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The Governance Gap in the Arab Countries: What Does the Data Say?

Presented at

IMF/AMF High-Level Seminar on

Institutions and Economic Growth in the Arab Countries

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Governance Gaps, Challenges and Opportunities:

*A Worldwide Empirical Perspective
and Implications for the Middle East*

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www.worldbank.org/wbi/governance

**Background Handout for Presentation at High
Level Seminar on Institutions and Economic
Growth in the Arab Countries,**

*sponsored by the IMF Institute & the Arab Monetary
Fund, December 19-20th, 2006, Abu Dhabi, UAE*

Basic Outline

- **The Worldwide Empirical Framework for analyzing Governance: Aggregate Worldwide Level, Mezzo Level, Micro-Level**
- **Salient Results, 1: Middle East in Worldwide comparative perspective**
- **Salient Results, 2: Variation within the Middle East**
- **The Governance Gap: Importance of ‘Unbundling’**
- **Some Implications for Discussion**

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General Empirical Framework

The ‘Power of Data’: Technical progress in measurement and increased use

- 1. The ‘Macro’/Aggregate Level of Measurement:**
*Worldwide Aggregate Governance Indicators (WGI) :
over 200 countries, 6 components, periodic.*
- 2. ‘Mezzo’: Cross-Country Surveys of Enterprises**
- 3. ‘Micro’: Specialized, in-depth, in-country Governance and Institutional Capacity Diagnostics: Includes surveys of: i) user of public services (citizens); ii) firms, and, iii) public officials**

On ‘Aggregate/Macro’ Level first... 3

Six Dimensions of Governance Measured

Governance as the set of traditions and institutions by which authority in a country is exercised -- specifically:

- **The process by which those in authority are selected and replaced [Political Governance]:**
 - 1. VOICE AND ACCOUNTABILITY**
 - 2. POLITICAL STABILITY & ABSENCE OF VIOLENCE/TERRORISM**
- **The capacity of government to formulate & implement policies, and deliver services [Economic Governance]:**
 - 3. GOVERNMENT EFFECTIVENESS**
 - 4. REGULATORY QUALITY**
- **Respect of citizens and state for institutions that govern interactions among them [Institutional Governance]:**
 - 5. RULE OF LAW**
 - 6. CONTROL OF CORRUPTION**

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2006 Release of Worldwide Governance Indicators: *Key Features after a decade of Governance Data*

- **Widely used by policymakers and researchers to study causes and consequences of good governance**
 - biannual data since 1996, now annual data
- **Based on 31 data sources from 25 organizations, capturing views of thousands of informed stakeholders**
- **First-time access to data underlying aggregate indicators**
 - hundreds of individual indicators over past decade
 - very large on-line governance data resources, at www.govindicators.org

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Sources of Governance Data

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

Why Aggregate Indicators?

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

- trust in police (*only imperfect proxy for*) → RULE OF LAW
- freedom of press (*for*) → VOICE & ACCOUNTABILITY
- policy consistency (*for*) → GOV'T EFFECTIVENESS

Benefits of Aggregation

- aggregate indicators are more informative about broad concepts of governance
- broader country coverage than individual indicator
- generate explicit margins of error for country scores
- avoid huge anomalies/outliers, seeking data-consensus

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Building Aggregate Governance Indicators

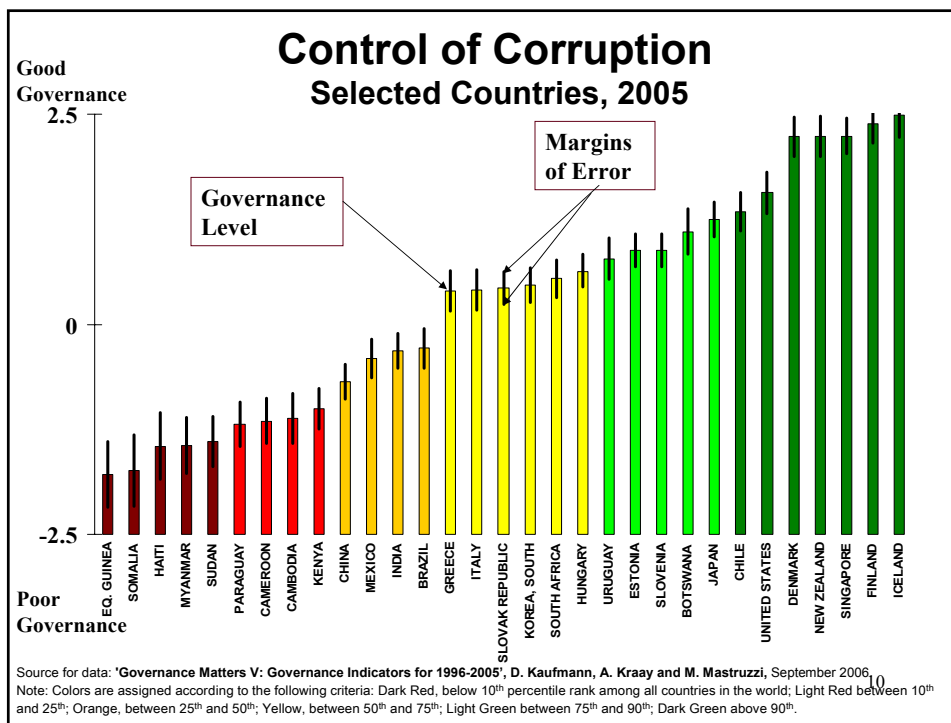
- Use Unobserved Components Model (UCM) to construct composite governance indicators, and margins of error for each country
- Estimate of governance: *weighted average* of observed scores for each country, re-scaled to common units
- Weights are proportional to *precision* of underlying data sources
- Precision depends on how strongly individual sources are correlated with each other

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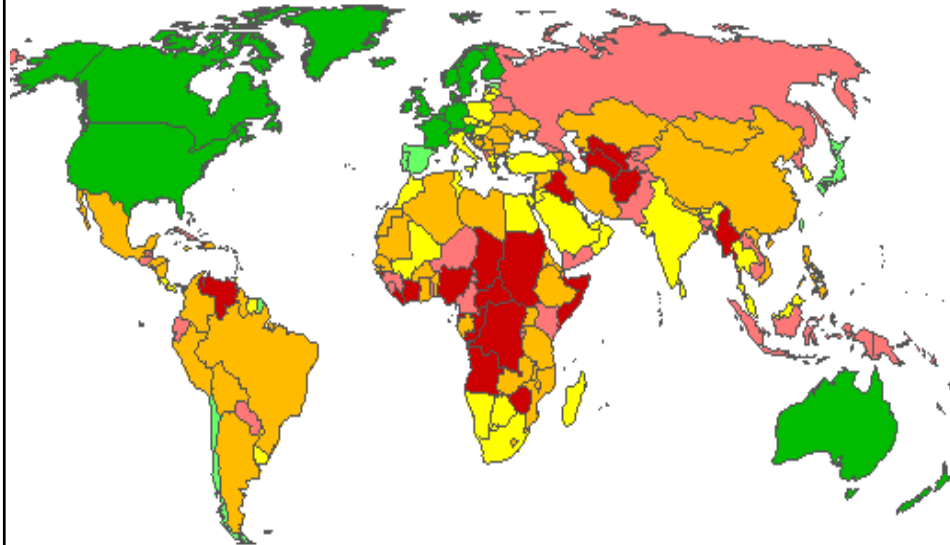
Levels of Governance Worldwide, 1996-2005

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

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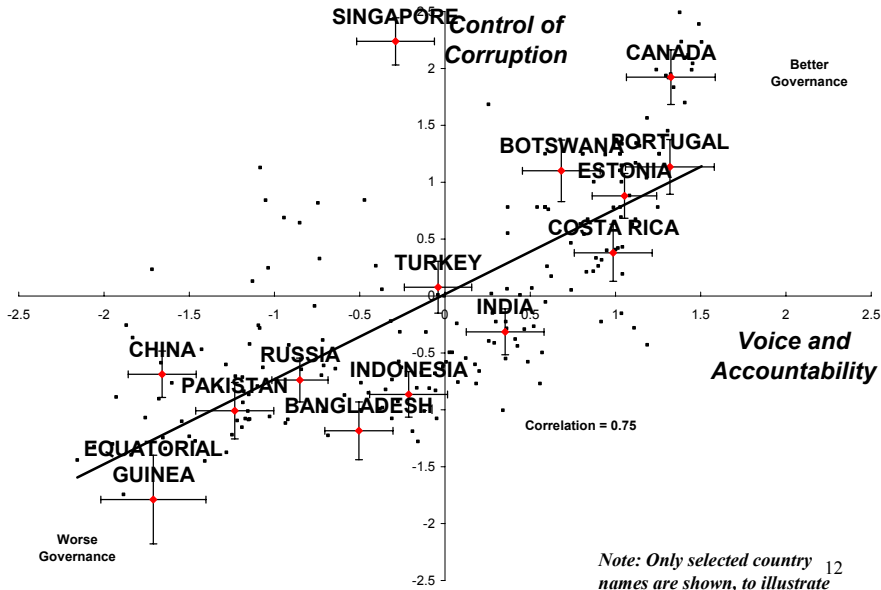


