

**Governance, Democracy, Corruption &
Development: *Latin America Empirics in
International Comparative Perspective***

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www.worldbank.org/wbi/governance

*Presentation in the session ‘Beyond the
Washington Consensus?: Poverty, Exclusion and
Democracy in Latin America’, at the Encuentro
Latino Europeo 2007, Utrecht, May 15th, 2007*

Challenging Myths on Governance, Democracy and Development in Latin America

- 1. ‘The Power of Data’: Governance can be defined, measured, and analyzed – & fundamental for growth and development (*missing in ‘Washington Consensus’*)**
- 2. Irrational Exuberance about Latin American Growth? *Excessive Elevator Economics and Short-Terminism?***
- 3. The Medium Term Challenge: Inequality, Jobs, Capture, Misgovernance, and Corruption**
- 4. Growth is key, for it Governance & A-C matters**
- 5. Democracy endangered? No. Fragility: some, but trend towards democratic consolidation, with hiccups but without turning back or extremism**
- 6. ‘Political Tsunami’ Electorally in LatAm now? Not at all**
- 7. Governance & Integrity Example starts at home,..**

Overview on Worldwide Governance Indicators (*WGI*)

- **Brief update**
 - updated indicators for 2005
 - move to annual frequency
 - release of (almost) all underlying data sources
 - limits on CPIA data by WB, AfDB and ADB
 - **Principles for users of all types of governance indicators:**
 - measurement error is pervasive
 - there are no silver bullets
 - links from policy actions to outcomes are complex
- [Note: WGI, a research product, not used for resource allocation at the WB]**

Worldwide Governance Indicators Project: *Defining Governance Broadly*

Governance consists of the traditions & institutions by which authority in a country is exercised.

This includes:

- the process by which governments are selected, monitored and replaced,*
- the capacity of the government to effectively formulate and implement sound policies, and*
- the respect of citizens and the state for the institutions that govern economic and social interactions among them.*

Worldwide Governance Indicators Project

- **Six aggregate governance indicators covering 213 countries over past decade**
 - *Voice and Accountability*
 - *Political Stability/Absence of Violence*
 - *Government Effectiveness*
 - *Regulatory Quality*
 - *Rule of Law*
 - *Control of Corruption*
- **Based on 31 data sources from 25 organizations, capturing views of thousands of informed stakeholders**
- **Widely used by analysts, officials, civil society, and researchers to monitor governance and study its causes and consequences**

2006 Update of Worldwide Governance Indicators: Key Features

- **Move to annual data**
 - complement biannual data 1996-2004 with annual data for 2003, 2005
 - continue reporting data annually in future
- **First-time access to data underlying aggregate indicators**
 - hundreds of individual indicators over past decade
 - one of the largest on-line governance data resources at www.govindicators.org

Sources of Governance Data

- **Cross-Country Surveys of Firms:** Global Competitiveness Survey, World Business Environment Survey, World Competitiveness Yearbook, BEEPS
- **Cross-Country Surveys of Individuals:** Gallup International Voice of the People, Latinobarometro, Afrobarometer
- **Expert Assessments from Commercial Risk Rating Agencies:** DRI, PRS, EIU, World Markets Online, Merchant International Group, IJET Travel Consultancy, PERC
- **Expert Assessments from NGOs, Think Tanks:** Reporters Without Borders, Heritage Foundation, Freedom House, Amnesty International, Bertelsmann Foundation, Columbia University, International Research and Exchanges Board
- **Expert Assessments from Governments, Multilaterals:** World Bank CPIA, EBRD, AFDB, ADB, State Dept. Human Rights Report, Trafficking in Persons Report

Why Aggregate Indicators?

Basic Premise: *individual data sources provide a noisy “signal” of broader concept of governance, e.g.:*

- trust in police → **RULE OF LAW**
- freedom of press → **VOICE & ACCOUNTABILITY**
- bureaucratic quality → **GOV'T EFFECTIVENESS**

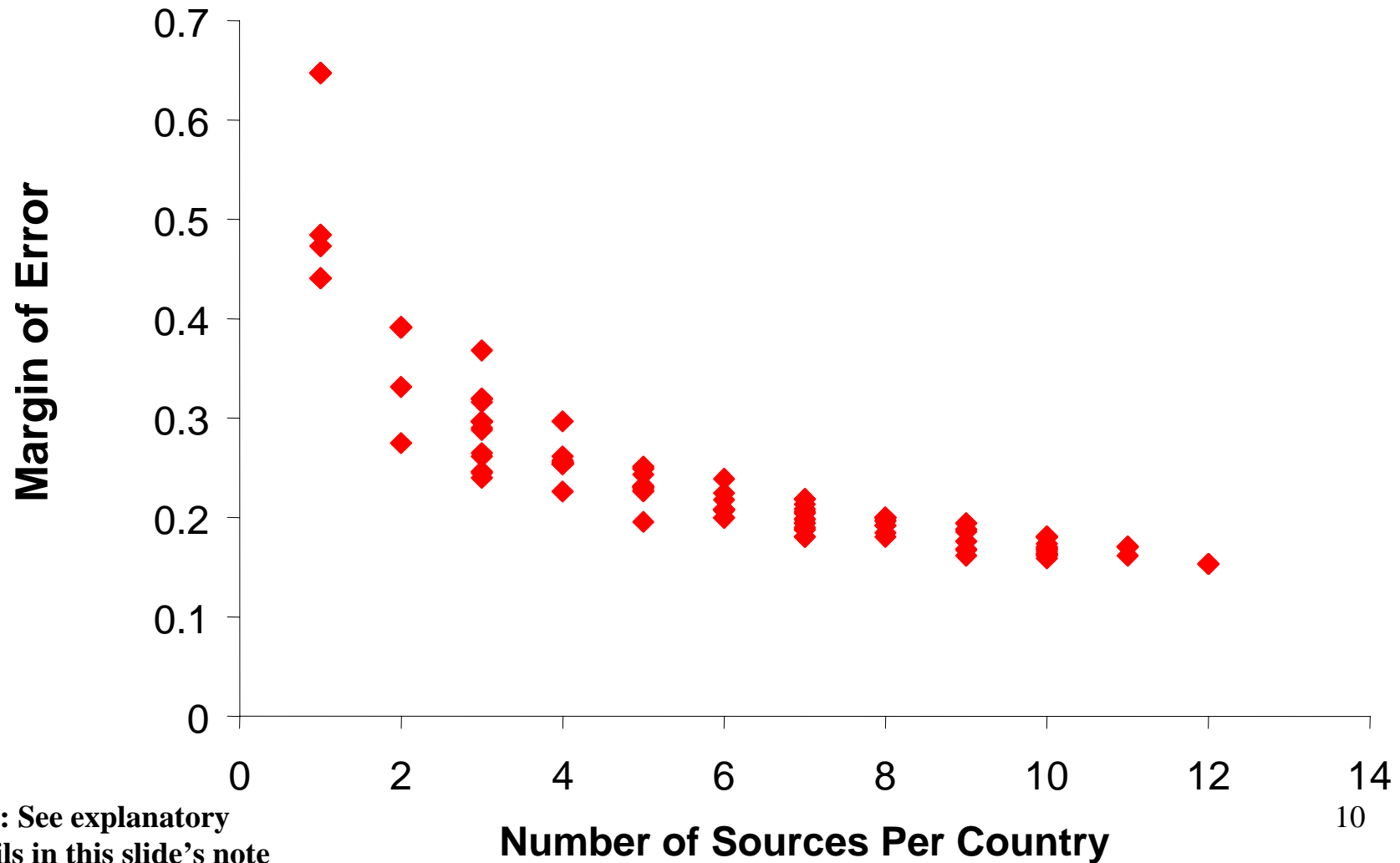
Benefits of Aggregation

- **aggregate indicators are more informative about broad concepts of governance – simple intuition of averaging**
- **less likely to generate extreme outliers**
- **generate explicit margins of error for country scores**

Levels of Governance Worldwide, 1996-2005

- **Estimates of governance for 213 countries**
- **Standard errors to assess the *precision* of the estimates**
 - **Rule of thumb: cross-country differences in governance significant if 90% confidence regions don't overlap**
 - **Many small differences between countries not significant...**
 - **But many larger differences are statistically significant**
 - **70% of all comparisons based on aggregate indicator...**
 - **but only 30% of all comparisons based on individual indicators**
- **Precision of governance indicators has improved over time with more, and better, data sources**

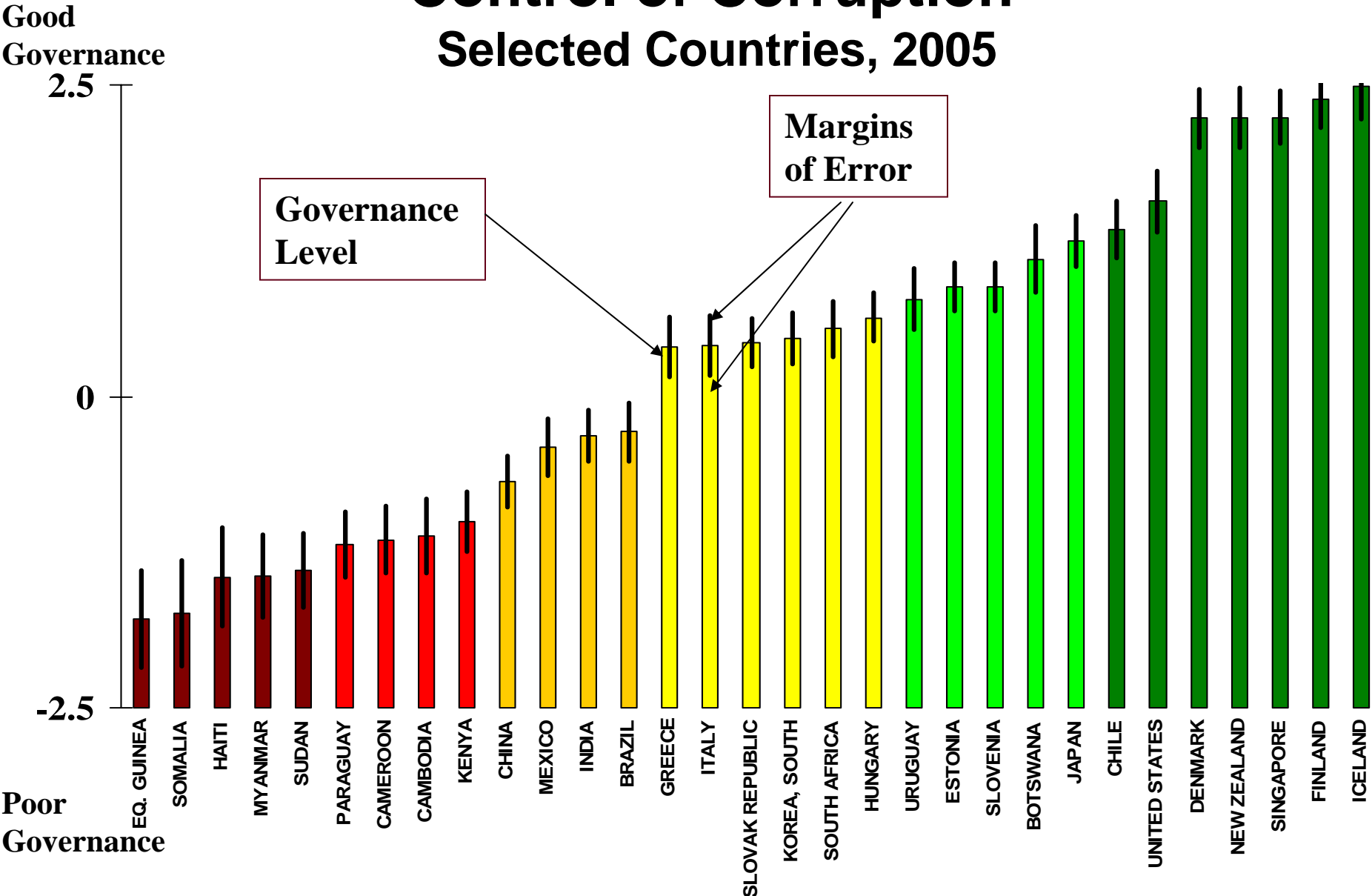
Precision vs. Number of Sources, KKZ Governance Estimates, 2000/01



Note: See explanatory details in this slide's note

Control of Corruption

Selected Countries, 2005



Source for data: 'Governance Matters V: Governance Indicators for 1996-2005', D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006.
 Note: Colors are assigned according to the following criteria: Dark Red, below 10th percentile rank among all countries in the world; 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.

Three Principles for Using Governance Indicators

1. All indicators have measurement error

- rely on variety of data sources**
- reduce noise by aggregation**

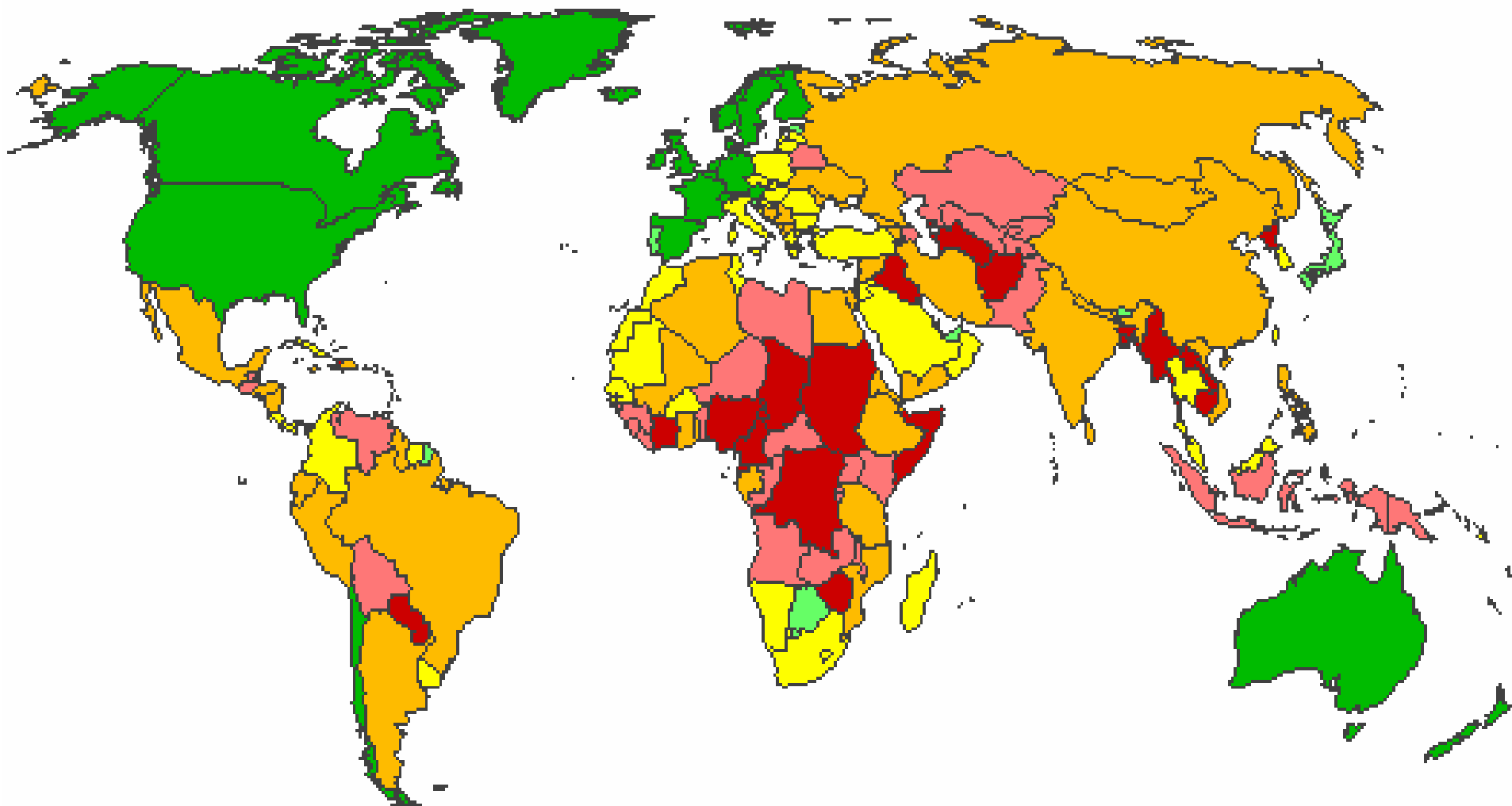
2. There are no silver bullets

- subjective/perceptions vs. objective/statutory**
- aggregate vs. individual indicators**
- regular cross-national monitoring/research vs. detailed country diagnostics/country policy advice**
- complements vs. substitutes**

