



**HUMAN RIGHTS AND DEVELOPMENT:  
TOWARDS MUTUAL REINFORCEMENT**

A paper prepared for a conference co-sponsored by the Ethical Globalization Initiative  
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**Human Rights and Governance:  
The Empirical Challenge**

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## **Human Rights and Governance: The Empirical Challenge**

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Prepared for:

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### ***Abstract***

We undertake to address some of the challenges related to the measurement and empirical analysis issues in this field, offering an exploration of the evidence and links between human rights, governance and development. We assess recent data and trends on human rights, and review the links between the first generation human rights (political and civil rights) and second generation (socio-economic) human rights. Based on the evidence, we suggest that first generation human rights have not advanced significantly worldwide in recent times, and, importantly, that these first generation human rights may causally affect the country's second generation human rights outcomes and performance. The results pointing to the causal link from first generation human rights to improved socio-economic outcomes are apparent at the aggregate country-wide level as well as the micro project level.

We then explore the empirical linkages between both generations of human rights, on the one hand, and other governance dimensions, on the other. In particular, within governance, we explore how rule of law, corruption, and corporate ethics interface with civil liberties and related human rights variables. We suggest that components of governance, such as corruption, are a mediating link between first and second generation human rights issues, and a determinant of development outcomes.

These findings, if corroborated through further research, have important implications for the donor aid community and emerging economies alike. In particular, it would point to the potential need to account for first generation human rights issues in enhancing effectiveness of development aid and its projects (either associated with the 'socio-economic second generation' human rights, or with other development projects). Further, it would also point to the need to deepen the integration of the corruption and rule-of-law dimensions of governance in aid strategies so to enhance effectiveness related to socio-economic human rights and development.

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<sup>1</sup> The author is the Director of Global Governance at the World Bank Institute (WBI). This draft paper is still under revision and as such is preliminary, for discussion. The responsibility for the errors and views in this paper are the author's, yet credit for the work discussed here is due to many collaborators within and outside of the World Bank. In particular, the collaborative projects within the World Bank with J. Hellman and A. Kraay are noted. I have also benefited from discussions with L. Moreno-Ocampo, Roberto Danino, Joseph Ingram, Gobind Nankani, and A. Sfeir-Yunis. The excellent assistance of M. Mastruzzi and F. Sheikh is acknowledged. The views, data, and research findings aim to further debate and analysis, and do not necessarily reflect official views of the World Bank or its Board of Directors. The margins of error in any governance, institutional quality and human rights dataset imply that interpretative caution is warranted in general, and in particular argue against inferring seemingly precise country rankings from the data. For details on the governance research and data: <http://www.worldbank.org/wbi/governance/>.

# **Human Rights and Governance: The Empirical Challenge**

## **0. Introduction: Human Rights—The Empirical and Governance Challenge.**

In this paper we offer a preliminary empirically-based exploration of evidence and links between human rights and governance. By doing so, in particular we challenge four notions: i) that an empirical (data-driven) approach is not productive in the field of human rights; ii) that corruption and rule of law (i.e. governance issues narrowly defined) ought not be part of a more integrated human rights approach, iii) that first generation human right issues (commonly known as ‘negative liberties’, such as civil rights/freedoms are not important determinants of economic development success and thus of attaining the mission of the donor community in general and of the International Financial Institutions (IFIs) in particular, and, importantly, iv) that at any rate, with economic development, progress in first generation human right issues would take place naturally (i.e. the ‘luxury good’ argument for civil liberties and good governance).

To address these notions, we empirically assess data and trends on human rights, and pose questions about the links between first generation human rights issues (political and civil rights) and second generation human right issues (of a socio-economic/development nature, often known as ‘positive liberties’), as well as between these twin generation human rights aspects, on the one hand, and governance in a narrow sense (rule of law, corruption), on the other.

We first review the evidence on the first generation human right issues (political and civil rights) and ask whether in recent times there appear to be a marked improvement in these set of rights. For this, we draw on a recently constructed human rights database which was codified based on an existing methodology, and is prepared as background to the worldwide aggregate governance indicators dataset. We then explore the links between first generation human rights (1GHR) and second generation (social, economic) human right issues (2GHR), drawing on our recent research linking governance dimensions (utilizing aggregate governance indicators) and socio-economic outcomes.

In this research, we do address the thorny issue of endogeneity and reverse causality, thus attempting to disentangle the direction of causality between different (generations of) human rights variables. In particular, we explore whether some 1GHR (and governance) variables may possess ‘luxury good’ attributes, in the sense that as income growth takes place (consistent with 2GHR issues) that automatically can be expected to result in improvements in some 1GHR dimensions.<sup>2</sup> Whether such reverse causality is evident or not has implications for policy and interventions.

We then complement this ‘macro-aggregate’ empirical exploration of the link between 1GHR and 2GHR issues by reviewing our research findings at the ‘micro’ level, where we asked whether civil liberties and political participation do enhance the economic returns of (World

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<sup>2</sup> Strictly speaking, the so called second generation UN Covenant refers to social, economic and cultural rights (1966), while in 1976 the UN adopted a Declaration on the Rights to Development. For purposes of our analysis, a simplified (and somewhat ‘bundled’) two-generational classification is presumed, where the focus of the first generation is on political and civil rights and liberties, while the second generational issues focuses on socio-economic development issues.

Bank-funded) investment projects in developing countries. Further, we briefly explore these links utilizing an in-depth country diagnostic assessment methodology, relying on a case study of Bolivia.

In the subsequent section, we address a gap in this field: the relevance of corruption and (mis-) rule of law (and thus of mis-governance in this narrow sense, yet including the challenges in both the public and corporate sectors), and their links to human rights. Corruption and rule of law were not explicitly covered in either one of the Human Rights Covenants, or in the subsequent Declaration on the Right to Development. We review selected empirical links between such narrowly defined governance issues, on the one hand, and particular dimensions of human rights, on the other, and briefly explore potential implications of the omission of these (corporate and public sector) governance issues within a human rights-based approach.

Finally, we provide a brief exploration on the variation across specific dimensions in the links between various human rights dimensions, pointing to the importance of ‘unbundling’ the specific human rights and governance dimensions of interest and thus going beyond the more general and aggregate findings suggested in earlier sections of this paper. In particular, for those ‘unbundled’ 2GHR dimensions (for instance, some health dimensions, such as AIDS) that are not as tightly dependent by progress on 1GHR (and/or governance) factors, specific and often targeted interventions and action programs would be further warranted. Similarly, we point that unbundling *within* each generation of human rights issues suggests that some links (and correlations) between certain human rights dimensions are weaker than others. We conclude by summarizing and pointing to some general implications for policy.

## **1. First Generation Human Rights (1GHR): Data, Levels, and Trends.**

An important aim of this paper is to challenge the notion that a rigorously empirical (evidence/data-based) approach to human rights is either not feasible, or worse, counterproductive.<sup>3</sup> A priori, we depart from the premise that any measurement in this complex multidisciplinary area will be difficult, subject to margins of error, and warranting caution in the analysis and interpretation.<sup>4</sup> Yet, as it has been shown by the insights already attained by the empirical approach taken in the field of governance and anticorruption in recent times, embarking on a comprehensive data-driven approach to measure, monitor and analyze the various dimensions and trends in human rights, may have a significant payoff as well. In this paper we contribute modestly to an initial approach, to be expanded. We start by describing some of the datasets which we utilize for the analysis in this paper.

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<sup>3</sup> While the literature on human rights is overwhelmingly prose-rich and data-poor, there are noteworthy exceptions (that prove the rule) in related dimensions, such as in the case of research on child labor. See for instance the recent study by ILO, cited in the *Economist* in “Sickness or Symptom,” as well as the recent issue of the *World Bank Economic Review* (V17, No.2) on child labor, which inter alia features empirical articles on child labor by Bourguignon, Ferreira and Leite; Basu and Tzannatos; and Bhalotra and Heady; as well as Gibbons, Huebler and Loaiza (2004).

<sup>4</sup> Such point of departure has governed, in fact, the empirical approach that has been undertaken for a number of years already in the field of governance and corruption. By the mid-nineties, in fact, as is still the case in human rights nowadays, there was considerable skepticism that an empirical approach could be taken in the study of governance. Yet significant strides have been made since then in the empirics of governance, rule of law and corruption. See later sections in this paper.

### a. The Data

In this initial research paper, we utilize five different sources of information. The first two, which we draw heavily from in the earlier sections of this paper, refer to cross-country data, on human rights and governance. The second set of three sources are of a more ‘micro’ nature, drawing first from investment project rates of return and other project characteristics of World Bank-funded investments in developing countries in the past, and, secondly from two worldwide surveys of enterprises. The latter part refers to the annual Executive Opinion Survey (EOS) of the World Economic Forum (WEF), with which we have collaborated in the governance component of the questionnaire and data analysis, and to the World Business Environment Survey (WBES) which was carried out by the World Bank (in collaboration with EBRD, IDB and Harvard) in 1999-2000. In addition, we also draw on a country-specific dataset for the empirical diagnostic case study synthesis, based on the in-depth survey of public officials in Bolivia in 2000.

For this opening section, we focus on the first two datasets, namely, the more ‘macro’ cross-country information, which we describe below, in turn.

I. Human Rights Cross-Country Variables: The Cingranelli / Richards Human Rights Dataset (CIRI). The Human Rights data was coded utilizing the methodology by Cingranelli and Richards who first coded earlier years of such data, with inputs by Craig Webster, Shawna Sweeney and Rod Abouharb. The codification draws from two sources, the U.S. Department of State’s Country Reports on Human Rights Practices, and from Amnesty International’s Amnesty International Report. Both of these reports offer descriptions of human rights practices and conditions. Each variable is coded in an ordinal (not cardinal) scale, whose range varies between 0-2 to 0-4 (zero always reflecting the worse possible rating in the human rights dimension being measured), depending on the variable in question. For our presentational purposes, we have standardized all variables to be between zero (bad) and one (good).

In this paper we utilize and present selected variables from such dataset, and also construct two composites in order to illustrate aggregate trends. The first composite refers to the extent of Physical/Life Protection by the state, which is the simple average of the codified index of the following four variables: i) Absence of Killings; ii) Absence of Disappearances; iii) Absence of Torture, and, iv) Absence of Imprisonments. The second composite refers to the rights of women, and is the composite of the following three variables: women's political rights; women's economic rights, and social equality of women. The full set of variables covered in the CIRI codification are the following: political killings; disappearances; tortures; imprisonments; independence of judiciary; government censorship; political participation; freedom to travel; workers rights; women's political rights; women's economic rights; social equality of women; coups; states of emergency; freedom of religion. In the remainder of the paper we refer to this data as the CIRI dataset.

II. Worldwide Aggregate Governance Indicators. We have defined *governance* as the set of traditions and formal and informal institutions that determine how authority is exercised in a particular country for the common good, thus encompassing: (1) the process of selecting, monitoring, and replacing governments; (2) the capacity to formulate and implement sound

policies and deliver public services; and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them. For measurement and analysis, the three dimensions in this definition are unbundled to comprise two measurable concepts per each of the dimensions above, for a total of six governance components:

1. *Voice and external accountability* (that is, the government's preparedness to be externally accountable through their own country's citizen feedback and democratic institutions, and a competitive press, thus including elements of restraint on the sovereign);
2. *Political stability and lack of violence, crime, and terrorism*;
3. *Government effectiveness* (including quality of policymaking, bureaucracy, and public service delivery);
4. *Regulatory Quality*;
5. *Rule of law* (protection of property rights, judiciary independence, and so on, thus including elements of law and order); and
6. *Control of corruption*.

Applying the above definition of governance and gathering data from many different sources, we have analyzed hundreds of cross-country indicators as proxies for various aspects of governance.<sup>5</sup> These individual variables, which serve as the inputs to our aggregate governance indicators, are produced by a range of organizations. They include the perspectives of diverse observers and cover a wide range of topics (political stability and the business climate, the efficacy of public service provision, protection of property rights and judicial independence, experiences with corruption, and so on).

Imposing structure on these many available variables from diverse sources, we mapped the data to the six subcomponents of governance listed above, expressed them in common units, measured the margins of error, and, thanks to a statistical methodology, aggregated into the six governance indicators—thereby improving the reliability of the resulting composite indicator and the analysis. These indicators for 1996 through 2004, for 209 countries, are available online. They can assist in providing global empirical perspective on governance performance today and assess the historical and other determinants and manifestations of governance.<sup>6</sup>

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<sup>5</sup> For methodological details on the worldwide governance indicators presented here in brief, see Kaufmann, Kraay, and Mastruzzi (2005). The individual indicators used for the composites came from a variety of organizations, including commercial risk-rating agencies, multilateral organizations, think tanks, and other nongovernmental organizations. They are based on surveys of experts, firms, and citizens and cover a wide range of topics: perceptions of political stability and the business climate, views on the efficacy of public service provision, opinions on respect for the rule of law, and perceptions of the incidence of corruption. For a detailed explanation of sources and access to the full governance indicators databank see <http://www.worldbank.org/wbi/governance/govdata/>. See also the appendix on methodological issues related to margins of error and interpretation for these indicators.

<sup>6</sup> The full governance dataset for 1996–2004 is available at <http://www.worldbank.org/wbi/governance/govdata/>.

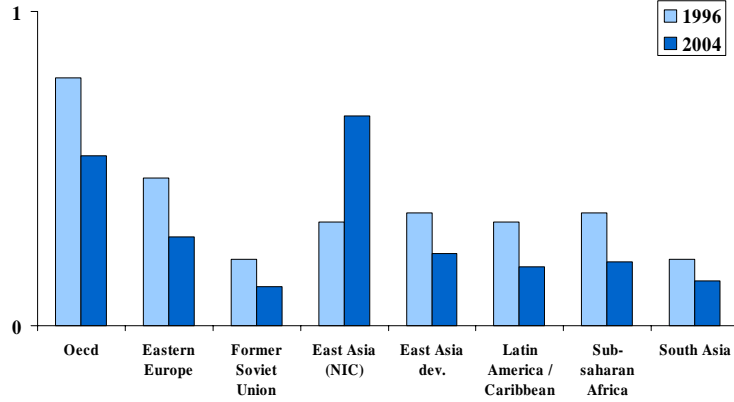
*b. First Generation Human Rights (1GHR): Initial Empirics, Levels, and Recent Trends*

The Economist, in their August 2001 coverage on Human Rights, suggested that there was a view among some NGOs and experts that significant progress in first generation human rights (1GHR) issues was a key factor in the increased focus and interest on second generation human rights (2GHR) issues. Data analysis is of help to scrutinize such view, as well as monitor trends more generally. Figure 1 below, contains 6 panels covering various dimensions of 1GHR. The first 5 panels in Figure 1 draw from the CIRI dataset, while the last panel, on voice and participatory accountability (including civil liberties), is drawn from the aggregate governance database.

The data in the many panels in Figure 1 is suggestive in a number of respects. First, the level of first generation human right indicators, in various dimensions, is nowadays far from optimal across regions, and, second, the trend in recent times has been uneven. While in a number of dimensions there has been some improvement (as for some of the more life-threatening human right violations), such progress does not appear to have been dramatic overall. Further it is uneven across regions as well as across dimensions of this ‘composite’. For instance, no worldwide upward trend on average is apparent in the elimination of torture (panel A), the resulting combination of some better ratings over the seven year period for some regions and the deterioration in others. Some improvement is seen in the government censorship variable, while the trend on the rights of women is uneven. Voice and civil liberties continue to exhibit very high variation across regions (and across countries—not shown in this figure).

