Good Governance and its benefits on economic Development
An Overview of Current Trends
World Bank Institute
Outline

• What is governance?
• Why does governance matter?
  – Costs of poor governance
  – Benefits of good governance
• Identifying, measuring and addressing the problems: Global and local approaches
What is governance?

- Governance is the process and institutions through which decisions are made and authority in a country is exercised.
- Governance rests on the twin values of inclusiveness and accountability.
Accountability can be internal or external

Internal accountability relationships may be the judiciary’s or parliament’s check on the executive (the president and cabinet), or monitoring and audits within the government, by ministers or senior officials or bureaucrats.

External accountability is by the people – either on politicians through elections or public debate, or on through feedback mechanisms (such as report cards) or choices of competing service providers.
Inclusiveness implies equal participation and equal treatment.

Inclusiveness means that all the people, not just some of them, have the opportunity to participate in the governance process and to hold government accountable (governance is not inclusive if some, say women, cannot vote or if only a small elite decide on laws).

Inclusiveness also means that governments treat all citizens equally, without exclusion or discrimination, whether in the application of the rule of law or in the access to key public social services (governance is not inclusive if either policy or bureaucratic behavior effectively excludes, say, minorities from public education).
Inclusiveness -- In MENA, female representation in parliaments is low
To better measure governance, it helps to further break it in three categories:

1. **Selection, accountability and replacement of authorities**
   - Voice and accountability
   - Stability and lack of violence

2. **Efficiency of institutions, regulations, resource management**
   - Regulatory framework
   - Government effectiveness

3. **Respect for institutions, laws and interactions among players in civil society, business, and politics**
   - Control of corruption
   - Rule of law
Components of Good Governance

- Selection and Monitoring
  - voice and accountability
  - stability and lack of violence

- Efficiency
  - regulatory framework
  - government effectiveness

- Respect
  - control of corruption
  - rule of law
Aggregate indicators: Stimulating the debate about governance

- Easily understood, widely accepted criteria (rule of law, government effectiveness, etc)
- Draw on work of expert institutions tracking specific fields, political risk, investor attitudes
- Aggregation helps improve reliability (wider sample of opinions)
- Encourage countries to focus resources on problem areas, draws public attention
- Encourage countries to learn from each other
- More valuable when available over time
Sources of Governance Data

• “Subjective” 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
## Inputs for Indicators 2002

<table>
<thead>
<tr>
<th>Publisher</th>
<th>Publication</th>
<th>Source</th>
<th>Country Coverage</th>
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<tbody>
<tr>
<td>Wefa’s DRI/McGraw-Hill</td>
<td>Country Risk Review</td>
<td>Poll</td>
<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 Assessment</td>
<td>Poll</td>
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<td>Gallup International</td>
<td>Voice of the People</td>
<td>Survey</td>
<td>47 developed and developing</td>
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<td>Business Env. Risk Intelligence</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>
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<td>Nations in Transit</td>
<td>Poll</td>
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<td>World Economic Forum/CID</td>
<td>Global Competitiveness</td>
<td>Survey</td>
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<td>Heritage Foundation</td>
<td>Economic Freedom Index</td>
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<td>Political Risk Services</td>
<td>International Country Risk Guide</td>
<td>Poll</td>
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<td>Reporters Without Borders</td>
<td>Reporters sans frontieres (RSF)</td>
<td>Survey</td>
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<td>World Bank/EBRD</td>
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<td>Survey</td>
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<td>IMD, Lausanne</td>
<td>World Competitiveness Yearbook</td>
<td>Survey</td>
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<td>Binghamton Univ.</td>
<td>Human Rights Violations Research</td>
<td>Survey</td>
<td>140 developed and developing</td>
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Precision vs. Number of Sources, KKZ Governance Estimates, 2000/01

Note: See explanatory details in this slide’s note
## Ingredients for Rule of Law Indicator