3. Links from policy actions to outcomes are complex

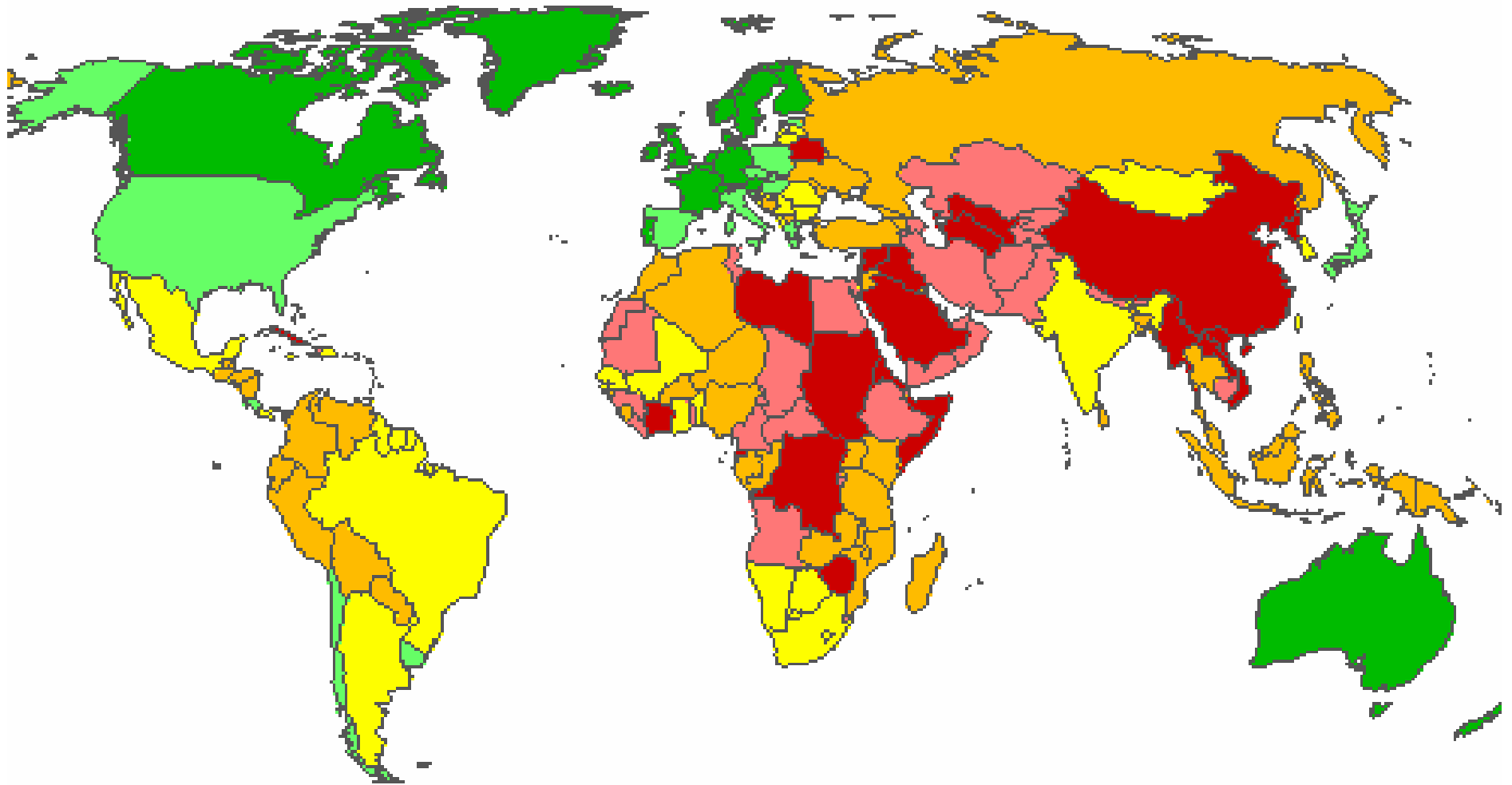
- “actionable” versus “action-worthy” indicators¹²**

World Map: Control of Corruption, 2005



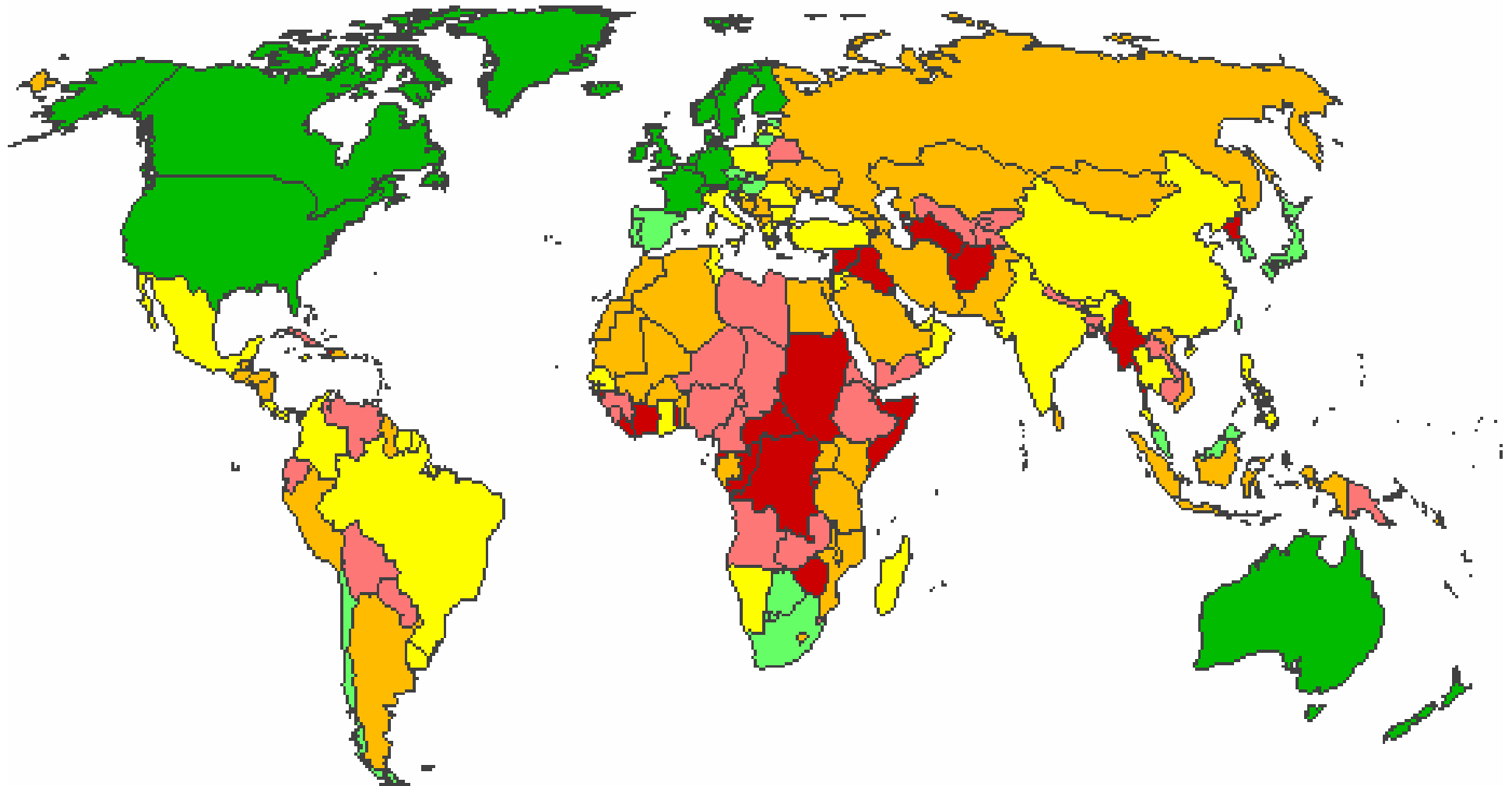
Source for map: 'Governance Matters V: Governance Indicators for 1996-2005', by D. Kaufmann, A.Kraay and M. Mastruzzi, September 2006 - www.govindicators.org. Colors are assigned according to the following criteria: Dark Red: country is in the bottom 10th percentile rank ('governance crisis'); Light Red: between 10th and 25th percentile rank; Orange: between 25th and 50th percentile rank; Yellow, between 50th and 75th; Light Green between 75th and 90th percentile rank; and Dark Green: between 90th and 100th percentile (exemplary governance).¹ Estimates subject to margins of error.

World Map: Voice & Accountability, 2005



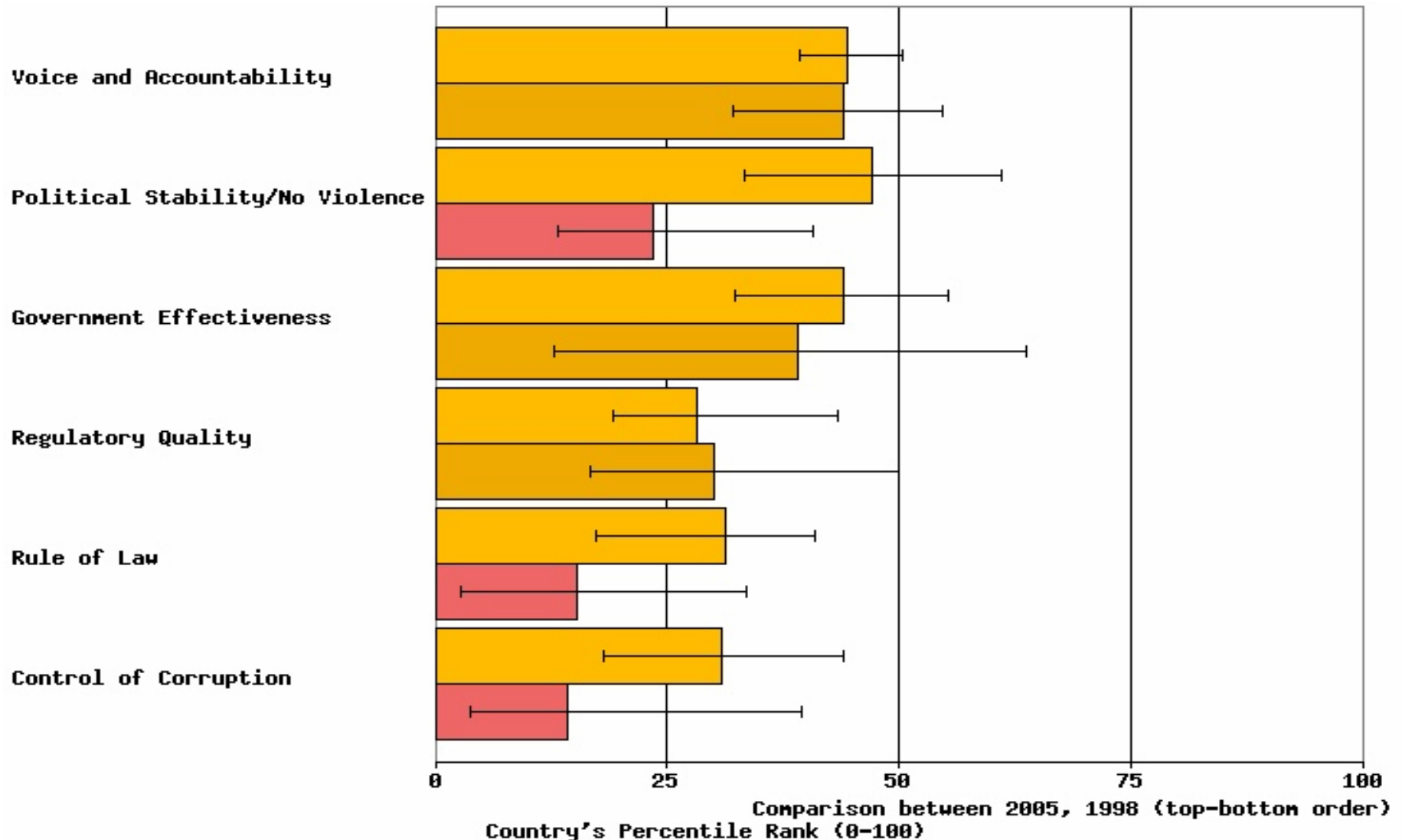
Source for map: 'Governance Matters V: Governance Indicators for 1996-2005', by D. Kaufmann, A.Kraay and M. Mastruzzi, September 2006 - www.govindicators.org. Colors are assigned according to the following criteria: Dark Red: country is in the bottom 10th percentile rank ('governance crisis'); Light Red: between 10th and 25th percentile rank; Orange: between 25th and 50th percentile rank; Yellow, between 50th and 75th; Light Green between 75th and 90th percentile rank; and Dark Green: between 90th and 100th percentile (exemplary governance). Estimates subject to margins of error.

World Map: Government Effectiveness, 2005



Source for map: 'Governance Matters V: Governance Indicators for 1996-2005', by D. Kaufmann, A.Kraay and M. Mastruzzi, September 2006 - www.govindicators.org. Colors are assigned according to the following criteria: Dark Red: country is in the bottom 10th percentile rank ('governance crisis'); Light Red: between 10th and 25th percentile rank; Orange: between 25th and 50th percentile rank; Yellow, between 50th and 75th; Light Green between 75th and 90th percentile rank; and Dark Green: between 90th and 100th percentile (exemplary governance).¹ Estimates subject to margins of error.

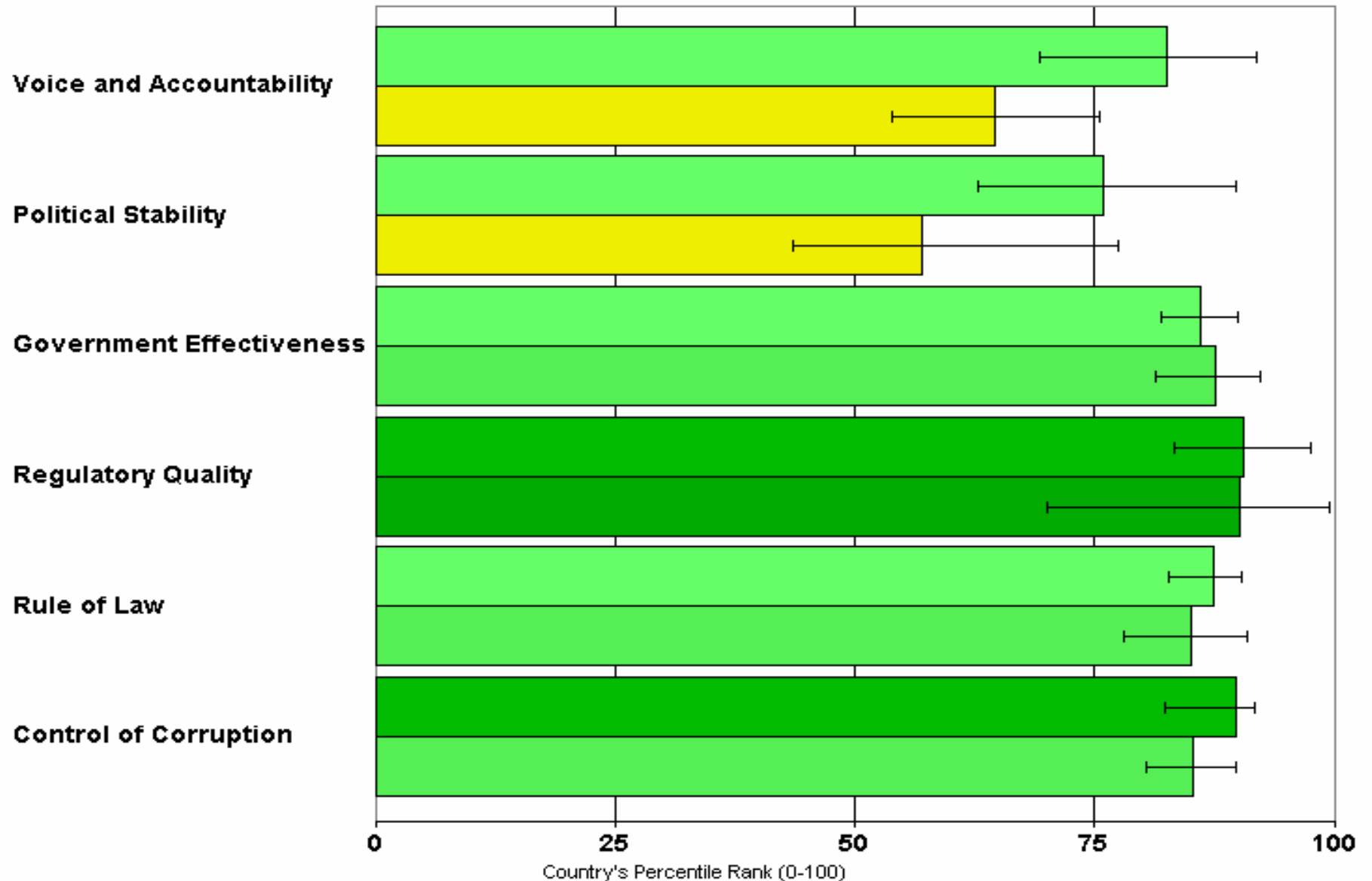
Governance Indicators for Mozambique, 1998-2005



Source for data: 'Governance Matters V: Governance Indicators for 1996-2005', by D. Kaufmann, A.Kraay and M. Mastruzzi, September 2006 - www.govindicators.org. Colors are assigned according to the following criteria: Dark Red: country is in the bottom 10th percentile rank ('governance crisis'); Light Red: between 10th and 25th percentile rank; Orange: between 25th and 50th percentile rank; Yellow, between 50th and 75th; Light Green between 75th and 90th percentile rank; and Dark Green: between 90th and 100th percentile (exemplary governance). Estimates subject to margins of error.

