

**ASSESSING GOVERNANCE:**  
***DIAGNOSTIC TOOLS AND APPLIED METHODS  
FOR CAPACITY BUILDING AND ACTION LEARNING***

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<http://www.worldbank.org/wbi/governance>

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***Abstract***<sup>2</sup>

Governance is a key determinant for growth, development and poverty alleviation. These recent results are possible thanks to the emergence of the field of governance empirics, where various measures of governance have been put forth. Measuring governance is a major challenge because of its multi-dimensional character, as well as its conceptual and definitional issues. A variety of instruments to assess governance have emerged in recent years, resulting in new sets of measures and databases on governance. The relevant approach to be used varies depending on the key objective at hand, which may range from awareness-raising, defining priorities for action, or empirical research. In some cases, these empirical tools and the various objectives, rather than being mutually exclusive, are linked in complex ways, resulting in complementarities and synergies. This paper introduces an overall general framework for approaching the challenge of governance assessment and provides a systematic overview of the different methodologies and analytical resources available, from opinion polls to public sector in-depth diagnostic surveys. It also offers empirical illustrations on how the data can be used to identify institutional weaknesses and areas for reform. Seven interlinked dimensions are central in approaching a governance assessment: (1) conceptual; (2) empirical; (3) collective action; (4) capacity building and learning; (5) policy inputs and action programming; (6) research; and (7) e\*governance.data. Operational research is the link between the methodological challenges, empirical findings and policy implications, and as such plays an important complementary role 'gluing' all other components. Further, the empirical experience gathered suggests that governance assessments benefit from a focus on institutions, systems, prevention and incentives; and also that they ought to emphasize experiential data rather than very subjective opinions or perceptions. A fully participatory approach is conducive to local ownership of the governance assessment and data, and of the integration of the results into the policymaking process and long-term monitoring capacity. Finally, the use of web/internet based technologies, for e\*governance interactivity with the user and dissemination and learning, is also an important integrative dimension.

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<sup>2</sup> For background information on governance assessment, as well as e\*governance interactivity, visit the following links:

Governance Databank: <http://www.worldbank.org/wbi/governance/datasets.htm>

Governance Indicators: <http://www.worldbank.org/wbi/governance/govdata2001.htm>

WBES Interactive: <http://info.worldbank.org/governance/wbes>

Diagnostic surveys: [http://www.worldbank.org/wbi/governance/diag\\_surveys.htm](http://www.worldbank.org/wbi/governance/diag_surveys.htm)

Governance Assessment Learning: <http://www.worldbank.org/wbi/governance/assessing>

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## LIST OF KEY WEBLINKS

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**Governance Indicators:** <http://www.worldbank.org/wbi/governance/govdata2001.htm>  
**WBES Interactive:** <http://info.worldbank.org/governance/wbes>  
**Diagnostic Surveys:** [http://www.worldbank.org/wbi/governance/diag\\_surveys.htm](http://www.worldbank.org/wbi/governance/diag_surveys.htm)  
**Governance Assessment Learning:** <http://www.worldbank.org/wbi/governance/assessing>

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## EXECUTIVE SUMMARY

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### *INTRODUCTION. CHALLENGING ORTHODOXY: THE IMPERATIVE OF GOVERNANCE ASSESSMENT AND MEASUREMENT*

Why write about measuring and empirically assessing governance when widely held skeptical views abound about its usefulness? In particular, four types of tenets are held. First, that by its inherent multi-disciplinary and 'subjective' nature --coupled by the intrinsic incentive to hide, obscure and misrepresent misgoverned and corrupt events by those benefiting from it--, it is impossible to measure governance and corruption. Second, that even where aspects of governance have been measured, the tendency to provide a single aggregate rating per country to rank countries has no value for policy advise and action programming at the country-level. Third, that measures of governance are subject to such large measurement errors because they are based on unreliable generic 'perceptions' and opinions, and thus rendering them practically useless. And fourth, that at any rate measures of governance for a country (even if it could be done with some accuracy) would merely confirm what is widely known by country observers, thus limiting the value added of carrying out dedicated governance empirical assessments.

This paper challenges these orthodoxies, which, in different permutations, have been widely used as a rationale against measurement and empirical assessment of governance, or (at times) as justifications for rejecting existing measures of governance. Indeed, until a few years ago, there was little attempt to provide for systematic measures of governance for many countries, and the vast majority of policy advise, action program formulation, and research writings in these subject areas were done without any rigorous empirical measurement. By departing from the non-empirical approach to governance work, we posit instead that empirical measurement is, first, essential for progress in improving governance and controlling corruption, and, second, that it is feasible. At the same time, we note at the outset that while feasible, governance measurement and assessment is a very complex task, requiring the appropriate conceptual, empirical and practical tools, their proper application and reasoned interpretation of results. It also necessitates the tailoring of the appropriate approach and set of diagnostic tools to the desired objectives and realities of the country(ies) under study.

Consequently, in presenting the approaches to governance measurement and assessment it is paramount to spell out explicitly the challenges, pitfalls, options and suggested roadmaps, recognizing that it is an evolving field where we are far from having a definitive blueprint; instead we are within a steep learning curve process. This paper is a contribution towards the objective of furthering the field of empirical assessment and measurement of governance, bringing out such challenges and options, and focusing on the analytical and practical implementation issues in assessing governance. We expect that given the continuous learning process in this relatively undeveloped field, our contribution here is to undergo revisions and updates over time, as we benefit from further lessons from experience and the feedback from readers and practitioners.

## *THE COMPLEX CHALLENGE OF ASSESSING GOVERNANCE*

Governance has been increasingly recognized as one of the key determinants of growth. Measuring governance, however, remains a challenge because of its multi-dimensional character, as well as its conceptual and definitional challenges. The relevant approach to measuring governance will also vary depending on the key objective at hand, which may range from awareness-raising, international comparisons or construction of worldwide indicators, defining priorities for action, or empirical research. In some cases, these objectives rather than being mutually exclusive may be linked in complex ways, however, resulting in complementarities and synergies.

Consequently, a variety of different instruments and empirical tools have been developed in response to these challenges, from opinion pools to public sector expenditure tracking, and in-depth governance and anti-corruption diagnostics. Practitioners now can have access of a wide variety of new tools to assess governance; the new challenges now are: i) to select the appropriate tool (or complementary mix) to match the key objective(s); and, ii) implementing the selected tool(s) with rigor and through process ensuring that the objective (such as action planning/policy input) is attained.

### *TOWARDS A GOVERNANCE ASSESSMENT FRAMEWORK AND METHODS*

The purpose of this paper is twofold. First, we introduce an overall framework to governance assessment and use it to review various instruments currently available to researchers and practitioners for the study of governance. In the process, we address some general methodological issues that can influence the type and quality of governance measures and assessment. This analysis allows us to promote further advances in this field by:

- (i) highlighting strengths and limits of diagnostic instruments, monitoring systems and statistical analysis approaches;
- (ii) addressing salient methodological issues that arise while measuring governance,
- (iii) highlighting key determinants and components of good governance and how these components can be measured;
- (iv) presenting approaches to explore more rigorously the link between key governance dimensions, on one side, and poverty alleviation and public service delivery, on the other side; and,
- (v) emphasizing the potential role of governance assessment for action planning and capacity building.

Second, we complement the systematic discussion of empirical tools and methodology with a series of illustrations on how the diagnostic data gathered by the World Bank in a number of countries can be used to analyze governance and identify institutional weakness. The key ingredients of these governance diagnostics are detailed, country-specific surveys of thousands of households, enterprises, and public officials that gather specific information about vulnerabilities within country's institutions. The "self-assessment" responses of these three groups of stakeholders are compared for consistency and pooled to facilitate in-depth analysis and identification of priorities for action. Moreover, these diagnostic tools are designed to provide

inputs to policymakers and civil society for strategy and policy formulation, complementing such traditional sources as experts' opinions or case study analysis, in a variety of ways:

- (i) measuring the economic and social costs of mismanagement and bad governance;
- (ii) unbundling corruption into different forms;
- (iii) identifying specific institutional weaknesses and priority areas for reform;
- (iv) providing information on the underlying institutional structure and explaining why some institutions are more vulnerable than others to corrupt activities, and
- (v) creating a benchmark for future monitoring activities.

Unlike traditional opinion polls, governance assessments involve not only the traditional issues of questionnaire design, sampling and data collection, they also require a great deal of attention to the determinants of governance itself and how these determinants can be measured. Thus, the design of a governance assessment should include:

- (i) the careful definition of the concepts to be measured;
- (ii) the identification of their attributes on the earliest stages of survey and sample design;
- (iii) the design of indicators closely related to the unobservable attributes, and
- (iv) the early recognition of the fact that the final indicators will have to be aggregated into hypothetical determinants of governance for the purposes of analysis.

Consequently, a key message in this work is that the chosen empirical instrument (or set of instruments) to be utilized to assess governance is a function of the main objective of the analysis. This means that there is no one particular dominant tool or approach to be preferred a priori to all others.

#### *BASIC STRUCTURE AND FRAMEWORK: THE SEVEN INTERLINKED DIMENSIONS*

To assist practitioners in the selection of the most appropriate tool to assess governance, we introduce a working framework. This framework allows to identify the four key interlinked dimensions that need to be considered in the design of the framework for governance assessment:

1. the **Conceptual** dimension;
2. the **Empirical** dimension;
3. the **Participatory Implementation Process: Coalition-Building and Collective Action** dimension;
4. the **Capacity-Building, Monitoring, and Learning** dimension;
5. the **Policy Advice/Operational Input** dimension;
6. the **Research** dimension; and
7. **e\*governance.data**.

These dimensions are closely interlinked, since the definition of each affects the design and the output of the other three. For this reason, each dimension should be evaluated and carefully designed while developing a governance assessment. The paper highlights the key

elements of each dimension, emphasizing the linkages between a specific dimension and the final governance assessment. The main lessons, based on the experience of many practitioners, are briefly summarized in the next pages.

### *THE CONCEPTUAL DIMENSION*

Based on the recent analytical research, we define *Governance* as *the process and institutions by which authority in a country is exercised*. Specifically, governance is: (i) the process by which governments are selected, held accountable, monitored, and replaced; (ii) the capacity of governments to manage resources efficiently, and to formulate, implement, and enforce sound policies and regulations; and, (iii) the respect for the institutions that govern economic and social interactions among them.

This definition highlights a key fact - ***governance is a much broader and multi-dimensional notion*** than corruption. This poses a challenge when attempting to assess and evaluate this variable. To address the complexity of this variable, the focus of the governance assessment should be on ***institutions***, and their systemic (vulnerable vs. strong) performance characteristics, rather than focus on individuals. Further, governance should be thought and translated into measurable components that can be evaluated and monitored through the empirical assessment.

Further, there are deep and fundamental (bi-directional) ***linkages*** between the former and the latter. ***The causal links*** between governance and performance outcomes should be explored and distilled, understanding which factors matter in each particular country.

Governance should also be seen as key ***intermediate input*** to development, as well as a welfare-enhancing ***developmental outcome*** itself (such as civil liberties, public integrity, absence of crime, etc). Governance is in fact a key input to a number of developmental outcomes such as growth, investment, PSD, etc. From a policy point of view, particular focus should be given to measuring and analyzing: i) the link between key governance dimensions and ***poverty*** alleviation, and ii) the quality ***public service delivery***. Moreover, Focusing on the ***costs and consequences*** of different forms of mis-governance and corruption is a key approach to facilitate ***prioritization of reforms***.

***External Accountability mechanisms*** are posited to be at least as important for improving governance as conventional Public Sector internal accountability mechanisms. Thus, focus in this approach/framework is *inter alia* on:

- a) eliciting reliable feedback from a broad cross-section of stakeholders through in-depth surveys (households, firms, public officials);
- b) use of survey results as a transparency/external feedback mechanism;
- c) gathering information on external feedback mechanisms (voice, etc) alongside information on conventional internal rules mechanisms.

### *THE EMPIRICAL STRATEGY*

The empirical strategies developed use several empirical methodologies, which are used as the building blocks of the overall framework for assessment of governance. This is due to the

difference in objectives among the practitioners designing the assessment and to the fact that governance is complex and multidimensional concept, whose determinants are difficult to define.

For policy purpose (and to help prioritize), it is however crucial to have an ***in-depth empirical data collection*** and analysis strategy for each country under diagnostic, focusing on measuring the ***multiple ‘micro-dimensions’*** of institutional performance and its possible determinants. To gather such data and information for empirical assessment of governance a researcher should consider the following steps:

- (i) conceptualization of the phenomenon we want to measure;
- (ii) selection of appropriate empirical methodologies;
- (iii) design of empirical instruments to measure a set of indicators closely related to attributes/ determinants of governance identified in (i);
- (iv) empirical field work including design of sample and questionnaires, piloting of the questionnaires, data collection, coding and cleaning,
- (v) preliminary analysis of raw data to reveal possible deficiencies on logical/ conceptual level;
- (vi) in-depth analysis including aggregating the indicators into synthetic indices of various attributes of governance;
- (vii) dissemination of the results in the form of inputs for policy making as well as for building ” institutionalized pillars” of civil society (*for example, developing Internet accessible databanks with information on the quality of governance and institutional environment across countries, regions, agencies, etc.*)

In addition, to promote capacity building, the empirical tools should be ***flexible and adaptable*** to the specific country needs and realities (such as adding in-depth modules as required on specific topics, for example, cities/decentralization; judiciary, etc). In addition, the designed empirical tools should focus on ***experiential*** rather than generic opinion/perception questions to facilitate the objective assessment of mis-governance. The empirical tools should use carefully ***designed and tested ‘closed’ questions***, emphasizing aspects that can be ***quantified*** (whether through ordinal or cardinal measures). Moreover, the empirical tools should allow a careful distinction, empirically measurable, between the ***different forms*** of corruption: administrative bribery; procurement; state capture; nepotism; diversion of public funds/stealing of assets, etc.

To provide a consistent and objective institutional map the governance assessment should target more than one type of respondent and possibly ***triangulate***, i.e. use at least 3 types of surveys. At the same time, the careful and well-thought definition of the ***sample***, of the ***fieldwork details*** and of the ***coding procedures*** guarantees the quality of the data.

The data collection is however only the first challenge for the practitioner involved in this type of effort. The analysis and the use of such detailed and rich information is the second challenge. The ***empirical analysis*** should be carried out in a rigorous way to ***distill which institutional factors really matter*** in the country under study and should provide evidence based on causality tests not just (often misleading) simple correlations.

From a variety of empirical methodologies available, the WBI researchers integrated into the governance assessment framework three essential elements: (i) estimates of basic dimensions of governance based on 17 separate sources of subjective data on perceptions of governance covering 175 countries; (ii) quantitative evaluation of business climate using various micro- and macro- dimensions of governance based on a survey of more than 10,000 firms in more than 80 countries of the world; (iii) in-country detailed diagnostic surveys of governance and institutional environment carried out simultaneously and based on a representative sample of public officials, enterprise managers, and users of public services.

#### *THE IMPLEMENTATION PROCESS: CAPACITY-BUILDING, COLLECTIVE ACTION, AND MONITORING*

The ability to monitor on a regular basis governance and its impact on poverty alleviation efforts is a priority for developing countries that aim to strengthen the effectiveness and responsiveness of their government. This monitoring activity requires however a multi-disciplinary national capacity, both human and institutional, which is weak in many developing countries. A key factor to increase national capacity is the use of a multi-pronged approach based on:

- (i) a participatory and consultative approach for the design and implementation of diagnostic surveys, which involved different stakeholders from government and civil society;
- (ii) a set of complementary and systematic 'learning-by-doing' activities and training, that increase local ownership and buy-in and replicability;
- (iii) the creation of a partnership between National Statistical Systems (NSSs) and civil society organizations; and
- (iv) the engagement of independent local NGOs and academically related institutions in the design and adaptation of empirical tools, data collection and analysis.

Thus, to promote capacity building at the local level is key to engage independent local **NGOs, firms**, and academically related institutions in the diagnostic survey **adaptation** (to local realities) process and the data collection. It is key to emphasize the path from broad-based in-depth governance assessment as baseline benchmarking, to **continuous monitoring** – through capacity building from the onset of the assessment effort. **A participatory, consultative** approach should be also used in the discussion of early results and their conversion into practical, policy recommendations.

Finally, for the purpose of governance monitoring, the assessment may include some activities, such as disclosure requirements and institutional checks, that fall outside the scope of traditional definitions of monitoring and evaluation. The objective should be to begin a virtuous cycle of monitoring that leads not only to improved *performance* but also to greater *accountability* and public confidence.

#### *FROM EMPIRICAL STRATEGY TO POLICY ADVICE AND INPUT TO ACTION*

To summarize, as we refine diagnostic tools and methodology and move from perceptions to objective measures of governance, in-depth surveys can provide useful evidence on institutional development across countries. However, as noted such work requires attention

not only to conventional agenda of survey design - sampling procedures, questionnaire development, and training of interviewers - but also to the equally important issues of conceptualization and measurement. In other words, before developing survey questions one has to define precisely what institutions will be studied and how and what attributes of governance will be measured.

It is important to emphasize that the data and the analysis should be viewed as **one input** to working groups and policy-makers in the country. The in-depth empirical diagnostic results and the analysis should also be considered as key input to **prioritization** process for action program.

Further, the process of identifying priorities should focus on the following elements:

- a) Which are the most vulnerable institutions in the country;
- b) Which factors mostly affect mis-governance/underperformance;
- c) Which are the most costly forms of mis-governance;
- d) Which other sources of information can complement the assessment, both at the country and at the international level (worldwide governance indicators)

Transparency, participation and good data collection and careful analysis are essential for credibility. Governance results must be defensible in the face of attempts to discredit them. If not, the monitor rather than the “monitoree” becomes the focus. Reports should include detailed information on data sources and methodology and should be made available to all interested parties. Participation in the design of the governance assessment will build confidence in the results. Good data collection and careful analysis is perhaps the most important. But this is also something that comes with experience and training. Organizations should start with simple techniques, such as record reviews and interviews, and work toward more complex ones, such as representative sample surveys, as capacities grow.

If the governance assessment program is not “owned” by a broad range of people, it will be sustained over time nor its findings fed back into the policymaking process. Assessment and monitoring efforts that focus on the intersection of governmental and nongovernmental interests will have greater impact – both on governance and on public perceptions of governance. Survey diagnostics, polling, and consultation with key stakeholders can help to identify priorities. Proactive efforts will be needed to identify the priorities of the poor both because they are disproportionately affected by corruption and are less able to articulate their concerns through the regular policymaking process.

To ensure an impact and the successful implementation into action, assessment programs need local champions that can signal political will to pursue governance reforms. *High-level political leadership* will be important to push these programs and ensure that findings are disseminated and fed into the policy process. *Technical expertise* also needs to be developed through recruitment or capacity-building programs.

It is evident that while useful from a number of perspectives, worldwide aggregate governance indicators have limitations as an input to policy advise and action programming within a country, for which unbundled, detailed information across many factors and institutions

is important – complementing the more comparative perspective of the composite governance indicators. The in-depth governance diagnostics presented in this paper can provide specific inputs for action programs at the country level by: i) unbundling governance and corruption into more detailed and specific dimensions, and through their measurement assessing the relative importance and prevalence of the various unbundled dimensions; ii) assessing the quality of governance and performance of the key institutions and agencies in the country; iii) assessing the relative importance of the costs and consequences of various forms of mis-governance (such as through the link to poverty, quality and extent of service delivery, etc.); iv) identifying the most important factors affecting governance and performance (e.g. external vs. internal accountability mechanisms, as well as issues of undue influence by the elite and state capture), and, v) identifying priorities for action (based on the above items).

In fact, a salient feature of the diagnostic results so far is the large variance in governance performance across institutions within a country, as well as the large cross-country variation for the same institution or governance dimension – even for countries which based on composite governance indicators score similarly to each other. These findings support the rationale of complementing the basic cross-country aggregate governance indicators with these specific country diagnostics. By identifying good performers versus misgoverned institutions within a country these surveys assist in identifying the factors behind such variance in performance across institutions within a country and also suggest institutional priorities for action.

#### *RESEARCH RELATED TO GOVERNANCE DIAGNOSTICS AND INDICATORS*

Research is the central analytical link between rigorous measurement and assessment on the one hand, and practical policy advice and action program formulation, on the other. In the case of governance assessment, this link has already been demonstrated to be of significance importance, and in both directions: research has been crucial in shaping the governance assessment and diagnostic methods themselves, and also the results from these assessments have been a valuable input to research programs in general, and provided for specific insights and practical lessons, in particular. In this section we cover selected issues and illustrations of such bi-directional links, and then draw some implications for the future. First, we cover salient issues related to research as an input to governance assessment and diagnostics, demonstrating the important role that it has played in methodological/conceptual design issues.

In the main text of the paper we present some of the typical concerns raised by skeptics as well as rigorous academics about governance and corruption diagnostics and assessments. Salient methodological challenges in this context include the question of data reliability in general, the issue of respondent ‘perception’ bias in particular, as well as the challenge of aggregation of data on governance: given that there is a substantial margin of error in the measurement of a single variable from an individual source, what are the types of aggregation that can provide significant statistical benefits? These challenges, like a number of others, have been addressed through research efforts, some of which are summarized in the main text. In particular we discuss ways to rigorously assess the extent of respondent ‘perception’ bias, and also the methodology utilized to arrive at worldwide composite governance indicators which lower measurement error. Further, research findings that have benefited from the governance indicators and assessments/diagnostic efforts are also highlighted, such as the thorny empirical question of

whether the observed high correlation between good governance and incomes reflect mostly the effect of the former on the latter, or viceversa.

### *CONCLUDING*

To summarize, as we refine diagnostic tools and methodology and move from mere perceptions to more quantitative and experience-based measures of governance, in-depth surveys can provide useful evidence on institutional development across countries. However, as noted such work requires attention not only to conventional agenda of survey design - sampling procedures, questionnaire development, and training of interviewers - but also to the equally important issues of conceptualization and measurement. In other words, before developing survey questions one has to define precisely what institutions will be studied and how and what attributes of governance will be measured.

The challenge of improving governance and reducing corruption is however quite formidable. Any society faced with such a challenge may consider implementing specific institutional reforms, within a context of understanding the political economy of vested interests that are likely to oppose such actions. These reforms are likely to vary from setting to setting, and be informed for each specific case by the in-depth governance and anticorruption assessment or diagnostic so to prioritize to such country's needs.

Acknowledging the importance of the significant variance in the results on governance and corruption across countries, as well as across institutions and factors within a country (necessitating the adaptation of any action program to the specific realities of the country), a number of general findings emerge from the review of the governance and anticorruption assessment carried out so far, which have been covered in this paper. In brief:

- In all countries examined, mis-governance and corruption is seen as a very serious problem that creates obstacles to development. However, there is a great variance across countries in terms of the institutions most riddled by corruption.
- Corruption is widespread and appears to be a problem especially where monitoring is weaker and potential gains/rents to extract are higher.
- Bribes act as a regressive tax penalizing poorer households the most. In addition, corruption discourages foreign investment and often costs more than security to firms.
- The quality of public services varies greatly across government agencies and countries, though households, enterprises and public officials provide a consistent picture. Yet, unofficial payments made to obtain a public service do not translate in higher quality.
- Service performance needs to be carefully assessed by agency and by level of government in order to individuate weaknesses and develop priorities for reform.

- The administration of justice is particularly afflicted by corruption. The lack of trust and the difficulty in accessing the judicial system encourage the use of alternative mechanisms to resolve disputes.
- Incipient successes suggest the importance of solid governance that is supported by
  - merit based recruitment and promotion systems;
  - insulation from political meddling and interference;
  - internal rules and processes that are simple, clear, stable, well-specified, and well enforced;
  - a well-established and strictly enforced accountability mechanism;
  - an open and transparent decision making that enables delegation of authority and participation of staff to the decision process;
  - performance based service management which is open to feedback and criticisms of users; and
  - adequate resources to provide high quality services with sufficient quantity.

