Governance and Corruption: 
Some Empirics and Lessons

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"If you cannot measure it, you cannot improve it."
-- Lord Kelvin
Challenging Convention – key tenets

1. Good Governance = Anti-Corruption
2. Governance Measurement Skepticism
   • Unmeasurable, or,
   • Measurable, but so imprecise that it is not useful, or,
   • Measurable, but only through ‘Objective’ Indicators
   • Cannot Assess Trends: Unreliable or No Time Series

2. Some evidence: *Governance has improved globally*?

3. Good Governance: *outcome* of development and growth? – & *emerging economies are corrupt*…?

4. The trouble with Public Sector & Officials in LDCs...

5. Cultural & Historical Determinism of Corruption

6. Fighting corruption by ‘Fighting Corruption’ *(Laws, Codes, Campaigns, Agencies & Regulations)*
Tenet # 7: Challenging the previous 6 ‘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
The ‘Power of Data’: Technical progress in measurement -- gradual increase in use

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…*
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.
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 10<sup>th</sup> percentile rank; 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>.
Regulatory Quality, 2004: Latin America & Caribbean

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.
Precision vs. Number of Sources, KKZ Governance Estimates, 2000/01

Note: See explanatory details in this slide’s note
Is Governance Improving Worldwide?

- Sobering Comparison between Governance and other dimensions over time
- Sobering for worldwide averages, but variance is present, and also offers bright spots and hopeful lessons
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

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.

% countries in 1995

% countries in 2004

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).
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/.
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 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 $\rightarrow$ Iran or Uganda $\rightarrow$ Mauritius $\rightarrow$ Portugal $\rightarrow$ 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.
Development Dividend From Good Governance

Low Governance | Medium Governance | High Governance

Control of Corruption

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

• Addresses empirically: ‘It takes two to “tango”’
Figure 11: Better Governance is Associated with Higher Country’s Competitiveness

\[ r = 0.90 \]

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.
Source: EOS firm survey, WEF2002-05. Question: In your country, diversion of public funds to companies, individuals or groups due to corruption is common / never occurs.
Neutrality in Public Policy and Public Contract Decision-making by Government -- *Responses by Firms*

% Firms Report High Neutrality (5-7)

Source: EOS firm survey, WEF2002-05. Question: When deciding upon policies and contracts, government officials are neutral.
Bribery in Procurement, Responses by Firms

% Firms that Report High Bribery (1-3)

Source: EOS firm survey, WEF2002-05. Question: In your industry, how commonly firms make undocumented extra payments or bribes connected with the judiciary?
Multinationals Bribe Abroad?

% Firms Reporting Frequent Procurement Bribery, EOS 2005

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.
Perception Measures Capture Pervasive Effects of Corruption

How Much Harder is it to Start a Business...

...If Days to Start a Business is High?  
...And If Corruption is High?

Source: Kaufmann, Kraay and Mastruzzi (2005). The vertical axis measures the estimated impact on firms’ responses to a survey question regarding the difficulty of starting a business (the 2004 Global Competitiveness Survey) corresponding to a de jure measure (capturing the number of days required to start a business) moving from the 50th percentile to the 75th percentile (first bar) and from also having overall corruption levels move from the 50th to the 75th percentile (second bar).
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*
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

- Usuarios
- Empresas
- Funcionarios Publicos
### ‘Unbundling’ Bribery: Guatemala, 2003-05

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<th>% Firms Report High Bribery (1-3)</th>
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**Source:** EOS firm survey by the World Economic Forum, 2002-05. Question: In your industry, how commonly firms make undocumented extra payments or bribes connected with permits/utilities/taxation/awarding of public contracts/judicial decisions?
Bribery as a Regressive Tax

(% of income spent in bribes to obtain services, as reported by households/firms in Guatemala 2004)

For Firms and for households
Citizen Voice Helps Control Bribery

*(Bolivia Diagnostics)*

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

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


Intended grant
Actual grant received by primary school (means)

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