Aggregate Governance Indicators for Chile [2005 vs. 1998]

Comparison between 2005, 1998 (top-bottom order)



Unbundling WGI Aggregate Indicators – Chile

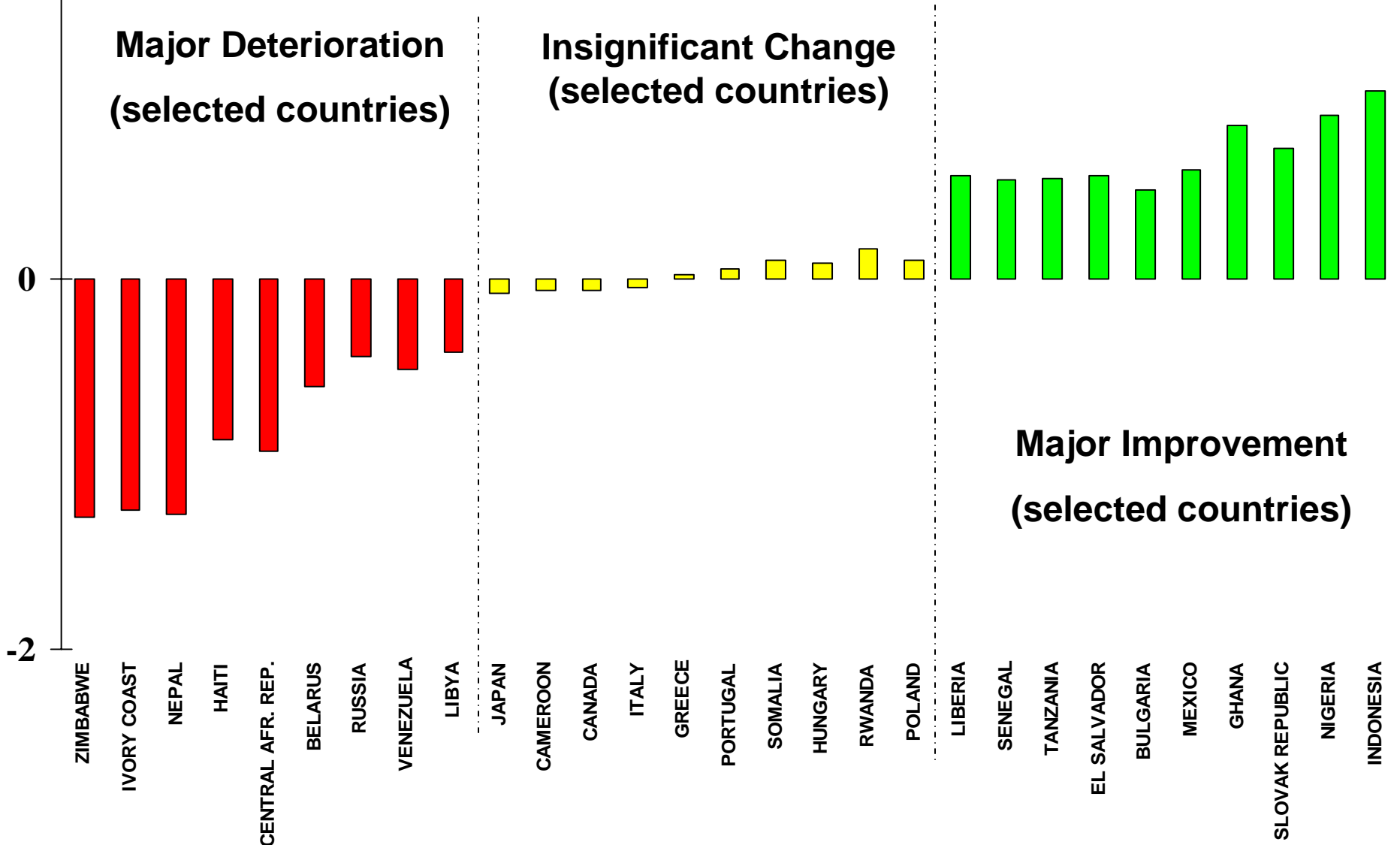
Aggregate Indicators for Chile						
Governance Indicator	Year	Percentile Rank (0-100)	Estimate (-2.5 to +2.5)	Standard Error	Number of surveys/polls	Sources
Voice and Accountability	2005	82.6	+1.04	0.14	10	List
	1998	64.7	+0.59	0.23	6	List
Political Stability	2005	75.9	+0.85	0.21	10	List
	1998	57.1	+0.37	0.26	6	List
Government Effectiveness	2005	86.1	+1.26	0.15	12	List
	1998	87.6	+1.31	0.26	7	List
Regulatory Quality	2005	90.6	+1.40	0.17	10	List
	1998	90.1	+1.10	0.27	6	List
Rule of Law	2005	87.4	+1.20	0.13	15	List
	1998	85.1	+1.18	0.18	11	List
Control of Corruption	2005	89.7	+1.33	0.14	12	List
	1998	85.3	+1.13	0.19	10	List

Individual Indicators for Chile Voice and Accountability, 2005 (0 (bad) to 1 (good) scale)		
Source	Publication	CHILE
Bertelsmann Foundation	Bertelsmann Transformation Index	+0.90
Economist Intelligence Unit	Country Risk Service	+0.90
Freedom House	Freedom in the World	+0.92
World Economic Forum	Global Competitiveness Report	+0.59
Cingranelli-Richards (CIRI)	Human Rights Database	+0.75
Latinobarometro	Latinobarometro Surveys	+0.40
Political Risk Services	International Country Risk Guide	+0.79
Reporters Without Borders	Reporters Without Borders	+0.89
Institute for Management and Development	World Competitiveness Yearbook	+0.66
Global Insight	Business Conditions and Risk Indicators	+0.88

Reporters Without Borders <http://www.rsf.org>

Reporters without Borders, headquartered in Paris, is an international organization dedicated to the protection of reporters and respect of press freedom in the world. In 2002, International Reporters Without Borders published its first worldwide press freedom index, compiled for 139 countries. The index was drawn up by asking journalists, researchers, and legal experts worldwide to answer 50 questions about a whole range of press freedom violations.

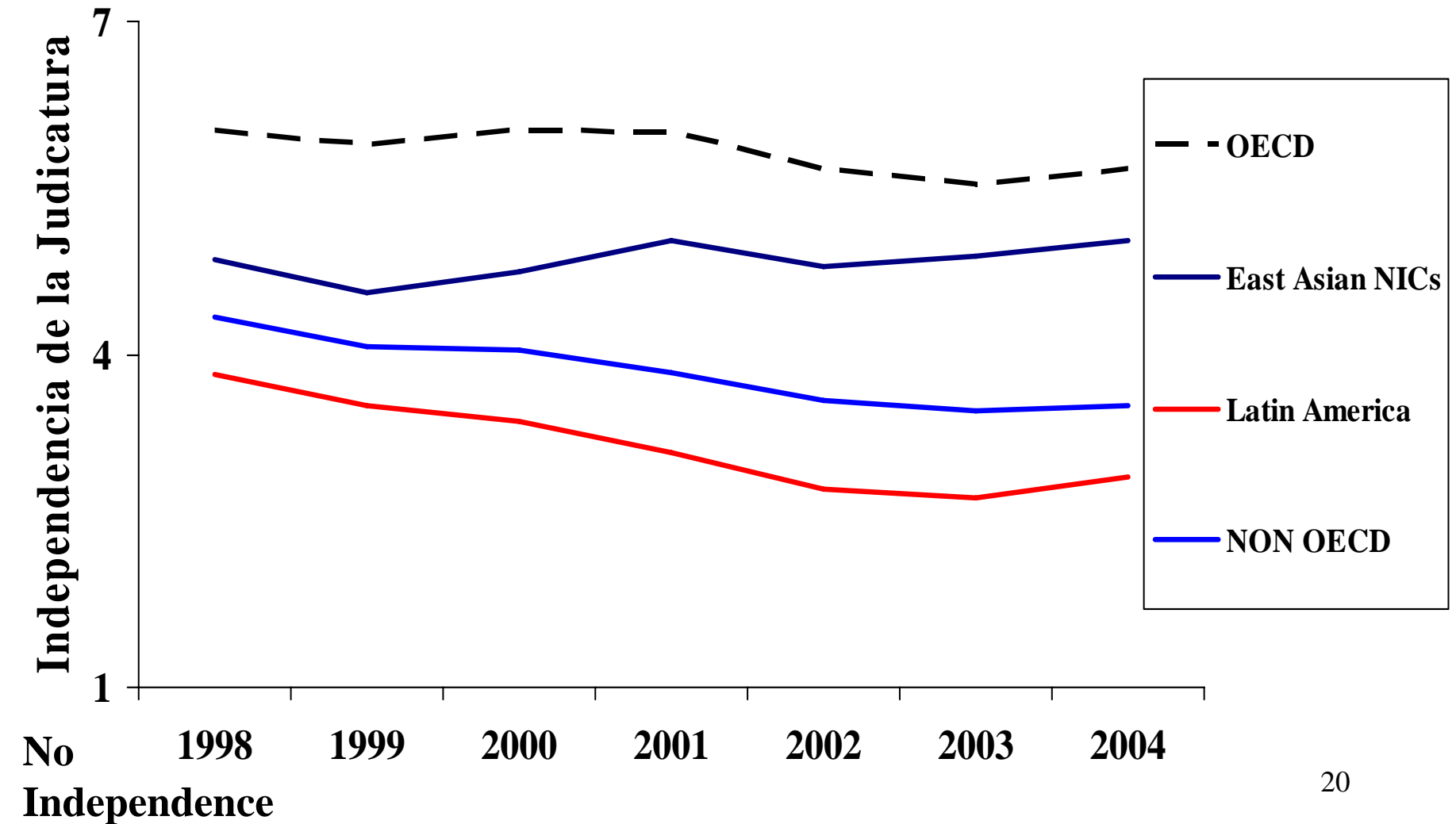
Changes in Voice & Accountability, 1996-05



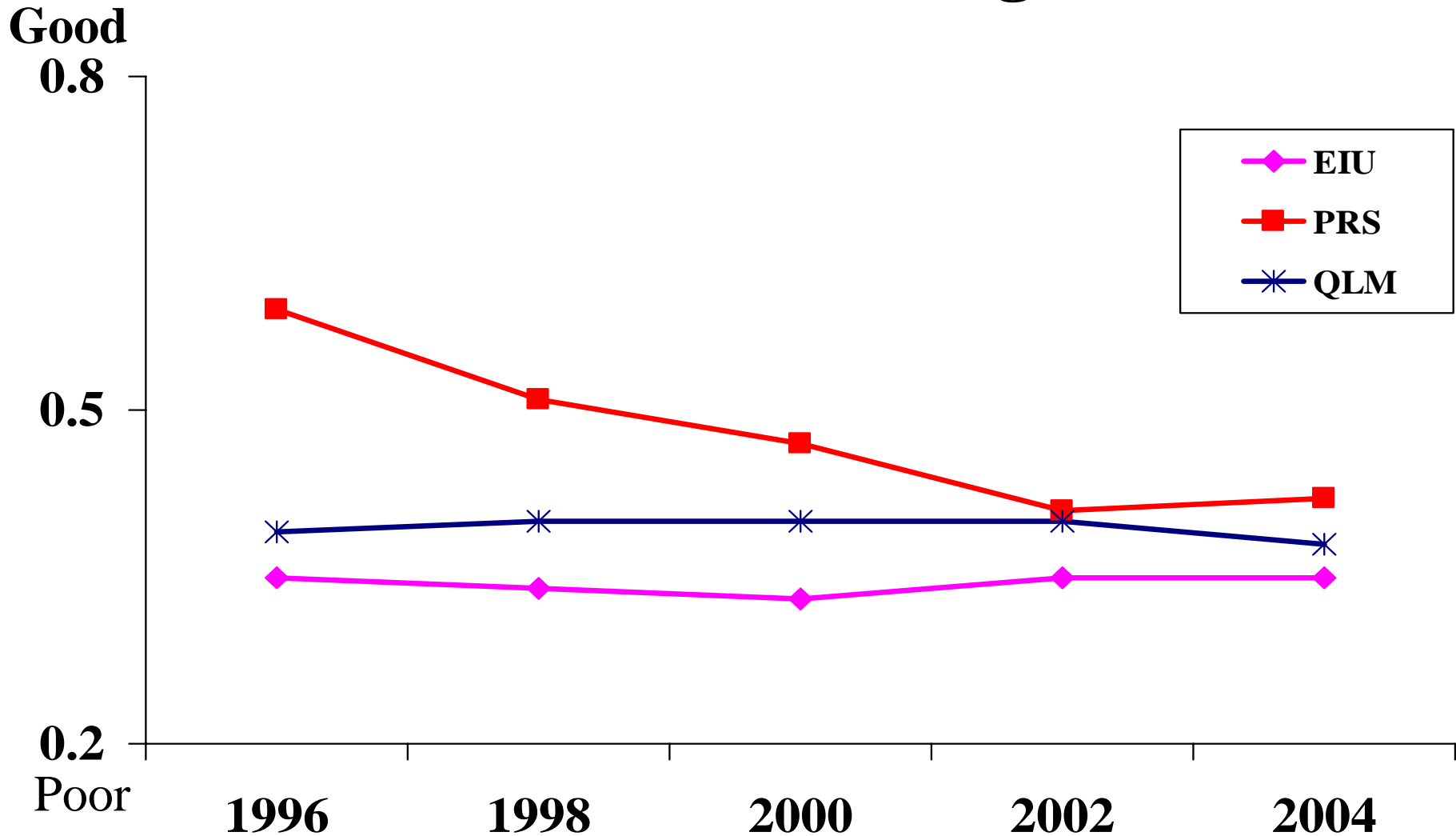
Changes were calculated on the basis of the differences in country estimates from 1996 and 2005. Classification for major deteriorations and improvements were based on 75% confidence interval. Source for data: 'Governance Matters V: Governance Indicators for 1996-2005', by D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006 - www.govindicators.org

Judiciary Independence (*EOS survey results 1998-2004*)