In ending, it is key to emphasize again the fact that the new field of governance assessment and diagnostic is constantly evolving, as we collectively learn. Challenges for the next stage abound, as suggested throughout this work, and include methodological, empirical and practical interpretation issues. Continuing research and implementation of further diagnostics and governance indicators work will be key to address these challenges in the future.

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## 1. INTRODUCTION

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Why write about measuring and empirically assessing governance when widely held skeptical views abound about its usefulness? In particular, four types of tenets are held. First, that by its inherent multi-disciplinary and 'subjective' nature --coupled by the intrinsic incentive to hide, obscure and misrepresent misgoverned and corrupt events by those benefiting from it-- it is impossible to measure governance and corruption. Second, that even where aspects of governance have been measured, the tendency to provide a single aggregate rating per country to rank countries has no value for policy advise and action programming at the country-level. Third, that measures of governance are subject to such large measurement errors because they are based on unreliable generic 'perceptions' and opinions, and thus rendering them practically useless. And fourth, that at any rate measures of governance for a country (even if it could be done with some accuracy), would merely confirm what is widely known by country observers, thus limiting its empirical value.

This paper challenges these orthodoxies, which, in different permutations, have been widely used as a rationale against measurement and empirical assessment of governance, or (at times) as justifications for rejecting existing measures of governance. Indeed, until a few years ago, there was little attempt to provide for systematic measures of governance for many countries, and the vast majority of policy advise, action program formulation, and research writings in these subject areas were done without any rigorous empirical measurement. By departing from the non-empirical approach to governance work, we posit instead that empirical measurement is, first, essential for progress in improving governance and controlling corruption, and, second, that it is feasible. At the same time, we note at the outset that while feasible, governance measurement and assessment is a very complex task, requiring the appropriate conceptual, empirical and practical tools, their proper application and reasoned interpretation of results. It also necessitates the tailoring of the appropriate approach and set of diagnostic tools to the desired objectives and realities of the country(ies) under study.

Consequently, in presenting the approaches to governance measurement and assessment it is paramount to spell out explicitly the challenges, pitfalls, options and suggested roadmaps, recognizing that it is an evolving field where we are far from having a definitive blueprint; instead we are within a steep learning curve process. This paper is a contribution towards the objective of furthering the field of empirical assessment and measurement of governance, bringing out such challenges and options, and focusing on the analytical and practical implementation issues in assessing governance. We expect that given the continuous learning process in this relatively undeveloped field, our contribution here is to undergo revisions and updates over time, as we benefit from further lessons from experience and the feedback from readers and practitioners.

Over the past five years researchers have increasingly focused on the link between poor governance and growth. The cross-country evidence has shown how poor governance and corruption can be harmful for the standard of living and the distribution of income among

citizens, reducing income per capita, literacy, and increasing infant mortality.<sup>3</sup> Further, corruption and poor governance distort public expenditure and increase poverty reducing efficiency of investment. Governance has therefore began to be seen as a key **intermediate input** to social and economic development, as well as a welfare-enhancing **developmental outcome** itself .

These advances in the field and some preliminary results emphasizing the link between poverty and poor governance have posed two challenges for development policymakers and practitioners:

(i) to move beyond anecdotal evidence to a systematic approach for defining and measuring governance, its determinants, and its consequences for economic and social development; and

(ii) to use data and rigorous analysis to support countries' institutional reforms to curb corruption and improve governance.

Governance is however multi-dimensional concept, much broader than corruption, with which it is often closely associated. For this reason, a variety of different instruments and empirical tools have been developed in response to these challenges, from opinion pools to public sector expenditure tracking (PET) and in-depth diagnostics. Practitioners now face the new challenge to select which empirical tool should be used to assess governance.

The purpose of this paper is twofold. First, we introduce a working framework that should be used while designing and implementing a governance assessment. The framework comprises four key pillars:

1. the conceptual dimension;
2. the empirical dimension;
3. the implementing dimension, and,
4. the policy/operational focus.

The first dimension focuses on the analytical concepts and definition that should be taken into account at the beginning of the design work. The clear definition of the final objective and of the variable to study and its links with specific public sector characteristics and growth is a key step. Only when this definition is clear, practitioners can proceed to design the empirical tools and the sample for the subsequent field work. The second dimension concentrates on the specific characteristics of the empirical tools and the field work. The empirical instruments can in fact take many different form and use different statistical approaches, leading to significantly different types of data on governance. Based on the definition of the final objective, practitioners may choose different approaches and tools.

The implementing dimension is closely related to the objective of the assessment. For the purpose of capacity building and sustainable monitoring by the country, the implementation process should be fully participatory and should promote partnerships between civil society and

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<sup>3</sup> Kaufmann, D. "Governance and Anti-corruption", in *The Quality of Growth*, Vinod Thomas, ed. The World Bank, 2000; Knack S. and G. Anderson, *Is "Good Governance" Progressive? Institutions, Inequality, and Poverty Reduction*, paper presented at the 1999 Annual Meeting of the American Political Science Association, Atlanta; Gupta S., H. Davoodi, and R. Alonso-Terme, *Does Corruption Affect Income Inequality and Poverty?* IMF Working Paper, 1998

the government. Finally, at the last stage of the assessment, the practitioner needs to focus on the potential use of the data. Clearly, this type of assessments are just one of the possible input in the policy design of a country. The assessment should however provide information that can feed back into a broader policy approach. Key therefore is the gathering of data that allows the identification of priority areas for reform and the costs associated with poor governance. At the same time, the empirical evidence and the subsequent analysis should facilitate the public debate of these issues in the country and the development of an action strategy jointly finalized by civil society and government.

Unlike other economic variables, governance assessment involves not only traditional issues of questionnaire design, sampling and data collection but also a great deal of attention to the determinants of governance and how these determinants can be measured. The conceptualization of determinants is also important because one ideally would like to produce the data, which are comparable across countries. Thus, the design process should include:

- (i) careful definition of the concepts to be measured;
- (ii) identification of their attributes on the earliest stages of survey and sample design;
- (iii) selection of indicators closely related to possibly directly unobservable attributes, and
- (iv) early recognition of the fact that measured indicators finally will have to be aggregated into hypothetical determinants of governance for the purposes of analysis.

The four dimensions described above allow us to systematically evaluate the set of instruments currently available to researchers and practitioners for the assessment and analysis of governance. In the process, we address some general methodological issues that can influence the quality of data collected. Although the list of empirical tools we review is not exhaustive, it does represent the vast majority of the most commonly used empirical tools. This analysis promotes further advances in this field by:

- (i) highlighting strengths and limits of the existing diagnostic instruments, monitoring systems and statistical analysis approaches;
- (ii) addressing a few methodological issues that arise while measuring governance,
- (iii) creating a better understanding of the determinants of good governance and how these determinants can be measured;
- (iv) providing alternative approaches to explore more rigorously the link between key governance dimensions, on one side, and poverty alleviation and public service delivery, on the other side; and
- (v) emphasizing the potential role of governance assessment for action planning and capacity building.

The assessment of the existing empirical instruments is done along a variety of dimensions, such as, for example, cross comparability, measuring precision and approach used. The exploration suggests that the type of empirical instrument to use in order to assess governance is a function of the final objective of the analysis. In particular, for policy-reform and capacity building purposes it is key:

- (i) to focus on institutions, rather than individuals;
- (ii) to emphasize experiential rather than perception data;

(iii) to use closed, indirect questions that maximize response rates and facilitate rigorous and systematic analysis of the data,

(iv) to employ a multi-pronged approach, gathering data from more than one type of respondent; and

(v) to involve in the data-gathering process independent and technically capable local NGOs and firms, capitalizing on and strengthening local knowledge and expertise.

Because of the characteristic of governance and its link to institutions, it is also desirable at the design stage to develop an assessment plan that is based on data and information from different types of respondents. Then, by ‘triangulating’ the responses of public officials with those of users, more reliable measures of public sector performance (and particular institutions) can be obtained. Also, “the joint conduct of these surveys enables cross-examination of the interaction between public and private institutions because the performance of a public sector body – such as a sanitary inspectorate or a hospital – does not depend solely on institutional arrangements within the public sector. It also depends on institutions within the private sector – such as consumer groups, business associations, political parties, or the media – that may affect how the public sector body treats different types of clients. While the officials survey collects information on institutional arrangements for public consultation and feedback, the household and enterprise surveys provide vital information about whether these institutions can be effectively used.”

The empirical tools usually play the central role at the early stage of the design of a governance assessment. However, these tools are only one of the dimensions that should be taken into account. The implementation process, in its various components, is another important dimension along which governance assessment can vary and serve different purposes. Each component of the implementation process can greatly affect the type and quality of the data collected as much as the tool itself.

The recent experience in several countries suggests that building coalitions and long-term partnerships between civil society and government is an important step for capacity building and action planning for public sector reform. By opening channels through which civil society and government stakeholders can demand greater accountability from each other, this approach can generate and sustain a citizen-government dynamic that will substantially buttress reforms. Incorporating diagnostic tools and broad-based workshops into the coalition-building process, moreover, helps to identify the opportunities and priorities for reform efforts.

The final step of a governance assessment is however the use of the information collected. This information is in fact an input for policy-making and public debate. If however the assessment program is not “owned” by a broad range of people, it will not be sustained over time nor its findings fed back into the policymaking process. Assessment and monitoring efforts will have greater impact if they focus on the intersection of governmental and nongovernmental interests. Survey diagnostics, polling, and consultation with key stakeholders can help to identify priorities. Pro-active efforts will be needed to identify the priorities of the poor both because they are disproportionately affected by corruption and are less able to articulate their concerns through the regular policymaking process.

Furthermore, governance assessment efforts need local champions that can signal political will to pursue governance reforms. *High-level political leadership* will be important to push these programs and ensure that findings are disseminated and fed into the policy process. *Technical expertise* also needs to be developed through recruitment or capacity-building programs. Consultation between government officials and outside constituencies also improves program design and builds credibility. Consultations with legal practitioners and court users can help to address these issues. Many of these decisions are subjective and, precisely for this reason, building a strong consensus around the design takes on added importance.

The conceptual and methodological discussion of the first part of the paper is complemented with a series of illustrations on how the diagnostic data gathered by the World Bank Institute in a number of countries can be used to analyze governance and identify institutional weakness.

The key ingredients of these governance diagnostics are detailed, country-specific surveys of thousands of households, enterprises, and public officials that gather specific information about vulnerabilities within country's institutions. The "self-assessment" responses of these three groups of stakeholders are compared for consistency and pooled to facilitate in-depth analysis and identification of priorities for action.<sup>4</sup> Moreover, these diagnostic tools are designed to provide inputs to policymakers and civil society for strategy and policy formulation, complementing such traditional sources as experts' opinions or case study analysis, in a variety of ways:

- (i) measuring the economic and social costs of mismanagement and bad governance;
- (ii) unbundling corruption into different forms;
- (iii) identifying specific institutional weaknesses and priority areas for reform;
- (iv) providing information on the country's underlying institutional structure and explaining why some institutions are more vulnerable than others to corrupt activities<sup>5</sup>, and
- (v) creating a benchmark for future monitoring activities

Even the simple analysis of the empirical data, which include governance indicators for each state agency, shows that widespread governance weaknesses are a common problem in many institutions across different countries. At the same time, some institutions appear to exhibit strengths and good performance. The comparison of indicators instantly suggests ways for governance improvements in the misgoverned agencies/institutions and confirms the key insights: institutional priorities for reform are not the same in different countries, and, therefore,

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<sup>4</sup> Surveys of public officials are especially relevant. Their candid responses—protected by anonymity—to very specific questions on governance in their agencies are making a difference in persuading political establishments to take difficult reform decisions. These surveys shed light on the political-economy and institutional causes of governance failures and point to specific public sector reforms.

<sup>5</sup> The analysis developed with this approach can also help build consensus among key stakeholders, who are encouraged to make use of the results to promote a constructive debate on real institutional reform for better governance. This analytical exercise is intended to form the basis of technical discussions on the actions needed to improve governance and promote development and can lead to a non-political debate on concrete reforms to reduce poverty; the agency specific data can focus the debate on institutions, not individuals. In addition, the surveys can be used to establish quantitative benchmarks for subsequently monitoring the success of institutional reforms already underway, and, if necessary, to redirect them to concentrate efforts on priority areas.

we should not use the same methods everywhere to tackle the problem of poor governance but rather choose country-specific approach.

The rest of the paper is structured as follows. The following Section sets the stage for the rest of the paper, by introducing a conceptual, working definition of governance and corruption. It also outlines the main analytical tents by discussing an analytical framework that should be used to think about governance assessment. Section 3 highlights the potential role of these instruments as capacity building and monitoring tools and describes the key elements to achieve impact at the local level. Section 4 focuses on the existing empirical tools available, addressing a variety of methodological issues from structure of the questionnaire to sample selection. Section 5 provides a series of empirical illustrations on governance assessment based on cross-country survey-level data. The concluding sections summarize the main findings and describe the road for future work.

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## 2. ON GOVERNANCE AND CORRUPTION ASSESSMENT, ANALYTICS, CONCEPTS, AND DEFINITIONS

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### WORKING DEFINITIONS AND UNBUNDLING OF GOVERNANCE AND CORRUPTION CONCEPTS

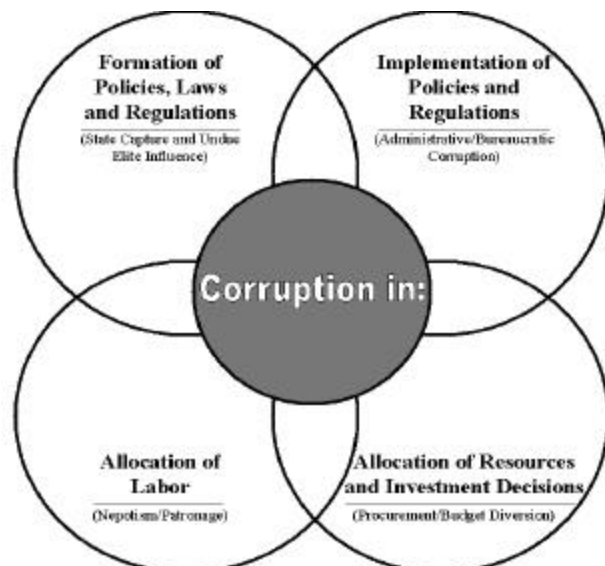
**Governance.** Based on the recent analytical research, we define *Governance* as *the process and institutions by which authority in a country is exercised*. Specifically, governance is: (i) the process by which governments are selected, held accountable, monitored, and replaced; (ii) the capacity of governments to manage resources efficiently, and to formulate, implement, and enforce sound policies and regulations; and, (iii) the respect for the institutions that govern economic and social interactions among them.

For the purpose of this work, it is useful to group the definition of governance into clusters that can be more easily identified and measured. Each of the three main elements of Governance can be unbundled into six sub-components, namely:

- i) Voice and Accountability;
- ii) Political Stability and lack of Violence;
- iii) Quality of the Regulatory Framework;
- iv) Government Effectiveness;
- v) Corruption, and,
- vi) Rule of Law.

**Corruption.** From this approach, we see that among these governance sub-components, corruption is one manifestation, which, while very important, is not alone in unbundling governance into its multi-faceted components. Yet its importance also necessitates the definition and unbundling of corruption, and derived from it, its careful measurement. *Corruption* is generally defined as *the use of public office for private gain*. This broad definition embraces many different forms of corruption from administrative corruption to “state capture” – when powerful groups buy influence and shape the laws to their benefit. Figure 1 summarizes the most common forms of corruption.

Figure 1: Taxonomy of Corruption



The definitions of governance and corruption highlight very clearly the link existing between quality of governance and growth. This definition also suggests that the consequences of bad governance are not limited to worse economic outcomes but also include the negative impact

on political and social institutions of a country. A recent work shows that governance deficiencies, such as problems with the rule of law, corruption, and ineffective provision of public services, account for a large proportion of the difference not only in income levels among countries but also in voter turnout and civil participation,<sup>6</sup> with the latter undermining the very foundations of civil society.

Recently there have been several new empirical studies on the link between the quality of government and development outcomes (see bibliography). This growing body of cross-country research has emphasized the key role of poor governance and corruption in lowering the standards of living and worsening the distribution of income among citizens. There are several mechanisms through which corruption exacerbates poverty and inequality.

- It has been shown empirically that higher corruption leads to lower investors' confidence, and in turn to lower domestic and foreign investment. Since sustained growth generally provides rising incomes for the poor, the retardation of growth due to corruption limits opportunities for countries to eliminate poverty.
- Politicization and the purchasing of public positions translates into misallocation of talent, including underutilization of key segments of society.
- Widespread corruption within government agencies interacting with the private sector clouds the business environment, hampering enterprise growth.
- Corruption has been linked to the unofficial economy<sup>7</sup>, resulting in lower tax revenues which the state might otherwise use for stimulating economic development or direct poverty reduction measures.
- The rent-seeking associated with corruption leads to distortions in budget allocations, for example away from pro-poor investments in primary education and in favor of large-scale, and arguably more corruptible, public works projects.<sup>8</sup> This misallocation of public funding and public investment leads in turn to the deterioration of the existing physical infrastructure.

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<sup>6</sup> 'Development Beyond Economics', Interamerican Development Bank (IaDB), 2000. Furthermore, the IaDB report identifies the following political failures as factor that may influence development outcomes: problems of bias in representation; agency problem; problems of aggregation (i.e. political representatives unable to reconcile diverse interests they claim to represent).

<sup>7</sup> For the relationship between corruption and the unofficial economy, see Simon Johnson, Daniel Kaufmann and Andrei Shleifer, 1997, *The Unofficial Economy in Transition*. Brookings Papers on Economic Activity, 2, pp. 159-239; Simon Johnson, Daniel Kaufmann, and Pablo Zoido-Lobaton, 1998, *Corruption, Public Finances and the Unofficial Economy*, Mimeo; Simon Johnson, Daniel Kaufmann, John McMillan, and Christopher Woodruff, 2000, *Why Do Firms Hide? Bribes and Unofficial Activity after Communism*. Journal of Public Economics, 76, pp. 495-520; and Eric Friedman, Simon Johnson, Daniel Kaufmann, and Pablo Zoido-Lobaton, 2000, *Dodging the Grabbing Hand: The Determinants of Unofficial Activity in 69 Countries*, Journal of Public Economics, 76, pp. 459-493.

<sup>8</sup> See Paolo Mauro, 1998, *Corruption and the Composition of Government Expenditure*, Journal of Public Economics, 69, pp. 263-279.

- Corruption reduces public revenues and weakens rule of law.
- State capture by the corporate elite biases the laws and policies of a country, allowing few to obtain selective benefits at the expense of the rest of the society, undermining the growth of output and investment of the enterprise sector and exacerbating inequality.
- Mis-governance and corruption act as regressive taxes on households and firms;
- Corruption is associated with lower quality of public service provision.

A synthesis of the channels through which corruption affects development is summarized in Box 1 below:<sup>9</sup>

<b>Box 1: Corruption, Mis-Governance and Poverty Nexus: A Simple Framework</b>	
<b>Causes of Poverty</b>	<b>How corruption affects “immediate” cause of poverty</b>
Lower investment and growth	Unsound economic/institutional policies due to vested interests Distorted allocation of public expenditures/investments Low human capital accumulation Elite corporate interests capture laws and distort policymaking Absence of rule of law and property rights Governance obstacles to private sector development
Poor have smaller share in growth	State capture by elite of government policies and resource allocation Regressiveness of bribery “tax” on small firms and the poor Regressiveness in public expenditures and investments Unequal income distribution
Impaired access to public services	Briber imposes regressive tax and impairs access and quality of basic services for health, education, and justice Political capture by elites of access to particular services
Lack of health and education	Low human capital accumulation Lower quality of education and health care

The growing body of empirical research with results consistent across countries and government institutions disproved the myth that poor governance and corruption could not be measured properly. The recent advances in the field have shown that it is possible to design a set of indicators that capture both the effects of mis-governance and the institutional characteristics leading to such outcomes. These measures can help identify the underlying causes of corruption and pinpoint vulnerable institutions where the anticorruption efforts should concentrate. At the same time, it is also clear that further developments in measurement are possible with the use of

<sup>9</sup> See *The Quality of Growth*, Chapter 6 (2000, The World Bank).

comprehensive methodologies, which incorporate several conventional methods and are purportedly designed for a specific type of analysis.

Traditionally, governance has been measured and studied in comparative perspective with the use of perception-based, aggregated data on institutional and political characteristics of different countries. A wide variety of such cross-country indices has helped to shed light on the various dimensions of governance (see for example, Beck et al 2001). This approach has been criticized because the indicators were based on a number of expert polls that used vague and indirect questions about the quality of governance and level of corruption. Thus, the data gathered could not be expected to identify the priorities for the necessary change in institutions. However, such cross-country empirical exercise did help in 'flagging' the most serious challenges in governance reform.

### *GOVERNANCE MATTERS: A SIMPLE FRAMEWORK*

Recently, a methodology to assess worldwide governance at an aggregate level was developed through research conducted at the World Bank (Kaufmann, Kraay and Zoido, 1999a and b). This approach summarizes the information from many existing measures (from expert polls to surveys) and translates it into aggregate indicators to produce estimates of:

- (i) governance measures at the country level,
- (ii) confidence intervals (or 'margins of error') for those estimated levels, and
- (iii) precision measures for each of the individual sources included in the aggregate indicators. This helps estimating how well each measure approximates the dimension of governance that the aggregate indicators measures.<sup>10</sup>

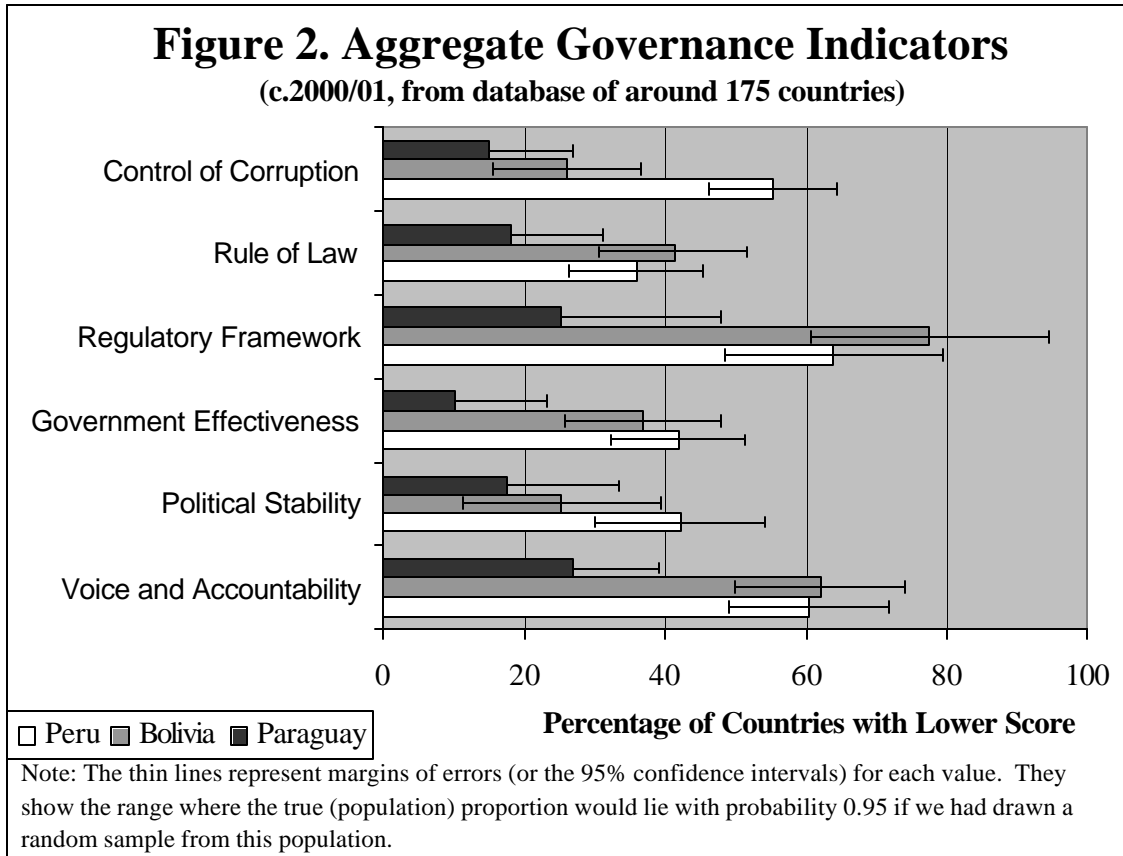
Using this methodology a researcher can position a country relative to others by simply looking at the percentile ranking the country occupies in each of the aggregate governance indicators and measure how robust this relative percentile ranking is by using the confidence intervals on the estimated levels. These also allow to calculate the proportion of countries that rate above (below) this particular country with 90 percent level of confidence and to produce a top, a bottom, and a band of possible percentile rankings for each country. The current worldwide data set draws mostly from data circa 1998 and covers about 170 countries.