World Map: Rule of Law, 2005



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

Illustrating Cross-Country Comparisons & Standard Errors *Corruption Control vs. Voice & Accountability*

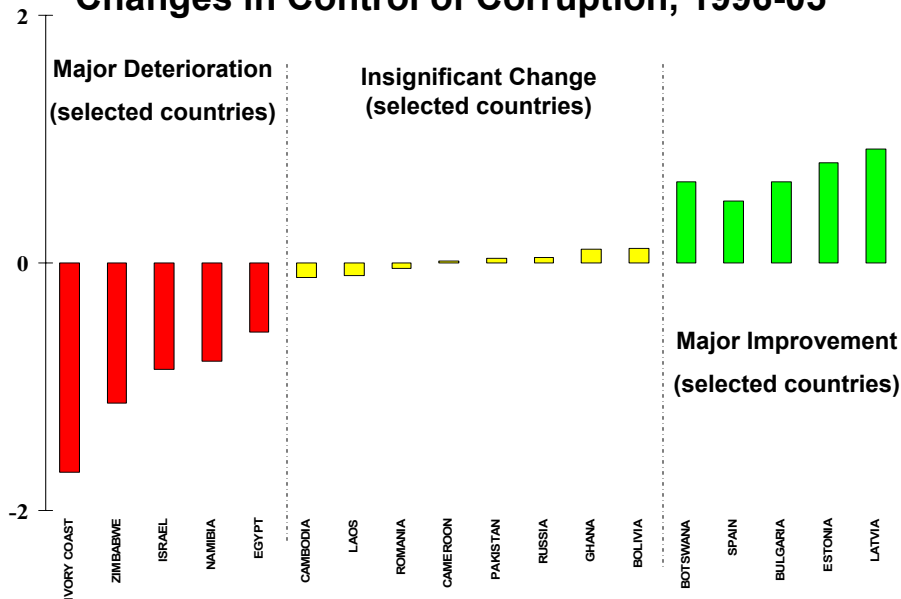


Measurable Worldwide Trends in Governance

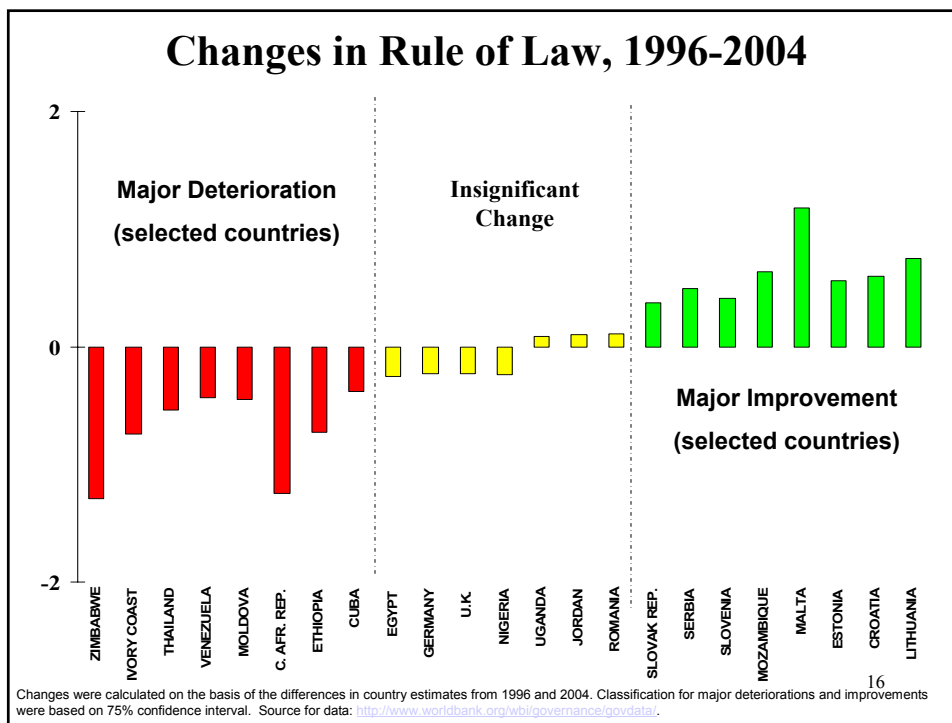
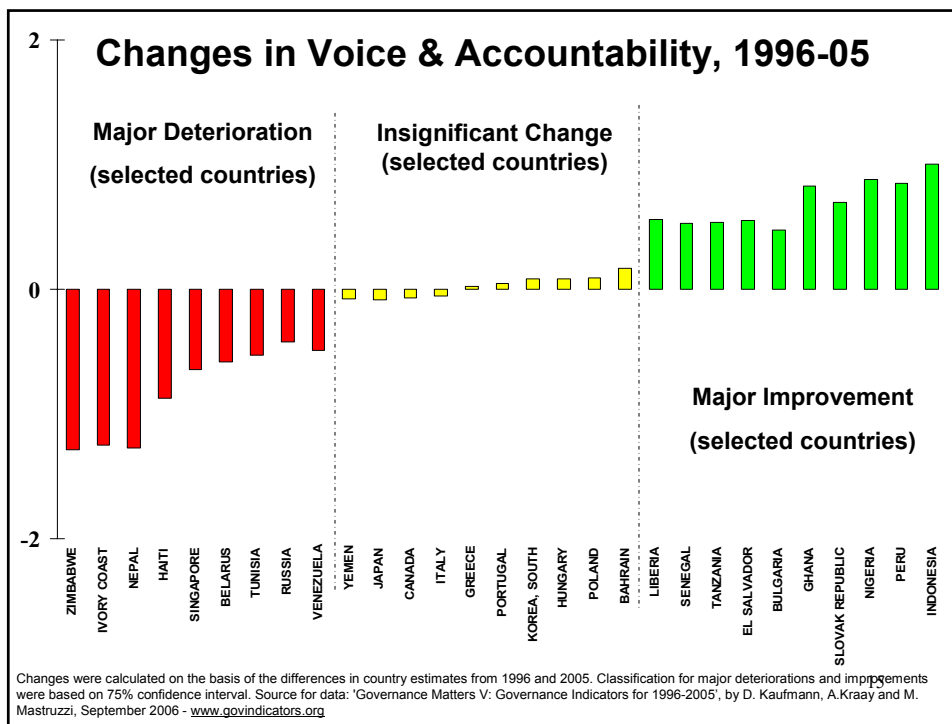
- Through new method, we show that it is possible to identify *significant* changes over time
- It is found that changes can take place in the short-term: *in 6-to-8 years, some deteriorations as well as some significant improvements take place*
- Yet the world on average has not improved
- MENA results on average as a region also sobering
- But good news for some countries, in MENA & world

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Changes in Control of Corruption, 1996-05