High
Independence

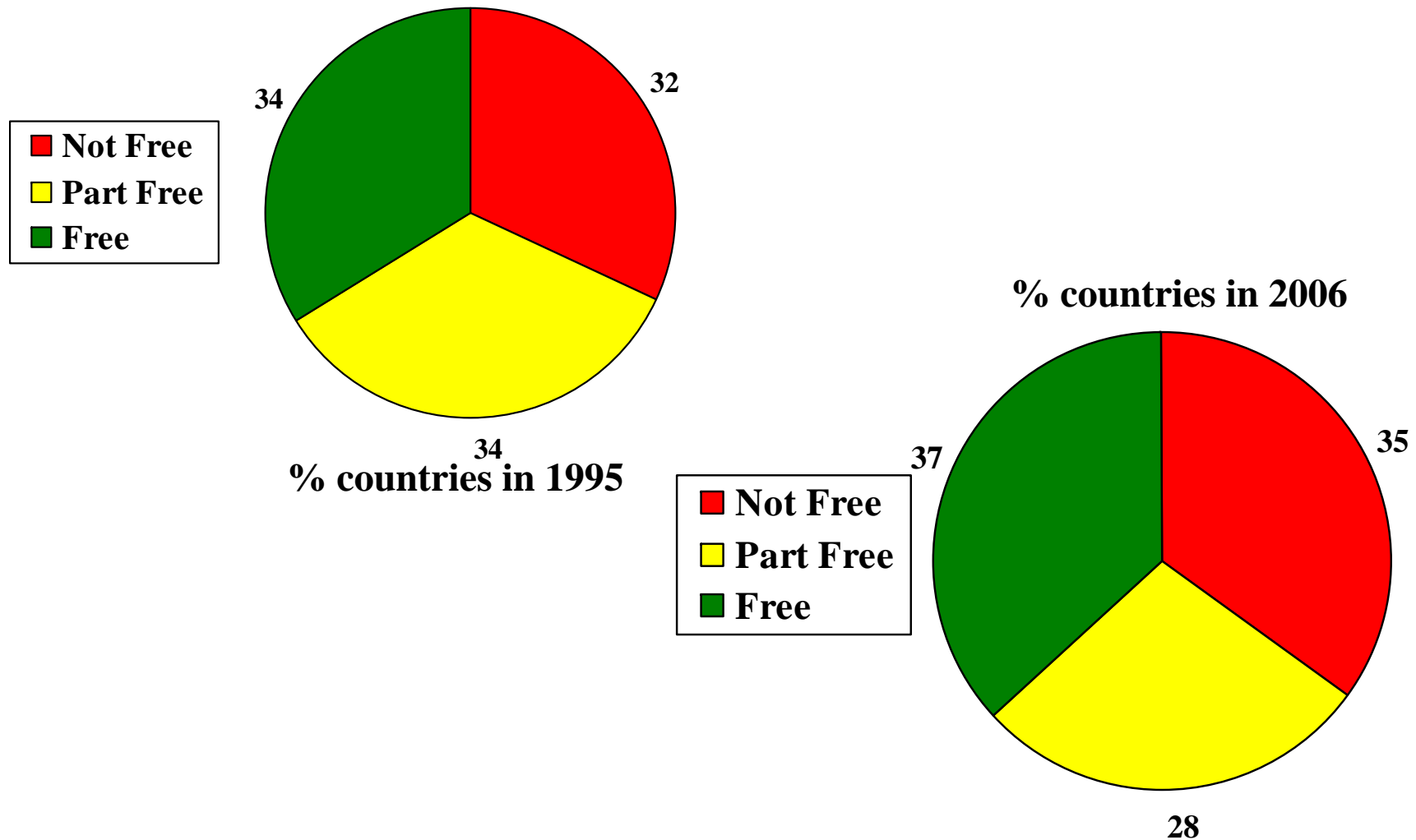


No Significant Trend in Control of Corruption Worldwide Averages



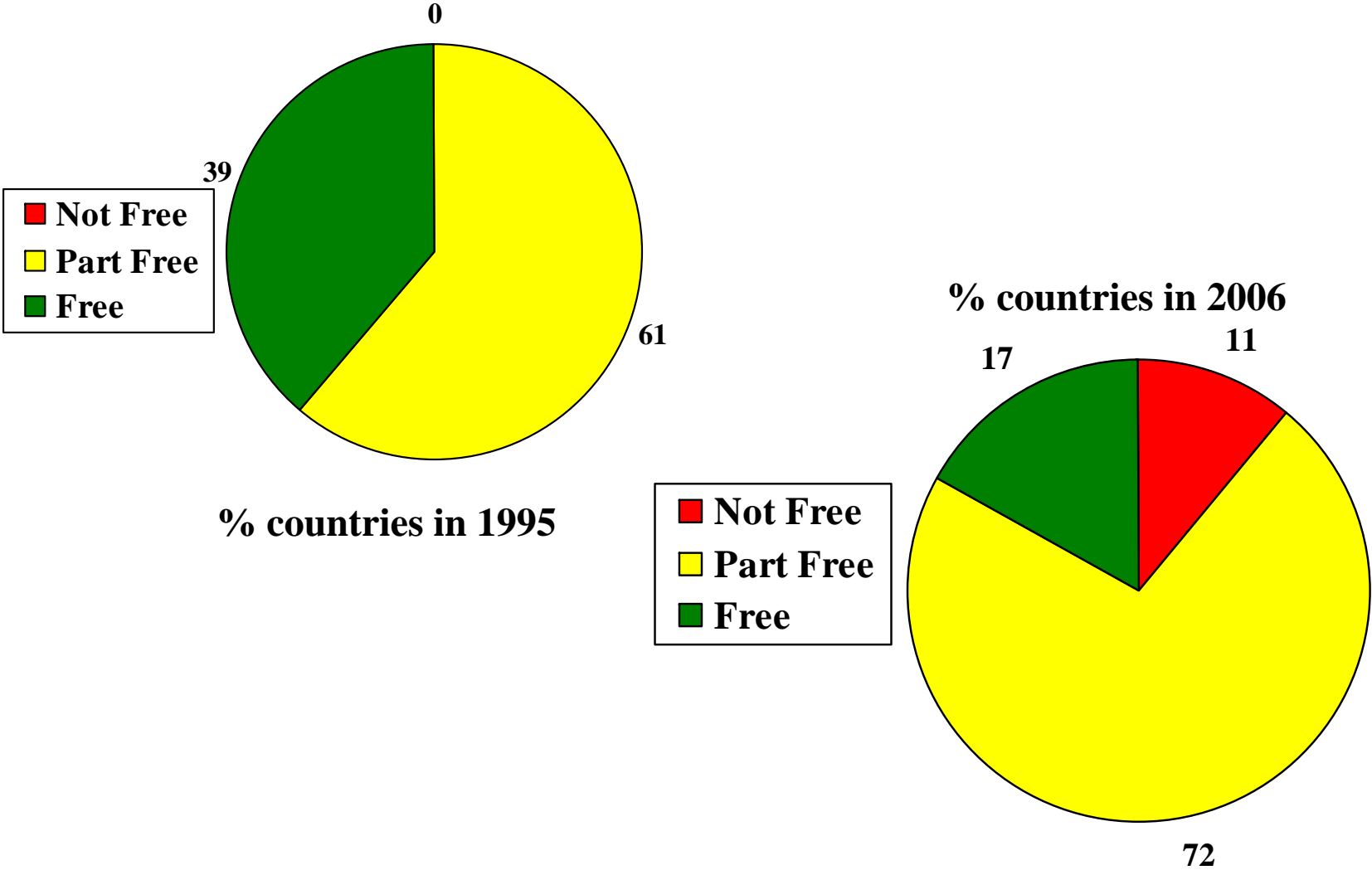
PRS country coverage in 1996: 129, all other periods 140; QLM and EIU country coverage: 115 for all periods. 21

Press Freedom (FRH) Worldwide, 1995 vs. 2006



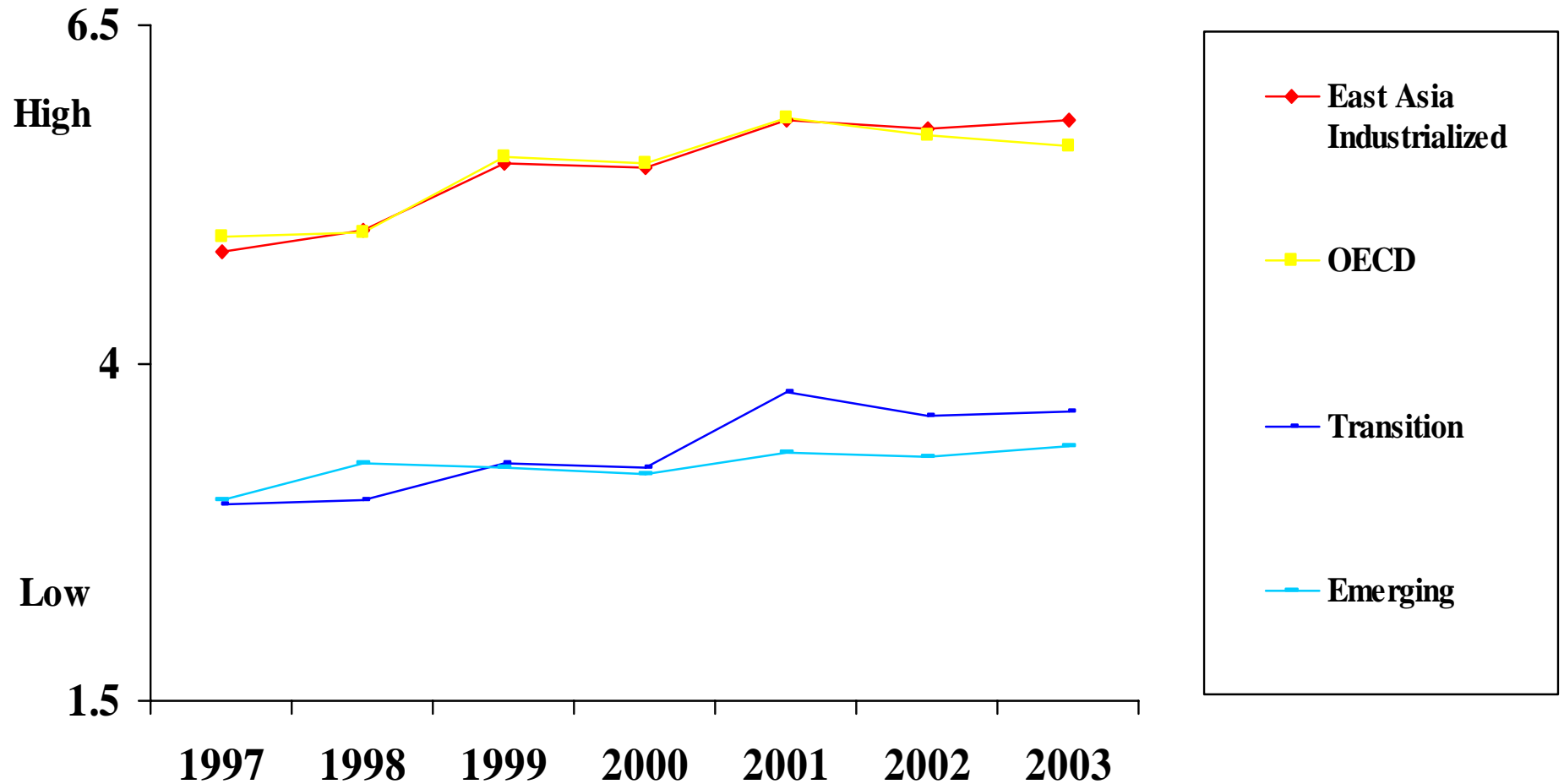
Source: 2006 Freedom House. Y axis measures percentage of countries in the region with free press (rating of 30 or below), partly free (ratings between 30 and 60) and not free (rating above 60). In 1995 there were 183 countries divided into red (58), yellow (63) and green (62). In 2006 there were 196 countries divided into red (69), yellow (54) and green (73).

Press Freedom (FRH) in Latin America, 1995 vs. 2006



Source: 2006 Freedom House. Y axis measures percentage of countries in the region with free press (rating of 30 or below), partly free (ratings between 30 and 60) and not free (rating above 60). In 1995 there were 18 countries divided into red (0), yellow (11) and green (7). In 2006 there were 18 countries divided into red (2), yellow (13) and green (3).

Quality of Infrastructure



Source: EOS 1997-2003 (Quasi-balanced panel). Question 6.01: General infrastructure in your country is among the best in the world?

Rational or Irrational Exuberance? -- Elevator Economics? *Latin America growing quickly recently*

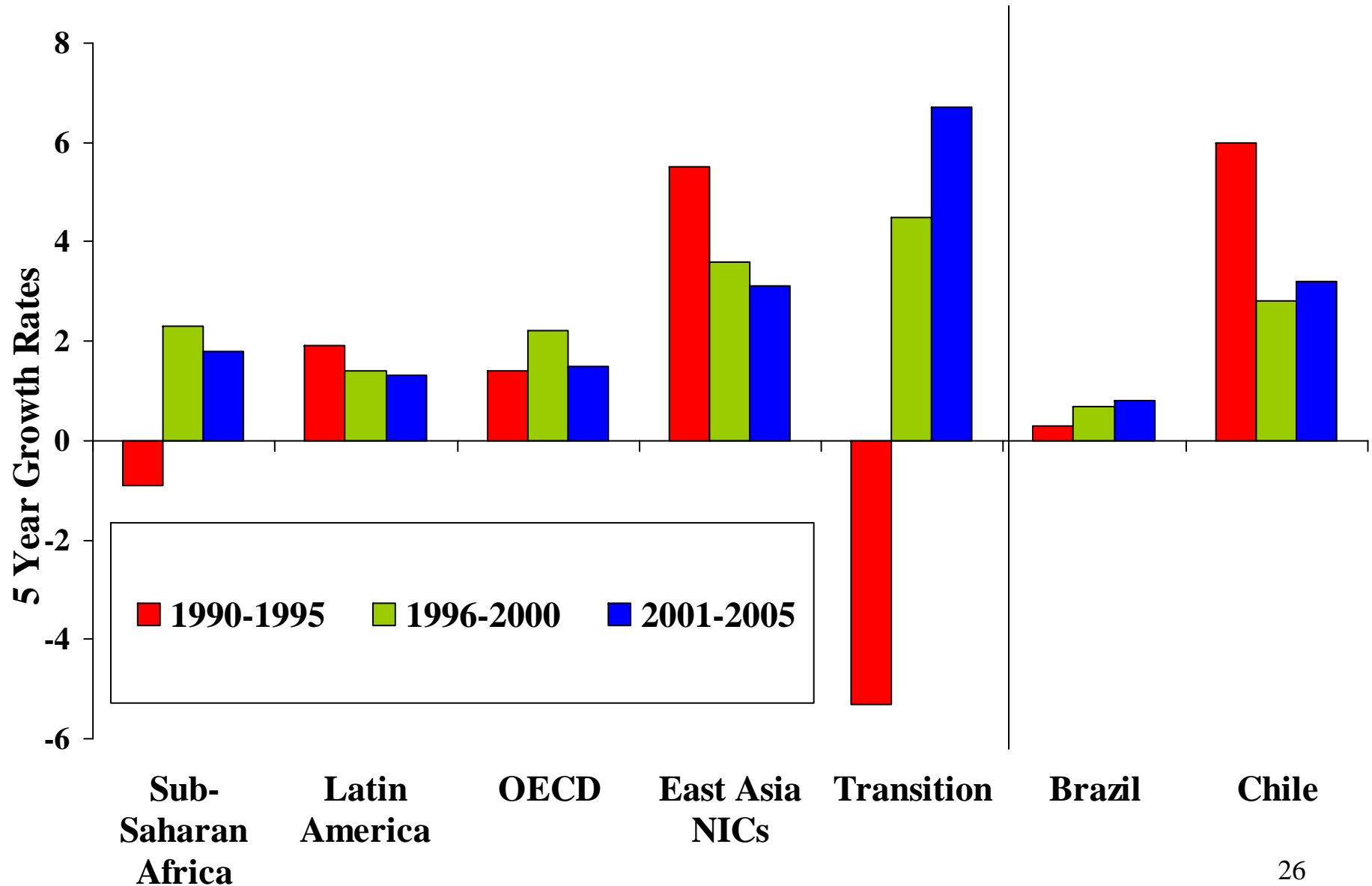
- **Rapid growth in most countries in the region since 2004 – indeed...**

But:

- **Short-Terminism in Analysis; Elevator Economics**
- **External Factors Matter, and these can change**
- **Modest progress in job creation**
- **Inequality appears stagnant, and is very high**
- **Medium Term Analysis suggests how important it is to improve institutions, governance and equality**

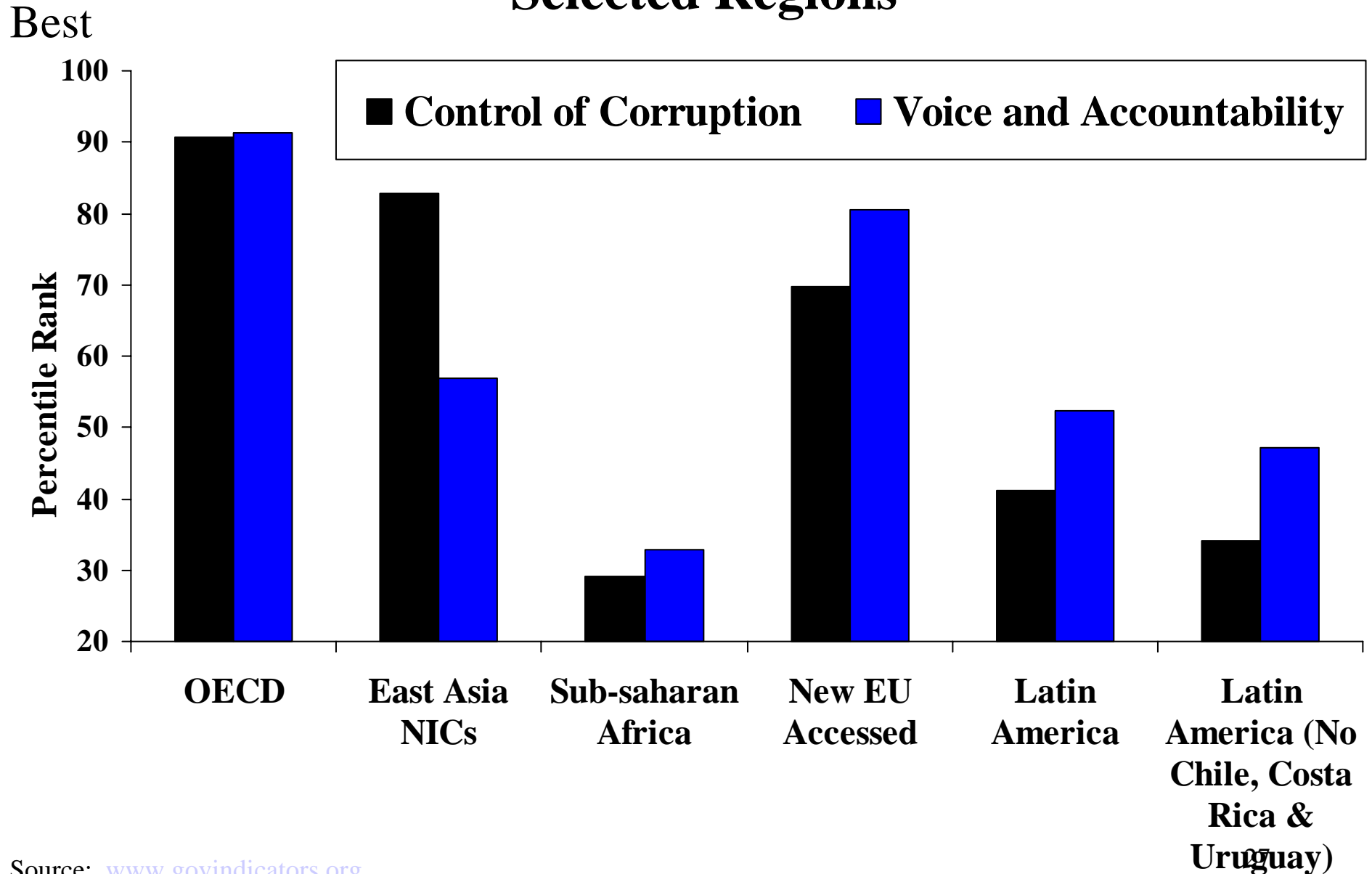
5-Year Growth Rates in GDP per capita, 1990-2005

