indicate countries with low HDI; 0.500-0.799 Medium HDI; 0.800-0.899 High HDI and Greater or equal 0.900 Very high HDI; whereby high index reflects low level of poverty in a given country and the lower is the index the higher the poverty rate

2. **Worldwide Governance Indicators (WGI)**

According to Kaufmann et al (1999) the Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. The indicators especially that this discussion will focus on are; Voice and Accountability, Government Effectiveness, Regulatory Quality, Rule of

Law and Control of Corruption. The estimates of governance ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance.

3. Institutional Quality Index-Economic Freedom in the World Index (EFW)

According Economic Freedom of World Report (2012), the index published in Economic Freedom of the World measures the degree to which the policies and institutions of countries are supportive of economic freedom. Forty-two variables are used to construct a summary index and to measure the degree of economic freedom in five broad areas: Size of Government; Legal System and Property Rights; Sound Money; Freedom to Trade Internationally; and Regulation. But the major question here is what the meaning of economic freedom is. The EFW index is designed to measure the extent to which the institutions and policies of a nation are consistent with this protective function. Like all the ratings in the index, these are values out of 10; 10 is the highest possible rating and zero (0) is the lowest. A higher rating indicates a greater degree of economic freedom.

Review of Literatures on the Implications of International Indices

This part is a collection of various works in relation to the indicators described above showing how different authors have associated the performance in the indicators with various aspects of life both social, economic, and political.

According to Human Development Report (2009), most movers from low-HDI countries are living and working in other low- or medium-HDI countries, in part because barriers to admission are often lower and the costs of moving are less. At the same time, the conditions may well be more difficult than in rich countries and there are risks of both exploitation and expulsion.

On the relationship between movers and health, HDR (2009) indicated that moving to more developed countries can improve access to health facilities and professionals as well as to health-enhancing factors such as potable water, sanitation, refrigeration, better health information and, last but not least, higher incomes. Evidence suggests that migrant families have fewer and healthier children than they would have had if they had not moved. Recent research conducted in the United States using panel data, which tracks the same individuals over time, found that health outcomes improve markedly during the first year after immigration.

In the view of Goetz and Jenkins (2002), unable effectively to demand accountability is both a part of being poor and one of the reasons why poor people remain poor. This is attributed by the following critical deprivations that afflict the poor as traced back to a lack of genuine accountability. These include sustainable livelihoods, particularly land and fair wages, capability-enhancing services, particularly education and health-care, decent environmental quality, particularly clean air and unpolluted water, physical Security, particularly freedom from abuse (and neglect) by police.

According to O'Neill et al (2007), enhancing voice and accountability can have an impact on poverty in two ways. Firstly, increasing voice and accountability can directly reduce poverty because powerlessness is a constitutive aspect of poverty. Secondly, voice and accountability can indirectly contribute to poverty reduction through its contribution to other objectives, for instance by supporting a governance environment in which poor people are able to voice their interests and participate in public discussions, leading to more pro-poor policies.

In the view of Jupp et al (2008) broader development outcomes of Citizens Voice and Accountability (CVA) include meta-goals such as poverty reduction, human development and social justice, as well as more instrumental goals such as economic growth and democracy. CVA interventions may not lead directly to or be primarily responsible for these broader outcomes. However, changes in power, policy and practice may play a role in the pathways leading to broader development goals in the long term.

Cooray (2009) investigated the role of the government in economic growth by extending the neoclassical production function to incorporate two dimensions of the government - the size and the quality dimensions. The empirical results indicated that both the size and quality of the government are important for economic growth. It is argued that investing in the capacity for enhanced governance is a priority for the improved growth performance of the countries examined.

Yang (2010) pointed out that effective governments are more likely to make firm and efficient policies that are beneficial to human development both economically and politically. Looking on the relationship between Government Effectiveness and Income she found that countries with higher government effectiveness ranking have higher human development (high income countries), and it is also true over time. She got similar picture when looking on the relationship between Government Effectiveness and Human Development where the dataset also showed positive relationship between government effectiveness and human development. It was revealed that the more effective the government, the higher the level of human development. This is especially true in middle income countries, where in each year, higher governance effective rankings result in higher HDI.