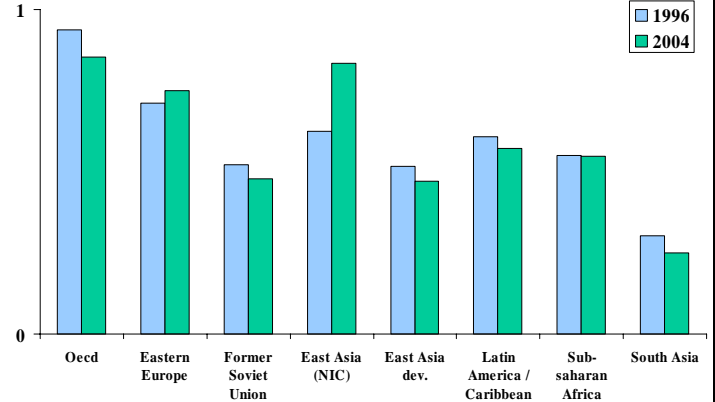
**Figure 1: Human Rights, 1<sup>st</sup> Generation Data Trends**

**Panel A: Absence of Torture**



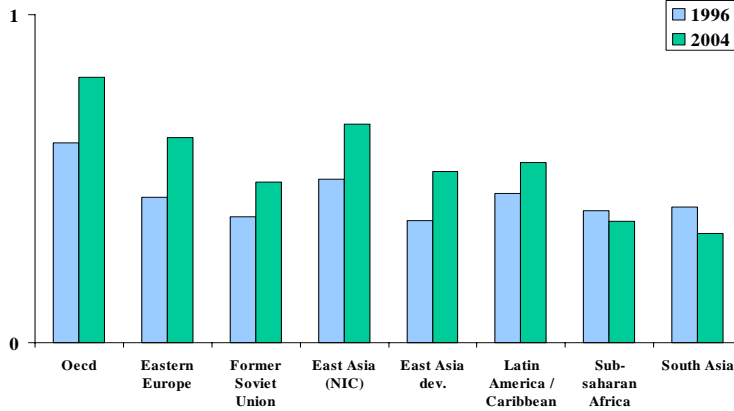
Source: Cingranelli-Richards dataset – <http://www.humanrightsdata.com>. A high value reflects respect for human rights.

**Panel B: Physical/Life Protection  
(Composite of Absence of Killings, Absence of Disappearances, Absence of Torture, and Absence of Imprisonments)**



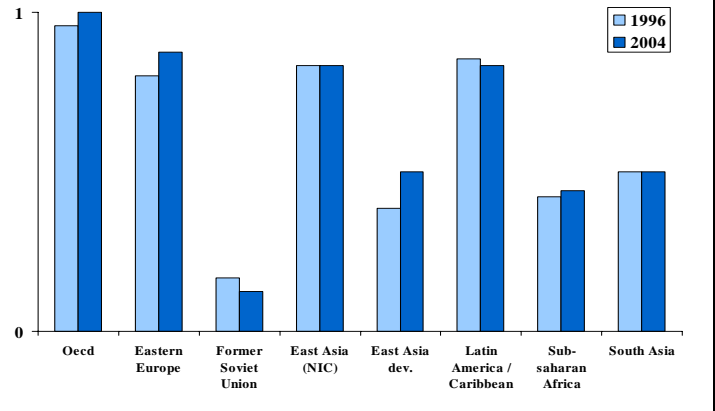
Source: Cingranelli-Richards dataset – <http://www.humanrightsdata.com>. A high value reflects respect for human rights.

**Panel C: Women's Rights  
(Composite of Women's Political Rights, Social Equality of Women, and Women's Economic Rights)**



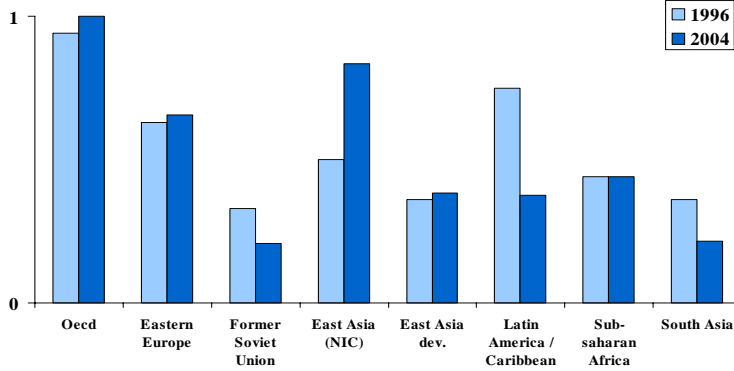
Source: Cingranelli-Richards dataset – <http://www.humanrightsdata.com>. A high value reflects respect for human rights.

**Panel D: Political Participation**



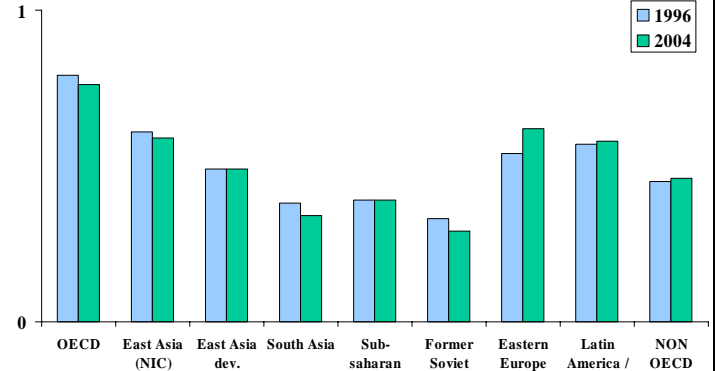
Source: Cingranelli-Richards dataset – <http://www.humanrightsdata.com>. A high value reflects respect for human rights.

**Panel E: Government Censorship**



Source: Cingranelli-Richards dataset – <http://www.humanrightsdata.com>. A high value reflects respect for human rights.

**Panel F: Voice, Civil Liberties & Accountability**



Source: Kaufmann, Kraay and Mastruzzi, Governance Matters IV (2005), <http://www.worldbank.org/wbi/governance/pubs/govmatters4.html>. Values are rescaled to a 0-1 scale. They are not strictly comparable with the indicators in panels A-E; they are from a different source.

## **2. First Generation Human Right Issues as a determinant of Second Generation Issues (or, instead, are Civil Liberties and Governance ‘Luxury Goods’ that accrue as a result of economic development)?**

Having codified the extent to which the 1GHR issues still remain a major challenge in many settings nowadays, we explore next the relevance of selected such 1GHR issues for attaining 2GHR objectives. We do so first by reporting on the cross-country research carried out with worldwide governance indicators (the ‘aggregate’ or ‘macro’ dimension), then by utilizing a ‘micro’ unit of observation (projects in developing countries) instead, and finally by taking an in-depth country diagnostic (case study) approach. Given the broader scope of this paper, in each case we synthesize the main approach and the results, referencing to the available longer research available.

### *a. The ‘Macro-Aggregate’ Dimension, and disentangling causality direction.*

The database at hand permits an initial exploration into this question of the links between first and second generation human rights issues, which we address first with the aggregate cross-country data. The first two panels of Figure 2 depicts the very close link between voice/civil liberties, on the one hand, and socio-economic developmental variables on the other—specifically child mortality and income per capita. The voice and civil liberties indicator is drawn from the aggregate governance indicator dataset (being also one of the six governance indicators). In addition to the construction of these indicators, we posed the question of whether one can disentangle causality direction from this very high correlation between these civil liberties and governance indicators, on the one hand, and socio-economic development, on the other.

Indeed, at the most basic level, the data at first reveal a very high correlation between civil liberties/good governance and key development outcomes across countries, as depicted in the three panels in Figure 2 below. Yet these very robust correlations in themselves represent a “weak” finding in terms of policy application because such correlations do not shed light on the direction of causality or on whether an omitted (“third”) correlated variable is the fundamental cause accounting for the effects on developmental outcomes. Thus, we need to probe deeper, which has been done in recent research with specialized statistical techniques, unbundling each causality direction.

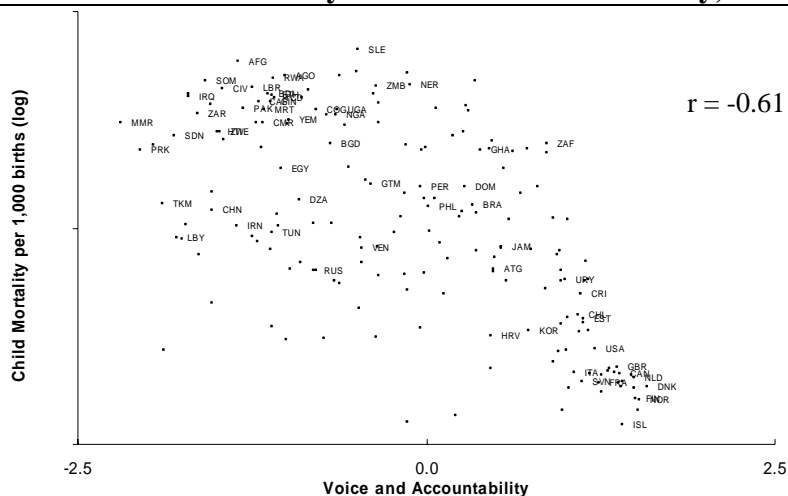
Logically there are three possible explanations for the strong positive correlation between incomes and governance (civil liberties, rule of law, etc): (1) better civil liberties/governance exerts a powerful effect on per capita incomes; (2) higher incomes lead to improvements in governance; and (3) there are other factors that both make countries richer and also are associated with better governance. Untangling the observed high correlation between incomes and governance is important in order to ascertain whether there is an automatic “virtuous circle” where higher incomes are automatically translated into improved governance, or if such positive feedback mechanism is absent then a concerted and continuous policy intervention effort to improve governance is needed. Consequently, we need a good understanding of the effects of governance on incomes as well as of any feedback mechanisms from incomes to governance that might exist—simply observing a strong correlation between income growth and governance does not suffice.<sup>7</sup>

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<sup>7</sup> Untangling the directions of causation underlying the strong correlations is explained in detail in “Growth Without Governance,” Kaufmann and Kraay (2002).

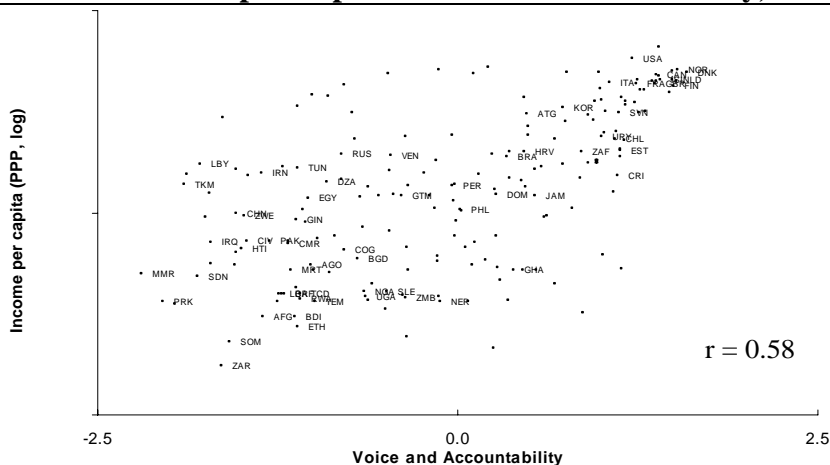
**Figure 2: 1GHR and 2GHR are highly correlated**

**Panel A: Child Mortality vs. Voice & Accountability, 2004**



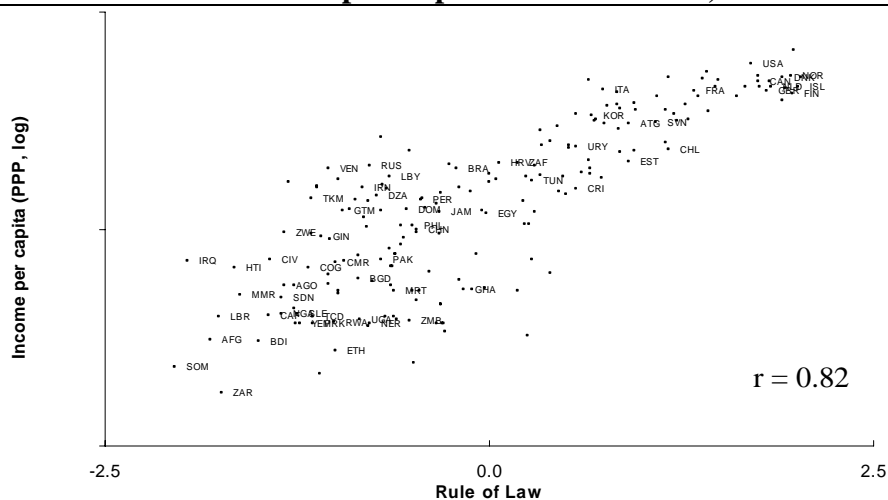
Source: KK 2004, WDI 2002.

**Panel B: Income per Capita vs. Voice & Accountability, 2004**



Sources: KK 2004, Heston-Summers & CIA World Factbook.

**Panel C: Income per Capita vs. Rule of Law, 2004**



Sources: KK 2004, Heston-Summers & CIA World Factbook.

Let us consider first the effect of governance on per capita incomes. As recently as 200 years ago, per capita incomes were not very different across countries. The wide gaps in per capita income across countries that we see today reflect the simple fact that countries that are rich today have grown rapidly over the past two centuries, while those that are poor today did not.<sup>8</sup>

What about causation in the opposite direction, from per capita income to the quality of governance? Conventional wisdom holds that richer countries are better able to afford the costs associated with providing a competent government bureaucracy, sound rule of law, and an environment in which corruption is not condoned. This suggests that there is positive feedback from per capita income to governance as well. Yet this conventional wisdom had not been subject to in-depth empirical scrutiny. In our research we put such conventional wisdom through an empirical test. We implemented a particular methodology that permitted to separate out the effects of per capita income on governance, and found evidence that this effect is certainly not positive, and, if anything, negative.<sup>9</sup>

This finding of an absence of (or even possibly negative) feedback from per capita income to governance has a number of implications. We focus here on two of them. First, a strategy of waiting for improvements to come automatically as countries become richer is unlikely to succeed. Second, in the absence of positive feedback from per capita income to governance, we are unlikely to observe virtuous circles when better governance improves incomes that *in turn* will lead to further automatic improvements in governance. Together, these two implications point to the fundamental importance of positive and sustained interventions to improve governance and civil liberties in countries where it is lacking. Indeed, the fact that good governance is not a “luxury good”, to which a country automatically graduates when it becomes wealthier, means in practical terms that leaders, policymakers, and civil society need to work hard and continuously at improving these civil rights and governance within their countries.

