

TOWARDS CONSENSUS ON GOVERNANCE INDICATORS

selecting public management and broader governance indicators

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SUMMARY

This paper focuses on public management indicators and reaches the conclusion that there are perhaps five that are currently available and meet the criteria suggested by the OECD Development Assistance Committee for the international working group on Participatory Development and Good Governance. It flags the urgent need for a reconsideration of the criteria for selection and offers a modest agenda of likely indicator candidates.

The paper reviews the debate on governance indicators and notes that there has recently been a tremendous increase in the number and range of indicators that purport to measure some aspects of good governance. This development has seen two distinct phases. Phase I saw the rediscovery that governance matters for development. This was a useful corrective to the technocratic emphasis of much of the development debate. This point having been made, Phase II (notionally beginning in 1998) has witnessed a dramatic increase in the number and type of governance indicators. However, this period has seen little agreement about their use, and there are few examples of governance indicators having a substantial impact on the policy actions of governments, or on the specifics of reforms proposed by donors and IFIs. In effect, the development of governance indicators helped to draw attention to the right issues, but the explosion in their numbers and variety has not been accompanied by improved insight into practical ways forward for reforming governments.

The renewed search by the DAC for governance indicators has come during this second phase, and has illustrated the degree to which the debate on the types and uses of indicators has become confused and with little policy relevance. It has proven very difficult to reach any meaningful consensus on the right governance measures, and there is little movement towards an agreed set of benchmark data.

This paper demonstrates that the reason for this difficulty is largely conceptual, but that the problems can be reduced. Taking the example of public management, the paper illustrates that various governance indicators measure many different things, and there is every reason for confusion among interested parties. This paper identifies five important dimensions along which governance indicators can be located, and argues that consensus can be reached only by agreeing what type of indicators are being sought: different indicators are appropriate for different purposes. The dimensions are:

1. specificity of which institutions are implicated in governance
2. specificity of which outcomes represent good governance in operation

3. replicability and transparency of indicators
4. quality and accuracy of indicators
5. data coverage of indicators.

Using these dimensions to map out the range of public management indicators available illustrates why Phase II has thus far been unproductive.

The Phase I debate sought to draw attention to broad governance concerns. For that general, almost evangelical, purpose it did not matter which specific institutional arrangements were under the spotlight. The outcomes of good governance could be measured in a large number of ways, as long as one could investigate the relationship between better governance, broadly defined, and some measure of well-being. For that reason, the first two of the five dimensions were of little relevance - there was no need to be specific about which institutions were implicated in governance, or which particular outcomes mattered. Equally, the indicators could be technically complex, as they were a vehicle for academic researchers and other experts to determine that governance played a crucial role on development – it was not necessary that governments understood how they were produced. Therefore, Phase I imposed requirements on the last two dimensions only. In effect, accuracy and data coverage were all that mattered.

The search within Phase II for policy-relevant indicators has imposed additional constraints. DAC is searching for indicators that point to specific institutional arrangements under the broad heading of governance, and for indicators that governments can “own,” implying that they must be replicable, transparent and demonstrably accurate. Thus, DAC requirements demand that the indicators meet certain criteria in relation to dimensions 1, 3, 4 and 5. These criteria rule out a vast number of potential indicators. This paper identifies five existing public management indicators that meet (or come close to meeting) the required tests.

A more thorough research agenda that will allow the much-needed progress from awareness-raising about the significance of governance, through to practically oriented policy conclusions, requires indicators that meet criteria in all 5 dimensions. A list of those few existing credible candidates is flagged.

The paper argues that if the rigorous screening process applied to public management indicators is equally applied to the other areas then the results are so sparse that there is every reason to consider lowering the threshold. With significant relaxations in the criteria for selecting indicators then five broader governance indicators also emerge as possibilities.

PHASE I - THE REDISCOVERY THAT GOVERNANCE MATTERS FOR DEVELOPMENT

Over the last 30 years, there has been a tremendous increase in the number and range of indicators, purporting to measure some aspects of good governance. Notionally, this growth can be seen within two phases. The first phase coincided with the rediscovery that governance matters for development and was a useful corrective to the technocratic emphasis of much of the development debate of the time.¹

The growth in the number and coverage of indicators was substantial. Considering only the 14 sources of expert- and survey-based indicators used by Kaufmann et al. (1998) in their aggregation exercise, the vast majority of them did not exist before 1995. With the exception of the Freedom House political and civil liberties indicators, those that did exist were intended solely to evaluate “political risks” faced by foreign investors, and development researchers and practitioners were unaware of and/or uninterested in them until the 1990s.

The achievement of phase 1 has been to confirm that governance is firmly on the agenda and to associate it with good development outcomes in general, and particularly with poverty reduction. The 1994 World Bank report on governance² described it as the manner in which power is exercised through a country’s economic, social, and political institutions. It characterized governance as “epitomized by predictable, open and enlightened policy making (that is, transparent processes); a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; and a strong civil society participating in public affairs; and all behaving under the rule of law.” The World Bank President’s speech at the joint World Bank-IMF meetings confirms the distance that the concept has travelled.³

By 1998, the consensus was clear. Cast broadly, institutions matter - and we have the data to support this conclusion. However, very little guidance existed to indicate which institutions distinctively matter, and for which outcomes. A recent World Bank

¹ The landmark World Bank study ‘Sub-Saharan Africa; from crisis to sustainable growth’ making this point was published in 1989.

² Governance: The World Bank’s Experience, World Bank, Washington DC, 1994]

³ Mr Wolfensohn pointed out that “Holes in institutional development and governance and lack of adequate and fairly paid staff gnaw destructively at policy-making, service delivery, and accountability.” (Address to the Board of Governors by the President of the World Bank, September 28, 1999)

strategy paper⁴ notes that the most direct link between accountable public institutions and poverty reduction is via the impact of these institutions on improved service delivery. It is believed that strengthening “voice” in general, and the voice of the poor in particular (with associated changes in the ways in which scarce public resources are allocated and policies are formulated), will improve public sector performance. The broader proposition is that improved policymaking and budgeting institutions foster openness and explicit debate among competing alternatives, thereby making it more difficult to conceal decisions that are systematically biased against the poor. However, the prescriptive power of the range of indicators remains very limited.

⁴ 'Reforming Public Institutions and Strengthening Governance: A World Bank Strategy', December 8, 1999, prepared by the Public Sector Board led by Cheryl Gray.

PHASE II - THE HUNT FOR POLICY RELEVANCE

The second phase (notionally beginning in 1998) has witnessed a further dramatic increase in the number and type of governance indicators. However, this period has seen little agreement about their use and there are few examples of governance indicators having a substantial impact on the policy actions of governments or on specific reforms proposed by donors and IFIs.⁵ Most of the growing array of governance indicators have become available only in the last few years, and the limited coverage over time makes it more difficult to convincingly demonstrate causal relationships between governance and measures of well being. Studies using these indicators confirm that development has occurred where there is now good governance - but it does not necessarily follow that they reliably point to where development will occur in the future.⁶

Both the newer and older sets of governance indicators have been widely used in research, testing links between good governance and economic outcomes. “Good governance” in the form of public institutions and policies that enforce property rights and contracts, while restraining corruption, is now widely viewed to be a *necessary condition* for long-term economic growth. Douglass North⁷ and many others have generated a growing body of work that combines rational choice theory, information economics, game theory, law, and organization theory to focus on the incentives that shape decision-making by public and private actors. The recent empirical work corroborates these theoretical arguments, quantifying the costs of over-regulation, corruption, and other manifestations of bad government in terms of foregone investments

⁵ One exception is the use of indicators to identify countries where a governance discount in International Development Association allocations should apply.