Figure 2 presents the detailed results for Peru, Bolivia and Paraguay from a comparative exercise looking into more than 160 countries across six aspects of governance. As shown, the comparisons are possible in terms of regulatory framework, rule of law, control of corruption, government effectiveness, political stability, and voice and accountability. The countries in exam perform in a fairly similar way: rule of law appears to be a commonly weak institutional area, while the regulatory framework is rather advanced comparing to the rest of the world. In terms,

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<sup>10</sup> The aggregate indicators constructed include data for 1998. Assuming institutional indicators do not change much from one year to the next, this is a good measure of institutional quality for the 1990s. However, these indicators might not capture some real institutional improvement (or deterioration) that occurred in the 1990s. Kaufmann, Kraay, and Zoido-Lobaton (1999a and b): "Governance Matters," Policy Research Working Paper Series 2196 and "Aggregating Governance Indicators." Policy Research Working Paper Series 2195. Available on the web at: <http://www.worldbank.org/wbi/governance>.

however, of other governance dimensions, as for example the control of corruption, the four countries perform in a very different way.



These cross-country indices are however imperfect tools to formulate a country-specific reform strategy. Countries embarking on governance programs need to be able to clearly identify the specific institutional challenges they face. In response to these needs the World Bank developed a number of different in-depth diagnostic instruments (see Box 2).

The purposes of this type of work have included the following<sup>11</sup>:

- Monitoring progress by local policymakers
- Improving public awareness and government accountability
- Providing inputs for policy analysis
- Providing research data
- Building local capacity
- Developing partnerships

<sup>11</sup> This paragraph is based on “Public Sector Surveys in the World Bank: A Concept Note by S. Knack and F. Recanatini”, April 1, 2002.

**Box 2: Governance Surveys Designed and Implemented by the World Bank**

Beginning in 1998, the Bank has conducted surveys of public officials and facilities in several dozen countries. Many others are planned or ongoing, and there will likely be continued demand for conducting such surveys for the foreseeable future. Respondents are protected by anonymity to encourage candid answers to very specific questions on governance in their agencies.

Both types of surveys are very heterogeneous, for several reasons. The major purpose of the public official surveys managed within the Public Sector Network is to provide technical assistance for specific public sector reforms. The surveys have focused especially on assessing civil servants performance as a function of the incentives and constraints provided by their institutional environment. The results have helped to map the strengths and weaknesses of the public sector by identifying potential pay-offs with reform interventions.

The public official surveys managed within the World Bank Institute and Eastern Europe and Central Asia Region have emphasized more the action planning and capacity building aspects of these tools. Their implementation, always carried out in close collaboration with local counterparts, has been used to promote local capacity building and develop partnerships between non-governmental organizations (NGOs) and the government. Key ingredients of these diagnostics have been detailed, country-specific surveys of thousands of households, enterprises, and public officials. The simultaneous "self-assessment" of these three groups of stakeholders is compared for consistency and pooled to facilitate identification of priorities for action. Moreover, these diagnostic tools are designed to provide inputs to policymakers and civil society for strategy and policy formulation, complementing such traditional sources as experts' opinions or case study analysis.

Among the facility surveys, the Quantitative Service Delivery Surveys (QSDS), managed by DECRG's Public Service Delivery team, collect information on some of the same issues as the public officials surveys, but differ by focusing on obtaining financial and other data pertaining to individual facilities providing public services (schools, hospital or clinics). The facility is the basic unit of analysis, rather than the public official. Complementary surveys of education or health workers are sometimes but not always conducted.

The main purpose of the public expenditure tracking survey (PETS) is diagnostic, locating where within government resource flows "leak" or are delayed. It is also designed to improve citizens' ability to hold government accountable. The main purpose of the Quality Service Delivery Surveys (QSDS) is to provide research data, appropriate for analyzing the determinants of effective service delivery. It can be useful also as a diagnostic tool. Undertaking the PETS or QSDS in partnership with local research institutions can yield an additional benefit of local capacity building for policy analysis. Working with local academics, research institutions, and relevant government agencies can also be very useful in building local ownership of and demand for policy research.

Most surveys were intended, first, to evaluate the quality of governance and public sector performance, and, second, to provide data useful for analyzing how the design of public sector institutions affects valued outcomes (e.g. quality of health care, or level of business investment). However, the specific objectives of each survey have varied greatly and served various needs: from prioritization of technical assistance to capacity building and development of local partnerships. In some cases the information has been used by Bank staff to develop research

papers and policy recommendations. In other cases the data has been analyzed by local counterparts and Bank staff jointly and has served as input for policy formulation.

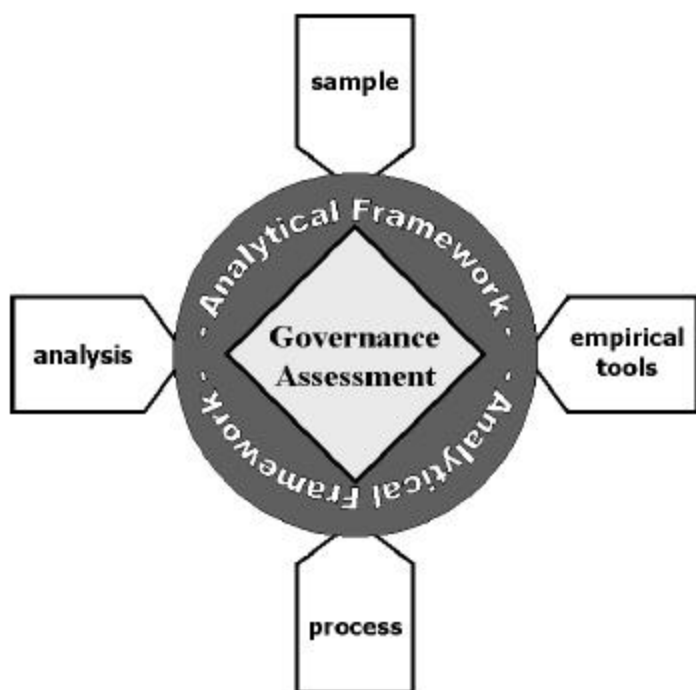
Differences in objectives have translated into differences in empirical instruments and implementation processes, leading to a sizable amount of quite dissimilar tools and information. They also have created difficult tradeoffs. Monitoring progress requires comparable responses and standardized survey procedures and sample design over time. Similarly, research objectives may call for comparability and standardization across countries. Comparability and standardization across countries limit the ability of local institutions to adapt governance instruments to local reality while promoting capacity building.

The tension between competing objectives and the potential impact of governance on growth and development set the stage for the discussion of the next section: how can development practitioners, given their objectives, appropriately assess and measure such rich and complex variable? And, how can the results of this assessment be used and integrated into development policies? The next pages introduce a framework that can assist practitioners in evaluating and choosing among alternative empirical tools. Section 6 and 7 instead focus on use and integration of governance assessment into policy design.

### AN ANALYTICAL FRAMEWORK

As emphasized in the previous section, governance comprises both the processes and the institutions by which authority is exercised. Thus, evaluating and measuring governance can be a challenging task. Often practitioners have compared governance assessment methods only by

**Figure 3: An Analytical Framework**



comparing the empirical tools used. To help thinking about governance assessment we introduce an analytical framework, described in Figure 1, that comprises four key building blocks and goes beyond the simple empirical tools:

- (i) the **implementation process** by which the assessment is implemented;
- (ii) the **empirical tools** used;
- (iii) the **sample** defined for the assessment; and
- (iv) the **type of analysis and use** of the data collected.

A governance assessment is the product of the choices made relative to each of these four building blocks. Further, these choices are dictated by the objective of the assessment. Consider, for example, what we labeled the **implementation process**. Action-planning and capacity building call for a participatory process during which the empirical tools are designed and adapted to reflect the country-specific reality. Research objectives and regular cross-country monitoring, on the other hand, do not need to rely on such fully participatory process but require comparable instruments and samples.

In the next sections, we focus on each of the four building blocks providing a series of empirical illustrations based on the WBI experience.

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### 3. THE PROCESS: COALITION BUILDING, CAPACITY BUILDING AND MONITORING

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The empirical tools usually play the central role at the early stage of the design of a governance assessment. However, these tools are only one of the dimensions that should be taken into account. The implementation process, in its various components, is another important dimension along which governance assessment can vary and serve different purposes. In particular, the implementation process of such assessments comprises several components:

- *Questionnaire development and design*: Participatory? Ad hoc? Demand driven?
- *Sample design and sources*: Random or stratified sample? Official sources only?
- *Interview methodology*: Face to face? By phone? By mail? Multiple visits?
- *Piloting*: Implemented? By whom?
- *Field work approach*: Credential letters mailed in advance? Involvement of local government? Use of leaflets to illustrate the purpose?
- *Survey firm*: Local? International? Previous experience with public official surveys?
- *Enumerator training*: Implemented locally? Classroom training? Mock interviews? Field practice?
- *Type of quality checks and control*: Accompanied interviews? Call backs? Visual checks?

Each component can greatly affect the type and quality of the data collected as much as the tool itself. The sample design is an especially delicate dimension, as emphasized in Section 4. The recent experience in several countries suggests that for capacity building and action planning for public sector reform building coalitions between civil society and government is an important step. By opening channels through which civil society and government stakeholders can demand greater accountability from each other, this approach can generate and sustain a citizen-government dynamic that will substantially buttress reforms. Incorporating diagnostic tools and broad-based workshops into the coalition-building process, moreover, helps to identify the opportunities and priorities for reform efforts.

In the next subsections, we focus on the main important lessons learnt up-to-date on the link between coalition building, capacity building and governance assessments.

#### *COALITION-BUILDING AND EMPIRICAL TOOLS*<sup>12</sup>

During the past few years academics as well as governments and members of civil society have begun to realize that there are links between corruption and economic growth, and this relation distorts the allocation of resources. This realization has prompted civil society in many countries to pressure their governments for change, and led many governments to undertake far-reaching reform of public sector institutions. Many governments have asked for donor support in assessing governance and designing an effective anti-corruption strategy.

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<sup>12</sup> This section draws greatly from the paper “Coalition Building to Fight Corruption” by Maria Gonzales de Asis, (2000).

WBI is responding to an increasing number of requests to provide assistance in devising a participatory and comprehensive strategy for assessing governance and fighting corruption. In the strategy, WBI strives to ensure the active engagement of civil society. This entails working to improve understanding of and support for the reform agenda. The strategy draws upon rigorous diagnostic tools and calls for formation of a steering committee comprised of civil society and government representatives. In addition, the strategy promotes task forces, working groups, and national workshops to discuss on-going reforms. These activities focus on such areas as the judiciary, procurement, customs or the media, each of which brings different stakeholders into the process.

In particular, the quality of governance and the extent of corruption in a country are carefully assessed through diagnostic tools. This helps establish priorities for reform by identifying activities and agencies where corruption is concentrated. Concrete evidence is used to depersonalize the debate on corruption, shift the focus to substantive issues, and educate the public about the economic and social costs of corruption. It also establishes a baseline against which the successes and failures of reform can later be measured. Diagnostic surveys are therefore an integral part of building consensus and designing governance enhancing programs.

To initiate the assessment, the team meets with firms that are capable of conducting surveys of public officials, citizens and businesses. During this meeting, the scope, goals and nature of the surveys are explained in detail and other information is provided so that the firms can submit technical and financial proposals. The identification of an independent, reputable firm is crucial to maintain credibility of the results.

The assessment results identify the main governance problems in a selected set of national, regional, and municipal institutions. These institutions are involved in the delivery of public services, such as law, health, education, customs, and tax collection. The diagnostic surveys are the main source of qualitative and quantitative information for making policy recommendations on anti-corruption reforms.

This exercise usually shows the presence of systemic corrupt practices in well-specified areas of the public sector. The results are often corroborated by previous donor reports that review the institutional framework of the country. Such reports include accounts of how patronage and political clientelism hamper the effectiveness of various agencies.

The assessments developed using this approach serve as an input for the design of multi-pronged anti-corruption strategies, that well integrated into the Country Assistance Strategy. These strategies are carried out in close cooperation with civil society, government, and other donors. The main lessons learnt from these assessment efforts suggest the importance of the country to commit to a fully participatory and transparent process to guarantee success. In particular:

- **Political commitment is indispensable.** Throughout all levels of government, this is a crucial condition for achieving comprehensive institutional reforms, particularly for creating accountable and transparent systems and curbing corruption. Developing and successfully implementing an integrated framework to fight corruption at the national level is not possible without local political commitment.
- **Empirical assessments are a useful method for raising awareness and designing, monitoring and evaluating reforms.** The surveys are effective tools for

identifying specific problems that are correlated with corruption. To give credibility to the reform effort, the survey should be conducted by independent consultants.

- **The implementation approach should be participatory** to ensure consensus between the government and civil society and promote sustainable reforms. The assessment gathers rigorous information on the quality of governance and corruption, and give all stakeholders a voice in problem identification. The participatory methodology used in workshops then increases transparency and the credibility of the decision-making process. Citizens understand that putting an end to bribery frees up financial resources that could otherwise be allocated to essential social services. Citizens can be more satisfied with services and complain less as a result of their understanding that prioritization and trade-offs are necessary when working with a limited budget.
- The **consensus-building approach enhances the sustainability of the reforms**. Because a broader cross-section of the citizenry becomes involved in defining priorities and determining trade-offs, they demand efficiency in the execution of projects. As stakeholders, they have been empowered to care about projects and monitor their performance. In turn, the propensity for citizen participation in government is increased.

#### *CAPACITY BUILDING AND GOVERNANCE ASSESSMENTS*

The ability to monitor on a regular basis governance and its impact on poverty alleviation efforts is a priority for developing countries that aim to strengthen the effectiveness and responsiveness of their government. This monitoring activity requires however a multi-disciplinary national capacity, both human and institutional, which is weak in many developing countries. A key factor to increase national capacity is the use of a multi-pronged approach based on:

- (v) a participatory and consultative approach for the design and implementation of diagnostic surveys;
- (vi) 'learning by doing' activities and training;
- (vii) the creation of a partnership between National Statistical Systems (NSSs) and civil society organizations; and
- (viii) the engagement of independent local NGOs and academically related institutions in the design and adaptation of empirical tools, data collection and analysis.

This multi-pronged approach facilitates the achievement of a variety of outcomes. A greater local capacity to evaluate governance allows countries to better prioritize, monitor, and develop both appropriate governance indicators and policy reforms. The creation of partnerships between the NSSs and local NGOs encourages a more integrated and collaborative debate between government and civil society stakeholders over the policy making process. The fully participatory approach adopted from beginning to end also promotes a wider sense of ownership of the data and analysis, guaranteeing a true integration of the results into the policymaking process and greater long-term monitoring capacity.

## *AN ILLUSTRATION OF THE EMPIRICAL TOOL POTENTIAL*

In-depth diagnostic tools such as those developed by a World Bank team, in collaboration with other research groups, are key tools to build local statistical capacity and promote partnerships to monitor governance while generating new information. Key ingredients of these governance diagnostics are in-depth, country-specific surveys—carried out by a local consortium of organizations—of thousands of households, firms, and public officials that gather specific information about vulnerabilities within the country's institutions (for more details on this tool, please see Section 4). The "self-assessment" responses of these three groups of stakeholders are compared for consistency and pooled to facilitate in-depth analysis and identification of priorities for action.

These diagnostic tools are designed to facilitate governance monitoring activity by providing inputs to policy makers and civil society, complementing more traditional sources such as experts' opinions or case study analysis. In terms of capacity building, the design and implementation of diagnostic surveys allow to

- (i) foster learning through the close collaboration between external experts and local counterparts;
- (ii) promote long-term, sustainable partnerships between NSSs and civil society;
- (iii) obtain an initial benchmark of governance and public sector performance; and
- (iv) monitor on a regular basis governance and public sector performance.

The analysis developed with this approach also helps build consensus among key stakeholders, who are encouraged to make use of the results to promote a constructive debate on real institutional reform for better governance. This analytical exercise is intended to form the basis of technical discussions on the actions needed to improve governance and can lead to a non-political debate on concrete reforms to improve governance. Furthermore, the agency specific data focuses the debate on institutions, not individuals de-personalizing the problem and facilitating the reform process.

The use of empirical and diagnostic tools as a mean to build local capacity is not a novel approach. Living Standards Measurement Surveys (LSMS) have been employed in many countries to build national capacity to analyze social policy.<sup>13</sup> The case study evidence suggests that building analytical capacity requires explicit planning, significant time and money, open access to data and strong support from policy makers. The World Bank Institute experience in the governance area highlights the importance of complementing this approach with (i) long-term, institutionalized partnerships between National Statistical Offices (NSOs) and civil society, (ii) use of new e\*tools and participatory workshops to foster wider data dissemination, and (iii) action learning activities.<sup>14</sup> The experiences of countries such as Bolivia, Georgia, and Latvia show how it is possible to successfully progress from diagnostics to concrete, participatory action

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<sup>13</sup> Blank and Grosh (1999) provides a detail review of the experience of five countries in terms of four aspects of capacity building – training, technical assistance, research and recruitment.

<sup>14</sup> For more detail on the Interactive Web-tools developed by WBI for web-learning and capacity building, please see Section E and <http://info.worldbank.org/governance/>

plans, while improving local statistical capacity in the process.<sup>15</sup> A further example of such approach is the Governance Data Capacity Building and Monitoring Activity described in Box 3.

### **Box 3: An Example of Governance Capacity Building Using Diagnostic Tools**

The Governance Capacity Building and Monitoring Initiative responds to the demand for action on governance and capacity building in Poverty Reduction Strategy Paper (PRSP) and selected other countries. This Initiative, developed by WBI and the Development Economics Group (DEC), promotes learning through the creation of partnerships between NSSs and civil society and in-depth diagnostics of the quality of governance information systems (from data collection to analysis and policymaking) in a selected number of countries. The joint design and implementation of the diagnostics serves as a tool to build local capacity in governance diagnostics and monitoring. It also forms the basis of a medium- to long-term strategy for building statistical capacity in governance measurement, diagnostics, and monitoring. The country-tailored demand for capacity building activities is aggregated to form a regional training program.

In each of the six pilot countries the project components will include:

- **A preparatory phase** that will identify and recruit the project team and develop a detailed work program.
- **A "partnership-promoting" phase** in which the selected team will facilitate the coordination of the different national stakeholders involved in the process.
- **A development phase** that will include (i) the assessment of existing institutional weaknesses, (ii) the design and revision of diagnostic instruments to collect governance data, and (iii) the training of staff to carry out the required field work.
- **A fieldwork phase** where the governance data will be collected, using the various instruments developed in Phase 2. This Phase will include sample design, fieldwork as well as data capture and coding, and will be carried out jointly by local and external experts.
- **An analytical phase**, where the data collected in Phase 3 is analyzed. This in-depth analysis, carried out jointly by the Bank team and local team, will lead to the completion of a policy report in the area of public sector and governance reform;
- **A dissemination phase**, in which the available datasets are disseminated to local and central governments and research agencies using real time data access and electronic media. The development of internet sites for further data access and dissemination will be promoted and a series of seminars and training activities will be organized on the use of the data in the policy making process.
- **A monitoring phase**, where monitoring activities of governance performance will be institutionalized through ad-hoc, quick, targeted surveys and indicators developed by the local stakeholders.

## *MONITORING AND GOVERNANCE ASSESSMENT*

There is broad consensus that monitoring and evaluation is an assessment tool for improving the performance of the public sector. It gathers objective information on performance and provides a framework for holding agencies accountable for results. Monitoring takes on additional importance, however, in the context of improving governance by building a culture of

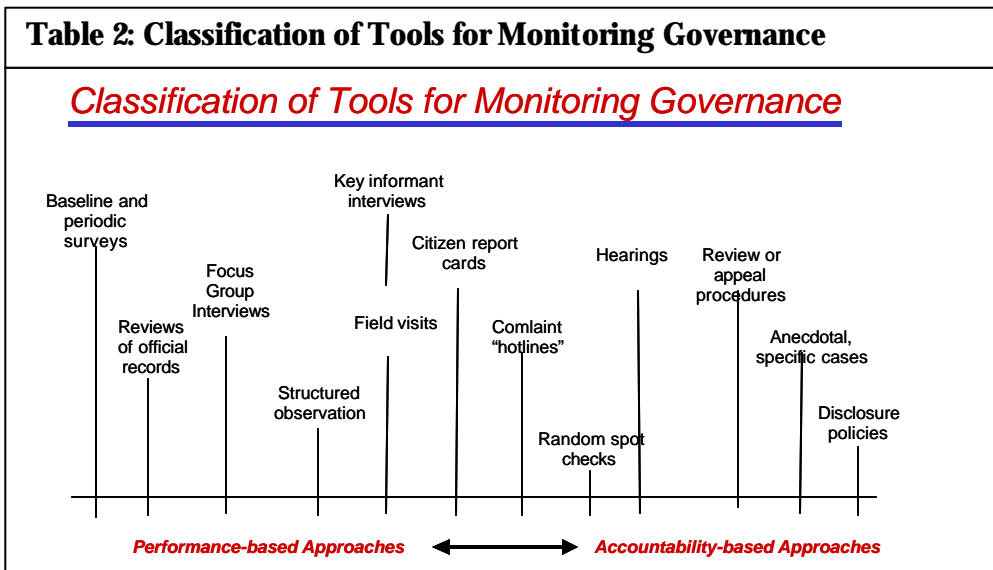
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<sup>15</sup> In Bolivia, civil service and procurement reform are being emphasized, while in Latvia, tax and customs reform have become priority items on the national agenda. In cities such as Campo Elias, Venezuela, and Ternopol, Ukraine, the combination of the evidence from a recent governance survey and collective action by civil society is leading to improvements in local government effectiveness, a greater "voice" for citizens in government decisions, improved government accountability to citizens, and better provision of public services.

accountability and transparency that is itself a key dimension of good governance. Creating a set of instruments that enable a broader range of social groups to monitor government performance over time, as well as for the government to be able to monitor itself, constitutes a key public good to reduce *state capture*. Similarly, in countries with high levels of *administrative corruption*, reliable and objective monitoring by both providers and users of government services can significantly increase the likelihood of detecting and, thereby, discouraging misconduct.

While all efforts to measure performance contribute to accountability, not all efforts to build accountability involve performance measurement. Governance monitoring, therefore, may include some activities, such as disclosure requirements and institutional checks, that fall outside the scope of traditional definitions of monitoring and evaluation. The objective should be to begin a virtuous cycle of monitoring that leads not only to improved *performance* but also to greater *accountability* and public confidence.

Broad measures of the quality of governance and public institutions have been developed and used to generate cross-country comparisons. A second generation of work has developed more detailed, diagnostic information to support operational work<sup>16</sup>, such as survey diagnostics and Institutional Governance Reviews. But few of these tools have been incorporated into ongoing monitoring programs or implemented and owned by local organizations. In this section, we identify performance- and accountability-based tools that can be adapted for this purpose and, following initial capacity-building support, can be sustained on an ongoing or periodic basis. These include feedback and complaint mechanisms, e government initiatives, institutional oversight mechanisms, such as Ombudsman’s offices, surveys and rating systems.



<sup>16</sup> Steven Knack, Nick Manning, December 2000. *Toward More Operationally Relevant Indicators of Governance*, PREM Note #49.

