“Myths and Realities on Governance and Anti-Corruption Worldwide”

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www.worldbank.org/wbi/governance

For Presentation and Discussion with Ambassadors to the UN, at the US Mission, New York City, October 29th, 2004
Key Presentational Themes

1. Governance: Missing in the Washington Consensus
2. At the World Bank: from Prohibition era to today...
3. Governance *can* be measured, analyzed, & monitored
4. ‘Data Revolution’ at 3 Levels: Macro, Mezzo, Micro
5. Governance Matters for Development and Security
6. Lessons from Variation across Countries & Institutions
7. Action Programs: From in-depth country diagnostics
8. Does corruption necessarily imply illegality?
9. Some Key Findings – and Addressing Misconceptions
10. Concrete Implications and Challenges ahead
Evolution of Governance/A-C at the World Bank: From C ... ‘Prohibition’ era to Mainstreaming

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

WDR on Institutions 1982

JDW “Cancer of Corruption” Speech (10/96)

TI CPI (5/95)

The ‘Prohibition’ Era

- State in a Changing World (97)
- Strategic Compact (97)
- Anti-corruption Strategy (97)
- Governance Pillar - CDF (98)
- Gov/A-C Diagnostics start (98)

Broadening & Mainstreaming

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

- 1st set of firms Debarred from WB (99)
- Formalization of INT (01)

Internal AC unit created in WB (98)

Formalization of INT (01)

Data & Research
Corruption-Development

Governance & Anti-Corruption (A-C) at the Bank—Themes

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

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

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

4. The ‘Data Revolution’: Integration at 3 Levels
Overall Approach at the World Bank: Good governance has many inter-related dimensions

**Institutional Checks & Balances**
- Independent, effective judiciary
- Legislative oversight
- Decentralization with accountability
- Global initiatives: OECD Convention, anti-money laundering, WCO

**Political Accountability**
- Political competition, credible political parties
- Transparency in party financing
- Disclosure of parliamentary votes
- Asset declaration, conflict-of-interest rules

**Civil Society Voice & Participation**
- Freedom of information
- Public hearings on draft laws
- Media/NGOs
- Community empowerment
- Report cards, client surveys

**Competitive Private Sector**
- Economic policies
- Restructuring of monopolies
- Effective, streamlined regulation
- Robust financial systems
- Corporate governance
- Collective business associations

**Public Sector Management**
- Meritocratic civil service with adequate pay
- Public expenditure, financial management, procurement
- Tax and customs
- Frontline service delivery (health, education, infrastructure)
Number of IBRD/IDA Operations with Explicit Anti-Corruption Components, 1997-2003

World Bank projects with Governance Components (Annual Averages)

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

Explosion of activities: Examples of major programs launched across countries

- Latvia (anticorruption)
- Russia (customs/treasury)
- India – Andra Pradesh (power; e-gov); Karnataka (right to info)
- Colombia (diagnostics & civil society)
- Ghana (PE accountability)
- Jordan (civil society)
- Guinea (diagnostic to action program)
- Bolivia: (public admin.)
- Georgia (devolution)
- Tanzania (PSR)
- Ethiopia (decentralization)
- Pakistan (devolution)
- Bangladesh (civil society)
- Philippines (transport)
- Indonesia (local governance)
- Cambodia (PE; forestry)
- Kyrgyz Republic (governance reform)
- Ukraine (tax admin)
- Latvia (anticorruption)
- Jordan (civil society)
- Colombia (diagnostics & civil society)
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- Indonesia (local governance)
- Cambodia (PE; forestry)
- Kyrgyz Republic (governance reform)
- Ukraine (tax admin)
Empirical Approach to Governance

1. ‘Macro’: Worldwide Aggregate Governance Indicators: 200 countries, 6 components, periodic.

