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Toward more operationally relevant indicators of governance

More specific indicators of government performance, processes, and institutions can contribute to better governance—with its attendant benefits for development.

How can governance indicators be developed to foster practical public sector reforms?

A large body of recent research has linked high-quality governance and public institutions to growth in per capita income, higher investment, and other positive development outcomes (see Knack and Keefer 1995 and Kaufmann, Kraay, and Zoido-Lobaton 1999). This research has relied almost entirely on broad indicators of the quality of governance and public institutions, produced in most cases by surveys or expert assessments. Increasing awareness of the importance of governance has been accompanied by an increase in the number of commercial firms and nongovernmental organization (NGOs) producing such indicators.

The International Country Risk Guide, published by the PRS Group, provides the indicators used most widely by researchers. Among the indicators in the guide are assessments of government bureaucracy, government corruption, and the rule of law. The guide has many competitors that also assess risk for prospective foreign investors, but it is unique in offering both broad coverage across countries (covering more than 140) and over time (with monthly ratings for most nations dating to 1982).

Among development practitioners and the general public, Transparency International's Corruption Perceptions Index may be the best-known governance indicator. This index is created by aggregating corruption ratings from the International Country Risk Guide and various other sources, on the reasonable assumption that combining information is likely to increase accuracy.

These first generation governance indicators have been invaluable in drawing attention to the crucial role of good governance in successful development, and to the need for public sector reform. Partly because of research findings based on these indicators, the importance of good governance for development has recently attained the status of conventional wisdom. For example, "good and clean government" and "an effective legal and judicial system" are two of the pillars of the World Bank's Comprehensive Development Framework (Wolfensohn 1999).

These indicators can also be used to identify countries with severe corruption and other governance-related problems. The proliferation in the number and sources of such indicators may improve the accuracy of such cross-country comparisons. If several independent sources point to country X as having severe corruption, we can be more confident in drawing such a conclusion than if we were relying on just one source.

Limitations of broad indicators

Broad indicators of the quality of governance, such as those provided by the International Country Risk Guide and Transparency International, are of little value in guiding specific public sector reforms. The problem is that they implicate many institutions and policies at the same time. For example, a low score on a rule of law index points to multiple policy and institutional culprits. It is undeniably a problem—but it does not naturally suggest what the solution might be, or even who should implement it.

Thus there are few examples of governance indicators having a substantial impact on the policies of governments or on the reforms proposed by donors and international financial institutions. First generation governance indicators have drawn attention to the right issues, but identifying practical ways to reform governments remains a challenge. Today's public sector reform programs tend to be based on plausible but largely untested assumptions about the institutional mechanisms conducive to good governance and a strong rule of law.

Most first generation indicators have limited relevance for public sector reform

There is thus an obvious need for second generation indicators to help determine which institutions are associated with which dimensions of public sector performance. Most first generation indicators have two properties that limit their relevance for public sector reform. First, they measure government performance but do not describe government processes or institutional arrangements. To argue convincingly that a particular public sector reform will (or will not) improve government performance, it is necessary to have measures of both institutions and performance, to allow tests of the links between them.

Second, the best-known governance indicators typically measure performance very broadly rather than characterizing specific dimensions of performance. The broadest indicators are those—such as Transparency International's Corruption Perceptions Index—that are constructed by aggregating the ratings provided by other sources. But even indicators from single sources can be broad. For example, corruption ratings from the International Country Risk Guide and other sources typically do not differentiate among bureaucratic, legislative, or judicial corruption, or between grand and petty corruption, or among government agencies. This property limits their usefulness in identifying reforms that might reduce corruption.

Thus the breadth of first generation governance indicators makes it difficult or impossible to infer specific policy implications. It also creates problems for country ownership, particularly for governments that are ranked low. Governments that might be receptive to being told of a specific deficiency in public sector performance—say, that public employment levels are above international norms—might nevertheless resist being told that they are highly corrupt or that the rule of law is weak. Most broad indicators are produced by for-profit firms or NGOs from industrial nations, through nontransparent processes, and unaccompanied by details about the nature or source of the perceived deficiencies in governance. As a result they can easily be dismissed by governments embarrassed by their low rankings.

Accordingly, second generation governance indicators should move in two directions. They should be more specific in measuring performance. And they should pay more attention to measuring government processes and institutional arrangements—not just performance. More disaggregated measures of corruption and other dimensions of performance are needed to facilitate meaningful empirical tests of the effects of various government processes and institutions. Measures of those processes and institutions are essential for testing assumptions on the efficacy of certain public sector reforms in improving performance. For example, does increasing civil service pay reduce bureaucratic corruption and increase the efficiency of public service delivery?