Jalilian et al (2006), using an econometric model of the impact of regulation on growth, the results from both sets of modelling suggest a strong causal link between regulatory quality and economic growth and confirm that the standard of regulation matters for economic performance. Their findings are in line with those of Olson et al. (1998) who found that productivity growth is strongly correlated with the quality of governance, and Kauffman et al (2005) who found that the quality of governance has a positive effect on incomes.

Davis (1998) claims that the rule of law is dispensable in the pursuit of economic growth. In the view of Peerenboom rule of law is highly correlated with levels of wealth. This view is line with that of Trubek (1972) that because rational law played an important role in the early development of capitalism, modern-day policymakers concerned with sustaining the conditions of economic growth should promote the rule of law. However, such views are not accepted by all writers, for example Jayasuriya et al (1999), who adopted an approach which sought to challenge the conventional wisdom that there are necessary connections between markets, liberal politics and the rule of law by self-consciously attacking the liberal paradigm of the rule of law and its relationship with economic development.

In the view of Barro (1999) on the role of rule of law and its importance, state that for a country that starts with weak institutions little democracy and little rule of law an increase in democracy is less important than an expansion of the rule of law as a stimulus for economic growth and investment. In addition, democracy does not seem to have a strong direct role in fostering the rule of law. Thus, one cannot argue that democracy is critical for growth because democracy is a prerequisite for the rule of law.

According to UNDP (2008-2011), a society where the rule of law is absent will inevitably be prone to conflict and will lack the enabling environment that is a prerequisite for sustainable development and poverty eradication. Given this position, UNDP apply different efforts intended to promote, enhance, restore and sustain rule of law.

Smarzynska and Wei (2002) using a firm-level data set from transition economies to investigate the effects of corruption in terms of firms' decision not to enter a particular market, rather than in terms of reduced bilateral investment flows. Conditional on FDI taking place, their results show that FDI entry strategy in a corrupt host country is to enter into joint ventures with a domestic partner to save the transaction costs of dealing with local government officials rather than to establish a wholly owned subsidiary.

King (2003) using a cross country regression, data from 1992-2000 for transitional economies is used to try and find the effect that corruption has on the inflows of FDI. He found that corruption can affect FDI directly by tarnishing the perception of stability and quality of an investment potential. When investors believe that there is a high amount of corruption in the host country they are considering, they may see this as an impediment for doing business there. They will see it as an extra cost that they may have to incur and a problem when adequately forecasting financial returns. Corruptions also negatively impact other determinants of FDI, into transitional economies. The findings are in line with those by (Ali-Sadig, 2009) that corruption is generally viewed as an additional cost of doing business or a tax on profits. As a result, corruption can be expected to decrease the expected profitability of investment projects. Investors will therefore take the level of corruption in a host country into account in making decisions to invest abroad.

Control of corruption index is closely related with the quality of the bureaucracy (Campos & Kinoshita 2007) as an indicator reflecting the "autonomy from political pressure, institutional strength and quality of the bureaucracy" with higher ratings indicating a better bureaucracy along these lines. High values for this variable implies good quality of bureaucracy and, thus, a lower cost for foreign investors as an honest government with transparent regulations is probably less likely to ask for bribes and side payments.

Transparency International (TI) provides a ranking of countries based on the 'degree to which corruption is perceived to exist among public officials and politicians'. The organization defines 'corruption' as the 'abuse of public office for private gain'. A higher score represents less corruption (Mathura & Singhb, 2011). So by saying that a country is corrupt it means has less score which also means such country is likely to suffer from the consequences mentioned above in relation with the flow of FDI.

According to Gwartney, at el (1996) countries with the highest economic freedom scores have an average annual growth rate of per capita real GDP of 2.4%, while those with the lowest economic freedom scores have an average of negative 1.3% for 1980-94. The authors also iterate that countries significantly improving their economic freedom scores recorded positive rates of growth.

Discussion

Tanzania's Scores in International Indices and its Related Impacts

1. **Human Development Index**

According to Human Development Report (2015), United Republic Tanzania fall under countries with Low Human Development and it is ranked a 151 country among 188 countries with a score of 0.521. Coming into specific variables the Life expectancy at birth (years) of a Tanzanian is 65, Mean years of schooling (years) is 5.1 Expected years of schooling (years) is 9.2, Gross national income (GNI) per capita (constant 2011 PPP $) being 2,411, GNI per capita rank minus HDI rank 10 and Non-income HDI Value 0.523. The trends of our score from 1996 is indicated in chart 4.1. Chart 4.1 indicates that the level of human development in Tanzania is increasing year after year, i.e. from 0.369 in 1996 to 0.521 in 2014. Since the level of HDI is low there are many effects associated with this level of performance. The country is likely to suffer from influx of people from nearby countries such as Somalia, Uganda, DRC and Ethiopia who seeks employment due to our previous observation that most movers from low-

HDI countries are living and working in other low- or medium-HDI countries, in part because barriers to admission are often lower and the costs of moving are less.