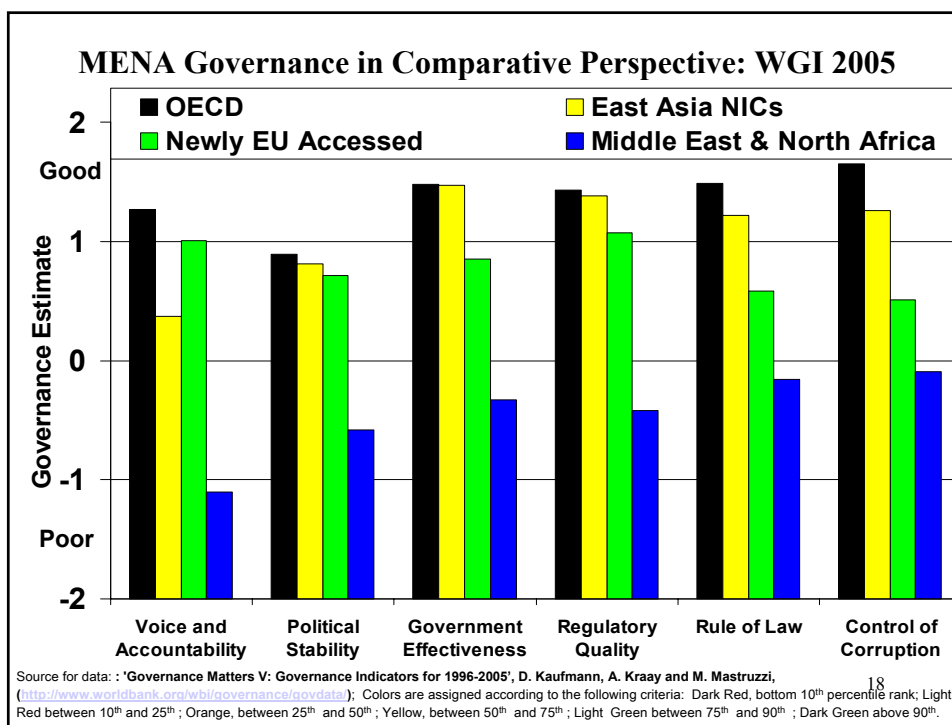
Changes were calculated on the basis of the differences in country estimates from 1996 and 2005. Classification for major deteriorations and improvements were based on 75% confidence interval. Source for data: 'Governance Matters V: Governance Indicators for 1996-2005', by D. Kaufmann, A.Kraay and M.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



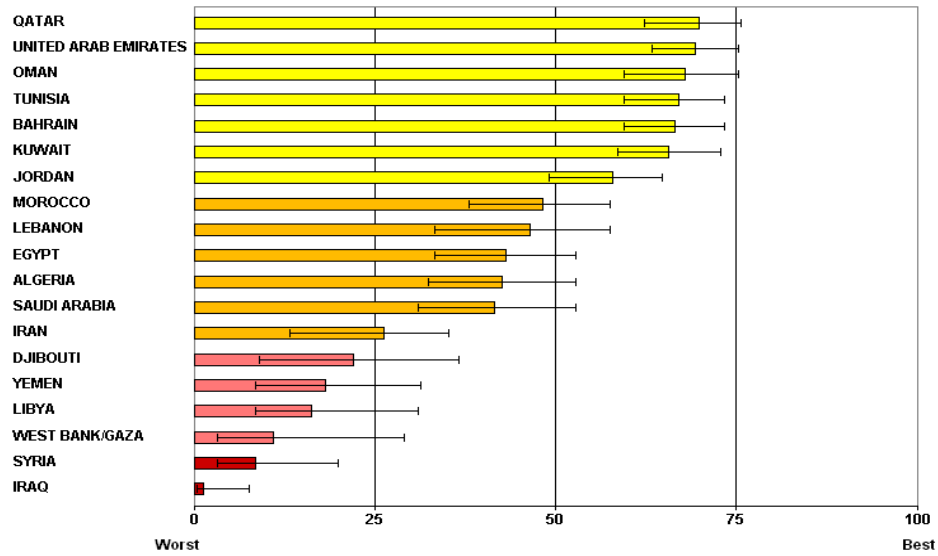
Assessing the Governance Gap: *MENA in perspective*

- Middle East and North Africa, compared with each other and with other regions
- Enormous country variation within MENA
- Comparing across time: recent trends
- Unbundling Governance: Gap varies for different governance components
- Press Freedom challenges (*worldwide*) as illustration

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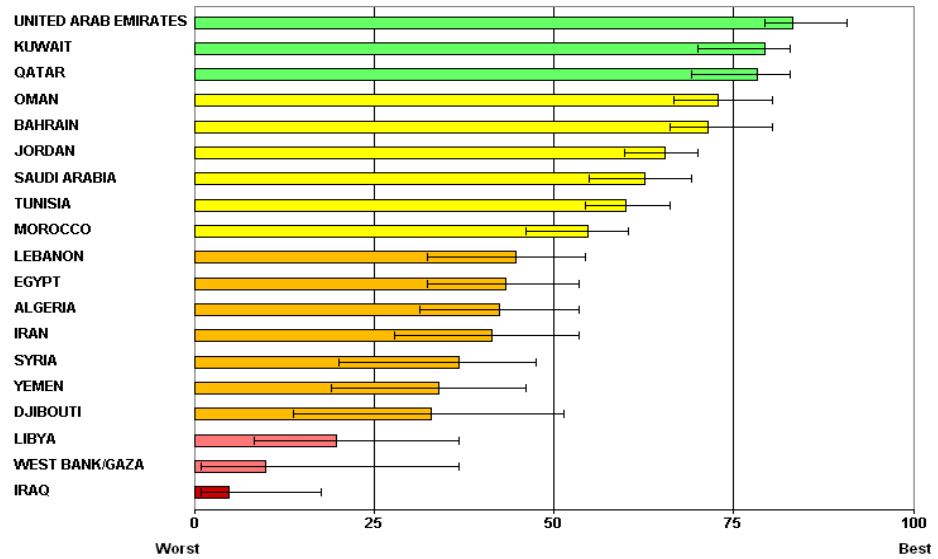


Government Effectiveness in MENA, 2005



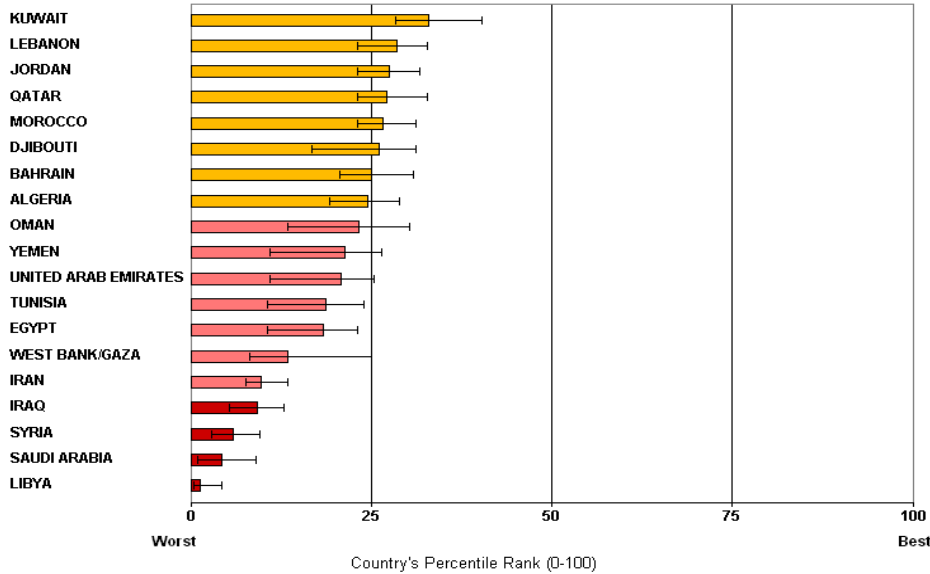
Source for data: 'Governance Matters V: Governance Indicators for 1996-2005', D. Kaufmann, A. Kraay and M. Mastruzzi, 19
<http://www.worldbank.org/wbi/governance/govdata>; Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.

Control of Corruption in MENA region, 2005



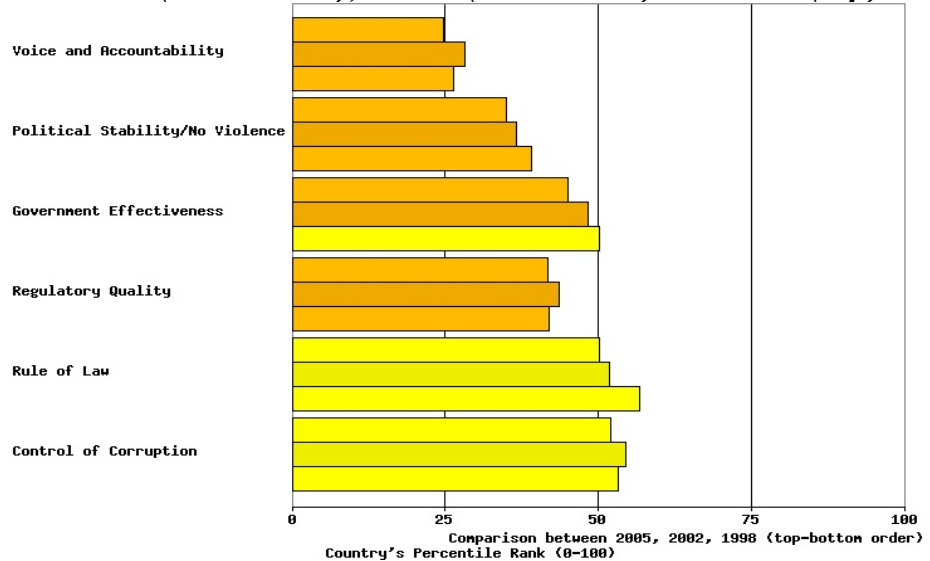
Source for data: 'Governance Matters V: Governance Indicators for 1996-2005', D. Kaufmann, A. Kraay and M. Mastruzzi, 20
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Voice & Accountability in MENA region, 2005



