Governance empirics: new findings and challenges

“It is important to be frank about the lessons of success and failures, and to abandon interventions that are not working. It is also important to do away with excuses for inaction, which are unsupported by the evidence, such as blaming 'culture' or 'history' or 'poverty' or 'reforms' for the inability to address corruption.”

Daniel Kaufmann
Director, Global Programs, WBI, in the keynote address to the IVth Global Forum on Fighting Corruption, "From Words to Deeds," Brasilia, June 7–10, 2005.

During the past decade good governance has become central to the World Bank’s mission of poverty alleviation, as a result of mounting evidence of the links between good governance and growth. Partnering with the rest of the World Bank Group, with outside organizations, and with the many stakeholders within client countries, WBI has developed an integrated approach to capacity development, governance, and anticorruption that emphasizes rigorous empirical diagnostics and analysis, policy advisory services, collective action, and knowledge products. The Governance Program Team applies action-learning methods to link empirical diagnostic surveys, their practical application, and collective action and learning at the local level. Key components of the approach are empirical analysis, learning programs, country-specific action programs, and follow-up activities.

The analytical component comprises three levels of data collection and analysis for targeted action planning and capacity development:

- A "macro-level” component, for an initial vulnerability assessment based on WBI’s Worldwide Governance Indicators Database and Analysis, which covers more than 200 countries since 1996
- A "meso-level” component, for a quantitative evaluation of the business climate in more than 100 countries
- A "micro-level” component, for action planning and specific capacity development based on in-depth diagnostic surveys of governance administered to a representative sample of public officials, business people, and users of public services.
Learning programs focus on developing capacity to gather statistics related to governance, the effective use of public resources, the nexus between the public and private sectors, the role of youth in promoting good governance, media development and accountability, anti-money laundering, parliamentary oversight, and legal and judicial reform.

Action programs are formulated by country, building on WBI’s participatory learning programs and followed by presentations of findings and discussion of draft action programs at national or regional workshops.

Follow-up activities are undertaken in collaboration with World Bank units and other donors.

WBI’s governance indicators and in-country databases provide an institutional map to policymakers and practitioners striving to design reforms and monitor policy progress around the world. Governance and corruption can now be measured, monitored, and analyzed at an aggregate international comparative level and at a much more disaggregated and in-depth country level. The governance indicators make it possible to evaluate the quality of a country’s governance along six dimensions:

- Voice and external accountability
- Political stability and lack of major violence and terrorism

**Figure 6** WBI data reveal that voice and accountability have improved in some countries, declined in others

Changes were calculated on the basis of the difference in country estimates from 1996 and 2004 in voice and accountability, one of the six governance indicators. Classification for major deteriorations and improvements were based on 75 percent confidence levels. Source for data: [www.worldbank.org/wbi/governance/govdata](http://www.worldbank.org/wbi/governance/govdata).
Government effectiveness
Quality of the regulatory framework
Rule of law
Control of corruption.

These aggregated indicators which are available for the years 1996 to 2004 make it possible to track changes and trends in governance, as shown in figure 6. Coupled with the trend toward voice and democratic accountability in many countries, these tools and indicators empower reformists in government and civil society. But more work is needed to improve citizen’s participation so as to make their voice more effective and to promote transparency-related reforms in public institutions. Mechanisms for collective action need to be deepened, engaging the private sector, parliaments, civil society, and the judiciary. More effective cross-border collaboration is also needed, including addressing the challenge of bribery by some multinationals.

Practitioners and policymakers stand today at a crossroads on governance issues. On the one hand, new initiatives signal an increased commitment to better governance. Progress is possible at the country level, as shown in Botswana, Chile, and Slovenia, and at the project level, as exemplified by the citizens’ report card developed in Bangalore, India, and expenditure tracking surveys in Uganda, which have led to a reduction in "budgetary leakages." On the other hand, the sobering reality supported by WBI’s databases is that each success is matched by inaction or deterioration elsewhere. For example, the variation in performance across countries, cities, and institutions in controlling corruption is enormous.

An important lesson from the past is that efforts to improve governance cannot be sustained without the involvement of key segments of civil society, the media, parliament, the judiciary, and the private sector through democratic accountability mechanisms. WBI’s governance indicators and recently collected data on human rights suggest that countries that restrict freedom of the press, citizen’s rights, and voice and participation are unlikely to be able to reduce corruption. Recent strides in governance-related matters include new empirical research on transparency (see box, p. 36).

The links between political structures and the private elite are a vital area in governance reform to ensure openness and competition and avoid capture of state institutions by monopolistic vested interests. Such undue influence by some conglomerates affects political structures. To respond to these challenges WBI continues its "meso-level" work on multicountry enterprise surveys. These empirical tools make it possible to analyze recent developments in institutional quality, performance, and constraints in the public and private sectors from the firm’s perspective.

Development and implementation of in-depth diagnostic tools in many countries by the World Bank in partnership with bilateral agencies and nongovernmental organizations has furthered our understanding of the governance challenge at the local level. In the past year, countries have included Guinea, Guatemala, Mozambique, and Zambia. It has also allowed WBI to begin thinking about cross-sectoral issues, such as the impact and costs of poor governance and corruption in the social sectors (figure 7).

