

**Corruption in transition:
*reflections & implications from governance empirics***

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***Presentation at the opening plenary session on
Measurement & Consequences of Corruption at
the Economic Research Forum (ERF) 18th Annual
Conference, Cairo, Egypt, March 25th, 2012***

Issues in brief

- **Corruption: not subject to measurement?**
- **Is it all-pervasive in emerging economies?**
- **The crucial determinant of under-development?**
- **Fighting corruption by fighting corruption?**
- **Democratic transitions lead to control of corruption?**
- **Does International Donor Assistance help democratic transitions & anti-corruption?**
- **Insidious form of political corruption: State Capture**

A Taxonomy of Corruption Indicators: Who (reports data) & What Type? -- *rules vs outcomes-based*

Whose Opinion?

About What?

	Rules		Outcomes	
	Broad	Specific	Broad	Specific
<u>Experts</u>				
<i>Lawyers</i>		DB		
<i>Commercial Risk Rating Agencies</i>			EIU, PRS, WMO, PRC	
<i>Non-Governmental Organizations</i>		GII	FRH/CCR	GII
<i>Governments & Multilaterals</i>			AfDB, ASD, CPIA	IFD
<i>Academics</i>			IPD	
<u>Survey Respondents</u>				
<i>Firms</i>				GCS, WCY, WBES, ES, BEEPS
<i>Individuals</i>			AFR, LBO, GWP, VAB	WVS, GCB
<u>Aggregate Indicators Combining Respondents</u>			TI, WGI, IIAG	

Measurement is possible: *corruption and beyond, with caution*

- **Many measures of corruption exist today**
- **Different characteristics, virtues and challenges**
- **Advantages and Disadvantages of aggregating and constructing composites**
- **The WGI in brief**

WGI: The Six Indicators of Governance

Governance: Set of institutions by which authority in a country is exercised – specifically:

- **Political cluster: the process by which those in authority are selected and replaced**
 - 1. VOICE AND DEMOCRATIC ACCOUNTABILITY**
 - 2. POLITICAL STABILITY & ABSENCE OF VIOLENCE/TERRORISM**
- **Economic cluster: the capacity of government to implement policies and provide public services**
 - 3. GOVERNMENT EFFECTIVENESS**
 - 4. REGULATORY QUALITY**
- **Institutional cluster, the respect for institutions governing interactions among citizens & the state**
 - 5. RULE OF LAW**
 - 6. CONTROL OF CORRUPTION**

Main Features of the WGI

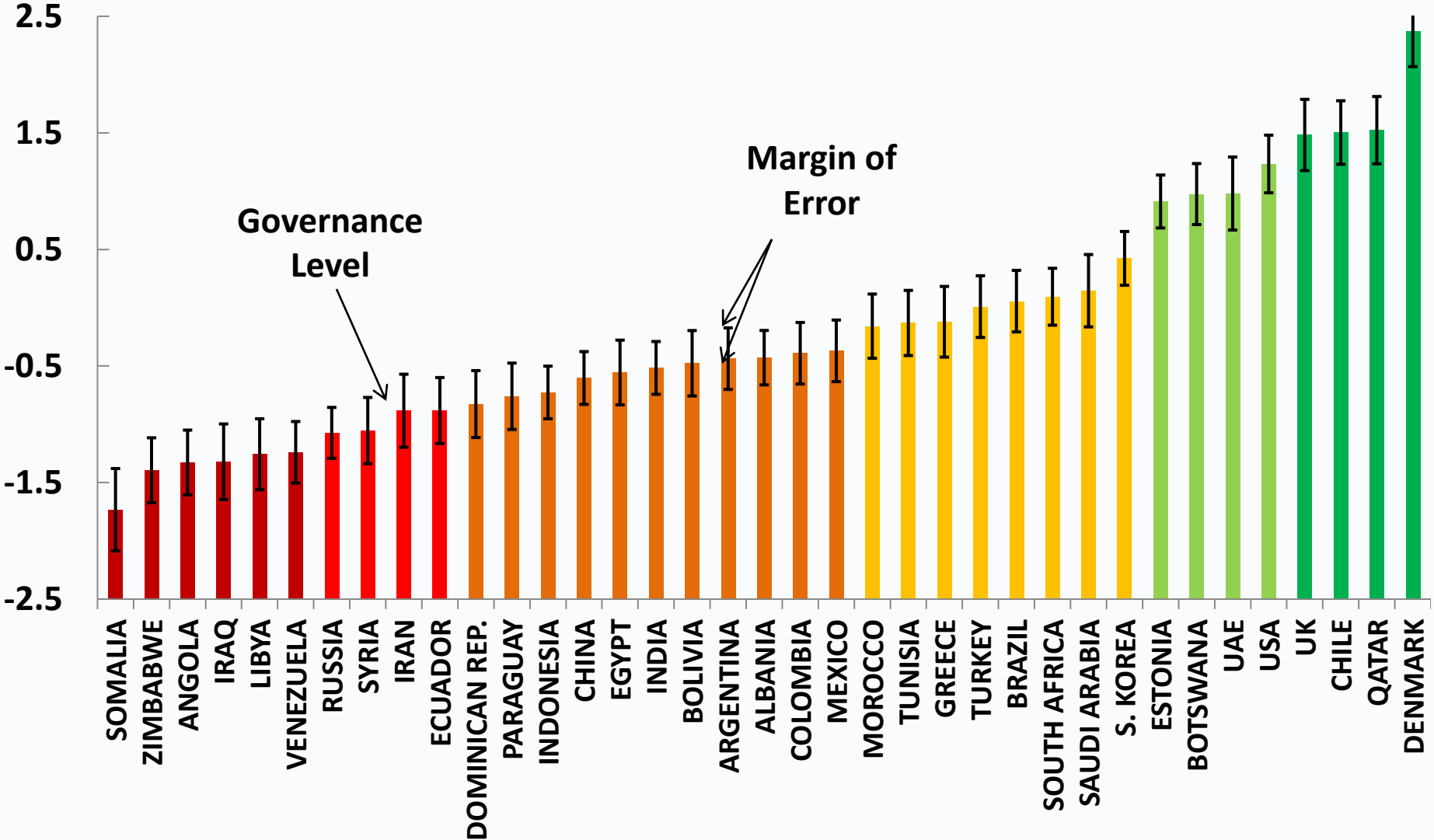
- Data on six dimensions of governance covering 213 countries over the period 1996-2010
- Synthesis of hundreds of underlying indicators taken from over 30 different organizations & data sources
- Aggregate and individual indicators interactively available at www.govindicators.org, large database
- Unobserved Component Model (UCM): *for aggregation*
- Result of longstanding research project, featuring the “Governance Matters” series, plus new analytical report, by D. Kaufmann, A. Kraay & M. Mastruzzi: [“Worldwide Governance Indicators: Methodology & Analytical Issues”](#)
- Transparency & precision about imprecision: full disclosure of limitations of data: the WGI quantify this imprecision w/ “margins of error” (*likely range of governance scores for each country*)