⁶ Exceptions are the BI, BERI, and ICRG indicators which became available in the early 1970s (BI and BERI) and early 1980s (ICRG). The BI indicators were used by Paulo Mauro, “Corruption and Growth,” *Quarterly Journal of Economics*, v. 110, 1995. The BERI and ICRG indicators were used by Stephen Knack and Philip Keefer, “Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures,” *Economics and Politics*, v. 7, 1995. Several researchers have attempted to resolve the causality problem using two-stage least squares methods. See Mauro (1995); Robert Hall and Charles Jones, “Why Do Some Countries Produce So Much More Output Per Worker Than Others?” *Quarterly Journal of Economics*, 114(1): 83-116; and Daniel Kaufman, Aart Kraay and Pablo Zoido-Lobaton, “Governance Matters,” World Bank Policy Research Working Paper No. 2196, 1999. For an investigation of causality exploiting time-series variation in the BERI and ICRG data, see Alberto Chong and Cesar Calderon, “On the Causality and Feedback Between Institutional Measures and Economic Growth,” *Economics and Politics*, forthcoming.

⁷ See North’s *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990).

and growth.⁸ Because increases in per capita income are usually (although not always) accompanied by reductions in poverty rates,⁹ there is a strong presumption that good governance—through its impact on growth—alleviates poverty. Knack and Anderson¹⁰ provide a more direct analysis of the governance-poverty link. Examining growth in incomes for the poorest quintiles of income earners, they find that good governance is progressive in the sense that it is associated with larger growth rates in incomes for the poor than for the population overall. Gupta, Davoodi and Alonso-Terme find a large and statistically significant positive association between corruption and poverty rates.¹¹

There is strong evidence linking higher per capita incomes to improved health and education outcomes, for example reductions in infant mortality and in illiteracy.¹² Because of the demonstrated effects of good governance on income growth, there exists a strong presumption that good governance improves health. Kauffman, Kraay and Zoido-Lobaton¹³ provide some evidence of direct links between governance and both health and education outcomes. They show that countries scoring higher on their indexes of rule of law, graft, voice and accountability, etc. tend to have lower infant mortality and higher literacy rates, as well as higher per capita incomes. Norton¹⁴ finds that countries scoring higher on indexes that rank the security of property rights also fare better on a Human Poverty Index (constructed from longevity, literacy, child nutrition, and access to health services and safe water).

There is some evidence that democratic institutions have a positive impact on poverty, as measured by infant mortality rates, literacy rates, and other objectively measurable outcome indicators. Amartya Sen argues that democracy can make a positive contribution to development by creating political incentives for rulers to respond positively to the needs and demands of their citizens.¹⁵ Dreze and Sen¹⁶ assert that the openness and accountability of democratic societies explain why India but not China has managed to avoid large-scale famines. Kaufmann et. al.¹⁷ find that an index of “voice

⁸ See Knack and Keefer (1995) and Mauro (1995).

⁹ See Michael Bruno, Martin Ravallion and Lyn Squire (1998). “Equity and Growth in Developing Countries: Old and New Perspectives on the Policy Issues.” In V. Tanzi and K. Chu, eds., *Income Distribution and High-Quality Growth*. Cambridge, MA: MIT Press.

¹⁰ See Stephen Knack and Gary Anderson, “Is Good Governance Progressive? Property Rights, Contract Enforceability and Changes in Income Equality.” Paper presented at the 1999 Annual Meeting of the American Political Science Association, Atlanta, GA.

¹¹ Gupta, Sanjeev, Hamid Davoodi and Rosa Alonso-Terme (1998), “Does corruption affect income inequality and poverty?”, IMF Working Paper, WP/98/76, May

¹² See Deon Filmer and Lant Pritchett (1998). “Child Mortality and Public Spending on Health: How Much Does Money Matter?” World Bank Policy Research Working Paper No. 1864. Also see Lant Pritchett and Lawrence Summers (1996). “Wealthier is Healthier.” *Journal of Human Resources*, 31(4), 841-68.

¹³ See Dani Kaufmann, Aart Kraay, and Pablo Zoido-Lobaton (1998). “Governance Matters.” World Bank Policy Research Working Paper No. 2196.

¹⁴ Seth W. Norton (1998). “Poverty, Property Rights, and Human Well-Being: A Cross-National Study,” *Cato Journal*, 18(2), 233-45.

¹⁵ Sen, Amartya (1999). *Development as Freedom*. New York: Alfred Knopf

¹⁶ J. Dreze and A. Sen (1982). *Hunger and Public Action*. Oxford: Oxford University Press.

¹⁷ Kaufmann, Kraay, and Zoido-Lobaton, “Governance Matters.”

and accountability” is associated with lower infant mortality and illiteracy across countries. There is also some evidence that participation in local and national decisions helps to improve the quality of projects¹⁸ and the welfare of vulnerable groups such as women and their children.¹⁹

The range of governance indicators now available is impressive (see Table 1) and the literature associated with them demonstrating their linkages to development outcomes is extensive.²⁰ However, the only conclusions arising from most of this research is that the 'black box' of governance in some way affects public sector performance, which in turn affects poverty or other outcomes. This is an important achievement that has helped to dramatically alter our perspectives on the process of development, but it does not offer us any firm prescriptions about what should be done. We have no firm grounds on which to assert, for example, that decentralization or improved budgetary arrangements will improve some particular aspect of public sector performance.

Table 1 an incomplete list of sources of governance indicators²¹

(“single” means that the dataset contains just one indicator, “multiple” that the dataset includes many individual variables)

I. Indicators of institutional arrangements		
Sources	Datasets	concept measured
<i>Policy and public expenditure management</i>		
World Bank (as calculated from GFS)	policy volatility (single)	Calculated as the median percentage difference from year to year in government expenditures, by functional classification, over the last 4 years
U.S. State Department	Compliance with auditing standards for military expenditures	compliance with new U.S. legislation on transparency in budgeting (<i>data not yet available</i>)
<i>Public employment</i>		
World Bank (1997 Schiavo-Campo, de Tommaso and Mukherjee)	aggregate wage bill totals and employment totals of civil and public servants (multiple)	public officials are categorized to allow for cross-country comparability
"	civil service pay relative to private sector pay	average salary for civil service divided by average worker income

¹⁸ Isham, Jonathan, Daniel Kaufmann and Lant Pritchett (1997), “Civil Liberties, Democracy and the Performance of Government Projects,” World Bank Economic Review, vol. 11(2), p.219-42

¹⁹ Narayan, Deepa (1999). “Social Capital and the State: Complementarity and Substitution,” The World Bank, Policy Research Working Paper No. 2167, Washington, DC.

²⁰ A particularly comprehensive list of recent research evidence demonstrating that measurements of governance do indeed correlate with measurements of development is provided in Burki, Shahid Javed and Guillermo Perry, 1998. *Beyond the Washington Consensus: Institutions Matter*. World Bank, Washington, DC, and other sources.