2. ‘Mezzo’: Cross-Country Surveys of Enterprises

3. ‘Micro’: Specialized, in-depth, in-country Governance and Institutional Capacity Diagnostics: Includes surveys of: i) user of public services (citizens); ii) firms, and iii) public officials

On ‘Aggregate/Macro’ Level first...
The Governance ‘Macro’ Level

• Defining and unbundling succinctly
• The 6 dimensions of Governance: how conceptually derived, how measured
• The governance worldmap, & web interactivity
• What the ‘Macro’ can and cannot do…
Governance: A working definition

- Governance is the process and institutions by which authority in a country is exercised:
  (1) the process by which governments are selected, held accountable, monitored, and replaced;
  (2) the capacity of gov’t to manage resources and provide services efficiently, and to formulate and implement sound policies and regulations; and,
  (3) the respect for the institutions that govern economic and social interactions among them
Operationalizing Governance: Unbundling its Definition into Components that can be measured, analyzed, and worked on

Each of the 3 main components of Governance Definition is unbundled into 2 subcomponents:

• Democratic Voice and (External) Accountability
• Political Instability, Violence/Crime & Terror
• Regulatory Burden
• Government Effectiveness
• Corruption
• Rule of Law

We measure these six governance components…
Sources of Governance Data

• Data on governance from 25 different sources constructed by 18 different organizations

• Data sources include cross-country surveys of firms, commercial risk-rating agencies, think-tanks, government agencies, international organizations, etc.

• Over 200 proxies for various dimensions of governance

• Organize these measures into six clusters corresponding to definition of governance, for four periods: 1996, 1998, 2000, and 2002, covering up to 199 countries
Sources of Governance Data

- **Cross-Country Surveys of Firms:** Global Competitiveness Survey, World Business Environment Survey, World Competitiveness Yearbook, BEEPS

- **Cross-Country Surveys of Individuals:** Gallup International, Latinobarometro, Afrobarometer

- **Expert Assessments from Commercial Risk Rating Agencies:** DRI, PRS, EIU, World Markets Online,

- **Expert Assessments from NGOs, Think Tanks:** Reporters Without Borders, Heritage Foundation, Freedom House, Amnesty International

- **Expert Assessments from Governments, Multilaterals:** World Bank CPIA, EBRD, State Dept. Human Rights Report
Building Aggregate Governance Indicators

- Use Unobserved Components Model (UCM) to construct composite governance indicators and margins of error for each country

- Estimate of governance: weighted average of observed scores for each country, re-scaled to common units

- Weights are proportional to precision of underlying data sources

- Margins of error of the aggregate indicator reflect (a) number of sources in which a country appears, and, (b) the precision of those sources
## Inputs for Governance Indicators 2002

<table>
<thead>
<tr>
<th>Publisher</th>
<th>Publication</th>
<th>Source</th>
<th>Country Coverage</th>
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<td>Wefa’s DRI/McGraw-Hill</td>
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<td>117 developed and developing</td>
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<td>Business Env. Risk Intelligence</td>
<td>BERI</td>
<td>Survey</td>
<td>50/115 developed and developing</td>
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<td>Columbia University</td>
<td>Columbia U. State Failure</td>
<td>Poll</td>
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<td>World Bank</td>
<td>Country Policy &amp; Institution Assmmt Poll</td>
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<td>Gallup International</td>
<td>Voice of the People</td>
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<td>Business Env. Risk Intelligence</td>
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<td>50/115 developed and developing</td>
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<td>EBRD</td>
<td>Transition Report</td>
<td>Poll</td>
<td>27 transition economies</td>
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<tr>
<td>Economist Intelligence Unit</td>
<td>Country Indicators</td>
<td>Poll</td>
<td>115 developed and developing</td>
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<td>Freedom House</td>
<td>Freedom in the World</td>
<td>Poll</td>
<td>192 developed and developing</td>
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<td>Nations in Transit</td>
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<td>World Economic Forum/CID</td>
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<td>Economic Freedom Index</td>
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<td>International Country Risk Guide</td>
<td>Poll</td>
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<tr>
<td>Reporters Without Borders</td>
<td>Reporters sans frontieres (RSF)</td>
<td>Survey</td>
<td>138 developed and developing</td>
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<td>IMD, Lausanne</td>
<td>World Competitiveness Yearbook</td>
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<tr>
<td>Binghamton Univ.</td>
<td>Human Rights Violations Research</td>
<td>Survey</td>
<td>140 developed and developing</td>
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</table>
# Ingredients for Rule of Law Indicator