Individual sources for constructing the WGI

- **Cross-Country Surveys of Firms:** Global Competitiveness Survey, World Competitiveness Yearbook, BEEPS
- **Cross-Country Surveys of Individuals:** Gallup World Poll, Global Corruption Barometer, Latinobarometro, Afrobarometer
- **Expert Assessments from Commercial Risk Rating Agencies:** Global Insight, Political Risk Services, Economist Intelligence Unit, IJET Travel, Asia Risk Consultancy
- **Expert Assessments from NGOs, Think Tanks:** Reporters Without Borders, Heritage Foundation, Freedom House, Bertelsmann Foundation, Amnesty International, IREEP, IREX, Global Integrity, Binghamton University, International Budget Project
- **Expert Assessments from Governments, Multilaterals:** World Bank CPIA, EBRD, AFDB, ADB, State Dept., IFAD

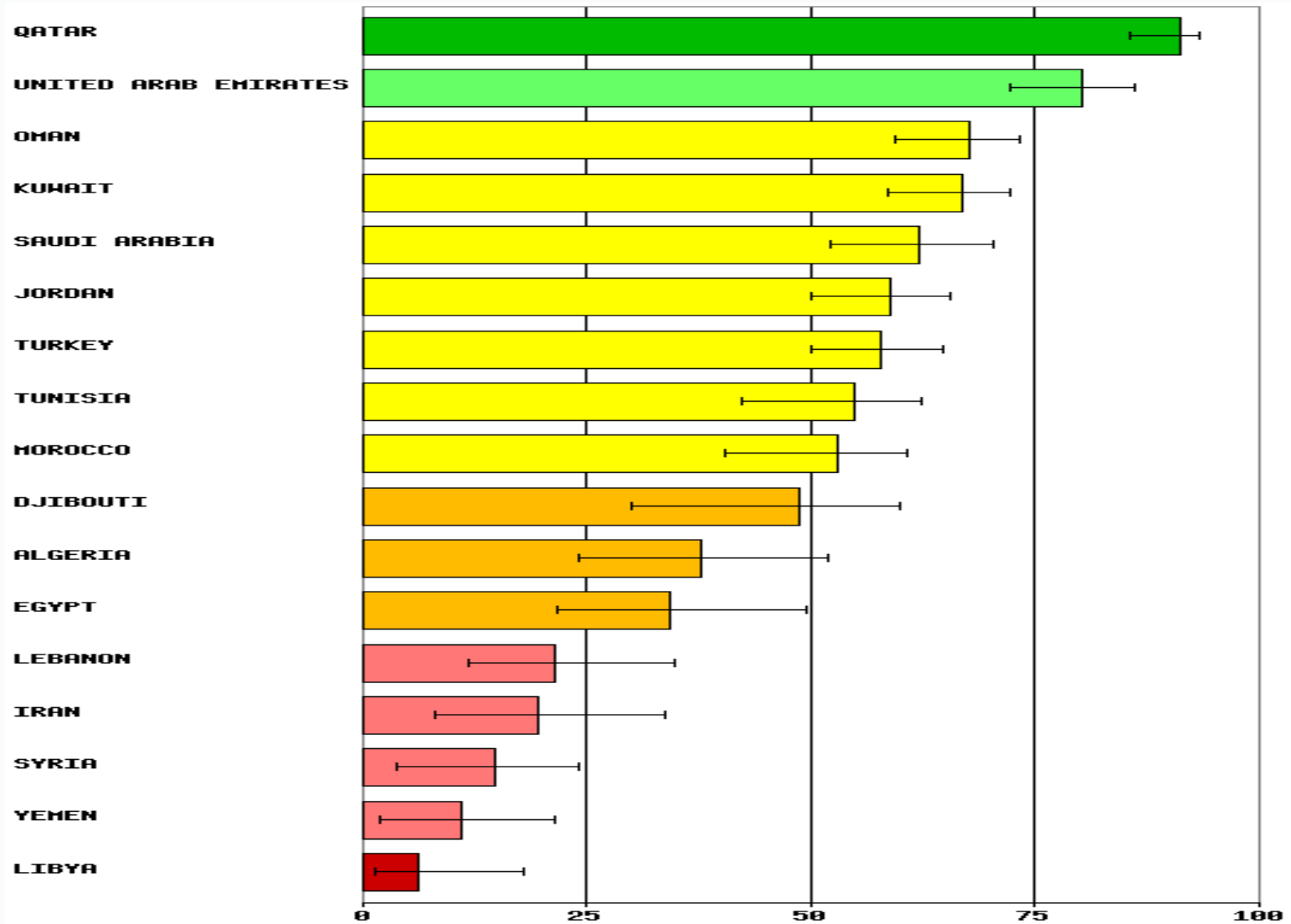
Control of Corruption in Select Countries, 2010

Good Corruption Control



Source: "WGI: A Summary of Data, Methodology and Analytical Issues," by D. Kaufmann, A. Kraay and M. Mastruzzi, October 2011 – www.govindicators.org; Dark red indicates countries in the bottom 10th percentile rank; light red between 10th and 25th percentile rank; orange between 25th and 50th; yellow between 50th and 75th; light green between 75th and 90th and Dark green between 90th and 100th percentile (exemplary governance)