²¹ This list draws, inter alia, from Kaufmann, Kraay and Zobato-Lobaton 1999

II. Indicators of government performance.		
Sources	Datasets	concept measured
Business Environment Risk Intelligence	Political Risk Index (multiple)	socio-political conditions
"	Operation Risk Index (multiple)	bottlenecks for business development
Wall Street Journal	annual survey of business analysts (multiple)	attractiveness of the business environment
Standard and Poor	Country Risk Review (multiple)	risk to the profitability of investments
European Bank for Reconstruction and Development	transition indicators (multiple)	progress towards a market economy
"	legal reform survey (multiple)	effectiveness of the legal framework
Economist Intelligence Unit	Country Risk Service (multiple)	risk ratings for investors
"	country forecasts (multiple)	attractiveness of the business environment
Freedom House	Freedom in the World (multiple)	political rights and civil liberties
"	Nations in Transit (multiple)	progress towards democracy and a market economy
World Economic Forum	Global Competitiveness Survey (multiple)	business environment
Heritage Foundation	Index of Economic Freedom	prospects for growth
Political Risk Services	International Country Risk Guide (multiple)	Political, economic and financial risks for investors
Political and Economic Risk Consultancy	corruption in Asia (multiple)	quality of the legal system
"	transparency in Asia (multiple)	Business environment
"	quality of the media (multiple)	Censorship and access to foreign media
Institute for Management Development	World Competitiveness Yearbook (multiple)	Business environment`
World Bank	1997 World Development Report survey (multiple)	Business environment
Transparency International	Corruption Perceptions Index, aggregation of many indicators (single)	Corruption perceptions
World Bank (Kaufmann, Kraay and Zoido-Lobaton 1999)	aggregating governance indicators (multiple)	'government effectiveness', rule of law, voice and accountability, and graft
International Telecommunications Union	waiting time for telephone line (single)	Wait for key service generally provided through government

Contract Intensive Money (as calculated from IFS)	contract-intensive money: non-cash share of the money, from International Financial Statistics	Proxy for contract enforceability/trust in government
Private sector credit (from IFS data)	Private sector credit/GDP, from International Financial Statistics	Financial sector development

This illustrative list could, of course, have been very considerably larger. It is not obvious where to draw the line between governance indicators and the growing number of political economy indicators that illuminate aspects of the checks and balances on government. Lijphart's recent work in developing measures of the degree to which power is tightly held by executive branch, and the degree to which power is dispersed among different levels and organizations of government, is a case in point.²²

²² Lijphart provides recent evidence from a 36 country study in *Patterns of Democracy: Government Forms and Performance in Thirty-six Countries*. New Haven: Yale University Press, 1998.

WHAT IS BEING MEASURED? - 5 DIMENSIONS OF DIFFERENCE BETWEEN GOVERNANCE INDICATORS

The renewed search by the DAC²³ for governance indicators has come during this second phase, and has illustrated the degree to which the debate on the types and uses of indicators has become confused and with only very limited policy relevance. It has proven very difficult to reach any meaningful consensus on an appropriate set of governance measures, and there is little movement towards an agreed set of benchmark data.

The various governance indicators measure many different things, and there is every reason for confusion between interested parties. Five largely independent dimensions along which governance indicators can be located can be identified. Consensus can only be reached by agreeing what types of indicators are being sought. The dimensions can be characterized as shown below in Table 2.

²³ The international working group on Participatory Development/ Good Governance has been the body tasked with finding appropriate indicators for the DAC.

Table 2 5 dimensions of governance indicators

1. specificity with which the indicators implicate particular institutions		
aggregate measures of governance (e.g. broad considerations of transparency)	↔	identifiable institutional arrangements (e.g. civil service wage compression)
2. specificity with which the indicators define the outcomes of good governance in operation		
for example general measures of poverty	↔	for example literacy rates
3. the replicability and transparency of the indicators		
expert panels and statistical aggregations, low	↔	single objectively verifiable measures which respond in a timely fashion to improvements in governance
4. quality and accuracy of the indicators		
small panels, no challenge to the data, strongly influenced by factors unrelated to governance	↔	large panels, extensive opportunities for challenge, validation against other indicators, wide citation in research journals
5. data coverage of the indicators		
limited data coverage, e.g. only one region, or a one-time survey	↔	extensive coverage - across countries and over time (or process in place to regularly produce the indicators)

There is a pre-test for indicators that should be emphasized. The underlying premise is, of course, that any indicator measures something of which more is unambiguously good.

SPECIFICITY WITH WHICH THE INDICATORS IMPLICATE PARTICULAR INSTITUTIONS

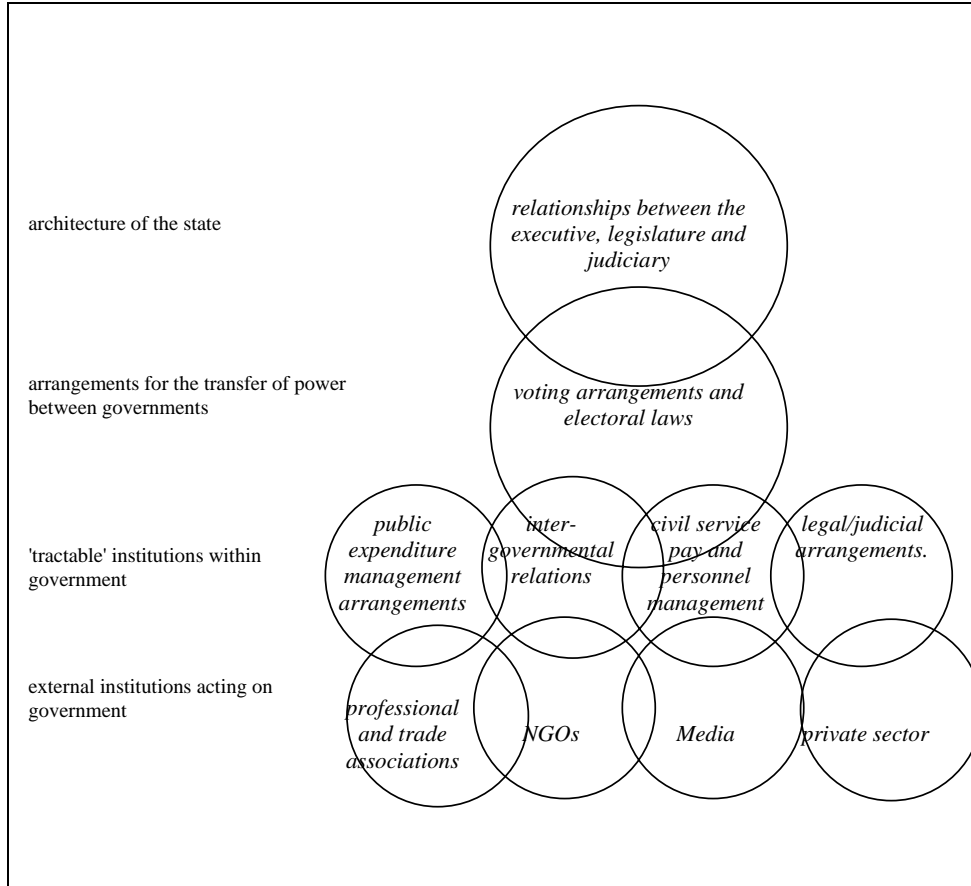
“Good governance” reformers are well-advised to be humble, for despite the recent body of work that reveals empirical links between governance and poverty outcomes, there is little evidence indicating which institutions distinctively matter for which outcomes. It is not obvious, for example, whether and when we should worry more about transparent budgetary processes than merit-based recruitment in the civil service or independence of the judiciary. Moreover, the track record in improving governance through external assistance is distinctly patchy.²⁴

²⁴

Evidence cited in a recent World Bank report ('Reforming Public Institutions and Strengthening Governance: A World Bank Strategy', December 8, 1999, prepared by the Public Sector Board led by Cheryl Gray) documents the relatively poor track record the Bank has had in this line of work. There is no reason to believe that other donors have fared any better. Evaluations have frequently indicated weak performance in the Bank's portfolio of public sector management projects and in the institution-building components of projects in other sectors. Bank and other donors' efforts at technical assistance have been extensively criticized for over a decade. The Public Sector Strategy points out that projects and technical assistance and adjustment loans that focused directly on public sector management have historically performed worse than the average for Bank interventions, although this gap has narrowed somewhat since 1996.