Monitoring tools can be grouped by a series of dimensions discussed below.

- **What?** The starting point is to identify, in consultation with providers and recipients of services, the areas on which to focus monitoring efforts.
- **How?** The essence of monitoring is to generate a flow of information that raises awareness, generates discussion and stimulates action.
- **Who?** Many approaches included in the toolkit are equally suited to government monitoring, external monitoring, or public-private partnerships. Multiple monitoring is wrongly viewed as duplicative; it enriches the debate just as a variety of indicators within one monitoring program creates a fuller picture.
- **Why?** Monitoring can have a sustained impact only if someone acts on the findings. In too many instances, countries require public officials to declare their personal assets but then fail to ever examine the filings for accuracy or illicit gains. A feedback mechanism – such as publication, discussion workshops or other means – is an integral element of monitoring.

The empirical experience suggests a few key lessons dimensions for the successful implementation of governance monitoring programs.

- If a monitoring the program is not “owned” by a broad range of people, it will be sustained over time nor its findings fed back into the policymaking process. Monitoring efforts that focus on the intersection of governmental and nongovernmental interests will have greater impact – both on governance and on public perceptions of governance. Survey diagnostics, polling, and consultation with key stakeholders can help to identify priorities. Pro-active efforts will be needed to identify the priorities of the poor both because they are disproportionately affected by corruption and are less able to articulate their concerns through the regular policymaking process.
- Monitoring programs need local champions that can signal political will to pursue governance reforms. *High-level political leadership* will be important to push these programs and ensure that findings are disseminated and fed into the policy process. *Technical expertise* also needs to be developed through recruitment or capacity-building programs.
- Consultation between government officials and outside constituencies improves program design and builds credibility. Is the average time in which cases are adjudicated by a court a reasonable indicator of judicial efficiency or is it a reflection of “speed money” payments? Consultations with legal practitioners and court users can help to address these issues. Many of these decisions are subjective and, precisely for this reason, building a strong consensus around the design takes on added importance.

- Lack of data is a key constraint for all monitoring efforts. This is a serious constraint to monitoring in developing countries and, in some cases, may require assistance from donors in helping to develop management information systems.
- Lack of access to data is a key constraint for external monitoring efforts. Freedom of information legislation, public information offices, and web-based information are all essential to create an “enabling environment” for effective monitoring by external organizations and oversight institutions but offer other important benefits as well. Increased transparency improves public confidence. Experience shows that public disclosure is sometimes the only means to force governments to track and compile this information for their own purposes.
- Monitoring governance is not without risks. Poorly designed monitoring systems can create perverse incentives or encourage “housecleaning” efforts that produce dramatic short-term results but few sustainable impacts. Monitors themselves need to be insulated – through clear operating criteria and separation from operational units -- from pressure to “massage” findings.
- Too often monitoring efforts get off the ground but are not maintained because they fail to produce useful information for key constituencies. Government monitoring programs should provide useful feedback for *all* those agencies that supply data, in order to ensure continued collaboration. One way to maintain or “institutionalize” monitoring is to link performance to resource allocation decisions. This linkage gives “teeth” to monitoring and evaluation programs.
- Transparency, participation and good data collection and careful analysis are essential for credibility. Monitoring results must be defensible in the face of attempts to discredit them. If not, the monitor rather than the “monitoree” becomes the focus. Reports should include detailed information on data sources and methodology and should be made available to all interested parties. Participation in the design of the monitoring program will build confidence in the results. Good data collection and careful analysis is perhaps the most important. But this is also something that comes with experience and training. Organizations should start with simple techniques, such as record reviews and interviews, and work toward more complex ones, such as representative sample surveys, as capacities grow.
- The use of survey techniques to monitor performance over time presents more challenging methodological issues than one-off diagnostics. As the change in performance over designated time periods is likely to move in small increments, precise calculations of measurement error and efforts to minimize error take on increased importance. Frequent, large-sample surveys to reduce measurement error can be prohibitively costly to sustain for under-funded government agencies and interest groups. Alternative techniques may be needed to enhance the quality and cost-effectiveness of monitoring techniques.
- When reasonable guarantees of physical security or protection from reprisals are not in place, it severely limits both efforts to address corruption and efforts to monitor

governance. Public prosecutors, journalists and others have been killed while attempting to expose corrupt practices by public figures. In the absence of free speech and balanced libel laws, the media is vulnerable to reprisals in the form of fines or lawsuits.

- Given its operational and analytical work on corruption, the Bank is well placed to support monitoring initiatives and integrate them into public sector reform programs. It can advise borrower countries, provide training in governance monitoring, finance pilot programs, and support the adoption of information disclosure policies that create an enabling environment for independent monitoring by groups outside the government as well.
- Capacity-building efforts will be critical. The Bank and governments will need to work together – and bring in other partners as necessary -- to help build the new management and analytical skills that will be needed. Continued support throughout the program will be necessary to encourage mid-course corrections and additional training.
- As in all governance-related efforts, political will and follow-up at the highest level will be determinant. With a push from above, even a modest monitoring effort can have a ripple effect through public institutions. Once a complaint mechanism is created, the manager will be obligated to collect the complaints, examine the issues and concerns that they raise, discuss them with agency staff and, eventually, report on the nature of complaints and how the office or agency has responded. Providing a flow of information to managers and leaders is the first step in generating constructive pressure on organizations to first examine the problems that exist and take some action to address them.

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## 4. EMPIRICAL STRATEGIES AND METHODS

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One of the key issues in empirical studies of governance has been the choice of appropriate empirical tools. The variety of methodologies available to researchers and decision makers serve different agendas that range from evaluation of the relative quality of governance in a country to in-depth instruments, which provide high quality quantitative data for policy analysis. Several years of analytical capacity building efforts at the World Bank have resulted into development of a comprehensive strategy for governance assessment.

The strategy makes use of several empirical methodologies as the building blocks of the overall framework for measuring governance. Because governance and institutional performance exhibit a great deal of variation, each component of this strategy serves a specific purpose allowing the analysis with different degree of detail: (i) evaluation of general, cross-country levels of governance along several key dimensions; (ii) assessment of institutional environment to detect and compare institutional constraints across countries; (iii) in-country diagnostics of governance that ensures in-depth analysis of government institutions and performance relying on detailed methodologies. This general framework for assessment of governance depending on a research objective is filled in from a wide list of available techniques. We review the most frequently used methodologies and, then, proceed with the discussion of the main elements and underlying principles of the WBI assessment strategy.

The empirical methodologies fall into two broad categories: (i) surveys and censuses - are relatively large data collection efforts employing statistical sampling methods and standardized questionnaires; (ii) investigation methods – that is, a smaller scale data collection, which focuses on some specific problem or case and uses various interrogation or observation techniques.

### *INVESTIGATION METHODS*

Investigation methods, including **budget use monitoring**, **video techniques**, and **judicial investigations**, usually concentrate on a particular problem, and although the information collected is very rich, it is hard to generalize those very specific findings and define wide scale priorities. For example, judicial investigation is often a single action, which excludes the possibility of repeated monitoring. Therefore, these techniques are of limited use when looking at the “big picture”.

### *SURVEY METHODS*

As mentioned, survey methods are statistically representative techniques that rely on perceptual, experiential and objective measures. The perceptual questions reveal attitudes and beliefs of an interviewee, while the experiential focus on factual events, and the objective measures simply record indicators independent of a respondent. The perceptual questions are common in opinion polls as well as in the techniques that rely on expert evaluations. They also

could be used, along with experiential questions, as a part of more precise instruments, such as surveys of governance to expose, for example, a trust of citizens to a certain institution.

The survey methodology, featuring objective measures of performance, initially has been adopted in a number of enterprise surveys (Recanatini, Wallsten, and Xu, 2000). In general, it is easier to gather enterprise level objective data because much of this information is collected internally within a firm for accounting purposes. There also has been an interest in complementing firm data with detailed information on ordinary citizens (Johnson, 1995). Such combined data sets could be very informative because they allow for comparisons of “hard” evidence with subjective perceptions of individuals. Early data collection efforts on corruption and governance, though, rarely used more than one of the survey instruments and measured only general perceptions of the public or experts. The types of surveys commonly used in the studies of governance include:

- ◆ **Public opinion polls** usually give good reflection of public opinion because they rely on some type of random sample. However, traditional opinion polls are highly subjective. In addition, very often it is one time approach, and general respondents may not be well aware about specific problems in governance.
- ◆ **Enterprise staff surveys** often allow to collect follow-up data and in many cases enterprise employees may be better informed about governance issues than general public. However, it is hard to design a good representative sample of enterprises and subsequently to generalize findings.
- ◆ **Surveys of public officials.** The officials possess insider information but their responses may be biased, especially, if the institution, where interviewee works, is being interviewed.
- ◆ **Quick monitoring surveys** are for quick diagnostic and because of cost efficiency can be used frequently by state institutions to reveal governance problems. However, they do not provide detailed information on agencies or specific subjects and can not be used to define reform priorities.
- ◆ **International comparative indices of governance and corruption** are developed on the basis of expert opinions. To some extent, they resemble the broader surveys of public opinion and replicate their drawbacks not allowing, for example, to identify problem areas. The aggregate indices, though, ensure good comparability across countries.
- ◆ **Quality profound interviews** provide the opportunity to get in-depth information on specific issues or agencies, but comparability and precision remain low because they produce too few observations to draw statistical inferences.

The empirical strategy developed by WBI integrated into the governance assessment framework three essential elements: (i) estimates of six basic dimensions of governance aggregated using unobserved components methodology and based on 17 separate sources of subjective data on perceptions of governance covering 175 countries; (ii) quantitative evaluation

of business climate using various micro- and macro- dimensions of governance based on a survey of more than 10,000 firms in more than 80 countries of the world; (iii) in-country detailed diagnostic surveys of governance and institutional environment carried out simultaneously and based on a representative sample of public officials, enterprise managers, and users of public services. The survey part of the strategy featured the following: (i) the focus on institutions not individuals, resulting in data on institutional environment and performance; (ii) experiential rather than perceptual measures; (iii) carefully designed and tested, closed, indirect questions that maximize the response rates and allow to quantify responses for a rigorous and systematic analysis of data; (iv) implementation by independent and technically capable polling organizations capitalizing on local knowledge and expertise.

The first methodology in the framework summarizes many existing individual measures from a variety of expert polls and surveys into aggregate indicators and produces estimates of: (i) country levels of governance; (ii) confidence intervals (or 'margins of error') for those estimated levels; and (iii) precision measures for each of the individual sources included in the aggregate indicator which estimates how well each measure approximates the aspect of governance that the aggregate measures.<sup>17</sup>

Using this methodology one can position a country relative to other countries by simply looking at the percentile ranking the country occupies in each of the aggregate governance indicators and measure how robust this relative percentile ranking is by using the confidence intervals on the estimated levels. The comparisons are possible in terms of regulatory framework, rule of law, control of corruption, government effectiveness, political stability, and voice and accountability. However, the aggregate, perception-based indices are an unsuitable tool to formulate a reform strategy. Countries embarking on governance programs need to be able to clearly identify the specific institutional challenges they face.

The surveys of businesses administered in roughly parallel fashion to enterprises all over the world provide a comprehensive snapshot of institutional constraints imposed by policy instability and uncertainty; taxes and regulations; inflation, price and the exchange rate instability; finance; governance, the legal system and corruption; and the quality of public services, including infrastructure. The wealth of information on a broad range of countries, gathered in business surveys, and covering macro- and micro-economic aspects of governance as well as legal environment and infrastructure, makes it possible to generate important insights on policies and institutions contributing most to economic growth and reducing poverty. At the same time, the analysis of constraints captures their various facets along such dimensions as size of a firm, type of ownership, and region of a country. This gives an opportunity to unbundle global generalizations regarding the severity of a particular constraint and to fine-tune the policies and regulations.

The next level of analysis is accomplished to see what particular structure and characteristics of governance lead to business environment observed in a country. In an attempt to shed light on this issue, in-depth diagnostics of governance focus on institutions driving

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<sup>17</sup> Kaufmann, Kraay, and Zoido-Lobaton (1999a and b)

behavior of public officials and organizations, and mechanisms that shape rules and regulations, and performance of public agencies. The diagnostics reveal a structure of incentives and internal enforcement within public sector, explore existence and robustness of external transparency and accountability mechanisms, and measure important governance outcomes. In the WBI approach, these multiple objectives are achieved by surveying simultaneously public officials, enterprise managers, and individual users of public services.

The surveys of public officials complemented with the surveys of businesses and individuals offer important information not only on institutional environment within public agency but also on performance from users' point of view. Though officials may have specialized knowledge of public organizations, their estimates of performance are subject to respondent bias. Thus, by targeting two other groups of population we obtain more reliable indicators of governance. Also, simultaneous surveys of households and enterprises help to identify the points of vulnerability within public sector, that is, where the poor performance of governance institutions has the most detrimental impact on business and citizenry. Further, as the number of diagnostics studies around the world grow an additional international perspective is provided by comparative use of separate country diagnostic results.

**Table 2: Types of Surveys**

Types of Surveys	Conceptual Frame/ quality of government indicators	Comparability	Objective Approach	Measuring Precision	Periodic Monitoring within the country	Quality of detailed information via agency or specific subject	Increasing governance analysis	Ability to determine general challenges	Use by different Institutions within the country	Importance to prioritize reforms	Cost Effectiveness	Effectiveness for Judicial actions
Comparative Indexes of International Corruption	MEDIUM /LOW	HIGH	LOW	LOW	MEDIUM	NONE	NONE	LOW	NONE	NONE	LOW	NONE
Opinion Survey	MEDIUM	LOW	LOW	LOW	MEDIUM	LOW	LOW	LOW	LOW	LOW	LOW	NONE
Enterprise Staff Survey	MEDIUM /HIGH	MEDIUM	MEDIUM	MEDIUM	MEDIUM/ HIGH	MEDIUM	MEDIUM	MEDIUM	LOW/ NONE	LOW	LOW/ MEDIUM	NONE
Detail Diagnosis of Governance	HIGH	MEDIUM	MEDIUM	MEDIUM	MEDIUM/ HIGH	MEDIUM/ HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	NONE
"Report Cards" Quick Monitoring Surveys	HIGH	MEDIUM	MEDIUM	MEDIUM	HIGH	LOW	MEDIUM	HIGH	MEDIUM /HIGH	HIGH	MEDIUM	NONE
Quality Profound Interviews	HIGH	LOW	LOW	MEDIUM/ LOW	LOW	HIGH	HIGH	HIGH	LOW	LOW	MEDIUM	NONE
Official Data statistics	LOW	HIGH	MEDIUM	LOW	MEDIUM	LOW	LOW	LOW	LOW	NONE	LOW	NONE
Monitoring Budget Use	HIGH	MEDIUM	MEDIUM	MEDIUM/ LOW	LOW	MEDIUM	LOW	LOW	LOW/ NONE	LOW/ NONE	LOW	NONE
Precios testigos	LOW	MEDIUM	MEDIUM	MEDIUM	MEDIUM/ LOW	NONE	LOW	LOW	NONE	NONE	MEDIUM/ LOW	NONE
Judicial Investigations	HIGH	NONE	MEDIUM	MEDIUM/ LOW	NONE	HIGH	LOW	HIGH	NONE	NONE	LOW	HIGH
Video Techniques / "Sting"	NONE	NONE	MEDIUM	HIGH	NONE	NONE	NONE	HIGH	NONE	NONE	LOW	HIGH

## ADDRESSING MEASUREMENT ISSUES IN THE WBI SURVEYS OF GOVERNANCE

As noted, the strategy bringing together several techniques offers multiple advantages. In this framework, the aggregate indices allowing to assess governance along the six key dimensions are used to establish an international benchmark for each country. The comparative cross-country surveys of business environment supply information on specific institutional arrangements that promote growth, and the surveys of governance explore underlying incentive structure and several important aspects of institutional performance. In addition to a wealth of complementary information, the methodologies benefit from each other in many ways. For example, the aggregate governance indicators permit to better target particular modules of the business surveys and detailed diagnostics by “flagging” the essential weaknesses in a relative perspective.

The similar modular structure based on *the same conceptual framework* and *targeting public officials, individuals, and enterprises* serves three essential purposes: (i) ensuring comparison across countries within established conceptual framework; (ii) providing for cross-examination of responses on similar issues among different categories of respondents; (iii) custom-tailoring, if needed, a survey instrument in response to requirements and realities of a specific country accomplished by adding in-depth modules on special sectors or groups. In this section, we consider the principles underlying the design of governance assessment surveys in more detail starting from the most general issues of developing conceptual framework and moving down to the discussions of question design and sampling.

### CONCEPTUALIZATION

How do we measure such rich and complex variable as governance consistently across countries, taking into account its multiple dimensions? Munk and Verkuilen (2001) propose a general framework for the design of instruments to study democracy including important steps of conceptualization, measurement and final aggregation of data. They emphasize a proper definition of concepts, identification of attributes that are constitutive of the concept under consideration, and discuss how these attributes can be related to each other and how they can be aggregated after measurement. This framework can be successfully implemented when developing empirical tools for the assessment of governance and consists of the following steps.

- **Definition of the concept to be measured.** As there is no rule on what attributes must be included in a certain concept the researcher should be aware of either too broad or too narrow definitions. The maximist definitions decrease the usefulness of a concept by narrowing the reference base (no empirical references in the extreme case). On the other hand, the minimalist definitions risk omitting a relevant attribute in the definition of a concept.
- **Identification of attributes.** The attributes as the component parts of a concept should not omit significant features of the measured governance variables. On the other hand, different attributes should cover only mutually exclusive aspects. In addition, early on this stage it is useful to think about the relative position of attributes on “the proper branch of conceptual tree” and how the disaggregate data will be aggregated on the later stages of analysis.

- **Measurement.** Because the attributes at the lowest level of abstraction are rarely directly observed the measurement involves developing measurement models relating unobservable variables to observable indicators. In this process it is important to properly use multiple indicators that might contribute to a single conceptual attribute. Another problem is the need to recognize any sources of potential measurement error on the early stages and to select unbiased indicators that can be crosschecked via multiple sources.
- **Aggregation.** The aggregation, if possible, should be carried out without losing information in the process. Thus, it is important to carefully select the level of aggregation appropriate for a particular analysis. From a variety of aggregation rules the WBI researchers chose the method of unobserved components (see Kaufmann, Kraay and Zoido-Lobaton (KKZ), 1999) to produce a number of indicators that correspond to several widely recognized determinants of governance. However, while KKZ considers a country as a unit of observation, with the survey data it is possible (Kaufmann, Mehrez and Gurgur (KMG), 2002) to aggregate data for each country by government agency. This approach opens the whole different way of looking on institutional performance in different countries. We will present several examples of analysis using both the “raw” survey data and the aggregated by institution determinants of governance in section 4.

Following the above general framework in developing concepts for empirical assessment of governance, we rely on the basic assumption that public officials’ actions are shaped by the institutional environment, with the latter being defined as a set of implicit or explicit contracts that guide behavior. That is, public servants, operating within a specific institutional framework, face corresponding incentive structure, which consists of formal rules and regulations, informal norms of behavior, and enforcement mechanisms. The incentives defining behavior influence institutional performance. In order to quantify the incentive mechanisms and governance outcomes, we first define their attributes.

#### *Incentives and internal enforcement mechanisms*

There are several strands of theoretical literature that describe different views on how incentives influence the behavior of a public servant. One view, based on the *principal-agent* model of officials’ behavior, emphasizes amount of pecuniary benefits, strength of monitoring mechanisms, and minimal discretionary power as the most important factors that avert opportunistic behavior of a bureaucrat. On the other hand, *principled-agent* literature, dropping the assumption of official’s complete selfishness, takes into account other considerations, as for example, the agent’s identification with organizational objectives. This line of thinking focuses on such sources of agent’s motivation as a sense of organization’s mission, organizational culture and trust, predictable and defined career paths. Finally, *patron-client* view on public sector organizations sees long-term informal relationships arising between the patron and the clients within organization as the key to reducing agency problems (Manning, Mukherjee and Gokcekus (MMG2000)).

#### *External voice and accountability*

Increasingly, the external accountability mechanisms are posited to be at least as important for improving governance as internal public sector management type of determinants. The empirical evidence from micro-surveys of public officials shows that external variables, such as voice and transparency, and the absence of politicization account for a significant portion of variance in the

quality of governance (KMG, 2002). The empirical instruments associated with this finding should elicit feedback not only from public officials but also from a broad cross-section of stakeholders representing business and citizenry. In addition to public officials' opinion, these respondents provide information on external accountability mechanisms such as transparency of public organization, public voice, and politicization of decision making within organization.

#### *Governance outcomes*

The data on the incentive structure form a basis for constructing the variables-indicators of institutional environment. As a next step in exploring causal relationships between institutional environment and governance outcomes we consider the indicators of performance. Of a variety possible performance measures, the survey instruments focus on poverty alleviation impact, public service delivery, and control of corruption, which are further disentangled into measurable components. The selection of such measures allows to evaluate the economic and social costs of mis-governance and to contribute to a country specific public debate about the priorities for governance reform.

#### *Corruption*

In order to ensure the comprehensive examination of the problem (*corruption* is viewed as one of important determinants of economic growth), the general concept, similarly to the attributes that belong to institutional environment, is unbundled into a number of narrower components based on the definition and taxonomy of corruption. The questionnaire uses specially designed impersonal - to tackle sensitive issues, and closed-form - to maximize response rates questions, which reveal different facets of corrupt behavior: (i) administrative corruption (e.g. bribes to obtain better public services); (ii) corruption in procurement (e.g. bribes to obtain public contracts); (iii) nepotism and purchase of public positions; (iv) diversion of public funds and embezzlement of assets; (v) state capture and influence peddling. In addition, the survey instrument contains the questions on complaint mechanisms to report corruption as well as the measures of public official morale.

#### *Public service delivery*

The public service aspects of performance are measured in public official questionnaire with the questions on service quality, accessibility to the general population and, in particular, to the poor. On the other hand, the two other targeted groups of respondents – enterprise managers and users of public services – in their questionnaires have a special section devoted to the most frequently used public services with the questions on service quality, complaint mechanisms, and bribery in service delivering agency.

#### *Poverty alleviation*

A number of conventional human capital variables, including income levels, “accomplish” a social portrait of a respondent in the questionnaires for all three types of respondents. By matching these individual characteristics to different dimensions of governance, institutional environment, and public service delivery it is possible to follow causal relationships between institutional arrangements and alleviation of poverty.

## *INSTRUMENTS*

The multiplicity of approaches to conceptualization of institutional environment and the overall wealth of information gathered in this data collection effort stipulate the presence of a wide variety of carefully designed and tested, 'closed' questions to obtain quantitative estimates of the indicators, which are subsequently mapped into the attributes of the general concepts. The sensitive issues are explored with indirect questions, which maximizes response rates.

The formulations of the questions are consistent with the above conceptual framework, and the attempt is made to evaluate each attribute along various dimensions and using several types of respondents. For instance, not only we design separate questions for several dimensions of external and internal transparency but also for transparency in the administration of personnel, in the administration of budget, and in the process of hiring. Furthermore, the service performance is measured with questions addressing all three groups of respondents: public officials, individual users of public services, and enterprise managers. This approach allows to get information about the same institution from different sources. Correspondingly, the questionnaires were divided into three parts that address respectively households, enterprises and public officials with the specialized survey added on demand to study specific issues of interest.