Best



Source: WDI 2006

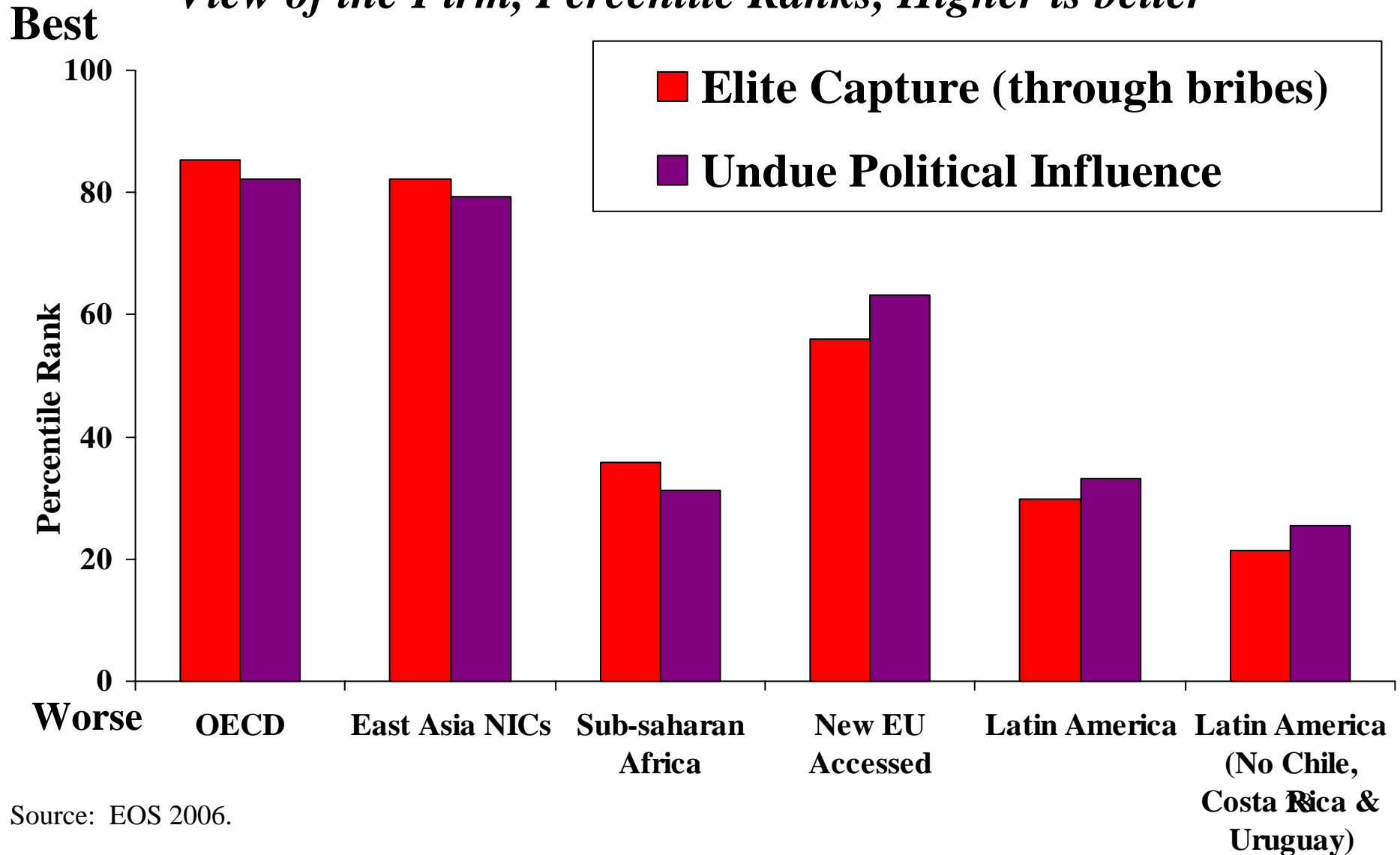
Control of Corruption & Voice and Accountability, Selected Regions



Source: www.govindicators.org

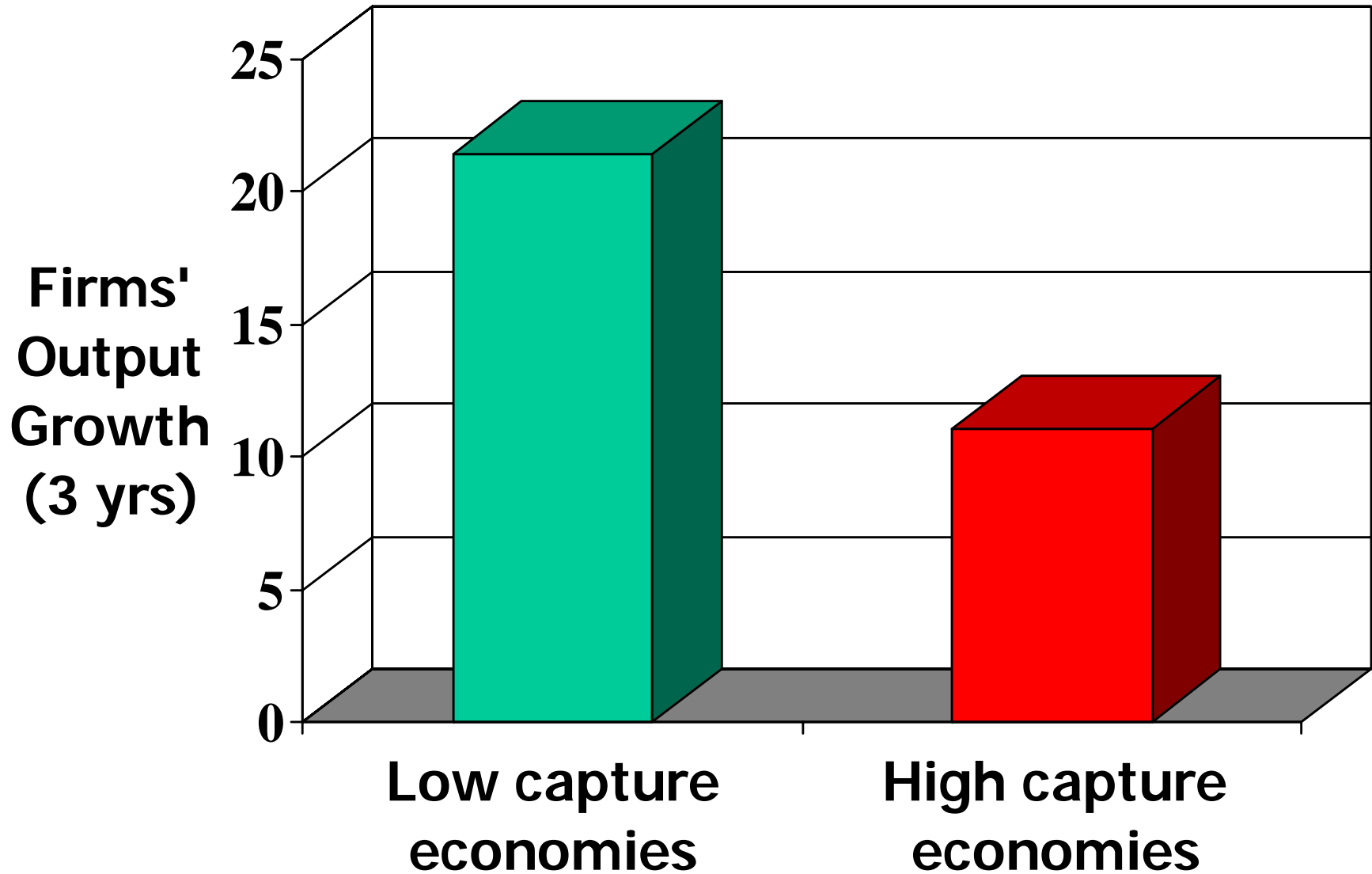
Elite Capture, Political Corruption and Inequality of Influence in Latin America

View of the Firm, Percentile Ranks, Higher is better



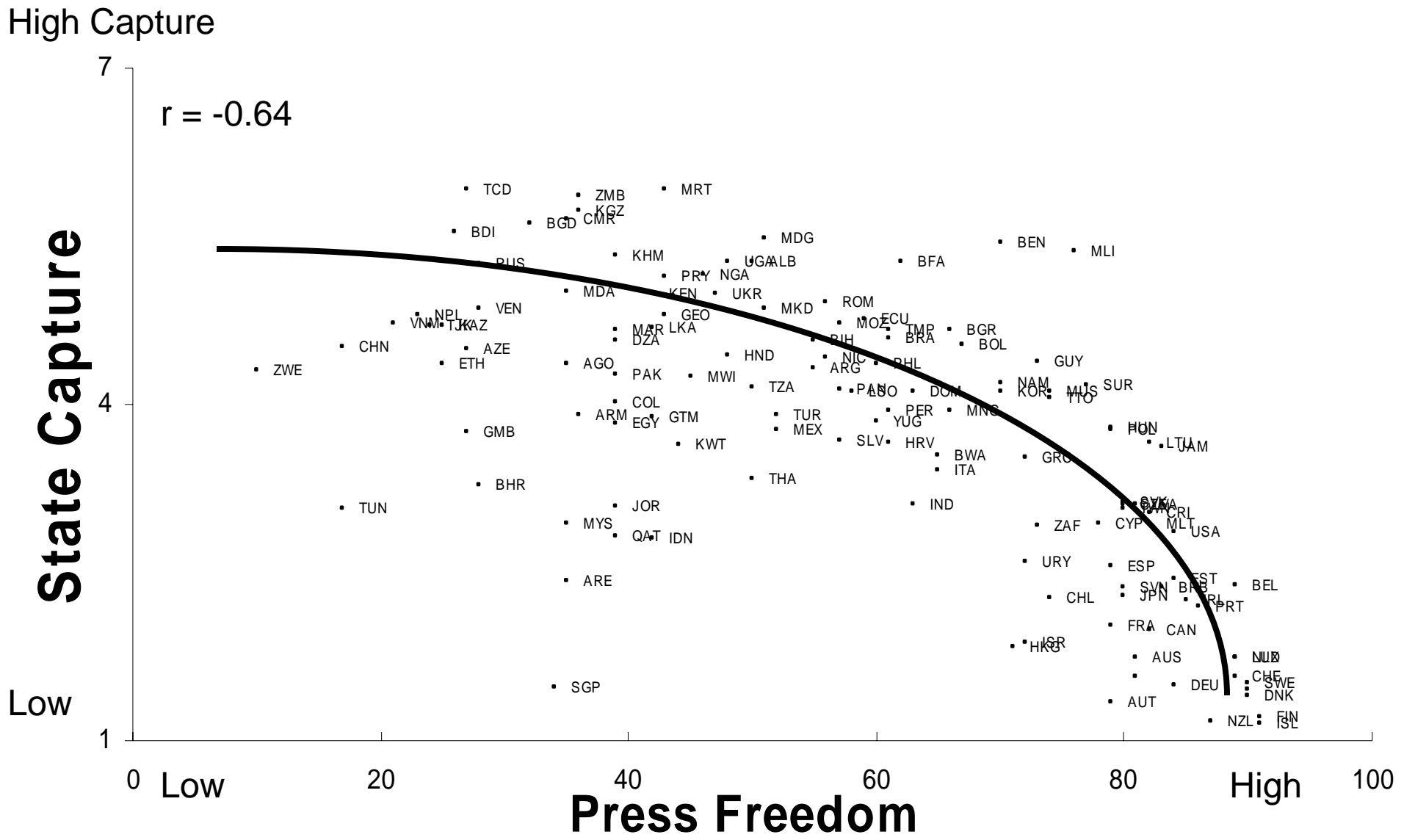
Source: EOS 2006.

Capture by Corporates Impairs Competitive Growth



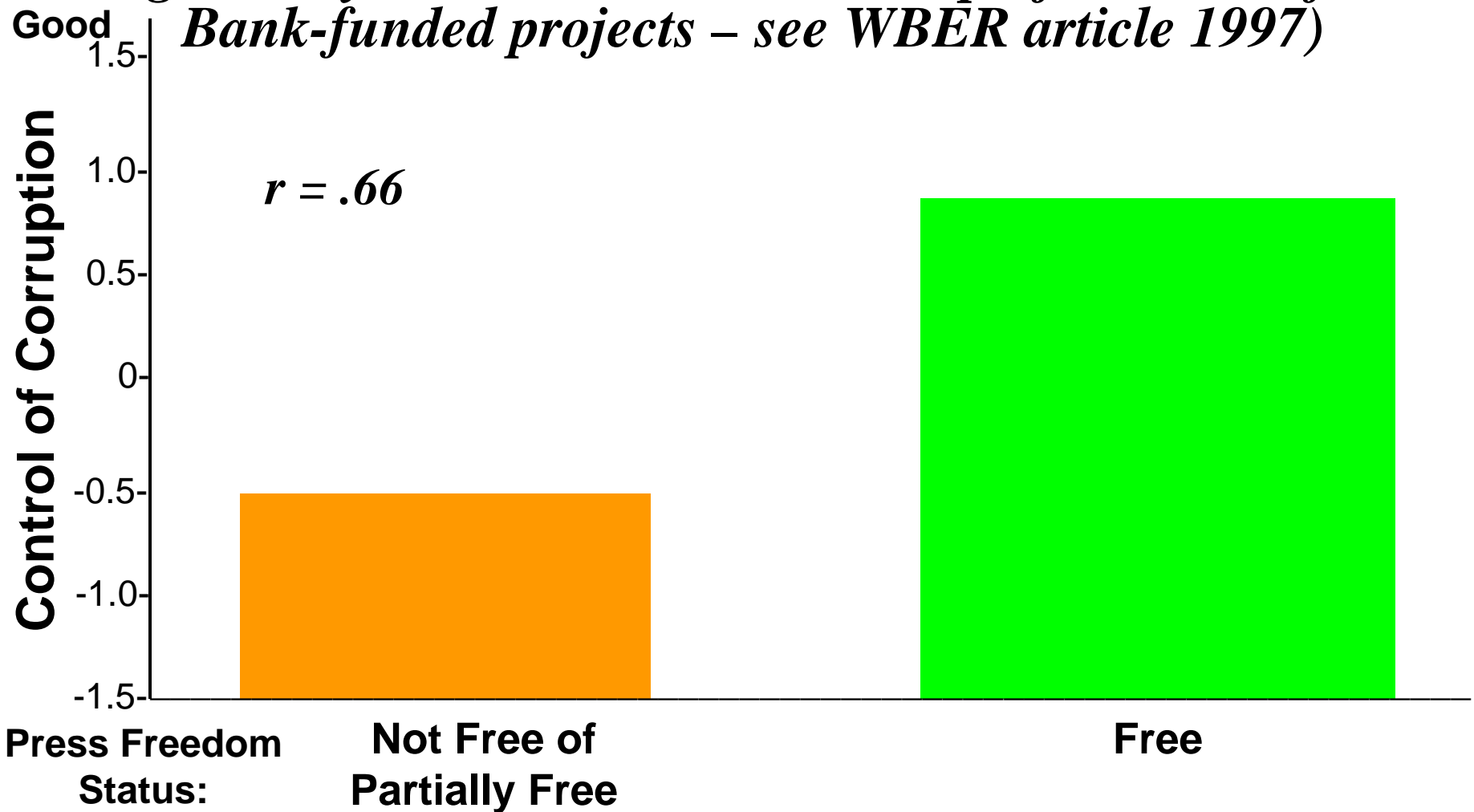
Based on survey of transition economies, 2000