Figure 1 offers a stylized representation of the institutions that could be seen to be included in the term governance.

Figure 1 **inside the black box of governance**



There is every reason to assume that the architecture of the state (including the relationships between the executive, legislature and judiciary) and other institutional arrangements for the transfer of power between governments (including voting arrangements and electoral laws) impact the performance of the public sector in responding to poverty.²⁵ However, there is also reason to focus on the institutional levels

²⁵

Dr. Johann Graf Lambsdorff (senior research adviser to Transparency International and assistant professor at Göttingen University) notes that the empirical evidence that democracy reduces corruption is weak. He cites two unpublished studies by M. Paldam ("The Big Pattern of Corruption: Economics, Culture and the Seesaw Dynamics", Aarhus University, Denmark,

below these larger, eminently political questions, addressing the more ‘tractable’ institutions of government and key *external* institutions that act on government (including NGOs and the media).

There are severe limitations in this respect in the existing published governance data. Data sets appear to be unreliable individually: although the various subjective ratings of the quality of governance obtained from different sources tend to rank countries similarly, the discrepancies are large enough that we often cannot make confident conclusions to the effect that, for example, corruption is less of a problem in country X than in country Y.²⁶ By aggregating several subjective measures from various sources, we can reduce this measurement error somewhat. However, the gain in reliability from aggregation comes at the expense of a loss in conceptual precision.

Individual objective measures will tend to be more uni-dimensional than the subjective measures and thus likely more idiosyncratic. Countries scoring well on one objective measure may score poorly on another for reasons having little to do with the quality of governance (for example, military spending is high because of external threats). Aggregating several measures can reduce measurement error in subjective indicators, or smooth out idiosyncrasies in uni-dimensional objective indicators, but again at the expense of specificity and conceptual precision. One is left with very broad and general measures of government performance, with little if any information about the particular institutions underlying that performance. For DAC purposes, we would like to go beyond diagnosis of a broad problem such as “corruption” and be able to learn something about the specific institutions that are associated with less corruption. In other words, existing published governance data sets are likely to be inaccurate individually, and if aggregated to gain accuracy, become so blunt that they do not point towards particular institutional reforms.

The consequence is that many existing indicators carry an implicit ‘loading’ of assumptions concerning proposed policy and institutional reforms. Since the indicators report that government performance is bad, but without giving an indication of what to do, they implicitly argue for less government. Broad-brush ‘corruption’ indicators are very reasonably associated with arguments for de-regulation and independent judiciary. They are less automatically associated with budget process reforms or altered civil service career paths. Solutions that constrain or reduce the executive become favored over those that reform it.

June.1999) and D. Treisman (“The Causes of Corruption: A Cross-National Study,” University of California, Los Angeles, June.1999) which investigate this relationship while controlling for the level of development as depicted by GDP per capita. In such multivariate regressions democracy does not significantly impact on levels of corruption (as measured by the Transparency International index). The two authors therefore argue that the effect of democracy is ambiguous. There only appears a small but significant influence when testing for countries that have been democracies without interruption since 1950. The only tentative conclusion possible is that while the current degree of democracy is not significant, a long period of exposure to democracy is associated with less corruption.

²⁶ Kauffman, Kraay and Zoido-Lobaton, “Aggregating Governance Indicators.”

The alternative to such broad-brush data is to capture performance as it relates to specific sets of institutional arrangements. Given the paucity of existing published governance data describing actual institutional arrangements, there is little alternative but to generate new data - either through monitoring or encouraging self-reporting by governments. If data must be gathered from scratch, then the opportunity arises to build data sets that lead directly to action. Much remains to be shown empirically, but institutional work on specific sets of arrangements within the public sector is credibly associating specific governance performance failures with specific institutional shortcomings.²⁷ Focusing on data that are linked with specific dysfunctional institutional arrangements provides a springboard for subsequent action.

SPECIFICITY WITH WHICH THE INDICATORS DEFINE THE OUTCOMES OF GOOD GOVERNANCE IN OPERATION

If defined in moral or ethical terms, then good governance requires no justification in terms of practical impacts. However, for most operational purposes, the point of assessing good governance is that it leads to some improvement in well-being of the population. The question is what improvements are we interested in?

DAC suggest that improvements could be characterized under the headings of rights, responsibilities and enjoyment. For example, they suggest that asking whether the right to vote is enshrined within the constitution or Bill of rights, or what percentage of the adult population has the right to vote, can capture improvements in rights. Improvements in allocating responsibilities could be measured by asking whether sufficient polling stations and ballot papers were provided for an election. Improvements in enjoyment could be determined by asking what was the electoral turnout.²⁸

REPLICABILITY AND TRANSPARENCY OF INDICATORS

The definitions, criteria, and methodology used in constructing governance indicators are not always published. Available indicators vary in this respect. For example, the methodology used by Business Environmental Risk Intelligence (BERI) in evaluating various dimensions of political risk, using a panel of experts, is described in some detail. However, the criteria used in evaluating "bureaucratic delays," "contract enforceability," etc. are very sketchy. While the criteria used by the International Country Risk Guide (ICRG) in rating bureaucratic quality, corruption, etc. are very detailed, the methodology used in implementing these criteria is not explained fully.

²⁷ This work entails the development by PRMPS in the World Bank of institutional analytic toolkits in each of these areas of public institutions

²⁸ In "Governance and Poverty Reduction," unpublished note, Institute of Development Studies, December 1999 Mick Moore notes the comparative independence of some of these outcome measures by pointing out that correlations cease to hold at the regional level. For example, sub-Saharan Africa has better nutrition than South Asia, but lower life expectancy and more famine.

It is not always probable that independent efforts to replicate the indicator, by following the definitions, criteria and methodology used, will arrive at the same set of values. Indicators based on standard objective data (e.g. "contract-intensive money," described below) are very easily replicated. Indicators based on expert opinion are obviously far more difficult to replicate successfully, as opinions of multiple experts often differ from each other.

QUALITY AND ACCURACY OF INDICATORS

Indicators should not be too strongly influenced by factors not related to governance. For example, high or rising military spending may be a legitimate response to external threats, as evidenced most dramatically in the case of Persian Gulf states in the early 1990s.

There should be a strong presumption that indicators are not very accurate if they cannot be shown to be correlated with other indicators that measure similar concepts. For example, voting turnout is unrelated to other measures of democracy.

Expert-based evaluations can be the product of a small, or large, number of experts. For example, BERI, ICRG and Freedom House each are based on expert opinion; BERI uses a large panel of experts, while ICRG and Freedom House use a very small number.