In questionnaire design we use a number of measurement performance criteria that set a stage for selecting the instruments and wording the questions. The relative performance of different instruments is analyzed using a number of measures. The comparison across different dimensions allows to single out the strengths and weaknesses and helps to synthesize the questions, which produce experiential and objective indicators of various governance concepts. Specifically, the following general considerations are taken into account:

- ◆ **Quality of government indicators.** Generally, investigation methods and in-depth interviews give a better assessment of governance. However, this issue can be addressed if the surveys of "target" groups are used instead of general public opinion polls. The indicators can be further perfected if several groups (like public officials and users) are approached simultaneously with the questions about the same public service or government agency.
- ◆ **Comparability.** The issue of comparability gains in importance as more cross-country data becomes available. Unfortunately, so far not many survey instruments were designed to allow for direct comparison, and only aggregate measures such as international indices of corruption and official statistics have been used for this purpose. WBI drew on the same concepts (the issue of conceptualization will be considered later in the paper) in developing survey questions for different countries and that is why direct comparison of non-aggregated governance indicators has become possible and meaningful.
- ◆ **Objective approach.** All described methodologies rely on some subjective measures of governance and, therefore, there is a need for good objective indicators. In its questionnaires, WBI employed recent advances in classification of governance determinants and introduced whenever possible precise quantitative measures for them. Thus, it became possible to construct objective aggregate indicators of governance using responses of several audiences (e.g., users and providers of public services).

- ◆ **Increasing precision.** The precision of estimates derived from a random sample rises as the sample size increases. However, when the sample is large the implementation becomes prohibitively expensive. WBI researchers have used country specific combinations of two-stage sampling methods in order to improve precision and to meet efficiency requirement.
- ◆ **Periodic monitoring.** Most of the surveys (as opposed to investigation methods) can be relatively easily modified to do periodic monitoring of the situation. In fact, the WBI plans its follow-up surveys within 1-1.5 years since the initial survey.
- ◆ **Quality of detailed information on agency or specific subject.** Investigation methods generally supply better agency specific information. However, some types of detailed surveys may provide at least the same level of quality. For example, WBI instruments utilizing the information from both users and public officials can provide good assessment of the performance indicators for each institution under investigation.
- ◆ **Increased governance analysis.** Only diagnostics especially focused on various aspects of governance would meet this criteria. However, a number of questions on governance practices included into WBI questionnaires supply information sufficient to construct various performance measures that can be used as explanatory variables in the analysis.
- ◆ **Ability to determine general challenges.** The mix of investigation methods and detailed survey diagnostics can be effective to highlight general problems of governance. For instance, WBI questionnaires include questions about the level of trust to a number of governmental agencies, which could be used to point out problem areas and directions for a reform.

In addition, other characteristics such as the possibility of use by different institutions within a country, cost effectiveness, and effectiveness for judicial actions were considered. The resulting WBI methodology focused on surveys of specific groups of population, which offers, in addition to already mentioned advantages, benefits in terms of efficient sample design.

- ◆ Using **specific groups**, which have a knowledge of public institutions, as the *target population* for the survey allows to design efficient *frames* for sample selection. Indeed, the general public is not aware of governance issues, and, similarly, only a part of general population uses public services. Thus, a simple random sample just may not have enough observations to permit analysis of a specific governance problem. On the other hand, restricting our frames to much smaller populations of users and providers of services and using stratified random sampling within those frames allowed to generate the number of observations sufficient to conduct the analysis in great detail.
- ◆ **Multifaceted approach.** As mentioned, because any single group of respondents is subject to perception bias we rely on the opinions of several “target” groups asking simultaneously the questions about the same institution, service, etc., which makes possible to compare the answers and obtain more reliable estimates of performance.
- ◆ **Quantitative estimates.** The empirical tools first (and still often) used to evaluate governance focusing mostly on the perceptions of a respondent. As researchers advanced

towards better understanding of underlying determinants of governance, it became clear that it was imperative from a policy and a research point of view to be able to assess governance in an objective manner. This led to the development of a new generation of empirical tools that permit gathering objective and quantitative information on the quality of governance. WBI survey instruments in every possible instance use quantitative questions allowing to take advantage of statistical generalization on the later stages of analysis.

- ◆ **Multiple questions.** We use multiple questions on the same topic in order to construct lower and upper margins for some important measures of governance.
- ◆ **Addressing sensitive issues.** Questions that might be sensitive to respondent are formulated using an abstract point of reference (typical firm in respondent's industry, typical amount of bribe payment, etc).
- ◆ **Addressing perception bias.** The latest WBI survey instruments apply purportedly designed question, which measures respondent's tendency to *kvetch or kvell* (see Hellman, Jones, Kaufmann and Schankerman, (2000)).

#### ORGANIZATION OF QUESTIONNAIRES

The first sections of public officials' questionnaire are organized along the three dimensions from the basic definition of governance: (i) the process by which public officials are selected, held accountable, monitored and replaced; (ii) the ability of agency to develop, implement, and enforce sound policies and regulations; (iii) the capacity of agency to manage resources efficiently. The questions are grouped into the following sections, which roughly correspond to the appropriate part in the definition of governance:

- **Administration of personnel.** This section contains a number of measures that evaluate the personnel management practices within the organization. The questions measure the quality, formality, and stability of rules, transparency and accountability, wage and work satisfaction, internal promotion mechanisms, and motivations to work in public agency.
- **Administration of budget.** The section evaluates the ability of public agency to develop and implement sound policies with respect to administration of budget and to manage its resources efficiently. Again, the quality, formality and stability of rules are explored first, followed by the questions about transparency and accountability in administration of budget, and about resources available to the agency.
- **Performance.** The next group of questions explores general aspects of organizational culture including employee motivation, understanding of agency's mission, complaint mechanisms, external hiring procedures, and perceptions about the quality and accessibility of services provided by the agency from public official's point of view.

Following the basic definition of governance the aforementioned public sector management indicators in public officials' questionnaire are complemented with the questions on credibility of particular government agencies and with the section measuring the key aspect of governance

outcomes - the control of corruption. However, as mentioned, the approach was to survey directly and simultaneously various groups of the population – households or users of public services, enterprise managers, and public officials - with all three parts of the survey based on the same concepts and centered on institutions rather than individuals.

The general purpose of enterprise survey was to study the business environment, with especial emphasis on the effects of public sector governance and corruption on private sector development. This survey examined firms' roles as users of public services and subjects to regulations, and clients for licenses and permits. Special attention was devoted to the judicial system. The survey of households intended to study the citizens' experiences with and perceptions of corruption in the public and private sectors. Citizens were surveyed in their roles as users of public services, subjects to regulations, and clients for licenses and permits, with special focus on health care and education.

Consistent with these ideas, the sections on corruption and trustworthiness of government agencies together with a specially designed for user and managerial questionnaire section on public service delivery became an organic part of our empirical instrument allowing for triangulation of responses and providing the means to check responses and to increase the precision of estimates. Thus, the sections common for all three types of respondents were :

- **Corruption.** Based on the definition of corruption, the section in public official's questionnaire covers various instances of bribery, job purchase, illegal diversion of funds, and state capture. On the other hand, the section designed for user questionnaire focuses on bribes paid to obtain public services, mechanisms to report corruption, and trustworthiness of various government institutions. The enterprise questionnaire, in addition to bribes for public services, investigates time and monetary costs of corruption, bribery in procurement, and state capture.
- **Service performance.** This section, designed for user and enterprise questionnaires, complements information on quality and accessibility of services obtained from the survey of public officials. While in the survey of public officials the questions are asked with regard to the service provided by the agency, here the questions include a list of most often used services, which are evaluated in terms of quality, user satisfaction, and control of corruption.

Using the above modular structure as a basis for the design of country specific survey instruments has numerous advantages. First, it is relatively easy to adapt the modules to local needs and realities by adding in-depth instruments as required while preserving the general conceptual structure, which is important for subsequent aggregation of indicators and analysis. For example, the users' questionnaire could be expanded to include the in-depth section on the vital public services such as education and health care, and as mentioned, the enterprise questionnaire could explore the problems of judiciary, which is an important element of business climate in a country.

This conceptual framework, applied in various countries, allows also to draw cross-country comparisons complementing and deepening the insights obtained by using aggregate governance indicators available for more than 175 countries worldwide. Finally, it becomes possible to develop a new set of aggregate indicators of governance based not on expert opinions but on objective and

much more precise measurements from the surveys of public officials, users, and enterprise managers.

### *DESIGN OF QUESTIONS*<sup>18</sup>

The quantitative analysis of governance variables requires thoroughly worded and consistent across countries questions as well as rigorous coding requirements. In this connection, a researcher should make sure that similar questions produce comparable measures in various social environments. These requirements imply a number of “know-how” rules to follow as well as careful respondent behavior analysis and pilot-testing of questions. The general problems to avoid in question design are: (i) an inappropriate level of wording; (ii) ambiguity; (iii) multiplicity of opinions in one question; (iv) manipulative questions; (v) inappropriate emphasis; and (vi) emotional question.

Ideally, a researcher would prefer questions producing objective and experiential data. However, it is not always possible to avoid perceptual measures in the surveys of governance. In such cases, the respondent is asked to rate issues on some relative scale. The relative scales should be everywhere the same in order to ensure that cross-country data are comparable. For the purposes of quantitative analysis it is desirable to have a variable with as much variance as possible. Thus, the scale should include, if possible, many categories. On the other hand, it has been observed empirically that the scales with 10 and more categories do not increase variation of a variable. In addition, it has been found that scales defined adjectivally are very hard to translate exactly across languages. Therefore, the numerical scales with the adjectives defining only the ends of scale and with 5 to 7 categories, plus the separate “Do not know” category, could be recommended as optimal for measuring governance.

The authors of questions should consider introducing filters and branching questions before the actual ones, especially when the question may induce biased answer. Such practice increases the probability that the same questions will be answered uniformly in various settings. Also, if a response set includes only one side of distribution (like the scale, ranging from “no obstacle” to “severe obstacle”, which implies that respondent is not allowed to favor the issue under examination), the branching question could dramatically reduce a number of biased answers.

The ordering of questions could influence respondent if the questions are related. Such “context effects” happen when a specific question makes a respondent to answer a general question in contrast or in similar way to the preceding specific question. It was observed that, in general, a specific question immediately preceding general question generates contrast effect. However, if the specific and general are separated by several unrelated questions, the assimilation effect is observed (that is, a general question is answered similarly). If a general question is asked first, there is no way to determine which of the effects will prevail, and to minimize the problem of ordering it is better to avoid ambiguity and to ask general questions reflecting experiences or actions of a respondent.

Finally, the respondents may not want to admit engaging into illegal activities. There is no way to ensure that sensitive questions are answered truthfully. However, it is possible to minimize the bias by asking indirect questions about typical firm, public official, or individual. Another way to

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<sup>18</sup> This section draws on Recanatini et al., (2000).

deal with the problem is to include in survey a self-administered anonymous component (to be returned, for example, in mail) in addition to a personal interview.

## SAMPLING

Generally, survey methods rely on information obtained from individual respondents, who have been chosen according to predetermined sample selection procedure. There are several important steps that must be followed when designing a sampling scheme. First, in connection with a given problem one should define a *target population*. Because not all members of the target population are accessible the next step is to prepare the list of units to be surveyed, which is called a *working population* or *frame*. Then, a proper sampling method is applied to a chosen frame. The literature on survey design discusses various sampling methods intended to allow for subsequent analysis of a specific problem. The sampling rules, depending on the purpose of survey, may include entire working population in the selection procedure or they may single out specific groups within the working population at the same time preserving features (e.g. composition by age, gender, education, etc) of a general population within each group. In the first case, when a sample is randomly drawn from a frame we obtain a *simple random sample*. The alternative random sampling designs of interest to us would be the following two sampling techniques.

- *Cluster sampling* refers to the procedure when the population is first divided into smaller clusters (primary units) and a random sample of clusters is drawn. Subsequently, elementary units are randomly selected within each chosen cluster.
- *Stratified sampling* uses available information about population in order to split the population into groups (strata) with uniform characteristics. Then a random sample is drawn from each stratum.

Such two-stage sample design procedures comparing to simple random sampling, in addition to cost efficiency, allow to increase precision of estimates. For example, having prior knowledge of variance within stratum would allow us to increase overall precision of estimates obtained from the stratified sample by deliberately under-representing the groups with smaller variance, because fewer observations will be needed to get required precision, and by over-representing the strata with higher variability, where more observations will be necessary to get precise information.

Using the lists of public institutions in each country, the WBI researchers separated the working populations of public officials and users (individual or corporate) of public services into separate clusters associated with each public institution. Assuming that characteristics of elementary units are not different among institutions such procedure would be equivalent to defining clusters in cluster sampling. However, in contrast to cluster sampling there was no random sampling of agencies, and all the institutions were surveyed. Finally, clusters of each working population were stratified according to age, gender, education, and type of settlement (urban or rural), and a proportional random sample was drawn from each stratum<sup>19</sup>.

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<sup>19</sup> In Bolivia, within each institution, a stratified random sample of at least 1 percent of all staff was selected at each of the following decision-making ranks: top management, middle management, and rank and file (Source: KMG 2002).

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## 5. EMPIRICAL ASSESSMENT OF THE QUALITY OF GOVERNANCE: APPLICATIONS AND ILLUSTRATIONS

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In this section we present a few illustrations of using the data collected by WBI to measure various aspects of governance. The on-line Governance Databank integrating the access to the governance data and interactive web-tools for an easy analysis tailored to each user's needs has been developed and is available at <http://info.worldbank.org/governance/>. The brief description of the data and interactive tools is provided in the box.

### **Box 4: Governance Databank and Interactive Web Tools**

The Governance group at the World Bank Institute supports the collection, rigorous analysis and dissemination of data on governance to facilitate empirical research, capacity-building, and learning programs. The data on governance compiled from different sources, as well as coming from worldwide surveys of enterprises, households, and public officials were integrated into a single web accessible databank. The interactive web tools provided with the databank not only allow users to access the data but also to obtain custom-tailored governance information on selected countries and across various dimensions in the form of worldwide governance maps, tables, and charts. The datasets are currently published on <http://www.worldbank.org/wbi/governance/datasets.htm> and include:

#### *I. Worldwide Governance Research Indicators Datasets, 2000/01 and 1997/98*

This dataset contains the updated composite governance research indicators for six dimensions of governance for 2000/01 and 1997/98. The composite governance research indicators are constructed using an unobserved components methodology and drawing on 17 independent sources of subjective data on perceptions of governance. The data is available for 175 countries on the six dimensions of Governance: i) Voice and Accountability; ii) Political Stability; iii) Government Effectiveness; iv) Regulatory Quality; v) Rule of Law; and vi) Control of Corruption.

#### *II. World Business Environment Survey (WBES)*

The WBES, administered to over 10,000 enterprises in 80 countries and one territory from 1999-2000, utilizes a standard core enterprise and fairly uniform survey methodology to generate indicators of business climate in a country.

#### *III. Transition Economies Enterprise Survey (BEEPS)*

Recently conducted enterprise survey in 22 transition economies focuses on the quality of governance across Central and Eastern Europe and the former Soviet Union from a firm-level perspective.

#### *IV. World Development Report 1997 Business Survey*

The survey was aimed at better understanding of the constraints imposed by government actions that hinder development of private business. The dataset covers 67 countries.

#### *V. Unofficial economy dataset*

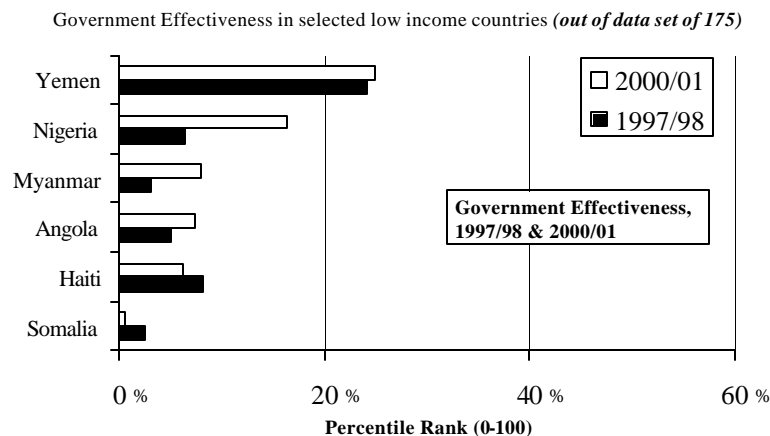
The dataset contains measures of the unofficial economy for 69 countries across the world.

#### *VI. In-depth country diagnostic surveys*

The datasets contain information from in-depth governance diagnostic surveys of public officials, households, and enterprise managers.

As mentioned in the previous section, the most general aggregate governance indicators methodology allows to estimate country levels of governance and establish relative ranking of a country across six dimensions of governance, namely: (i) voice and accountability; (ii) political stability and lack of violence; (iii) quality of the regulatory framework; (iv) government effectiveness; (v) corruption, and, (vi) rule of law.

**Figure 4: Governance Aggregate Indicators**



Note: Only selected (low income) countries depicted here, for illustration. Each country estimate subject to margin of error, which is measured as well and available in dataset; caution is thus needed in interpretation. No precise ranking can be implied. Source: [KKZ Governance Research Indicators 2002](http://www.worldbank.org/wbi/governance/govdata2001.htm). Data, methods, charts and background materials access through web-interactive tool at : <http://www.worldbank.org/wbi/governance/govdata2001.htm>. Research indicators do not necessarily reflect official institutional views.

The corresponding data on 175 countries of the world provide a benchmarking perspective to the more detailed measures of governance. As an example of analysis with this data, the Figure 4 illustrates the change in indicators of governance effectiveness for a subset of low income countries from 1997/98 to 2000/01. The complete data set and web-based tool allowing to analyze data interactively is available at: <http://www.worldbank.org/wbi/governance/govdata2001.htm>.

### FROM WORLDWIDE AGGREGATE GOVERNANCE INDICATORS TO CROSS-COUNTRY ENTERPRISE SURVEYS.

While they contain useful information in synthesis form, and its margins of error can be measured and are typically lower than any single survey or expert poll input, aggregate indicators tend to hide the potential richness of disaggregated and unbundled data. For instance, specific firm-level data can elicit detailed information on the quality of public institutions, corruption and state capture, government services, and regulatory environment in a country. The World Business Environment Survey (WBES), administered to enterprises in 80 countries, provides a basis for making regional comparisons of investment climate and business environment, as well as comparisons of the severity of constraints affecting enterprise depending on their characteristics – such as size or ownership. It captures firm reports of key constraints in the business environment—which in turn shape operational and investment decisions—as well as several quantitative indices of firm experience. See Box 5 below for details on the WBES and its report ‘Voices of the Firms’.

As detailed in Box 5, the report on WBES suggests that it is misleading to focusing on a simple worldwide average for any constraint; instead the analysis of regional and country-specific results is more informative, given the significant variance across regions.

### **Box 5: Assessing the Investment Climate through Comparative Enterprise Surveys: The World Business Environment Survey (WBES) and 'Voices of the Firms'**

How can one assess in a comparative setting the environment for doing business and investing in countries around the world, incorporating a governance perspective? The World Business Environment Survey (WBES), administered in roughly parallel fashion to enterprises in 80 countries, provides a basis for making regional comparisons of investment climate and business environment conditions, as well as comparisons of the severity of constraints affecting enterprise depending on their characteristics—such as size (see text in this section and figure 5 below) or ownership, and to perform country-specific evaluations. The results are presented in *'Voices of the Firms'*. In it, the constraints are presented by region and many by firm size, focusing in particular on the findings regarding reported constraints imposed by 1) policy instability and uncertainty; 2) taxes and regulations; 3) inflation/price instability and the exchange rate; 4) finance; 5) governance, the legal system and corruption, and 6) the quality of public services, including infrastructure. The analysis are based on a sample of 10,090 enterprises that responded to the core questionnaire. Furthermore, a selective analysis of key determinants of firm performance and their behavior is provided. Based on the research and empirical analysis, it is pointed out which constraints affect firm-level outcomes the most, and also what types of firms are affected in particular by different business constraints. Further, an [interactive web tool](#) to access the data in a manner tailored to each user's needs has been developed.\*

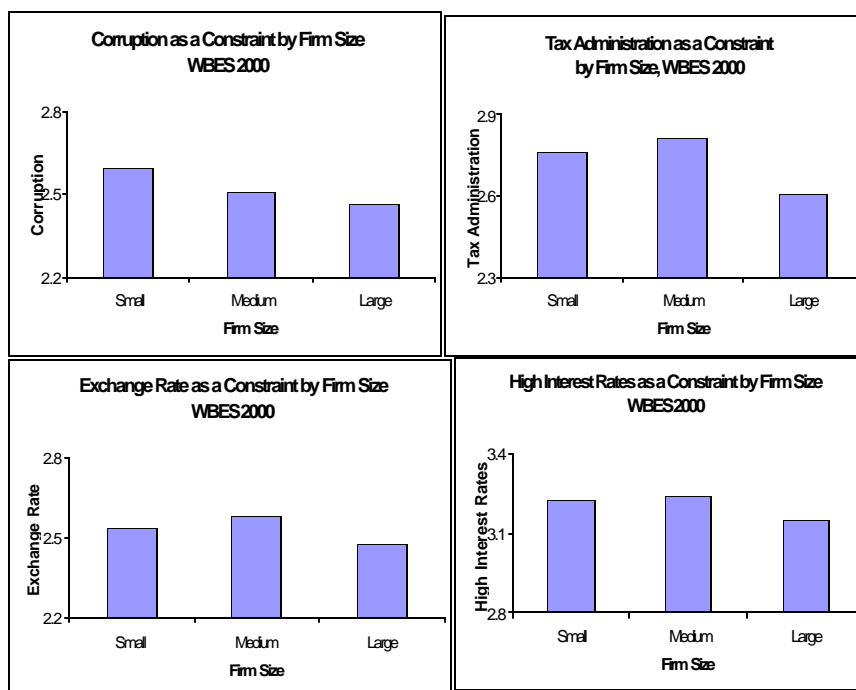
In terms of its main findings and overall constraints to enterprise, the report presents many salient results, only selected ones are highlighted here. Focusing on a simple average for the overall world sample, the following constraints stand out: taxes and regulations, financing, policy uncertainty/instability, and inflation. Yet such worldwide average results mask crucial differences across regions, and particularly between industrialized and developing countries. For OECD, newly industrialized East Asian countries, and transition economies, the leading obstacles identified by the firms where indeed taxes and regulations, financing, policy instability, and inflation. However, for developing countries (Africa; Latin America and the Caribbean, LAC; Middle East/North Africa, MENA; South Asia; and East Asia) the leading constraint is corruption, followed by inflation, financing, policy instability, and infrastructure. Indeed, in four developing regions, South Asia, Africa, developing East Asia and MENA, corruption figures as one of the three leading constraints. Salient regional differences emerge. For example, in South Asia, street crime imposes the leading constraint, whereas in Africa, infrastructure is identified as the second leading problem after financing. In Central and Eastern Europe (CEE), inflation ties with taxes and regulations as the leading constraints. The large variance across regions (and countries) in the severity assigned by responding firms to the various constraints points to the importance of assessing the results by region and country, rather than relying on worldwide averages.

\* <http://info.worldbank.org/governance/wbes/>

A key result from the WBES analysis, presented in ‘Voices of the Firms’, suggests a complex relationship between firm characteristics and the severity of the constraints reported by a business. By so doing, this type of work illustrates the importance of carrying out such empirical analysis, as it challenges conventional wisdom in terms of the accepted simple link between firm size and severity of constraint faced by enterprise.

In particular, the data indicate that for most categories of obstacles, small and medium enterprises identify themselves as more constrained than larger firms. Yet at the same time, the empirical exploration illustrated by Figure 5 advances the notion of the *forgotten middle*, challenging the orthodoxy that claims

**Figure 5: Severity of Constraints by Firm Size**



that invariably the smaller the firm, the more severe the constraint. Indeed, while smaller firms are specially afflicted by some constraints, such as in the case of corruption, medium sized firms face more daunting constraints in terms of taxes and regulations as well as property rights protection, and mid-sized firms are more affected by an inadequate exchange rate regime than smaller firms. These results suggest that efforts to level the playing field, which unduly target micro-enterprises and small enterprises may

overlook important constraints to medium-sized enterprises. The interactive web tool to access the data is available at <http://info.worldbank.org/governance/wbes>.

### IN-DEPTH COUNTRY DIAGNOSTICS

The in-depth detailed diagnostic surveys complement the aggregate indicators and firm-level surveys by focusing on institutions that shape governance and gathering the information from three categories of respondents. The survey instruments to collect these data were developed in order to quantify the attributes of concepts similar across countries. That is why, on many occasions, the data corresponding to single questions in survey questionnaires have a stand-alone analytical value for cross-country comparisons.