2. Voice and Accountability Index

This is the first indicator in our list of WGI. The recent report of 2015 indicates that the current performance (2014) of Tanzania in this indicator is -0.17 which reveal weak performance in this indicator. The trends of this indicator over the years can be seen in the chart 4.2. The implication of this performance is that low scores in voice and accountability imply limitation on efforts for poverty reduction, human development and social justice, as well as more on instrumental goals such as economic growth and democracy. This is due to the fact that the poor's failure to voice their interest and lack of genuine accountability results to suffering of various deprivations such as sustainable livelihoods, particularly land and fair wages, capability-enhancing services, particularly education and health-care, decent environmental quality, particularly clean air and unpolluted water, physical security, particularly freedom from abuse (and neglect) by police.

3. Government Effectiveness

In 2014 the Tanzania scored -0.64 on the government effectiveness i.e. the perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The interpretation of this score is that there is weak governance in relation to this indicator. The trends of Tanzania's performance in relation to this score are indicated in chart 4.3. The related impacts of such performance includes diminishing citizens' trust in political institutions, poor economic growth and improved economic performance, low human development, and potential failure for the country to make firm and efficient policies that are beneficial to human development both economically and politically.

4. Regulatory Quality Index

On the perceptions of the ability of the Tanzania government to formulate and implement sound policies and regulations that permit and promote private sector development, the country scored -0.34 indicating weak performance. There are slight changes in the performance of the country for years as it can be seen in the chart 4.4. The related results of such performance includes low economic growth and poor economic performance among many reasons for, being due limited intra and inter-sectoral growth. Other related impacts are low productivity, and low incomes among nationals.

5. Rule of Law

On the perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence, in 2014 Tanzania scored -0.41, as in other indicators, also weak performance. The trends in the country's performance over years can be seen in the chart 4.5.

The related impacts of this performance and trends include limited economic growth and development, lack and unequal distribution of wealth, country instability, persistence poverty level, and increased uncertainty about potential investment payoffs hence decreased incentive to invest, and consequently low level of investment.

6. Control of Corruption

The country's performance on this indicator which reflects the perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests, in 2014 is -0.80 indicating weak performance over control of corruption. The performance may not be quite different from what have been released by Transparency International (2014) where Tanzania is ranked 119th country among 175 countries, with a score of 31 maximum score being 100. The trends in the country's performance over years can be seen in the chart 4.6.

The related effects of this performance include tarnishing the perception of stability and quality of an investment potential, creating additional cost of doing business or a tax on profits hence decreased expected profitability of investment projects and hence limited inflow of investments in a country.

7. Institutional Quality

According to Economic Freedom of the World Report (2014), the economic freedom of the world scores 2013 data indicate that Tanzania is ranked 107th country among 144 countries scoring 6.9 the maximum score being 10. This indicate that the country is not poorly performing in the indicator though when compared with other countries such as Rwanda (7.4), Uganda (7.3), and Kenya (7.2) these scores do not put the country in a good competitive positions over those neighbours. On the other hand, when this performance is compared with that of Burundi (5.8) and D. R. Congo (5.7), this performance is not very bad. The trends of this country in relation to this indicator can be seen in the chart 4.7.

Chart 4.7 indicated that there is no consistency on the scores that Tanzania attains in this measure. As can be seen in 1970 the score was higher but declined between 1975to1990. However, the trend is encouraging as from 1995 the scores are high though declining but at a very small rate.

Impacts of International Indices on Foreign Direct Investment

The indices' scores have different impacts on a country's social, economic and political spheres. In this paper we choose FDI and see how is influenced by different variables using the equation below.

$$FDI= \alpha+\beta 1HDI+\gamma 2GOEFF +\gamma 3REQUAL+\gamma 4RULAW+\gamma 5CONTRCO +\gamma 6EFW+ \mu$$

Where

FDI is Foreign Direct Investment
HDI is Human Development Index.
GOEFF is Government Effectiveness
REQUA is Regulatory Quality
RULAW is Rule of Law
CONTRCO is control of corruption,
EFW is Economic Freedom in the World.