Incentives for accuracy can vary. There is at least some reason to expect that ratings produced for sale to investors -- such as BERI and ICRG -- might be more accurate, other things equal, than other indicators (e.g. Freedom House and Heritage Foundation). For commercial firms, inaccurate evaluations will presumably show up in a loss of subscribers and profits. Ratings generated by think-tank experts face less incentive to be accurate, and may be affected by the ideology of the think tank's financial backers.

Indicators can purport to describe conditions facing all investors or only foreign investors. Some expert-based ratings such as BERI and ICRG are intended for foreign investors. While conditions facing foreign investors are surely positively correlated with conditions facing domestic investors, the correlation is unlikely to be perfect.

For survey-based indicators, the survey questions should be meaningful and unambiguous.

DATA COVERAGE OF INDICATORS.

Not all indicators have reasonably full coverage across countries, and for many data exist only for developed countries and for the larger developing countries. Among expert- or survey-based ratings, ICRG and Freedom House have far more complete country coverage than BERI, the World Competitiveness Yearbook, and the Global

Competitiveness Report. Among objective indicators, "contract-intensive money" is available for many more developing countries than "policy volatility."

Coverage over time, to permit tracking of progress, and to facilitate the investigation of causal relationships, is important. Among expert-based ratings, BERI, ICRG and Freedom House are unusual in having been published over a period of many years. "Contract-intensive money" is available for the last several decades for most countries. Of the newer sources of indicators, several have institutionalized processes for regularly producing the indicators in the future, including TI's Corruption Perceptions Index.

HORSES FOR COURSES - THE SEARCH FOR INDICATORS HAS EVOLVED

Taking the available indicators identified in Table 1, and mapping them along these 5 dimensions, gives us some sense of how they vary. Each indicator is evaluated in Table 2 as L (left), M (middle), or R (right), depending on where they are (roughly) located along the left to right scales in Table 3. For data coverage, the first code indicates cross-country coverage, and the second indicates coverage over time.

Table 3 existing indicators mapped on the 5 dimensions

Sources	Datasets	1. Implicate particular institutions	2. Define the outcomes of good governance in operation	3. Replicability and transparency	4. Quality and accuracy	5. Data coverage	
						across	across time
World Bank	policy volatility (single)	M	M	R	R	M	R
World Bank (1997 Schiavo-Campo, de Tommaso and Mukherjee)	aggregate wage bill totals and employment totals of civil and public servants (multiple)	R	M	M	M	M	L
"	civil service pay relative to private sector pay	R	M	M	M	R	L
Business Environment Risk Intelligence	Political Risk Index (multiple)	L	L	M	M	L	R
"	Operation Risk Index (multiple)	L	L	M	M	L	R
Wall Street Journal	annual survey of business analysts (multiple)	L	L	L	L	R	L
Standard and Poor	Country Risk Review (multiple)	L	L	L	M	R	L
European Bank for	transition indicators (multiple)	L	L	L	L	L	L

Reconstruction and Development							
"	legal reform survey (multiple)	M	L	L	M	L	L
Economist Intelligence Unit	Country Risk Service (multiple)	L	L	L	M	R	L
"	country forecasts (multiple)	L	L	L	M	R	L
Freedom House	Freedom in the World (multiple)	L	L	L	L	R	R
"	Nations in Transit (multiple)	L	L	L	L	L	L
World Economic Forum	Global Competitiveness Survey (multiple)	L	L	L	L	L	M
Heritage Foundation	Index of Economic Freedom	L	L	L	L	R	L
Political Risk Services	International Country Risk Guide (multiple)	L	L	L	M	R	R
Political and Economic Risk Consultancy	corruption in Asia (multiple)	L	L	L	L	L	L
"	transparency in Asia (multiple)	L	L	L	L	L	L
"	quality of the media (multiple)	L	L	L	L	L	L
Institute for Management Development	World Competitiveness Yearbook (multiple)	L	L	L	L	L	M
World Bank	1997 World Development Report survey (multiple)	L	L	L	M	M	L
World Bank (Kaufmann, Kraay and Zoido-Lobaton 1999)	aggregating governance indicators (multiple)	L	L	L	R	R	L
Transparency International	Corruption Perceptions Index, aggregation of many indicators	L	L	L	R	R	M
International Telecommunications Union	waiting time for telephone line (single)	M	M	R	R	R	R
Contract Intensive Money (Keefer and Knack)	contract-intensive money calculated from International Financial Statistics	M	L	R	R	R	R
private sector credit	private sector credit calculated from International Financial Statistics	M	L	R	R	R	R

THE REQUIREMENTS IN PHASE I WERE TO DRAW ATTENTION TO BROAD GOVERNANCE CONCERNS

The Phase I debate had to draw attention to broad governance concerns. For that purpose it did not matter which specific institutional arrangements were under the spotlight, and the outcomes of good governance could be measured in a large number of ways, as long as one could investigate the relationship between better governance and some measure of well-being. For that reason dimensions 1 and 2 were of little relevance (there was no need to be specific about which institutions were implicated in governance or which particular outcomes mattered). Equally, the indicators could be technically complex as they were a vehicle for researchers to identify the crucial role of governance in development – it was not necessary that governments understood how they were produced. So, Phase I imposed requirements on dimensions 4 and 5 only.

DAC REQUIREMENTS FILTER OUT MOST AVAILABLE PUBLIC MANAGEMENT INDICATORS

Phase II has imposed more constraints. The Development Assistance Committee of the OECD is looking for indicators that point to specific institutional arrangements under the broad heading of governance, and for indicators which governments can own, implying that they must be replicable, transparent and demonstrably accurate.²⁹ So, the DAC requirements restrict the list of indicators to those located at or near the right end of the scale in Table 2, on dimensions 1, 3, 4 and 5. These requirements rule out many, or even most, potential indicators.

Applying these constraints to table 3 drastically reduces the range of appropriate indicators. In particular, most of the indicators in Table 3 are located on the left end of the scale on dimensions 1 and 3. There are five public management indicators, described more fully below, which avoid the left end of the scale on dimensions 1, 3, 4, and 5.

Policy volatility

Source: Calculated from Government Financial Statistics.

²⁹ The Development Assistance Committee of the OECD has been working to establish indicators which measure movement towards the meeting of major UN conference goals since the early 1990s. In "Shaping the 21st century: the contribution to development cooperation" (OECD, 1996) the DAC confirmed the goals and set out the areas of democratic governance that it saw as essential for achieving these goals. These areas are: good governance (including public sector management, rule of law, corruption and military expenditure); human rights; democratization and participatory development. In 1996, the DAC ad hoc working group reported that it had failed to forge a consensus around some core indicators for these issues. However, since that time, demand for measurements of progress has increased significantly, particularly from the aid agencies. A DAC proposal to a joint OECD/UN/World Bank joint meeting on Agreed Indicators of Development Progress in February 1998 re-launched the process.