In addition, on the later stages of the analysis it is beneficial, using the aforementioned conceptual framework, to group single questions into clusters that characterize the attributes of governance. Then, using the question as a component of a synthetic index that measures one of the broader policy variables, it becomes possible to conduct formal statistical testing of hypotheses

regarding cross-country differences in governance with the data gathered simultaneously on public agencies, firms, and individuals.

Moreover, because of the sound conceptual framework, stringent requirements to cleaning and coding (double data entry, logical cross-checks, etc), and in-depth detailed approach, the new detailed indices based on survey data permit statistically robust causality tests, which increasingly challenge such conventional tenets as the prevailing role of wages, internal rules and legal regulations in shaping the behavior of public officials (KMG 2000).

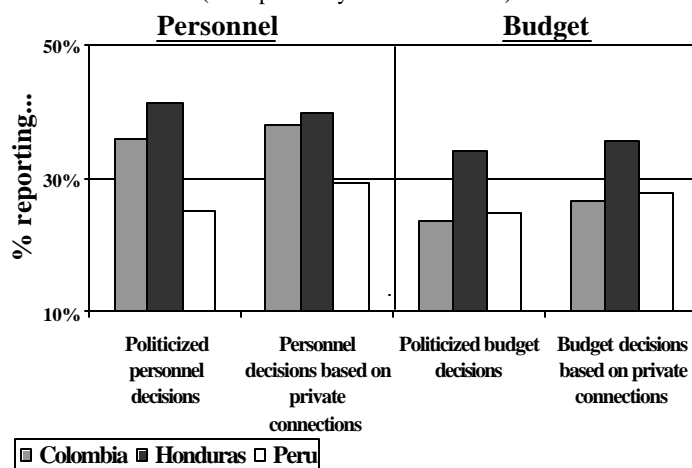
An example of aggregating the data from the survey of public officials in Peru into detailed indices reflecting various dimensions of institutional environment follows. The questions corresponding to each attribute (or, in other words, to a hypothetical determinant of governance) are aggregated using the methodology of unobserved components (Kaufmann et al, 1999). The specific indicators included into determinants of governance are given below in the Table 3:

<b>Table 3: Measuring Determinants of Governance</b>	
<b>Determinants of Governance</b>	<b>Indicators</b> <i>(as measured by a survey questionnaire)</i>
Transparency	<p>Decisions in administration of personnel, and in administration of budget, and in recruitment process are transparent</p> <p>Decisions in the administration of personnel are announced and open to insiders within organization (and to outsiders if appropriate)</p> <p>Decisions in the administration of budget are announced and open to public review</p> <p>Decisions in recruitment process are open to public review and suggestions of users</p> <p>An agency discloses its quarterly financial reports for a public review</p>
Quality of rules	<p>Rules in administration of personnel, and in administration of budget are formal and written</p> <p>Rules in administration of personnel, and in administration of budget are simple, clear, and easy to understand</p> <p>Rules in administration of personnel, and in administration of budget do not require an excessive number of administrative steps</p> <p>Rules in administration of personnel, and in administration of budget are stable</p>
Enforcement	<p>Rules in administration of personnel, and in administration of budget are well supervised and strictly applied</p>

Meritocracy	Decisions in administration of personnel are based on professional experience, performance, and education
Politicization	Decisions in administration of personnel, and in administration of budget, and in recruitment process are based on political connections, affiliation, or pressures
Wage satisfaction	Wages and social benefits are satisfactory
Voice	Clear mechanisms to account for the needs, complaints, and preferences of users exist
Mission	Public officials on all levels have a clear idea about, and identify with objectives and strategies of institution.  Public officials clearly understand their roles and responsibilities
Service performance	Public officials believe the service provided by their institution is of high quality, provided at relatively low cost, and satisfies demands of users
Service access	Public officials believe the service provided by their institution is accessible to poor
Resources	Public officials believe their institution has sufficient amount of budgetary resources, personnel is properly trained; there is an adequate amount of office equipment, space, infrastructure
Audit	Decisions in administration of personnel, and in administration of budget, and in recruitment process are subject to regular internal and external audits, and all transactions are properly recorded

**Figure 6: How personnel and budget decisions in public institutions are made?**

(As reported by Public Officials)



Source: WBI diagnostics and survey data; various countries; 2001.

The methodology allows to obtain uniform and comparable cross-country indices of governance and corruption based not merely 'subjective' data, as in case of relying on generic perception questions, but on experiential data from surveys of public officials, enterprise managers and individual users of public services. This permits to conduct rigorous empirical testing of hypotheses to distill what factors matter in particular in the country under study (i.e. to do causality tests vs. simple correlations). The following case studies illustrate the examples of using the in-depth data in *raw* and *aggregated* form to analyze governance and corruption.

## GOVERNANCE COUNTRY DIAGNOSTICS: ILLUSTRATING KEY EMPIRICAL DIMENSIONS

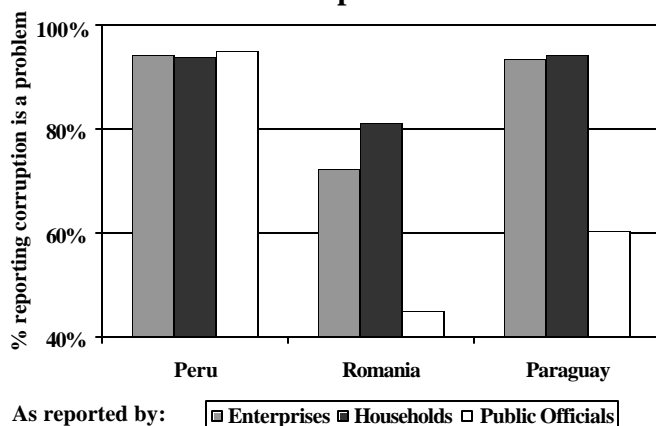
This section relies on several questions capturing the most general aspects of governance and extent of corrupt practices as perceived by *households*, *enterprises* and *public officials*.

First, we turn to respondent experiences to illustrate how the non-aggregated survey data are employed to stress the institutionalized practices of governance in public agencies by using the examples of three countries in Latin America. It turns out that the significant proportions of public officials in these countries (20%-40%) report that decision making process in their institutions is plagued with the signs of corruption (Figure 6).

The surveys also investigate the level of trust to various public agencies, which provides a basis for cross-country comparison of attitudes towards important governance institutes. The trust of citizens is a *sine qua non* of legitimate government. However, as shown in Figure 7, in some countries more than half of public officials report that Parliament is corrupt, and the proportion with similar views among users is even larger.

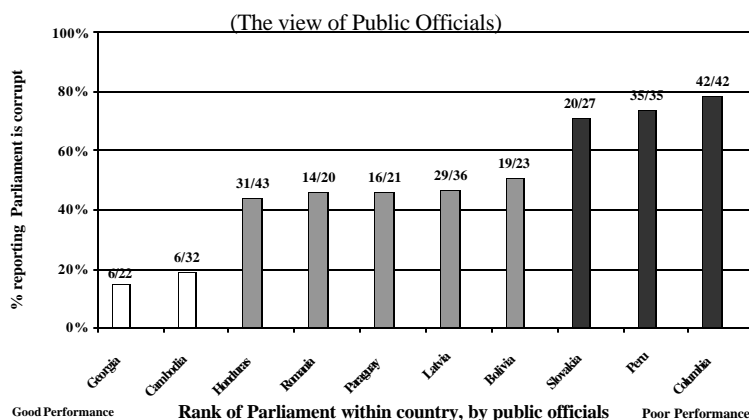
In many countries, the overwhelming majority of respondents identifies corruption as a top socio-economic challenge and regard it as one of the most serious obstacles to business development. Figure 8 provides a comparison in the attitudes to the problem of corruption. The answers are fairly consistent across different categories of respondents with exception of public officials in some countries.

**Figure 8: Cross-Country Comparison about Corruption**



Source: WBI diagnostics and survey data; various countries; 1999-2001.  
Note: The list of questions is specific for each country and provided in the Appendix.

**Figure 7: Parliaments: Misgoverned or Honest Institutions?**



Source: WBI diagnostics and survey data; various countries; 1999-2001. <http://www.worldbank.org/wbi/governance/>  
Note: The height of the column charts reflects the percentage of public officials reporting that Parliament is dishonest institution. The ratio at the top of each bar reflects the ranking of Parliament relative to other government institutions.

The survey data also make possible the analysis beyond the general diagnostics of problems, and offer an insight on mechanisms that drive “a wheel” of corruption. Public officials, for example, say that complaint mechanisms to report corruption are flawed across several dimensions (Figure 9). Also, the

evidence shows that the majority of users who paid a bribe were either urged to pay by public officials or felt obliged to do so because they believed it is the appropriate way to solve a problem (Figure A2).

### THE MANY FACES OF CORRUPTION

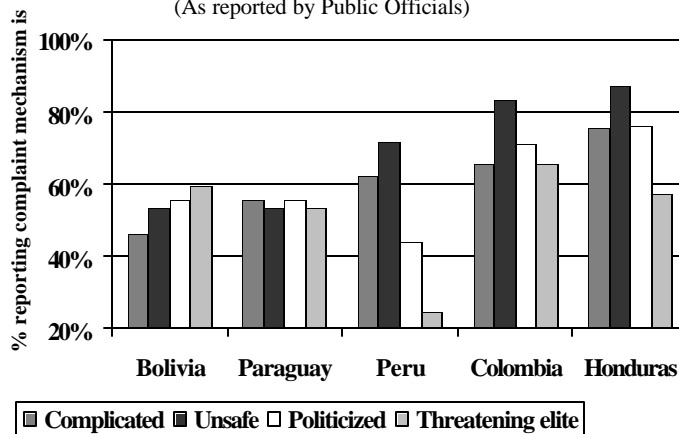
In-depth surveys of governance help to unveil various forms of corruption: (i) administrative corruption (e.g. bribes to obtain better public services); (ii) corruption in procurement (e.g. bribes to obtain public contracts); (iii) nepotism and purchase of public positions; (iv) diversion of public funds and embezzlement of assets; (v) state capture and influence peddling; by providing multiple measures on different dimensions of each form.

For example, the problem of state capture is further unbundled into: (i) Central Bank mishandling of funds; (ii) sale of Parliamentary votes on laws to private interests; (iii) sale of ministerial or presidential decrees to private interests; (iv) sale of decisions of regulatory commissions and local authorities; (v) sale of higher court decisions; (vi) contributions paid by private interests to political appointees and political parties; (vii) decision in administration of personnel based on political ties; (viii) decision in administration of budget based on political ties. The detailed indicators allow to analyze separately different forms of corruption and to construct multiple corruption indices for causality tests.

The added value of the survey data in comparison with the aggregate indicators is in the ability to stratify the analysis across a number of dimensions in addition to capturing general trends. We show the power of the data with simple case-study illustrations disentangling several forms of corruption along various dimensions.<sup>20</sup> The general outlook on several types of corrupt behavior in public administration, corruption in public procurement, and provision of public services as viewed by different categories of respondents is presented in Figure 10.

**Figure 9: Vulnerabilities of Corruption Reporting: Complaint Mechanisms**

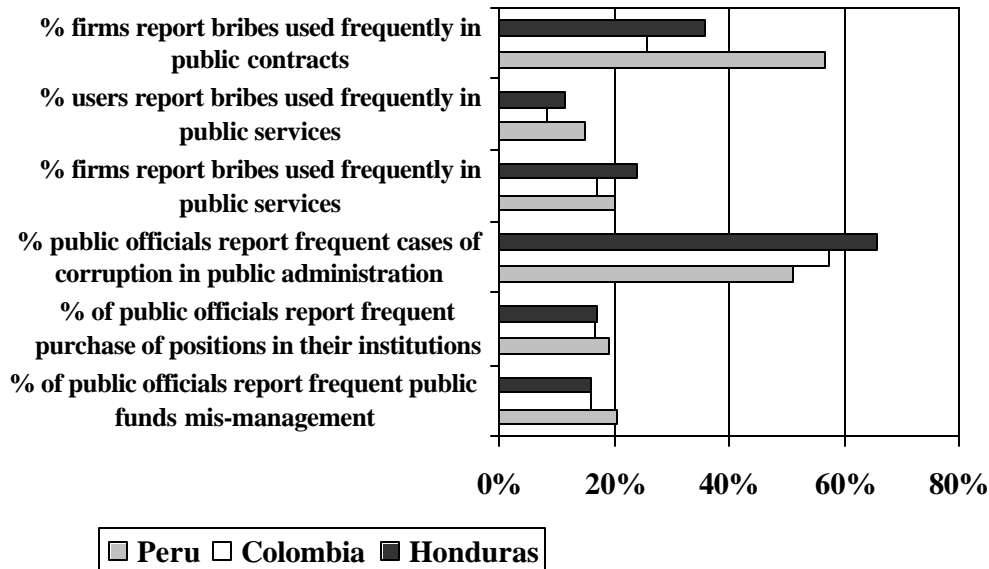
(As reported by Public Officials)



Source: WBI diagnostics and survey data; various countries; 1999-2001.

<sup>20</sup> The data presented in the next pages concentrates on 7 countries. Survey data for additional countries is available. To access the different databases, please visit: [http://www.worldbank.org/wbi/governance/diag\\_surveys.htm](http://www.worldbank.org/wbi/governance/diag_surveys.htm)

**Figure 10: Corruption in Colombia, Honduras, and Peru**  
(As reported by Citizens)



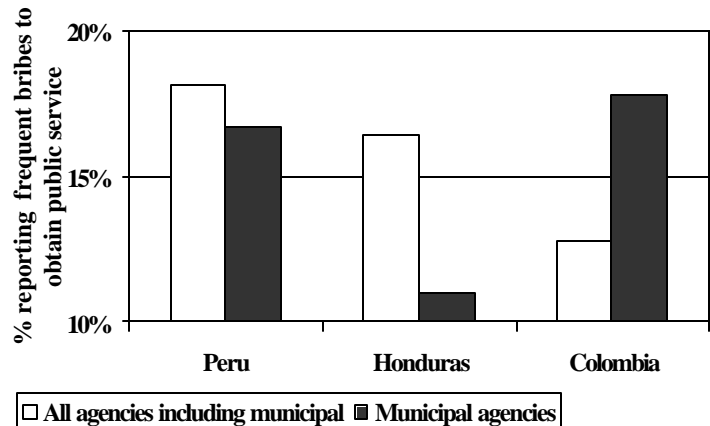
Source: WBI diagnostics and survey data; various countries; 1999-2001.

**Bribes to purchase public positions.** As shown, in addition to general reporting about the cases of corruption, public officials admit the practice of purchasing positions in their own institutions and even frequent public funds mismanagement (Figure 10).

**Corruption in provision of public services.** On average, one tenth to one fifth of individual users and enterprise managers report they were asked to pay a bribe when trying to obtain a public service. (see Figure 10) Contrary to expectations, public officials provide a similar answer, when asked about their institution, reporting that bribes for a service are common in their agency.

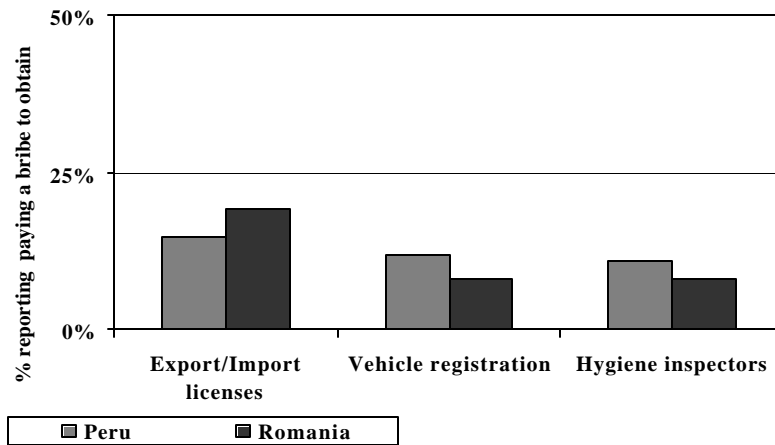
The data allows to unbundle further the extent of corruption. An extra flexibility to the analysis is added if responses are stratified across some dimension. Figure 11 describes the level of corruption as reported by public officials

**Figure 11: Public Officials at Different Levels of Government Report Different Levels of Corruption: Bribes to Obtain Public Services**  
(As reported by Public Officials)



Source: WBI diagnostics and survey data; various countries; 2001.

**Figure 12: Public Services and Bribery in Peru and Romania**  
(As reported by Managers)



Source: WBI diagnostics and survey data; various countries; 1999-2001.

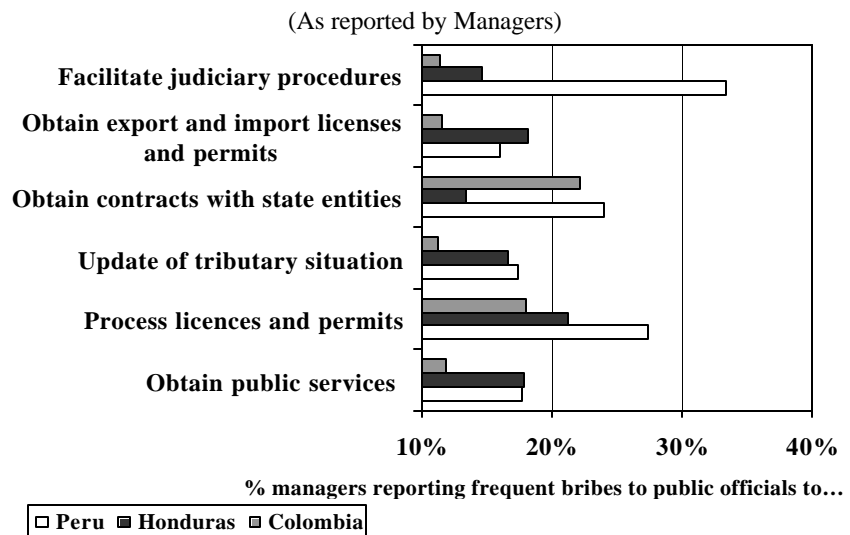
countries and for selected public services. Interestingly, the data shows that users are more likely to pay bribes to obtain some services than others. The complete list of services consists of 12-15 entries (depending on the country). The questionnaire provide also information on the level of satisfaction of the user, the incidence of bribe extortion and amount of bribes paid for the service.

As emphasized earlier on, corruption can take different forms. Each form highlights a specific institutional weakness that could be addressed by an appropriate policy change. Figure 13 provides an additional example of the richness of the surveys, offering a breakdown of corruption by type of public service searched by enterprises. Firm managers report that the process of obtaining various permits and contracts with state agencies, as well as judiciary procedures are the public transactions that most often require a bribe to be completed.

employed in different government agencies. The breakdown highlights how public officials working in different agencies observed different levels of corruption. This breakdown can provide valuable information on the institutional development of a country especially when considering or evaluating the results of a decentralization process.

The data also allows to identify the public services in which bribery occurs the most frequently. Figure 12 reports managers' responses for different

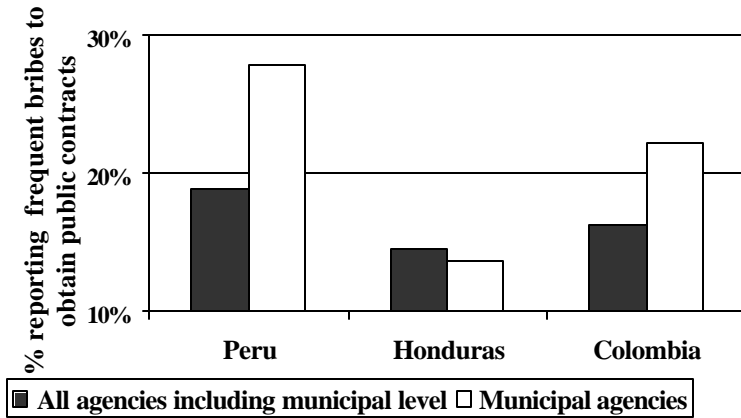
**Figure 13: Corruption in Public Sector in Peru, Honduras and Colombia**  
(As reported by Managers)



Source: WBI diagnostics and survey data; various countries; 2001.

**Figure 14: Public Officials at Different Levels of Government Report Different Levels of Corruption: Bribes to Obtain Public Contracts**

(As reported by Public Officials)



Source: WBI diagnostics and survey data; various countries; 2001.

**Corruption and bribes in procurement.** The survey also permits to identify an agency and a level of government, where bribes to obtain public contract are more frequent, by measuring direct experiences of public officials working in the agency (Figure 14).

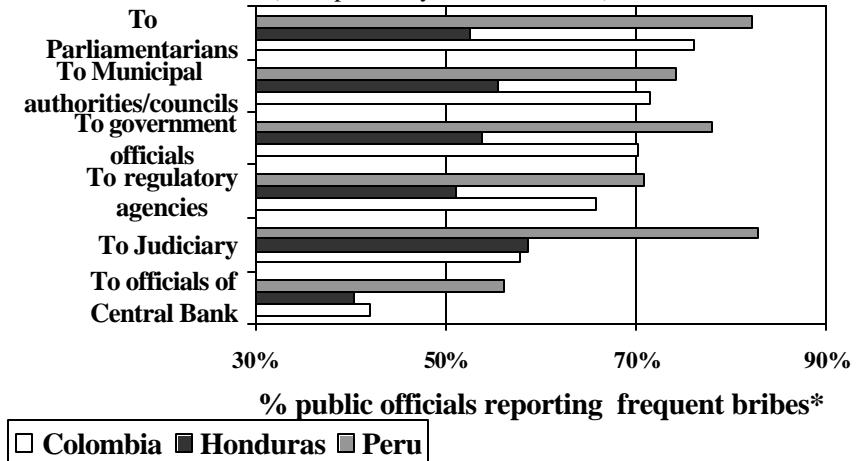
In addition, cross-country examination of public bidding procedures reveals that a significant proportion of managers, in some countries well above 50%, thinks firms have to make extra-official payments to win contracts (Figure A3).

**Diversion of public funds.** Another illustration of intra-agency aspects of corrupt practices comes from public officials' surveys. Surprisingly candid responses of public servants together with the information on location, where the interview took place, made possible to track the regional and institutional patterns of corruption. Like in procurement, municipal agencies are among the most overrun with the cases of embezzlement (Figure A4).

**The influence of the elite, i.e. State capture.** The survey distinguishes several aspects of corruption related to the influence of powerful economic groups, companies or even individuals to affect the legislative and judicial branches of power in order to obtain a personal benefit. This type of corruption came first to the attention of policymakers in the wake of the transition process, especially in countries like Russia and Ukraine. More work and research has been done since then, using especially the data from firm level surveys, across many countries. The evidence below concentrates on the data for Latin America to offer an illustration that State Capture is not a

**Figure 15: Extent of "State Capture": Elite Influencing Laws and Regulations in Peru, Honduras, and Colombia**

(As reported by Public Officials)



Source: WBI diagnostics and survey data; various countries; 2001. \*Note: In all cases the bribes were paid to influence a policy, regulations, or laws issued/ drafted by the corresponding authority

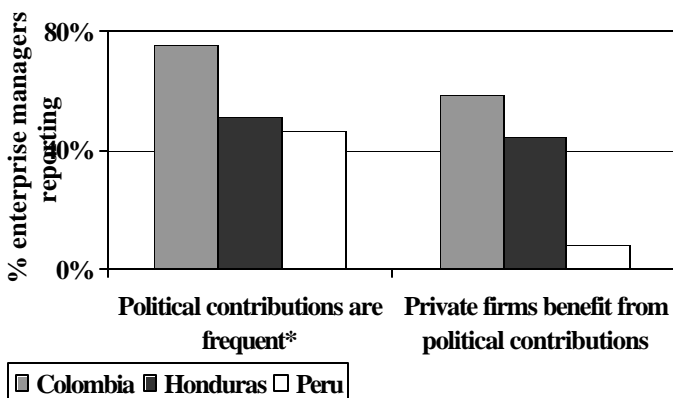
problem limited to transition economies. More

than a half of public officials in Peru, Honduras, and Columbia believe that interest groups have the ability and do influence legislature, judiciary, local authorities, high level officials and regulatory agencies (Figure 15).