## Surveys of Firms
- **BEEPS**
- **Global Competitiveness Survey**
- **World Competitiveness Yearbook**

## Surveys of Individuals
- **Gallup**

## Risk Rating Agencies
- **BERI**
- **DRI**
- **EIU**
- **PRS**
- **World Markets Observer**

## Think Tanks
- **Freedom House**
- **Heritage Foundation**

## Governments
- **State Dept Human Rights Report**

### Type of Questions
- **Courts Honest? Crime? Property rights protected?**
- **Crime, money laundering, judicial independence, protection of financial assets**
- **Justice fairly administered, personal security and private property protected**
- **Trust in legal system**
- **Contract enforcement**
- **Costs of crime, enforceability of contracts**
- **Costs of crime, enforceability of contracts, property rights protection**
- **Law and order**
- **Judicial independence, crime**
- **Rule of law**
- **Property rights, black market activity**
- **Judicial independence**
Precision vs. Number of Sources, KKZ Governance Estimates, 2000/01

Note: See explanatory details in this slide’s note
Governance can be measured – an illustration

Control of Corruption, Selected Countries (K&K, 2002)

Source for data: Kaufmann D., Kraay A., Mastruzzi M., Governance Matters III: Governance Indicators for 1996-2002, WP #3106, August 2003. Units in vertical axis are expressed in terms of standard deviations around zero. Country estimates are subject to margins of error (illustrated by thin line atop each column), implying caution in interpretation of the estimates and that no precise country rating is warranted.
Governance World Map: Government Effectiveness, 2002

Colors are assigned according to the following criteria: Red, 25% or less rank worse (bottom 10% in darker red); Orange, between 25% and 50%; Yellow, between 50% and 75%; Light Green between 75% and 90%; Dark Green above 90%
Governance World Map: Rule of Law, 2002

Colors are assigned according to the following criteria: Red, 25% or less rank worse (bottom 10% in darker red); Orange, between 25% and 50%; Yellow, between 50% and 75%; Light Green between 75% and 90%; Dark Green above 90%
Governance Matters for Development

Disentangling Causality Between Incomes & Governance

• Does Good Governance Matter in raising per capita incomes?
  – Yes, the governance & A-C dividend is very large: 400% increase in incomes per capita; similarly for social development

• But the reverse does not hold: Higher Incomes do not lead to Governance Improvements – i.e. there is no automatic virtuous circle
Dividend of Good Governance

**Dividend of Good Governance**

**Infant Mortality and Corruption**

- Weak
- Average
- Good

**Per Capita Income and Regulatory Burden**

- Weak
- Average
- Good

**Literacy and Rule of Law**

**Rule of Law**

- Weak
- Average
- Good

**Per Capita Income and Voice and Accountability**

- Weak
- Average
- Strong

**Note**: The bars depict the simple correlation between good governance and development outcomes. The line depicts the predicted value when taking into account the causality effects (“Development Dividend”) from improved governance to better development outcomes. For data and methodological details visit [http://www.worldbank.org/wbi/governance](http://www.worldbank.org/wbi/governance).
Governance Improving Worldwide? -- *Mixed*

- On average, over the past 8 years: some progress on Voice and Democratic Accountability, but little if any on the quality of rule of law and control of corruption.

- However, the variation across countries is very large: For instance, some countries in Eastern Europe have improved. In each region there is significant variation across countries. Good: Chile, Costa Rica, Botswana.

- Important to ‘unbundle’ governance and corruption: *improvement in some dimensions, deterioration in others.*
But we are facing many challenges, as on average there is little evidence of significant improvement on control of corruption …

Source: ICRG, 1994-2002. Subject to margins of error, as it is based on only one source.
The ‘Mezzo’ Level of Governance Measurement

• Based on cross-country surveys, mainly of enterprises – (such as the EOS of WEF, BEEPS/WBES of WB, etc.)