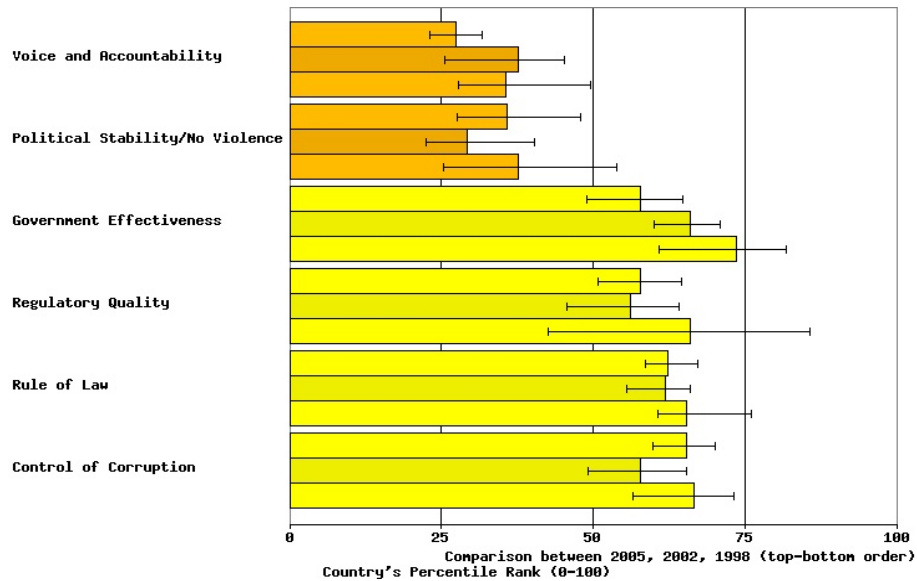
Source for data: 'Governance Matters V: Governance Indicators for 1996-2005', D. Kaufmann, A. Kraay and M. Mastruzzi, ²¹
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Governance Indicators (WGI) for MENA region 1998 (bottom bar), 2002 (middle bar) & 2005 (top)



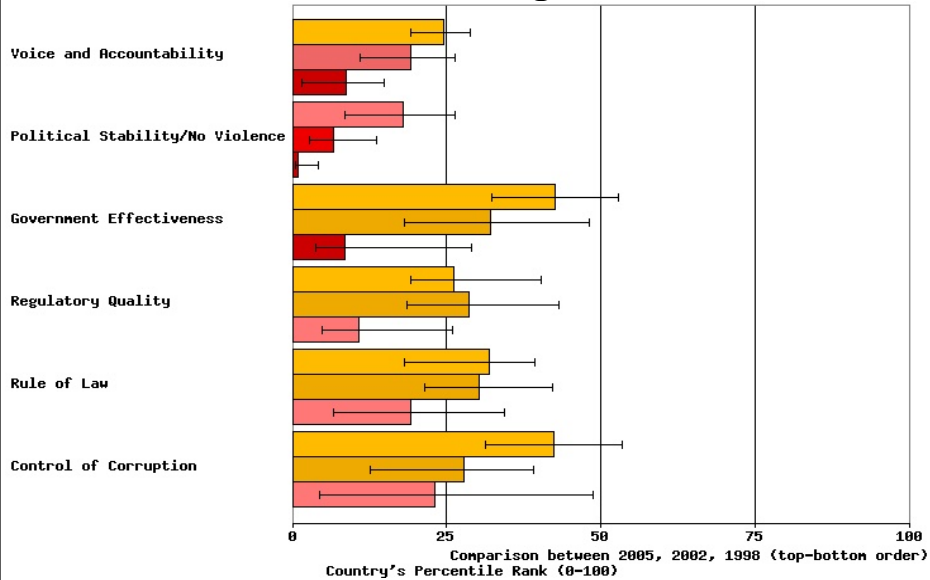
Sample: 21 countries. Source for data: 'Governance Matters V: Governance Indicators for 1996-2005', D. Kaufmann, A. Kraay and M. Mastruzzi, ²¹
 (<http://www.worldbank.org/wbi/governance/govdata>); Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.

Governance Indicators for Jordan, 1998, 2002, 2005

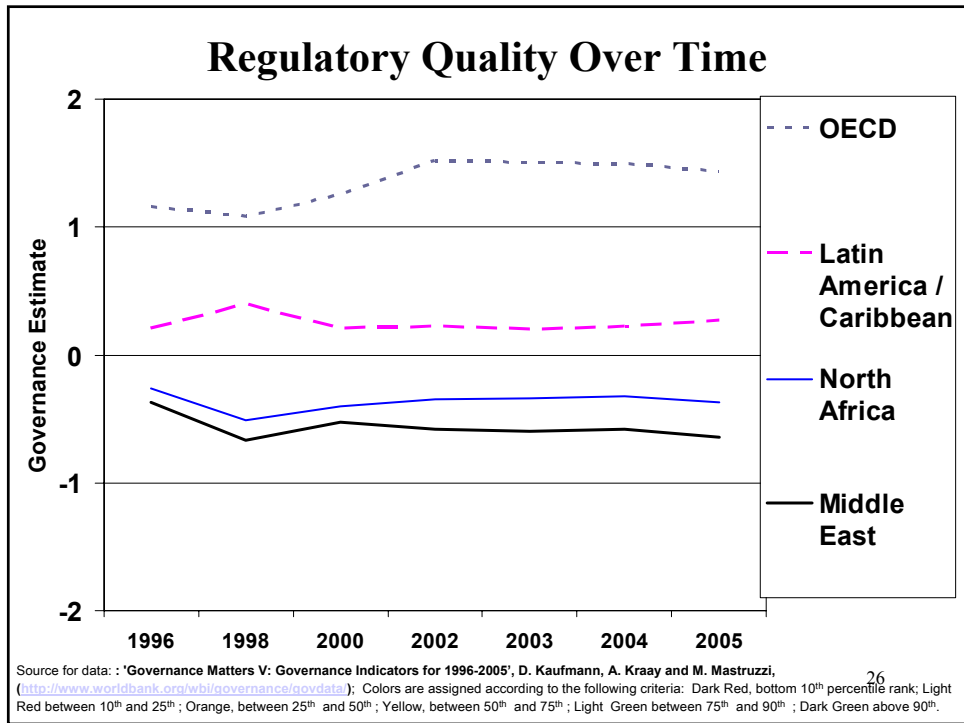
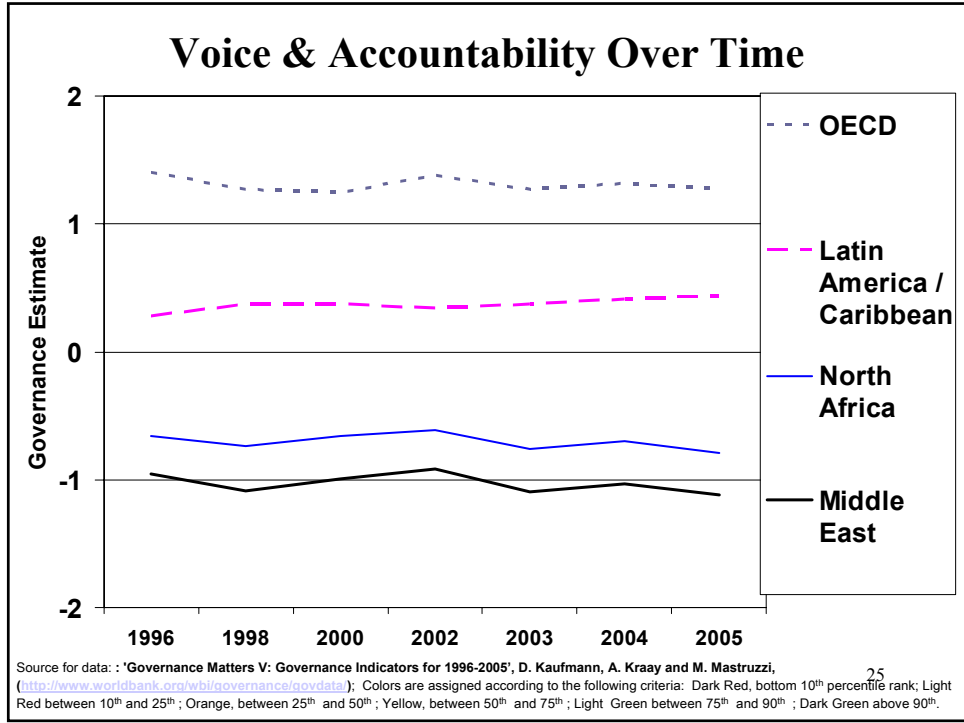