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<sup>8</sup>A recent strand of research attributes a substantial fraction of these vast differences in very long run growth performance to deep historical differences in institutional quality. By isolating the part of current differences in governance performance that can be traced back to countries’ colonial origins, these studies have identified the powerful effect of initial institutional quality on growth in the very long run. See for example Hall and Jones (1999) and Acemoglu, Johnson, and Robinson (2001). We discuss some specific historical determinants in latter sections of this paper.

<sup>9</sup>This of course does not mean that the simple correlation between governance and per capita income is negative, since this is dominated by the strong positive effects of governance on income. In terms of the specifics of the particular methodology used, we implemented an empirical framework allowing us to identify causal effects running in both directions between governance and per capita income. Although there is a rapidly growing literature that identifies the causation from better governance to higher per capita income, that is not the case for identifying causation in the opposite direction, from per capita income to governance. Traditionally, identification of the first direction of causality has been done with the aid of instrumental variables, such as the main language or settler mortality patterns, which we have utilized as instruments to arrive at the very large estimates of the effects of governance on income. Yet no good instruments exist for testing the reverse causality direction, namely from per capita income to improved governance. The gathering of a major governance dataset and the construction of the aggregate indicators themselves (through the particular Unobserved Component Model) give us important additional data: the margins of error for each country estimate for the governance indicators. These additional data permit us to implement a different and rarely used strategy to estimate the effect of incomes on governance, namely the utilization of non-sample information (or the “out-of-sample” technique). Implementing this technique, we find no evidence of positive feedback from higher per capita income to better governance outcomes. See Kaufmann and Kraay (2002).

*b. The ‘Micro’: Civil Liberties Matter for successful investment projects by international agencies*

A complementary approach to a macro-aggregate investigation of the link between first generation (1GHR) and second generation (2GHR) human rights issues is to probe these links at the ‘micro’ level. If the unit of observation to be used as an indicator of 2GHR progress is indeed at the (‘micro’) project level, and thus it does not exhibit significant aggregate effects, then it is more straightforward to draw causality inferences (without resorting to reverse causality tests). We therefore draw in this section from previous research finding we obtained in a research project where we investigated the determinants of success/failure of World Bank-funded investment projects in emerging economies. While our (dependent) left hand side variable to be explained was at a project level (the project’s socio-economic rate of return), as right hand side variables in the econometric exploration we utilized a plethora of country-wide economic policy as well as civil liberties variables.

In this past research, we focused on measuring the impact of many economic policy and participatory and civil liberties variables on project performance. We found consistent, statistically significant, and empirically large effects of civil liberties on investment project rates of return. Depending on the measure of civil liberties used, if a country were to improve its civil liberties from the worst to the best, the economic rate of return of projects could increase on average by about 15 percentage points (and by as much as 22.5 percentage points in one set of results; see Table 1 below). This impact of civil liberties is as empirically large as the better known impact of economic distortions on project returns that we obtained during such research project as well.

**Table 1: Impact of Civil Liberties on Project Socioeconomic Rates of Return**

| <i>Civil liberties variable</i>   | <u>Specification on independent variables</u> |                              |                              |   | <i>Effect on economic rate of return of one standard deviation increase in civil liberties</i> |
|---|---|------------------------------|------------------------------|---|--|
|   | <i>With exogenous control variables only</i>  | <i>With regional dummies</i> | <i>With policy variables</i> | <i>With regional dummies and policy variables</i> |  |
| Freedom House<br>Civil liberties<br>(1978-87) <sup>a</sup><br>(N = 649) | 1.81<br>(0.0005)                              | 1.16<br>(0.079)              | 1.71<br>(0.002)              | 1.07<br>(0.114)                                   | 1.57   |
| Humana<br>(1982-85)<br>(N = 236)  | 0.290<br>(0.003)                              | 0.299<br>(0.007)             | 0.296<br>(0.002)             | 0.289<br>(0.013)                                  | 5.19   |
| Media pluralism<br>(1983-87)<br>(N = 448)                               | 4.61<br>(0.0001)                              | 4.45<br>(0.002)              | 3.66<br>(0.001)              | 3.43<br>(0.026)                                   | 3.12   |
| Freedom to<br>organize<br>(1983-87)<br>(N = 448)                        | 3.17<br>(0.0001)                              | 1.81<br>(0.184)              | 2.41<br>(0.006)              | -0.26<br>(0.854)                                  | 2.70   |

N = number of observations.

Note: Standard error is in parentheses. Average economic rate of return on projects is in the range of 12-19 percent.

Source: Isham, Kaufmann, and Pritchett (1997).

Some analysts have argued that there is a tradeoff between liberties and development. We find the opposite evidence, that suppressing liberties is likely to be inimical to project performance. Again, this has obvious implications for development assistance.

*c. The in-depth Country Diagnostic Perspective: The Case Study of Bolivia*

Following half a century of acute political instability and numerous autocratic governments and economic mismanagement (including the worst hyperinflation episode for any country not at war), Bolivia embarked on a radical macro-economic reform program in the mid-eighties—at a time of restoration of electoral democracy. A semblance of democratic political stability has basically been in place since then, and Bolivia has also stayed the course in the implementation of economic reforms, implementing trade liberalization and an ambitious privatization program, while maintaining macro-economic stability. Yet economic growth has been disappointing, poverty alleviation has been scant, and social indicators have not improved significantly. Consequently, Bolivia, at an estimated per capita income of about US\$ 1,000, continues to be one of the poorest countries in the hemisphere. Thus, taking the case study of Bolivia, and utilizing in-depth country diagnostic tools<sup>10</sup> (instead of aggregate cross-country econometric methods), in a recent research project we undertook to address the question of the factors accounting for the fact that Bolivia had shown such tepid socio-economic performance—in spite of having been regarded a stellar implementer of the so-called ‘Washington Consensus’ of the 1990s in terms of economic reforms and macro-economic management.<sup>11</sup>

In a recent research paper we presented a framework and evidence suggesting that ‘voice’ and governance factors (including corruption in particular) have been the weak link in Bolivia’s development. We emphasized the prevalence of patronage, ‘clientelism’, corruption and political capture in the interplay between the enterprise and public sectors. These have played an important role in shaping the institutional framework under which many public institutions operate—and the resulting behavior of the enterprise sector given the incentives it faces. In this research, we presented empirical analysis based from two recent micro-level surveys: a worldwide survey of 10,000 enterprises in 80 countries carried out by the World Bank in 1999/2000 (the World Business Environment Survey), which included Bolivia, as well as an in-country survey diagnostic of public officials in scores of public institutions in Bolivia, based on an interview survey (with closed quantitative questions) of over a thousand public officials.

The results from both these micro-surveys (firms and public officials) suggest the importance of specific governance factors in explaining private and public sector performance, and in particular:: performance of courts, protection of property rights, corruption, transparency and ‘voice’ (including feedback mechanisms by service delivery users). Figure 3, panels a and b, drawn from these research results based on enterprise and public official surveys, respectively, suggest the importance of these ‘voice’, corruption and governance factors in affecting performance at the enterprise and for public institutions. Conversely, the empirical micro-evidence is much weaker on the potential relevance of some traditional public sector management variables, such as public sector wages (Figure 3, panel c), or the existence of internal rules/laws within institutions.

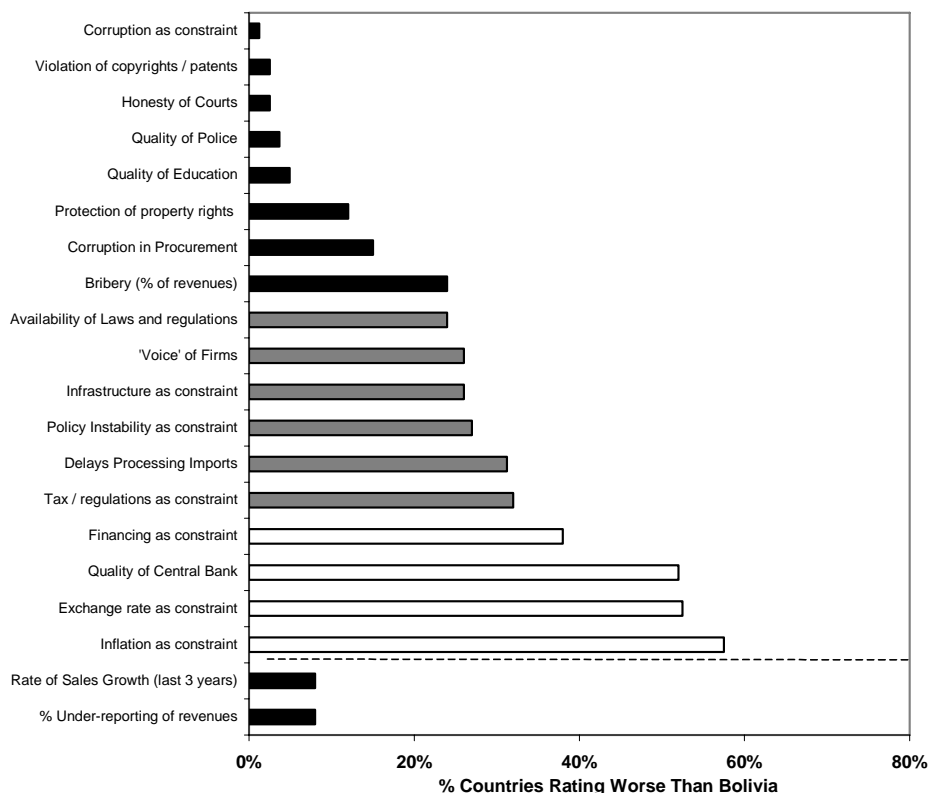
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<sup>10</sup> Since the late nineties we have carried out detailed governance country diagnostics in scores of countries, which elicit specific information on institutional performance and its determinants factors (including voice, accountability, transparency, etc.). For a synthesis of these in-depth country diagnostic tools, see Annex 4, and visit <http://www.worldbank.org/wbi/governance/capacitybuild/diagnostics.html>.

<sup>11</sup> See Kaufmann, Mastruzzi and Zavaleta (2003), and Kaufmann, Gurgur and Mehrez (2001).

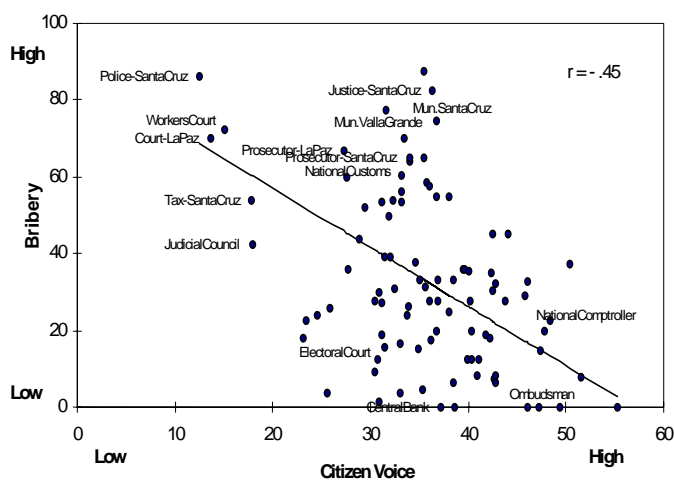
**Figure 3: Bolivia in-depth assessment – the perspective of the firm and of the public official**

**Panel A: Institutional and Governance Assessment by Firms**  
 (% Countries Rating Worst Than Bolivia—WBES)

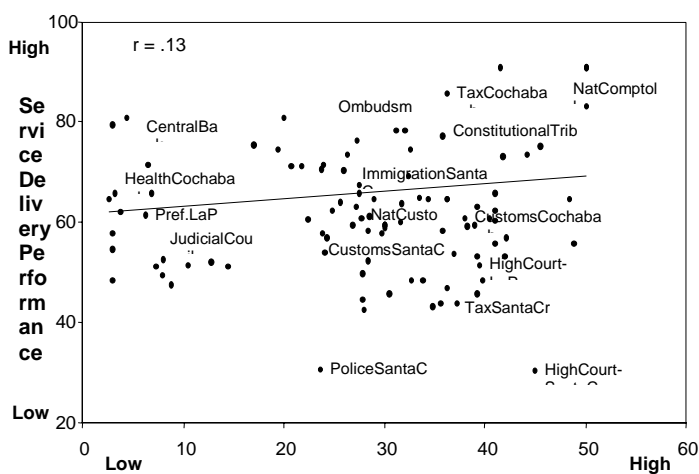


Source: WBES (2000). Based on survey of enterprises in 80 countries.

**Panel B: Bribery and Citizen Voice in Bolivia's Public Institutions**



**Panel C: Service Delivery and Wage Satisfaction in Bolivia's Public Institutions**



Source: Kaufmann, Mehrez, Gurgur (2001). Based on survey of public officials in Bolivia.

By contrast to aggregate cross-country studies of growth, the approach taken here of probing into some of the micro-institutional aspects—undertaken from the dual perspectives of the firm and the public agency, may prove of particular use for concrete policy advice at the country level, possibly assisting in a concrete fashion to put forth priorities for action for sustained growth, as well as pointing to the means by which such priorities ought to be detailed and carried out. These priority factors tend to be country-specific, backstopping the need to undertake in-depth country level diagnostics, exploiting micro-level data.

### **3. Governance, Corruption, and Human Rights: The Neglected Link**

In the early section describing the datasets we utilize in this paper, we discussed in some detail the aggregated governance indicators. As with the evidence on the levels and trends on human rights showcased in section 1, we have similarly analyzed the levels and trends of the six governance dimensions worldwide and also found rather uneven results across countries and regions. These are depicted in Figure 4 below, which contains six panels exhibiting all the governance indicators. The ordering of the panels in Figure 4 has been deliberately organized to go from highest congruence with 1GHR variables to the lowest. Hence voice and democratic accountability (which was also shown in 1GHR Figure 1, last panel), political instability and absence of violence, and rule of law and corruption do feature above government/bureaucratic effectiveness and regulatory quality, which are farther removed from core human rights considerations. Yet it is telling that at least the lion share of governance dimensions is highly congruent with human right concepts (see Annex 1 depicting in detail each individual variable that was utilized in constructing each governance indicator).

And as we explore below, the linkages between governance, corruption and human rights are multi-faceted, yet there is little formal interface in the international convention or advocacy world on these issues. It is telling for instance, the paucity on the coverage of rule of law, independence of the judiciary, and corruption in the UN Human Rights covenants and declaration on the right to development, and, conversely, the absence of treatment of human rights in the recently adopted UN anti-corruption convention (see Table 1 in Annex 3 with simple word count statistics from the various covenants and conventions).<sup>12</sup>

Indeed, in the previous section we first reported on the research suggesting that 1GHR issues may be an important determinant of 2GHR issues. We also reported on the absence of automatic positive (reverse) feedback mechanism (on average) from higher incomes per capita to improved governance and civil liberties. The question we pose here refers to the mechanisms whereby 1GHR may affect 2GHR, and the factors behind the absence of reverse causality. We focus on the latter at first.

Based on empirical evidence, in that same research project we advanced an explanation for this absence of positive (or even negative) feedback mechanism: the phenomenon of *state capture*, defined as the undue and illicit influence of the elite in *shaping* the laws, policies, and regulations of the state.<sup>13</sup> In essence, this form of capture is a manifestation of ‘grand’ corruption.