• Thousands of firms interviewed on a range of issues; focus on governance, specialized questions

• More detailed unbundling of governance and corruption phenomena than aggregate indicators

• Relatively broad country coverage, but less than aggregate governance indicators

• Measuring what is taking place De Facto matters: it uncovers stark realities masked in De Jure indicators
Judiciary Independence (EOS survey results 1998-2004)
Control of judicial bribery over time: EOS 1998–2004

Source: EOS 1998-2004. Question: “In your industry, how commonly firms make undocumented extra payments or bribes connected to getting favorable judicial decisions? common / never occur”.

Impact on Global Competitiveness Index (GCI) Rank of Improvement in Constraint to the Firm

Source: Constraints to Business data based on EOS 2004 (Question: “From the following list, please select the five most problematic factors for doing business in your country, and rank them from 1 to 5.”); GCI based on GCR team calculations for 2004/2005 Report; GDP per capita from World Bank. Calculations based on regression estimates of the impact on the GCI of an improvement in the constraint by one standard deviation.
Unbundling Governance – some illustrations: View of the Firm, 102 countries (EOS 2003)

Percent of firms rating constraints as dissatisfactory

Source: EOS 2003. Each region has the following number of countries: OECD: 23; East Asia (Developing): 6, East Asia (NIC): 4; Eastern Europe: 14; Former Soviet Union: 2 (Russia and Ukraine); South Asia: 4; Sub-Saharan Africa: 21; Middle East North Africa: 7; Latin America and Caribbean: 21.
Defining, Measuring and Analyzing Legal Corruption

- Old, traditional definition of corruption: ‘Abuse of public office for private gain’
- Problems – i) interpreted in terms of legality of act (illegal = corrupt; legal = non-corrupt?);
  ii) onus is on the public official (asymmetry), and, iii) measurement bias towards ‘petty corruption’
- Alternative: ‘Privatization of public policy’ (e.g. ‘undue influence by private interests on public policy actions’)
- This implies that some actions may be legal strictly speaking, but illegitimate, inconsistent with standards and/or corrupt
- These legal forms of corruption can be measured
Corporate and Public Sector Ethics Indices, 2004

% Firms rate satisfactory

Acronyms: CICC: Corporate Illegal Corruption Component; CLCC: Corporate Legal Corruption Component; CEI: Corporate Ethics Index (the average of both legal and illegal corporate corruption components, CEIC and CELC); PSEI: Public Sector Ethics Index; JLEI: Judiciary / Legal Effectiveness Index; CGI: Corporate Governance Index. Source: Author’s calculations based on EOS 2004. See Legend of Table 2 for detailed definition and inputs into each ethics index.
State Capture & Inequality of Influence

- State Capture/Undue Influence: power of elites
- State Capture as extreme manifestation of unequal influence: shaping laws, regulations and policies by powerful firms, illicitly
- Elites appropriate, and resources not funneled to improve public governance – *more capture*
- So when growth takes place in captured settings, governance will not automatically improve (*no virtuous circle*)
State Capture

Firms shape the legal, policy and regulatory environment through *illicit, non-transparent* provision of private gains to public officials

• Examples include:
  – *private purchase of legislative votes*
  – *private purchase of executive decrees*
  – *private purchase of court decisions*
  – *illicit political party financing*
Economic Cost of Capture for Growth

Based on survey of transition economies, 2000
Addressing Capture: Economic Reform, Political Competition & Voice/Civil Liberties Matter

![Chart showing State Capture Index](chart-image)

- Partial Civil Libs
- High Civil Libs
- Advanced

Political/Civil Liberties Reforms

Pace of Econ Reform

Slow
Frequency of bribery at home and abroad, EOS 2004

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

• Metrics vary: Development vs Governance vs Security

• Towards an Inventory of cross-country empirical work and existing indicators and variables

• Empirics challenge popular notions in the field

• Empirical Unbundling security challenges (S vs. s)

• Beyond ‘Failed States’: misgovernance elsewhere

• Security, Money Laundering, Corruption and Governance: unexplored links
Governance, Development & Security: Some Data Sources

*Governance:* From Various used 6 KK 2002 Governance Indicators  (-2.5 to 2.5)

*Loss of Territorial Control – constructed based on:*

- **Travel Warnings (UN):** assigned a "0" in country with no/minimal travel restrictions (0 or 1); “0.5” for country w/ medium restrictions (2 or 3); a “1” to countries with high restrictions (4 & 5).  [Similarly, US State Dept Warnings]
- **Country Travel Risk Index (iJET):** Security Assessment Ratings (1 (best) to 5)

