



# GOVERNANCE

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Page 1

Conference «Non-State Actors as Standard Setters: The Erosion of the Public-Private Divide» | February 8-9 2007 | Hotel Hilton Basel, Switzerland

## **Nonstate Actors Matters for Public Governance – An unorthodox empirical perspective**

Daniel Kaufmann, The World Bank Institute

### **Overview: *Non-state actors challenged by empirics***

- **Measuring Matters: R&D, Accountability Tool, a challenger of orthodoxy...**
- **Approaches to Measurement: Data Power**
- **Interactions of public & non-state actors on governance: Vital, *but variance* – data lessons**
- **Implications: *frankness, incentives & coalitions***

2

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### **The ‘Power of Data’: progress in measurement**

1. **The ‘Macro’/Aggregate Level of Measurement:**  
*Worldwide Aggregate Governance Indicators: 200 countries, 6 components, periodic.*
2. **‘Mezzo’: *Cross-Country Surveys of Enterprises***
3. **‘Micro’: Specialized, in-depth, in-country  
Governance and Institutional Capacity  
Diagnostics: Includes surveys of: i) user of public services citizens); ii) firms, and, iii) public officials**

*On ‘Aggregate/Macro’ Level first... 3*

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Page 2

## Worldwide Governance Indicators Project: Defining Governance Broadly

*Governance consists of the traditions and institutions by which authority in a country is exercised.*

*This includes:*

- the process by which governments are selected, monitored and replaced,*
- the capacity of the government to effectively formulate and implement sound policies, and*
- the respect of citizens and the state for the institutions that govern economic and social interactions among them.*

4

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## Worldwide Governance Indicators Project

- **Six aggregate governance indicators covering 213 countries over past decade**
  - **Voice and Accountability**
  - **Political Stability/Absence of Violence**
  - **Government Effectiveness**
  - **Regulatory Quality**
  - **Rule of Law**
  - **Control of Corruption**
- **Based on 31 data sources from 25 organizations, capturing information from well over 100,000 informed stakeholders**
- **Widely used by policymakers, civil society, and researchers to monitor governance and study its causes and consequences**

5

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Page 3

## 2006 Update of Worldwide Governance Indicators: *Key Features of a Decade-long project*

- Dataset since 1996, for 6 dimensions of governance
- Now annualized data, covering 213 countries
- First-time access to data underlying aggregate indicators
  - Almost 300 individual indicators
  - one of the largest on-line governance data resources at [www.govindicators.org](http://www.govindicators.org)
- Specialized Aggregation Methodology, the UCM, which estimates and lowers margins of error

6

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## Sources of Governance Data

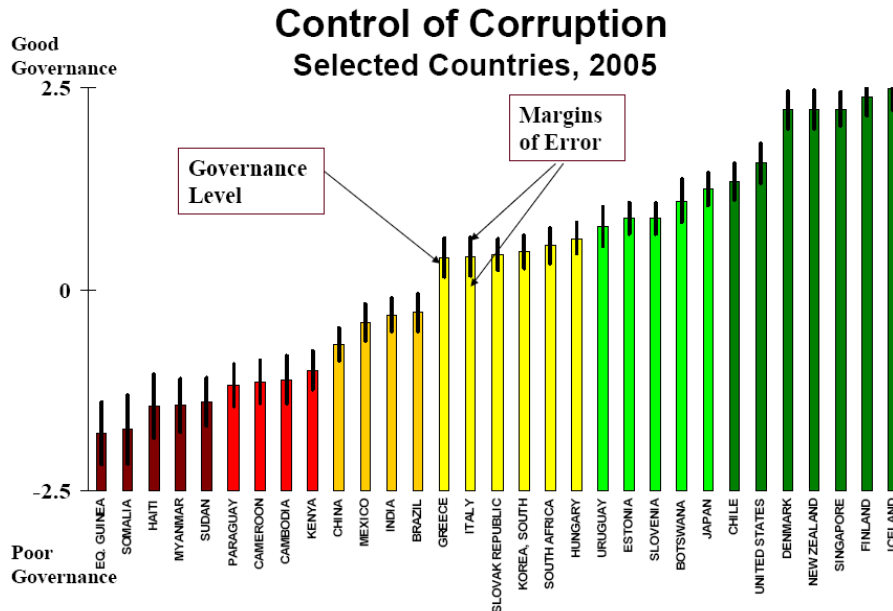
- Cross-Country Surveys of Firms: Global Competitiveness Survey, World Business Environment Survey, World Competitiveness Yearbook, BEEPS
- Cross-Country Surveys of Individuals: Gallup International Voice of the People, Latinobarometro, Afrobarometer
- Expert Assessments from Commercial Risk Rating Agencies: DRI, PRS, EIU, World Markets Online, Merchant International Group, IJET Travel Consultancy, PERC
- Expert Assessments from NGOs, Think Tanks: Reporters Without Borders, Heritage Foundation, Freedom House, Amnesty International, Bertelsmann Foundation, Columbia University, International Research and Exchanges Board
- Expert Assessments from Governments, Multilaterals: World Bank CPIA, EBRD, AFDB, ADB, State Dept. Human Rights Report, Trafficking in Persons Report

