Governance, Human Rights, Security and Development

‘Data Power’ Challenges Myths -- and Implications for Strategies in the next stage

Daniel Kaufmann, World Bank Institute

www.worldbank.org/wbi/governance

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The newly released ‘Governance Matters IV’ Report (May 2005), is authored by D. Kaufmann, A. Kraay, and M. Mastruzzi. The report, as well as access to the data, is at: www.worldbank.org/wbi/governance/pubs/govmatters4.html
Challenging Convention – key tenets

1. ‘Washington Consensus’ of the ’90s on key challenges to Development: Where Governance, Human Rights & Security?

2. Governance, Human Rights, Security and Development: Wholly separate fields, conceptually and operationally


4. Good Governance as a result of development & growth – & emerging economies corrupt; rich world a model

5. Recent Trend Worldwide: Governance has improved

6. The Trouble is with Public Sector/Public Officials in LDCs…

7. Cultural & Historical Determinism of Corruption

Tenet # 9: All Previous Hypotheses are incorrect, and we need a different and integrated framework 


2. Huge ‘development dividend’ of good governance 

3. Worldwide: On Average, Governance and Human Rights have not improved 

4. This has implications for Development and Security 

5. Some countries improved in the short term: feasible! 

6. Integrated Framework and New Findings have major implications for new Strategies, and for rich world
Evolution of Governance/A-C at the World Bank: From C ... ‘Prohibition’ era to Mainstreaming

The ‘Prohibition’ Era

WDR on Institutions 1982

- TI CPI (5/95)
- JDW “Cancer of Corruption” Speech (10/96)
- Strategic Compact (97)
- Anti-corruption Strategy (97)

Broadening & Mainstreaming

- O.P. Mainstreaming AC in CAS (99)
- Governance Strategy (00)
- Internal AC unit created in WB (98)
- 1st set of firms Debarred from WB (99)
- Formalization of INT (01)

- Public Expenditure, Financial Mgt. & Procurement Reforms
- Diagnostic/Data/ Monitoring Tools
- Administrative & Civil Service Reform
- Civil Society Voice, Accountability, Media & Transparency Mechanisms
- State Capture/Corporate Governance
- Legal/Judicial Reform

Data & Research Corruption-Development

- Governance Pillar - CDF (98)
- Gov/A-C Diagnostics start (98)
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Governance & Anti-Corruption (A-C) at the Bank—Themes

1. Evolution of Governance/A-C at the World Bank:
   -- From missing in Washington consensus to center stage
   -- Bank: From C.... ‘Prohibition’ era to Mainstreaming

2. Main components of the World Bank’s strategy:
   -- Governance/A-C key in Country Strategy & Lending
   -- Working with Countries on Governance Reforms/A-C
   -- Working with International Partners
   -- Anti-Corruption In-house: Projects and Staff Integrity

3. Specifics on Preventing & Sanctioning Corruption in Bank-funded projects: work of INT Department – prevention, deterrence & investigation

4. The ‘Data Revolution’: Integration at 3 Levels
Number of IBRD/IDA Operations with Explicit Anti-Corruption Components, 1997-2003

World Bank projects with Governance Components (Annual Averages)

- 1997: 155
- 1998-2001: 172
- 2002-03: 186

World Bank projects with Anti-Corruption components (Annual Averages)

- 1997-98: 12
- 1999-00: 14
- 2001: 14
- 2002: 28
- 2003: 31

Explosion of activities: Examples of major programs launched across countries

Albania (public admin.)
Latvia (anticorruption)
Ukraine (tax admin)
Russia (customs/treasury)
Kyrgyz Republic (governance reform)

Jordan (civil society)

Ghana (PE accountability)

Gabon (water/electricity)

Uganda (PRSC; education)

Tanzania (PSR)

Ethiopia (decentralization)

Pakistan (devolution)

Bangladesh (civil society)

Colombia (diagnostics & civil society)

Guatemala (diagnostic to action program)

Bolivia: (public admin.)

