Debunking Myths on Worldwide Governance and Corruption

The Challenge of Empirics -- and Implications

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A ‘Live’ Test: ‘Cultural Determinism’ or Information and Incentives...

• You are approaching your car in the empty and unattended garage late at night
• You see an envelope on the floor, and you pick it up
• It contains 20 bills of US $100 each.
• If no possibility that anyone would know: No cameras, no monitoring, no reporting
• What would you do with such envelope full of cash?
A. If no possibility that anyone would know:

You are alone, there is no monitoring, cameras, or possibility of reporting

- 50% Undecided
- 33% Report and Return Funds
- 17% Keep

Option Finder Results: Various Audiences
B. If 30% probability that information is shared (e.g. 30% that camera recording info which may be reviewed)

- 74% Report and Return Funds
- 22% Undecided
- 4% Keep
Challenging Convention – key tenets

1. Good Governance = Anti-Corruption
2. Governance Measurement Skepticism
3. Some evidence: Governance has improved globally?
4. Good Governance: outcome of development and growth? – & emerging economies are corrupt…?
5. The trouble with Public Sector & Officials in LDCs...
6. Cultural & Historical Determinism of Corruption
7. Fighting corruption by ‘Fighting Corruption’
   (Laws, Codes, Campaigns, Agencies & Regulations)
Tenet # 8: Challenging the previous 7 ‘popular notions’

1. Data Matters -- *on Governance & Institutions*: while ‘sensitive’, & margins of error (not uniquely) – data can be gathered, analyzed, and used judiciously

2. Expanding Beyond the Washington Consensus-- Adding to the Macro and the Structural’/Sectoral: Institutions, Governance and Corruption Matters

3. On Average: stagnation on Governance, and level is low - - *Has it become a binding constraint nowadays?*

4. Significant variance: some countries show that it is feasible to improve governance in the short term

5. Interventions that have not worked – vs. what may work better in the future? – *Transparency matters*
Evolution of Governance/A-C at the World Bank: From C ... ‘Prohibition’ era to Mainstreaming

The ‘Prohibition’ Era

- WDR on Institutions 1982
- JDW “Cancer of Corruption” Speech (10/96)
- TI CPI (5/95)

Data & Research Corruption-Development

- Strategic Compact (97)
- Anti-corruption Strategy (97)
- Governance Pillar - CDF (98)
- Gov/A-C Diagnostics start (98)
- Internal AC unit created in WB (98)
- 1st set of firms Debarred from WB (99)

Broadening & Mainstreaming

- O.P. Mainstreaming AC in CAS (99)
- Governance Strategy (00)

- 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

Explosion of activities: Examples of major programs launched across countries

- Latvia (anticorruption)
- Russia (customs/treasury)
- India – Andra Pradesh (power; e-gov); Karnataka (right to info)
- Colombia (diagnostics & civil society)
- Indonesia (local governance)
- Uganda (PRSC; education)
- Pakistan (devolution)
- Tanzania (PSR)
- Ethiopia (decentralization)
- Ghana (PE accountability)
- Gabon (water/electricity)
- Jordan (civil society)
- Uganda (diagnostic to action program)
- Colombia (diagnostics & civil society)
- Bolivia: (public admin.)
- Guatemala (public admin.)
- Jordan (public admin.)
- Latvia (anticorruption)
- Ukraine (tax admin)
- Russia (customs/treasury)
- Kyrgyz Republic (government reform)
- Cambodia (PE; forestry)
- Philippines (transport)
- Bangladesh (civil society)
- Pakistan (devolution)
- India – Andra Pradesh (power; e-gov); Karnataka (right to info)
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
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.
Government Effectiveness, 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.
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?
Judiciary Independence (EOS survey results 1998-2004)

High Independence

Independencia de la Judicatura

1998 1999 2000 2001 2002 2003 2004

OECD
East Asian NICs
Latin America
NON OECD
No Significant Trend in Control of Corruption
Worldwide Averages

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

Source: 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).
Changes in Rule of Law, 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/](http://www.worldbank.org/wbi/governance/govdata/).
Governance Indicators: Zimbabwe, 2004 vs. 1996

Source for data: [http://www.worldbank.org/wbi/governance/govdata2002](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.
Croatia 2004 vs.1996