7

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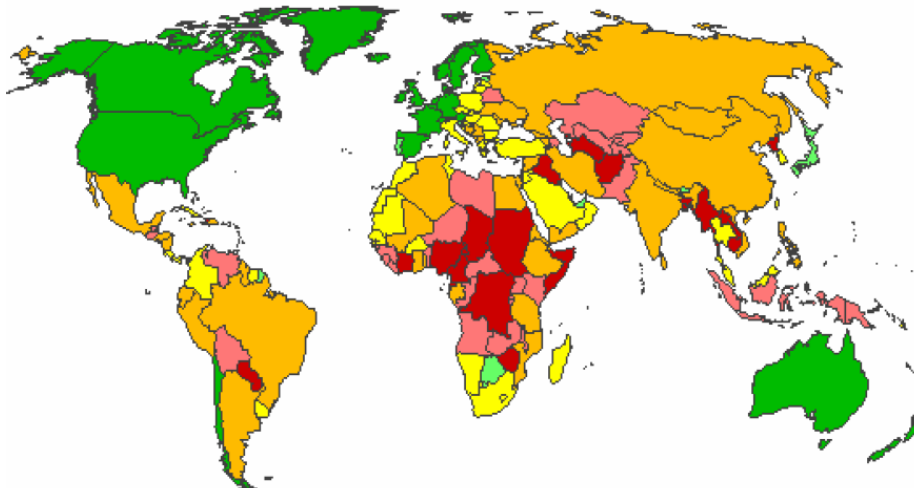
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Page 4



Source for data: 'Governance Matters V: Governance Indicators for 1996-2005', D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006 - [www.govindicators.org](http://www.govindicators.org). Note: Colors are assigned according to the following criteria: Dark Red, below 10<sup>th</sup> percentile rank among all countries in the world; Light Red between 10<sup>th</sup> and 25<sup>th</sup>; Orange, between 25<sup>th</sup> and 50<sup>th</sup>; Yellow, between 50<sup>th</sup> and 75<sup>th</sup>; Light Green between 75<sup>th</sup> and 90<sup>th</sup>; Dark Green above 90<sup>th</sup>.

### World Map: Control of Corruption, 2005



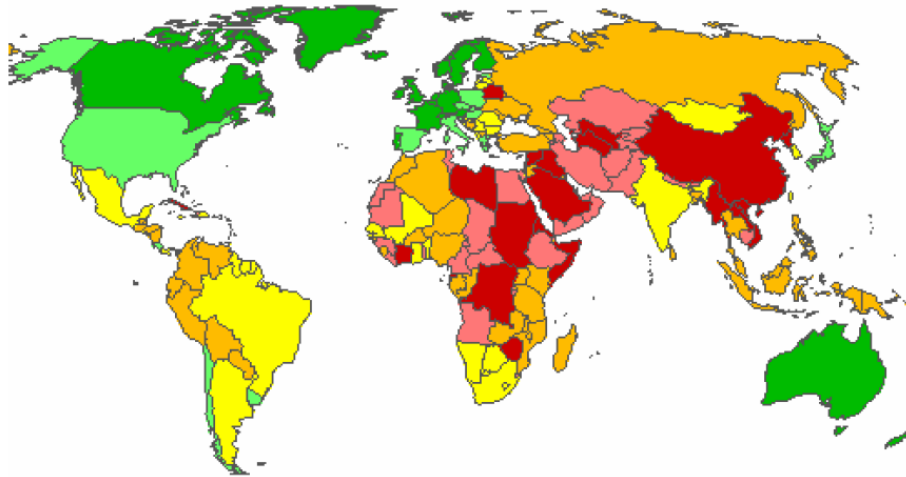
Source for map: 'Governance Matters V: Governance Indicators for 1996-2005', by D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006 - [www.govindicators.org](http://www.govindicators.org). Colors are assigned according to the following criteria: Dark Red: country is in the bottom 10<sup>th</sup> percentile rank ('governance crisis'); Light Red: between 10<sup>th</sup> and 25<sup>th</sup> percentile rank; Orange: between 25<sup>th</sup> and 50<sup>th</sup> percentile rank; Yellow, between 50<sup>th</sup> and 75<sup>th</sup>; Light Green between 75<sup>th</sup> and 90<sup>th</sup> percentile rank; and Dark Green: between 90<sup>th</sup> and 100<sup>th</sup> percentile (exemplary governance). Estimates subject to margins of error.

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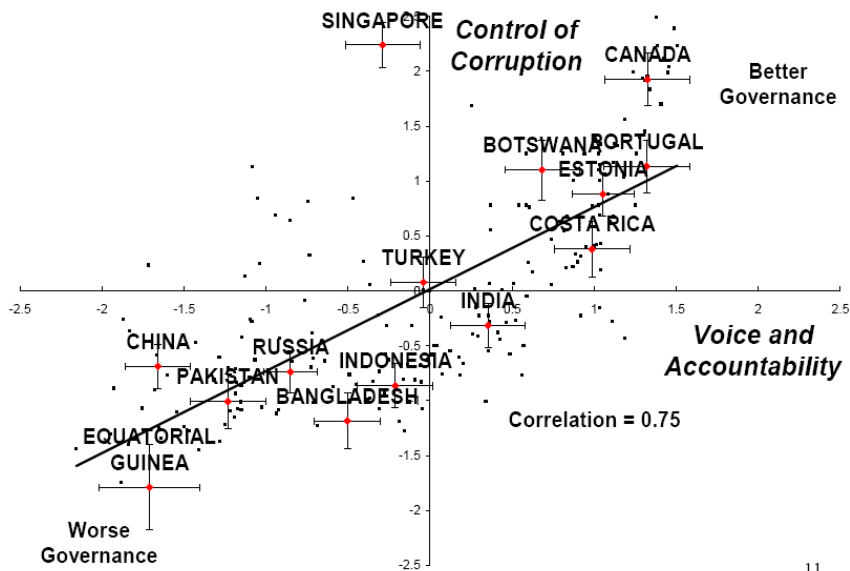
Page 5