Gambia (PE accountability)

Ukraine (tax admin)

Philippines (transport)

Indonesia (local governance)

Cambodia (PE; forestry)

Ghana (PE accountability)

Ethiopia (decentralization)

Pakistan (devolution)

Bangladesh (civil society)

India – Andra Pradesh (power; e-gov); Karnataka (right to info)

Ukraine (tax admin)

Russia (customs/treasury)

Kyrgyz Republic (governance reform)
Empirical Approach to Governance

1. ‘Macro’: 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...
The Governance ‘Macro’ Level

- Defining and unbundling succinctly
- The 6 dimensions of Governance: how conceptually derived, how measured
- The governance worldmap, & web interactivity
- What the ‘Macro’ can and cannot do...
- ‘Governance Matters IV’ – new report with major findings
Main Findings in ‘Governance Matters IV’

• Updated dataset: 6 dimensions of governance for 209 countries
  – more data sources, increased precision
• Yet margins of error in governance estimates remain
  – incorporate when comparing countries and over time
  – Not unique to our aggregate ‘subjective’ indicators
• Changes in governance over time 1996-2004
  – Are these changes are significant?: new method
  – Have occurred in some countries, not worldwide
• How useful are ‘perceptions’-data on governance?
• What is the “development dividend” of good governance, and is a ‘poverty discount’ warranted?
Six Dimensions of Governance

Governance as the set of traditions and institutions by which authority in a country is exercised -- specifically:

- The process by which those in authority are selected and replaced
  - VOICE AND ACCOUNTABILITY
  - POLITICAL STABILITY & ABSENCE OF VIOLENCE/TERRORISM

- The capacity of government to formulate and implement policies
  - GOVERNMENT EFFECTIVENESS
  - REGULATORY QUALITY

- The respect of citizens and state for institutions that govern interactions among them
  - RULE OF LAW
  - CONTROL OF CORRUPTION
Governance Data

- Data on governance from 37 different sources constructed by 31 different organizations
- Data sources include cross-country surveys of firms, commercial risk-rating agencies, think-tanks, government agencies, international organizations, etc.
- 352 proxies for various dimensions of governance
- Organize these measures into six clusters corresponding to definition of governance, for five periods: 1996, 1998, 2000, 2002, 2004
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, *Vanderbilt University/USAID*
Sources of Governance Data, Cont’d

- **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, Fundar, International Research and Exchanges Board, Brown University, Columbia University, Binghamton University

- **Expert Assessments from Governments, Multilaterals:** World Bank CPIA, EBRD, AFDB, ADB, UNECA, State Dept. Human Rights Report
Control of Corruption: one Aggregate Indicator
(selected countries from 204 worldwide, for illustration, based on 2004 research data)

Source for data: ‘Governance Matters IV: Governance Indicators for 1996-2004’, D. Kaufmann, A. Kraay and M. Mastruzzi, (http://www.worldbank.org/wbi/governance/govdata); Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
Control of Corruption, 2004: World Map

Source for data: ‘Governance Matters IV: Governance Indicators for 1996-2004’, D. Kaufmann, A. Kraay and M. Mastruzzi, (http://www.worldbank.org/wbi/governance/govdata); Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
Voice & Accountability, 2004 (Selected Countries)

<table>
<thead>
<tr>
<th>Country</th>
<th>Governance Level</th>
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<tr>
<td>MYANMAR</td>
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<td>KYRGYZSTAN</td>
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Margins of Error

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Measurable Worldwide Trends in Governance?

• Through new method, we showed that it is possible to identify significant changes over time

• It is found that changes can take place in the short-term: in 6-to-8 years, some deteriorations as well as some significant improvements as well

• Yet has the world on average improve on governance over the period?
Significant Decline in Inflation Rates Worldwide

Source: ‘Rethinking Governance’, based on calculations from WDI. Y-axis measures the log value of the average inflation for each region across each period.
Quality of Infrastructure

Source: EOS 1997-2003 (Quasi-balanced panel). Question 6.01: General infrastructure in your country is among the best in the world?
No Significant Trend in Control of Corruption

Worldwide Averages – *Lack of Improvement*

PRS country coverage in 1996: 129, all other periods 140; QLM and EIU country coverage: 115 for all periods.
Voice and Accountability, 1996/2004

Source: Kaufmann, Kraay and Mastruzzi, Governance Matters IV (2005), http://www.worldbank.org/wbi/governance/pubs/govmatters4.html. Please note the values are rescaled from the original to 0-1. However they are not strictly comparable with the other 5 indicators in panels A-E because they are from a different source.
Human Rights; 1stGHR (1): Absence of Killings

Human Rights; 1stGHR (3): Absence of Torture

Human Rights; 1stGHR (4): Political Participation

Human Rights; 1\textsuperscript{st} GHR: Life Protection (Composite of Absence of Killings, Absence of Disappearances, Absence of Torture, & Absence of Imprisonments)

Human Rights; 1st GHR: Women’s Rights (Composite of Economic, Social, and Political Rights)

Changes in Control of Corruption, 1996-2004

Changes were calculated on the basis of the differences in country estimates from 1996 and 2004. Classification for major deteriorations and improvements were based on 75% confidence interval. Source for data: http://www.worldbank.org/wbi/governance/govdata/.
Changes in Voice and Accountability, 1996-2004