*Civil War/Internal Conflict:*

- **Civil War (Uppsala Index):** Existence/Intensity of Internal War: Dummy = 1 if country has internal war (mild, intermediate or major), 0 otherwise.
- **Intra-state War (Gleditsch et al):** 1990-2001, and also Armed Conflict 1946–99: (Journal of Peace Research)
- **Civil War (Singer et al, 1994):** Correlates of War Project: International, and updating by Collier and Hoeffler

*Terrorism*

- **DRI 2003:** Likelihood of Political Terrorism in the next five years (0-100).
- **EOS-WEF firm survey, 2003 & 2004:** Cost of Terrorist Threat (1-7).
- **New York Times’ Terrorism Spread Index:** List of countries targeted recently

*Refugee Flows: UNHCR-actual # of refugees, by source and destination countries*

*Money Laundering*  - EOS-WEF firms: Money Laundering, Banking/Informal
Global vs Domestic Governance Challenges: % Firms Report High Cost of Terrorism and Crime, EOS 2004

% Firms Report High Cost of:

- Cost of Terrorism
- Organized Crime
- Common Crime
- State Capture Cost

Source: EOS 2004. A firm is considered as reporting high cost when rated the question as unsatisfactory (1, 2, or 3) in the scale of 1 to 7. Questions were, respectively: “The threat of terrorism in your country, incidence of common crime and violence (e.g. street muggings, firms being looted), organized crime (mafia-oriented racketeering, extortion) in your country impose / does not impose significant costs on business?”; “In your country the diversion of public funds to companies, individuals or groups due to corruption is common / never occurs”.
Source: EOS 2002/03. Question: The threat of terrorism in your country imposes significant cost on business
Money Laundering through Banks and Diversion of Public Funds

Money Laundering through Banks

Diversion of Public Funds

$r = 0.85$
On the Security-Governance Nexus: Some Implications from initial empirical approach

1. Towards better conceptual and empirical integration of Security and Governance in Development context

2. Deepening Efforts on Metrics/Measurement in Security (and related): at aggregate cross-country; and at in-country diagnostics (expanding the tool?)

3. Governance Matters, but which dimensions, and for what aspect of security and development?

4. For Development: codifying and analyzing both the S and the s-types of security matters -- Some security challenges are truly ‘globalized’ (S), vs. ‘glocalized’, vs. ‘localized’ (s). Different policy implications

5. For terrorism (S), limits of: i) narrow focus on Failed States?; ii) Money Laundering

6. Politics & Inequality Matters: within & across countries?
The ‘Micro’ Level – In-depth in-country diagnostics for action programs

Key Features of Governance Diagnostic Tools

• *Multi-pronged surveys of:* households, firms and public officials [‘triangulation’]
• *Experiential questions* (vs. ‘opinions’/generic)
• *Local Institution Implements, w/WB Collaboration*
• *Recognizing Multidimensionality of Governance*
• *Focus on Service Delivery*
• *Input for Action and Change: Action Programs*
### In-Country, In-Depth, Governance Diagnostics -- For Concrete Action Programming

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<tr>
<th>Country/City</th>
<th>Governance Diagnostic completed by/expected to be completed by</th>
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<td><strong>Latin America</strong></td>
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<tr>
<td>Bolivia</td>
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<td>Colombia</td>
<td>2002</td>
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<td>Ecuador</td>
<td>2003</td>
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<td>Guatemala</td>
<td>Early 2005</td>
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<td>Honduras</td>
<td>2001</td>
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<td>Mexico*</td>
<td>2001</td>
</tr>
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<td>Paraguay</td>
<td>1999 (1st) / Early 2005 (2nd)</td>
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<tr>
<td>Peru</td>
<td>2002</td>
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<td>Sao Paulo</td>
<td>2002</td>
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<td><strong>Europe and Central Asia</strong></td>
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<td>Albania</td>
<td>1998</td>
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<td>Bosnia Herzegovina</td>
<td>2001</td>
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<td>Georgia</td>
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<td>Slovakia</td>
<td>2000</td>
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<tr>
<td><strong>Africa</strong></td>
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<td>Benin</td>
<td>Early 2005</td>
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<td>Ghana</td>
<td>2000</td>
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<td>Guinea</td>
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<td>Nigeria</td>
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<td><strong>Asia</strong></td>
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<td>Indonesia</td>
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<td>Thailand</td>
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</tbody>
</table>
A few Illustrations