## World Map: Voice & Accountability, 2005



Source for map: 'Governance Matters V: Governance Indicators for 1996-2005', by D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006 - [www.govindicators.org](http://www.govindicators.org). Colors are assigned according to the following criteria: Dark Red: country is in the bottom 10<sup>th</sup> percentile rank ('governance crisis'); Light Red: between 10<sup>th</sup> and 25<sup>th</sup> percentile rank; Orange: between 25<sup>th</sup> and 50<sup>th</sup> percentile rank; Yellow: between 50<sup>th</sup> and 75<sup>th</sup>; Light Green between 75<sup>th</sup> and 90<sup>th</sup> percentile rank, and Dark Green: between 90<sup>th</sup> and 100<sup>th</sup> percentile (exemplary governance). Estimates subject to margins of error.

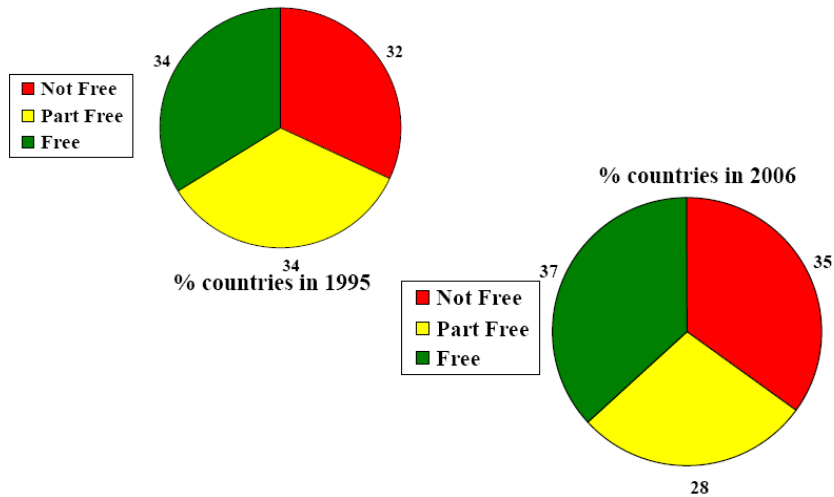
## Cross-Country Comparisons: VA and CC



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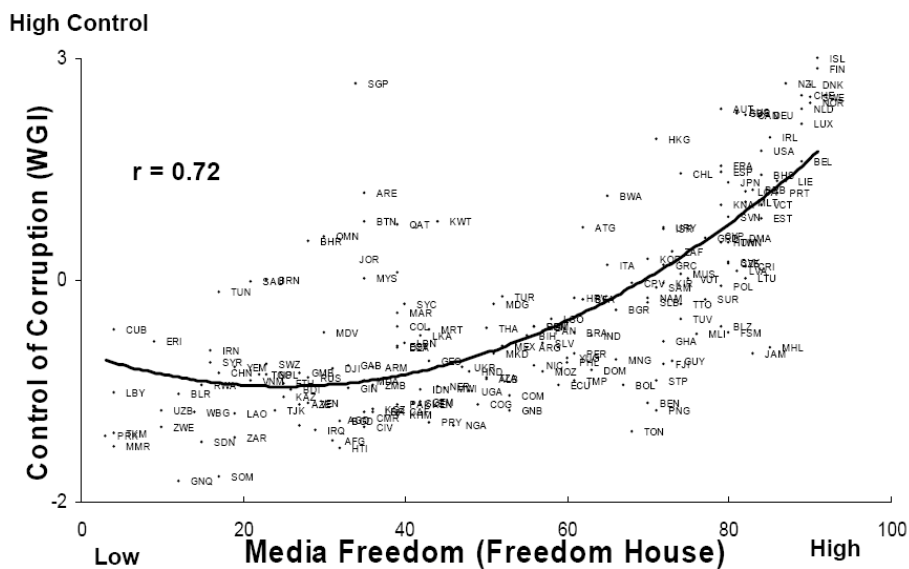
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## Press Freedom (FRH) Worldwide, 1995 vs. 2006



Source: 2006 Freedom House. Y axis measures percentage of countries in the region with free press (rating of 30 or below), partly free (ratings between 30 and 60) and not free (rating above 60). In 1995 there were 183 countries divided into red (58), yellow (63) and green (62). In 2006 there were 196 countries divided into red (69), yellow (54) and green (73).