Changes were calculated on the basis of the differences in country estimates from 1996 and 2004. Classification for major deteriorations and improvements were based on 75% confidence interval. Source for data: http://www.worldbank.org/wbi/governance/govdata/.
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Governance Indicators: Zimbabwe, 1996/2004

Source for data: http://www.worldbank.org/wbi/governance/govdata2002; Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
Governance Indicators: Ukraine, 1996/2004

Source for data: http://www.worldbank.org/wbi/governance/govdata2002; Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
Governance Indicators: Brazil, 1996/2004

Source for data: http://www.worldbank.org/wbi/governance/govdata2002; Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
Governance Indicators: Mexico, 1996/2004


Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
Governance Indicators for South Africa, 1998 & 2004

Source for data: ‘Governance Matters IV: Governance Indicators for 1996-2004’, D. Kaufmann, A. Kraay and M. Mastruzzi, (http://www.worldbank.org/wbi/governance/govdata); Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
Governance Indicators: Chile, 1996/2004

Source for data: http://www.worldbank.org/wbi/governance/govdata2002; Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
Governance Indicators: Finland, 1996/2004

Voice and Accountability

Political Stability

Government Effectiveness

Regulatory Quality

Rule of Law

Control of Corruption

Comparison between 2004, 1996 (top-bottom order)

Country’s Percentile Rank (0-100)

Source for data: http://www.worldbank.org/wbi/governance/govdata2002; Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
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: Angola → Brazil → Estonia or Botswana → US, Canada or Germany, or, the difference from Equatorial Guinea → Cuba, Iran or Uganda → Mauritius → Portugal → Finland or New Zealand or, difference from

3. The impact is from governance to incomes, and not vice versa -- higher incomes alone will not do.

4. Urgency of interventions to improve governance
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.
The ‘Mezzo’ Level of Governance Measurement

• Based on cross-country surveys, mainly of enterprises – (such as the EOS of WEF, BEEPS/WBES of WB, etc.)
• Thousands of firms interviewed on a range of issues; focus on governance, specialized questions
• More detailed unbundling of governance and corruption phenomena than aggregate indicators
• Relatively broad country coverage, but less than aggregate governance indicators
• Measuring what is taking place De Facto matters: it uncovers stark realities masked in De Jure indicators
Impact on Global Competitiveness Index (GCI) Rank of Improvement in Constraint to the Firm

Source: Constraints to Business data based on EOS 2004 (Question: “From the following list, please select the five most problematic factors for doing business in your country, and rank them from 1 to 5.”); GCI based on GCR team calculations for 2004/2005 Report; GDP per capita from World Bank. Calculations based on regression estimates of the impact on the GCI of an improvement in the constraint by one standard deviation.
Voice & Accountability vs. Control of Corruption

Source: KK 2004

Correlation coefficient: $r = 0.73$
Global vs. Domestic Governance Challenges: % Firms Report High Cost of Terrorism and Crime, EOS

% Firms Report High Cost of:
- Terrorism
- Organized Crime

Percentage Firms Report High Cost of Terrorism and Crime in Various Countries:
- Canada
- Chile
- Colombia
- Israel
- Italy
- Japan
- Mexico
- Russia
- United Kingdom
- United States
Money Laundering through Banks and Diversion of Public Funds

Money Laundering through Banks

$\text{Low} \quad 1 \quad 1 \quad \text{High}$

Diversion of Public Funds

$\text{Low} \quad 1 \quad 1 \quad \text{High}$

$r = 0.85$
Frequency of bribery at home and abroad, EOS 2004

Source: EOS 2004. The percentage of firms that report bribery takes place within its group in the country is depicted in each case. EOS Question on which these calculations are based: “In your industry, how commonly would you estimate that firms make undocumented extra payments or bribes connected with the following: public utilities, tax payments, awarding of public contracts? very common (1) / never occur (7).” Any firms reporting answers 1 through 5 were considered to be reporting at least some frequency of bribery, while answers of 6 and 7 were not.
The ‘Micro’ Level – In-depth in-country diagnostics for action programs

Key Features of Governance Diagnostic Tools

• Multi-pronged surveys of: households, firms and public officials ['triangulation']
• Experiential questions (vs. ‘opinions’/generic)
• Local Institution Implements, w/WB Collaboration
• Recognizing Multidimensionality of Governance
• Focus on Service Delivery
• Input for Action and Change: Action Programs
Additional cases