At the same time, the experiences of public officials with just one aspect of “state capture” in their institution - bribes to change regulatory decisions - are quite startling, suggesting that in some of these countries corruption has a very significant impact on key government’s functions, especially on the municipal level (Figure A5).

**Figure 16: Political Contributions**

(As reported by Managers)



Source: WBI diagnostics and survey data; various countries; 2001. \*Note: The survey question requests information on any political contribution (legal or illegal).

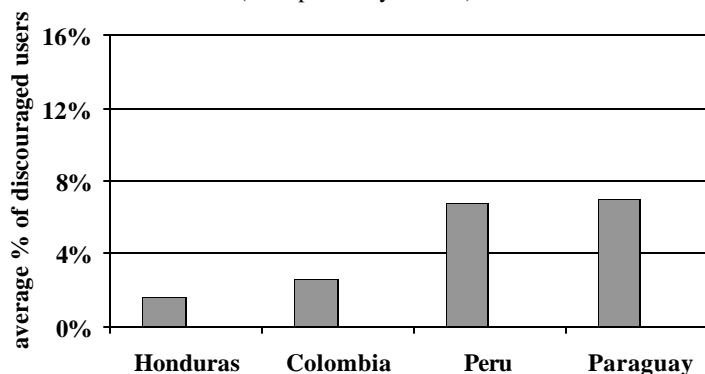
But State Capture can manifest itself also through political contribution from private firms and citizens. The firm survey asks managers if in their opinion private firms benefit from providing financial political contribution to a candidate. Figure 16 summarizes the results for three Latin American countries: a significant proportion of managers in Colombia and Honduras believe that political contributions are frequent and that private firms benefit from contributions they made.

**COSTS OF MIS-GOVERNANCE AND CORRUPTION**

The growing body of empirical research has emphasized the key role of poor governance and corruption in lowering the standards of living and worsening the distribution of income among citizens (The Quality of Growth, 2000). As noted earlier in the paper, the channels through which corruption influences development include lower investment and growth, detrimental effects on poor, lower quality and accessibility of public services, such as health care and education. To illustrate the importance of data on governance in this context we provide examples of the link between mis-governance and economic outcomes.

**Figure 17: Costs of Corruption: Discouraged Public Service Users due to Bribes**

(As reported by Users\*)



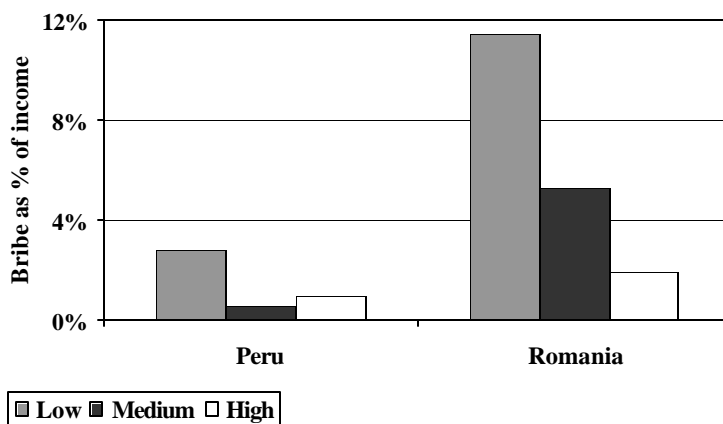
Source: WBI diagnostics and survey data; various countries; 1999-2001. \*Note: The data shown are computed as average percentage (across a list of services specific for each country) of users who did not apply for a service because they could not afford a bribe (comparing to those who did not apply because other reasons).

## REGRESSIVE IMPACT ON POOR

Corruption and mis-governance have a negative impact on a country. The costs of corruption materialize not only through the actually bribe paid but also through the impossibility of accessing a specific service. Figure 17 reports the percentage of users that decided not to seek a specific service, though needed, because they could not afford to pay the associated bribe.

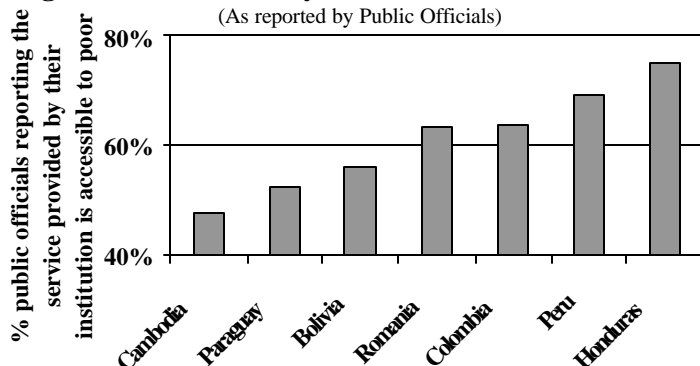
In addition, the impact of corruption is not even across citizens. Empirical evidence from different countries suggests that corruption and mis-governance penalize especially the poorer groups of citizens (see Figure 18) acting as a regressive tax on users of public services. Like in the case of small businesses, poorer citizens pay bribes that are a larger share of their income than wealthy citizens.

**Figure 18: Corruption as Regressive Tax on Users**  
(As reported by Users)



Source: WBI diagnostics and survey data; various countries; 1999-2001.

**Figure 19: Accessibility of Public Services to the Poor**  
(As reported by Public Officials)



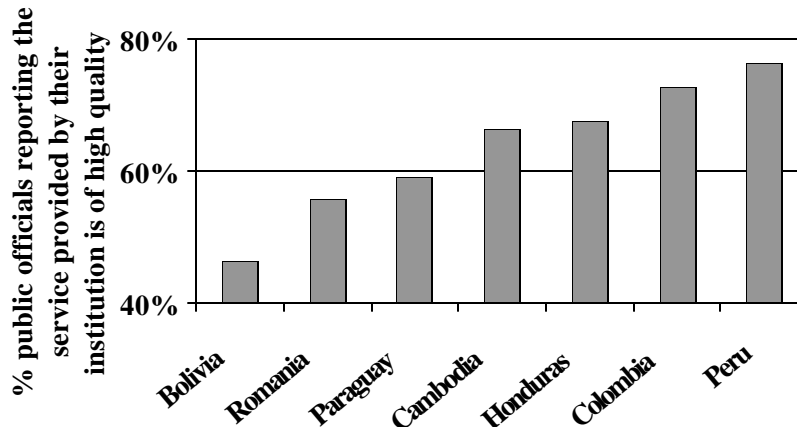
Source: WBI diagnostics and survey data; various countries; 1999-2001. Note: In Cambodia and Romania original responses were in the range from 1 ("completely disagree") to 5 ("completely agree") and the percentage of those who agree covers categories 4 and 5. In other countries original responses were in the range from 1 ("completely disagree") to 7 ("completely agree") and the percentage of those who agree includes categories 5-7.

## QUALITY AND ACCESSIBILITY OF PUBLIC SERVICES

The costs of corruption materialize not only in revenue losses and additional taxes on citizens but also in problems with public service provision and accessibility. The survey data from public officials suggests that in a number of countries only a half of respondents, on average, reports that the public services provided by their institution are accessible to poor. (Figure 19).

**Figure 20: Quality of Public Services**

(As reported by Public Officials)

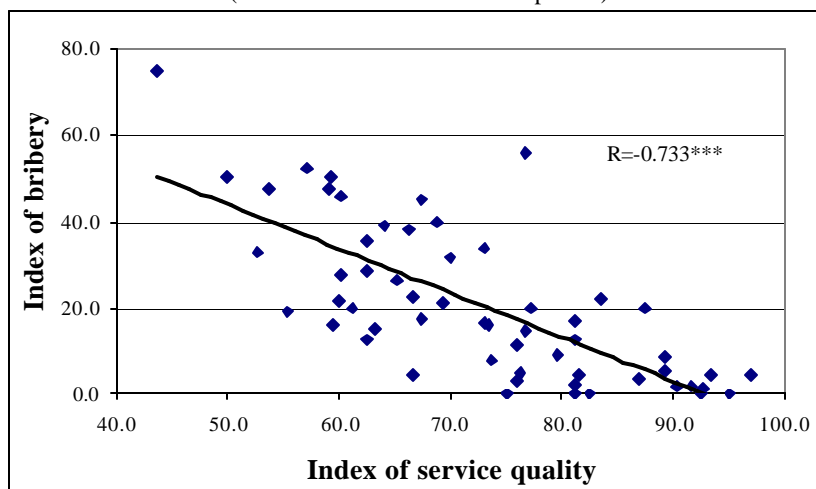


Source: WBI diagnostics and survey data; various countries; 1999-2001. Note: In Cambodia and Romania original responses were in the range from 1 (“completely disagree”) to 5 (“completely agree”) and the percentage of those who agree covers categories 4 and 5. In other countries original responses were in the range from 1 (“completely disagree”) to 7 (“completely agree”) and the percentage of those who agree includes categories 5-7.

Another dimension is the quality of the public services provided. As noted, the data allow to construct aggregate indices of performance and analyze them along with the raw measures. This data can be analyzed in a cross-country fashion, as illustrated in Figure 20. The data from the public official survey can also be used to construct the aggregate indices of bribery and service quality and explore the relation between bribes and quality of services. Figure 21 presents the results of this exploration for Peru. In this case, we utilized the responses of Peruvian officials in 57 public institutions about quality of service provided by their own agency and frequency of bribe observed within their own agency.

**Figure 21: Indices of Service Quality and Bribery**

(Based on Public Officials' Responses)

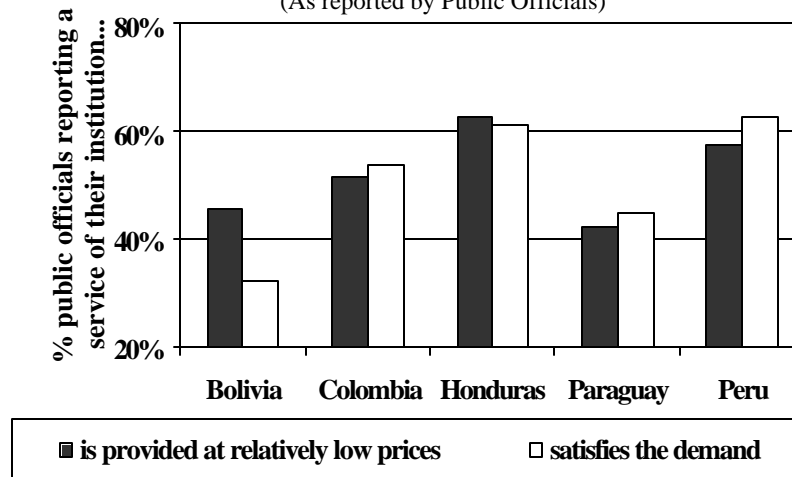


Source: WBI diagnostics and survey data; Peru; 2001. Note: Each dot on the graph represents data aggregated for one public agency. Indices of bribery and service quality rate the agency's quality of service and level of bribery on the scale from 0 to 100. The equation of the fitted regression line is:  $Y=95.2-1.02*X$

As indicated, the quality of public services varies not only across countries but even to the larger extent across agencies, with some institutions exhibiting greater effectiveness in service delivery. However, bribery does not result into higher quality of service, penalizing lower income users even more.

**Figure 22: Provision of Public Services**

(As reported by Public Officials)



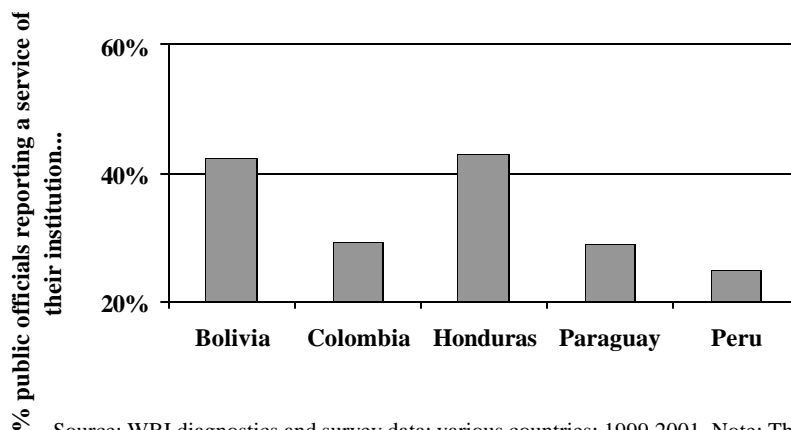
Source: WBI diagnostics and survey data; various countries; 1999-2001. Note: The original responses ranged from 1 (“completely disagree”) to 7 (“completely agree”) and the percentage of those who agree includes categories 5-7.

But the quality of the services provided is not the only dimension we can explore. The public official survey data allows us to evaluate whether the service is provided at low cost and whether it satisfied the demand. The responses of public officials from 5 countries are summarized in Figures 22 and 23. These illustration offer a general view of public officials on performance of their institutions.

To summarize, the governance survey data allow to assess public service provision along various dimensions: in terms of cost effectiveness, quality, quantity, accessibility and poverty alleviation. To individuate weaknesses and priorities the various measures of service performance can also be stratified by agency, by level of government, by region of a country, etc.

**Figure 23: Public Services are Provided According to Informal and Non-Written rules**

(As reported by Public Officials)



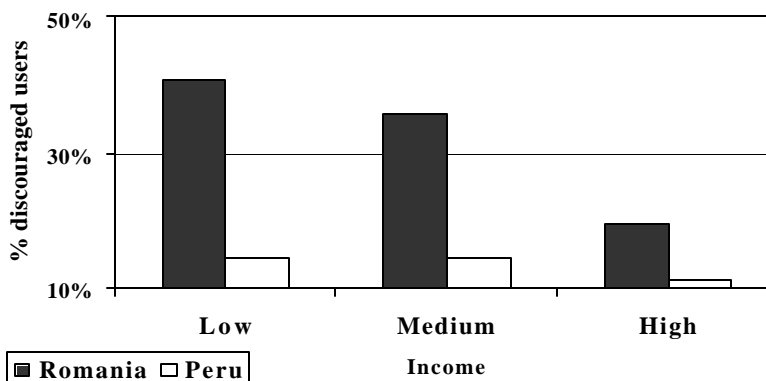
Source: WBI diagnostics and survey data; various countries; 1999-2001. Note: The original responses ranged from 1 (“completely disagree”) to 7 (“completely agree”) and the percentage of those who agree includes categories 5-7.

*FOCUSING ON SPECIAL AREAS: HEALTH CARE AND JUDICIARY*

The survey may include a group of questions or a special section to study particular sectors where corruption is known to have the most detrimental effects on development or which play an important role in restraining corruption, such as judiciary. The next two figures demonstrate examples of using the data from the sections devoted to health care services and the judiciary.

**Figure 24: Corruption Restricts Access to Medical Services: Discouraged Poor Users Due to Bribes**

(As reported by Public Service Users)



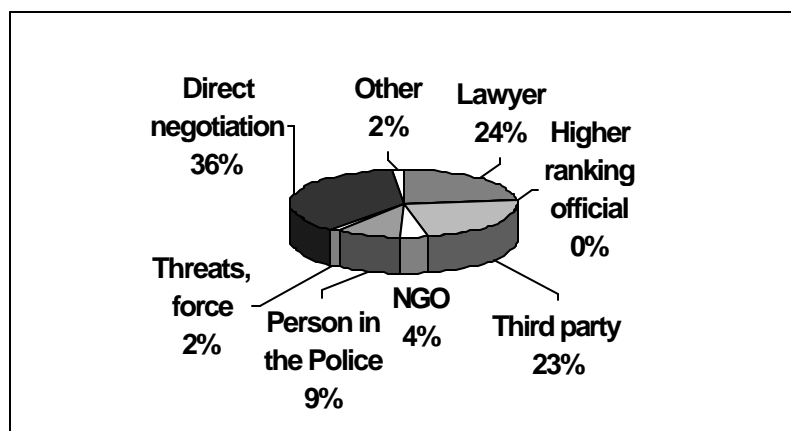
Source: WBI diagnostics and survey data; various countries; 1999-2001. Note: The figure shows the percentage of discouraged users not using medical service because a bribe is too high.

Health care is viewed by respondents as the area where corruption hinders access of poor to services. For example, in

Romania the percentage of those, not using medical services because of high bribes, among high income households is much lower than among low income households.

**Figure 25: Alternative Dispute Resolution Mechanisms in Peru**

(As reported by Users)



Source: WBI diagnostics and survey data; Peru; 2001. Note: For users that did not go to court to resolve a dispute, the chart shows a percentage using each alternative mechanism.

The analysis of perceptions shows that in all countries the administration of justice is particularly affected by corruption. The lack of credibility about the effectiveness and fairness of the judiciary system discourage households and enterprises from using formal judiciary system and invokes alternative conflict resolution mechanisms. The survey data allow to investigate how widespread such practices are and to see what mechanisms were used to resolve a dispute, as shown on example of Peru (Figure 25).

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## 6. FROM EMPIRICS TO POLICY ADVICE

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The previous empirical evidence has provided illustrations on the potential of disaggregated survey-level data for policy design. In addition, the collection, analysis, and dissemination of these country-specific data on corruption are clearly altering the policy dialogue on corruption and empowering civil society through collective action. There are however some challenges to the use of survey data as a key input for policy purpose.

A major challenge is the ability to develop effective strategies for implementing the reform agenda. A major virtue of country-specific diagnostics is that they permit a system-wide, in-depth assessment of the quality of governance across the major institutions. This detailed map of institutional weaknesses and strengths help identify specific priority areas for reform, facilitating the policy design at the country level.

This in-depth, country-specific approach is based on the experience that a pre-determinate template of reforms applying uniformly to all countries are unlikely to bear fruit. This cross-country experience suggests that the identified priorities following such country-specific work vary significantly from country to country, supporting the need to promote local capacity building and knowledge sharing. Thus, the recommendation is to focus on studying the incentive structures and systems in each country with common rigorous approaches and diagnostic tools, rather than having preconceived uniform specific recommended measures applying to all.

Furthermore, the use of in-depth diagnostic surveys permits distancing from the common pitfall of individualizing the challenge of governance by focusing instead on institutional strengths and weaknesses. To have an impact, the policy design approach needs to be more systemic, focusing on transparency and incentive reforms in order to enhance prevention – rather than merely focusing on enforcement rules, passing laws, or indicting a few individuals.

An additional challenge is to sustain the reform effort and promote future monitoring activities. This can be achieved through broad-based participation involving all government branches, civil society, financial sector institutions, and the business community. The creation of partnerships between the government and local NGOs encourages a more integrated and collaborative debate between government and civil society stakeholders over the policy making process. In addition, a fully participatory approach adopted from beginning to end promotes a wider sense of ownership of the data and analysis, guaranteeing a true integration of the results into the policymaking process and greater long-term monitoring capacity.

Participation and voice are vital in increasing transparency, providing for the necessary external accountability mechanisms and thus for checks and balances which even the best devised internal accountability rules and systems within government cannot fulfill completely (or even in part, often enough, and in particular –but not only-- where state capture prevails). One ought to keep in mind that transparency-enhancing mechanisms involving a multitude of stakeholders throughout society can be thought as creating millions of ‘auditors’. Indeed, such external accountability mechanisms, which often also include very activist media involvement, are transparency-enhancing, in turn supporting a change in the incentive structure of institutions that

are monitored.

In earlier sections, as well as in Section 7 below on research, the work on aggregate governance indicators is discussed, and some of its benefits are pointed out. Yet it is clear that in themselves such worldwide composite indicators are not very useful for specific policy advice and action programming for any given country. For that, more detailed, in-depth, and unbundled information is also needed, complementing such aggregate governance indicators. As presented in previous sections, over the past few years the World Bank has developed empirical tools to assess governance as an input to action programs. These Governance and Anticorruption diagnostics consisting of in-depth, country-specific surveys of thousands of public service users, firms, and public officials, have helped gather specific information about institutional vulnerabilities within a country. These separate surveys of users of public services, firms and public officials permit triangulation and consistency checks for the results, while probing into a broader array of governance issues given the different units of observation. This specially designed surveys utilize experience-based (rather than 'opinions'/generic) type of questions, thereby reducing the element of perceptive subjectivity, and are designed following a broad governance and service delivery conceptual framework. Further, there are rigorous technical specifications for carrying out the field work and the subsequent analysis. So far, these surveys have been applied to over two dozen countries.

The in-depth diagnostics can help provide specific inputs for action programs at the country level by: i) unbundling governance and corruption into more detailed and specific dimensions, and through their measurement assessing the relative importance and prevalence of the various unbundled dimensions; ii) assessing the quality of governance and performance of the key institutions and agencies in the country; iii) assessing the relative importance of the costs and consequences of various forms of mis-governance (such as through the link to poverty, quality and extent of service delivery, etc.); iv) identifying the most important factors affecting governance and performance (e.g. external vs. internal accountability mechanisms, as well as issues of undue influence by the elite and state capture), and, v) identifying priorities for action (based on the above items). In fact, a salient feature of the diagnostic results so far is the large variance in governance performance across institutions within a country, as well as the large cross-country variation for the same institution or governance dimension – even for countries which based on composite governance indicators score similarly to each other. These findings support the rationale of complementing the basic cross-country aggregate governance indicators with these specific country diagnostics. By identifying good performers versus misgoverned institutions within a country these surveys assist in identifying the factors behind such variance in performance across institutions within a country and also suggest institutional priorities for action.

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## 7. RESEARCH FINDINGS, IMPLICATIONS AND FUTURE DIRECTIONS

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Research is the central analytical link between rigorous measurement and assessment on the one hand, and practical policy advice and action program formulation, on the other. In the case of governance assessment, this link has already been demonstrated to be of significance importance, and in both directions: research has been crucial in shaping the governance assessment and diagnostic methods themselves, and also the results from these assessments have been a valuable input to research programs in general, and provided for specific insights and practical lessons, in particular. In this section we cover selected issues and illustrations of such bi-directional links, and then draw some implications for the future.

### *RESEARCH AS AN INPUT TO GOVERNANCE ASSESSMENT*

In this paper we have attempted to present some of the typical concerns raised by skeptics as well and rigorous academics about governance and corruption diagnostics and assessments. Salient methodological challenges in this context include the question of data reliability in general, the issue of respondent ‘perception’ bias in particular, as well as the challenge of aggregation of data on governance: given that there is a substantial margin of error in the measurement of a single variable from an individual source, what are the types of aggregation that can provide significant statistical benefits? These challenges, like a number of others, have been addressed through research efforts.

### *CONTROLLING FOR PERCEPTION BIAS—THE “KVETCH” FACTOR:<sup>21</sup> ADDRESSING POSSIBLE ERRORS IN CROSS-COUNTRY COMPARISONS*

In empirical work performed on the basis of survey data containing an element of subjectivity or perception (as reflected in the nature of a firm’s responses to the multiple questions applied during the interview), one faces the challenge of possible spurious correlation between the dependent and independent variables: firms that are doing well (performance measures often being the dependent variable) may have a rosier view of the obstacles to enterprises (the independent variables) than would be warranted from an objective standpoint. Conversely, firms that perform poorly or that operate unofficially, may exaggerate their account of the obstacles they find and or be overly critical in their assessment of the effectiveness of government policies and its provision of services.

In the context of a particular firm’s propensity to complain across all questions this potential spurious correlation resulting from a possible tendency of firms to view many questions with the same subjective lens, this phenomenon has been labeled as the “kvetch” factor. If these variables are indeed affected by some unobservable common perceived view factor across variables by the same firm (such as the propensity to kvetch, or its converse; namely, a tendency to gloat throughout the survey interview), then this measurement error would lead coefficient estimates to be biased, and the

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<sup>21</sup> According to the Webster, kvetch is an accepted term from Yiddish meaning propensity to gripe, or to complain continuously. For related econometric treatment of this potential kvetch perception bias in analyzing survey data based on an element of subjective assessment, see also Kaufmann and Wei (1998) and Hellman et al (2000).

likelihood of observing spurious correlations among variables whose true underlined correlation is insignificant cannot be ruled out.

