IFC High Level Meeting on Data Governance, co-organised with the International Statistical Institute

22 November 2019, Tunis, Tunisia

Statistical Governance and FDI in emerging economies - the role of official statistics, with a particular focus on Sub-Saharan Africa[1]

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[1] This presentation was prepared for the meeting. The views expressed are those of the author and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

Statistical Governance and FDI in Emerging Economies

The Role of Official Statistics, with a particular focus on Sub-Saharan Africa

Irving Fisher Committee High-Level Conference, Tunis, 22 November 2019

Dr. Ulf von Kalckreuth, Deutsche Bundesbank

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Governance and investment

- **G 20 in 2017: Compact with Africa**

- **Fundamental issue with investment: information asymmetries**

The „owner“ of a project knows more than the outside investor

Ex ante (hidden state):
The investors get to see only bad projects, the good projects are reserved for well connected insiders
→ adverse selection, „market for lemons“

Ex post (hidden action):
Project owners are able to manipulate project outcomes to their favour, damaging the investor.
→ principal agent problem

Investment will simply not take place!

Contribution of official statistics

Major role of official statistics in relieving information asymmetries

- Concerning actions of government -- an important player!
- Concerning developments in the country, the sector, the market.

Evolution of international rules for statistics driven by traumatic events and crisis

- „Fundamental Principles“ of UN following the breakdown of Soviet-style communism.
- SDDS and GDDS of IMF, following the “Asian Crisis”

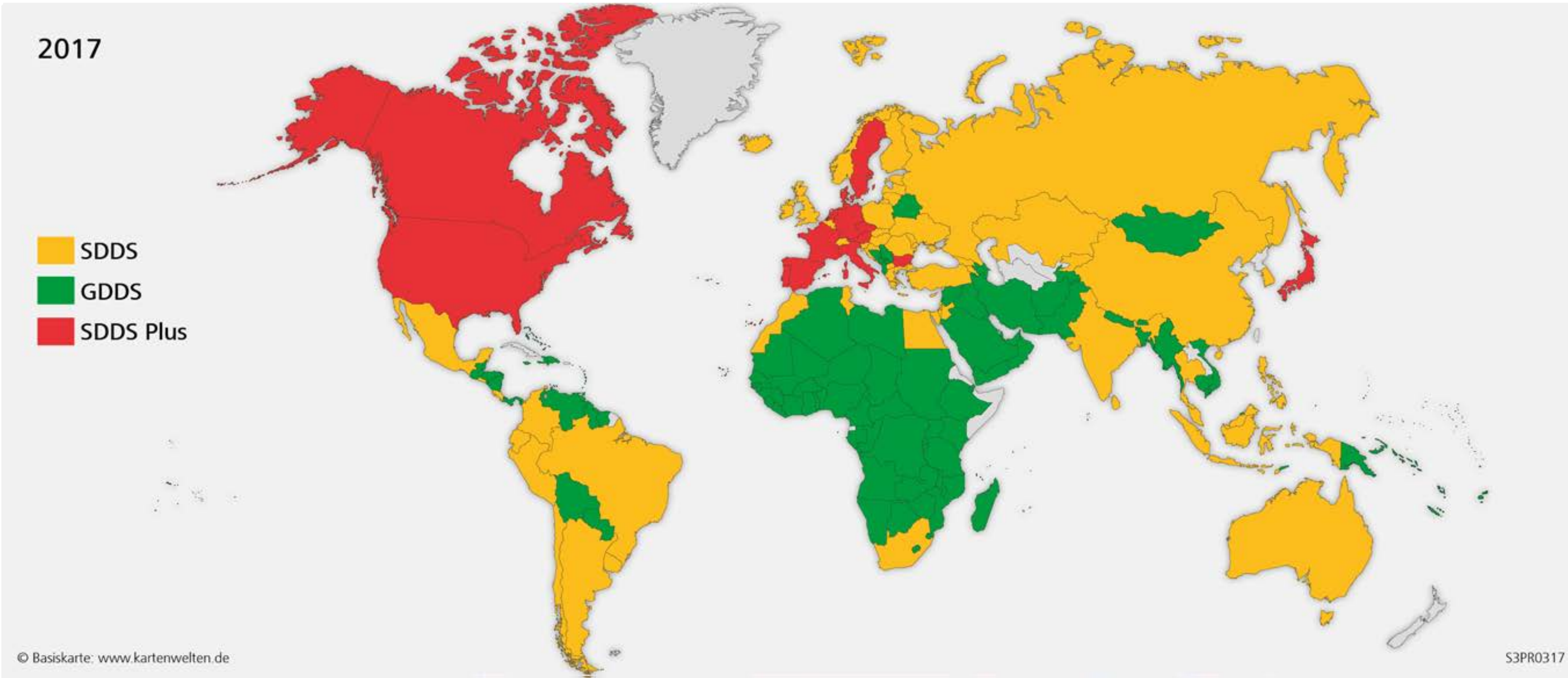
IMF Data Dissemination Standards: The two flavours