- Ghana: report and strategy (2000), integration of results into Bank projects, dissemination at national and regional level
- Colombia: report (2001). Strategy in progress, collaboration between government and steering committee
- Bolivia: report (2001); country reform policy for Judiciary and procurement
Misgoverned vs. well Governed Agencies in-Country
(as ranked by public officials, 2000 diagnostic)
Citizen Voice Helps Control Bribery

(Bolivia Diagnostics)

Based on 90 national, departmental, and municipal agencies covered in the Bolivia Public Officials Survey.
Politicized Agencies tend to have high incidence of Budgetary Leakages

Yellow columns depict the unconditional average for each category. Blue line depicts the controlled causal effect from X to Y variables. Dotted red lines depict the confidence ranges around the causal effect depicted by the blue line.
Transparency within Government Agencies Prevents Purchase of Public Positions

Based on 90 national, departmental, and municipal agencies covered in the Public Officials Survey.
Conclusions and Policy Implications

1. Measuring governance, human rights, and security is imperative -- Lord Kelvin…
   • Policymakers, citizens, enterprises and investors know that good governance is key: demand data
   • Empowers civil society and reformers for change
   • Helps donors assess aid effectiveness
   • Enables policy-relevant research on causes and consequences of good (and bad) governance

2. Measuring Governance, Human Rights & Security is feasible -- But progress varies across fields

3. Misgovernance in ‘Failed’ States linked to Global Security Challenge
Policy Implications, Cont’d

4. Governance Matters: large “development dividend”
   • strong causal impact of governance on incomes, but little evidence that higher incomes raise governance
   • But the world on average is ‘stagnant’ – w/ variance

5. Thus, need to refocus efforts to improve governance
   • frank questioning of what doesn’t work – Anti-Corruption campaigns, drafting of more laws, more ethics commissions, voluntary codes, conventions?, etc)
   • Move away from ‘silos’ of governance, Anti-Corruption, Human Rights, Security and development
6. Deserving particular attention…

1. ‘Data Power’ / Metrics Matters
2. Accountability, Voice & Human Rights Matters
3. Transparency Strategy and Reforms (vs. Over-Regulations)
4. Focus on Incentives and on Prevention
5. The Role of the Firm and Elites (influence, capture, assoc.)
6. Political Reform, including on Political/Campaign Finance, on (‘Quotas’) of Political Appointments
7. Governance strategy in Post Conflict & quasi-failed states
8. Capital Markets Development – as ‘market-disciplining’
9. For Rich/Donor Countries, & IFIs: Serious Implications in terms of Linking Aid & Good Governance for Development and Security
10. Toward an ‘Era of Impatience’ in Governance?
Collective Responsibility: Role Rich Countries

- MNCs still misbehave
- Globalization means globalized terror
- Influence on IFIs: Aid with Governance
- Trade Barriers and Subsidies
- Banking Opacity
- Restitution of Looted Assets
- Arms Trading
- Examples in Good Governance & Transparency
- Incentives: Joining ‘Elite Political/Economic Groups’
Subnational Indices are feasible: Index of State Capture in Mexican States – by Monterrey Tech, 2002

- Baja
- Media Baja
- Media
- Media Alta
- Alta

- Querétaro
  - Aguascalientes
  - Coahuila
  - Durango
  - Sinaloa
  - Sonora
  - Yucatán

- Baja California
  - Guanajuato
  - Nayarit
  - Nuevo León
  - Puebla
  - Tlaxcala
  - Zacatecas

- Baja California Sur
  - Colima
  - Chihuahua
  - Jalisco
  - México
  - Michoacán
  - Morelos
  - Oaxaca
  - San Luis Potosí
  - Tabasco
  - Tamaulipas

- Campeche
  - Chiapas
  - Distrito Federal
  - Guerrero
  - Hidalgo
  - Quintana Roo
  - Veracruz
Governance Has Improved in Some Groups: e.g. “Pull Effect” of EU Accession

Control of Corruption vs. Institutional Transparency

Sources: Governance Matters IV by KKM (2005) and Transparenting Transparency by BK (2005). N. of countries: 190
Control of Corruption vs. Political Transparency

$r = 0.76$

Sources: Governance Matters IV by KKM (2005) and Transparenting Transparency by BK (2005). N. of countries: 190
Data for Analysis and Informing Policy Advice, Not for Precise Rankings

Any data on Governance, Institutions, and Investment Climate is subject to a margin of error. It is not intended for precise country rankings, but to highlight relative strengths and weaknesses and draw analytical and policy lessons. The data presented here and in the Report do not necessarily reflect official views on rankings by the World Bank or its Board of Directors. Errors are responsibility of the authors.

Further materials & access to interactive data:
General: www.worldbank.org/wbi/governance
Data: www.worldbank.org/wbi/governance/govdata/
Report: