

A  
DEC  
ADE  
OF MEASURING  
THE QUALITY OF  
GOVERNANCE

GOVERNANCE MATTERS 2006  
WORLDWIDE GOVERNANCE INDICATORS



**NEW ANNUAL INDICATORS AND UNDERLYING DATA  
RELEASED SEPTEMBER 15, 2006**

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The governance indicators presented here reflect the statistical aggregation of responses on the quality of governance given by a large number of survey respondents in industrial and developing countries, as compiled by many different survey institutes, think tanks, nongovernmental organizations, and international organizations, and as aggregated by researchers in The World Bank Institute and in the The World Bank's Development Research Group. As discussed in detail in publicly available research papers and in detailed materials available on The World Bank's Web site, countries' relative positions on these indicators are subject to margins of error that are clearly indicated and should be taken into consideration when making comparisons across countries and over time.

# BETTER DATA FOR BETTER GOVERNANCE



A dozen years ago virtually no internationally comparable measures of governance or corruption existed. Since then, the world has seen an explosion of empirical research aimed at measuring governance, monitoring country progress, understanding the causes and consequences of good governance for development, and learning from successes and failures. The Worldwide Governance Indicators described in this booklet are one contribution to that explosion. They are based on a long-standing research program of the World Bank Institute and the Research Department of the World Bank, initiated in the late 1990s by Daniel Kaufmann and Aart Kraay, with the assistance of Pablo Zoido-Lobaton and Massimo Mastruzzi. Sometimes referred to as the “KK,” “KKZ,” or “KKM” indicators, they have been compiled since 1996 and measure the quality of governance in well over 200 countries, based on 31 data sources produced by 25 different organizations worldwide (see page 16).

The Worldwide Governance Indicators, which capture six key dimensions of governance (see pages 2–3), were published every other year between 1996 and 2004. To meet strong demand, they are now released annually. This year, for the first time, virtually all of the individual data sources underlying the aggregate indicators are, along with the indicators themselves, available electronically at [www.worldbank.org/wbi/governance/](http://www.worldbank.org/wbi/governance/). This large collection of detailed individual and aggregate indicators covering a decade is one of the world’s largest publicly available compilations of data on governance.

Policy makers and academics agree that good governance matters for economic development. Scholars have discovered that high-quality institutions have the power, over the long run, to raise per capita incomes and promote growth in all parts of the world. And the “development dividend” paid by good governance is large. Researchers estimate that when governance is improved by one standard deviation, incomes rise about three-fold in the long run, and infant mortality declines by two-thirds. Because such a one standard deviation improvement constitutes just a fraction of the difference between the worst and best performers, it is within reach. Consider, for example, that on the dimension of rule of law one standard deviation is all that separates Somalia from Nigeria, Nigeria from El Salvador, El Salvador from Italy and Botswana, and Botswana from the United Kingdom. On control of corruption, to take another example, one standard deviation divides Equatorial Guinea from Tanzania, Tanzania from Lithuania, Lithuania from Chile, and Chile from Finland. On voice and accountability, one standard deviation separates Burma and the Democratic People’s Republic of Korea from Kazakhstan and Chad, Chad from Zambia and Singapore, Singapore from the Republic of Korea and Botswana, and Botswana from Denmark.

## SIX AGGREGATE INDICATORS OF THE QUALITY OF GOVERNANCE

The Worldwide Governance Indicators project defines governance as the set of traditions and institutions by which authority in a country is exercised. The political, economic, and institutional dimensions of governance are captured by six aggregate indicators.

### VOICE AND ACCOUNTABILITY

the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media

1

### POLITICAL STABILITY AND ABSENCE OF VIOLENCE

perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including domestic violence and terrorism

2

### GOVERNMENT EFFECTIVENESS

the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies

3

Such findings, and the data behind them, reinforce the experiences and observations of reform-minded individuals in government, civil society, and the private sector, who know that good governance is essential for development. Their growing recognition of the link between good governance and successful development has stimulated demand for monitoring the quality of governance across countries and within individual countries over time.

## GOVERNANCE MATTERS FOR DEVELOPMENT... ...AND OTHER KEY FINDINGS

- Good governance pays a very large development dividend. An improvement in governance of one standard deviation can triple a nation's per capita income in the long run. Higher income also correlates with better governance, but the causal relationship is mostly from governance to income.
- Although governance quality on average changes slowly, it can in some countries decline sharply in a few short years, but it can also quickly improve.
- Responses to specific questions on governance from citizens, firms, and country experts are important, because stakeholders make decisions based on those views and perceptions.
- Direct data from citizens, firms, and experts, even if they contain a subjective element, can paint a richer picture of actual conditions on the ground than counting laws and regulations, which in fact may not be enforced or observed.
- Aggregate indicators yield more reliable information about governance than any individual indicator can provide.
- Margins of error are implicit in all indicators (including specific measures as well as so-called objective indicators), although their imprecision may not be reported or acknowledged. Seemingly precise country rankings based on such indicators can, therefore, be misleading.
- Robust aggregate indicators, such as those discussed here, specify margins of error that should be taken into account when assessing the quality of governance and changes over time.

Donor agencies, too, have concluded that development assistance is more effective in countries with good institutional quality. Increasingly, international financial institutions and some bilateral donor agencies, subscribing to evidence-based policy and decision making, explicitly tie aid transfers to governance outcomes. To make their decisions, they rely on a variety of indicators. Because governance is complex and any indicator is subject to a degree of imprecision, no single indicator can be used mechanically for this important task. But the explosion of data in recent years has given donors a wealth of options for analysis and policy formulation.

The Worldwide Governance Indicators make it possible to evaluate the quality of a country's governance in comparison with other countries—and over time. This type of data has done much to refute three notions that are as pernicious as they are fallacious.

#### REGULATORY QUALITY

the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development

4

#### RULE OF LAW

the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence

5

#### CONTROL OF CORRUPTION

the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests

6

- **Fallacy 1: Governance cannot be measured—at least not with enough precision to be useful.** Governance *can* be measured, given the wide range of possible indicators now available. None is perfect, of course. But the Worldwide Governance Indicators are transparent and precise about the degree of imprecision in the data. Falling short of total precision does not detract from the usefulness and relevance of the data: many meaningful comparisons are both feasible and useful for policy analysis.
- **Fallacy 2: The industrialized countries are all well-governed, while the developing world suffers from uniformly poor governance.** In fact, more than a dozen emerging economies, including, for example, Slovenia, Chile, Botswana, and Estonia, score higher on rule of law and control of corruption than some industrialized countries, such as Greece and Italy. This can also be seen in other dimensions of governance (see page 7).
- **Fallacy 3: Significant progress to improve governance and curb corruption cannot occur in a short time.** In fact, the ability to measure and monitor progress on key dimensions of governance such as rule of law, corruption, and voice and accountability already has enabled reformers in government and civil society to press for improvements in the quality of governance in many countries. Between 1996 and 2005, significant changes in at least one of the six governance indicators occurred in roughly one-third of countries, some for the better and some for the worse. And even over shorter periods such as 2002–5, significant changes in governance have occurred in roughly 1 in 10 countries. The numbers of significant improvements and deteriorations are roughly similar and suggest varied trends in performance both within regions and across the globe. For instance, in Africa, refuting notions of “Afro-pessimism,” some countries have seen improvements in governance, although others have seen declines (see box on page 6).

“If you cannot measure it,” Lord Kelvin famously remarked, “you cannot improve it.” By supplying the tools to measure governance and monitor changes in its quality, the World Bank and other research enterprises have helped reshape the framework within which governance reforms are implemented, not only by giving us a better and deeper understanding of countries’ strengths and weaknesses, but also by offering insights and evidence of how reforms can generate development dividends.

#### WEB SITES OF INTEREST

##### GOVERNANCE HOMEPAGE:

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

##### AGGREGATE GOVERNANCE INDICATORS HOMEPAGE

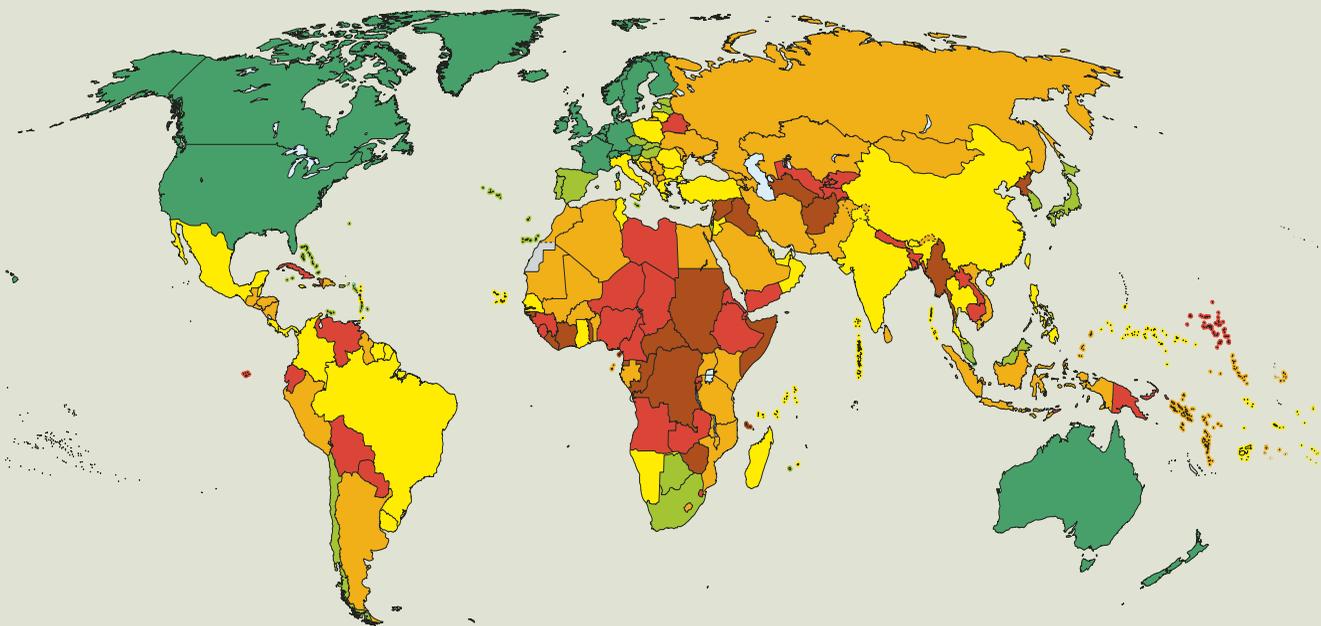
<http://www.govindicators.org>

##### GOVERNANCE DIAGNOSTIC CAPACITY BUILDING:

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

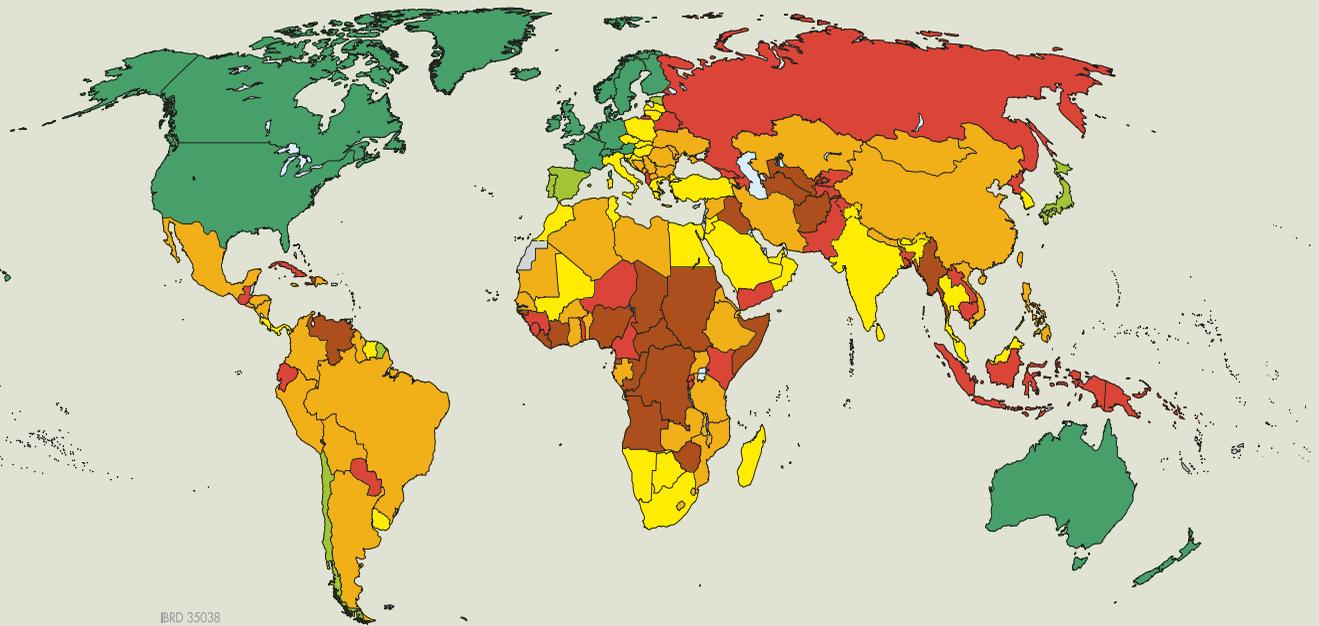
## MAPPING GOVERNANCE —CROSS-COUNTRY COMPARISONS FOR 2005

**GOVERNMENT EFFECTIVENESS** measures the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to those policies.



IBRD 35037  
SEPTEMBER 2006

**RULE OF LAW** measures the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence.



IBRD 35038  
SEPTEMBER 2006

These maps depict the percentile rankings of countries on certain dimensions of governance. The percentile rank indicates the percentage of countries in the world that score below a given country. Each rating is subject to a margin of error, and although the color coding cannot account for those margins, the use of six color-coded categories conveys the importance of avoiding spuriously precise rankings for individual countries.

**COLOR CODING**

- |   |   |
|---|---|
|  Above 90th percentile   |  75th to 90th percentile |
|  50th to 75th percentile |  25th to 50th percentile |
|  10th to 25th percentile |  Below 10th percentile   |
|  No data                 |   |

## TRACKING CHANGE OVER TIME CHALLENGES “AFRO-PESSIMISM”

*The Economist* magazine challenged the prevailing pessimism about governance in Sub-Saharan Africa, pointing to changes in the quality of governance as revealed in the Worldwide Governance Indicators. In June 2005, *The Economist* used the indicators (for the period ending in 2004) to identify several countries that were making significant progress on various governance dimensions, as well as others that were deteriorating.

Now, using the current release of the indicators, analysts can investigate whether significant change has occurred in 213 countries, taking any period from 1996 until the end of 2005 as a point of comparison. The Worldwide Governance Indicators show that from the mid- to late 1990s up to the present, several countries in Africa have substantially improved on various dimensions of governance. Examples include Nigeria on voice and accountability; Tanzania on government effectiveness; Liberia on voice and accountability; Mozambique on political stability and absence of violence; the Democratic Republic of Congo on political stability, absence of violence, and regulatory quality; Senegal on voice and accountability, political stability, and absence of violence; Madagascar on rule of law and control of corruption; Ghana on voice and accountability; and Botswana on control of corruption. In contrast, governance in Zimbabwe and Ivory Coast has deteriorated sharply on every dimension; in other countries, such as in Eritrea and Ethiopia, it has deteriorated on some but not all dimensions.

The distinct variation in performance among countries in Africa (as well as on other continents) applies not only to changes over time but also to the level of governance quality from country to country at any given time. The governance indicators can be used to challenge simplistic, and often negative, generalizations about a whole continent, revealing instead the rich variation across countries, as the accompanying maps illustrate.

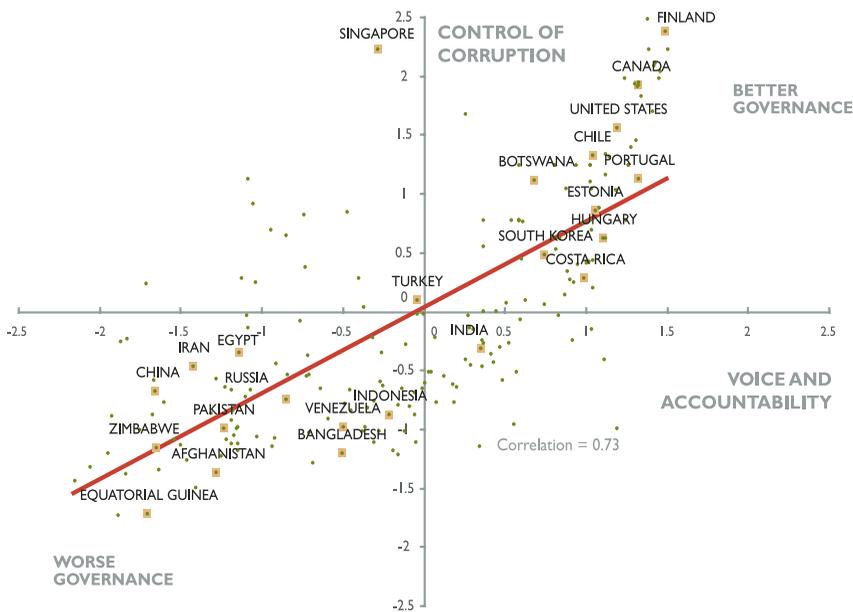




## DEMOCRATIC ACCOUNTABILITY AND CLEAN GOVERNMENT GO HAND IN HAND AROUND THE WORLD

Data from the Worldwide Governance Indicators for 2005 show that democratic accountability and clean government go hand in hand. Countries such as Chile, Portugal, and Canada all are vibrant democracies with very little corruption, while countries with voice and accountability challenges such as China and the Russian Federation, or, more extremely, Zimbabwe and Equatorial Guinea, tend to have much more corruption. This is consistent with the idea that when citizens can demand more accountability through the ballot box, or where there is freedom of expression, of the media, and of information, governments become cleaner and less corrupt. These important elements, sometimes labeled the demand side of governance, are emphasized in the newly strengthened World Bank strategy to address governance and corruption, which points to the need to support institutions of accountability outside the executive, such as parliaments, the media, civil society, and the private sector.

But there are exceptions to the link between the extent of voice and democratic accountability that a country exhibits and its success in controlling corruption. Singapore, a city-state, has one of the best rankings in the world on control of corruption, but it ranks in the middle of the pack on voice and accountability, below much poorer countries, such as Brazil and Botswana. Furthermore, despite their active, albeit imperfect, democracies, countries such as Bangladesh and Indonesia have quite low scores on control of corruption. And finally, the good performance of countries such as Botswana, Costa Rica, Chile, and Estonia on both dimensions reminds us that good governance is not the sole preserve of rich, industrialized countries, but can be found around the world.



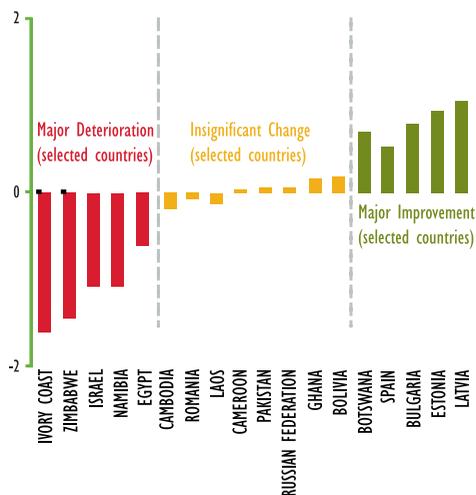
# CHARTING CHANGES IN THE QUALITY OF GOVERNANCE OVER TIME



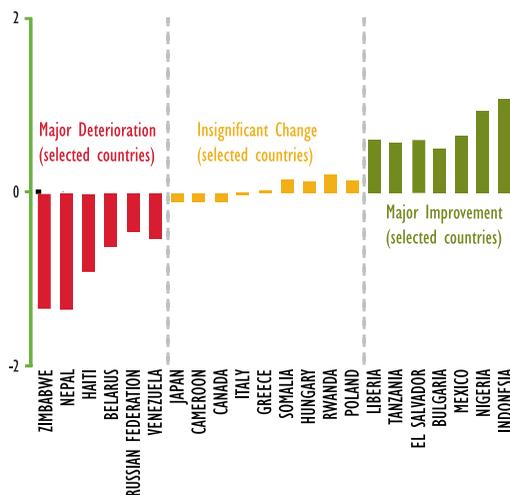
Policy makers often are interested in trends in institutional quality. They may want to know, for example, whether governance is improving or worsening over time in a particular country. The presence of measurement error in any indicator makes assessing actual trends a challenging undertaking. Simply looking at changes in the governance ratings is not enough, since some changes may be too small to be practically—and statistically—meaningful. The Worldwide Governance Indicators project has developed a formal statistical methodology and simple rules for identifying changes in governance that are statistically significant and likely to be practically important for policy makers.

Over the past decade we can be quite confident (at the 90 percent confidence level) that at least one of the six aggregate governance indicators has changed substantially in 31 percent of countries. At a somewhat lower level of confidence (75 percent

**Changes in control of corruption in selected countries, 1996–2005**



**Changes in voice and accountability in selected countries, 1996–2005**



Changes calculated on the basis of differences in country estimates for 1996 and 2005. Confidence interval for classification of major improvements and deteriorations is 75 percent. Data source: <http://www.govindicators.org>

confidence), 60 percent of countries have seen changes in at least one dimension of governance over the past decade. Moreover, the many individual data sources are in substantial agreement about the direction of change in governance in these countries. In fact, for large changes in governance, typically 80 percent of the underlying data sources move in the same direction as the aggregate indicators.

Changes in rule of law and voice and accountability for selected countries between 1996 and 2005 are shown on the facing page.

## Using the Worldwide Governance Indicators on the Web

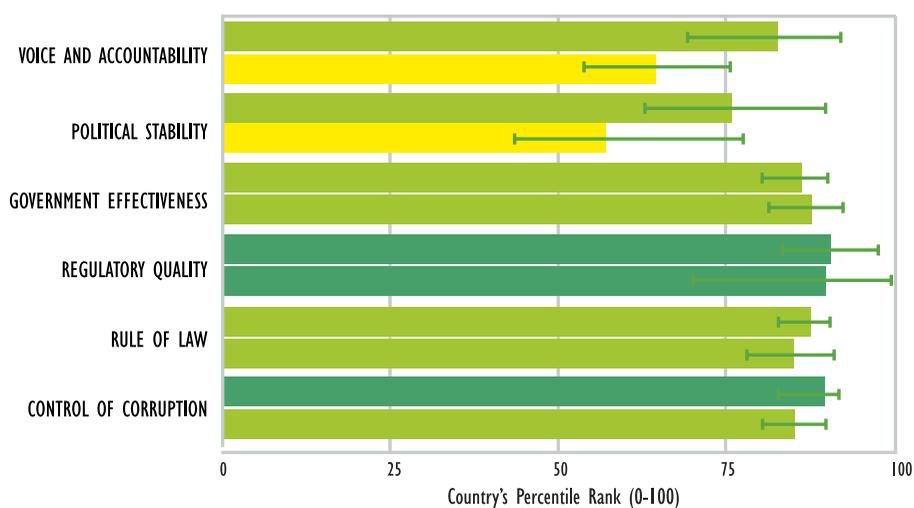
The worldwide aggregate indicators, together with virtually all of the underlying data, are available on the Worldwide Governance Indicators Web site (<http://www.govindicators.org>). This site features a set of graphical tools that allow users to take snapshots of governance performance in individual countries or groups of countries. The full dataset is available for downloading.

Users can compare the six dimensions of governance within a country over time or compare each dimension of governance across several countries. A statistical table with details on the governance estimates is automatically generated in response to the user's selections. Users also can drill down to the individual indicators for further details for the selected country and years. It is possible, for example, to access the actual data and identify the organizations that provided those data.



## COMPARING SIX DIMENSIONS OF GOVERNANCE OVER TIME USING THE WORLDWIDE GOVERNANCE INDICATORS WEB TOOL: CHILE 1998–2005

Chile: Top line for each dimension signifies 2005; bottom line signifies 1998. Lines at end of bars denote margin of error.



### AGGREGATE GOVERNANCE INDICATORS FOR CHILE

INDICATOR	YEAR	PERCENTILE RANK (0-100)	ESTIMATE (-2.5 TO +2.5)	STANDARD ERROR	NUMBER OF SURVEYS/ POLLS	SOURCES
Voice and Accountability	2005	82.6	+1.04	0.14	10	List
	1998	64.7	+0.59	0.23	6	List
Political Stability	2005	75.9	+0.85	0.21	10	List
	1998	57.1	+0.37	0.26	6	List
Government Effectiveness	2005	86.1	+1.26	0.15	12	List
	1998	87.6	+1.31	0.26	7	List
Regulatory Quality	2005	90.6	+1.40	0.17	10	List
	1998	90.1	+1.10	0.27	6	List
Rule of Law	2005	87.4	+1.20	0.13	15	List
	1998	85.1	+1.18	0.18	11	List
Control of Corruption	2005	89.7	+1.33	0.14	12	List
	1998	85.3	+1.13	0.19	10	List

## INDIVIDUAL INDICATORS FOR CHILE ON VOICE AND ACCOUNTABILITY IN 2005

SCALE = 0 (BAD) TO 1 (GOOD)

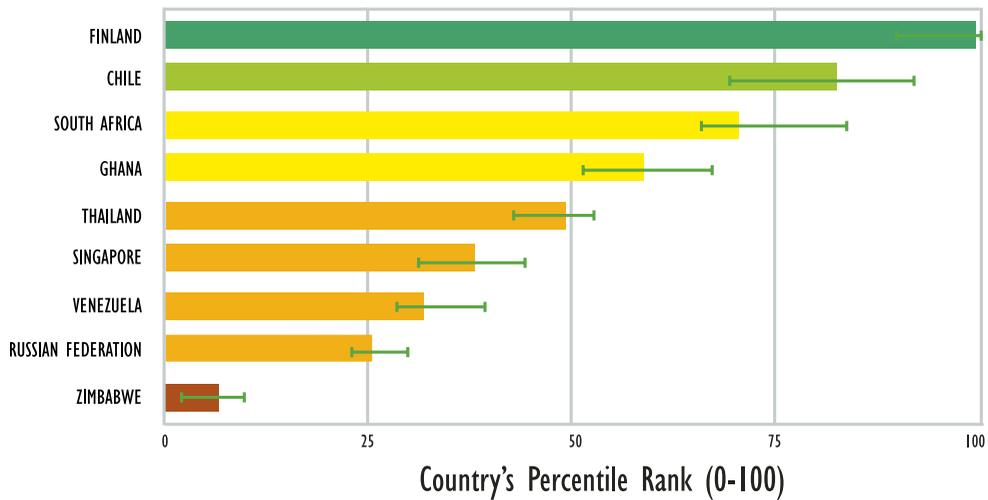
SOURCE	PUBLICATION	CHILE
Bertelsmann Foundation	Bertelsmann Transformation Index	+0.90
Economist Intelligence Unit	Country Risk Service	+0.90
Freedom House	Freedom in the World	+0.92
World Economic Forum	Global Competitiveness Report	+0.59
Cingranelli-Richards (CIRI)	Human Rights Database	+0.75
Latinobarometro	Latinobarometro Surveys	+0.40
Political Risk Services	International Country Risk Guide	+0.79
Reporters Without Borders	Reporters Without Borders	+0.89
Institute for Management and Development	World Competitiveness Yearbook	+0.66
Global Insight	Business Conditions and Risk Indicators	+0.88

### REPORTERS WITHOUT BORDERS [HTTP://WWW.RSF.ORG](http://www.rsf.org)

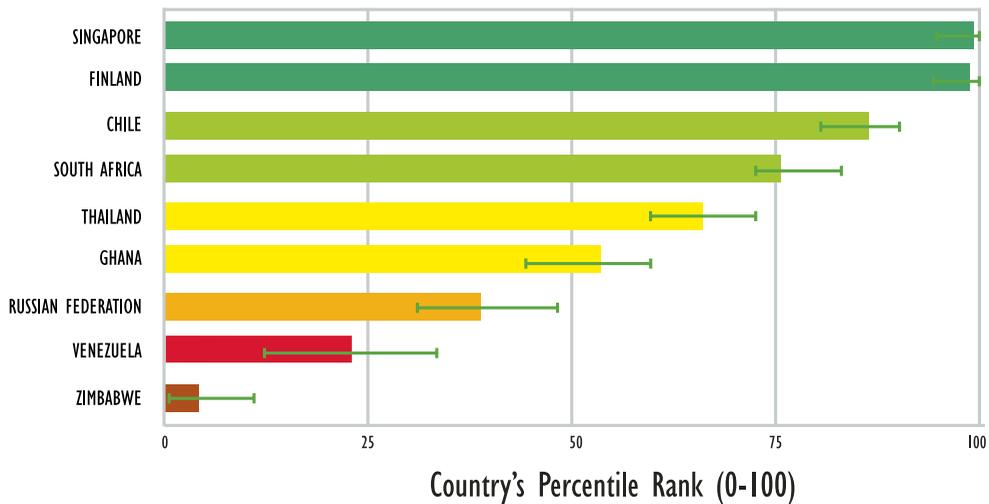
Reporters Without Borders, headquartered in Paris, is an international organization dedicated to the protection of reporters and to the preservation of press freedom throughout the world. In 2002 Reporters Without Borders published its first worldwide press freedom index, compiled for 139 countries. The index is now computed annually based on a survey of journalists, researchers, and legal experts, who respond to 50 questions about a range of violations of press freedom.

## CROSS-COUNTRY COMPARISONS OF GOVERNANCE USING THE WORLDWIDE GOVERNANCE INDICATORS WEB TOOL

### Voice and Accountability (Selected Countries, 2005)



### Government Effectiveness (Selected Countries, 2005)



#### COLOR CODING

- Above 90th percentile
- 50th to 75th percentile
- 25th to 50th percentile
- 10th to 25th percentile
- Below 10th percentile

Note: Thin lines at ends of bars denote margin of error.

Source: <http://www.govindicators.org>

# SOURCES AND METHODS USED IN THE WORLDWIDE GOVERNANCE INDICATORS



**T**he Worldwide Governance Indicators have been developed and refined over the past eight years. The first “Governance Matters” paper was released in 1999, with data for 1997/8, together with a paper describing the statistical methodology and uses of the indicators. Since then four updates of “Governance Matters” have been published, with successive updates of the data as well as a backward extension to 1996. These papers are available in the World Bank’s Policy Research Department Working Paper Series (<http://econ.worldbank.org>), and several have been published in scholarly journals and books. Users of the governance indicators are encouraged to consult these papers for a detailed treatment of the issues raised in this booklet (see page 20).

These research reports document in detail the growing set of data sources on which the aggregate indicators are based. They also address a large number of methodological issues that arise in the construction and use of the aggregate indicators. These include:

- Extensive discussion of the statistical methodology for assessing the significance of levels and changes in governance over time
- Interpretation of margins of error
- Sources of bias in the perceptions data and their (insignificant) effect on results
- Analysis of the discrepancies between perceptions of governance and the quality of laws and regulations “on the books”
- Analysis of the causal links between governance and development outcomes.

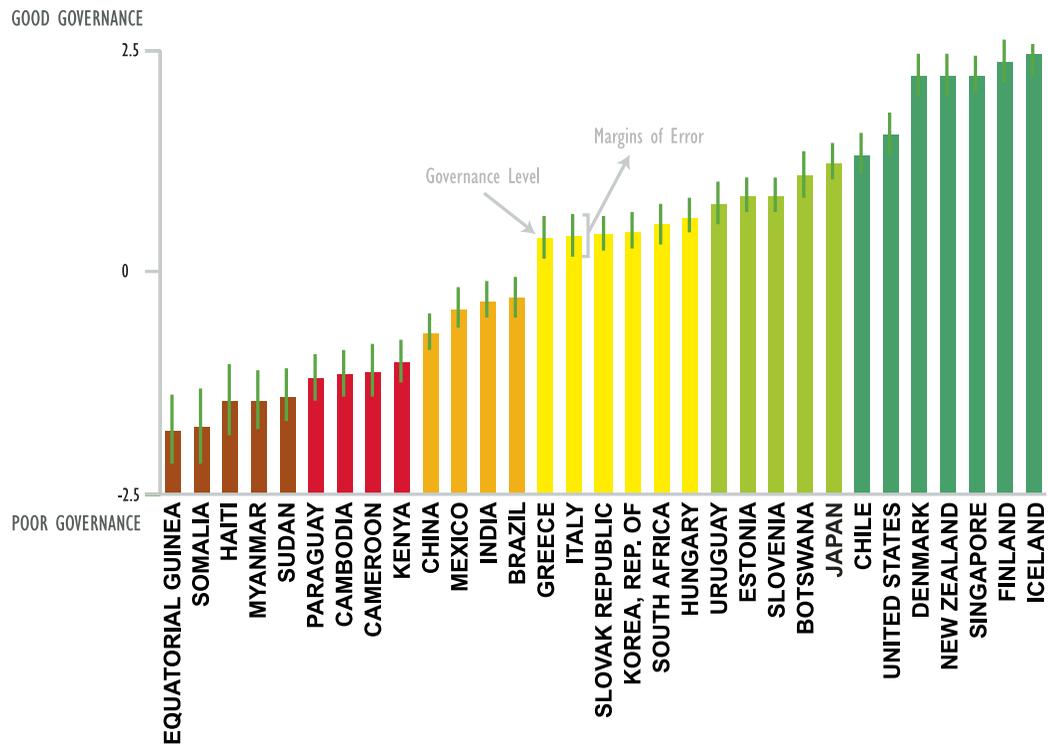
The aggregate indicators are based on several hundred underlying variables that reflect perceptions of a wide range of governance issues. For the 2006 release, which includes data through the end of 2005, the governance indicators are drawn from 31 separate data sets maintained by 25 different organizations worldwide. The data consist of surveys of firms and individuals, as well as the assessments of commercial risk-rating agencies, nongovernmental organizations and think tanks, and multilateral aid agencies (see page 16). Almost all sources are available annually. The Worldwide Governance Indicators draw on only the most recent data available.

Each of the many individual indicators becomes part of one of the six aggregate indicators (see pages 2–3), on the premise that any single indicator provides only a partial measure of the broader notion of governance to which it is assigned. A statistical methodology known as the “unobserved components model” is then used to construct aggregate indicators from the individual measures. The aggregate indicators are weighted averages of the underlying data, with weights reflecting the precision of the individual data sources. Aggregate indicators are



## CONTROL OF CORRUPTION

Control of Corruption (Selected Countries, 2005)



Governance is Measured on a Scale from -2.5 (Poor Governance) to 2.5 (Good Governance)

**COLOR CODING**

- Above 90th percentile
- 75th to 90th percentile
- 50th to 75th percentile
- 25th to 50th percentile
- 10th to 25th percentile
- Below 10th percentile

Source: <http://www.govindicators.org>

more informative about the six broad dimensions of governance than any individual measure can be, since they average information from many different sources.

The unobserved components model also generates margins of error for the estimates of governance for each country. The margins allow users to identify not just a single rating for each country, but also a range of statistically likely ratings, as illustrated in the accompanying figure on corruption for 2005. The vertical axis plots the point estimate for each country, together with the statistically likely range of values as a vertical green line. There is a 90 percent chance that the true value of governance for the country lies within that range.

The ranges are not trivial, which means that some of the smaller differences in governance across countries shown in the figure are not statistically meaningful. For example, the likely range of values for corruption for Denmark, Singapore, and Finland all overlap substantially, suggesting that the slight differences in their country rankings should not be overinterpreted as capturing important differences. But in many other comparisons of countries, these likely ranges of values do not overlap, indicating much more important differences across countries. For example, differences between Denmark and Japan, or Japan and South Africa, or South Africa and Brazil, or Brazil and Kenya, are all much more significant. The majority of country comparisons are like this. The 2005 control of corruption indicator, for example, which covers 204 countries, allows for 20,706 comparisons between pairs of countries. The differences revealed in roughly three-quarters of those comparisons are statistically important at the 75 percent confidence level.

Margins of error are not unique to the Worldwide Governance Indicators, nor are they due to the use of perceptions data. Instead, they reflect the pervasive difficulties of measuring governance itself. No single measure can perfectly capture complex concepts such as corruption, government effectiveness, voice and accountability, or the investment climate.

The Worldwide Governance Indicators project is forthright in acknowledging the imprecision of its estimates of corruption and other dimensions of governance, and points to the need for other raters to do the same. Unfortunately, most existing measures of governance (or investment climate) simply report country rankings without regard for the inevitable uncertainty associated with such rankings. The failure to report margins of error encourages a sense of false precision and excessive emphasis on marginal differences in country rankings that may in fact be due to measurement error.

## INDIVIDUAL COMPONENTS OF THE AGGREGATE WORLDWIDE GOVERNANCE INDICATORS

The Worldwide Governance Indicators rely on 31 sources, including surveys of enterprises and citizens, and expert polls, gathered from 25 different organizations around the world. These provide data derived from hundreds of questions on governance. Each question is mapped to one of the six dimensions of governance before the aggregation is carried out. Here are some examples of how individual inputs are assigned to aggregate indicators.

### MAPPING INDIVIDUAL QUESTIONS TO AGGREGATE INDICATORS

QUESTION FROM INDIVIDUAL INDICATOR	AGGREGATE INDICATOR TO WHICH THAT QUESTION CONTRIBUTES
<i>From expert assessments</i>	
Are civil liberties and political rights respected?	>> Voice and accountability
How does risk of political violence influence government?	>> Political stability and absence of violence/terrorism
How strong are public institutions and the quality of the civil service?	>> Government effectiveness
How prevalent are unfair competitive practices?	>> Regulatory quality
Is the judicial process swift and fair?	>> Rule of law
To what extent do politicians engage in corruption and nepotism?	>> Control of corruption
<i>From surveys of firms or individuals</i>	
Are elections fair?	>> Voice and accountability
Does the threat of terrorism impose costs on firms?	>> Political stability and absence of violence/terrorism
Is the public service independent from political interference?	>> Government effectiveness
Is it easy to start a business?	>> Regulatory quality
Is the judiciary independent from political interference?	>> Rule of law
“Unofficial payments” typically account for what percentage of sales?	>> Control of corruption

## DATA SOURCES FOR THE WORLDWIDE GOVERNANCE INDICATORS

SOURCE	PUBLICATION	TYPE	PUBLIC
African Development Bank	Country Policy & Institutional Assessments	Poll	No
Afrobarometer	Afrobarometer Survey	Survey	Yes
Asian Development Bank	Country Policy & Institutional Assessments	Poll	Partial
Bertelsmann Foundation	Bertelsmann Transformation Index	Poll	Yes
Brown University's Center for Public Policy	Global E-Governance	Poll	Yes
Business Environment Risk Intelligence	Business Risk Service	Poll	Yes
Business Environment Risk Intelligence	Qualitative Risk Measure	Poll	Yes
Columbia University	State Capacity Project	Poll	Yes
Economist Intelligence Unit	Country Risk Service	Poll	Yes
European Bank for Reconstruction & Development	Transition Report	Poll	Yes
Freedom House	Countries at the Crossroads	Poll	Yes
Freedom House	Nations in Transition	Poll	Yes
Freedom House	Freedom in the World	Poll	Yes
Gallup International	Voice of the People Survey	Survey	Yes
Global Insight	Global Risk Service	Poll	Yes
Global Insight	Business Conditions and Risk	Poll	Yes
Heritage Foundation/Wallstreet Journal	Economic Freedom Index	Poll	Yes
IJET Travel Intelligence	Country Security Risk Assessment	Poll	Yes
Institute for Management and Development	World Competitiveness Yearbook	Survey	Yes
International Research & Exchanges Board	Media Sustainability Index	Poll	Yes
Latinobarometro	Latinobarometro Surveys	Survey	Yes
Merchant International Group	Grey Area Dynamics	Poll	Yes
Political & Economic Risk Consultancy	Corruption Survey	Survey	Yes
Political Risk Services	International Country Risk Guide	Poll	Yes
Reporters Without Borders	Reporters Without Borders	Poll	Yes
State Department	Trafficking in People Report	Poll	Yes
State Department / Amnesty International	Human Rights Dataset	Poll	Yes
World Bank	Business Enterprise Environment Survey	Survey	Yes
World Bank	World Business Environment Survey	Survey	Yes
World Bank	Country Policy & Institutional Assessments	Poll	Partial
World Economic Forum	Global Competitiveness Report	Survey	Yes

“Survey” refers to surveys of firms and individuals with first-hand knowledge of the governance situation in the country. “Poll” refers to assessments by country analysts at commercial risk-rating agencies, nongovernmental organizations, and multilateral aid agencies. Publicly available data sources are fully disclosed on the Worldwide Governance Indicators Web site. Partial access to proprietary data sources is provided on the Web sites of the providing organization.

# QUESTIONS AND ANSWERS ABOUT MEASURING GOVERNANCE ACROSS COUNTRIES

## **Can a single indicator capture all that we need to know about governance?**

Most certainly not. Governance is a complex phenomenon with many dimensions, ranging from the rule of law, to public sector management, to the accountability of governments to their citizens. No single indicator can capture this diversity of issues. A complete picture of the governance situation in a country can be obtained only by consulting a wide range of measures.

The needs of the users of governance indicators also differ, necessitating different kinds of measures. Some aid donors use broad measures of governance available for many countries over time, such as the six Worldwide Governance Indicators. Policy makers in a particular country are likely to find detailed country-specific measures more useful than broad cross-country comparisons in identifying reform priorities. The large number of individual governance indicators on which the aggregate indicators are based can be very useful in this respect. They can be complemented with in-depth country diagnostic surveys such as the World Bank Institute's Governance and Anti-Corruption (GAC) Diagnostics, which capture the views of citizens, public officials, and firms.

## **Do subjective or perceptions-based measures of governance provide reliable information, or do they simply reflect vague and generic perceptions—or worse, hearsay and rumor?**

The Worldwide Governance Indicators are a compilation of information and perceptions from a very diverse group of respondents, collected in large number of surveys and other cross-country assessments of governance. Some of these instruments capture the views of firms, individuals, and public officials in the countries being assessed. Others reflect the carefully considered views of NGOs and aid donors with considerable experience in the countries being assessed. Still others are based on the assessments of commercial risk-rating agencies, which face a “market test.” If their information were worthless hearsay, it would find few buyers. The extent of agreement among these very diverse stakeholders is striking. For corruption, for example, the assessments of commercial risk-rating agencies are correlated at 80 percent or higher with a totally independent survey of firms across countries.

Perceptions data are very often specific and experiential, rather than vague and general, and many specific questions go into each aggregate indicator. For example, the Global Competitiveness Survey coordinated by the World Economic Forum asks questions like this: “When firms like yours do business with the government, how much of the contract value must they offer in additional payments to secure the contract?” Equally specific questions are posed by other firm surveys like the World Bank's Business Environment and Enterprise Performance Survey (BEEPS). Household surveys, such as the Gallup Organization's Voice of the People and Global Barometer Surveys and Latinobarometro, ask respondents to report percentages of corrupt officials or a specific number of times they witnessed acts of corruption.

### **Shouldn't we try to measure governance with "hard" objective data rather than "soft" perceptions data?**

For many dimensions of governance, relevant objective data are difficult to obtain. Consider the difficulty of measuring corruption objectively. Almost by definition, corruption leaves no paper trail. Even where objective measures are available, they provide only imperfect proxies for real conditions. For example, the constitutional limits on executive authority in a country, the laws governing judicial independence, or the regulations governing business entry may correspond very poorly with the actual application of those rules and procedures. When formal rules governing business entry in developing countries are compared with surveys of firms' perceptions of the ease or difficulty of business entry, for example, there is a rather low correlation between what appears on the books and what is practiced on the ground. Much of the difference can be traced to corruption, which leads to a subversion of official rules. There should be no presumption, therefore, that objective data are necessarily more informative than reports from experts, citizens, or firms with real-world experience. The Worldwide Governance Indicators reflect this wealth of experience by relying on such perceptions data.

### **Why do the Worldwide Governance Indicators have substantial margins of error?**

No measure of governance can be 100 percent accurate or reliable. There are margins of error in any survey. Information on a country's governance practices or its institutional and legal structures may be inaccurate, rules may be unenforced, and the situation "on the books" may correspond poorly with reality.

The Worldwide Governance Indicators are unique in that they recognize and explicitly acknowledge these uncertainties. As discussed elsewhere in this booklet the estimates of the six dimensions of governance are accompanied by margins of error that indicate their degree of precision. Virtually no other governance datasets report margins of error. But the absence of transparently reported uncertainty is not evidence of accuracy. Because all efforts to measure governance involve imprecision, caution should be used when making comparisons across countries and over time.

### **Why should we bother measuring governance at all, since many countries with weak governance have also had fast growth?**

Skeptics of the governance and anti-corruption agenda are quick to point to countries such as Bangladesh that score poorly on most cross-country assessments of corruption, yet have managed to turn in impressive growth performance over the past decade. But these exceptions do not negate the strong empirical finding that in the medium to long run governance matters for growth. In fact, most rich countries also have good governance, as measured here. Most observers agree that this is so because good governance made it possible for countries to grow rich, rather than the other way around. Sudden wealth does not necessarily lead to better governance, as the disappointing performance of many countries experiencing natural resource booms has shown. Of course, these are not iron laws, and governance is not the only thing that matters for development, but a rich body of evidence now points to a central role for governance in the development process.

## FURTHER READING

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“Bravo to the World Bank for providing reformers with such a valuable tool for their work on governance. Now we can benchmark performance in various governance areas and measure progress!”

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former Minister of Finance  
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Center for Privatization,  
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**Steven C. Radelet,  
Center for Global Development,  
Washington, DC**

“The Governance Indicators put to rest the tired assertion that these issues cannot be robustly measured and the lessons drawn cannot be put to subsequent positive use by governments, the development community, civil society and the media.”

**John Githongo,  
ex-Permanent Secretary, Governance &  
Ethics, Office of the President of Kenya**

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Financial Times**

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**Andrei Illarionov,  
former Economic Advisor to the  
President of the Russian Federation,  
and currently President of the  
Institute of Economic Analysis**



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