Figure 3. Control of Corruption in the Arab world, 2010

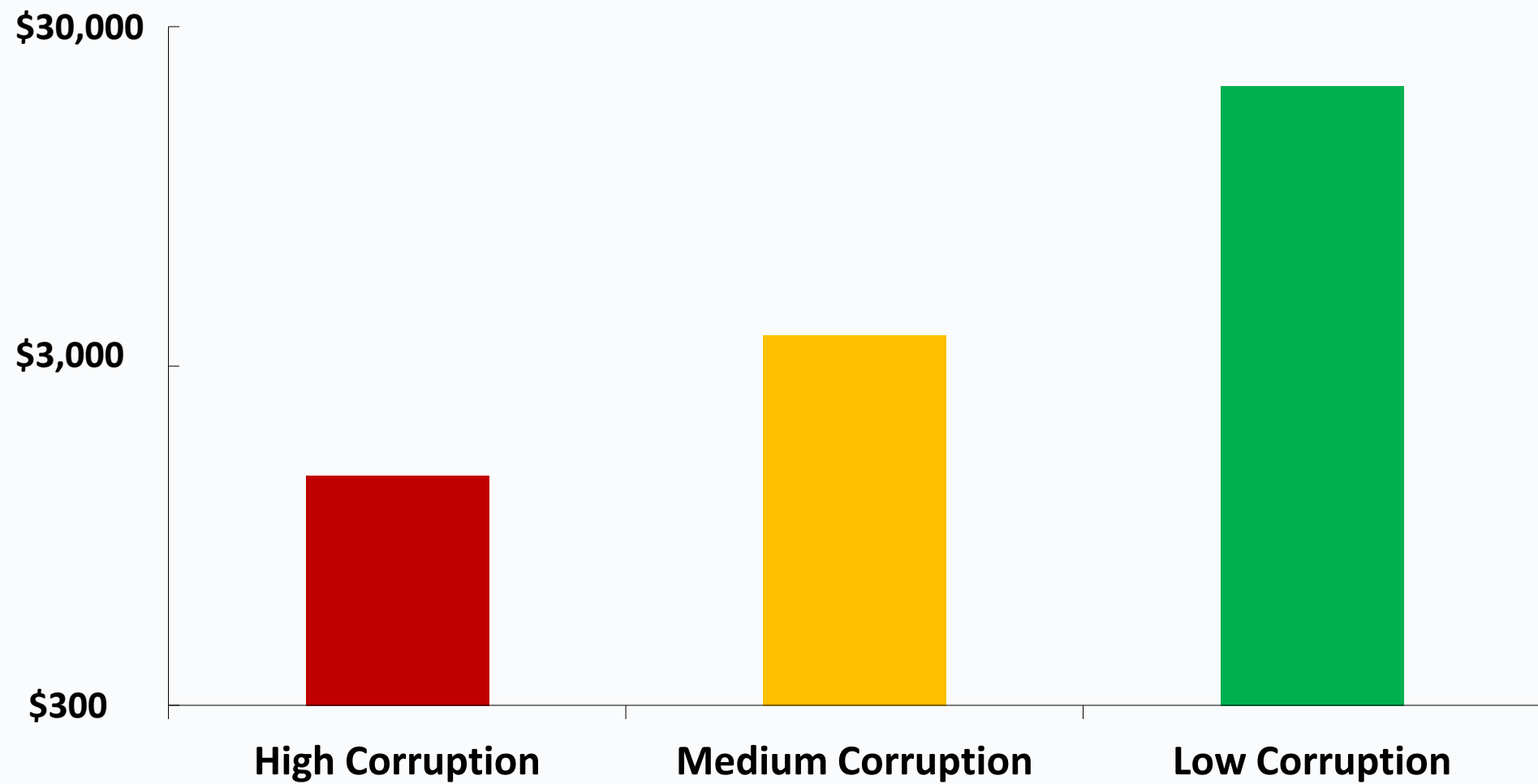


Source: WGI: A Summary of Data, Methodology and Analytical Issues," by D. Kaufmann, A. Kraay and M. Mastruzzi, October 2011 – www.govindicators.org

■ 90th-100th percentile
 ■ 50th-75th percentile
 ■ 10th-25th percentile
■ 75th-90th percentile
 ■ 25th-50th percentile
 ■ 0th-10th percentile

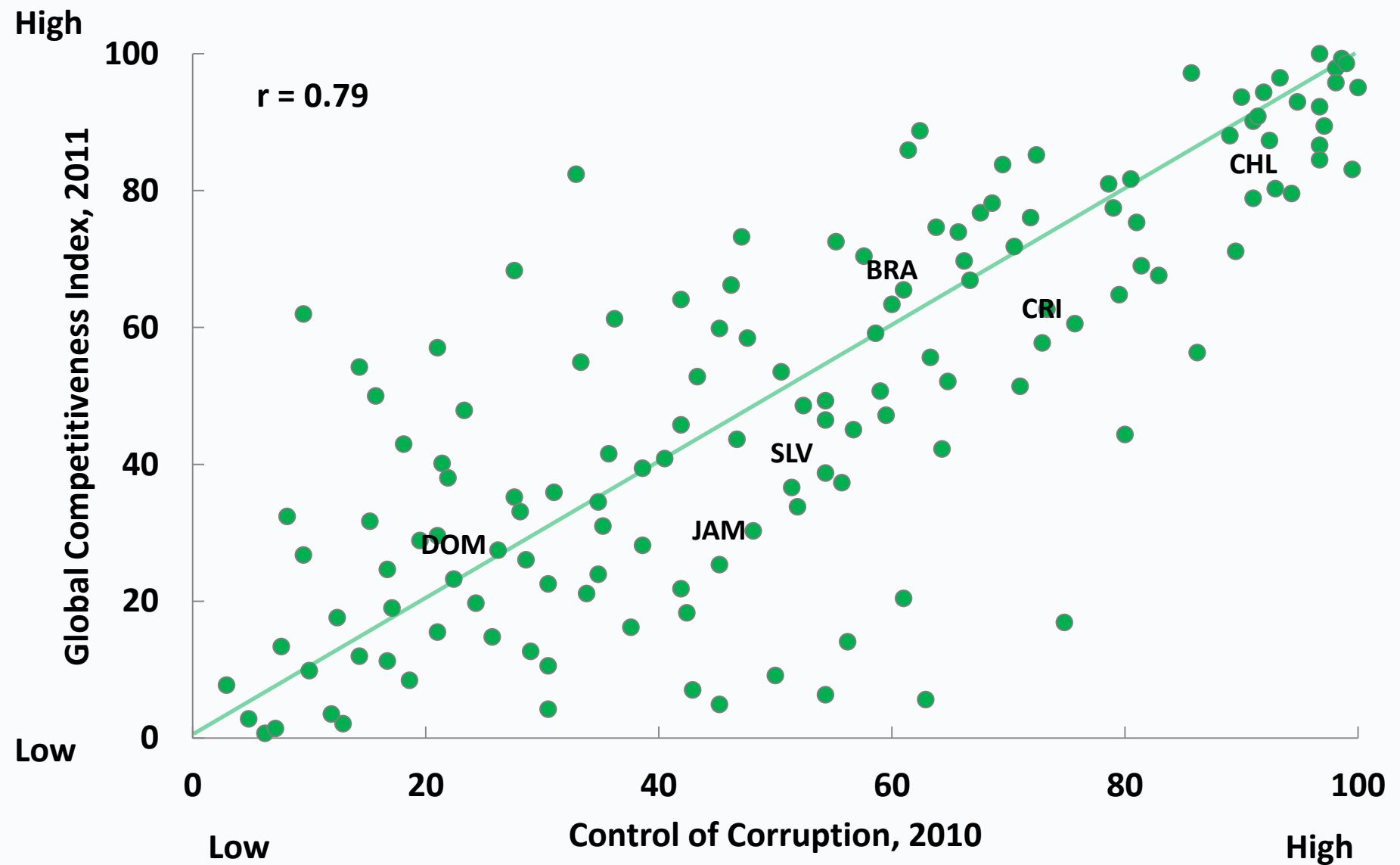
Does Governance & Corruption Matter?