Developing second generation indicators

There has been some progress on collecting more specific performance indicators. Examples include:

- Business surveys conducted by the World Bank that include questions on the quality of public service delivery, such as the frequency of power outages or disruptions in water supply. Some of these surveys are designed to allow regional comparisons, making it possible to identify areas experiencing the most severe

service disruptions. Such information can be far more useful for sector-specific projects than broad indicators of bureaucratic quality or government effectiveness.
- Business surveys conducted by the Bank that include questions distinguishing between two aspects of corruption (Pradhan and others 2000). The first aspect, state capture, refers to corrupt practices that distort the formulation of laws and regulations. The second, administrative corruption, distorts the implementation of those laws and regulations. This distinction has important implications for anticorruption strategies and public sector reforms. These surveys also measure the incidence of corruption in different government agencies.
- Surveys of public officials conducted by the Bank that allow the construction of performance measures—accountability, employee morale, focus on results—for several government agencies (Manning, Mukherjee, and Gokcekus 2000).
- The International Development Forum sponsored by the United Nations, Organisation for Economic Co-operation and Development (OECD), World Bank, and International Monetary Fund (IMF) in March 2000 determined that there was not a meaningful set of indicators of participatory democracy and good governance that was politically acceptable to governments. But there was strong sentiment that efforts to identify such indicators should continue, in the recognition that the alternative was the increasing use—at least outside the OECD's Development Assistance Committee (DAC)—of indicators that were nontransparent or unacceptable to governments. DAC plans to post updates on work in this area on the OECD Web site, to gauge political and practitioner reactions to possible indicators.

There has also been progress in developing and testing indicators of government processes and institutional arrangements. Examples include:
- Using data from 35 developing countries, Rauch and Evans (2000) show that meritocratic civil service systems are associated with lower corruption and better bureaucratic performance. Qualitative responses to 20 questions were provided by 126 country experts over 1993–96. Indicators constructed from the data include an index of meritocratic hiring, an internal promotion and career stability index, and a civil service compensation index. Rauch and Evans show that subjective ratings of bureaucratic quality and corruption from the International Country Risk Guide and other sources are positively related to the meritocratic hiring index, but are unrelated to the indexes of compensation and internal promotion and career stability.
- In a Bank-IMF project, country economists are assessing public expenditure management in 25 heavily indebted poor countries. Countries are graded on various aspects of budget formulation, execution, and reporting.
- Giulio de Tomasso and Amit Mukherjee are updating civil service pay and employment data for a large group of countries (see Schiavo-Campo, de Tommaso, and Mukherjee 1997). Empirical evidence on the impact of civil service pay on corruption is mixed—suggesting that pay raises do little to reduce bribe solicitation by bureaucrats.
- The PREM Network's Decentralization Thematic Group is compiling indicators of fiscal, political, and administrative decentralization, including measures of subnational autonomy in spending and revenues, characteristics of intergovernmental transfer systems, and regulations for subnational borrowing.
- Bank surveys of public officials in 15 countries allow the construction of various measures of the institutional environment, including the credibility of rules constraining officials' behavior, the credibility of policies that officials are asked to implement, and the adequacy and predictability of agency resources (Manning, Mukherjee, and Gokcekus 2000). Coupled with agency performance measures produced from the same surveys, these data permit analysis of the relationship between institutional arrangements and performance.

Efforts are being made to collect more specific indicators

- The Database of Political Institutions, assembled by Bank staff, contains 113 variables for 177 countries covering 1975–98 (Beck and others 2000). The variables provide information on elections, electoral rules, type of political system, presence of military officers in government, and party composition of the opposition, government, and coalitions. From the raw data, indexes of political stability and checks and balances are constructed. The database is designed for studying issues such as political conditions for economic reform, the political and institutional roots of corruption, and the appropriate and institutionally sensitive design of economic policy. Effective reform programs require an understanding of existing political constraints.

Data collection efforts are expected to greatly enrich the information base on governance and public institutions

These and other data collection efforts are expected to greatly enrich the information base on governance and public institutions. Many of these data sets will allow for more micro level (such as agency or firm) analyses of links between governance and economic performance, complementing well-known cross-country evidence on these links. Some of the business surveys being conducted by the Bank will permit more in-depth analysis of how investment and other decisions by firms are influenced by poor service delivery, corruption, policy unpredictability, and other manifestations of malfunctioning institutions.

Further reading

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