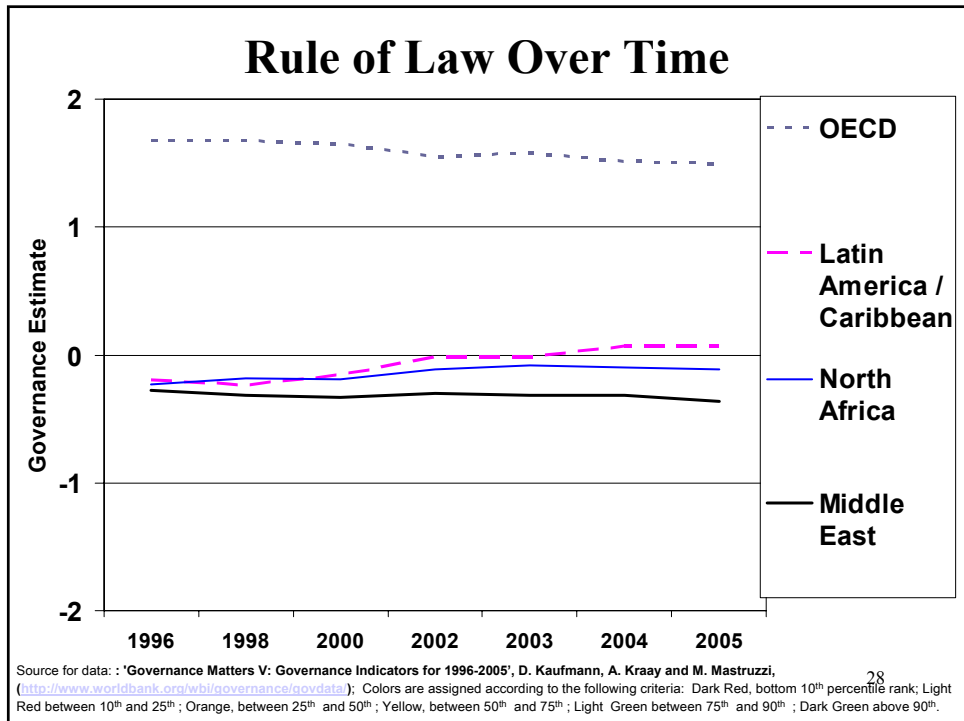
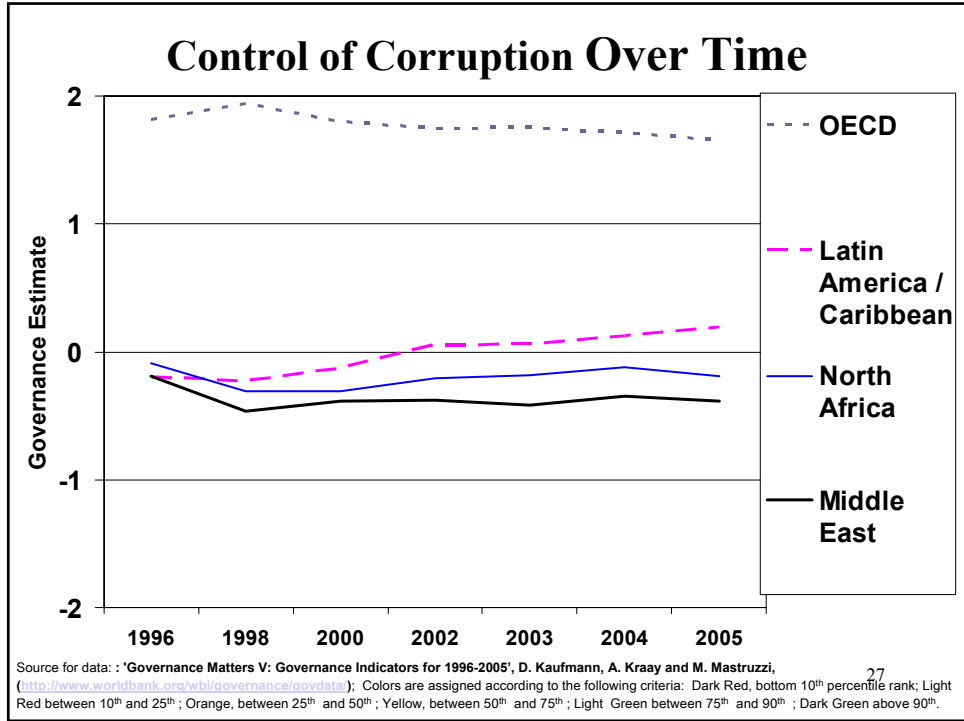
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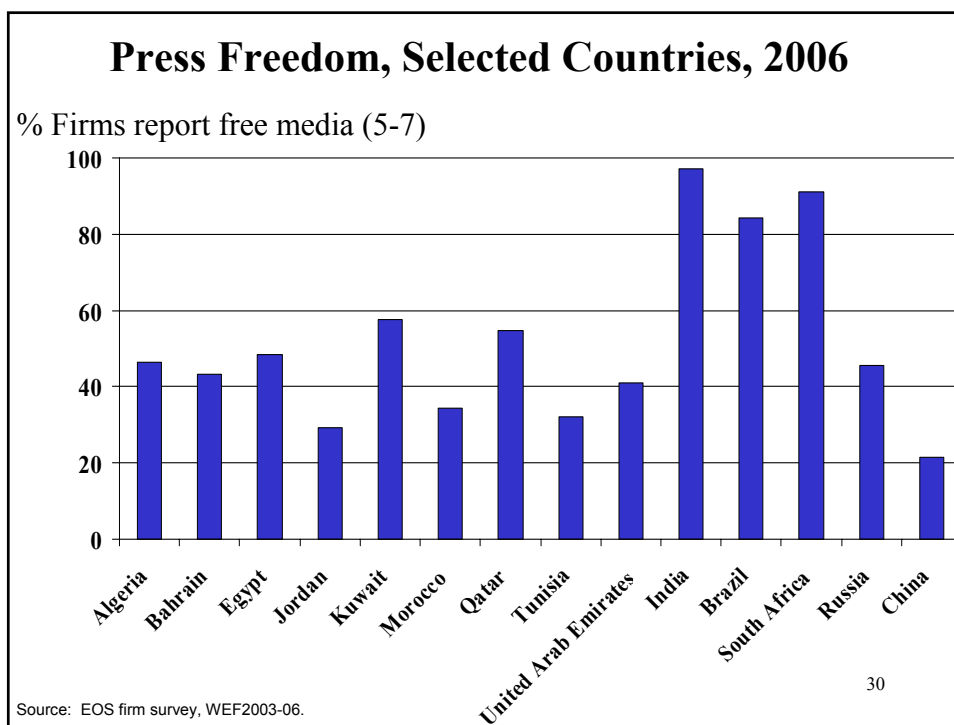
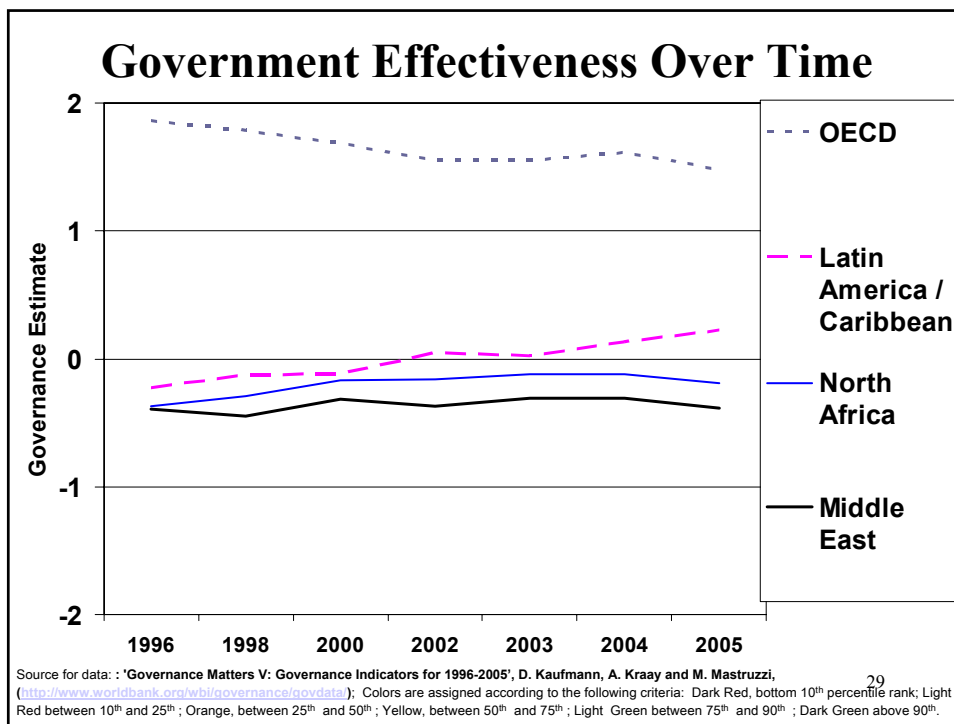
Governance Indicators for Algeria, 1998, 2002, 2005