The 300% Development Dividend From Improving Governance & Controlling Corruption



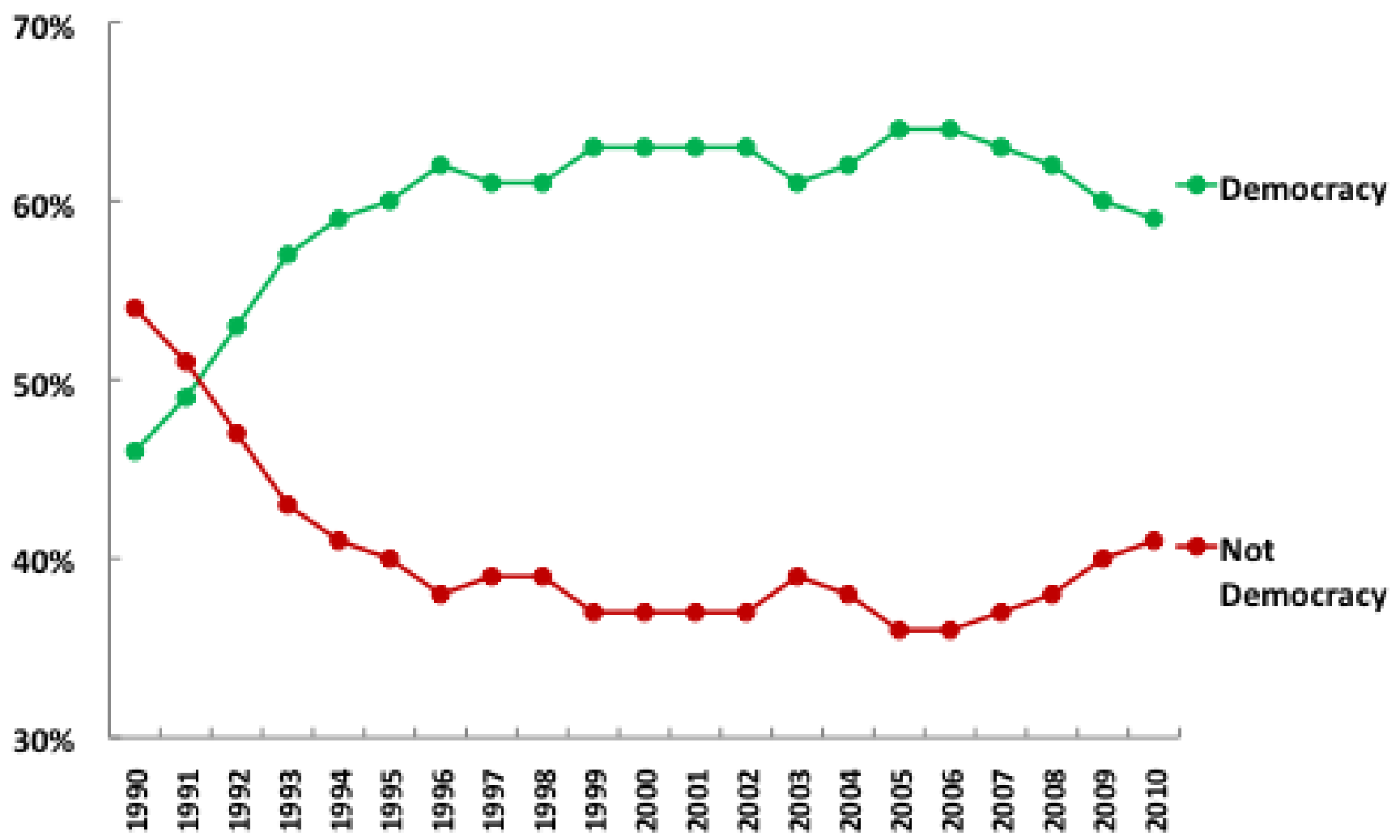
Data Source for calculations: KK 2004. Y-axis measures predicted GDP per capita on the basis of Instrumental Variable (IV) results for each of the 3 categories. Estimations based on various authors' studies, including Kaufmann and Kraay.