<table>
<thead>
<tr>
<th>Surveys of Firms</th>
<th>Type of Questions</th>
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<tbody>
<tr>
<td>BEEPS</td>
<td>Courts Honest? Crime? Property rights protected?</td>
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<tr>
<td>Global Competitiveness Survey</td>
<td>Crime, money laundering, judicial independence, protection of financial assets</td>
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<tr>
<td>World Competitiveness Yearbook</td>
<td>Justice fairly administered, personal security and private property protected</td>
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<table>
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<tr>
<th>Surveys of Individuals</th>
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<tbody>
<tr>
<td>Gallup</td>
<td>Trust in legal system</td>
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<th>Risk Rating Agencies</th>
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<tr>
<td>BERI</td>
<td>Contract enforcement</td>
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<tr>
<td>DRI</td>
<td>Costs of crime, enforceability of contracts</td>
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<tr>
<td>EIU</td>
<td>Costs of crime, enforceability of contracts, property rights protection</td>
</tr>
<tr>
<td>PRS</td>
<td>Law and order</td>
</tr>
<tr>
<td>World Markets Observer</td>
<td>Judicial independence, crime</td>
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<tr>
<th>Think Tanks</th>
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<tbody>
<tr>
<td>Freedom House</td>
<td>Rule of law</td>
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<tr>
<td>Heritage Foundation</td>
<td>Property rights, black market activity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Governments</th>
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<tbody>
<tr>
<td>State Dept Human Rights Report</td>
<td>Judicial independence</td>
</tr>
</tbody>
</table>
Rule of Law: A Composite Governance Indicator
Regional Averages, 2000/01 - Point Estimates

Source: Governance Research Indicators based from data in D. Kaufmann and A. Kraay, 'Growth without Governance', http://www.worldbank.org/wbi/governance/pubs/growthgov.htm. Units in vertical axis are expressed in terms of standard deviations around zero. Country and regional average 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. For access to the databank and detailed explanations: http://info.worldbank.org/governance/. Note that New Zealand, Australia and Japan are listed under OECD. All other countries are listed according to their geographical location.
GERMANY (2002)

Country's Percentile Rank (0-100)

Eastern Europe - Regional Average (2002)

- Voice and Accountability
- Political Stability
- Government Effectiveness
- Regulatory Quality
- Rule of Law
- Control of Corruption

Country’s Percentile Rank (0-100)

SLOVAK REPUBLIC (2000/01)

- Voice and Accountability
- Political Stability/No Violence
- Government Effectiveness
- Regulatory Quality
- Rule of Law
- Control of Corruption

Comparison with year 1997/98 (lower bar)
Country’s Percentile Rank (0-100%)

UGANDA (2000/01)

Voice and Accountability

Political Stability/No Violence

Government Effectiveness

Regulatory Quality

Rule of Law

Control of Corruption

Comparison with year 1997/98 (lower bar)
Country’s Percentile Rank (0-100%)

Country’s Percentile Rank (0-100)

‘Traffic Light’ World Map
Control of Corruption – 2000/01

Colors are assigned according to the following criteria: Red, 25% or less rank worse; Orange, between 25% and 50%; Yellow, between 50% and 75%; Light Green between 75% and 90%; Dark Green above 90%
‘Traffic Light’ Map: Rule of Law, 2000/01


Colors are assigned according to the following criteria: Red, 25% or less rank worse; Orange, between 25% and 50%; Yellow, between 50% and 75%; Light Green between 75% and 90%; Dark Green above 90%
Government Effectiveness (World, 2002)

OECD

Eastern Europe

Former Soviet Union

Country’s Percentile Rank (0-100)

Voice and Accountability (World, 2002)

OECD

Eastern Europe

Former Soviet Union

Country’s Percentile Rank (0-100)

Control of Corruption

Selected countries from 155 worldwide, for illustration, based on 1998 research data*

Corruption Level

Changes in Control of Corruption, 1997/98-2000/01

Rankings were calculated on the basis of the differences in country estimates from 1998 and 2001 data, divided by the standard deviations of 2001. Sources: KKZ98 / KKZ01
Indicators as an incentive for change: the power of data

- Overall, most powerful indicators are those that draw public attention to problems
- While laws and institutions are important, external accountability measures may have even bigger impact
- Difficult to avoid stronger role for civil society in any comprehensive strategy for addressing governance issues
Governance Improves Growth by Improving the Business Environment

Investment and economic growth depend, among other things, on the quality of the "business environment" – the overall set of policies that affect the starting and running of businesses (tax laws, regulations, the macroeconomic environment) and how they are implemented.

Other things being equal, a good business environment leads to more investment, which leads to faster growth.

The quality of policies is affected by the presence of inclusiveness combined with external accountability mechanisms – bad or discriminatory policies are difficult to maintain when there is external accountability by all.