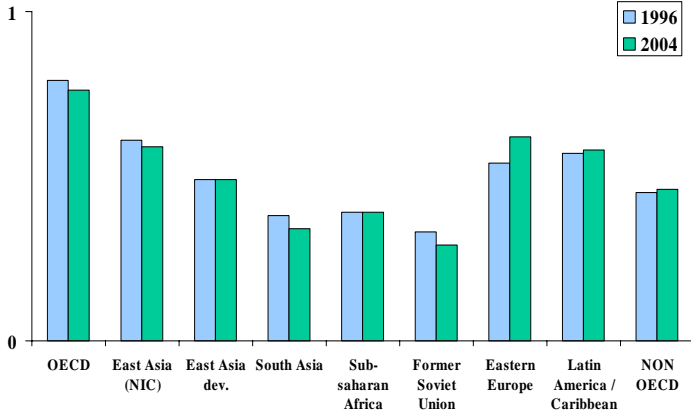
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<sup>12</sup> Earlier writings have argued, however, that there is a connection between corruption and human rights. See for instance, Cockroft (1998) and Mendes (2003).

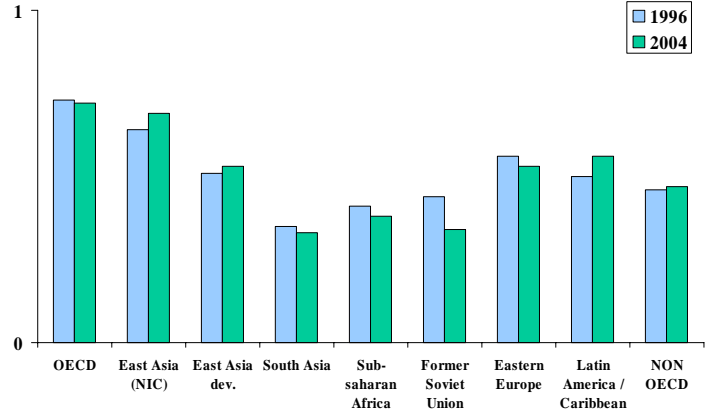
<sup>13</sup> Hellman, Jones, and Kaufmann (2003). See also more recent evidence in some Latin American countries, emerging from the governance and anticorruption diagnostics (GAC) of the World Bank Institute (WBI) at (<http://www.worldbank.org/wbi/governance/capacitybuild/>).

**Figure 4:**

**Panel A: Voice and Accountability**



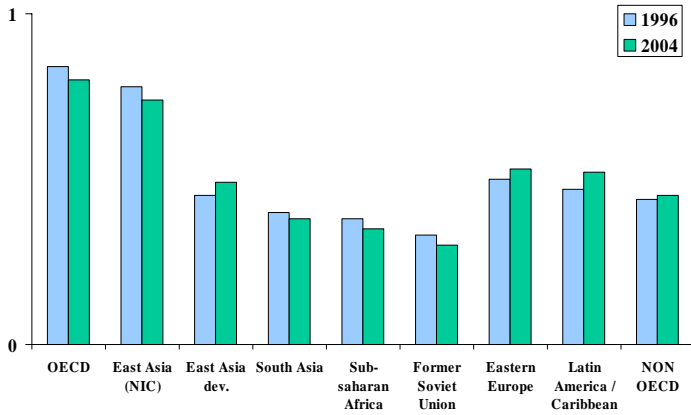
**Panel B: Political Stability and Absence of Violence**



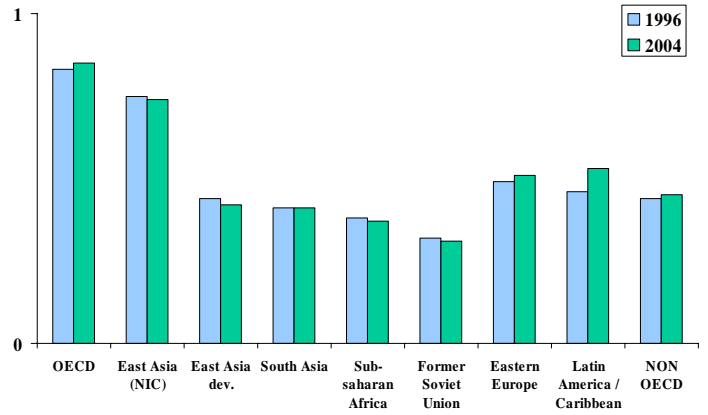
Source: Kaufmann, Kraay and Mastruzzi, Governance Matters IV (2005), <http://www.worldbank.org/wbi/governance/pubs/govmatters4.html>.

Source: Kaufmann, Kraay and Mastruzzi, Governance Matters IV (2005), <http://www.worldbank.org/wbi/governance/pubs/govmatters4.html>.

**Panel C: Rule of Law**



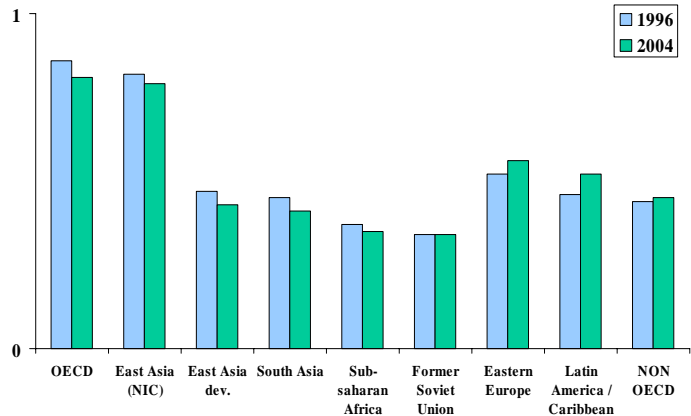
**Panel D: Control of Corruption**



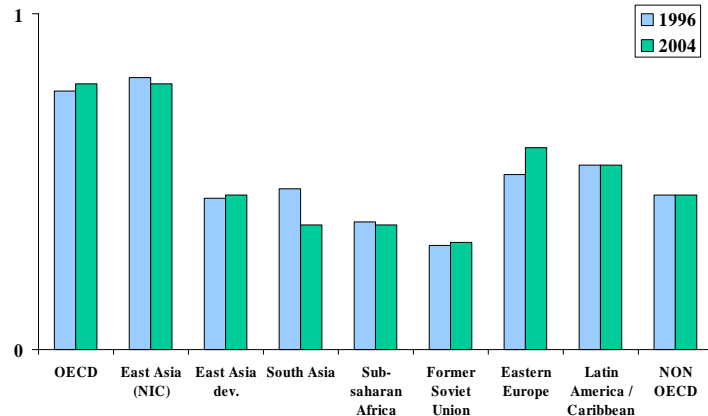
Source: Kaufmann, Kraay and Mastruzzi, Governance Matters IV (2005), <http://www.worldbank.org/wbi/governance/pubs/govmatters4.html>.

Source: Kaufmann, Kraay and Mastruzzi, Governance Matters IV (2005), <http://www.worldbank.org/wbi/governance/pubs/govmatters4.html>.

**Panel E: Government Effectiveness**



**Panel F: Regulatory Quality**



Source: Kaufmann, Kraay and Mastruzzi, Governance Matters IV (2005), <http://www.worldbank.org/wbi/governance/pubs/govmatters3.html>.

Source: Kaufmann, Kraay and Mastruzzi, Governance Matters IV (2005), <http://www.worldbank.org/wbi/governance/pubs/govmatters4.html>.

When institutions of the state are “captured” by vested interests in this way, or, more subtly, when powerful vested interests exert undue influence in shaping the rules of the game for their own benefit (discussed below), entrenched elites in a country can benefit from a worsening status quo of misgovernance and can successfully resist demands for change even as per capita income rises.

Based on in-depth governance and anti-corruption country diagnostics carried out at the World Bank in countries in various regions, as well as enterprise surveys in economies in transition, we have found significant empirical evidence on the challenge of state capture (and the related “crony bias” or unequally distributed influence) in many countries across the world regions. Further we find evidence that the extent of capture and crony bias is related to the degree of civil liberties in a country. In particular, in countries exhibiting quasi-authoritarian tendencies, or ‘managed’ democracies, the extent of state capture by the few in the elite is significantly higher than where political and civil liberties are very high. And in turn, where state capture is high, we find that socio-economic development, including income growth and private sector development, is impaired. This illustrates that important governance factors, such as grand/political corruption in the form of state capture, may be playing a key mediating role between 1GHR and 2GHR.

Thus, in countries with an environment that is “captured” or unduly influenced by the vested interests of the powerful few, the focus of efforts to combat corruption and improve governance needs to shift from a narrow emphasis on passing laws and rules, and on procedures within the public administration, to a much broader agenda of greater political accountability, transparency, and freedom of the press.

In contrast to the absence of positive effects from income to governance, we found a *large direct causal effect* from better governance to improved development outcomes. Consequently, the simple relationships depicted in Figure 2 above (and Figure 5 below) in fact does approximate the causal impact of improved governance on per capita income (given the lack of positive feedback in the reverse causality direction).<sup>14</sup>

Indeed, the effects of improved governance on income in the long run are found to be very large, with an estimated 300 percent improvement in per capita income associated with an improvement in governance by one standard deviation, and similar improvements in reducing child mortality and illiteracy. To illustrate, an improvement in rule of law by one standard deviation from the low levels in Ukraine to those “middling” levels prevailing in South Africa would lead to a fourfold increase in per capita income in the long run. A larger increase in the quality of rule of law (by two standard deviations) in Ukraine (or in other countries in the former Soviet Union), to the much higher level in Slovenia or Spain, would further multiply this income per capita increase. Similar results emerge from civil liberties or control of corruption improvements: a mere one standard deviation improvement in voice and accountability from the low level of Venezuela to that of South Korea, or in control of corruption from the low level of Indonesia to the middling level of Mexico, or from the level of Mexico to that of Costa Rica, would also be associated with an estimated fourfold increase in per capita incomes, as well as

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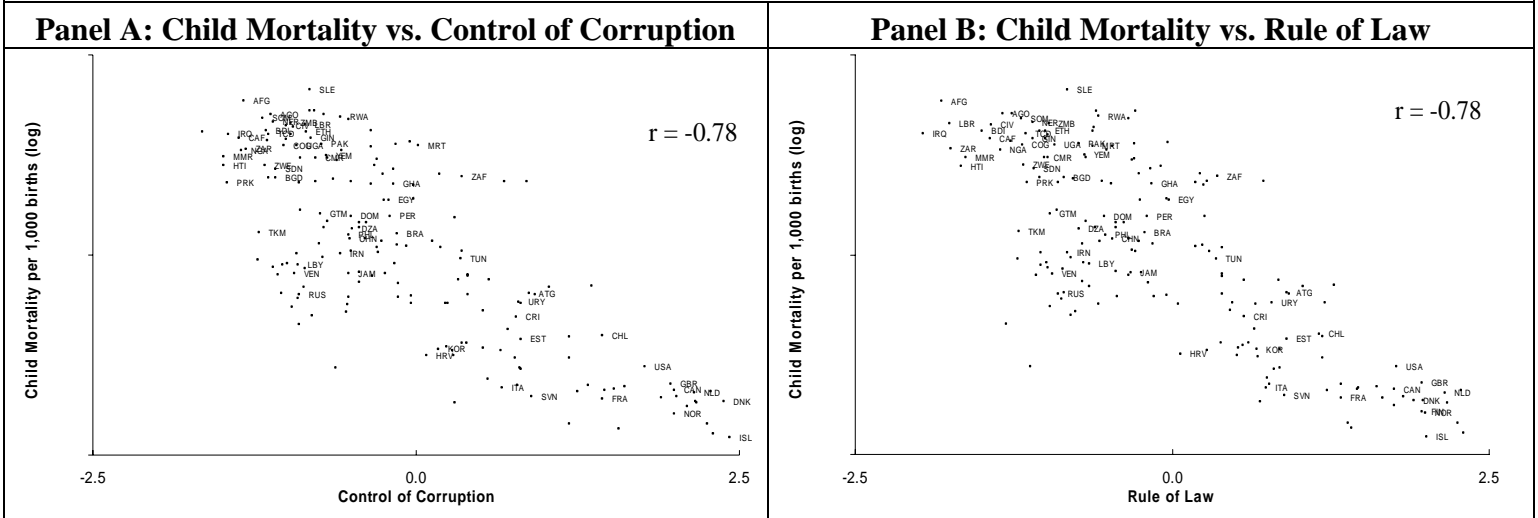
<sup>14</sup> In fact, due to the likelihood of a negative feedback effect from incomes per capita to governance, the actual simple correlation summarized in Figure 2 underestimates the extent (slope) of the causal link from governance to incomes per capita.

similar improvements in reducing child mortality by 75 percent, as well as major gains in literacy.

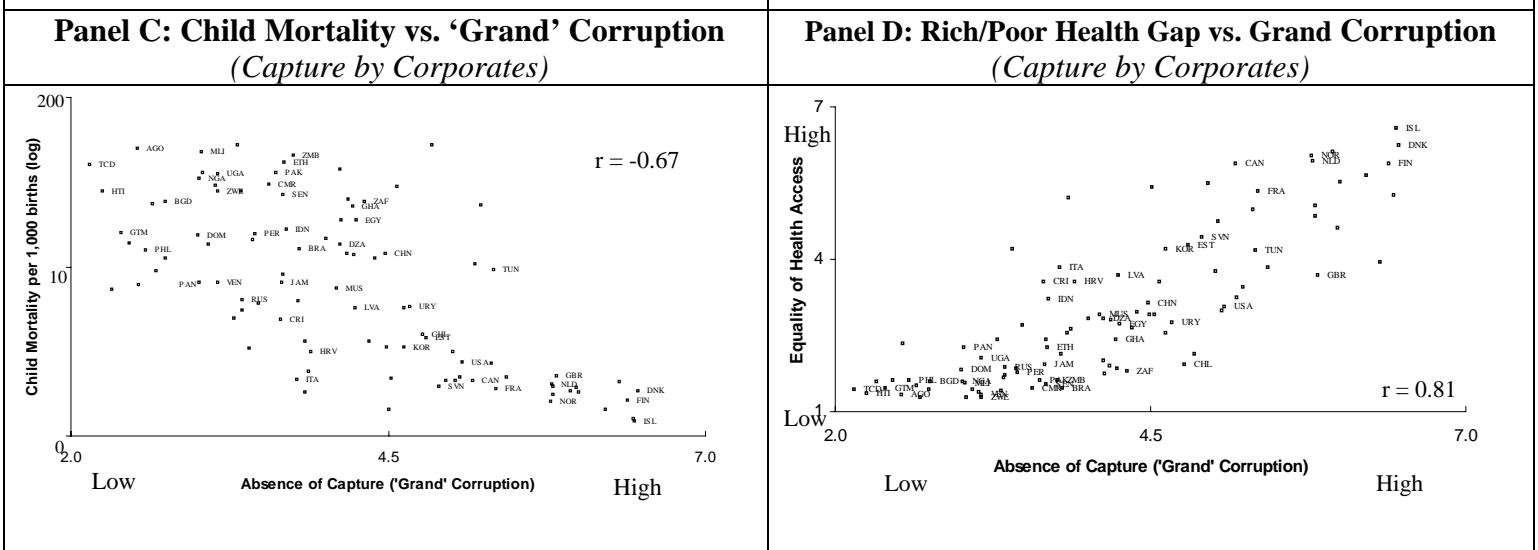
In Figure 5 below we illustrate with different data the extent to which governance factors matter for 2GHR issues.

In sum, new types of surveys and statistical methodologies permit the empirical assessment of governance and voice and civil liberties worldwide. These assessments in turn suggest that there are enormous differences in governance performance across the globe, which in turn matters significantly for growth and development outcomes. At the same time, we found that income windfalls for a country do not, however, get automatically translated into improved governance, possibly due to particular political factors related to the interface between corporate strategies of the powerful, which result in unequal distribution of influence and thus of reaping the fruits from growth.

**Figure 5: Governance Matters for 2GHR**



Source: Source: KK 2004, WDI 2002. Source: KK 2004, WDI 2002.



Source: KK 2002, EOS 2003. Capture ('Grand' Corruption) variable drawn from EOS 2003 enterprise survey. Question: "How commonly would you estimate that firms make undocumented extra payments of bribe to influence laws, policies, regulations or decrees?"

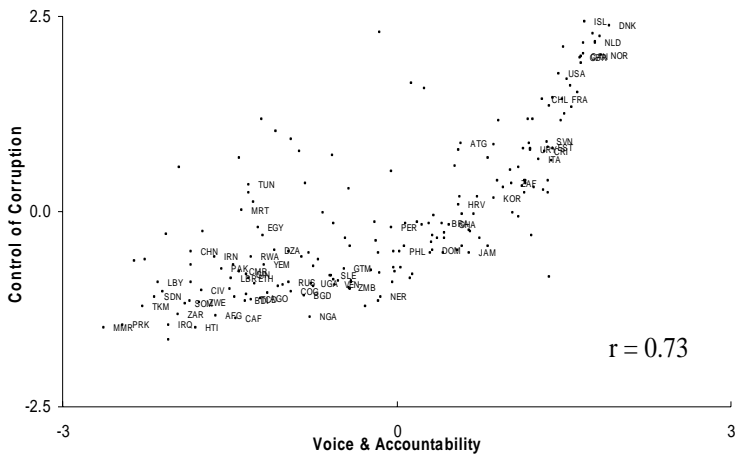
Health gap drawn from EOS 2003. Question: "The difference in quality of the healthcare available to rich and poor people in your country is large / small." Capture ('Grand' Corruption) variable drawn from EOS 2003 enterprise survey. Question: "How commonly would you estimate that firms make undocumented extra payments of bribe to influence laws, policies, regulations or decrees?"

Governance factors such as corruption and rule of law are not, however, necessarily fundamental determinants of socio-economic development, but often they are mediating factors, which in turn are related and in part determined by other factors. As suggested earlier, voice and civil liberties (and within it, components such as press freedom, rights of women, etc.) are suggested to be potential determinants of control of corruption and corporate ethics (Figure 6 below).

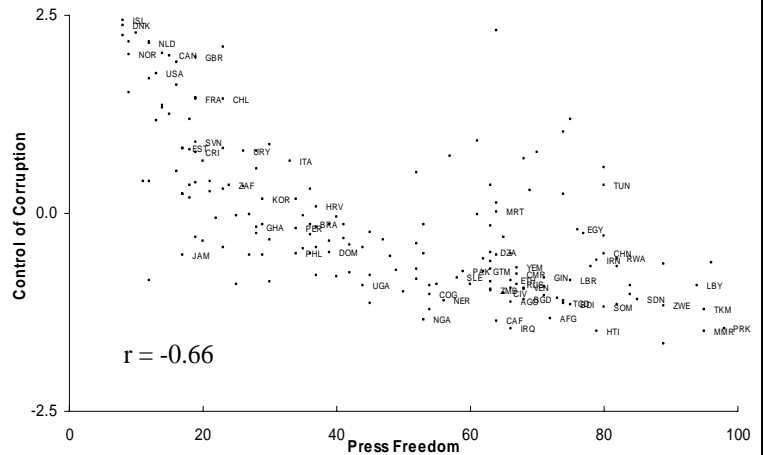
In sum, the evidence suggests a number of close links between human rights and governance issues. In an earlier section of this paper we showed that 1GHR and 2GHR issues are highly related in general, and possibly in a causal fashion from the former to the latter. On the basis of the evidence discussed here, we attempted to initially open the 'black box' of possible mechanisms linking both set of generational issues in human rights. In particular, we posit that governance in a narrow sense, namely through corruption, rule of law and corporate ethics, plays an important mediating role between salient 1GHR and 2GHR issues.

**Figure 6: 1GHR Matters for Controlling Corruption and Corporate Ethics -- Civil Liberties, Rights of Women and Control of Corruption/Ethics**

**Panel A: Control of Corruption vs. Voice & Accountability**



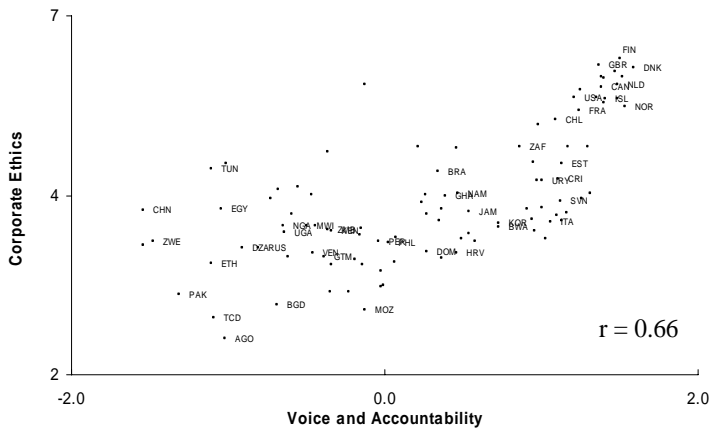
**Panel B: Control of Corruption vs. Press Freedom**



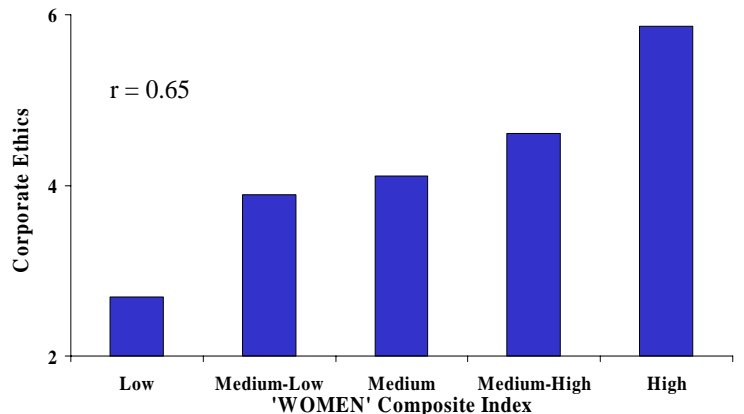
Source: KK 2004.

Sources: KK 2004, Freedom House 2004.

**Panel C: Corporate Ethics vs. Voice and Accountability**



**Panel D: Corporate Ethics vs. Rights of Women**



Corporate ethics drawn from EOS 2004. Question: "The corporate ethics (ethical behavior in interactions with public officials, politicians and other enterprises) of your country's firms in your industry are among the world's worst / best." Voice and Accountability drawn from KK 2004.

Corporate ethics drawn from EOS 2004. Question: "The corporate ethics (ethical behavior in interactions with public officials, politicians and other enterprises) of your country's firms in your industry are among the world's worst / best." Women composite Index drawn from Cingranelli Richards human rights database.

#### 4. Significant Exceptions: the challenge of unbundling and specificity in human rights.

In previous sections we explored some potential causal links between 1GHR and 2GHR issues, and also between governance, rule of law, and corruption challenges, on the one hand, and 2GHR objectives, on the other. While the empirical evidence suggests that such links may indeed be present, caution and specificity are in order. First, some of this empirical research is of a preliminary nature, and will need to be deepened and further validated by parallel research efforts.

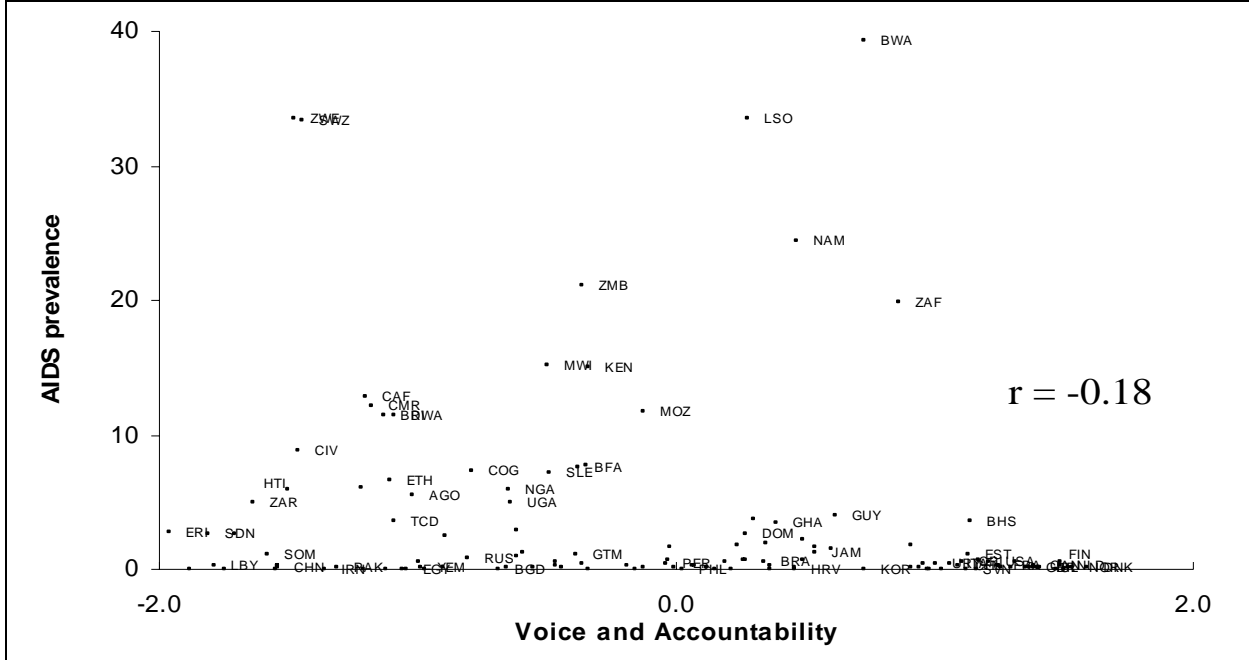
Second, the breadth of scope encompassing human right dimensions imply that (even if for particular components, and composites, the links suggested above substantially hold), for specific dimensions such relation between variables of interest may be weaker. It is thus important to go beyond the broad-based yet general empirical terrain we have covered so far and study in depth the extent to which the many unbundled variables of interest are highly related to each other—or not. We suggested a number of such highly correlated (and at times causally so) in previous sections of the paper. Yet an important example of a weaker (although still present) link refers to AIDS, for instance. While the prevalence of AIDS is correlated with the degree of civil liberties and the extent of governance in a country (as depicted in Figure 7, panels a and b below), such correlation is significantly lower than for other dimensions we have explored in this paper. The fact that there are many outliers is clear from the plotgrams in Figure 7 below. Indeed, generally speaking, to attain 2GHR goals, a plethora of determinants (and thus interventions) ought to be considered, rather than taking a uni-dimensional view on what matters. And this is particularly the case for challenges such as AIDS. While focusing on 1GHR issues, and on control of corruption, is of some importance, it would be counterproductive for such focus to be exclusive, since it would obviously not suffice—or even account for the lion share in determining the difference between successes and failures in controlling this epidemic.<sup>15</sup>

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<sup>15</sup> AIDS is an illustration of the differential importance of various factors when unbundling human rights and governance to specific components. In this context, it is of interest to also note that for instance that even *within* 1GHR issues certain dimensions do not correlate tightly with each other. While for instance there is a high correlation (of about 0.6) between various human rights components related to protection of life (e.g. disappearances and torture; or killings and disappearances), the same is not the case between such ‘hard-core’ life protection human rights and others (such as vis a vis the extent of political participation, or government censorship, for instance). To illustrate further the importance of unbundling in this respect, for instance the correlation between the extent of political imprisonment and child labor is less than .2; similarly there is a relatively low correlation of about .2 between the extent of disappearances in a country and the rights of women. These issues require further scrutiny, including accounting for possible measurement error, etc.

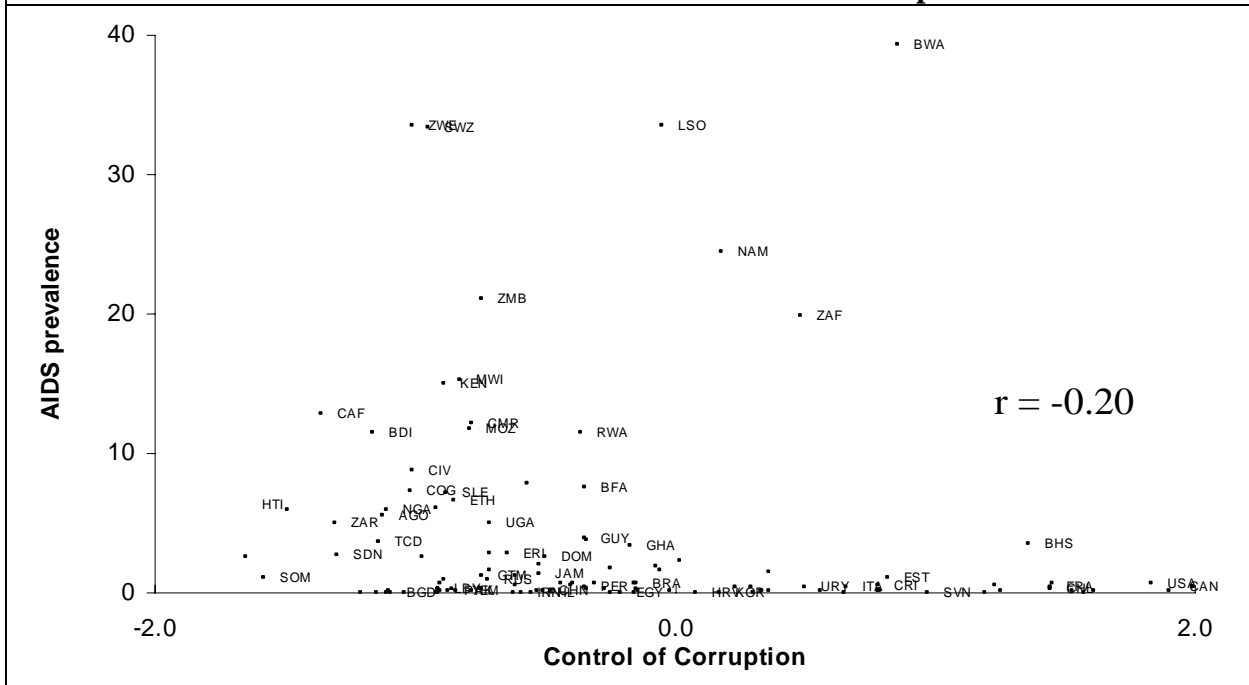
**Figure 7**

**Panel A: AIDS Prevalence vs. Voice and Accountability**



Source: KK 2004, UN 2001. AIDS prevalence data based on adult population only (15-49).

**Panel B: AIDS Prevalence vs. Control of Corruption**



Source: KK 2004, UN 2001. AIDS prevalence data based on adult population only (15-49).

## 5. Initial Conclusions and Implications.

In this paper we presented a preliminary empirically-based exploration of evidence and links between human rights and governance. We preliminarily assessed recent data and trends on human rights, and posed questions about the links between first (political and civil rights) and second (socio-economic) generation human rights issues, as well as between these twin generation human rights aspects, on the one hand, and governance, narrowly defined, on the other.

We suggested that first generation Human Right issues (often called ‘negative liberties’) are still paramount. Both the current worldwide levels and trends in compliance with first generation human rights issues (1GHR—political and civil rights), as well as their importance as a determinant of second generation human rights outcomes, do suggest that continuing priority in addressing 1GHR is warranted. In particular, this preliminary review of worldwide evidence suggested that: i) 1GHR continue to be violated in many settings, and, ii) progress towards resolution of these issues worldwide (the improving trend line) may not be significant in some of its key dimensions.

Progress on second generation Human Rights Issues (2GHR, socioeconomic and economic development rights, often called ‘positive liberties’) are (inter alia) found to be dependent on first generation human rights (1GHR). Consequently, there would be no empirical justification to lower the priority focus on 1GHR—even if 2GHR generation issues are regarded as having parity in terms of overall social welfare implications.

We also suggested that there is an important missing link—from an analytical, empirical and practical standpoints—in this realm, namely between high level corruption, misgovernance and absence of voice and accountability. Corruption and misrule of law are in fact associated with – and possibly the result of-- an absence of 1GHR. Empirically, we also observe this from the standpoint of corporate ethics/governance, not merely governance of public institutions. Some powerful elite firms engage in grand forms of corruption such as capture of the laws, regulations and policies of the state for their benefit. Such capture, in turn, appears to be the result of low levels of political contestability and ‘voice’ in such countries.

While 1GHR issues appear to be relevant determining factors shaping the quality of governance at the public and corporate levels, at the same time the evidence also suggests that high corruption and capture can be highly detrimental to the attainment of 2GHR issues. Yet in spite of the incipient evidence linking rule of law and corruption (public and corporate) issues with human rights issues, it is noteworthy that the covenants and declarations on Human Rights do not include freedom from corruption (and the new anticorruption convention do not include human rights). This implies that a key mechanism linking first and second generation issues is explicitly omitted from coverage by human right conventions, declarations and work by activists in this area. While there may be legal (and related) justifications for such omission, it does have significant implications in terms of strategies and prospects for progress on human rights, particularly regarding 2GHR issues. Conversely, it is also paramount to further mainstream into an operational context on the ground the finding that to address corruption, misrule of law and

capture by the vested interests of powerful conglomerates, civil liberties and participatory voice and democratic accountability are of empirical significance.

Based on recent research, we presented the findings indicating that political/civil liberties and good governance are not a 'luxury good': the process of economic development does not in itself automatically ensure improved governance, civil liberties and control of corruption. The causality direction is from improved governance (including civil and political liberties) to economic development, and not vice versa. This implies that specific interventions and policies on governance and 1GHR are required at every stage, rather than expecting an automatic virtuous circle whereby income growth per se will result in improved governance.

Civil liberties, voice and participation mechanisms are thus not only very important because of their fundamental value, but also due to their instrumental value as key to socio-economic development outcomes. And in addition to the evidence in this respect from cross-national data, this finding also applies at the ('micro') project level: investment project funded by the World Bank in settings with better civil liberties and participatory mechanisms are found to have a much higher socio-economic impact. An in-depth case study method, utilizing diagnostic findings and research on Bolivia, was also presented in brief, further supporting the importance of 'voice' and governance mechanisms to attain 2GHR objective—rather than expecting that a purely technocratic approach to macro-economic management in itself will deliver such objectives.

It is also noted from the empirical work that the links between 1GHR and 2GHR and within each cluster, do vary in strength across particular issues. Some important and specific 2GHR challenges in health, for instance, such as AIDS, are not as closely correlated to 1GHR factors as others, and thus very specific focus on these (in parallel to the continuing support to 1GHR issues) is warranted. Given the breadth of scope of coverage of human rights issues, in measuring, monitoring and drawing lessons it is paramount to unbundled the various dimensions within each generation. Some dimensions within 1GHR are not highly correlated with each other, for instance.

We suggest three concluding remarks. First, regarding the importance of meaningful voice mechanisms, and related, civil and political liberties for success in socio-economic development and thus 2GHR issues. Such 2GHR objectives, which are dependent in great measure on an environment where there is control of corruption, transparency, rule of law, and corporate ethics (and therefore absence of state capture by vested interests), thus require particular focus on these governance and integrity issues as well. These governance issues, are, however, also dependent in part on voice and civil liberties, as well as on domestic politics. Future analysis and diagnosis for successful program design will need to consider in a deeper and more integral fashion these civil liberties and political issues for enhancing aid effectiveness, even if the mandate of many IFIs preclude explicit political conditionality. This is because ignoring the status of 1GHR in a country may have significant implications for aid effectiveness, both indirectly through the 'mediating' role of control of corruption, and directly through the positive impact that progress of 1GHR can have on 2GHR.

Second, there are also implications for the potential for further integration between the fields of (corporate and public sector) governance, rule of law, and corruption, on the one hand, and human rights, on the other. As discussed, notwithstanding the very independent tracks that human rights, corporate governance and corruption have taken in international law (conventions, declarations and covenants), in practice we find evidence of close links, which need to be further operationally exploited.

Finally, there are implications on the power of data. In this paper we pose a challenge to data-reticence in the field of human rights. This is akin to a development that took place almost a decade ago for the field of corruption and governance, at a time when these notions were regarded as not amenable to measurement (or, if they could be measured, it would be so unreliable to render it useless). Experience has shown that with more rigorous statistical tools, improved survey techniques, and in-depth empirical analysis, significant progress has been made. Nowadays countries and institutions are regularly monitored (and monitor themselves) on governance and corruption. Such data monitoring has become a potent tool for activism by civil society and reformists in governments worldwide. Further, the monitoring through governance indicators is likely to become an important results-oriented tool in determining aid allocations—given the impact on aid effectiveness. And finally, the investment in a major governance, rule of law, corporate ethics, and corruption databank has proven beneficial for distilling important research lessons and for challenging widely held popular notions that were not grounded on empirics.

By investing in further empirical work, collecting and analyzing data, codifying margins of error, etc., similar progress could take place in the human rights field in the near term. In this context, it may be pertinent to explore potential synergies between the existing in-depth country diagnostic tools for governance and corruption, and integration of relevant and measurable human rights dimensions through these surveys of enterprises, citizens, and public officials (Annex 4).

All these will require additional empirical research efforts, for which this paper is obviously only an initial contribution. Much would need to be validated further, debated, and expanded, with additional data to be gathered and analyzed.

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## **Annex 1: Coding Human Rights Information: Cingranelli / Richards Human Rights Dataset as input to WBI Governance Indicators.**

The Human Rights data was coded by Craig Webster, Shawna Sweeney and Rod Abouharb under the direction and supervision of Cingranelli and Richards. The codification draws from two sources, the U.S. Department of State's *Country Reports on Human Rights Practices* and Amnesty International's *Amnesty International Report*. Both of these reports offer descriptions of human rights practices and conditions. The State Department by law must submit a human rights report to Congress and has done so for many years. Because of legal requirements of what must be covered in the report and the significant resources of the U.S. Government, it is a comprehensive source for global human rights information available. The report must be submitted to Congress by end of February each year. While Amnesty International's report is not as comprehensive in its information coverage, it does offers a valuable alternative and non-governmental source from which information can be coded for various human rights dimensions. It is available to the public usually in June of every year.

The main variables and their key characteristics are in the table annex below.

| <b>VARIABLES</b>        | <b>RANGE</b> | <b>DESCRIPTION / QUESTION</b>   |
|-------------------------|--------------|---|
| KILLINGS                | 0 - 2 (good) | Political killings are frequent / never happen  |
| DISAPPEARANCES          | 0 - 2 (good) | Disappearances are frequent / never happen  |
| TORTURE                 | 0 - 2 (good) | Political killings are frequent / never happen  |
| IMPRISONMENTS           | 0 - 2 (good) | There are many / none people imprisoned because of their political religious or other beliefs |
| JUDICIARY               | 0 - 2 (good) | Judiciary is a dependent / independent institution  |
| CENSORSHIP              | 0 - 2 (good) | Government censorship is complete / none  |
| POLITICAL PARTICIPATION | 0 - 2 (good) | Political participation is limited / free and open  |
| FREEDOM TO TRAVEL       | 0 - 1 (good) | Domestic and foreign travel is restricted / unrestricted                                      |
| WORKERS RIGHTS          | 0 - 2 (good) | Workers rights are not protected / protected by government                                    |
| WOMEN POLITICAL RIGHTS  | 0 - 4 (good) | Women's political rights are prevented / guaranteed   |
| WOMEN ECONOMIC RIGHTS   | 0 - 3 (good) | Women's economic rights are discriminated / equal to men                                      |
| WOMEN SOCIAL EQUALITY   | 0 - 3 (good) | Social equality of women is not guaranteed by law / guaranteed                                |
| COUPS                   | 0 - 1 (good) | Has there been a coup?  |
| STATE OF EMERGENCY      | 0 - 2 (good) | Is there currently a state of emergency or martial law declared?                              |
| FREEDOM OF RELIGION [1] | 0 - 1 (good) | Religions are banned by the government  |
| FREEDOM OF RELIGION [2] | 0 - 1 (good) | There are restrictions on some religious practices by the government                          |

## Annex 2: Components of Aggregate Governance Indicators, 2004

### Appendix B: Components of Aggregate Governance Indicators, 2004

**Table B1: Voice and Accountability**

| Code                          | Table | Concept Measured   |
|-------------------------------|-------|--|
| <b>Representative Sources</b> |       |  |
| <b>CUD</b>                    | A7    | To what extent does the state and/or its allied groups engage in repression of its citizens?<br>In carrying out internal security tasks, to what extent does the state rely on tactics commonly considered illegitimate in the international community?  |
| <b>EIU</b>                    | A9    | Orderly transfers<br>Vested interests<br>Accountability of Public Officials<br>Human Rights<br>Freedom of association  |
| <b>FRH</b>                    | A11   | <i>Civil liberties</i> : Freedom of speech, of assembly and demonstration, of religion, equal opportunity, of excessive governmental intervention<br><i>Political Rights</i> : free and fair elections, representative legislative, free vote, political parties, no dominant group, respect for minorities<br>Freedom of the Press  |
| <b>GCS</b>                    | A30   | Firms are usually informed clearly and transparently by the Government on changes in policies affecting their industry<br><br>Newspapers can publish stories of their choosing without fear of censorship or retaliation<br>When deciding upon policies and contracts, Government officials favor well-connected firms<br>Extent of direct influence of legal contributions to political parties on specific public policy outcomes<br>Effectiveness of national Parliament/Congress as a law making and oversight institution   |
| <b>HUM</b>                    | A26   | <i>Travel</i> : domestic and foreign travel restrictions<br>Freedom of political participation<br><i>Imprisonments</i> : Are there any imprisoned people because of their ethnicity, race, or their political, religious beliefs?<br><br>Government censorship   |
| <b>PRS</b>                    | A23   | <i>Military in Politics</i> The military are not elected by anyone, so their participation in government, either direct or indirect, reduces accountability and therefore represents a risk. The threat of military intervention might lead as well to an anticipated potentially inefficient change in policy or even in government. It also works as an indication that the government is unable to function effectively and that the country has an uneasy environment for foreign business.<br><br><i>Democratic Accountability</i> . Quantifies how responsive government is to its people, on the basis that the less response there is the more likely is that the government will fall, peacefully or violently. It includes not only if free and fair elections are in place, but also how likely is the government to remain in power. |
| <b>RSF</b>                    | A25   | Press Freedom Index  |
| <b>WMO</b>                    | A31   | <i>Institutional permanence</i> : An assessment of how mature and well-established the political system is. It is also an assessment of how far political opposition operates within the system or attempts to undermine it from outside. A country with high institutional permanence would unquestionably survive the death or removal from power of the current leadership. A mature political system will conventionally have a clearly established relationship between the executive, legislative and judicial branches of government.<br><br><i>Representativeness</i> : How well the population and organized interests can make their voices heard in the political system. Provided representation is handled fairly and effectively, it will ensure greater stability and better designed policies.                                   |

**Table B1: Voice and Accountability (cont.)**

| Code                              | Table | Concept Measured   |
|-----------------------------------|-------|--|
| <b>Non-representative Sources</b> |       |  |
| <b>AFR</b>                        | A2    | How much do you trust the parliament?<br>Overall, how satisfied are you with the way democracy works in your country?  |
| <b>AGI</b>                        | A27   | Political representation<br>Political system<br>Power distribution<br>Political party freedom / security<br>Electoral process Independ./ credibility<br>Institutional effect./accountability<br>Legislature's effectiveness<br>Human rights<br>CSO/media Independence  |
| <b>BTI</b>                        | A4    | Stateness<br>Political Participation<br>Institutional Stability<br>Political and Social Integration  |
| <b>CCR</b>                        | A11   | Civil Liberties<br>Accountability and public voice   |
| <b>FHT</b>                        | A11   | <i>Political Process</i> : Deals with elections, referenda, party configuration, conditions for political competition, and participation in elections.<br><i>Civil Society</i> : Highlights the degree to which volunteerism, trade unionism, and professional associations exist whether civic organizations are influential<br><i>Independent Media</i> : Press freedom, public access to a variety of information sources, and the independence of sources from undue government or other influences. |
| <b>GAL</b>                        | A13   | Fairness of elections<br>Human Rights  |
| <b>LAI</b>                        | A12   | Budget Transparency  |
| <b>LOB</b>                        | A20   | Satisfaction with democracy<br>Trust in Parliament   |
| <b>MSI</b>                        | A19   | Media Sustainability Index   |
| <b>USD</b>                        | A27   | Trust in legislation<br>Satisfaction with democracy  |
| <b>WCY</b>                        | A18   | Transparency of Government policy  |