To address this possible source of misspecification the authors first identify from the survey a number of possible kvetch control independent variables that fulfill the condition of being a public good provided by the government which is commonly faced by all firms within a country, and thus it can be presumed that each firm's response's deviation from the country mean is a proxy to the extent of such firm's 'kvetch' factor. Given that the firm-level econometric specifications included country effects, direct inclusion of the universal public good suffices as proxy of the 'kvetch' effect, as the subtraction from the country mean is implicitly taken care of by the country effect dummies.

Specifically, in a recent paper, the authors have used various different 'kvetch' control proxies, each one inserted separately in the set of econometric specifications: extent of government efficiency; extent of helpfulness by government, quality of public works, and quality of the postal service.<sup>22</sup> The first two proxies that we use in these tests, of a generic nature, have the advantage of being less subject to enormous variations across different locations (within a city), while the two variables of specific infrastructure nature, are less subject to preferential provision, or exclusion, by the government to a firm. In all cases it was found that inclusion of the control variables did not affect the magnitude or high significance of the other variables in the specifications.<sup>23</sup>

#### *CONSTRUCTING COMPOSITE GOVERNANCE INDICATORS WORLDWIDE WHICH REDUCE MARGINS OF ERROR*

Regarding the question of the approach to aggregation with the aim to reduce the measurement error in country estimates of governance, the question was taken up at the World Bank in a research project initiated in 1998, which continues to date. The first research paper of the project, 'Aggregating Governance Indicators' (KKZ, 1999a), presented and evaluated a set of options to aggregate individual data into meaningful governance indicators, and showed that one such approach, based on an unobserved component model, was superior to others, and is shown to reduce margins of error in country estimates as compared with individual measures of governance. On that basis, coupled with the various individual survey and expert poll data sources that were available at that time (from 1997/8 data), a set of six aggregate governance indicators was put forth for over 160 countries. The second measure for such indicators has been carried out for 2000/01, which also expanded country coverage to 175 (see previous sections on illustrations of results of such aggregate governance indicators). This research work is one illustration of the integration of methodological, analytical and empirical approaches, contributing to the rigorous empirical assessment of governance.

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<sup>22</sup> Further econometric details and tables with all the results on this procedure appear in Kaufmann, Mastruzzi, and Zavaleta (2001) and Hellman et al. (2000).

<sup>23</sup> These results were also replicated with the other two kvetch control variables, namely, quality of public works and of postal services, and also in these cases the magnitude and significance of the explanatory variables were not altered by inclusion of alternative kvetch control variables. Second, as an additional test, a two-stage procedure to purge the possible kvetch bias from all independent variables was performed: first the authors regressed each individual explanatory variable on a kvetch control variable (inefficiency of government). The residuals of each regression were then used in the second stage to determine the effect of these residual variables on the dependent variable, namely under-reported revenues.

## *DOES GOVERNANCE MATTER?: COSTS AND CONSEQUENCES OF MIS-GOVERNANCE AND CORRUPTION*

Significant efforts have been expended over the past few years in carrying out governance diagnostics and assessments and constructing governance indicators. A basic key question that needed to be answered, though, is whether the evidence suggests that governance matters significantly or not. Various authors have utilized the new set of empirical indicators and diagnostic results to answer this question in the affirmative. In particular, the set of six governance indicators discussed above are shown to matter significantly for incomes per capita, infant mortality and literacy. The links between mis-governance, corruption and poverty and related performance variables are also explored empirically on the basis of country-specific diagnostic surveys (as illustrated in previous sections), as well as on the basis of cross-country enterprise surveys.

The research based on the results of the WBES enterprise survey for 80 countries, reported in an earlier section, which *inter alia* suggested the complex link between firm size and the severity of constraints faced by enterprise, putting forth the notion of the ‘forgotten middle’ in presenting the extent to which mid-sized enterprises are also affected by policy-based constraints. Another illustration of new research results emerging from cross-country surveys is the work on ‘state capture’, based on the BEEPS transition economy enterprise survey (a regional variant of WBES). The importance of this manifestation of grand corruption is suggested by the research results showing how large are the positive private benefits for the captor firms in high capture countries and at the same time how high are the socio-economic costs resulting in lower output and investment growth for the overall enterprise sector. This research based on the BEEPS survey is summarized in Box 6 below, where Figure 27 summarizes the contrast between the high private benefits to capture and the socio-economic costs of such manifestation of grand corruption.

## *DETERMINANTS OF MIS-GOVERNANCE*

Exploring the determinants of mis-governance has also been a research area which has benefited from the data obtained from governance diagnostics and indicators. One illustration also emerges from the BEEPS enterprise survey data, which suggests that state capture is associated with overall mis-governance, and, more fundamentally, asks the question of what key factors may be associated with state capture. As seen in Figure 26 below in Box 6, countries which have enjoyed a very high level of civil and political liberties during the transition have tended to be less prone to be subject to state capture. Another strand exploring determinants of mis-governance is the research work based on an in-depth diagnostic survey of public officials in Bolivia. The econometric model is built recognizing the inherent endogeneity of governance and public sector performance variables, as well as the multi-dimensionality of governance (and the challenge of constructing meaningful governance indicators based on micro-institutional surveys and data, which was elaborated upon in section IV of this paper). As shown in Table 4 (econometric model estimation) and in Figure 28 depicting some of the key links, ‘voice’, external accountability and transparency variables appear to matter more than traditional variables of public sector management/internal rules.

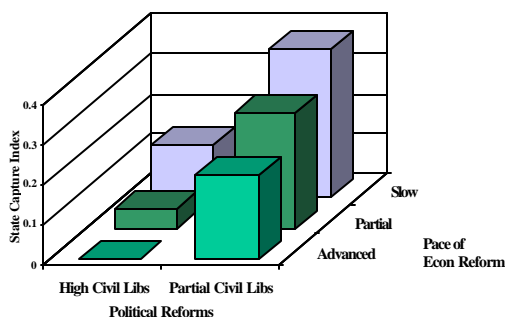
**Box 6: Firm Performance and State Capture in Transition—Survey-Based Unbundling of Governance for Analysis of the Firm’s Role in Shaping the Business Environment**

State capture, a form of grand corruption, was measured and analyzed for 22 transition economies in the transition version of the worldwide enterprise survey (the “BEEPS”). State Capture is defined as the efforts by firms to shape the laws, policies, and regulations of the state to their own advantage by providing illicit private gains to public officials. In transition economies, corruption has taken on a new image: that of so-called oligarchs or related elite enterprises manipulating policy formation and even shaping the emerging rules of the game to their own very substantial advantage. Though this form of grand corruption is increasingly being recognized as the most pernicious and intractable problem in the political economy of reform, few systematic efforts have been made to distinguish its causes and consequences from those of other forms of corruption. WBES permitted an empirical exploration.

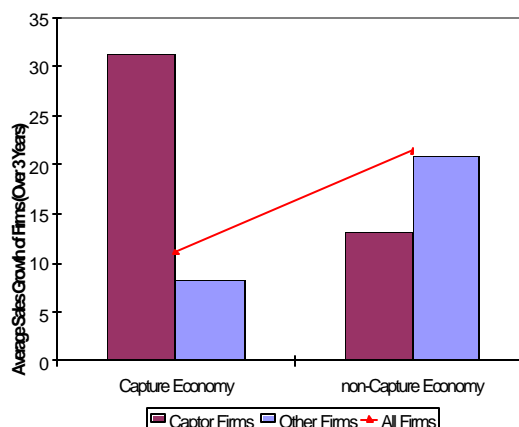
By taking the average share of firms affected across six institutions—parliament, the executive, criminal courts, the civil courts, the central bank, and political parties—a state capture index for each country is developed. The evidence indicates that there is a very large gap between countries where this form of corruption is a serious problem, which are called high-capture economies, and those where it is seen as a relatively modest problem, called low -capture economies. Among the low-capture economies are both the most reform-minded in the region, while high-capture group includes countries regarded as partial reformers in both political and economic terms; indeed, their political regimes tend to be characterized by a greater concentration of power and limitations on political competition. State capture is negatively related to the level of civil liberties, as seen in Figure 26 below.

This version of the WBES also permitted the identification of firms that have paid bribes to influence the content of laws, rules, or regulations (i.e., the *captor firms*). As seen in Figure 27 below, in high capture economies, captor firms grow more than twice as fast as other firms (in contrast with low-capture the overall enterprise sector in such economies grows at somewhat less than half the rate of firms in low-capture economies). Capture is therefore a large “tax” on noncaptor firms, while state capture provides the captor firms with substantial private gains. The data also suggest that once a country has fallen into the trap of a capture economy, foreign direct investment can magnify the problem.\*

**Fig 26: State Capture and Reform**



**Fig 27: Private Benefits and Social Costs of State Capture**



\* Joel Hellman and Daniel Kaufmann. “Confronting the Challenge of State Capture in Transition Economies” *Finance and Development* (IMF: September 2001, Volume 38, Number 3)

**Table 4: Determinants of Governance/Performance of Public Sector Agencies: Econometric Research Illustration based on Bolivia's Diagnostic Survey of Public Officials**

Dependent Variable: Service Delivery Index	Simple Correlation	OLS	2SLS	3SLS
Corruption	-0.52***	-0.30*** (-3.78)	-0.21* (-1.88)	-0.31** (-2.03)
Voice	0.70 ***	0.54*** (3.72)	0.45*** (2.69)	0.41*** (3.11)
Transparency	0.72 ***	0.34*** (2.89)	0.55** (2.49)	0.61*** (2.88)
Resource Envelope	0.50 ***	0.08 (1.08)	0.04 (0.44)	0.04 (0.70)
Decentralization	0.08	0.89 (0.52)	0.01 (0.04)	-0.78 (-0.03)
Adj.R2		0.67	0.67	0.67

Dependent Variable: Corruption Index	Simple Correlation	OLS	2SLS	3SLS
Transparency	-0.43 ***	-0.29* (-1.62)	-0.77** (-2.12)	-1.11** (-2.46)
Politicization	0.44 ***	0.24*** (3.09)	0.23*** (2.69)	-0.25*** (-2.99)
Agency Autonomy	-0.35 ***	2.56 (0.52)	2.77 (0.52)	1.15 (0.55)
Wage Satisfaction	-0.27 ***	-0.02 (-0.22)	0.02 (0.41)	0.03 (1.54)
Enforcement of Rules	-0.34 ***	-0.07 (-0.59)	0.23 (0.19)	0.32 (0.42)
Individual Values	-0.07	0.10 (0.66)	0.26 (0.99)	0.15 (0.90)
Resource Envelope	-0.33 ***	-0.06 (-0.54)	-0.00 (-0.05)	0.02 (0.05)
Education	-0.32 ***	-4.74 (-1.25)	-2.34 (-0.85)	-2.06 (-0.57)
Decentralization	0.10	2.23 (1.03)	3.53 (1.15)	1.45 (0.12)
Adj.R2		0.51	0.44	0.40

Dependent Variable: Transparency	Simple Correlation	OLS	2SLS	3SLS
Corruption	-0.43 ***	-0.14* (-1.79)	-0.40** (-2.23)	-0.44** (-2.43)
Meritocracy	0.47 ***	-0.09 (-0.82)	0.23 (1.25)	0.28* (1.85)
Quality of Rules	0.62 ***	0.46* (1.79)	0.19 (1.08)	0.24* (1.88)
Voice	0.72 ***	0.36** (2.45)	0.35** (2.48)	0.38** (2.51)
Education	0.29 ***	2.59 (1.04)	0.09 (0.68)	1.32 (1.05)
Wage Satisfaction	0.32 ***	0.07 (1.03)	0.08 (1.22)	0.09 (1.44)
Individual Values	0.12	0.01 (0.05)	0.01 (0.08)	0.01 (0.09)
Decentralization	-0.04	0.86 (0.54)	1.54 (0.89)	2.54* (1.14)
Adj.R2		0.74	0.70	0.78
N		83	83	83

Notes: Based on 2 and 3 Stages Least Square (2/3SLS) econometric framework (3<sup>rd</sup> and 4<sup>th</sup> column in each table) to account for endogeneity of governance variables. Since 2/3SLS methods control for reverse causality, unlike OLS method, they provide unbiased estimates even if some explanatory variables (e.g. transparency, corruption) are endogenous.

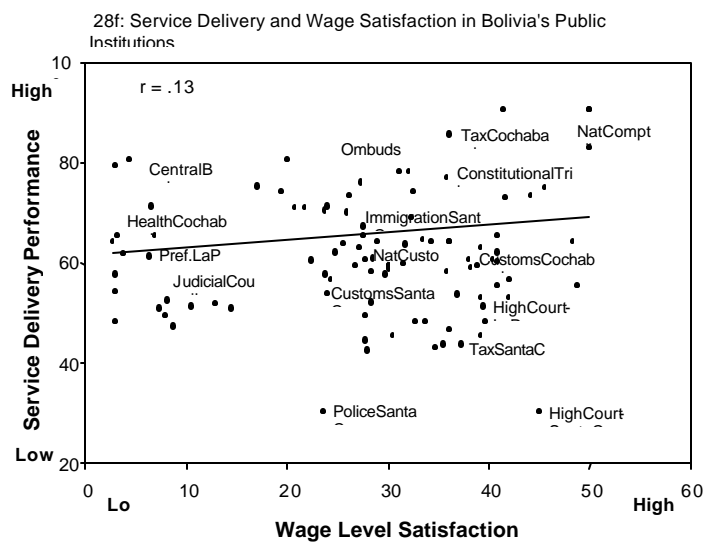
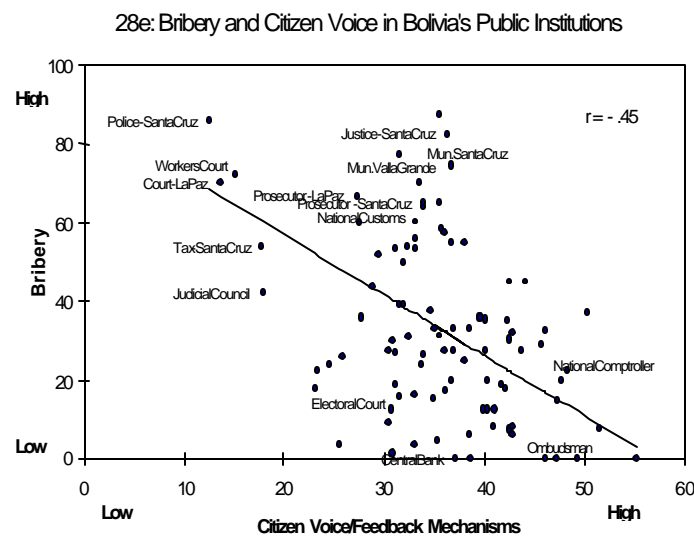
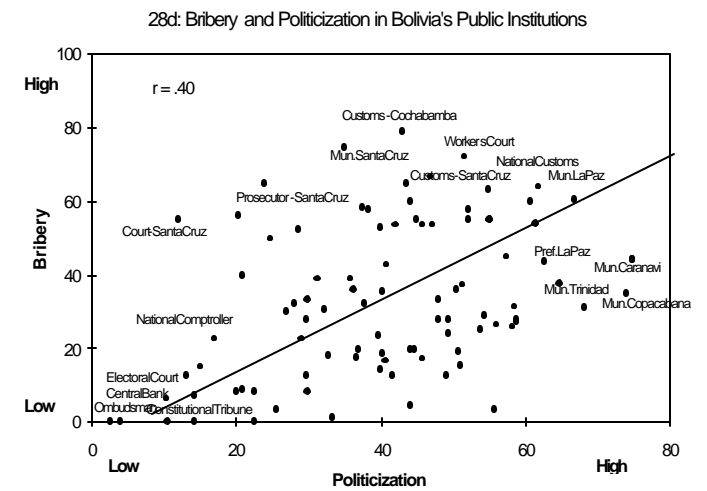
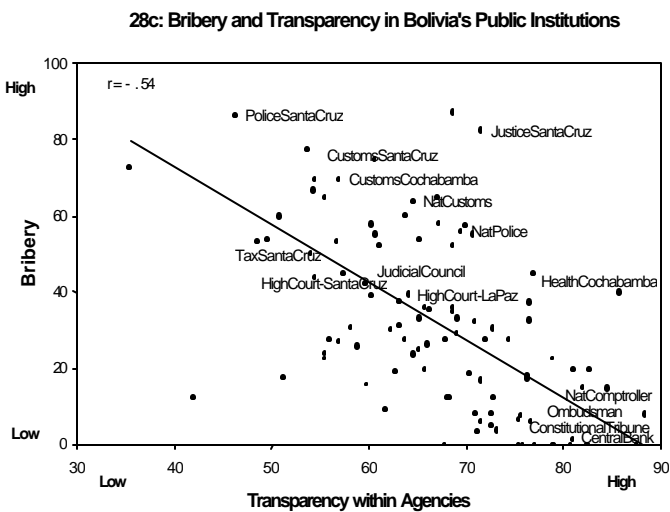
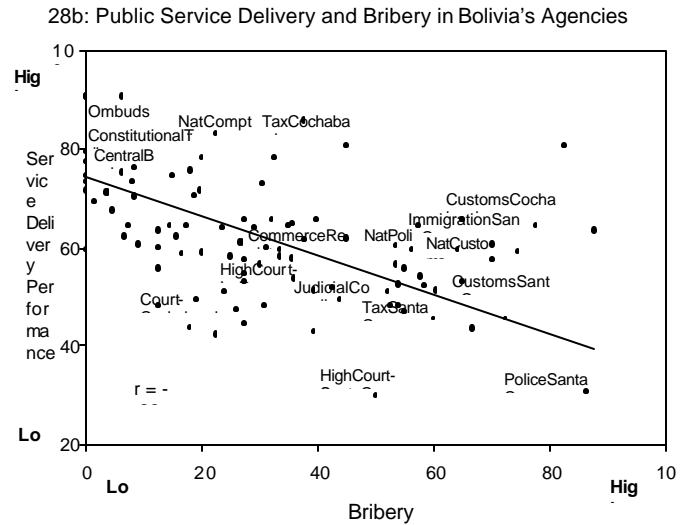
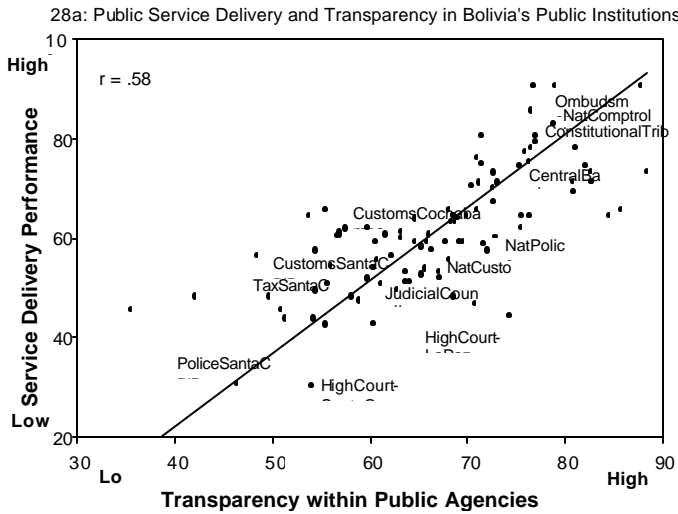
All variables are scaled from 0 to 100.

Service performance index is the average of four standardized service delivery indicators: quality, quantity, accessibility and poverty reduction impact. Corruption index represents the average of four standardized corruption indicators: bribery, job purchase, illegal diversion of funds, bribe/official income ratio. High numbers correspond to high performance in service delivery and high corruption. N= Number of public institutions

\*\*\* Significant at 1%, \*\* significant at 5%, \* significant at 10%.

Source: Kaufmann, Mehrez, and Gurgur, 2001. "Voice or Public Sector Management?", World Bank, draft.

**Figure 28: Performance and Governance in Bolivia's Public Institutions:  
Empirical Analysis of Public Officials Survey<sup>1</sup>**



<sup>1</sup> Source: Kaufmann, D., G. Mehrez, and T. Gurgur (2002): "Voice or Public Sector Management?: An Empirical Investigation of the Determinants of Public Sector Performance Based on a Survey of Public Officials in Bolivia", World Bank Institute, draft.

## *IS GOVERNANCE A LUXURY GOOD?*

The work showing that governance matters for higher incomes and development has been subject to the challenge of reverse causality: to what extent the observed high positive correlation between higher levels of governance and higher incomes mainly reflect the fact that as countries become richer, they can simply 'afford' better governance?. As part of the ongoing research project on aggregate governance indicators and diagnostics, the recent research paper 'Growth without Governance' attempts to address these questions of bi-directional causality. An empirical strategy is advanced, which leads to the identification of: i) a strong positive causal effects running from better governance to higher per capita incomes, and also ii) weak and even *negative* causation in the opposite direction from per capita incomes to governance. Thus, no evidence of any automatic virtuous circle from income growth to improved governance is found, challenging the notion that governance is a luxury good. Utilizing insights from the in-depth enterprise surveys and recent country diagnostics, this work goes on to suggest the potential importance of elite influence and state capture in accounting for the surprising negative effects of per capita incomes on governance, and suggest priorities for actions to improve governance. It is an illustration that research on governance can benefit from the integration between aggregate governance indicators and micro-based diagnostic surveys.

## *CONCLUDING*

To summarize, as we refine diagnostic tools and methodology and move from perceptions to objective measures of governance, in-depth surveys can provide useful evidence on institutional development across countries. However, as noted such work requires attention not only to conventional agenda of survey design - sampling procedures, questionnaire development, and training of interviewers - but also to the equally important issues of conceptualization and measurement. In other words, before developing survey questions one has to define precisely what institutions will be studied and how and what attributes of governance will be measured.

The challenge of improving governance and reducing corruption is however quite formidable. Any society faced with such a challenge may consider implementing specific institutional reforms, within a context of understanding the political economy of vested interests that are likely to oppose such actions. These reforms are likely to vary from setting to setting, and be informed for each specific case by the in-depth governance and anticorruption assessment or diagnostic so to prioritize to such country's needs.

Acknowledging the importance of the significant variance in the results on governance and corruption across countries, as well as across institutions and factors within a country (necessitating the adaptation of any action program to the specific realities of the country), a number of general findings emerge from the review of the governance and anticorruption assessment carried out so far, which have been covered in this paper. In brief:

- In all countries examined, mis-governance and corruption is perceived to be a very serious problem that creates obstacles to development. However, there is a great variance across countries in terms of the institutions most riddled by corruption.
- Corruption is widespread and appears to be a problem especially where monitoring is weaker and potential gains/rents to extract are higher.
- Bribes act as a regressive tax penalizing poorer households the most. In addition, corruption discourages foreign investment and often costs more than security to firms.
- The quality of public services varies greatly across government agencies and countries, though households, enterprises and public officials provide a consistent picture. Yet, unofficial payments made to obtain a public service do not translate in higher quality.
- Service performance needs to be carefully assessed by agency and by level of government in order to individuate weaknesses and develop priorities for reform.
- The administration of justice is particularly afflicted by corruption. The lack of trust and the difficulty in accessing the judicial system encourage the use of alternative mechanisms to resolve disputes.
- Incipient successes suggest the importance of solid governance that is supported by
  - merit based recruitment and promotion systems;
  - insulation from political meddling and interference;
  - internal rules and processes that are simple, clear, stable, well-specified, and well enforced;
  - a well-established and strictly enforced accountability mechanism;
  - an open and transparent decision making that enables delegation of authority and participation of staff to the decision process;
  - performance based service management which is open to feedback and criticisms of users; and
  - adequate resources to provide high quality services with sufficient quantity.

In ending, it is key to emphasize again the fact that the new field of governance assessment and diagnostic is constantly evolving, as we collectively learn. Challenges for the next stage abound, as suggested throughout this work, and include methodological, empirical and practical interpretation issues. Continuing research and implementation of further diagnostics and governance indicators work will be key to address these challenges in the future.

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