Governance and Corruption Worldwide:

*Empirical Evidence and Lessons for Policy*

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"If you cannot measure it, you cannot improve it."

-- Lord Kelvin
Challenging Convention – key tenets

1. Governance and Corruption are Unmeasurable
2. Some evidence: Governance has improved globally?
3. Good Governance: outcome of development and growth? – & emerging economies are corrupt…?
4. The trouble is with Public Sector & Officials in LDCs
5. Cultural & Historical Determinism of Corruption
6. Fighting corruption by ‘Fighting Corruption’
   (Laws, Codes, Campaigns, Agencies & More Regulations)
Tenet # 7: Challenging the previous ‘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, Meritocracy and Deregulation matters – within collective action with private sector, legislative and judiciary
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
Voice & Accountability, 2004 (Selected Countries)

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: 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

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Judiciary Independence *(EOS survey results 1998-2004)*

**High Independence**

- **OECD**
- **East Asian NICs**
- **Latin America**
- **NON OECD**

![Graph showing trends in judiciary independence](graph.png)
Are all Countries Stagnating in Governance?

- The world on average has not improved
- But large or small variation across countries?
- New method: for each country, we can identify whether there are 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
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, 1996/2004

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, 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 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
Voice and Accountability vs. Control of Corruption

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
- Addresses empirically: ‘It takes two to “tango”’
Some Key Constraints to Business, by Region, Responses from the Firm in EOS 2005

% firms reporting constraint among top 3:

- Foreign Currency
- Bureaucracy
- 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.
Figure 1: Better Governance is Associated with Higher Country’s Competitiveness

Sources: GCI is from GCR2005/6 by WEF. Control of Corruption from Kaufmann, Kraay and Mastruzzi, ‘Governance Matters IV: Governance Indicators for 1996-2004’.
Variance in Governance across cities within same country: 
*Bribery in Procurement as an illustration*

Source: author calculations based on EOS firm survey, WEF2003, 271 cities. Question: In your industry, how commonly firms make undocumented extra payments or bribes connected with awarding of public contracts? (7: very common.... 1: never occur)
Local Services:
Access to Water, City Governance and Globalization
(Non OECD Sample)

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
Misgoverned vs. well Governed Agencies in-Country
(as ranked by public officials, 2000 diagnostic)

- The Transit Commission of Guayas
- Congress
- Transit Council
- Customs
- Police
- Petroecuador
- The President of the Republic
- Ombudsman
- NGOs
- Army
- The Church
- Professional Organizations

% reporting that the agency is very corrupt
Citizen Voice Helps Control Bribery
*(Bolivia Diagnostics)*

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

**Voice / External Accountability**

- **Simple Average Association**
- **Control Causal Link**
- **Margin of Error**

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

1. Measuring governance is important
2. Measuring Governance is feasible
3. Governance Matters: large “development dividend”
   • strong causal impact of governance on incomes, but little evidence that higher incomes raise governance
4. The world on average is ‘stagnant’ – *but some countries have improved significantly*
5. Need to refocus efforts to improve governance
   • frank questioning of what *doesn’t* work:
     -- 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…

1. ‘Data Power’ + Transparency Strategy & Reforms
3. Subnational Level Reforms and Focus (cities, villages..)
4. Deregulation/ Integrate to world economy & markets
5. Focus on Incentives and on Prevention
6. Meritocratic Civil Service & Oversight Institutions
7. Budgetary/Public Expenditure Reforms
8. Political Finance Reform
9. Role of Corporate/Banking Sectors & Multinationals
10. Judicial Reform
Governance Has Improved in Some Groups:
e.g. “Pull Effect” of EU Accession

Bibliographical References