State Capture vs. Freedom of the Press, 2005



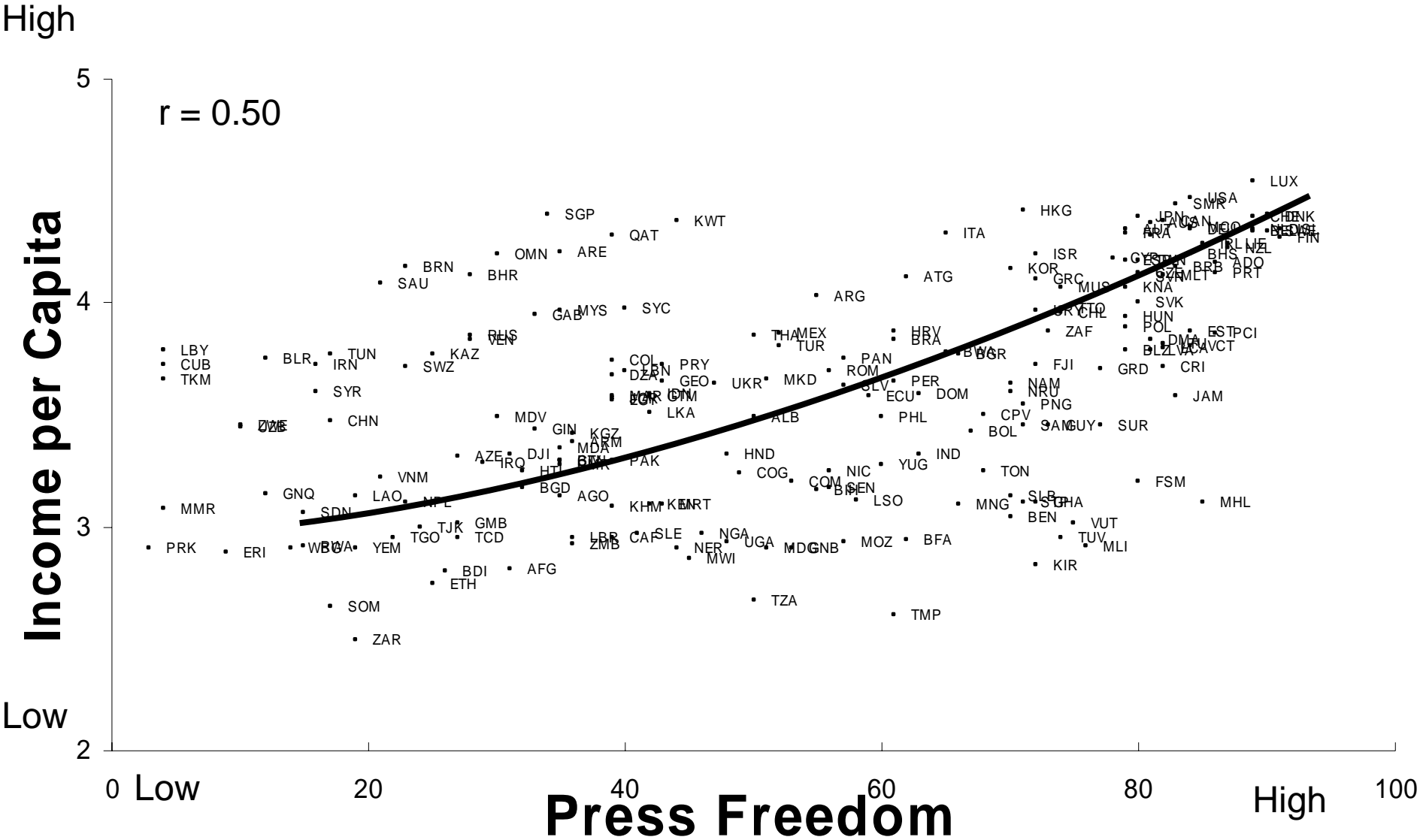
Source for state capture: EOS firm survey, WEF 2006. Source for Press Freedom: Freedom House, 2006.

Freedom of the Press is associated with better Control of Corruption (& civil liberties more generally is associated with better performance of World Bank-funded projects – see WBER article 1997)



Source for control of corruption: : 'Governance Matters V: Governance Indicators for 1996-2005', D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006 (<http://www.govindicators.org>). Source for Press Freedom: 2006 Freedom House's Press Freedom Report. Terciles divided according to Press Freedom ratings (190 countries total). Free: 0-30 (69); Partly Free: 31-60 (54); Not Free: 61-100 (67).

Income per Capita vs. Freedom of the Press, 2005

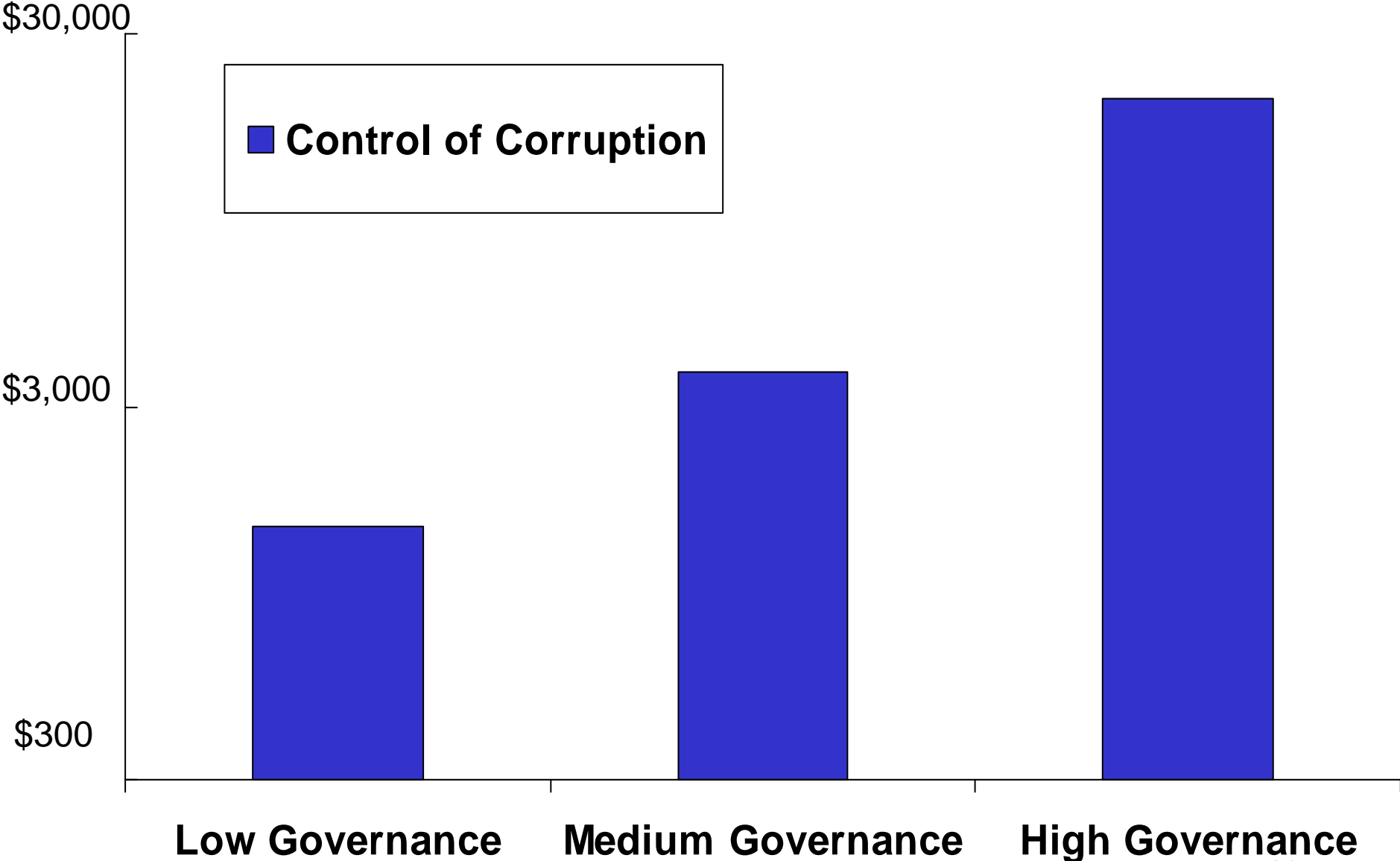


Source for income per capita: Heston-Summers. Source for Press Freedom: Freedom House, 2006.

Governance Matters: The 300% 'Dividend'

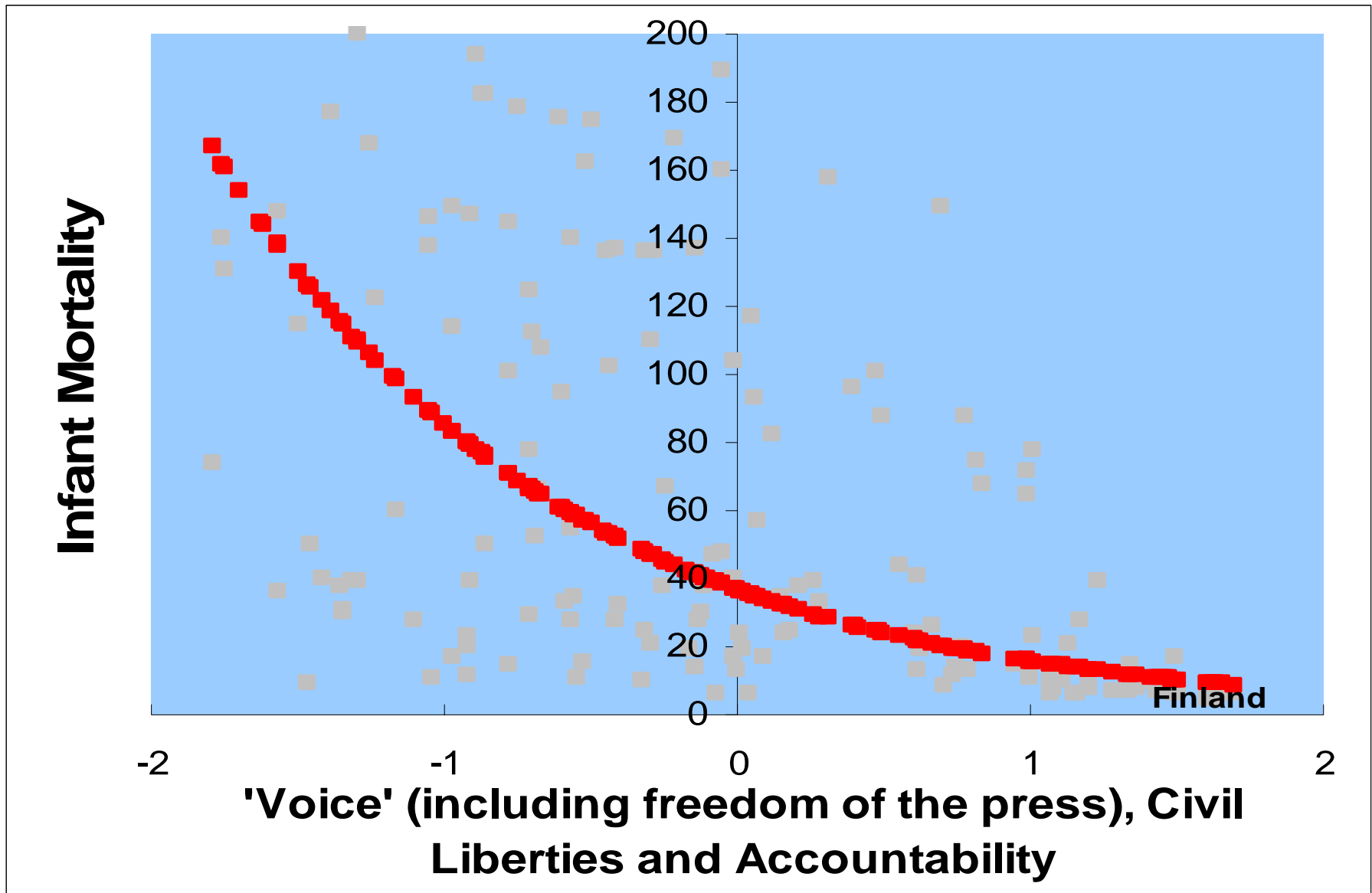
1. **Large Development Dividend of Good Governance: *a one-standard-deviation improvement in governance raise incomes per capita in a country by about 300% in long-run***
2. **But is such a decline in corruption unrealistically large?: NO -- *One S.D. is the difference from: Eq. Guinea → Iran or Uganda → Mauritius → Portugal → Finland or New Zealand***
3. **The impact is from governance to incomes, and not viceversa -- *higher incomes alone will not do***
4. **Urgency of interventions to improve governance**

Development Dividend From Good Governance



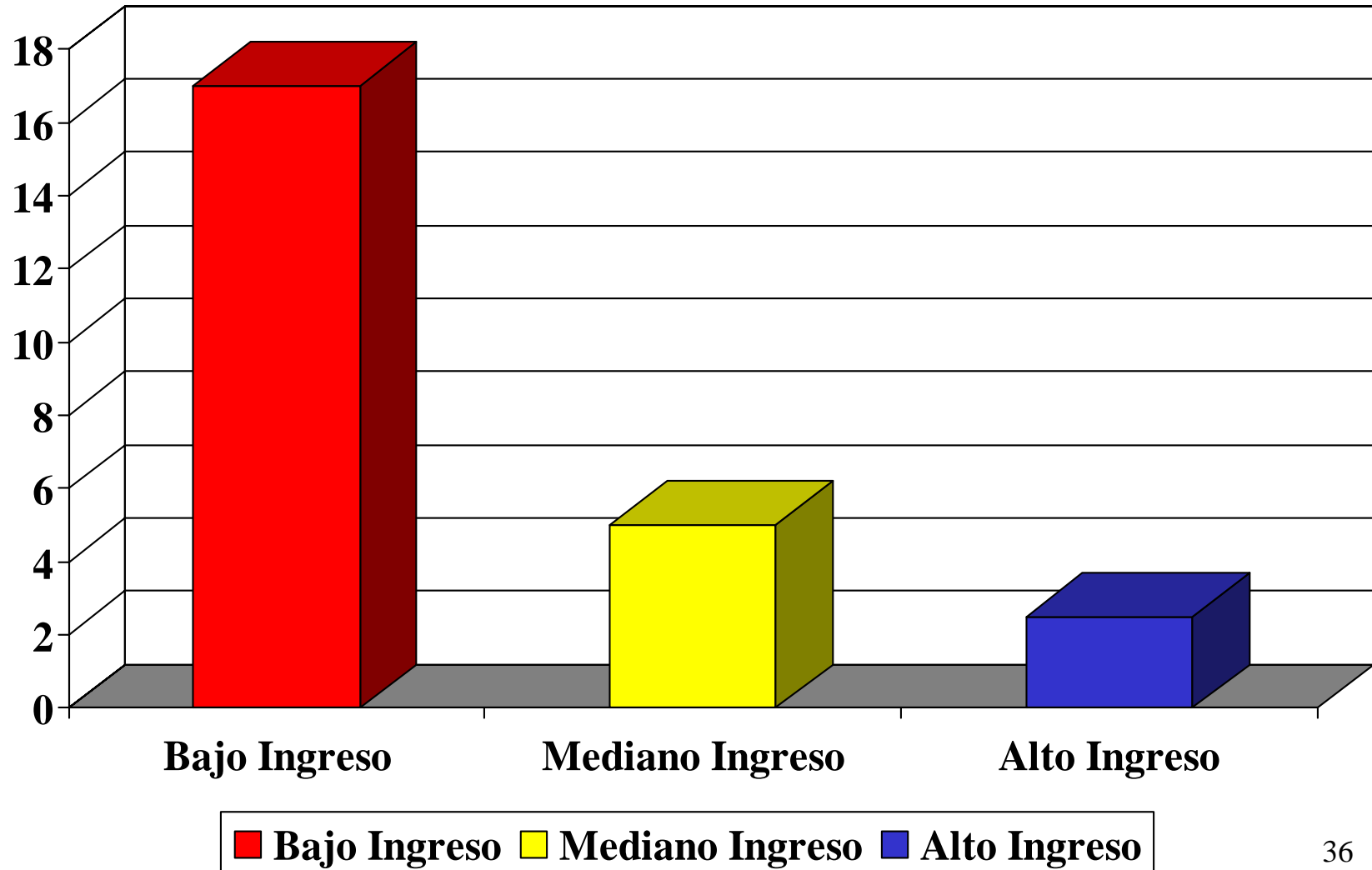
Data Source for calculations: KK 2004. Y-axis measures predicted GDP per capita on the basis of Instrumental Variable (IV) results for each of the 3 categories. Estimations based on various authors' studies, including Kaufmann and Kraay.