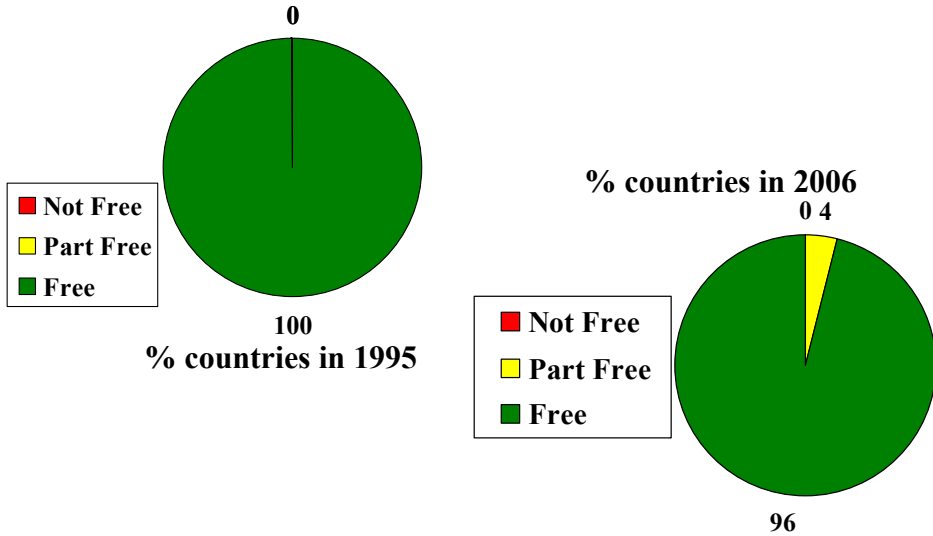
Sample: 21 countries. Source for data: : 'Governance Matters V: Governance Indicators for 1996-2005', D. Kaufmann, A. Kraay and M. Masgruzzi, (<http://www.worldbank.org/wbi/governance/govdata>); Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.





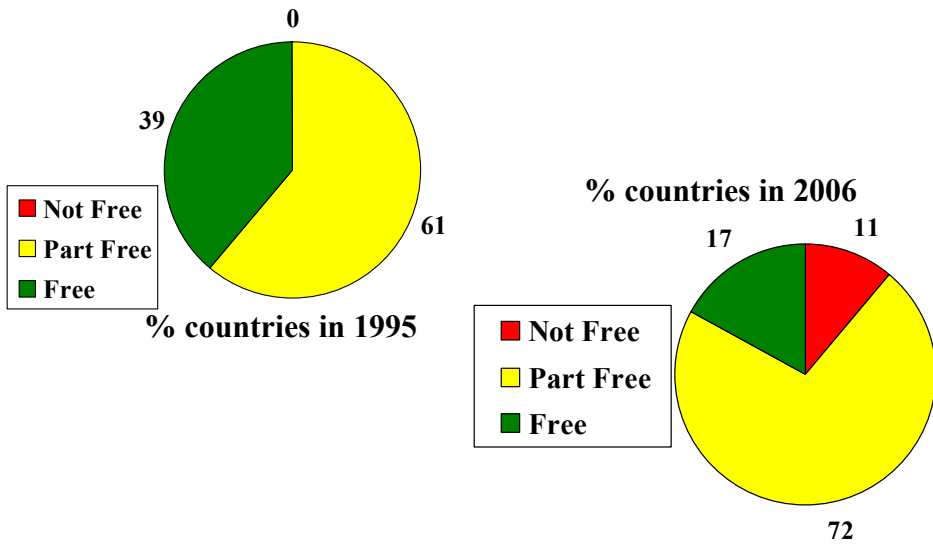


Press Freedom (by FH) in OECD, 1995 vs. 2006



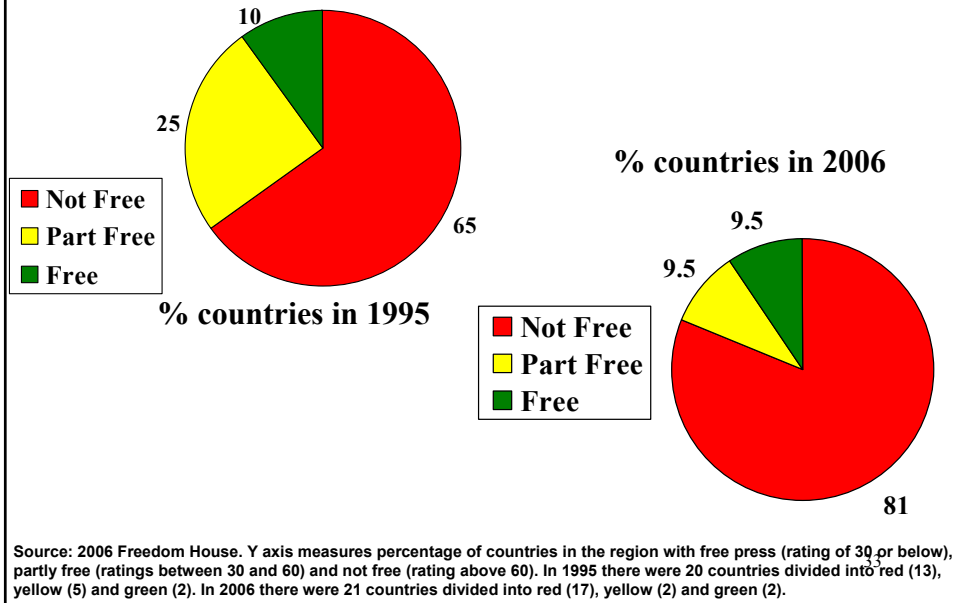
Source: 2006 Freedom House. Y axis measures percentage of countries in the region with free press (rating of 30 or below), partly free (ratings between 30 and 60) and not free (rating above 60). In 1995 there were 24 countries divided into red (0), yellow (0) and green (24). In 2006 there were 28 countries divided into red (0), yellow (1) and green (27).