**Challenge:** poor governance and corruption

1. Establishment of Steering Committee
2. Diagnostic surveys + analysis
3. Draft of the NAS
4. Public dissemination + discussion
5. Revision of the NAS
6. Implementation by Government
7. Monitoring and Evaluation of NAS

**Key Partnership:** Government + Civil Society

**Guatemala**
Highly fragmented civil society
Joint effort (CMU, SDV, WBI) to build consensus

**Sierra Leone**
Strong commitment (civil society, state, donors) => surveys and report within a year. Results will be used for Institutional Reform Project

**Honduras**
CNA: report and strategy to newly elected gov (January 2001); integration of strategy in the 2002-2006 government plan
### Stages for Development of the National Anti-Corruption Strategy

<table>
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<tr>
<th>Stage</th>
<th>Details</th>
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<td>1.</td>
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<td>Monitoring and Evaluation of NAS</td>
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**Partnership: Government + Civil Society**

### Alternative paths

**Peru**
- Lack of political will => strategy never implemented
- Subsequent entry point: capacity building for monitoring

**Ecuador**
- Lack of political will (2000) => report never released

**Indonesia**
- Weak demand for reform and damaged reputation => work with local partners + donors; support A-C diagnostics by local NGO; involvement of locals in design and implementation of projects

**San Paulo**
- Different unit of observation: city.
- Partnership with TI to adapt tools and compile report
Additional cases

• Ghana: report and strategy (2000), integration of results into Bank projects, dissemination at national and regional level

• Colombia: report (2001). Strategy in progress, collaboration between government and steering committee

• Bolivia: report (2001); country reform policy for Judiciary and procurement
In a diagnostic in a Latin American country, misgovernance is a regressive tax (similarly in other countries)

Bribe/Total Income ratio, %

Low Income: 4.2
Middle Income: 2.1
High Income: 1.4
Misgoverned vs. well Governed Agencies in-Country
(as ranked by public officials, 2000 diagnostic)

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

% reporting that the agency is very corrupt
In-depth country diagnostic
Public Officials Survey: Meritocracy in the Public Service Can Help Reduce Corruption

Meritocracy in Hiring and Promotion

y = -0.05x + 6.05
R^2 = 0.50
r=-0.71
Citizen Voice Improves Accessibility of Public Services to the Poor

Based on Public Officials Survey. The sample of institutions includes 44 national, departmental, and municipal agencies which are a prior anticipated to be accessible to the poor.
Citizen Voice Helps Control Bribery

*(Bolivia Diagnostics)*

Based on 90 national, departmental, and municipal agencies covered in the Bolivia Public Officials Survey.
Transparency within Government Agencies Prevents Purchase of Public Positions

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

Yellow columns depict the unconditional average for each category. Blue line depicts the controlled causal effect from X to Y variables. Dotted red lines depict the confidence ranges around the causal effect depicted by the blue line.
2004: Indonesia’s Country Assistance Strategy (CAS) is on Governance – Harnessing the entire Bank portfolio on Anti-Corruption (A-C)

Strategy: Fully Mainstreaming Governance/A-C in the CAS Process—specifics:

• Lending volumes linked to governance/A-C progress
• Anti-corruption plans for all projects
• Selecting projects linked to governance challenges (saying No...)
• Picking winners at the local level—decentralized strategy

Staffing

• Resident Governance Leader/Advisor
• Anti-Corruption Committee; collaboration w/ civil society
• In-house: Fiduciary team; Investigators & Project advisors
Indonesia: Anti-Corruption (A-C) Action Plans

Bank-funded projects in Indonesia must have an A-C plan, approved by the A-C Committee – to include:

i) Disclosure;
ii) Civil society oversight;
iii) Complaints mechanism;
iv) Anti-collusion;
v) Sanctions and remedies; and
vi) Strengthened financial controls