Governance Indicators: Chile, 2004 vs. 1996

Source for data: [http://www.worldbank.org/wbi/governance/govdata2002](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 for Finland, 2004 vs. 1996

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 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 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.
Some Key Constraints to Business, by Region, Responses from the Firm in EOS 2005

% firms reporting constraint among top 3:

- Infrastructure
- Corruption
- Tax Regulations
- Inflation

Source: EOS 2005. The question posed to the firm was: Select among the above 14 constraints the five most problematic factors for doing business in your country. Note that the overall EOS sample covers 120 [CHECK] countries, and in some regions – particularly in the Middle East, Africa and the FSU, many countries are not surveyed. Thus, regional averages need to be interpreted with caution, since typically countries not surveyed tend to rate lower in governance than those surveyed.
Multinationals Bribe Abroad?

% Firms Reporting Frequent Procurement Bribery, EOS 2005

- Domestic Firm in OECD Country
- OECD Multinational in another OECD country
- OECD Multinational in Non-OECD country
- Domestic Firm in Non-OECD Country

Procurement Bribery is prevalent (% Firms Report)

Source: EOS, preliminary.

Question: In your industry, how commonly would you estimate that firms make undocumented extra payments or bribes connected with the following: permits, public utilities, tax payments, loan applications, awarding of public contracts, influencing of laws, policies, regulations and decrees to favor selected business interest, and judicial decisions. Any firms reporting answers 1 through 3 were considered to be reporting at least high frequency of bribery, while answers 4 through 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
In a diagnostic in a Latin American country, misgovernance is a regressive tax (similarly in other countries)

Bribe/Total Income ratio, %

- **Low Income**: 4.2
- **Middle Income**: 2.1
- **High Income**: 1.4
Extent of Integrity in Institutions in Guatemala (2004 Diagnostic, responses from service users; firms, and public officials)

% of respondents reporting the institution to be honest

- Church
- San Carlos University
- Media
- International Donnors
- Political Parties
- Customs
- Police
- Congress

Legend:
- Usuarios
- Empresas
- Funcionarios Publicos
Citizen Voice Helps Control Bribery

(Bolivia Diagnostics)

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

1. Measuring governance is important
   - 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 is feasible
   - Important to exercise care, margins of error matter
   - ‘Objective’ Indicators are also challenged
   - Being precise about degree of imprecision in all data
Policy Implications, Cont’d

3. Governance Matters: large “development dividend”
   • strong causal impact of governance on incomes, but little evidence that higher incomes raise governance
   • Thus, no rationale for applying a ‘governance discount’ to poor countries

4. The world on average is ‘stagnant’—some countries have improved significantly, others deteriorated, many stagnated

5. Need to refocus efforts to improve governance
   • frank questioning of what doesn’t ‘hold water’:
     -- Anti-Corruption campaigns
     -- Drafting more laws, codes, and Conventions
     -- Create additional ethics and A-C agencies
     -- ‘Blame’ History, Culture or Legal Origins
     -- ‘Blame’ Reform, Privatization, Globalization
What Appears to Work or Holds Promise…

1. ‘Data Power’ / Metrics Matters
3. Transparency Strategy and Reforms (vs. Over-Regulations)
4. Focus on Incentives and on Prevention
5. Political Reform, including on Political/Campaign Finance
6. Working with the Corporates, MNC, Banking Sector
7. Capital Markets Development – as ‘market-disciplining’
8. For Rich/Donor Countries, & IFIs: ‘Tougher Love’ on Governance may make a difference? – on some of the above
10 Transparency Initiatives in a Strategy

2. Public Disclosure of Political Campaign contributions by individuals and firms, and of campaign expenditures
3. Public Disclosure of Parliamentary Votes, without 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 by all to government information
7. Fiscal/Financial transparency: central/local budgets; EITI
8. Transparency in Ownership and Financial Status of Banks
9. E*procurement: transparency (web) and competition
10. Governance Diagnostic Surveys and PETS
Transparency and Citizen Oversight
Tracking Education Dollars in Uganda

equiv. US$ per student

Source: Uganda Public Expenditure Tracking Surveys
Governance Has Improved in Some Groups: e.g. “Pull Effect” of EU Accession

High

Low