## Control of Corruption vs. Media Freedom, 2006

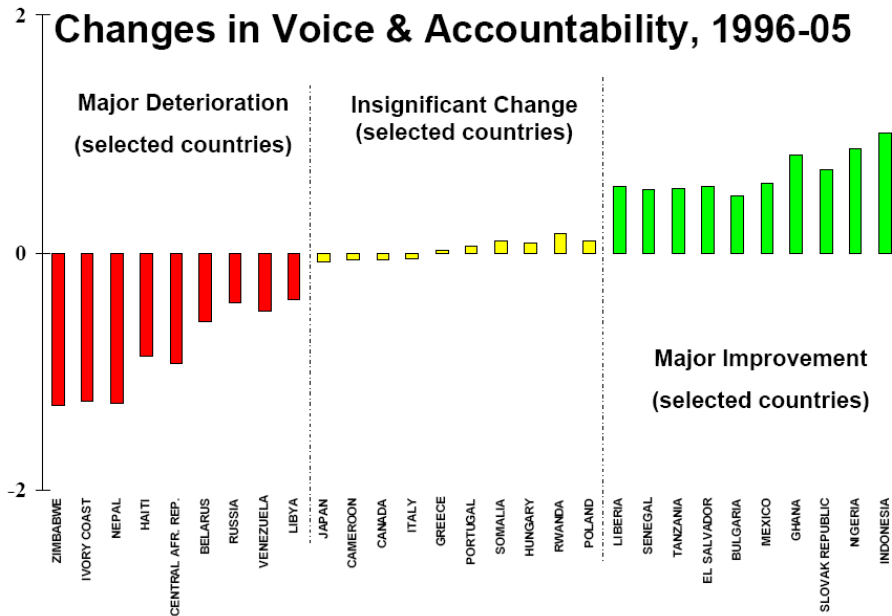


Source: Freedom House & Worldwide Governance Indicators, [www.govindicators.org](http://www.govindicators.org), 2006.

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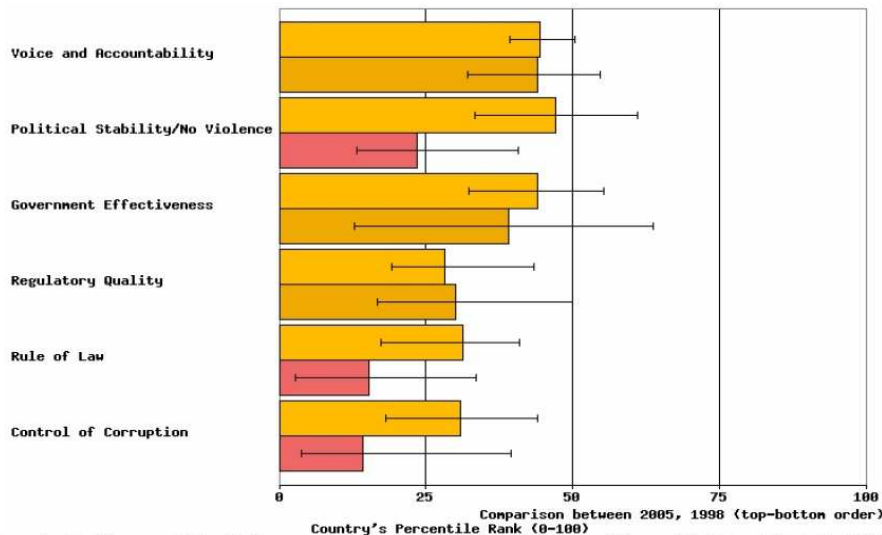
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Page 7



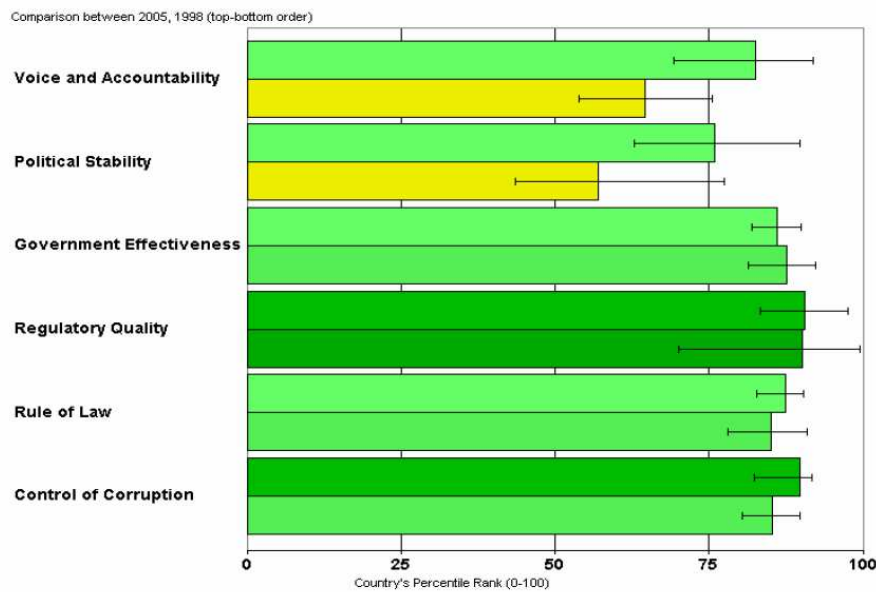
Changes were calculated on the basis of the differences in country estimates from 1996 and 2005. Classification for major deteriorations and improvements were based on 75% confidence interval. Source for data: "Governance Matters V: Governance Indicators for 1996-2005", by D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006 - [www.govindicators.org](http://www.govindicators.org)

### Governance Indicators for Mozambique, 1998-2005



Source for data: "Governance Matters V: Governance Indicators for 1996-2005", by D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006 - [www.govindicators.org](http://www.govindicators.org). Colors are assigned according to the following criteria: Dark Red: country is in the bottom 10<sup>th</sup> percentile rank ("governance crisis"); Light Red: between 10<sup>th</sup> and 25<sup>th</sup> percentile rank; Orange: between 25<sup>th</sup> and 50<sup>th</sup> percentile rank; Yellow, between 50<sup>th</sup> and 75<sup>th</sup>; Light Green between 75<sup>th</sup> and 90<sup>th</sup> percentile rank; and Dark Green: between 90<sup>th</sup> and 100<sup>th</sup> percentile (exemplary governance). Estimates subject to margins of error.

### Aggregate Governance Indicators for Chile [2005 vs. 1998]



### Unbundling WGI Aggregate Indicators – Chile

Aggregate Indicators for Chile						
Governance Indicator	Year	Percentile Rank (0-100)	Estimate (-2.5 to +2.5)	Standard Error	Number of surveys/polls	Sources
Voice and Accountability	2005	82.6	+1.04	0.14	10	List
	1998	64.7	+0.59	0.23	6	List
Political Stability	2005	75.3	+0.85	0.21	10	List
	1998	57.1	+0.37	0.26	6	List
Government Effectiveness	2005	86.1	+1.26	0.15	12	List
	1998	87.5	+1.31	0.26	7	List
Regulatory Quality	2005	90.6	+1.40	0.17	10	List
	1998	90.1	+1.10	0.27	6	List
Rule of Law	2005	87.4	+1.20	0.13	15	List
	1998	85.1	+1.18	0.18	11	List
Control of Corruption	2005	89.7	+1.33	0.14	12	List
	1998	85.3	+1.13	0.19	10	List

Individual Indicators for Chile Voice and Accountability, 2005 (0 (bad) to 1 (good) scale)		
Source	Publication	CHILE
Bertelsmann Foundation	Bertelsmann Transformation Index	+0.90
Economist Intelligence Unit	Country Risk Service	+0.90
Freedom House	Freedom in the World	+0.92
World Economic Forum	Global Competitiveness Report	+0.59
Cingranelli-Richards (CIRI)	Human Rights Database	+0.75
Latinobarometro	Latinobarometro Surveys	+0.40
Political Risk Services	International Country Risk Guide	+0.79
Reporters Without Borders	Reporters Without Borders	+0.89
Institute for Management and Development	World Competitiveness Yearbook	+0.66
Global Insight	Business Conditions and Risk Indicators	+0.88

**Reporters Without Borders**  
<http://www.rsf.org>

Reporters without Borders, headquartered in Paris, is an international organization dedicated to the protection of reporters and respect of press freedom in the world. In 2002, International Reporters Without Borders published its first worldwide press freedom index, compiled for 139 countries. The index was drawn up by asking journalists, researchers, and legal experts worldwide to answer 50 questions about a whole range of press freedom violations.

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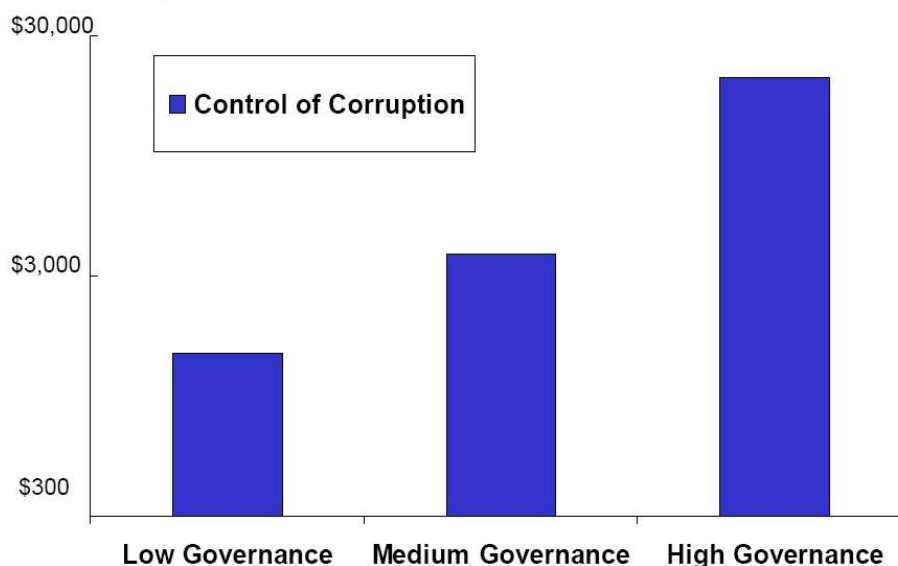
Page 9

## Governance Matters: The 300% 'Dividend'

1. Large Development Dividend of Good Governance: *a one-standard-deviation improvement in governance raise incomes per capita in a country by about 300% in long-run*
2. But is such a decline in corruption unrealistically large?: **NO -- One S.D. is the difference from:** Eq. Guinea → Iran or Uganda → Mauritius → Portugal → Finland or New Zealand
3. The impact is from governance to incomes, and not viceversa -- higher *incomes alone will not do*
4. Urgency of interventions to improve governance

18

## Development Dividend From Good Governance



Data Source for calculations: KK 2004. Y-axis measures predicted GDP per capita on the basis of Instrumental Variable (IV) results for each of the 3 categories. Estimations based on various authors' studies, including Kaufmann and Kraay.

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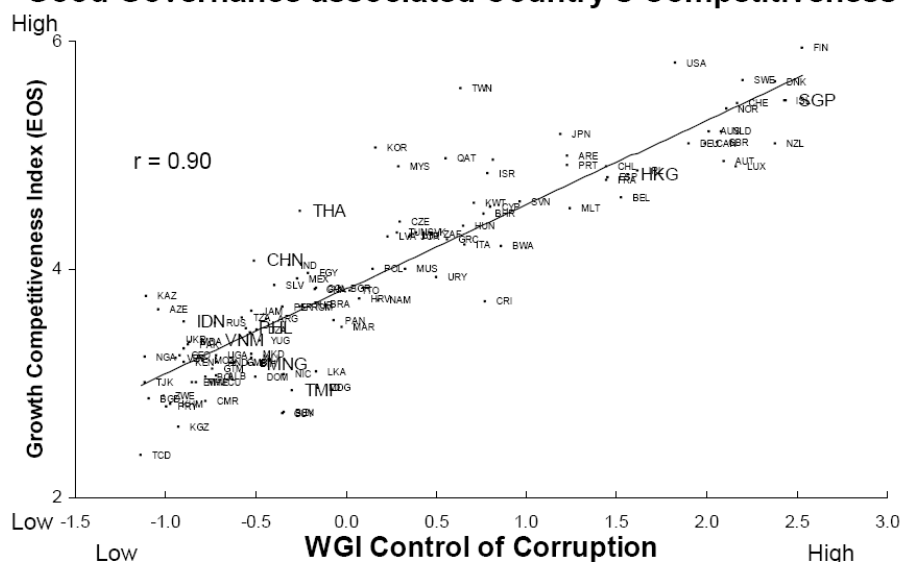
Page 10

## The perspective of the Firm -- Worldwide

- Good governance in a country is inextricably linked to its competitiveness
- Quality of governance in emerging markets vary enormously
- Within a country, different aspects of governance perform differently, and it changes over time
- Importance to 'unbundle' governance & corruption
- Corporate Governance and Ethics Matters as well: the link between corporate and public sector governance

20

### Good Governance associated Country's Competitiveness

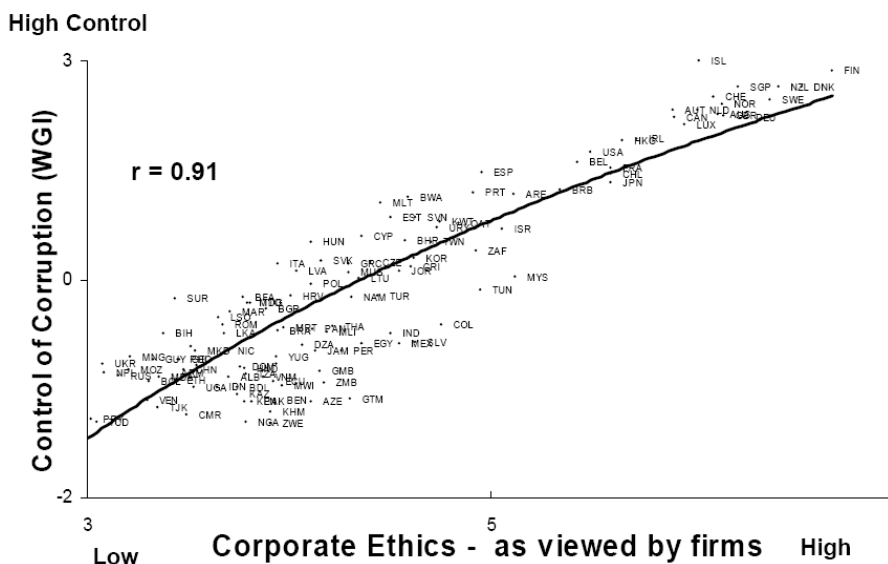


Sources: GCI drawn from EOS firm survey, WEF 2005 – 117 countries; Control of Corruption from Kaufmann, Kraay and Mastruzzi, 'Governance Matters IV: Governance Indicators for 1996-2004'.

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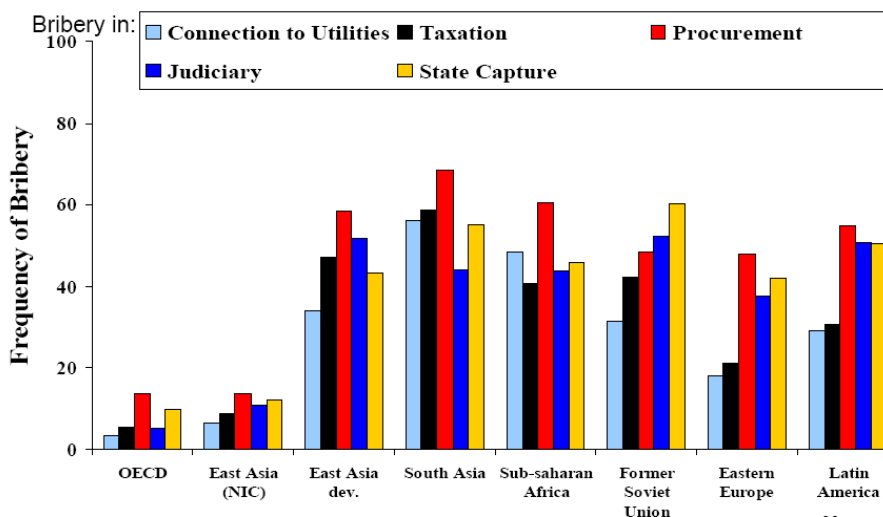
## Control of Corruption vs. Corporate Ethics, 2006