Control of Corruption and WEF GCR Competitiveness, 2010



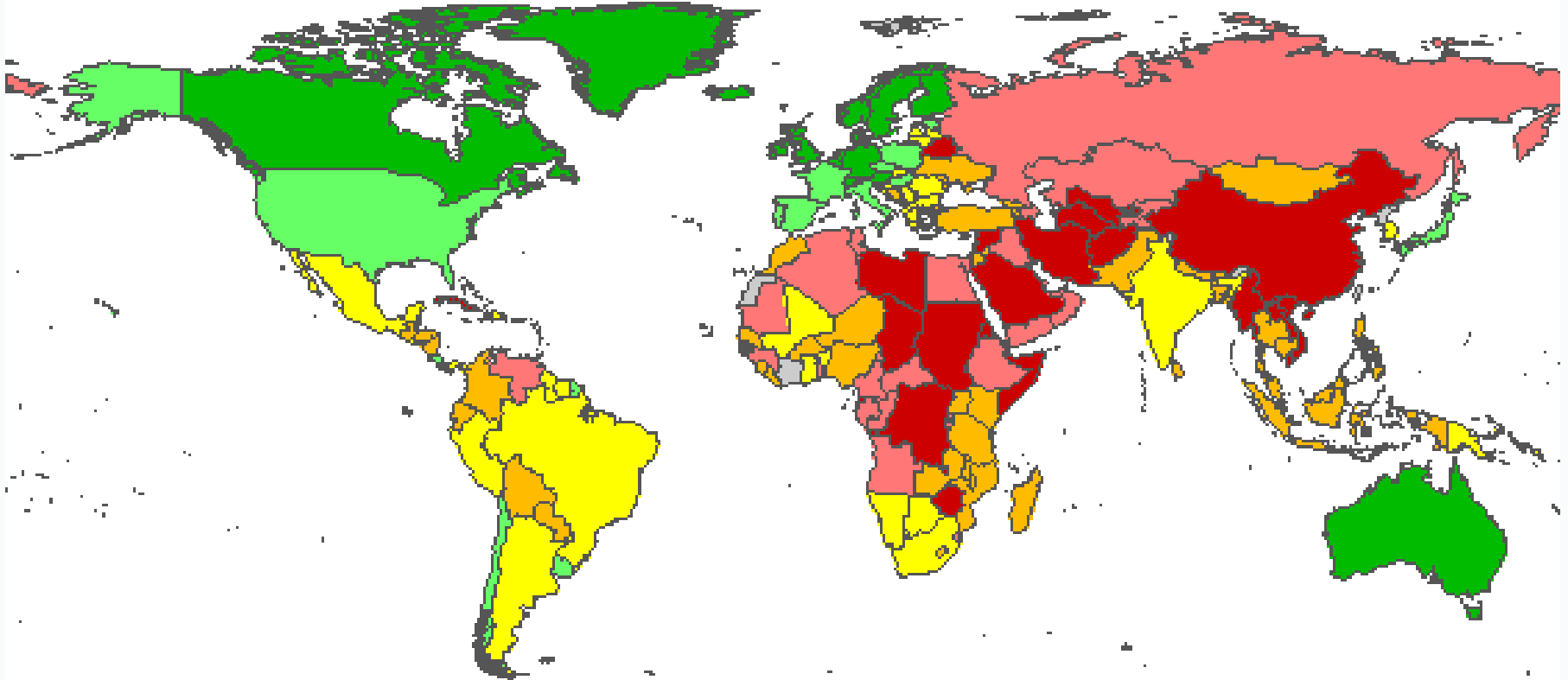
**Corruption: fundamental driver,
symptom, or proximate cause?**

Freedom House, Electoral Democracies: 1990-2010

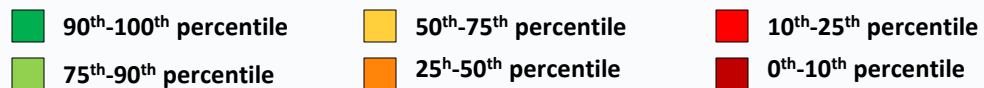


Source: 2011 Freedom House. Line chart measures percentage of countries considered to be democracies and not democracies.

Voice and Accountability



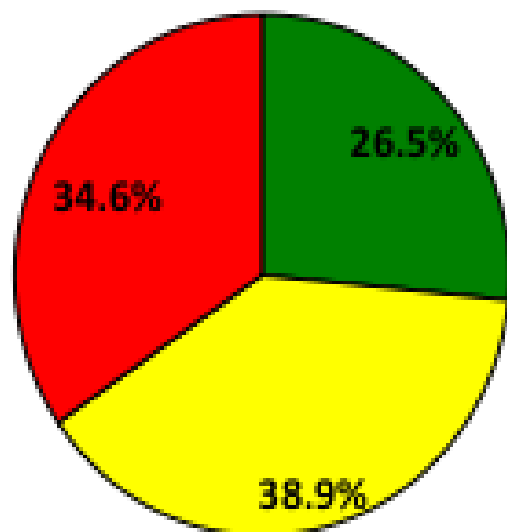
Source: WGI: A Summary of Data, Methodology and Analytical Issues," by D. Kaufmann, A.Kraay and M. Mastruzzi, October 2011 – www.govindicators.org.



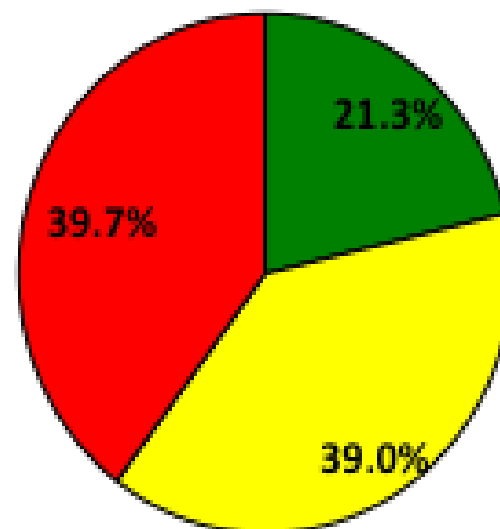
Freedom of the Press, 1994 and 2010: Developing Countries

Freedom of the Press:

- Not Free
- Part Free
- Free



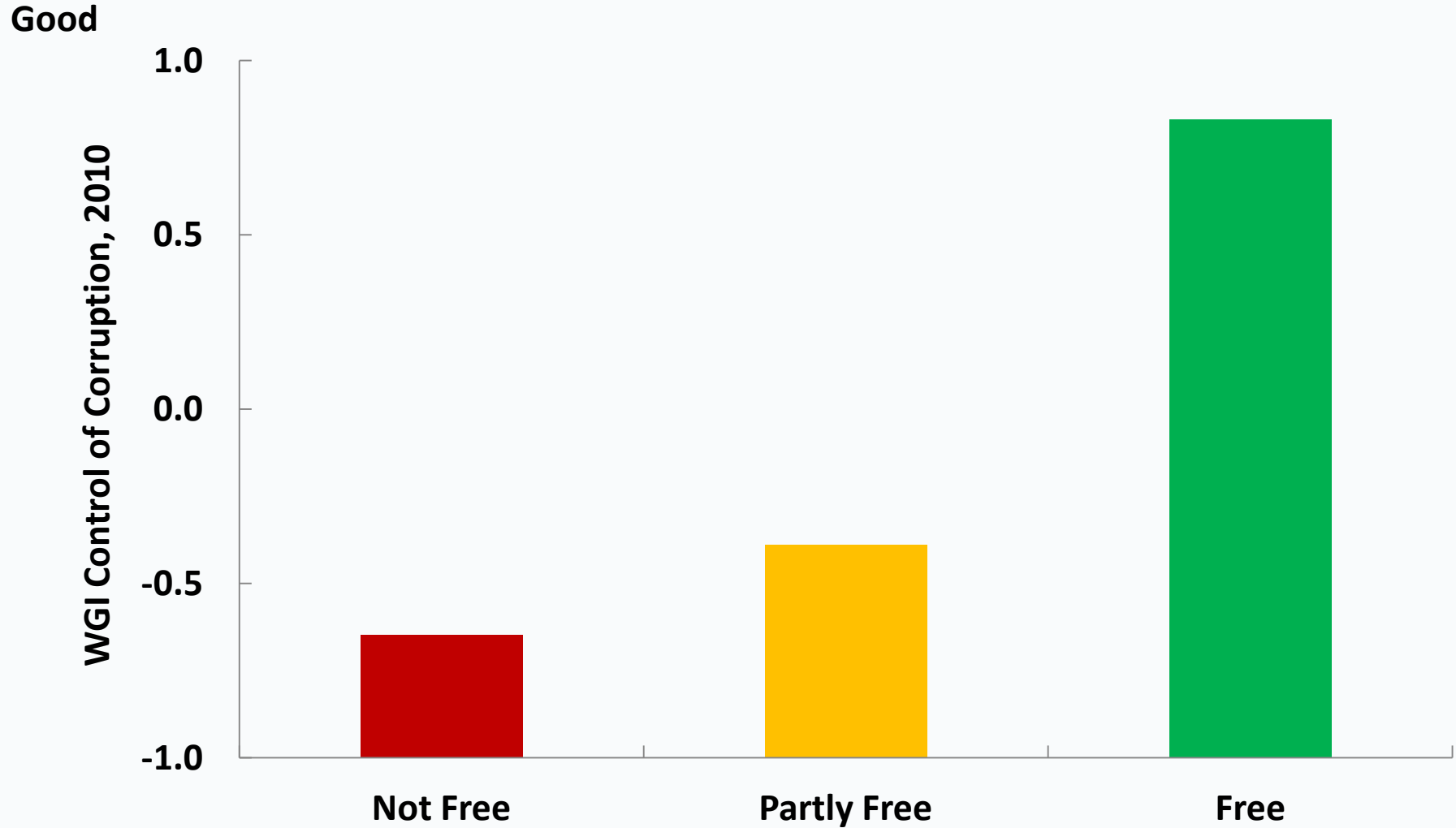
% countries in 1994



% countries in 2010

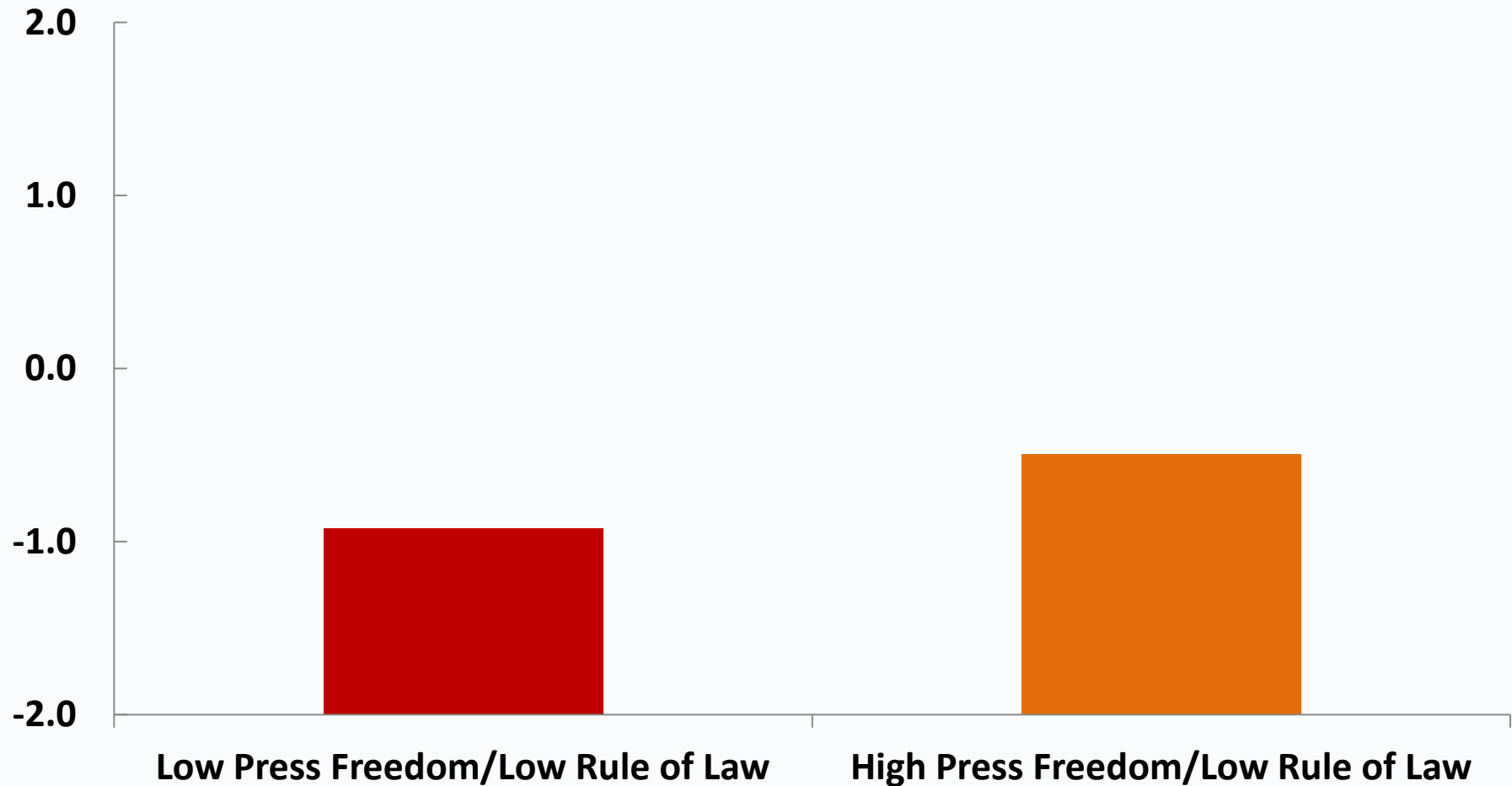
Freedom of the Press associated w/ better Control of Corruption