**Table B2: Political Stability**

| Code                              | Table | Concept Measured  |
|-----------------------------------|-------|---|
| <b>Representative Sources</b>     |       |   |
| CUD                               | A7    | Assess the degree to which the decline or collapse of central political authority posed a threat to political stability in this country.<br>Assess the degree to which political protest or rebellion posed a threat to political stability in this country.  |
| DRI                               | A15   | Assess the degree to which ethno-cultural and/or religious conflict posed a threat to political stability in this country.<br><i>Military Coup Risk</i> : A military coup d'etat (or a series of such events) that reduces the GDP growth rate by 2% during any 12-month period.<br><i>Major Insurgency/Rebellion</i> : An increase in scope or intensity of one or more insurgencies/rebellions that reduces the GDP growth rate by 3% during any 12-month period.<br><i>Political Terrorism</i> : An increase in scope or intensity of terrorism that reduces the GDP growth rate by 1% during any 12-month period.<br><i>Political Assassination</i> : A political assassination (or a series of such events) that reduces the GDP growth rate by 1% during any 12-month period.<br><i>Civil War</i> : An increase in scope or intensity of one or more civil wars that reduces the GDP growth rate by 4% during any 12-month period.<br><i>Major Urban Riot</i> : An increase in scope, intensity, or frequency of rioting that reduces the GDP growth rate by 1% during any 12-month period. |
| EIU                               | A9    | Armed conflict<br>Violent demonstrations<br>Social Unrest<br>International tensions   |
| GCS                               | A30   | <i>Country terrorist threat</i> : Does the threat of terrorism in the country impose significant costs on firms?  |
| HUM                               | A26   | Frequency of political killings<br>Frequency of disappearances<br>Frequency of torture  |
| IJT                               | A17   | Security Risk Rating  |
| MIG                               | A21   | <i>Extremism</i> . The term "extremism" covers the threat posed by any individuals or organisations who hold a narrow set of fanatical beliefs. Extremists are likely to believe that any and all means are justified to eradicate the target of hostility, and are not afraid to destroy themselves in the process. This ideological aspect of extremism makes it highly unpredictable, and its close association with violence makes it highly dangerous. The extent to which extremism should be judged a threat to a particular business in a particular market can be assessed along the following lines: integration issues; religious tensions; pressure groups; terrorist activity; xenophobia.   |
| PRS                               | A23   | <i>Internal Conflict</i> : Assesses political violence and its influence on governance.<br><i>External conflict</i> : The external conflict measure is an assessment both of the risk to the incumbent government and to inward investment.<br><i>Ethnic tensions</i> : This component measures the degree of tension within a country attributable to racial, nationality, or language divisions.  |
| PTS                               | A26   | Political Terror Scale  |
| WMO                               | A31   | <i>Civil unrest</i> How widespread political unrest is, and how great a threat it poses to investors. Demonstrations in themselves may not be cause for concern, but they will cause major disruption if they escalate into severe violence. At the extreme, this factor would amount to civil war.<br><i>Terrorism</i> Whether the country suffers from a sustained terrorist threat, and from how many sources. The degree of localization of the threat is assessed, and whether the active groups are likely to target or affect businesses.  |
| <b>Non-representative Sources</b> |       |   |
| BRI                               | A6    | Fractionalization of political spectrum and the power of these factions.<br>Fractionalization by language, ethnic and/or religious groups and the power of these factions.<br>Restrictive (coercive) measures required to retain power.<br>Organization and strength of forces for a radical government.<br>Societal conflict involving demonstrations, strikes, and street violence.<br>Instability as perceived by non-constitutional changes, assassinations, and guerrilla wars.  |
| GAL                               | A13   | Terrorism/Crime   |
| WCY                               | A18   | Risk of political instability   |

**Table B3: Government Effectiveness**

| Code Table                    | Concept Measured   |
|-------------------------------|--|
| <b>Representative Sources</b> |  |
| <b>CUD A7</b>                 | <p>Rate the administrative and technical skills of the country's civil service (occupying middle and higher management roles).<br/>           Rate the efficiency of the country's national bureaucracies overall.<br/>           Rate the efficiency of the country's local-level government bureaucracies overall.</p> <p>Rate the effectiveness of coordination between the central government and local-level government organizations.<br/>           Rate the state's ability to formulate and implement national policy initiatives.<br/>           Rate the state's effectiveness at collecting taxes or other forms of government revenue.<br/>           Does the central government produce a national budget in a timely manner?<br/>           Do local governments produce budgets in a timely manner?<br/>           Rate the state's ability to monitor socioeconomic trends, activities, and conditions within its borders<br/>           Rate the state's ability to create, deliver, and maintain vital national infrastructure.<br/>           Rate the state's ability to respond effectively to domestic economic problems.<br/>           Rate the state's ability to respond effectively to natural disasters.</p> |
| <b>DRI A15</b>                | <p><i>Government Instability</i>: An increase in government personnel turnover rate at senior levels that reduces the GDP growth rate by 2% during any 12-month period.<br/> <i>Government Ineffectiveness</i>: A decline in government personnel quality at any level that reduces the GDP growth rate by 1% during any 12-month period.<br/> <i>Institutional Failure</i>: A deterioration of government capacity to cope with national problems as a result of institutional rigidity that reduces the GDP growth rate by 1% during any 12-month period.</p>  |
| <b>EIU A9</b>                 | <p>Quality of bureaucracy<br/>           Excessive bureaucracy / red tape</p>  |
| <b>GCS A30</b>                | <p>Public Spending Composition<br/>           Quality of general infrastructure<br/>           Quality of public schools<br/>           Time spent by senior management dealing with government officials</p>  |
| <b>MIG A21</b>                | <p><i>Bureaucracy</i>. The critical feature of bureaucracy is that it raises issues more complicated than "red tape" alone. Bureaucracy can be actively and deliberately obstructive to foreign investors – in response to political pressures, vested interests and special interest lobbies. Some features that determine the extent that bureaucracy could affect business operations are the accountability of public officials; politicisation of bureaucratic departments; regulatory credibility and enforceability; size of the public sector and transparency of decision-making.</p>   |
| <b>PRS A23</b>                | <p><i>Government Stability</i>. Measures the government's ability to carry out its declared programs, and its ability to stay in office. This will depend on issues such as: the type of governance, the cohesion of the government and governing party or parties, the closeness of the next election, the government's command of the legislature, and popular approval of the government policies.<br/> <i>Bureaucratic Quality</i>. Measures institutional strength and quality of the civil service, assess how much strength and expertise bureaucrats have and how able they are to manage political alternations without drastic interruptions in government services, or policy changes. Good performers have somewhat autonomous bureaucracies, free from political pressures, and an established mechanism for recruitment and training.</p>  |
| <b>WMO A31</b>                | <p><i>Policy consistency and forward planning</i>: How confident businesses can be of the continuity of economic policy stance - whether a change of government will entail major policy disruption, and whether the current government has pursued a coherent strategy. This factor also looks at the extent to which policy-making is far-sighted, or conversely aimed at short-term economic (and electoral) advantage.<br/> <i>Bureaucracy</i> : An assessment of the quality of the country's bureaucracy. The better the bureaucracy the quicker decisions are made and the more easily foreign investors can go about their business.</p>   |

**Table B3: Government Effectiveness (cont.)**

| Code                              | Table | Concept Measured  |
|-----------------------------------|-------|---|
| <b>Non-representative Sources</b> |       |   |
| <b>ADB</b>                        | A1    | Management of public debt<br>Policies to improve efficiency of public sector<br>Revenue Mobilization<br>Budget Management   |
| <b>AFR</b>                        | A2    | What proportion of the country's problems do you think the government can solve?<br>Based on your experiences, how easy or difficult is it to obtain household services (like piped water, electricity or telephone)?<br>Based on your experiences, how easy or difficult is it to obtain an identity document (such as birth certificate, driver's license or passport)? |
| <b>AGI</b>                        | A27   | Executive's effectiveness<br>Effectiveness in state structure<br>Government services efficiency<br>Decentralization of structures<br>Economic management  |
| <b>ASD</b>                        | A3    | Civil service<br>Revenue Mobilization and Budget Management<br>Management and Efficiency of Public Expenditures   |
| <b>BPS</b>                        | A5    | How problematic are telecommunications for the growth of your business<br>How problematic is electricity for the growth of your business.<br>How problematic is transportation for the growth of your business.   |
| <b>BRI</b>                        | A6    | Bureaucratic delays   |
| <b>BTI</b>                        | A4    | Consensus Building<br>Governance Capability<br>Effective Use of Resources<br>Reliable Pursuit of Goals<br>Welfare Regime  |
| <b>CPIA</b>                       | A8    | Management of external debt<br>Management of development programs<br>Quality public Administration<br>Revenue Mobilization<br>Budget Management   |
| <b>EGV</b>                        | A14   | Global E-government   |
| <b>FHT</b>                        | A11   | <i>Government and Administration</i> : Government decentralization, independent and responsibilities or local and regional governments, and legislative and executive transparency are discussed.   |
| <b>LBO</b>                        | A20   | Trust in Government   |
| <b>WCY</b>                        | A18   | Government economic policies do not adapt quickly to changes in the economy<br>The public service is not independent from political interference<br>Government decisions are not effectively implemented<br>Bureaucracy hinders business activity<br>The distribution infrastructure of goods and services is generally inefficient<br>Policy direction is not consistent |

**Table B4: Regulatory Quality**

| Code Table                    | Concept Measured   |
|-------------------------------|--|
| <b>Representative Sources</b> |  |
| DRI A15                       | <p><i>Regulations -- Exports:</i> A 2% reduction in export volume as a result of a worsening in export regulations or restrictions (such as export limits) during any 12-month period, with respect to the level at the time of the assessment.</p> <p><i>Regulations -- Imports:</i> A 2% reduction in import volume as a result of a worsening in import regulations or restrictions (such as import quotas) during any 12-month period, with respect to the level at the time of the assessment.</p> <p><i>Regulations -- Other Business:</i> An increase in other regulatory burdens, with respect to the level at the time of the assessment, that reduces total aggregate investment in real LCU terms by 10%</p> <p><i>Ownership of Business by Non-Residents:</i> A 1-point increase on a scale from "0" to "10" in legal restrictions on ownership of business by non-residents during any 12-month period.</p> <p><i>Ownership of Equities by Non-Residents:</i> A 1-point increase on a scale from "0" to "10" in legal restrictions on ownership of equities by non-residents during any 12-month period.</p>  |
| EIU A9                        | <p>Unfair competitive practices</p> <p>Price controls</p> <p>Discriminatory tariffs</p> <p>Excessive protections</p>   |
| GCS A30                       | <p>Administrative regulations are burdensome</p> <p>Tax system is distortionary</p> <p>Import barriers as obstacle to growth</p> <p>Competition in local market is limited</p> <p>It is easy to start company</p> <p>Anti monopoly policy is lax and ineffective</p> <p>Clusters are frequent</p> <p>Environmental regulations hurt competitiveness</p> <p>Cost of tariffs imposed on business</p> <p>Government subsidies keep uncompetitive industries alive artificially</p>  |
| HER A16                       | <p>Regulation</p> <p>Government Intervention</p> <p>Wage/Prices</p> <p>Trade</p> <p>Foreign investment</p> <p>Banking</p>  |
| MIG A21                       | <p><i>Unfair Competition.</i> When entering a non-domestic market the corporate may find that established players and competitors often resort to unethical and illegal means to create obstructions that will cause the enterprise to under-perform. The rules of doing business are different in different markets, and so are the routes that companies choose towards success. For any company, the most important factor in assessing the risk of unfair competition is how much knowledge it has of its local and international competitors. Pertinent issues to consider: competitor behaviour; competitor links; information security; political involvement in the sector; transparency.</p> <p><i>Unfair Trade.</i> In some parts of the world, companies and governments' interests are so closely intertwined that they are almost indistinguishable. The principals of those companies, some of whom are government ministers, use their position to trade unfairly and put obstacles in the way of foreign business to ensure that they retain the dominant position within the market. Occasionally, activities border on the illegal when government legislation is deliberately amended to favour local business, and/or enforcement bodies are deliberately obstructive to ensure that the local business succeeds at the expense of the foreign investor.</p> |
| PRS A23                       | <p><i>Investment Profile.</i> Includes the risk to operations (scored from 0 to 4, increasing in risk); taxation (scored from 0 to 3), repatriation (scored from 0 to 3); repatriation (scored from 0 to 3) and labor costs (scored from 0 to 2). They all look at the government's attitude towards investment.</p>   |
| WMO A31                       | <p><i>Tax Effectiveness:</i> How efficient the country's tax collection system is. The rules may be clear and transparent, but whether they are enforced consistently. This factor looks at the relative effectiveness too of corporate and personal, indirect and direct taxation.</p> <p><i>Legislation:</i> An assessment of whether the necessary business laws are in place, and whether there any outstanding gaps. This includes the extent to which the country's legislation is compatible with, and respected by, other countries' legal systems.</p>  |

**Table B4: Regulatory Quality (cont.)**

| Code Table                        | Concept Measured   |
|-----------------------------------|--|
| <b>Non-representative Sources</b> |  |
| <b>ADB</b> A1                     | Trade policy<br>Competitive environment<br>Labor Market Policies   |
| <b>AGI</b> A27                    | Investment policies attractiveness<br>Pro-investment tax policies<br>Tax system efficiency/corruption  |
| <b>ASD</b> A3                     | Trade Policy and Forex Regime<br>Factor and Product Markets and Prices<br>Enabling Environment for Private Sector Development  |
| <b>BPS</b> A5                     | Information on the laws and regulations is easy to obtain<br>Interpretations of the laws and regulations are consistent and predictable<br>Unpredictability of changes of regulations<br>How problematic are labor regulations for the growth of your business.<br>How problematic are tax regulations for the growth of your business.<br>How problematic are custom and trade regulations for the growth of your business.   |
| <b>BTI</b> A4                     | Competition<br>Price Stability   |
| <b>CPIA</b> A8                    | Competitive environment<br>Factor and products markets<br>Trade policy   |
| <b>EBRD</b> A10                   | Price liberalization<br>Trade & foreign exchange system<br>Competition policy  |
| <b>WCY</b> A18                    | Access to capital markets (foreign and domestic) is easily available<br>Ease of Doing Business<br>Banking regulation does not hinder competitiveness<br>Competition legislation in your country does not prevent unfair competition<br>Customs' authorities do not facilitate the efficient transit of goods<br>Financial institutions' transparency is not widely developed in your country<br>Easy to start company<br>Foreign investors are free to acquire control in domestic companies<br>Legal regulation of financial institutions is inadequate for financial stability<br>Price controls affect pricing of products in most industries<br>Public sector contracts are sufficiently open to foreign bidders<br>Real corporate taxes are non distortionary<br>Real personal taxes are non distortionary<br>The exchange rate policy of your country hinders the competitiveness of enterprises<br>The legal framework is detrimental to your country's competitiveness<br>Protectionism in your country negatively affects the conduct of business in your country<br>Labor regulations hinder business activities<br>New Legislation restricts competitiveness<br>Subsidies impair economic development |