Source: EOS firm survey, WEF2006 & Worldwide Governance Indicators, [www.govindicators.org](http://www.govindicators.org)

## Unbundling Corruption: Different types of Bribery (responses by firms 2005)

% Firm Report High Bribery (1-3)

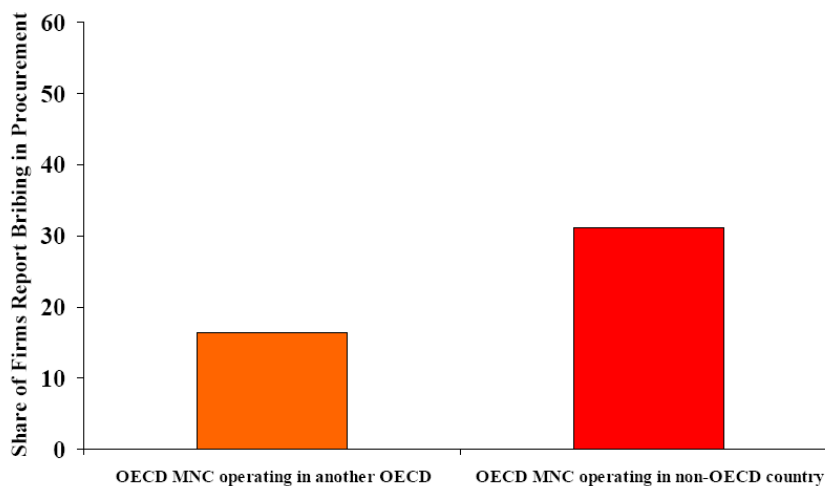


Source: EOS firm survey, WEF2005 – 117 countries. Question: In your industry, how commonly firms make undocumented extra payments or bribes connected with permits / utilities / taxation / awarding of public contracts / judiciary? (common...never occurs).

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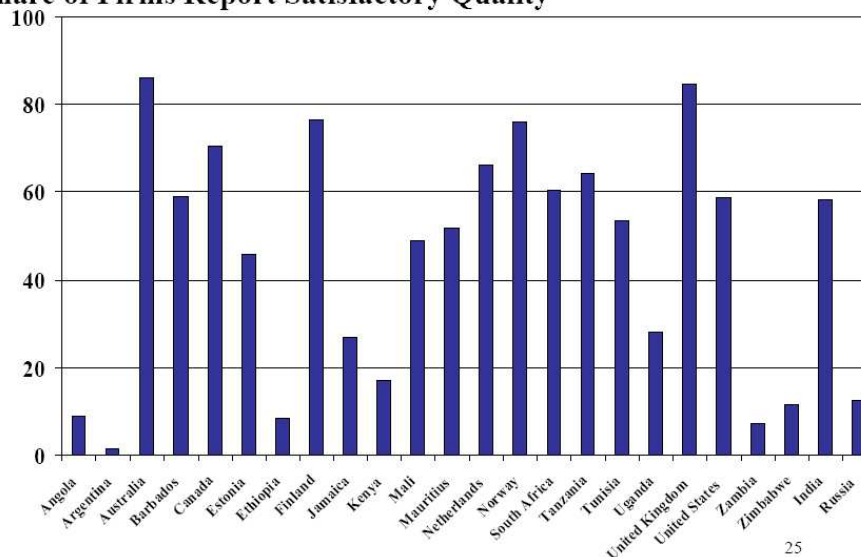
## Do Multinationals Bribe Abroad?: It Depends % of Multinationals Report Bribing in Procurement



Source: EOS 2004, 2006. Questions: When firms like yours do business with the government, how much of the contract value must they offer in 24 additional payments to secure the contract? Calculations based on percentage firms reporting positive bribery.

## Quality of Parliament, selected Countries, 2006

### Share of Firms Report Satisfactory Quality

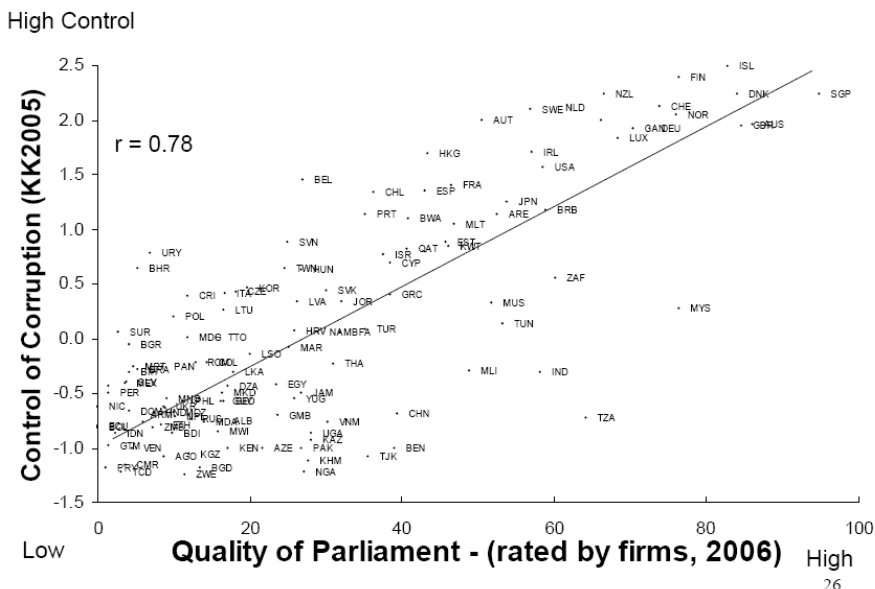


Source: EOS firm survey, WEF2006.

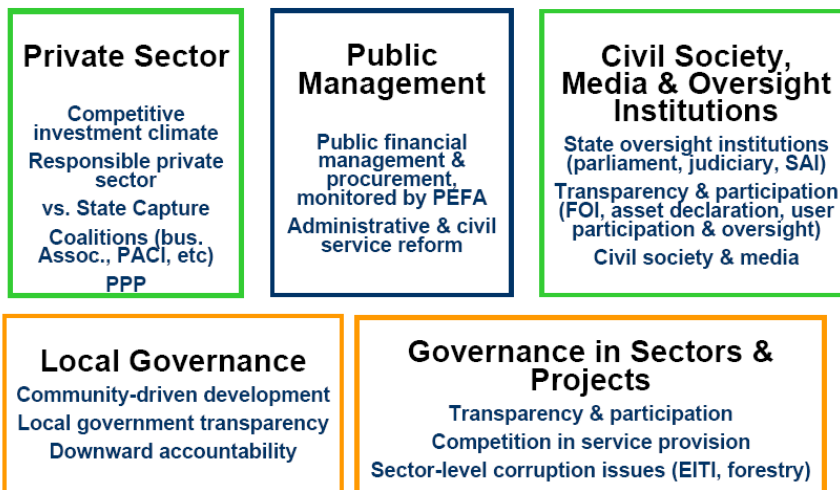
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## Quality of Parliament vs. Corruption, 2006



## Governance & Anticorruption Strategy at the World Bank -- 'Entry-Points' & Coalitions



*Coalition building across stakeholders*

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Page 14

## Concluding: A Governance empirical perspective is key for analysis on role of non-state actors

### Non-State Stakeholders & coalitions are very promising

- Media Freedom
- Competitive Private Sector
- Parliamentarians are key
- PACs are crucial
- NGOs
- Citizen Accountability
- Judiciary is key
- Stock market participant
- Transparency reforms

### But misgoverned coalitions exist & need to be addressed

- Absent in so many countries
- Capture by elite & MNCs
- Weak, corrupt Parliaments
- Often Weak, Captive
- 'Who Monitors the Monitors?'
- Not free or fair elections
- Weak, corrupt judiciaries
- Undeveloped equity markets
- Anti-Transparency Interests

*'Transparenter': a non-state and (within-state) reformist 'actor'?*

28

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## Basic Scorecard: 10 Transparency Reform Components

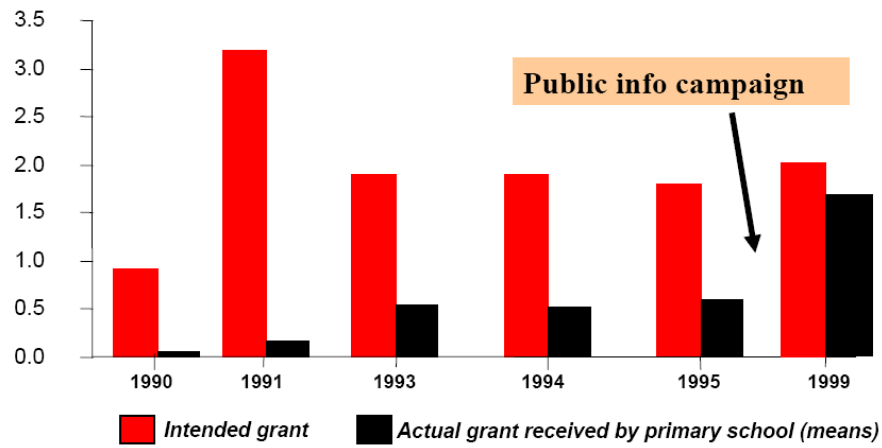
1. Public Disclosure of Assets & Incomes of Candidates, Public Officials, Politicians, Legislators - & dependents
2. Public Disclosure of Political Campaign contributions by individuals and firms, and of campaign expenditures
3. Public Disclosure of Parliamentary Votes, w/out exceptions
4. Effective Implementation of Conflict of Interest Laws, separating business, politics, legislation, & government
5. Publicly blacklisting firms bribing in public procurement
6. Effective Implementation of Freedom of Information Law, with easy access to all to government information
7. Fiscal/Financial transparency: central/local budgets; ROSC, EITI
8. E\*procurement: transparency (web) and competition
9. Media Freedoms & Media Development
10. Country Diagnostic (& Scorecard) on Transparency & Governance

29

## Power of Data, Transparency and Citizen Oversight

### Tracking Education spending in Uganda

equiv. US\$ per student



Source: Uganda Public Expenditure Tracking Surveys