Results

In the regression results (table 4.1) the R-square of 0.986 showed that the goodness of fit is satisfactory by of 99 percent. This result shows that the observed factors influencing FDI for the period of analysis is explained by the independent variables by 99 percent and the remained 1 percent is explained by other variables excluded by the analysis. In case the model has been corrected, then the adjusted R-squared Ad R-squared of 0.945 depicts that the explanatory variable would explain changes in FDI level by at least 95 percent. This slight change can be explained loosely by the limited number of observation under study.

The result from the table 4.2 indicates that FDI has a positive relationship with Political stability and an average unit change in POSTAB results to about 41 percent (.412) change in FDI.

Also government effectiveness (GOEFF) has a positive relationship with FDI and an average unit change in GOEFF results to about 1 percent (0.009) change in FDI. GOEFF is one of the major determinants of FDI but its contribution towards FDI in Tanzania is minimal. These findings imply that quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies like related with FDI is limited.

In addition, regulatory quality (REQUA) has a positive relationship with FDI and an average unit change in regulatory quality results to about 12 percent (0.12) change in FDI. This contribution (12 per cent) of the regulatory quality portray the limited ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development, which also can be an inducement to foreign investors.

Rule of Law (RULAW) has a positive relationship with FDI and an average unit change in rule of law results to about 75 percent (0. 746) change in FDI. This positive rule of law and greater contribution on FDI means Tanzania has a better judiciary system which improves the business environment and provides better protection to investors thereby facilitating investment and business development which in turn will create jobs and improve standard of living of people.

Furthermore, Control of Corruption (CONTRCO) has a negative relationship with FDI and a unit change in Control of Corruption results to about 68 per cent decrease in FDI. This finding was expected as the increase of corruption tends to reduce the amount of investments which flows into a country. This is in line with the findings of King (2003) that when investors believe that there is a high amount of corruption in the host country they are considering; they may see this as an impediment for doing business there. The findings are also supported by Ali-Sadig (2009) that corruption is generally viewed as an additional cost of doing business or a tax on profits. As a result, corruption can be expected to decrease the expected profitability of investment projects.

Lastly Institutional Quality as measured by EFW scores has a positive relationship with FDI and an average unit change in EFW results to about 100 per cent change in FDI. The findings are in line with those of Daniele and Marani (2006) that institutions play an important role in the relative performances of countries in attracting FDI.

Conclusion

We have seen various indicators and how Tanzania performance is, generally poor in most of the indicators. Though the indicators may suffer from various weaknesses, the truth is that the scores attained by a country may have various impacts to its social, economic and political development. Take an example of a tourist who wants to visit our country and discover that quality of the police and the courts is poor and the likelihood of crime and violence is high, it is obvious that this tourist may not visit our country due to such situations. Take also another example of a person who want to invest in our country and found out that there is a high amount of corruption in this country, this person may not be ready to incur such unnecessarily costs which at the end may lead to his reduced profit. This may also have similar impact to donor that if discover that money released as aids for national development are used for private gains, they may not be ready to release the money in the future.

We recommend that various stakeholders who are decision makers in relation to these indicators such as the government, parliaments, regulatory bodies; NGO’s and individuals themselves take initiative accordingly in order to reverse the situation. This is due to the effects related to this performance on the decisions by international bodies, donor countries, potential investors, tourist and other many that have interests in our social, economic, political and technological development.