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



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

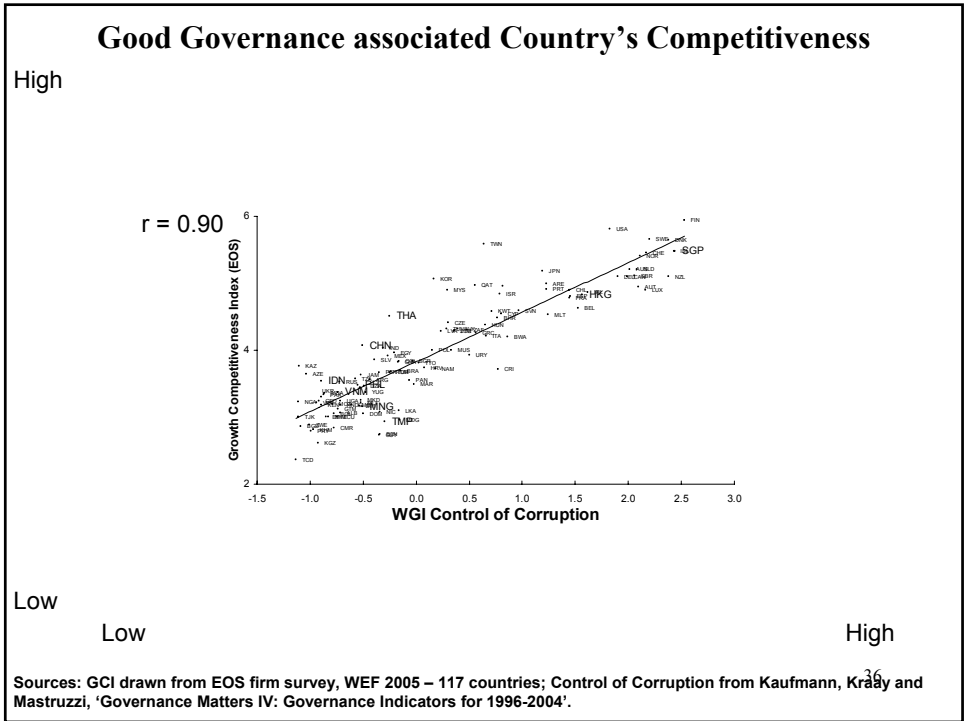
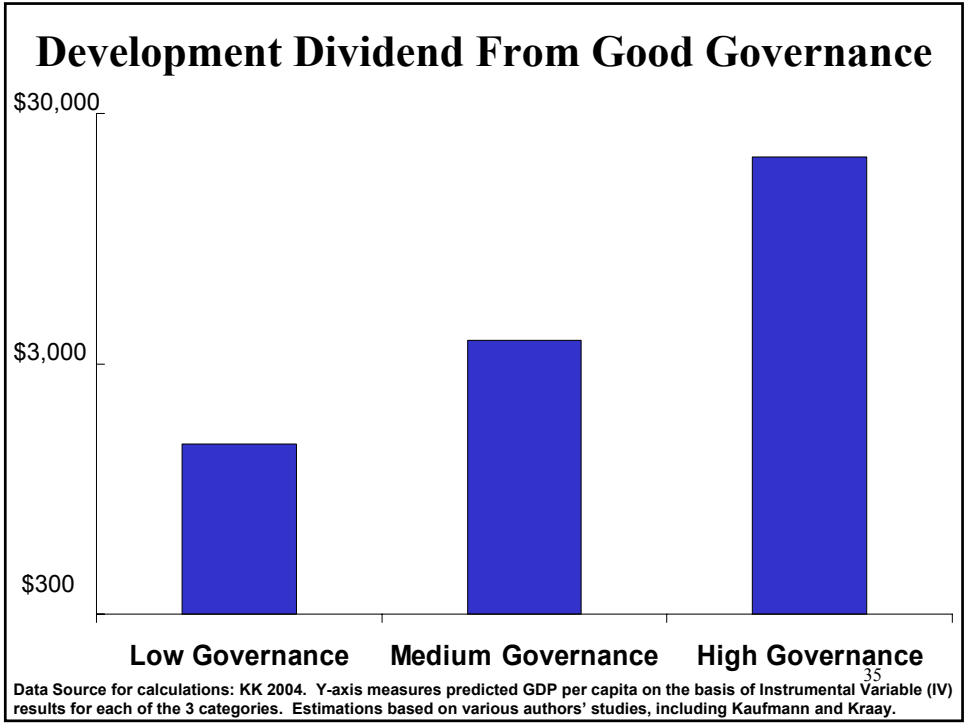
Press Freedom (by FH) in MENA, 1995 vs. 2006



Governance Matters: The 300% 'Dividend'

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

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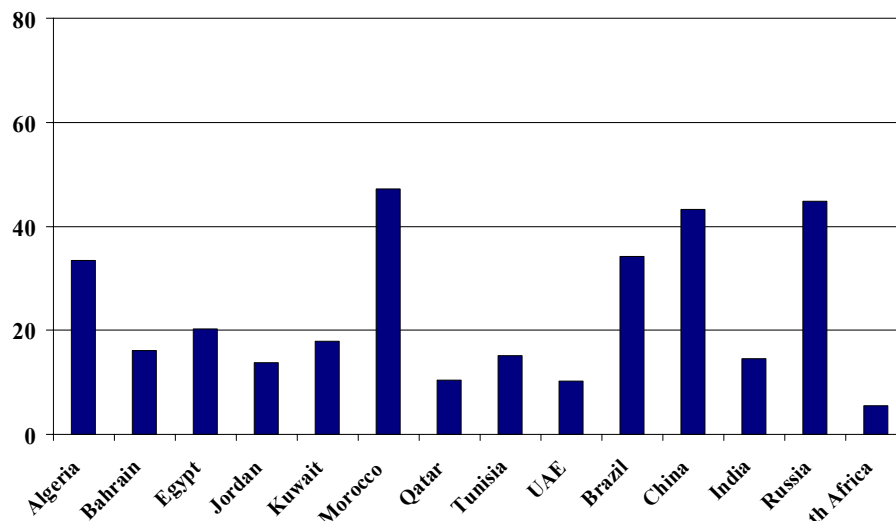
The ‘Mezzo’ Level of Governance Measurement

- Based on cross-country surveys, mainly of enterprises – (such as the EOS of WEF, BEEPS/WBES of WB, etc.)
- Thousands of firms interviewed on a range of issues; focus on governance, specialized questions
- More detailed unbundling of governance and corruption phenomena than aggregate indicators
- Relatively broad country coverage, but less than aggregate governance indicators
- Measuring what is taking place De Facto matters: it uncovers stark realities masked in De Jure indicators
- Addresses empirically: ‘It takes two to “tango”’

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Perspective of Firms: *Bribery in Procurement, 2006*

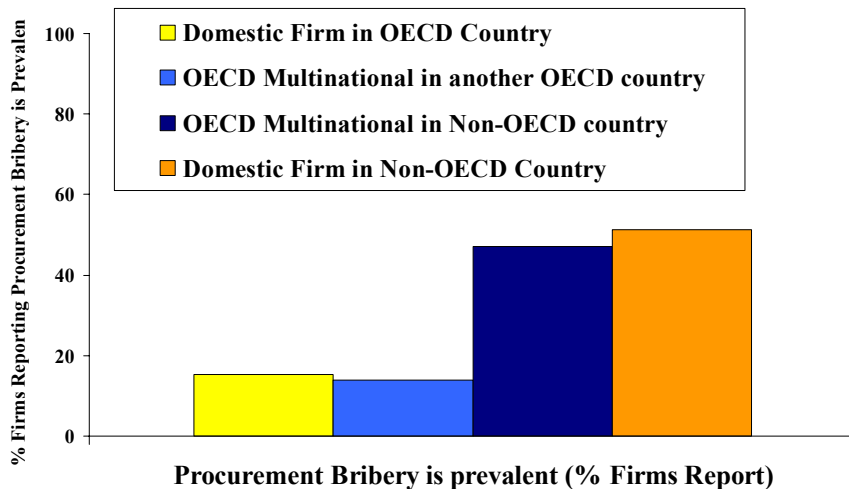
Share of firms reporting frequent bribery to obtain public procurement bids



Source: EOS firm survey, WEF2006. Question: In your industry, how common is it for firms to pay illegal payments to secure awarding of public contracts? [Margins of Error apply, thus caution]

Some Multinationals Bribe Abroad?

% Firms Reporting Frequent Procurement Bribery, EOS 2005



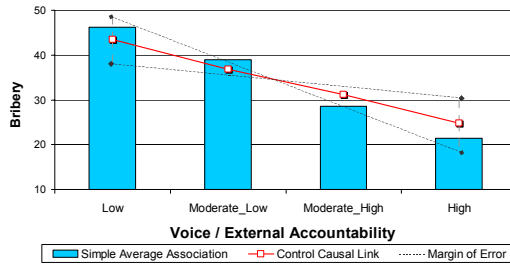
Source: EOS, preliminary. Question: In your industry, how commonly would you estimate that firms make undocumented extra payments or bribes connected with the following: permits, public utilities, tax payments, loan applications, awarding of public contracts, influencing of laws, policies, regulations and decrees to favor selected business interest, and judicial decisions. Any firms reporting answers 1 through 3 were considered to be reporting at least high frequency of bribery, while answers 4 through 7 were not.