Policy implementation depends upon the quality of public institutions, including the bureaucracy. Better accountability structures, both internal and external, can lead to better institutional performance.
The Economic Development ‘Dividend’ of Good Public Governance

Infant Mortality and Corruption

- Weak
- Average
- Good

Per Capita Income and Regulatory Burden

- Weak
- Average
- Good

Literacy and 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.
Better governance brings added growth
Challenges for business in Egypt—registration and contract enforcement

**Business Registration: January 2002**

<table>
<thead>
<tr>
<th># Procedures</th>
<th>Days</th>
<th>Cost (% GNP per capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>MENA</td>
<td>OECD</td>
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<tr>
<td>13</td>
<td>11</td>
<td>7</td>
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<td>52</td>
<td>32</td>
<td>2</td>
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<tr>
<td>61</td>
<td>62</td>
<td>11</td>
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</table>

**Contract Enforcement: January 2002**

<table>
<thead>
<tr>
<th># Procedures</th>
<th>Days</th>
<th>Cost (% GNP per capita)</th>
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<td>Egypt</td>
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<tr>
<td>17</td>
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<td>16</td>
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<tr>
<td>202</td>
<td>205</td>
<td>205</td>
</tr>
<tr>
<td>3.8</td>
<td>4.1</td>
<td>3.1</td>
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</table>
In MENA, there is a large variation in corruption.
Poor public infrastructures forces businesses to spend on private alternatives
In MENA, most court systems are much slower than the rest of the world.

<table>
<thead>
<tr>
<th>Country</th>
<th>Days to Enforce Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tunisia</td>
<td>7</td>
</tr>
<tr>
<td>Jordan</td>
<td>147</td>
</tr>
<tr>
<td>Iran</td>
<td>150</td>
</tr>
<tr>
<td>Morocco</td>
<td>192</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>195</td>
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<tr>
<td>Egypt</td>
<td>202</td>
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<tr>
<td>Yemen</td>
<td>240</td>
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<tr>
<td>Algeria</td>
<td>387</td>
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<td>UAE</td>
<td>559</td>
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<td>Syria</td>
<td>596</td>
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<td>Lebanon</td>
<td>721</td>
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<tr>
<td>Korea</td>
<td>75</td>
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<tr>
<td>Brazil</td>
<td>180</td>
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<tr>
<td>Malaysia</td>
<td>270</td>
</tr>
<tr>
<td>Czech Rep</td>
<td>270</td>
</tr>
</tbody>
</table>
External accountability mechanisms is next frontier

- Voice and accountability have had important impact on economic performance in some countries
- Generally an area of difficulty in region, though some countries are making progress
- Difficult to avoid stronger role for civil society in any comprehensive strategy for addressing governance issues
Transparency and Citizen Oversight

Tracking Education Dollars in Uganda

Source: Uganda Public Expenditure Tracking Surveys
Transparency and Citizen Oversight

Tracking Education Dollars in Uganda

US$ per student


Intended grant
Actual grant received by primary school (means)

Source: Uganda Public Expenditure Tracking Surveys
Based on Bolivia 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.
Based on Bolivia Public Officials Survey. The sample of institutions includes 50 national, departmental, and municipal agencies which are prior anticipated to have a major impact on poverty reduction.
Corruption is associated with absence of Civil Liberties

Based on averages of data from 160 countries.
Free Press and Income Levels
Percentage of Countries in Each Income Group Perceived as Free

Source: Freedom House/ World Bank Development Indicators 2000
Control of Corruption and Freedom of the Press

Control of Corruption [kz]

Freedom of the Press (Freedom House)

\[ r = 0.68 \]
Country surveys and diagnostic tools

- Multi-pronged surveys of households, firms and public officials
- Experiential questions (rather than opinions)
- Specially designed and tested closed questions
- Conceptual framework: Incentive structures behind governance; focus on development
- Rigorous technical requirements in implementation
- Local institution implements, with WB Collaboration
- Recognizing multidimensionality of governance
- Focus on service delivery: Input for action and change
Report Card of Latvian Services

Based on a World Bank - Latvia survey of households
Note on data in this presentation

The data contained in this presentation originates from various enterprise surveys (as well as outside expert rating agencies) and are subject to a margin of error. The purpose of this data is to illustrate characteristics of governmental and corporate performance and to assist in drawing implications for action, not to present precise comparative rankings across countries. No ranking of countries is intended in presenting results from these external sources by either the presenter of this work, the World Bank or its Board of Directors.
Additional references and sources

- **Overview of early work on governance indicators:**

- **More recent work and updates:**

- **Download the full paper and access to the data:**

- **Updated Governance Indicators for 2002:**

- **Governance Diagnostics, in-country assessments:**
Additional references and sources-2


- I am indebted to Dariuz K. Rosati, Professor of International Economics at the Warsaw School of Economics for the arguments on globalization.
For further information

www.worldbank.org/wbi/governance