Monitoring governance and its impact on poverty alleviation requires a multidisciplinary national capacity, both human and institutional, which is weak in many developing countries. To address this challenge, WBI has developed an innovative
learning program to strengthen the statistical and analytical capacity of selected developing countries. The program, already offered in Latin America, targets policymakers and staff from national statistical agencies and provides a general framework to assess governance by:

- Promoting a better understanding of how good governance can be measured and monitored
- Familiarizing statisticians and policymakers with existing diagnostic tools, monitoring systems, and statistical approaches used by the World Bank and other policy institutions
- Helping participants select an appropriate diagnostic tool for in-depth governance and corruption assessments in their countries
- Introducing alternative approaches to data collection and policy design, focusing in particular on in-depth diagnostic tools and analysis of survey data.

For more information about WBI’s work in governance, and to access the data, indicators, and diagnostics, visit www.worldbank.org/wbi/governance.

**Toward a Transparency Scorecard**

Transparency reforms in the economic, institutional, and political arenas have been underemphasized in development work. The evidence suggests that transparency is associated with improved governance and corruption control—and better development outcomes. There is significant variation in transparency across countries. Some middle-income countries have made progress toward more transparent basic economic indicators, but lag behind in institutional, fiscal, and political transparency. WBI is constructing a database and index on transparency based on its major governance databank and related sources. A basic checklist for a country’s self-assessment might include the following areas:

- Public disclosure of assets and incomes of candidates to public office, public officials, politicians, legislators, judges, and their dependents
- Public disclosure of political campaign contributions by individuals and firms, and of campaign expenditures
- Public disclosure of parliamentary votes, draft legislation, and open debates
- Effective implementation of conflict-of-interest laws to separate business, politics, legislation, and government; adoption of a lobbying law
- Public blacklisting of firms using bribery in public procurement; ‘publish-what-you-pay’ by multinationals in extractive industries
- Effective implementation of freedom-of-information laws, with easy access for all to government information
- Freedom of the media (including the Internet)
- Fiscal and public financial transparency of central and local budgets; adoption of the IMF’s ROSC framework; detailed reporting of payments and earnings from multinationals in extractive industries; open meetings involving citizenry
- Disclosure of real ownership structure and financial status of domestic banks
- Transparent, web-based, competitive procurement
- Country governance and anticorruption diagnostics and public expenditure tracking surveys (such as those supported by the World Bank)
- Transparency programs at the city and subnational levels, including budgetary disclosure and open meetings.
Working closely with World Bank country teams in FY05, WBI’s Corporate Governance and Corporate Social Responsibility Program (CGSR) delivered activities for Russian business associations to help expand their member services in ethics and global standards. In Mexico, the program sampled private sector views on national competitiveness and sustainable business growth. With the Bank’s East Asia regional network and the Wharton School, CGSR also fostered a regional program on private sector roles in anticorruption regimes.

Working with the Wharton School’s Zicklin Center for Business Ethics Research, the program launched two pilots. The “Global Classroom” linked leading MBA programs worldwide to exchange knowledge and perspectives on globalization and its implications for business. Students engaged each other through videoconference and online dialogues centered on case studies.

The Business Partnership in Fighting HIV/AIDS in Africa program strengthens business leadership in addressing the epidemic, developing private sector capacity to prevent its spread and to help mitigate the stigma and discrimination experienced by people living with HIV/AIDS.

The CGSR program has developed strong partnerships with other multilateral institutions, working with various UN agencies as well as the Inter-American Development Bank (IDB), the Organization of American States (OAS), and others.

For example, at the request of the Financing for Development Office of the UN Department of Economic and Social Affairs (UNDESA), CSR organized an e-conference on “Building Inclusive Financial Sectors for Development: Widening Access, Enhancing Growth, Alleviating Poverty,” for more than 700 international participants to help identify key constraints and opportunities for the promotion of inclusive financial sectors for development. Conference partners included the UN Capital Development Fund (UNCDF), UNDESA’s Financing for Development Office, the World Bank, the International Monetary Fund, the International Labour Organization, and the International Fund for Agricultural Development.

With the support of CGCSR, the UN Economic and Social Commission for Asia and the Pacific (UNESCAP) organized the Second Asia-Pacific Business Forum and a two-week e-discussion on CGSR in Asia. More than 800 participants took part.
Knowledge for Development

In FY05 the Knowledge for Development program (K4D) continued to help client countries access and use knowledge and innovation to become more competitive and increase their economic and social well-being. Noteworthy activities in FY05 included the launch of a major knowledge economy (KE) report on India (see box), as well as work on lifelong learning in China and policy studies on Mexico, Slovakia, and Tanzania. The program also undertook capacity development initiatives in Maghreb, research-based policy studies on issues related to countries’ transition to the knowledge economy, a variety of learning events, and an update to the Knowledge Assessment Methodology (KAM), K4D’s web-based benchmarking tool.