- SDDS: Set of rigorous rules for well developed statistical systems. Founding members more or less G20 countries of today. Compliance checked by IMF and evaluated publicly.
- GDDS: Looser set of rules with a lower degree of commitment. Core obligation is to give an exact description of the current state of the statistical system and to commit to a country-specific road-map, using GDDS as a framework. In exchange, the IMF offers a lot of technical help.

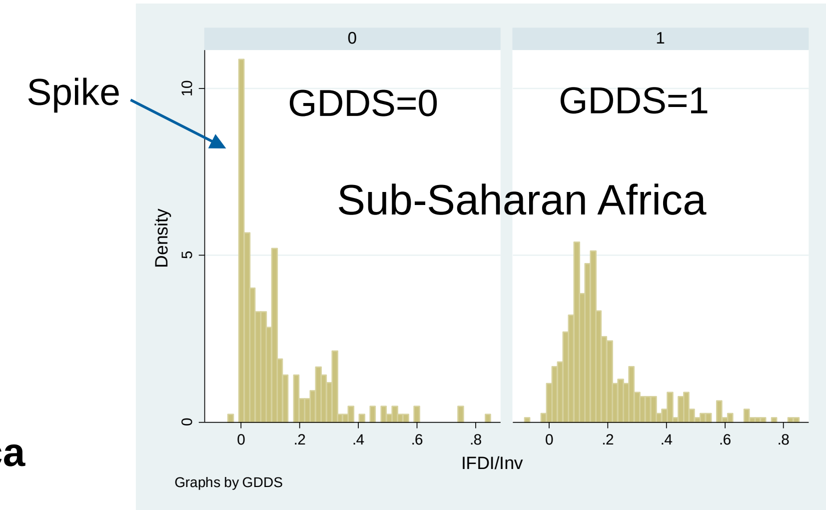
GDDS lis ike a **blueprint for the Compact with Africa**

This paper uses **adoption of GDDS** as an indicator of **statistical governance**

The spread of IMF data dissemination standards



GDDS and FDI -- how are they related?



1) **Non-parametric comparisons of episodes with and without GDDS**
   - Strong and significant differences
   - FDI **higher under GDDS**, also under outlier control and eliminating zero episodes
   - Raw difference **especially high for SS Africa**

2) **Fixed effects regressions** on log inward FDI to remove time and country effects, and **quantile panel estimations** to account for heterogeneity and outliers

After **removing time and country effects** we find:

- **Negative effect** of GDDS in sub-sample of rich countries and outside SS Africa!
- GDDS effects **significantly higher** in **poor countries** and in **SS Africa**
- Estimated effects for SS Africa **large, but not significant.** Partly due to restrictive assumptions regarding the autocorrelation of residuals.

What can we take away?

- **Official statistics is an important tool for mitigating information asymmetries** that stand between developing countries and outside investors.
- A German credo: It is the **rules you follow that inspire confidence**…!
- Information asymmetry is **more severe for resource-poor countries**. On poor countries, there is often little information, and not much is generated by commercial providers.
- **Heterogeneity matters**. It matters whether a commitment to fundamental rules of governance is made by a resource-poor country or a more sophisticated emerging economy.
- For rich countries, the **stricter SDDS standard may have been the relevant alternative,** explaining a negative coefficient on GDDS!

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Thank you!