The 'Micro' Level – In-depth in-country diagnostics for action programs

Key Features of Governance Diagnostic Tools

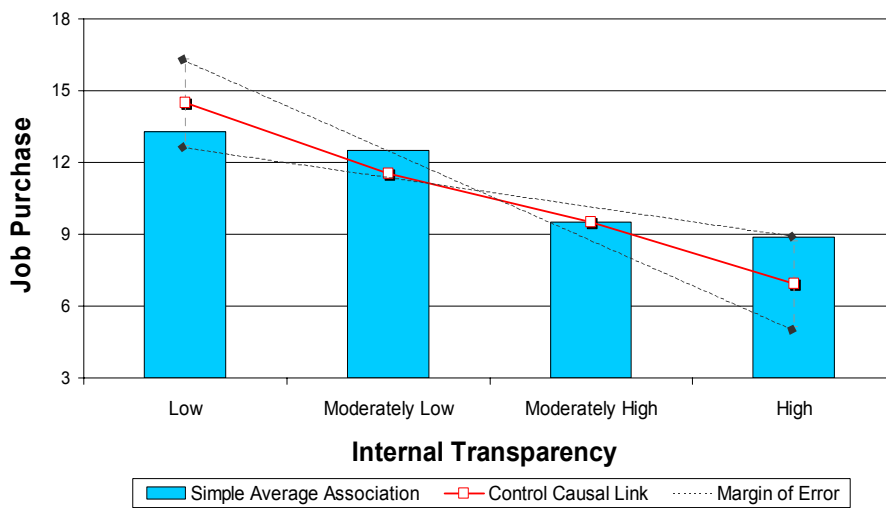
- *Multi-pronged surveys of: households, firms and public officials ['triangulation']*
- *Experiential questions (vs. 'opinions'/generic)*
- *Local Institution Implements, w/WB Collaboration*
- *Recognizing Multidimensionality of Governance*
- *Focus on Service Delivery*
- *Input for Action and Change: Action Programs*

In-depth in-country diagnostic illustration: *Citizen Voice Helps Control Bribery in good institutions*



Based on 90 national, departmental, and municipal agencies covered in the Bolivia Public Officials Survey.⁴¹

Transparency within Government Agencies Prevents Purchase of Public Positions



Based on 90 national, departmental, and municipal agencies covered in the Public Officials Survey.

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Governance in MENA- Some key issues...

- **Weak public governance**
 - **Despite considerable gradations among countries, MENA lags the world, especially in voice and public accountability**
- **Handicapped economic and social development**
 - **Weak governance reduces economic growth and weakens delivery of public services**
- **Desirability of launching Programs to Enhance Governance**
 - **Governments and people should tailor programs to their situation, drawing on both global and emerging regional experience**

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From: 'Better Governance for Development in MENA', World Bank, 2003

Pathways to good governance - summary

- **Measures to enhance inclusiveness**
- **National actions to strengthen external accountability**
- **Local actions to strengthen external accountability**
- **National checks and balances for stronger internal accountability**
- **Administrative reforms to improve internal accountability**

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From: 'Better Governance for Development in MENA', World Bank, 2003

Pathways to good governance: Examples

-- Measures to enhance inclusiveness:

Universal suffrage & eligibility for elected posts

Broaden consultation mechanisms: *Aden municipality in Yemen*

Monitor fair treatment by government agencies: *ombudsmen in Algeria and Tunisia*

--National actions to strengthen external accountability

Full public disclosure: *customs procedures in Morocco*

Wider public debate, consultation: *vibrant media in Algeria Shura councils, national councils as in Maghreb*

More open, regular, competitive elections: *Morocco local elections*

-- National checks & balances for stronger internal accountability

Greater parliamentary oversight of executive: *Kuwait, Bahrain...*

Stronger, independent judiciary: *Constitutional court in Egypt*

Stronger independent oversight agencies: *Need to strengthen Supreme Audit Institutions*

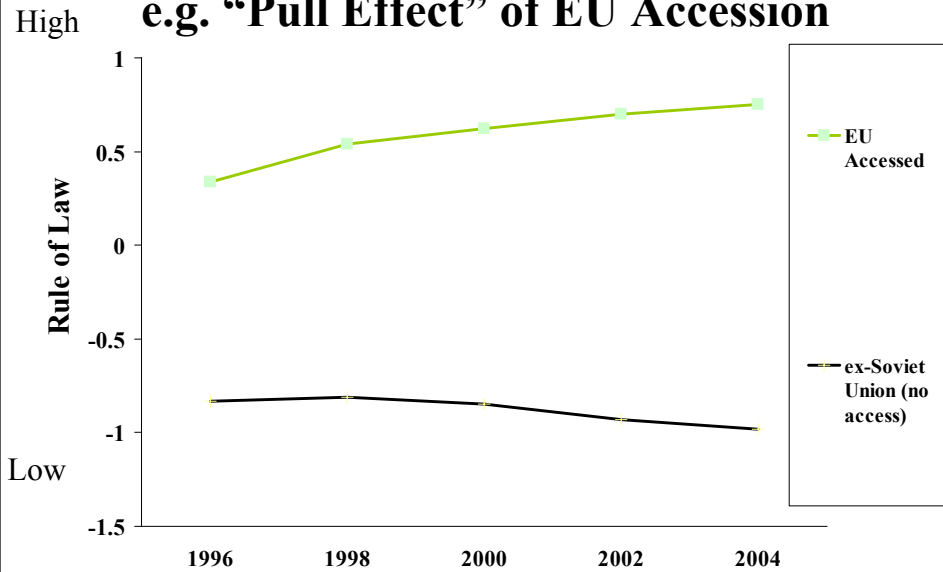
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From: 'Better Governance for Development in MENA', World Bank, 2003

Some Implications for discussion

1. Power of data": *insights from a worldwide empirics; and contributing to technocratic debate on governance*
2. Based on such empirical approach: *the Middle East exhibits a significant governance 'gap'*
3. 'Unpackaging' governance: *the gap is more pronounced in political governance (such as voice & accountability) than in economic governance (such as government effectiveness)*
4. Each region has its special features (MENA no exception), yet worldwide analysis and comparison is relevant, & so are experiences elsewhere (e.g. Chile, New Europe, NICs)
5. Limits to generalizing (or averaging) for a whole region -- *significant variation within each region, including MENA*
6. Research based on evidence shows: good governance matters significantly for growth, competitiveness, investment, equity
7. Limits to impact of progressing on narrow economic governance reforms 'alone': *debate on China vs. India prospects* (M. Wolf)
8. Voice & participatory accountability reforms, as well as focus on transparency-related reforms – potentially high payoffs ⁴⁶

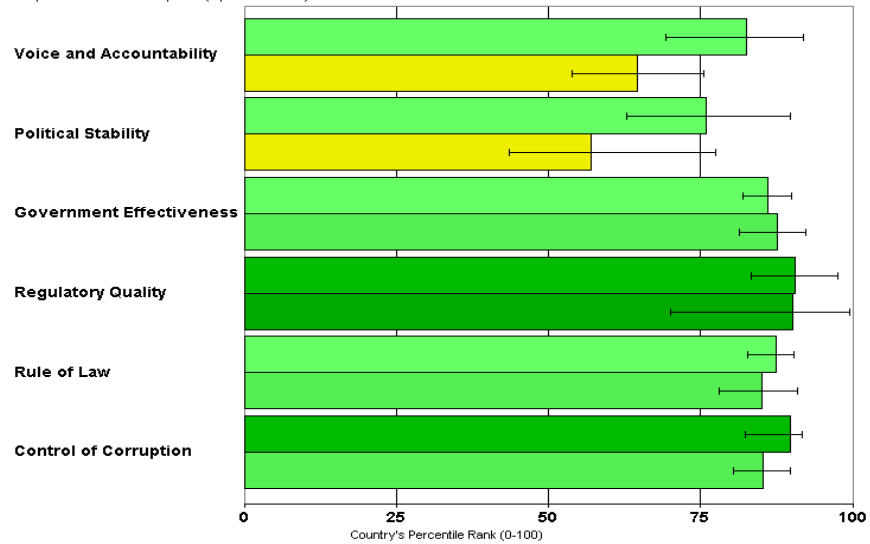
Governance Has Improved in Some Groups: e.g. “Pull Effect” of EU Accession



Source for data: <http://www.worldbank.org/wbi/governance/govdata/>. EU EE Accessed Countries: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, and Slovenia. ⁴⁷

Governance Indicators (WGI) for Chile, 2005 vs. 1998

Comparison between 2005, 1998 (top-bottom order)



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Basic Scorecard: 10 Transparency Reform Components

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

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Data for Analysis, Analytical Discussion and Informing Policy Advice, and Not for Precise Rankings

Any data on Governance, Institutions, and Investment Climate is subject to a margin of error. It is not intended for precise country rankings, but to highlight relative strengths and weaknesses and draw analytical and policy lessons. The data and indicators do not necessarily reflect official views on rankings by the World Bank or its Board of Directors. Errors are responsibility of the authors.

Further materials & access to interactive data:

General: www.worldbank.org/wbi/governance

Access to Data and to ‘Governance Matters V’ Report and Materials: www.govindicators.org

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