The KAM (www.worldbank.org/kam) helps countries contemplating the transition to the knowledge economy to compare themselves with neighbors, competitors, or others it wishes to emulate. The KAM consists of a set of 80 structural and qualitative variables that serve as proxies for the elements critical to the development of a knowledge economy. The comparison has been undertaken for 128 countries, among them most of the developed OECD economies and more than 90 developing countries.

KAM makes it possible to see how countries perform against chosen comparators on the four individual pillars of the knowledge economy. The two bars in figure 8 represent the aggregate Knowledge Economy Index (KEI) score for a selected country for the most recent years for which data are available and for 1995, split into four pillars (see legend). Each colored band represents the contribution of a particular pillar to a country’s overall knowledge readiness.

The figure shows the dramatic improvements made by six countries on their overall preparedness for the knowledge economy since 1995. Korea leads the pack, followed by Poland, Russia,

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**Figure 8** Cross-country comparison on the four pillars of a knowledge economy, India and comparators, 1995 and most recent period

Korea 1995
Poland 1995
Russia 1995
Brazil 1995
China 1995
India 1995

- Economic incentive regime
- Innovation
- Education
- Information infrastructure

Brazil, China, and India. However, China, Brazil, and Poland have made the largest improvements in performance since 1995.

**Country reports**

In addition to *India and the Knowledge Economy: Leveraging Strengths and Opportunities* published in June 2005 (box), the program produced several other reports, including “Mexico’s Challenge of Knowledge-based Competitiveness”; “Fostering Innovation and Technological Change,” on Tanzania; and country reports on Finland, Japan, and Korea analyzing the role played by knowledge- and innovation-related policies in their growth process. A volume on the diaspora of the highly skilled is in preparation.

**Policy services and studies**

In partnership with the Chinese government and other institutions, the K4D program organized a forum in Shanghai in December 2004 that brought together international and domestic experts to discuss the architecture of a lifelong learning system, the global education market, the provision of private education in China, and education financing. The government of Slovakia requested the Bank’s support for the preparation of a national development strategy based on the knowledge economy framework. This work led to a national Slovakia Competitiveness Conference in January 2005. As a result of this activity, the Bank is developing two technical assistance projects, one on e-government strategies and the other on encouraging R&D and innovation policies. In the Middle East and North Africa, the program provided technical assistance to Tunisia on the monitoring of knowledge-based developments and the impact of government actions. It also advised the Tunisian authorities on the preparation of a knowledge economy report by the Institut...
d’Economie Quantitative. In Algeria, K4D provided assistance in developing a knowledge-based development strategy under the coordination of the National Economic and Social Council.

**Learning events**

- A workshop on India and the knowledge economy, held in New Delhi in November 2004, was designed for high-level policymakers from central and state-level government, as well as industry representatives, academics, think tanks, consulting firms, and World Bank staff. The workshop was cosponsored by the Confederation of Indian Industry.

- Senior policymakers from Argentina, Brazil, Chile, Kazakhstan, Mexico, and the Russian Federation were introduced to the Republic of Korea’s public and private innovation organizations through a study tour and innovation conference in December 2004. Participants learned how Korea developed its innovation capabilities by establishing industrial groups (*chaebols*); they also studied public sector innovation channels through which Korea serves the private sector and policy issues on the promotion of techno-entrepreneurship.

- A seminar on competitiveness, the knowledge economy, and the business environment in Maghreb countries brought together 50 high-level participants from government, business, and academic circles from Algeria, Mauritania, Morocco, and Tunisia in May 2005. Organized with the Joint Africa Institute, the seminar helped policymakers develop and implement policies to boost competitiveness.

- K4D’s April 2005 Global Workshop on Migration of Talent and Diasporas of the Highly Skilled focused on the design of public policies to leverage expatriate skills abroad for the benefit of the countries of origin. The workshop discussed lessons of diaspora initiatives in India, Colombia, Scotland, and South Africa.

- A conference on intellectual capital in the context of knowledge economies was organized in WBI’s Paris office in June 2005. Bringing together some 80 participants from OECD countries and developing countries, the conference discussed measuring and reporting issues as well as qualitative aspects such as relational capital and cultural influences on the development and use of intangible assets.

- In November 2004 the Chinese Academy of Social Sciences and the Brain Trust, which studies and disseminates the development experience of Japan and East Asia, held a one-day seminar in Beijing on foreign direct investment (FDI). The various challenges of FDI in China and other East Asian countries were discussed.

- In May 2005, the K4D program in collaboration with the government of Hangzhou held a three-day conference on innovation strategies, attended by 90 participants with presentations by various international and Chinese experts.

- In Vientiane in June 2004, a two-day seminar was held on private sector development and promotion of small and medium-sized enterprise. Sponsored by the World Bank office and the Lao Ministry of Industry and Handicraft, the seminar addressed mid-rank government officials and business officials. The topics covered the challenges facing the Lao PDR, such as FDI, technology, trade, and small and medium enterprise development, citing East Asian experience.