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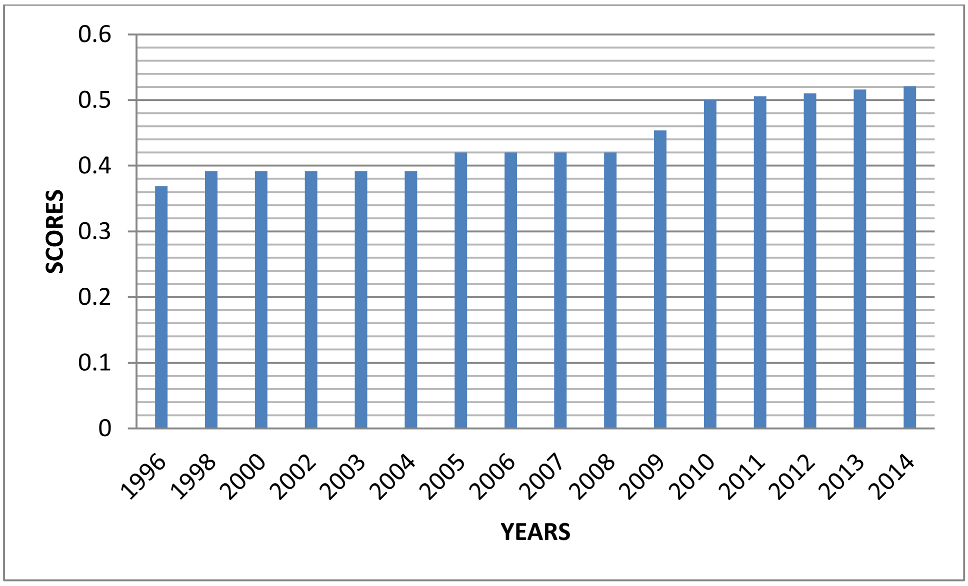
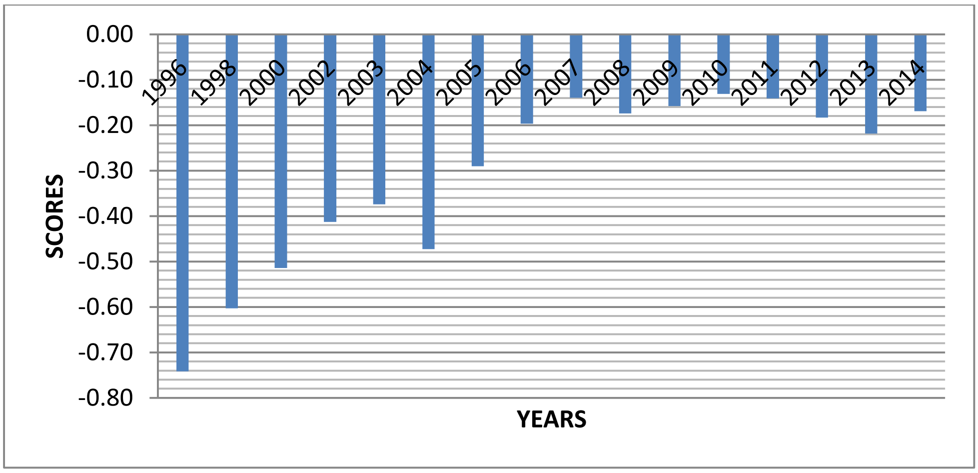
Appendix: List of Charts and Tables

Chart 4.1: Trends of Human Development Scores in Tanzania



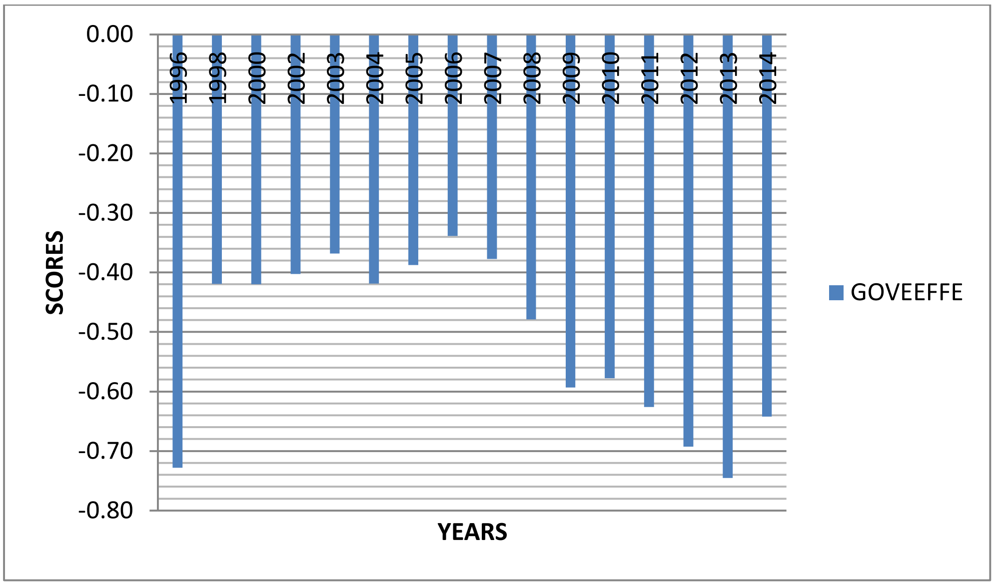
Source: Authors using data from www.govindicators.org