Illustration of some recent actions:

i) Mis-procurement has been declared, funds returned;
ii) Funds have been suspended or cancelled;

Prosecutions: number of consultants and civil servants being fined and/or jailed

*Next:* Other countries embarking in Governance CAS
Evidence challenges some ‘popular’ notions

1. Data is inexistent or very unreliable?
2. Country first needs to get to higher incomes to reach good governance, control of corruption?
3. Rich world corruption-free; emerging world corrupt
4. ‘Transplants’ of OECD rules-based codes, etc.
5. Cultural or Legal-Historical Origins is key? (vs. Incentives)
6. Anticorruption by: Legal fiat; Campaigns, Agencies
7. Security, Governance and Development: tackle separately (a ‘silos’ approach)?
Most effective Anticorruption Measures? 

Responses from Officials and Leaders in 62 countries

Deserving particular attention...

1. Data-Power/Metrics Matters *(upcoming Governance Report)*
2. External Accountability Mechanisms *(voice)*
3. Transparency Mechanisms *(e*governance, data)*
4. Incentives as drivers, Prevention *(e.g. Meritocracy)*
5. The Role of the Firm and Elites *(influence, capture)*
6. Political Reform, *including Political Finance*
7. Governance: linking security & development
8. For Donor Countries, G-7; IFIs: i) Aid Effectiveness; ii) Trade; iii) MNCs; iv) ‘World Econ. Clubs’
Freedom of the Press to improve Rule of Law and Controlling Corruption

Sources: Freedom House, 2002 and KK2002
Listening to Stakeholders: Responses on Donor Aid and Anti-Corruption

Most Important Role for Donors in Helping Country on Anti-Corruption (A-C)

- Pre-Conditionality
- Work w/ Country A-C
- Awareness/Education
- Control corruption in Donor projects
- Collaborate w/ NGOs
- Donors out of A-C

Percentage of Responses selected as Most Important Role for Donors

On the growing gap between EU-accession countries and the rest of transition --Rule of Law Over Time, Selected Regions, 1996-2002


Each region has the following number of countries: OECD: 28; East Asia (Developing): 35, East Asia (NIC): 4; Eastern Europe: 16; Former Soviet Union: 12; South Asia: 8; Sub-Saharan Africa: 47; Middle East North Africa: 21; Latin America and Caribbean: 38.
Governance Indicators: Chile 2002 vs. 1998

Source for data: [http://www.worldbank.org/wbi/governance/govdata2002](http://www.worldbank.org/wbi/governance/govdata2002); Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
Illustration of Concrete Projects and Programs promoting Transparency and Accountability

• Transparency & reform in political/party finance: e.g. new methods for disclosure (expenses), etc.
• E*disclosure (web) of votes of parliamentarians
• Public Disclosure of Assets/Incomes by public officials and legislators and their dependents
• E*procurement; e*data.governance; diagnostics
• In-depth Institutional Country Diagnostics for Agency and Budgetary transparency
• Delisting Firms Publicly
• Country takes the lead, participatory approach
• The ‘Governance CAS’ Strategic Approach
References and Links to papers and materials

• Governance Matters III:  

• Rethinking Governance: Empirical Lessons Challenge Orthodoxy  

• Governance Redux: The Empirical Challenge  

• Growth without Governance:  

• The Inequality of Influence  

• Corruption, Governance & Security: Challenges for the Rich Countries and the World  

• Governance Indicators Dataset:  

• Governance Diagnostic Capacity Building:  
  http://www.worldbank.org/wbi/governance/capacitybuild/
Data for Analysis and informing Policy
Advise, not for Precise Rankings

Data in this presentation is from aggregate governance indicators, surveys, and expert polls and is subject to a margin of error. It is not intended for precise comparative rankings across countries, but to illustrate performance measures to assist in drawing implications for strategy. It does not reflect official views on rankings by the World Bank or its Board of Directors. Errors are responsibility of the author(s), who benefited in this work from collaboration with many Bank staff and outside experts.

www.worldbank.org/wbi/governance