Voice & Accountability Matters for Development

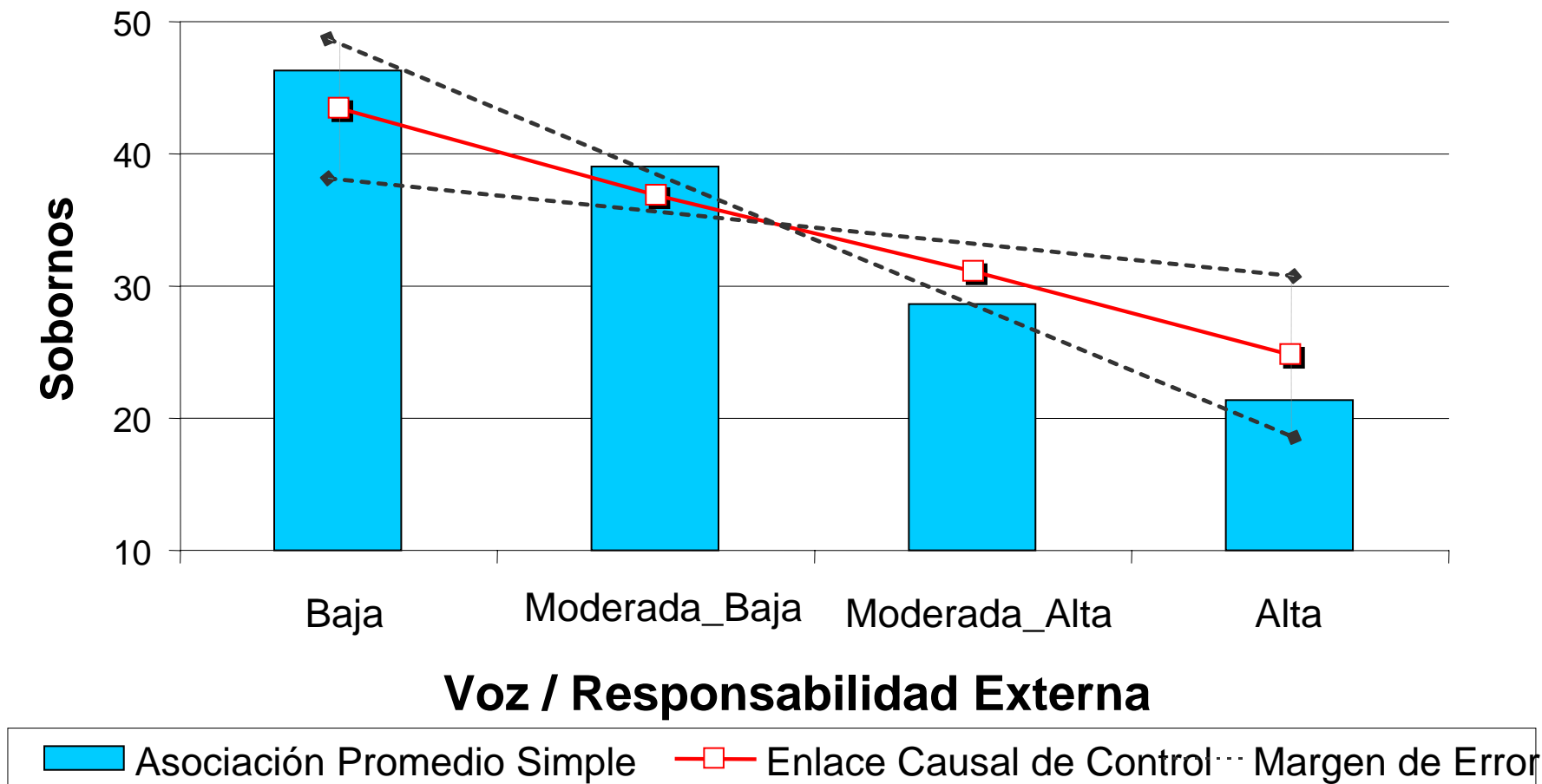


Corrupcion es un 'Impuesto Regresivo'

(según los usuarios de servicio públicos -- Colombia)

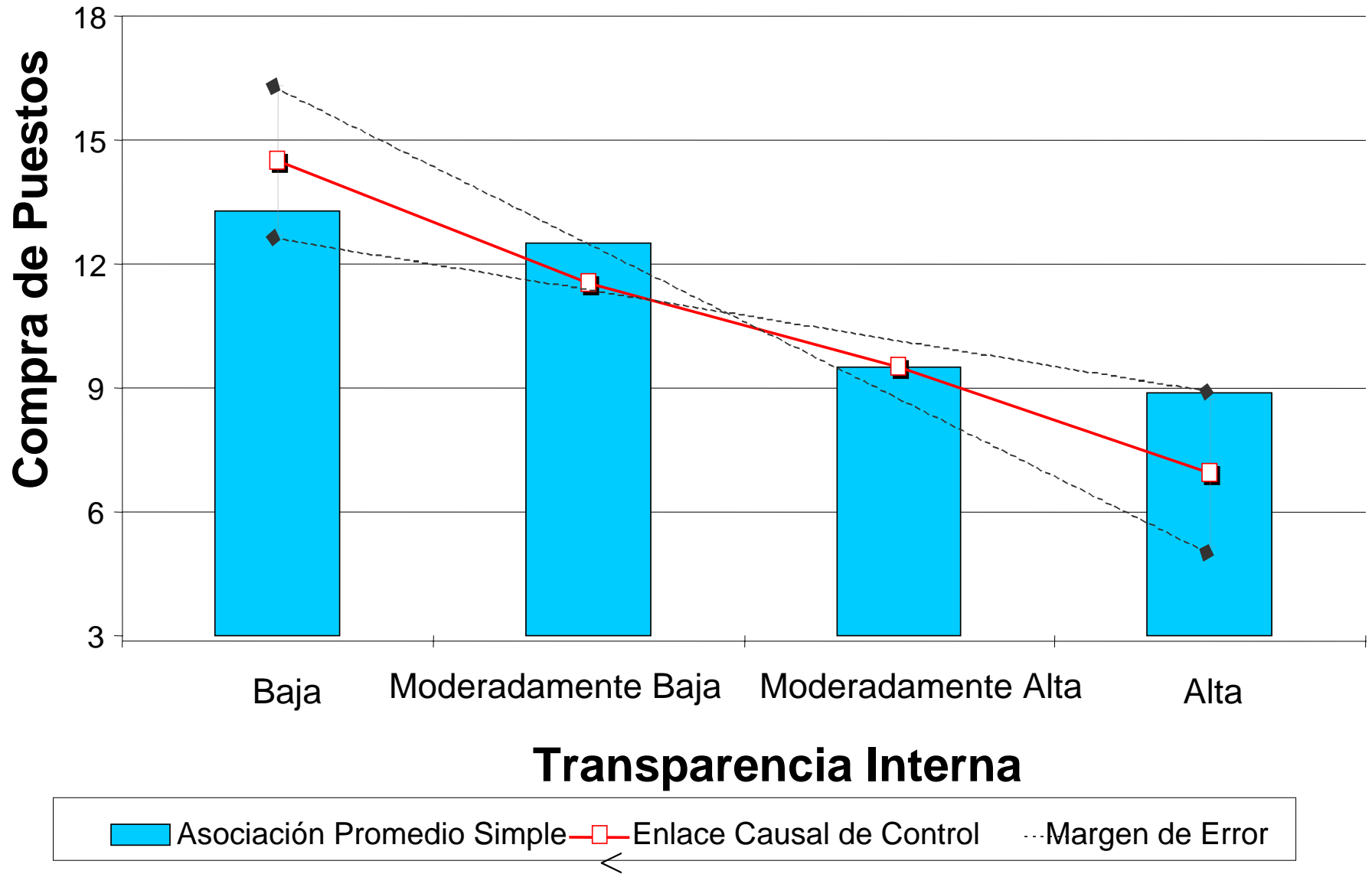


Citizen 'Voice' & Participation helps control Corruption (*Diagnósticos para Bolivia*)



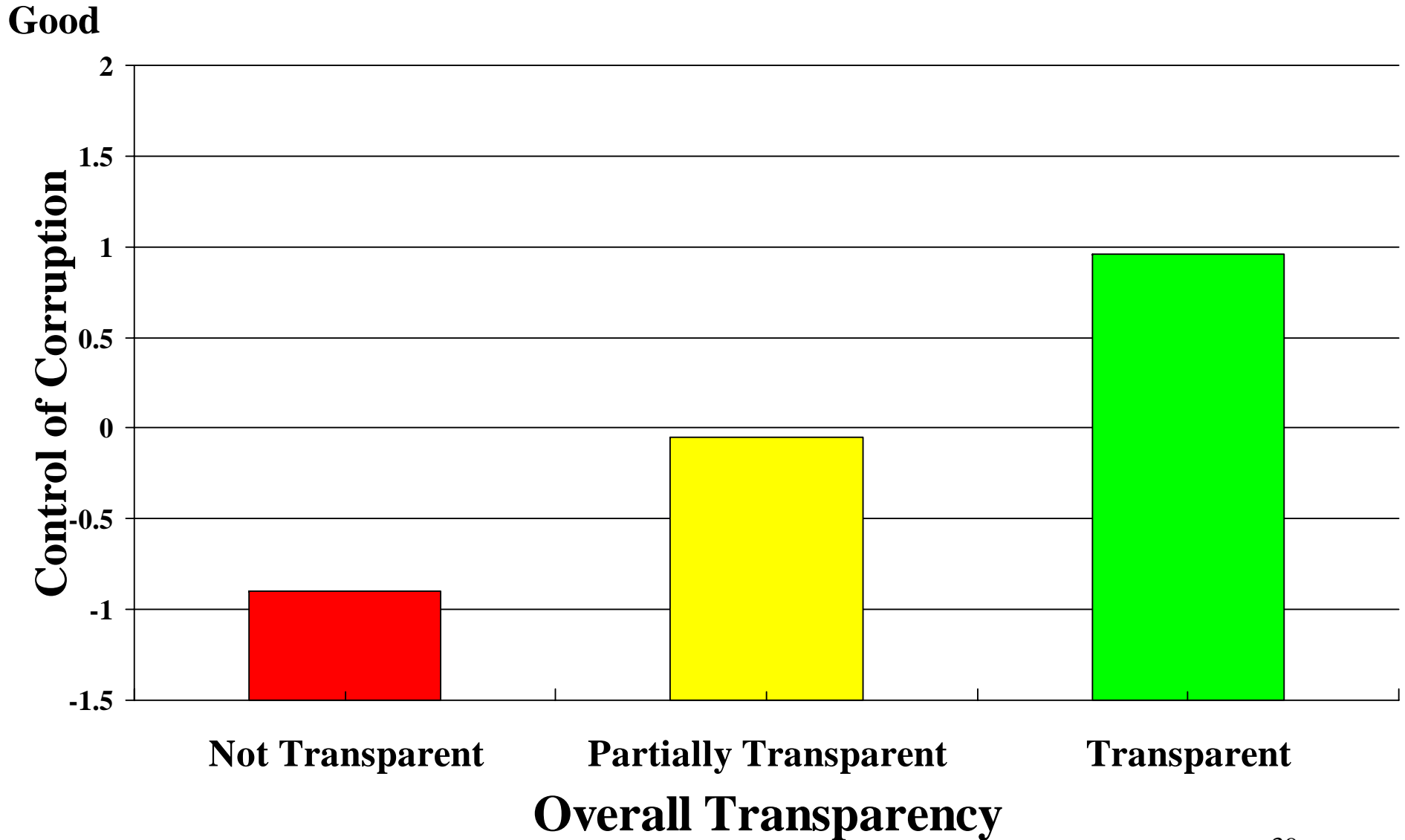
Basado en 90 agencias nacionales, departamentales y municipales cubiertas en la Encuesta de Funcionarios³⁷ Públicos de Bolivia

Transparency in Government Institutions Matter



Basado en 90 agencias nacionales, departamentales y municipales cubiertas en la Encuesta de Funcionarios Públicos

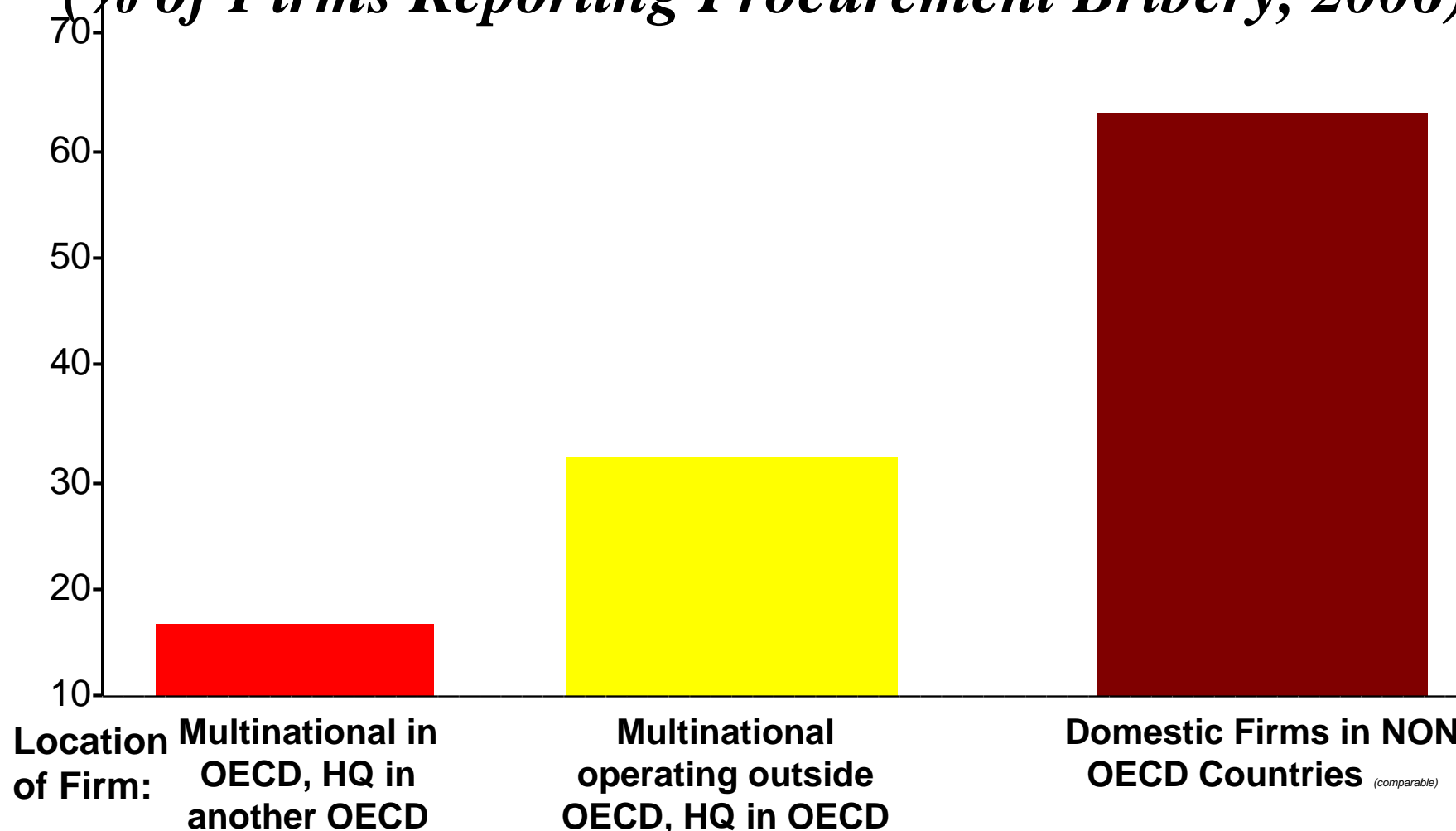
Transparency Matters for Controlling Corruption



Sources: Governance Matters IV by KKM (2005) and Transparenting transparency by BK (2005). N. of countries: 190

Responsibility of the Private Sector & Multinationals on Anti-Corruption

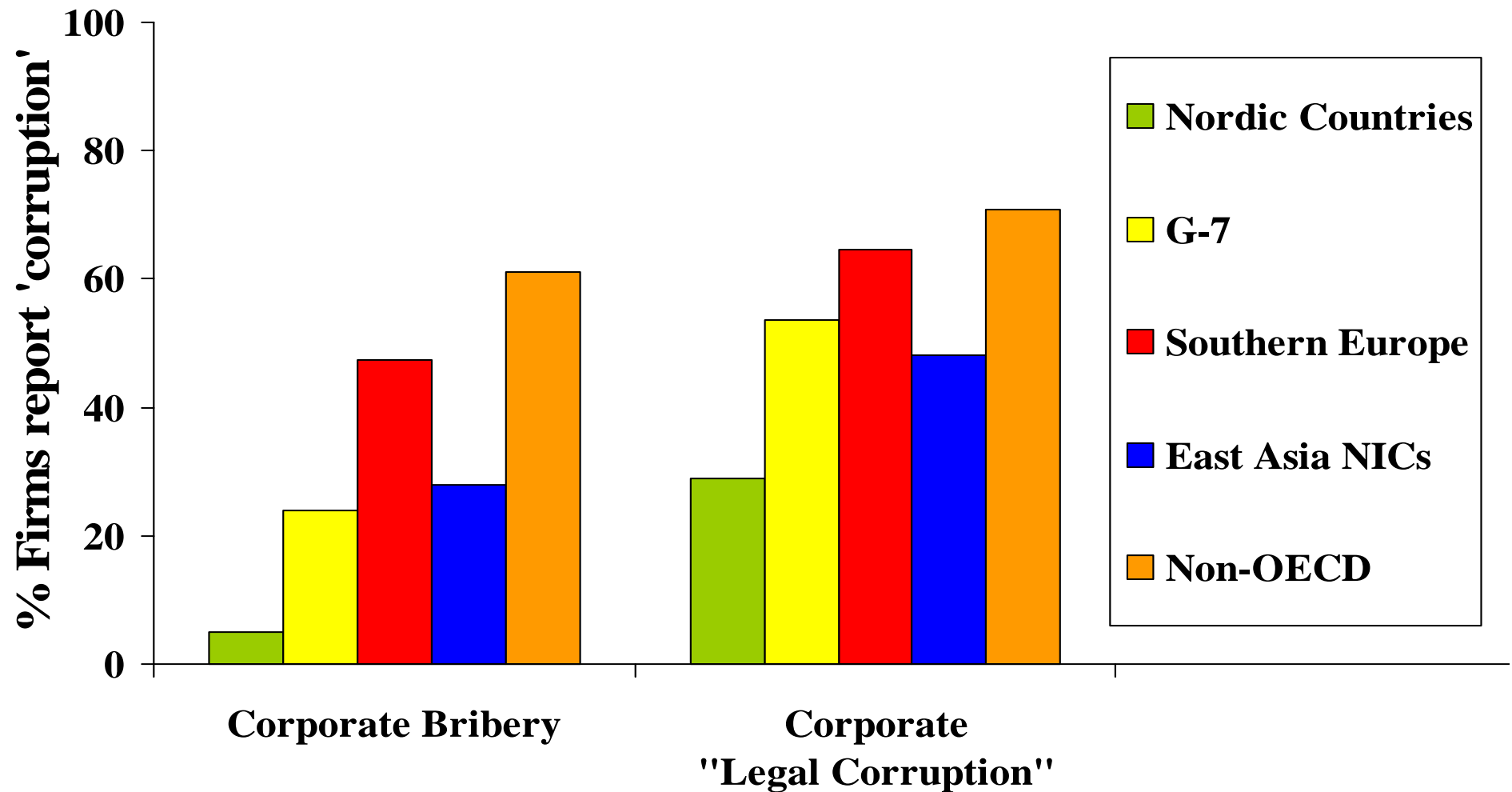
(% of Firms Reporting Procurement Bribery, 2006)



Source: EOS2006. Questions: When firms like yours do business with the government, how much of the contract value must they offer in additional payments to secure the contract? Y-axis shows percentage of firms who admitted paying bribes. Last bar excludes small with less than 50 employees.