Chart 4.2: Trends of Voice and Accountability Scores in Tanzania



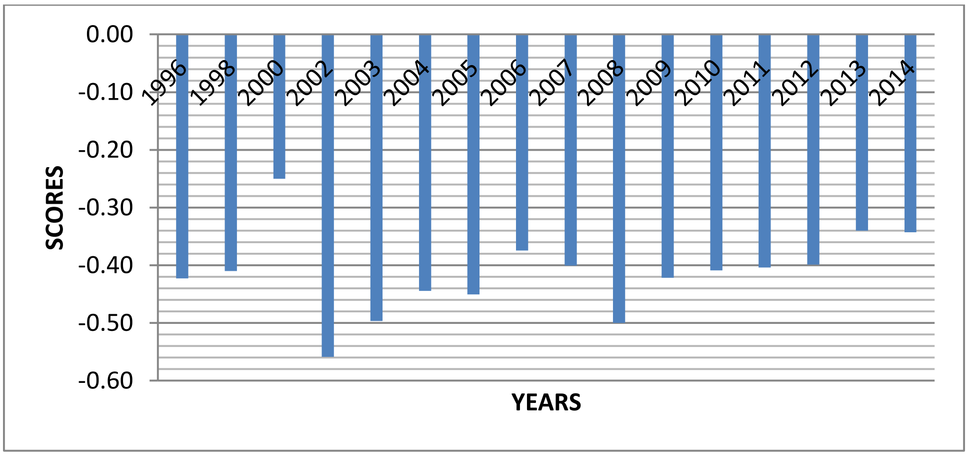
Source: Authors using data from www.govindicators.org

Chart 4.3: Trends of Government Effectiveness Scores in Tanzania



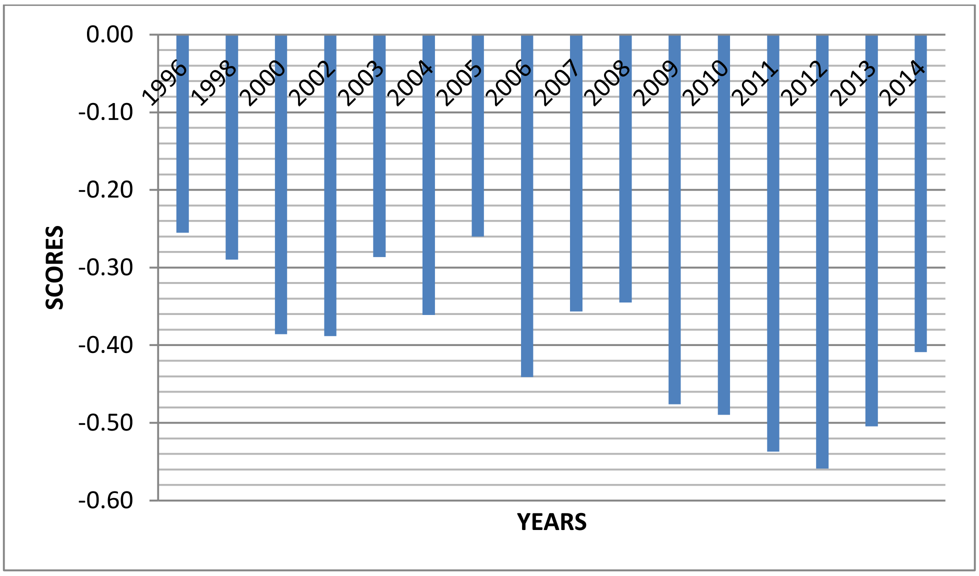
Source: Authors using data from www.govindicators.org