(& civil liberties more generally is associated with better performance of World Bank-funded projects – see WBER article 1997)

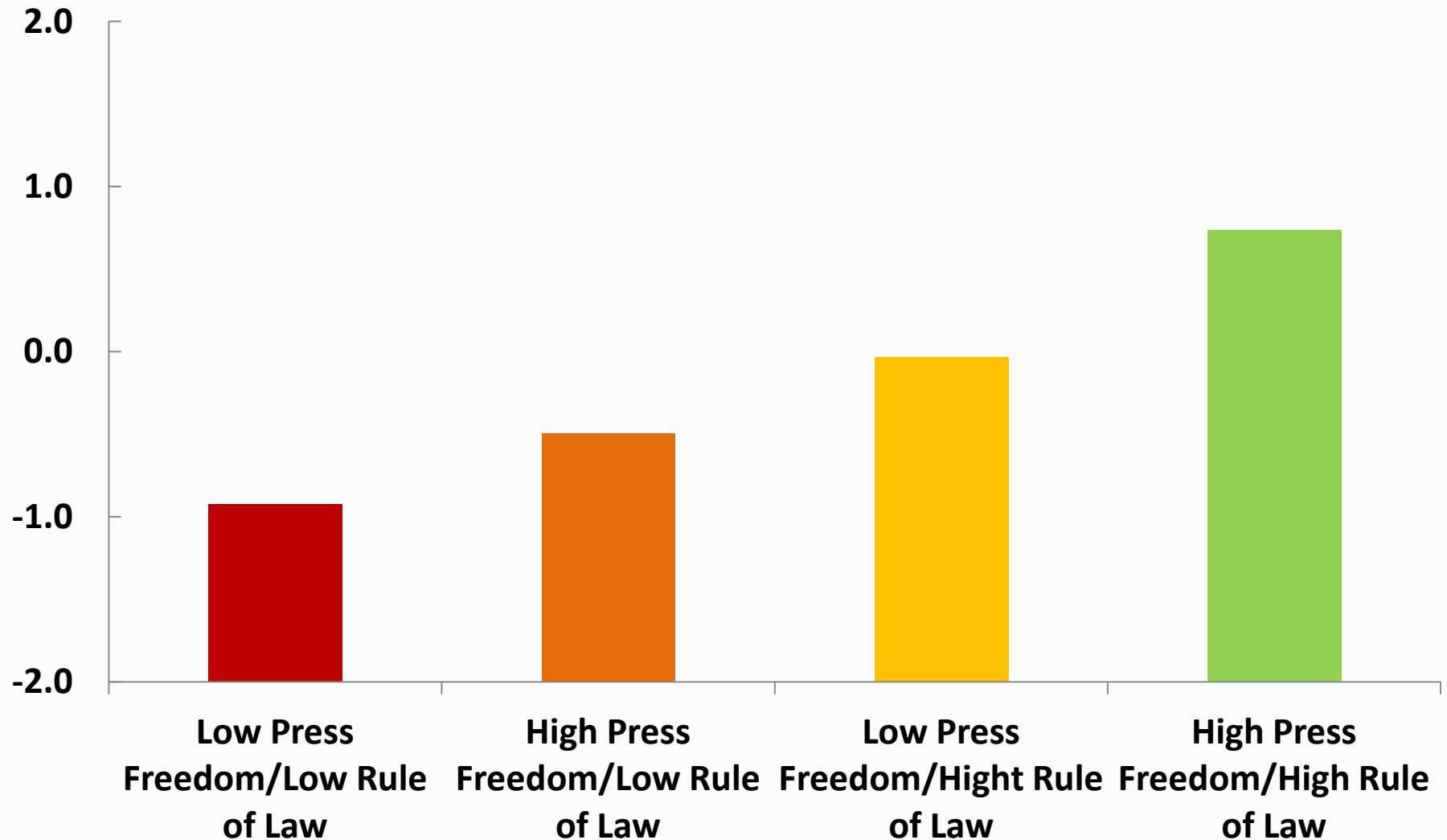


Source: WGI: A Summary of Data, Methodology and Analytical Issues,” by D. Kaufmann, A.Kraay and M. Mastruzzi, October 2011 – www.govindicators.org. & Freedom House, “Press Freedom”, 2011. Terciles according the Press Freedom criteria – free press (rating of 30 or below), partly free (ratings between 30 and 60) and not free (rating above 60).