**Table B5: Rule of Law**

| Code                          | Table | Concept Measured   |
|-------------------------------|-------|--|
| <b>Representative Sources</b> |       |  |
| CUD                           | A7    | For the most part, is the state seen as legitimately representing its citizens?<br>Rate the state's adherence to the rule of law, considering the country as a whole.  |
| DRI                           | A15   | <i>Losses and Costs of Crime</i> : A 1-point increase on a scale from "0" to "10" in crime during any 12-month period.<br><i>Kidnapping of Foreigners</i> : An increase in scope, intensity, or frequency of kidnapping of foreigners that reduces the GDP growth rate by 1% during any 12-month period.<br><i>Enforceability of Government Contracts</i> : A 1 point decline on a scale from "0" to "10" in the enforceability of contracts during any 12-month period.<br><i>Enforceability of Private Contracts</i> : A 1-point decline on a scale from "0" to "10" in the legal enforceability of contracts during any 12-month period.  |
| EIU                           | A9    | Violent crime<br>Organized crime<br>Fairness of judicial process<br>Enforceability of contracts<br>Speediness of judicial process<br>Confiscation/expropriation  |
| GCS                           | A30   | Common crime imposes costs on business<br>Organized crime imposes costs on business<br>Money laundering through banks is pervasive<br>Money laundering through non-banks is pervasive<br>Quality of Police<br>Insider trading is pervasive<br>The judiciary is independent from political influences of members of government, citizens or firms<br>Legal framework to challenge the legality of government actions is inefficient<br>Intellectual Property protection is weak<br>Protection of financial assets is weak<br>Illegal donation to parties are frequent<br>Percentage of firms which are unofficial or unregistered   |
| HER                           | A16   | Black market<br>Property Rights  |
| HUM                           | A26   | Independence of Judiciary  |
| MIG                           | A21   | <i>Organised Crime</i> . Crime, especially organised crime, is ultimately about profit. As capitalism and free market economic principles have spread around the world, the rule of law has often failed to keep pace. Existing organised crime groups simply seized the opportunity to fill that gap, and were swiftly followed by a flood of operators that have been kept to seize on the capitalist profit motive while dispensing with scruples. The most dangerous aspect of organised crime for legitimate businesses is that it is often indistinguishable, to the naked eye, from legitimate business. The proceeds of organised crime are recycled into legitimate companies through investments.<br><br><i>Legal Safeguards</i> . The performance of an enterprise in terms of the timeframe for returns and the rate of return itself, may be hostage to legal obstacles or the absence of sufficient recourse to the law in a non-domestic market. The challenges posed by an absence of legal safeguards do not always arise because there simply is not enough of a legislative framework by which to interpret situations. Frequently, the problem lies not with the legal framework itself, but with the inability for that framework to be used in an impartial and reliable fashion, if indeed it is usable at all. |
| PRS                           | A23   | <i>Law and Order</i> . The Law sub-component is an assessment of the strength and impartiality of the legal system, while the Order sub-component is an assessment of popular observance of the law (assessed separately).   |
| QLM                           | A6    | Direct Financial Fraud, Money Laundering and Organized Crime   |
| WMO                           | A31   | <i>Judicial Independence</i> An assessment of how far the state and other outside actors can influence and distort the legal system. This will determine the level of legal impartiality investors can expect.<br><i>Crime</i> How much of a threat businesses face from crime such as kidnapping, extortion, street violence, burglary and so on. These problems can cause major inconvenience for foreign investors and require them to take expensive security precautions.   |

**Table B5: Rule of Law (cont.)**

| Code                              | Table | Concept Measured   |
|-----------------------------------|-------|--|
| <b>Non-representative Sources</b> |       |  |
| <b>ADB</b>                        | A1    | Property Rights  |
| <b>AFR</b>                        | A2    | Over the past year, how often have you or anyone in your family feared crime in your own home?<br>Over the past year, how often have you or anyone in your family had something stolen from your house?<br>Over the past year, how often have you or anyone in your family been physically attacked?<br>How much do you trust the courts of law?<br>How much do you trust the police?<br>Based on your experiences, how easy or difficult is it to obtain help from the police when you need it? |
| <b>AGI</b>                        | A27   | Judiciary's effectiveness<br>Respect for rule of law<br>Law enforcement organs   |
| <b>ASD</b>                        | A3    | Rule of Law  |
| <b>BPS</b>                        | A5    | Fairness of the court system<br>Affordability of the court system<br>Enforceability of court decisions<br>Honesty of courts<br>Quickness of court decisions<br>Property right protection<br>How problematic is organized crime for the growth of your business.<br>How problematic is judiciary for the growth of your business.<br>How problematic is street crime for the growth of your business.   |
| <b>BRI</b>                        | A6    | Enforceability of contracts  |
| <b>BTI</b>                        | A4    | Rule of Law<br>Private Property  |
| <b>CCR</b>                        | A11   | Rule of Law  |
| <b>CPIA</b>                       | A8    | Property rights  |
| <b>FHT</b>                        | A11   | <i>Rule of Law</i> : Considers judicial/constitutional matters as well as the legal and de facto status of ethnic minorities.  |
| <b>GAL</b>                        | A13   | Trust in the Legal System  |
| <b>LBO</b>                        | A20   | Trust in Judiciary<br>Trust in Police<br>Victim of crime   |
| <b>USD</b>                        | A28   | Trust in Judiciary<br>Trust in Police<br>Victim of crime<br>Trust in supreme court<br>Trust in tribunals   |
| <b>WCY</b>                        | A18   | Tax evasion is a common practice in your country<br>Justice is not fairly administered in society<br>Personal security and private property are not adequately protected<br>Parallel economy impairs economic development in your country<br>Insider trading is common in the stock market<br>Patent and copyright protection is not adequately enforced in your country   |

**Table B6: Control of Corruption**

| Code                              | Table | Concept Measured   |
|-----------------------------------|-------|--|
| <b>Representative Sources</b>     |       |  |
| <b>CUD</b>                        | A7    | Rate the severity of overall corruption within the state<br>To what extent do the country's primary political decision makers engage in patterns of nepotism, cronyism and patronage?<br>To what extent do the country's civil service engage in patterns of nepotism, cronyism and patronage?<br>To what extent do patterns of nepotism, cronyism and patronage undermine the state's ability to exercise the basic functions of government effectively?<br>To what extent do patterns of nepotism, cronyism and patronage distort broad patterns of economic development?  |
| <b>DRI</b>                        | A15   | Risk Event Outcome non-price: Losses and Costs of Corruption: A 1-point increase on a scale from "0" to "10" in corruption during any 12-month period.   |
| <b>EIU</b>                        | A9    | Corruption   |
| <b>GCS</b>                        | A30   | Public trust in financial honesty of politicians<br>Diversion of public funds due to corruption is common<br>Frequent for firms to make extra payments connected to: import/export permits<br>Frequent for firms to make extra payments connected to: public utilities<br>Frequent for firms to make extra payments connected to tax payments<br>Frequent for firms to make extra payments connected to: loan applications<br>Frequent for firms to make extra payments connected to: awarding of public contracts<br>Frequent for firms to make extra payments connected to: influencing laws, regulations, decrees<br>Frequent for firms to make extra payments connected to: getting favorable judicial decisions<br>Extent to which powerful firms' political ties impose costs on other firms<br>Extent to which firms' illegal payments to influence government policies impose costs on other firms |
| <b>MIG</b>                        | A21   | <i>Corruption.</i> There is an immense variety of activities that may be construed as corrupt. Bribery is the most obvious. However, what is and is not a bribe is a matter of presentation and perception in much the same way as "corruption" itself. Some of the issues that executives should consider include: accounting standards; anti-corruption policy credibility and enforceability; cronyism, nepotism and vested interests; cultural differences; judicial independence; transparency of decision-making.  |
| <b>PRS</b>                        | A23   | <i>Corruption.</i> Measures corruption within the political system, which distorts the economic and financial environment, reduces the efficiency of government and business by enabling people to assume positions of power through patronage rather than ability, and introduces an inherently instability in the political system.  |
| <b>QLM</b>                        | A6    | Indirect Diversion of Funds  |
| <b>WMO</b>                        | A31   | <i>Corruption:</i> This index assesses the intrusiveness of the country's bureaucracy. The amount of red tape likely to countered is assessed, as is the likelihood of encountering corrupt officials and other groups.  |
| <b>Non-representative Sources</b> |       |  |
| <b>ADB</b>                        | A1    | Anti-corruption policies<br>Transparency / corruption  |
| <b>AFR</b>                        | A2    | How well would you say the current government is handling the fight of corruption in the government?<br>How many elected leaders (parliamentarians or local councilors) do you think are involved in corruption?<br>How many judges and magistrates do you think are involved in corruption?<br>How many government officials do you think are involved in corruption?<br>How many border officials do you think are involved in corruption?   |
| <b>AGI</b>                        | A27   | Civil service transparency / accountability<br>Corruption control  |
| <b>ASD</b>                        | A3    | Anti-corruption  |
| <b>BPS</b>                        | A5    | How common is for firms to have to pay irregular additional payments to get things done<br>On average, what percent of total annual sales do firms pay in unofficial payments to public officials<br>How often do firms make epayments to influence the content of new legislation<br>Extent to which firms' payments to public officials to affect legislation impose costs on other firms<br>How problematic is corruption for the growth of your business.  |

**Table B6: Control of Corruption (cont.)**

| <b>Code</b>                       | <b>Table</b> | <b>Concept Measured</b>   |
|-----------------------------------|--------------|---|
| <b>Non-Representative Sources</b> |              |   |
| <b>BRI</b>                        | A6           | <i>Internal Causes of Political Risk</i> : Mentality, including xenophobia, nationalism, corruption, nepotism, willingness to compromise, etc.    |
| <b>CCR</b>                        | A11          | Transparency / corruption   |
| <b>CPIA</b>                       | A8           | Transparency / corruption   |
| <b>FHT</b>                        | A11          | Corruption  |
| <b>GAL</b>                        | A13          | Frequency of corruption<br>Frequency of household bribery<br>Extent of Grand corruption<br>Extent of Petty corruption                             |
| <b>LBO</b>                        | A20          | Have you heard of acts of corruption?<br>It is likely to bribe policemen<br>It is likely to bribe judges<br>It is likely to bribe public servants |
| <b>PRC</b>                        | A22          | Corruption Index  |
| <b>USD</b>                        | A28          | Frequency of corruption   |
| <b>WCY</b>                        | A18          | Bribing and corruption exist in the economy   |

### Annex 3. Selected Concepts in Key Human Rights Covenants and Declaration

**Table 1: Simple Word Count of Selected Concepts in Key Human Rights Covenants and Declarations**

|   | <b>Covenant on Civil/ Political Rights</b> | <b>Covenant on Economic/ Social/ Political Rights</b> | <b>Declaration on the Right to Development</b> | <b>Total # of Words (3 documents)</b> | <b>United Nations Convention Against Corruption</b> |
|---|--|---|--|---------------------------------------|---|
| <b>Total # of Words (<i>per document</i>)</b> | 7,195                                      | 3,762   | 1,674  | <b>12,631</b>                         | 18,417  |
| <b>Political Rights</b>                       | 3  | 1   | 2  | <b>6</b>                              | 0   |
| <b>Torture</b>                                | 1  | 0   | 0  | <b>1</b>                              | 0   |
| <b>Health</b>                                 | 5  | 4   | 1  | <b>10</b>                             | 1   |
| <b>Food</b>                                   | 0  | 5   | 1  | <b>6</b>                              | 0   |
| <b>Wages</b>                                  | 0  | 1   | 0  | <b>1</b>                              | 0   |
| <b>Governance</b>                             | 0  | 0   | 0  | <b>0</b>                              | 0   |
| <b>Corruption</b>                             | 0  | 0   | 0  | <b>0</b>                              | 73  |
| <b>Rule of Law</b>                            | 0  | 0   | 0  | <b>0</b>                              | 3   |
| <b>Independent Judiciary</b>                  | 0  | 0   | 0  | <b>0</b>                              | 0   |
| <b>Data</b>                                   | 0  | 0   | 0  | <b>0</b>                              | 1   |
| <b>Monitoring</b>                             | 0  | 0   | 0  | <b>0</b>                              | 1   |
| <b>Human Rights Indicators</b>                | 0  | 0   | 0  | <b>0</b>                              | 0   |

#### **Annex 4. Survey Diagnostic Tools for In-Country Governance Assessment**

The design and implementation of agency-specific, in-depth governance diagnostic surveys for public officials, households or users, and enterprises, constitute an innovation that provides tangible inputs for countries committed to implementing capacity building and institutional change programs. New survey instruments can collect detailed information on behavior in even the most dysfunctional government agencies and on the delivery of specific services. Used with other empirical devices, such diagnostic surveys can focus the political dialogue on concrete areas for reform and rally civil society behind reform efforts.

Such country self-diagnostic data, used by a variety of in-country stakeholders and disseminated through participatory workshops, have mobilized broader support for consensus building and collective action for institutional reforms. For instance, countries such as Albania, Bolivia, Latvia, Thailand and Slovakia, progressed from using diagnostics to taking concrete action. In other countries, similar governance improvement efforts are taking place at the municipal level, such as in a number of Ukrainian cities, as well as in the case of Campo Elias, Venezuela, where specific actions to improve the local governance were carried out following diagnostic surveys. Thus, in-depth country specific data are powerful in mobilizing support for reforms -- but the obstacles presented by the vested interests and 'state capture' forces of some powerful forces within the elite, resisting such reforms, are also powerful. Therefore, political leadership, civil society, private sector investors, and the donor community need to build on the insights and momentum generated by the diagnostics and utilize and disseminate statistics in conjunction with promoting civil liberties and media involvement, and resulting in higher accountability and actions against corruption.

The first set of in-depth governance diagnostic surveys of public officials, firms, and citizens was carried out in Albania, Georgia, and Latvia in 1998, and focused on diagnosing the challenge of corruption in order to identify priorities for action. More recently, implementation of refined and expanded versions of these diagnostic surveys has been carried out in dozens of other countries, focusing more broadly on the complex governance of key agencies within each country, and assessing the main institutional determinants of misgovernance and corruption. Challenging conventional wisdom, the new surveys of public officials, enterprises, and citizens find respondents willing to provide detailed information on misgovernance that they have observed and experienced (as opposed to merely indicating their vague perceptions about countrywide corruption, for instance).

Survey respondents report on embezzlement of public funds, theft of state property, bribery to shorten processing time, bribery to obtain monopoly power, and bribery in procurement. For instance, theft of state property was identified as a particular problem in Albania, where weakness in the judiciary was identified as one of the primary causes of corruption. Regulatory failures are much less important there than in Georgia and Latvia, indicating that the priorities for reform vary significantly from setting to setting, even if a priori there appear to be commonalities. In these diagnostic surveys, detailed statistics are collected on many governance and performance characteristics of the key agencies, and include important management, political and corruption dimensions. In the country frequency and cost of bribes paid by enterprises to regulators in different agencies as well as the shortcomings of public

service delivery and other performance and effectiveness indicator. Issues such as meritocracy, discretionality, budgetary transparency, and the poverty alleviation effectiveness of various institutions in covered. The analysis of these statistics then serves as a vital input for prioritizing in the formulation of a governance improvement reform program.

When the governance diagnostic data are presented in workshops to members of the business community, major civil society, and the executive and legislative branches, the policy debate abruptly changed from vague, unsubstantiated, and often personalized accusations to one focused on empirical evidence and systemic weaknesses that needed to be addressed. Action programs are often (although not always) formulated, to be followed by implementation of institutional reforms in many cases.

Indeed, the collection, analysis, and dissemination of country-specific data on governance are altering the policy dialogue on these issues, and often empowering civil society through collective action to work with reformists in the executive, judiciary, and legislative branches, as well as with the private sector.

These benefits do not always become reality, however. Important challenges remain, including the complex political dynamics that often change during the course of the diagnostics, so that the preparedness to implement an ambitious program may have waned once the diagnostic has been carried out and translated into concrete proposed actions. Another challenge refers to the evolving state of the art and methods in translating the survey evidence and its analysis into reform priorities, as well as the strategy and concrete steps in implementing the reform agenda. Once survey data and their analysis are available, countries where political will is present must begin the more difficult task of prioritizing measures according to the country reality and introducing reforms to improve governance.