Chart 4.4 Trends of Regulatory Quality Index in Tanzania



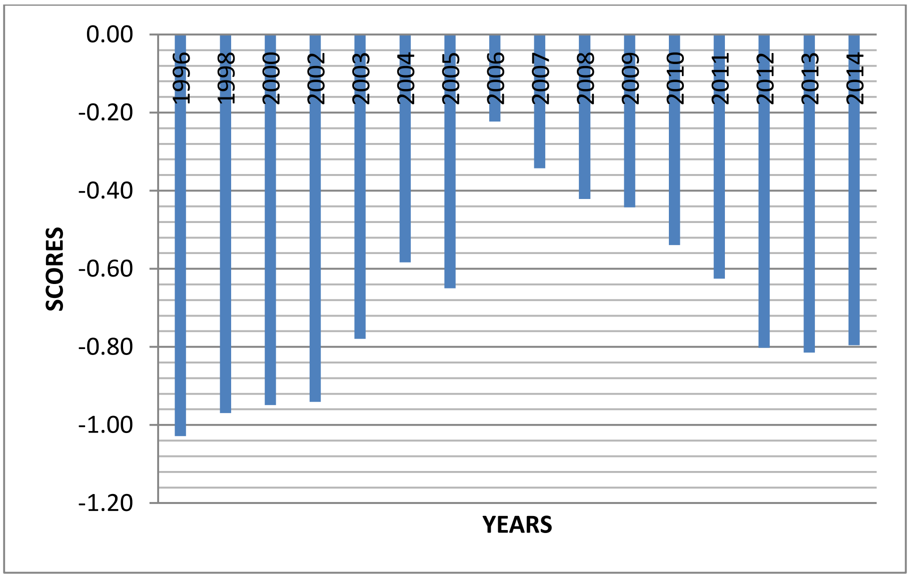
Source: Authors using data from www.govindicators.org

Chart 4.5: Trends of Rule of Law in Tanzania



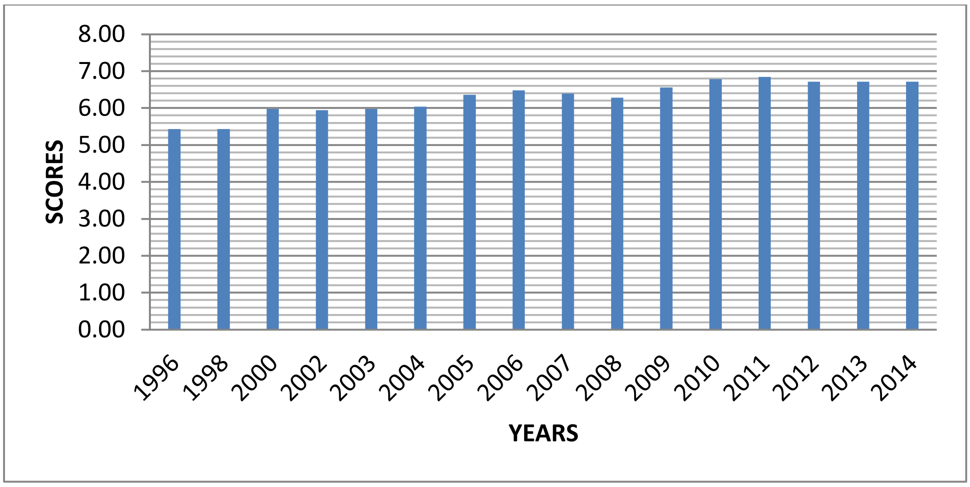
Source: Authors using data from www.govindicators.org

Figure 4.6: Trends of Control of Corruption in Tanzania



Source: Authors using data from www.govindicators.org

Chart 4.7: Institutional Quality in Tanzania



Source: Authors using data from Economic Freedom of the World Report (2015)

Table 4.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.993[a]	.986	.946	56.031	.986	24.243	6	2	.040

a. Predictors: (Constant), EFW, REGQUA, POSTAB, RULAW, GOEFF, CONTRCO

b. Dependent Variable: FDI

Table 4.2: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-4648.337	844.832		-5.502	.031	-8283.356	-1013.318
	POSTAB	480.538	128.173	.412	3.749	.064	-70.947	1032.023
	GOEFF	18.676	244.736	.009	.076	.946	-1034.338	1071.691
	REGQUA	334.343	268.310	.120	1.246	.339	-820.102	1488.788
	RULAW	2769.976	425.416	.746	6.511	.023	939.557	4600.395
	CONTRCO	-563.264	141.481	-.684	-3.981	.058	-1172.006	45.477
	EFW	1008.879	119.949	1.528	8.411	.014	492.780	1524.977

a. Dependent Variable: FDI