Corporate Corruption, unbundled, 2004

% Firms report corruption type (1-4)



Source: Author's calculations based on EOS 2004.

Some Links between Governance, Democracy & Development – for debate

- 1. Civil Liberties & Political Competition (*‘voice’*)
←————→ better corruption control**
- 2. Corruption control —————→ improved socio-economic development and growth, etc.**
- 3. From corruption control —————→ to more legitimacy and credibility in democratic process**
- 4. From economic growth —————→ to further democratic consolidation**
- 5. From robust economic growth, with less inequality and corruption, to —————→ increased satisfaction with the role of market forces and private sector**

Some Implications for debate

- 1. Economic Growth strengthens satisfaction with democracy, while economic recessions weaken satisfaction.**
- 2. Yet as democracies mature, there is a weaker link between economic cycles & satisfaction w/ democracy**
- 3. Corruption and inequality impact negatively on the citizen's satisfaction with democracy**
- 4. However: neither economic recession, nor corruption and inequality, results in citizens preference for non-democratic governments**
- 5. Yet corruption and inequality do lead to questioning of the model of the market and privatizations, and can result in supporting populist tendencies**

Implications in the political sphere: Contrary to sensationalistic interpretation, no dramatic change

- **Three typologies are relevant, not 2, in terms of political ideologies in the LatAm region, given very different types of left-of-center regimes (*Rosendo Fraga*):**
 - 1. Populist Left*** (*Ecuador, Nicaragua, Bolivia + Venezuela, Cuba*)
 - 2. Social Democratic Left of center*** (*Brazil, Chile + Uruguay & Argentina*)
 - 3. Right of Center*** (*Mexico, Colombia, Peru + handful or so*)
- **Generally: ‘Officialdom’ won out, continuity—
No political tsunami: 3 presidents reelected, 3 reinstated; 2 parties in power stay = 8 out of 11 elections, far from a revolution... (*Daniel Zovatto*)**
- **The electorate is generally of moderate tendencies**

In Sum – some issues to ponder

- 1. Poverty Alleviation is feasible – witness the fact that hundreds of millions have been lifted out of poverty over the past couple of decades. In Latin America, the case of Chile illustrates.**
- 2. Yet many millions continue to live in abject poverty, with few jobs and incomes, including in Latin America.**
- 3. Growth is crucial for poverty alleviation. Yet the impact of robust growth on poverty alleviation is reduced when income inequality is vast, and increasing.**
- 4. Thus, tackling income inequality is important.**
- 5. Improving governance and addressing corruption matters for growth and lessening inequality.**

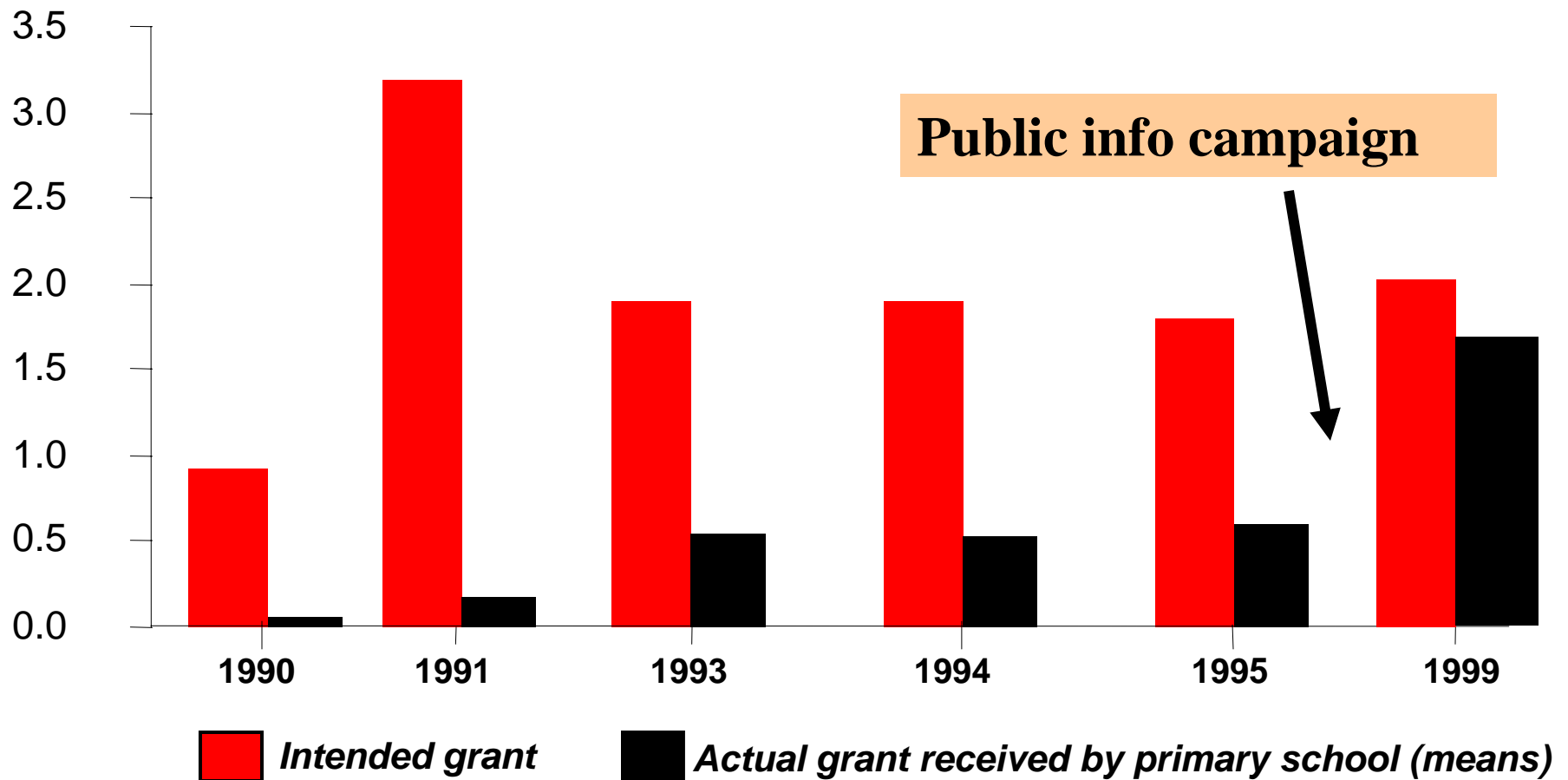
Basic Scorecard: 10 Transparency Reform Components

1. **Public Disclosure of Assets & Incomes of Candidates, Public Officials, Politicians, Legislators - & *dependents***
2. **Public Disclosure of Political Campaign contributions by individuals and firms, and of campaign expenditures**
3. **Public Disclosure of Parliamentary Votes, *w/out exceptions***
4. **Effective Implementation of Conflict of Interest Laws, separating business, politics, legislation, & government**
5. **Publicly blacklisting firms bribing in public procurement**
6. **Effective Implementation of Freedom of Information Law, with easy access to all to government information**
7. **Fiscal/Financial transparency: *central/local budgets; ROSC, EITI***
8. **E*procurement: transparency (web) and competition**
9. **Media Freedoms & Media Development**
10. **Country Diagnostic (& Scorecard) on Transparency & Governance**

Power of Data, Transparency and Citizen Oversight

Tracking Education spending in Uganda

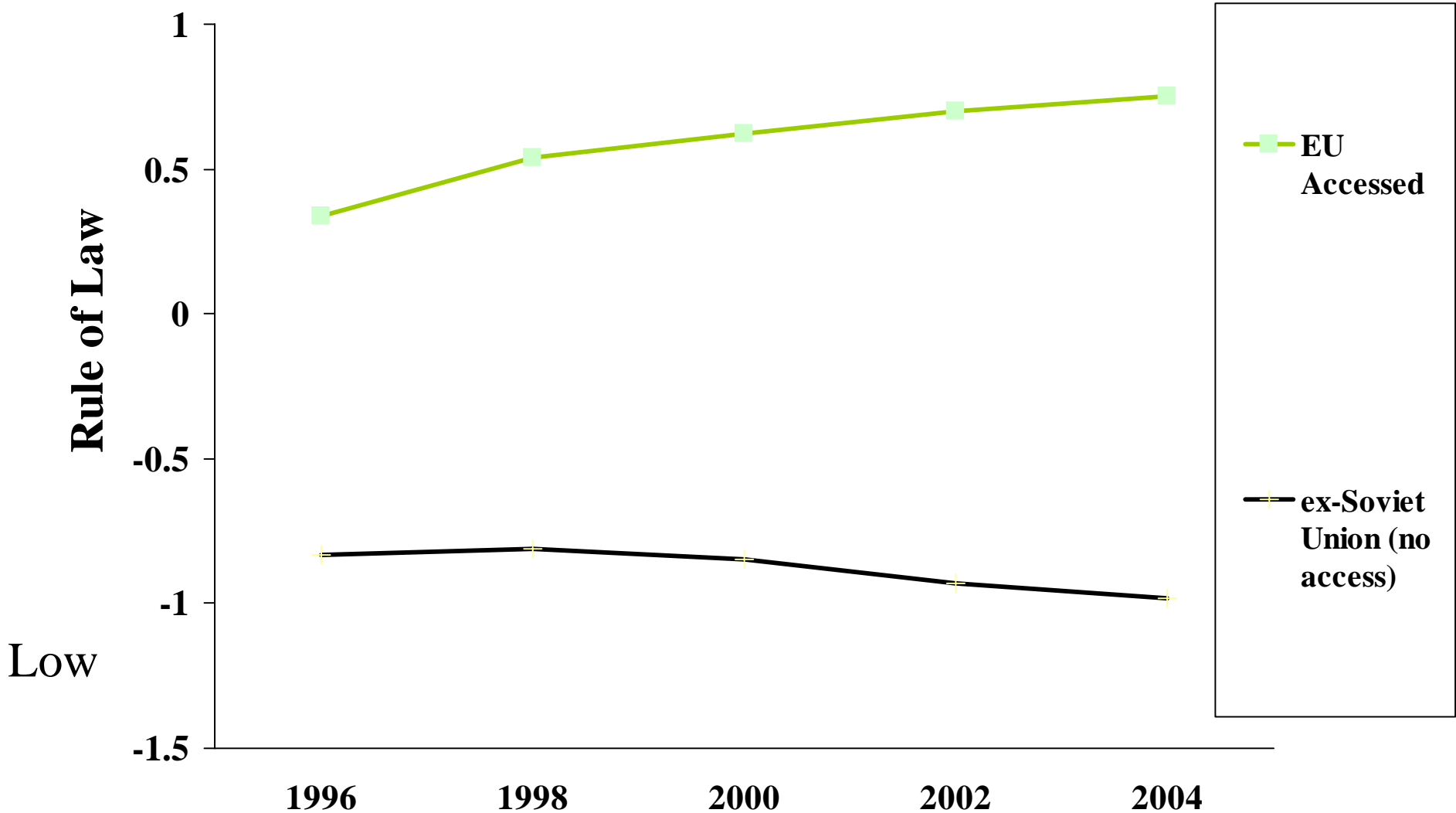
equiv. US\$ per student



Source: Uganda Public Expenditure Tracking Surveys

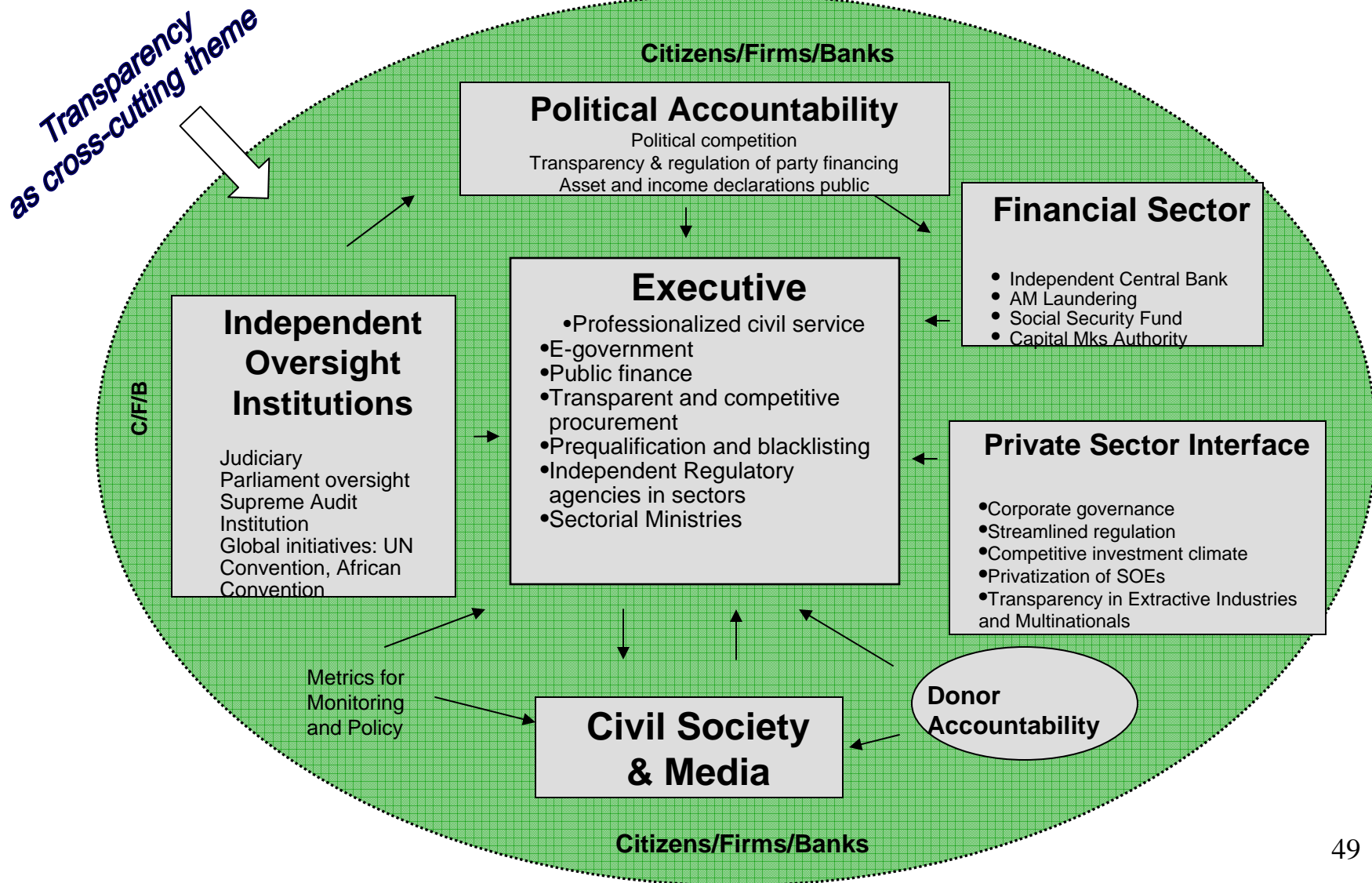
Governance Has Improved in Some Groups: e.g. ‘Pull Effect’ of EU Accession

High



Source for data: <http://www.worldbank.org/wbi/governance/govdata/>. EU EE Accessed Countries: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, and Slovenia.

A Governance Framework to Fight Corruption



A few final expressions...

The example for good governance and integrity ought to start at home – ‘*practicing what we preach*’

<http://siteresources.worldbank.org/INTGOVANTICORR/Resources/messagetopresidentandboard.pdf>

‘If it cannot be measured, it cannot be controlled’

Lord Kelvin

Not everything that counts, can be counted, and not everything that can be counted, counts

Einstein

Data for Analysis and informing Policy Advise, not for Precise Rankings

Data in this presentation comes 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. Data and views do not reflect official views on rankings by the World Bank or its Board of Directors. Errors are responsibility of the author), who benefited in this work from collaboration with many Bank staff and outside experts.

www.worldbank.org/wbi/governance

Data at: www.govindicators.org