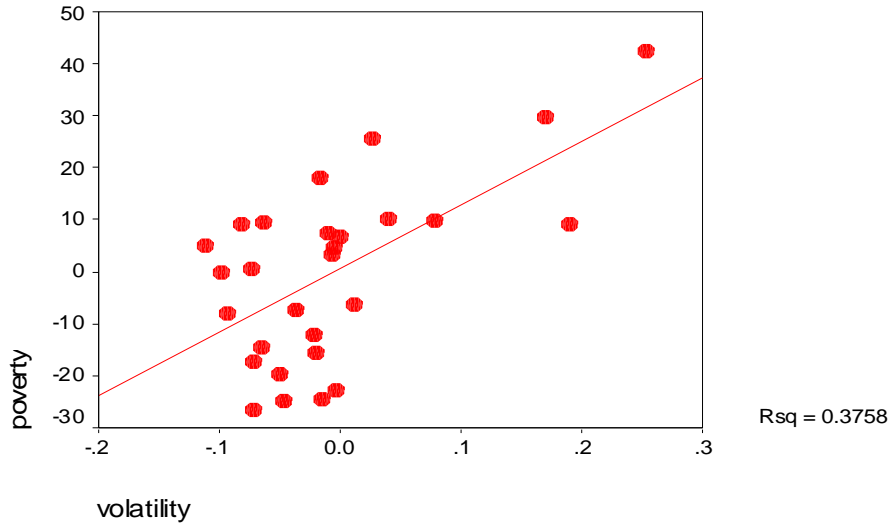
Definition: Median year-to-year percentage change in share of government expenditures by functional classification, over the most recent four-year period.

Rationale: In most cases, large year-to-year fluctuations in expenditure shares indicate an absence of a coherent and predictable (and hence accountable) government policy. Theory and evidence indicate that volatile and unpredictable government policy reduces private investment. Policy volatility is strongly correlated empirically with percent of the population living on \$1 per day (see figure 2), and with subjective measures of policy uncertainty and insecure property rights.

Indicators criteria:

- *Frequency, timeliness and coverage:* Data are available for about 65 developing countries, and are updated annually. For some countries, data are reported with a lag of several years.
- *Local ownership:* Data on expenditures are provided to the IMF by governments.
- *Conceptual limitations:* (i) This volatility indicator is measured purely in terms of government expenditure; however, it is statistically correlated with survey-based indicators of unpredictable government regulations and policies. (ii) Volatility may occasionally reflect shifts from an inefficient to an efficient set of allocations, e.g. following removal of a corrupt government. Examination of the most volatile cases, however, does not suggest that this is a problem. There appear to be few if any cases where high volatility was produced by large shifts away from military spending toward spending on health, education, and social services. (iii) Conceivably, extremely low values for this measure reflect a budget process that is too rigid and which does not respond to changes in needs and preferences. However, the fact that the lowest values belong to developed countries, such as the US and Australia, that are generally considered to be quite democratic and to have very sound public expenditure management practices, suggests that “excessive consistency” is rarely a problem in practice.

Figure 2 policy volatility and poverty headcount, controlling for per capita income



Waiting time for telephone lines

Source: International Telecommunications Union.

Definition: Average waiting time for a telephone line in years, as of 1997.

Rationale: Telephone service is provided by government in almost all developing countries. Waiting time for a telephone line is an indicator of administrative capacity and responsiveness. This indicator is negatively correlated, as expected, with an index of meritocratic or “Weberian” democracy constructed by Evans and Rauch from expert evaluations.

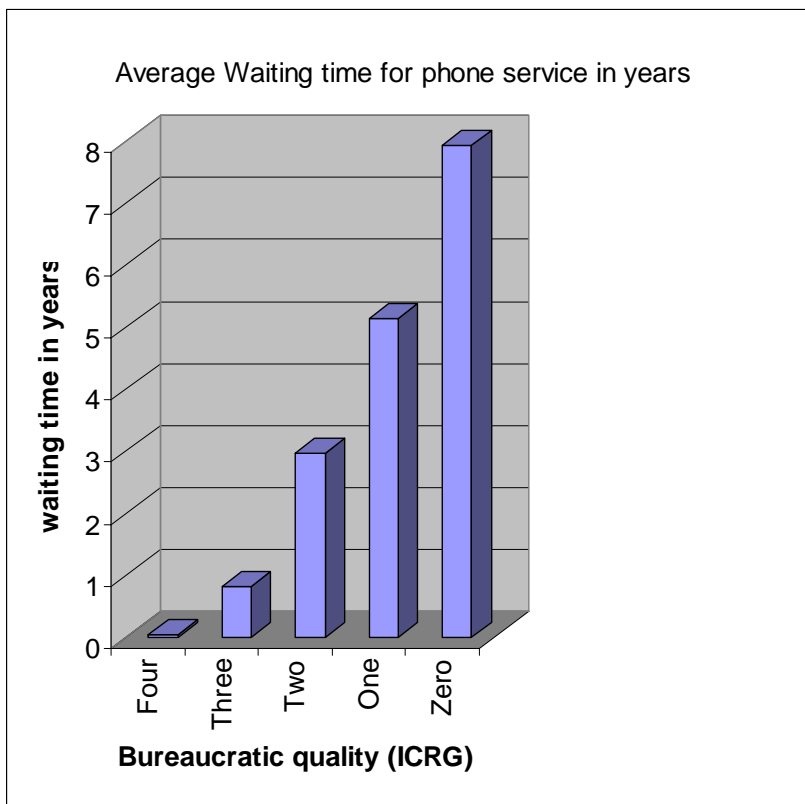
Indicators criteria:

- *Frequency, timeliness and coverage:* This measure is updated annually and is available with a lag of only one or two years, for nearly 150 developing countries.

- *Local ownership:* Data are reported to the ITU with the cooperation of local officials.

Conceptual limitations: This indicator measures only one dimension of the effectiveness of government service delivery. Ideally, broader measures of the efficiency and equity of service delivery would be available for a large number of countries. However, waiting time for telephones is strongly correlated with survey-based measures of other dimensions of service delivery (customs, mail, etc.), and with expert evaluations of the quality of public administration as Figure 3 illustrates.

Figure 3 average waiting time for phone service in relation to bureaucratic quality



Contract-intensive Money

Source: Calculated from International Financial Statistics.

Definition: The non-cash proportion of the money supply, M2 (line 14a divided by the sum of lines 34 and 35 in the IFS).

Rationale: Where government is an effective third-party enforcer of contracts, and can be trusted itself not to expropriate financial assets, firms and individuals will find it more advantageous to deposit financial assets in banks rather than holding them in the form of cash. Thus, better governance will be associated in general with higher “contract-intensive money” (CIM) ratios. Statistical evidence indicates that higher values of CIM are associated with greater political stability, and with higher rates of investment and growth, and that it varies over time in predictable ways (Clague, Keefer, Knack and Olson, “Contract-Intensive Money,” *Journal of Economic Growth*, June 1999, pp. 185-211).

Indicators criteria:

- *Frequency, timeliness and coverage:* IFS data are updated monthly, and are available for most developing countries, with a lag of only several months in most cases. Annual values are published as well as monthly values.
- *Local ownership:* Data are reported to the IMF with the cooperation of local monetary authorities.
- *Conceptual limitations:* Ideally, a broader measure could be constructed which took into account holdings in gold, foreign currency, and other alternatives to depositing financial assets in banks. Also, it would be preferable to adjust CIM for possible effects of inflation, which reduces the attractiveness of holding cash relative to bank deposits.

Civil service pay relative to private sector pay

Source: Schiavo-Campo, de Tomasso and Mukherjee, World Bank Policy Research Working Paper #1806, 1993.

Definition: Average salary for civil service (exclusive of defense, health and education sector), divided by per worker income.

Rationale: This measure potentially provides an indication of government’s desire and ability to recruit and retain a competent and honest work force.

Indicators criteria:

- *Frequency, timeliness, and coverage:* This measure is difficult to collect, and there are no systems in place to update on an annual or regular basis. The original effort collected data pertaining to the early 1990s; an update is in progress and is scheduled for completion this summer.
- *Local ownership:* Local government officials often assist in making data available.
- *Conceptual limitations:* It is not clear what is the ideal ratio of civil service to private sector pay; more is not necessarily always better. Moreover, there is

currently little empirical evidence linking civil service pay to public sector performance.

Private Sector Credit

Source: Calculated from International Financial Statistics.

Definition: Claims on the non-financial private sector (IFS line 32d) divided by GDP in local currency.

Rationale: Private sector credit is a measure of financial development, which is strongly associated with higher investment and growth rates (see King and Levine, “Finance and Growth,” *Quarterly Journal of Economics*, August 1993, pp. 717-37). Financial development is highly dependent on the effective enforcement of laws, for example those governing the legal rights of creditors. Higher values for private sector credit thus are an indication of secure property rights and reliable contract enforcement.

Indicators criteria:

- *Frequency, timeliness and coverage:* IFS data are updated monthly, and are available for most developing countries, with a lag of only several months in most cases. Annual values are published as well as monthly values.
- *Local ownership:* Data are reported to the IMF with the cooperation of local monetary authorities.
- *Conceptual limitations:* King and Levine (1993) describe and use a total of four financial development indicators, arguing that any one of the four by itself is an incomplete measure of financial sector development. Additionally, any indicator (or set of indicators) of financial development is only an indirect indicator of the quality of governance.

IMMEDIATE ACTION AND FUTURE WORK

A NEW AGENDA FOR PUBLIC MANAGEMENT INDICATORS

Given the constraints that it is applying, the DAC has very few choices in the public management indicators it can use. The five listed above may not be exhaustive, but there are likely to be very few others that come close to complying with its requirements.

The future agenda must be to develop governance indicators that have more specific policy implications, i.e. that bear one way or another on the desirability of particular institutional as a way to produce improvement in the well being of the population.

This agenda requires identifying indicators that are located on the right hand side of all 5 dimensions - i.e. that:

1. implicate particular institutions
2. define the outcomes of good governance in operation
3. are replicable and transparent
4. provide quality and accuracy
5. have extensive data coverage over time and across countries

There are some grounds for hope that this can be done. Quantitative measurements of institutional arrangements are showing some promise, for example. In relation to public expenditure management arrangements, Campos and Pradhan³⁰ have demonstrated the impact of particular budgetary institutions on expenditure outcomes. There is also emerging evidence on the importance of policy volatility noted above in Figure 2. The presumption behind this work is that the budget should be a credible signal of government's policy intentions; radical variations indicate that there is no coherent set of policy priorities, and that officials charged with policy implementation will not take policy statements seriously because they are likely to change.

In examining intergovernmental relations, recent work shows the potential but uncertain advantages of decentralization stem from its potential for linking local

³⁰ Campos, Ed. and Sanjay Pradhan (1996). "Budgetary Institutions and Expenditure Outcomes," World Bank Policy Research Working Paper No. 1646.

information and local needs to local accountability and monitoring.³¹ The disadvantages for poverty reduction appear in cases where local level power structures are themselves highly unequal. (Crook and Sverrisson's (1999) review of 12 cases of decentralization found a mixed picture.)

In relation to civil service pay and personnel management, Evans and Rauch³² provide some aggregate evidence that merit-based recruitment in the civil service is associated with higher performance.

In legal/judicial arrangements, measurements indicate that weak law enforcement exacerbates the hardships of those living in poverty. Police harassment, lawlessness and violence are constantly cited as part of the reality of poor people's lives. In "Consultations with the Poor," a participatory assessment of poor people's problems at 468 sites in 23 developing countries, oppressive policing was identified as a problem at a majority of the survey sites.³³ Other surveys suggest that legal and judicial weaknesses buttress gender inequalities which, in turn, contribute to poverty and inequality. Property rights in particular, especially over land, is an area in which official legislation and customary rules can combine to entrench poverty. Feder et. al. interviewed 200 farmers, both titled and untitled, in each of Thai four provinces. They found that pledging land as collateral significantly increases the amount of institutional credit offered. They conclude that the main source of greater productivity on lands owned legally is the better access to cheaper and longer-term institutional credit enjoyed by titled owners.³⁴ In a similar finding, Feder et. al. demonstrated that usufruct rights had no significant impact on the ability of Thai farmers in Chaiyaphum province to obtain institutional credit.³⁵

Table 4 lists and describes a set of proposed indicators that would facilitate further research exploring links between specific institutional arrangements on the one hand, and public sector performance or measures of population well-being on the other hand. Results from this research can help point the way towards which types of public sector reforms have large payoffs and which do not.

³¹ See Timothy Besley and Stephen Coate (1999). "Centralized versus decentralized provision of local public goods: a political economy analysis," National Bureau of Economic Research Working Paper Series No. 7084.

³² <ftp://weber.ucsd.edu/pub/econlib/dpapers/ucsd9906.pdf>

³³ World Bank (1999). "Consultations with the Poor."

³⁴ Gershon Feder, Tongroj Onchan, Yongyuth Chalamwong, and Chira Hongladarom (1988). *Land Policies and Farm Productivity in Thailand*. Baltimore, Md.: Johns Hopkins University Press.

³⁵ Feder, Gershon, Tongroj Onchan, and Yongyuth Chalamwong (1988). "Land Policies and Farm Performance in Thailand's Forest Reserve Areas," *Economic Development and Cultural Change*, 36(3): 483-501. Of 232 farmers in Chaiyaphum province interviewed in 1986, 112 had titles, 46 were squatters with usufruct certificates, and 74 were squatters without usufruct certificates. The certificates gave holders only the right to transfer the land to direct descendants by inheritance. Rental, sale, and/or transfer by gift was prohibited. Only 2 of 46 farmers with certificates reported that certificates assisted in obtaining credit.

Table 4 additional public management and governance indicators³⁶

I. Indicators of institutional arrangements		
indicator	Underpinning assumption	proposed method of calculation
<i>Policy and public expenditure management</i>		
Delays in auditing	The government should be held accountable by the legislature for its policy actions. Lengthy delays are an indication that the government is not held accountable by the legislature for its actions.	"Delays in auditing" will be measured as the elapsed time between the end of the financial year and the tabling of externally audited financial statements in the legislature.
Deviation from functional appropriations	The government should be held accountable by the legislature for its policy actions.	"Deviation from functional appropriations" will be calculated as the sum of all (absolute values of) deviations between approved and implemented budgets by functional classification. High deviation indicates poor quality of planning and/or implementation, and lessened credibility in the budget. (Periodicity: annual)
Representative deviation by spending units at sector level	Spending units should know in advance what their budget funding will be as a prerequisite for operational efficiency and managerial accountability.	"Representative variance at sector level" is the average proportional deviation between (i) budgeted allocations for non-personnel costs (operations and maintenance) and other recurrent costs and (ii) actual expenditures under these appropriations for each major sectoral spending unit in 5 key sectors: health, education, defense, roads and agriculture. Major sectoral spending unit to be defined as that which is appropriated at least half of the total personnel costs, operations and maintenance, and other recurrent costs and actual expenditures for the sector. Where no spending unit satisfies that criteria, then the sum of the differences (not deviations) for a range of spending units which between them are appropriated at least half of the total personnel costs, operations and maintenance, and other recurrent costs should be used. (This measure is under consideration to provide cross-country comparisons. There is frequently a need for more finely grained work at sub-entity level to assist in the understanding of operational efficiency problems.)
Revenue predictability	Unplanned revenue shortfalls reflect low administrative capacity and/or deliberate overestimates to avoid difficult spending reductions.	"Revenue predictability" will be measured as the difference between actual central government revenues and those projected in the budget .
<i>Public employment</i>		
Is fiscal weight (public sector wage bill as %	Government should be a responsible employer, restraining employment costs	Data on public sector wage bill will be obtained from the Government Financial Statistics and/or from the updated database on public sector pay and employment

³⁶ Comments in unpublished notes from Mick Moore, IDS, and from Matthew Sudders, OECD, were helpful in adding to a core list of desirable institutional indicators developed by PRMPS, World Bank

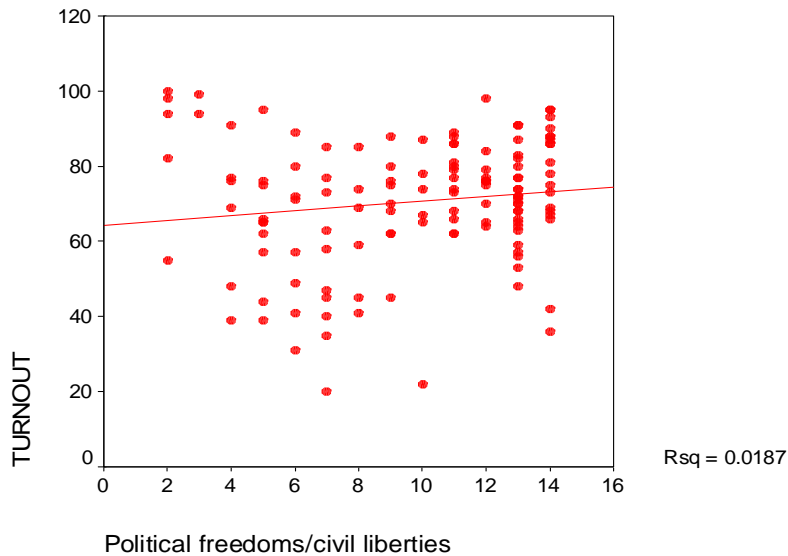
of GDP) in line with international practice	while ensuring that remuneration arrangements do not establish perverse incentives.	collected by Schiavo-Campo et al.
Civil service pay (vertical compression)	Vertical decompression outside the range 1:7 to 1:20 undermines incentives for public officials to pursue a career and take disciplinary threats seriously.	the degree to which vertical compression ratios (the ratio of the midpoint of the highest civil service pay scale to the midpoint of the lowest civil service pay scale) are less than 1:7 or more than 1:20
Civil service pay (horizontal compression)	Horizontal decompression (discretionary allowances over and above base pay) in excess of 1:1.2 provides opportunities for excessive managerial discretion, facilitating organized corruption and rent-seeking.	horizontal decompression (within the lowest civil service pay scale, the ratio of the highest proportion of discretionary allowances, as a percentage of total compensation, to the lowest proportion of discretionary allowances, as a percentage of total compensation) is more than 1:1.2.
Political appointees in the civil service	Government employees should be held in some respect by business and the general public, partly on the basis that they have been transparently appointed on merit.	"Political appointees" will be measured as the ratio of public officials who are appointed by a politician, without a formal merit-based selection procedure, to all public officials, in excess of 1:400. Data to be collected from in-country research.
<i>inter-governmental relationships</i>		
central government "bail outs" of local governments	a hard budget constraint between tiers of government should be maintained through the intergovernmental system and the financial system	Number of times in the last 5 years central government has had to assume financial or service delivery responsibility for a subnational government. Data to be collected from in-country research.
<i>legal and judicial arrangements</i>		
Percent of private land formally titled	property rights and contracts should be respected	Data to be collected from in-country research, by interviewing local lawyers, bank officers, and government officials.

A PRAGMATIC AGENDA FOR NOW

However, there is a more immediate problem. The current constraints, if applied rigorously, remove all but five of the public management indicators. They also remove most of the proposed governance indicators as they fail the pre-test that more is unambiguously better. Several also rate poorly on quality and accuracy, as they are strongly influenced by factors unrelated to democracy and governance, and – unlike the case with policy volatility, telephone waiting times, and contract-intensive money – have not been validated against other indicators. It is not clear that more ratification of human rights treaties, more education programs within National Curricula, more tenure for the judiciary, or more turnout in recent elections are better in any moral or practical sense. **Error! Reference source not found.** illustrates the point in relation to voter turnout: turnout is not significantly correlated with the democracy indicator (from Freedom House) most commonly used by academic

researchers and by USAID and other bilateral donors tracking progress toward democratization. Turkmenistan (100%), Laos (99%) and Iraq (94%) are among the highest on turnout, while the US (36%) and Switzerland (42%) are among the lowest. The converse is true for military expenditure where, in the absence of detailed assessments of external threats, it is not possible to say that less is better. Looking at changes over time rather than levels does not go very far to solve this problem: Saudi Arabia and the UAE experienced some of the largest increases in military spending leading up to the early 1990s, and some of the largest declines since then, but these changes are attributable to Iraq's August 2, 1990 invasion of Kuwait and not to any real changes in governance. Percent of judiciary with tenure, and percent of pre-trial detainees in the prison population, violate the requirement that the data already exist or will soon exist for more than a few countries. The problem is that very few of the proposed governance indicators survive.

Figure 4 voter turn out and Freedom House ratings



It can be seen from Table 3 that a significant relaxation in the constraints imposed on data selection could lead to more indicators. However, the tradeoffs need to be very explicitly acknowledged. If the following relaxations are made in the criteria for selecting indicators then more indicators become available, in addition to the five public management indicators:

- relaxing the criteria on replicability and transparency to allow for aggregate indicators
- allowing indicators which do not implicate specific institutions and which do not point to distinctive outcomes
- allowing indicators which are new but for which systems are in place for regularly producing the data in the future.

Table 3 shows that by relaxing these criteria, the following governance indicators then five broader governance indicators emerge as possibilities:

1. Standard and Poor - Country Risk Review
2. Political Risk Services - International Country Risk Guide
3. World Bank 1997 - World Development Report survey
4. World Bank - aggregating governance indicators
5. Transparency International - Corruption Perceptions Index

CONCLUSIONS

Using 5 dimensions along which to position governance indicators, this paper has sought to demonstrate why the governance indicator debate has been confused with less policy relevance than might have been expected. It uses the same dimensions to show that there are very few existing indicators that seem to meet the current DAC criteria.

The modest set of public management indicators that come closest to meeting the DAC criteria include:

1. Policy volatility
2. Waiting time for telephone lines
3. Contract-intensive Money
4. Civil service pay relative to private sector pay
5. Private Sector Credit

A more thorough research agenda that will allow the much-needed progress from awareness-raising about the significance of governance, through to practically oriented policy conclusions, requires some urgent testing of some more focused indicators. The paper has flagged the most promising candidates.

To resolve the immediate problem of insufficient indicators, the current constraints could be relaxed considerably but the tradeoffs need to be very explicitly acknowledged. With significant relaxations in the criteria for selecting indicators then five broader governance indicators also emerge as possibilities:

6. Standard and Poor - Country Risk Review
7. Political Risk Services - International Country Risk Guide
8. World Bank 1997 - World Development Report survey
9. World Bank - aggregating governance indicators
10. Transparency International - Corruption Perceptions Index