Effect of Media Freedom on Control of Corruption *(when Low Rule of Law)*



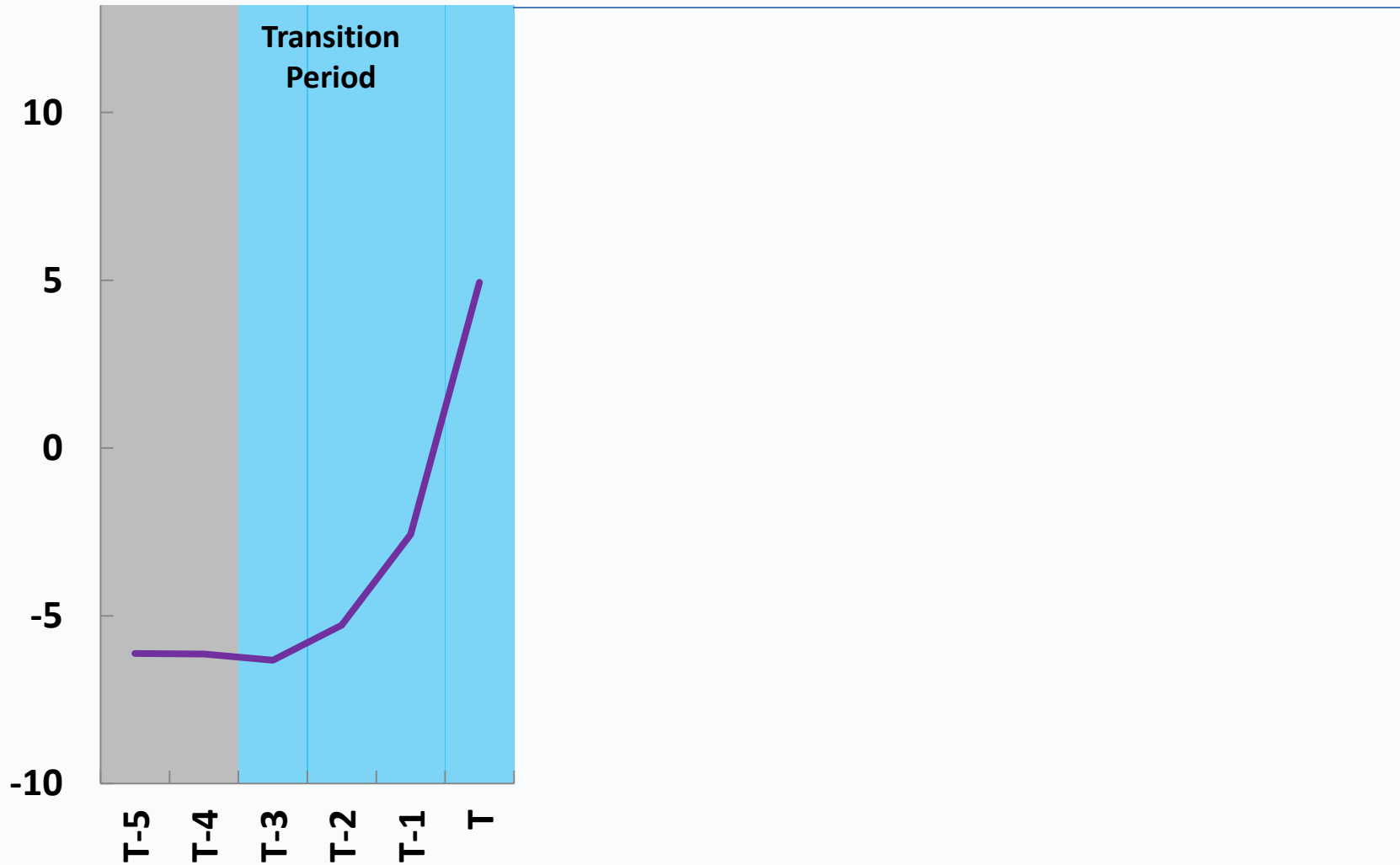
Effect of Media Freedom and Rule of Law on Control of Corruption



Democratic Transitions, and Corruption

'Net Democracy' Scores Pre-Transition & during Initial Transition

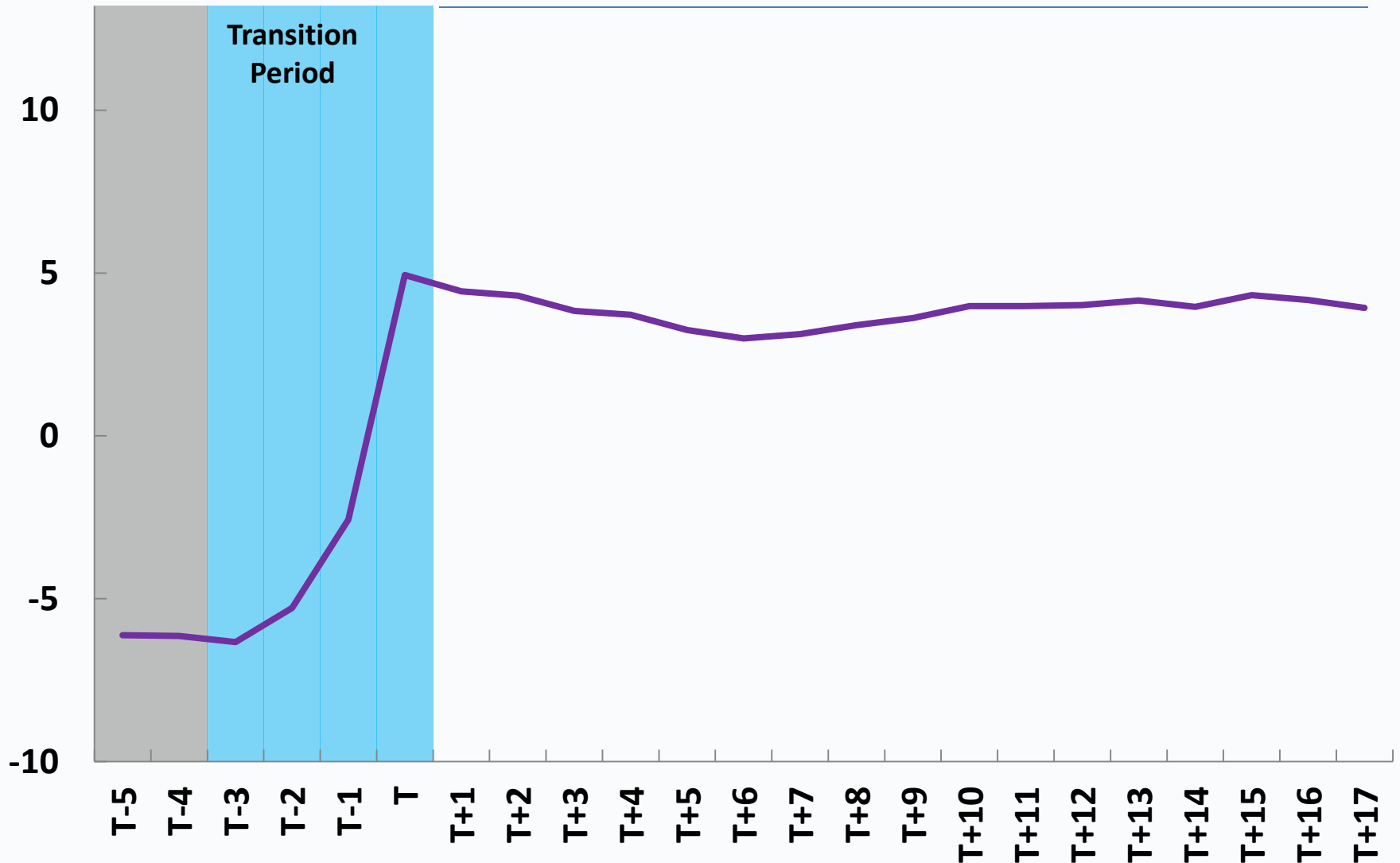
Average Polity Scores for 91 countries



Source: Polity IV Project: Political Regime Characteristics and Transitions, 1800-2010. In T-5 the sample consists of 92 countries.

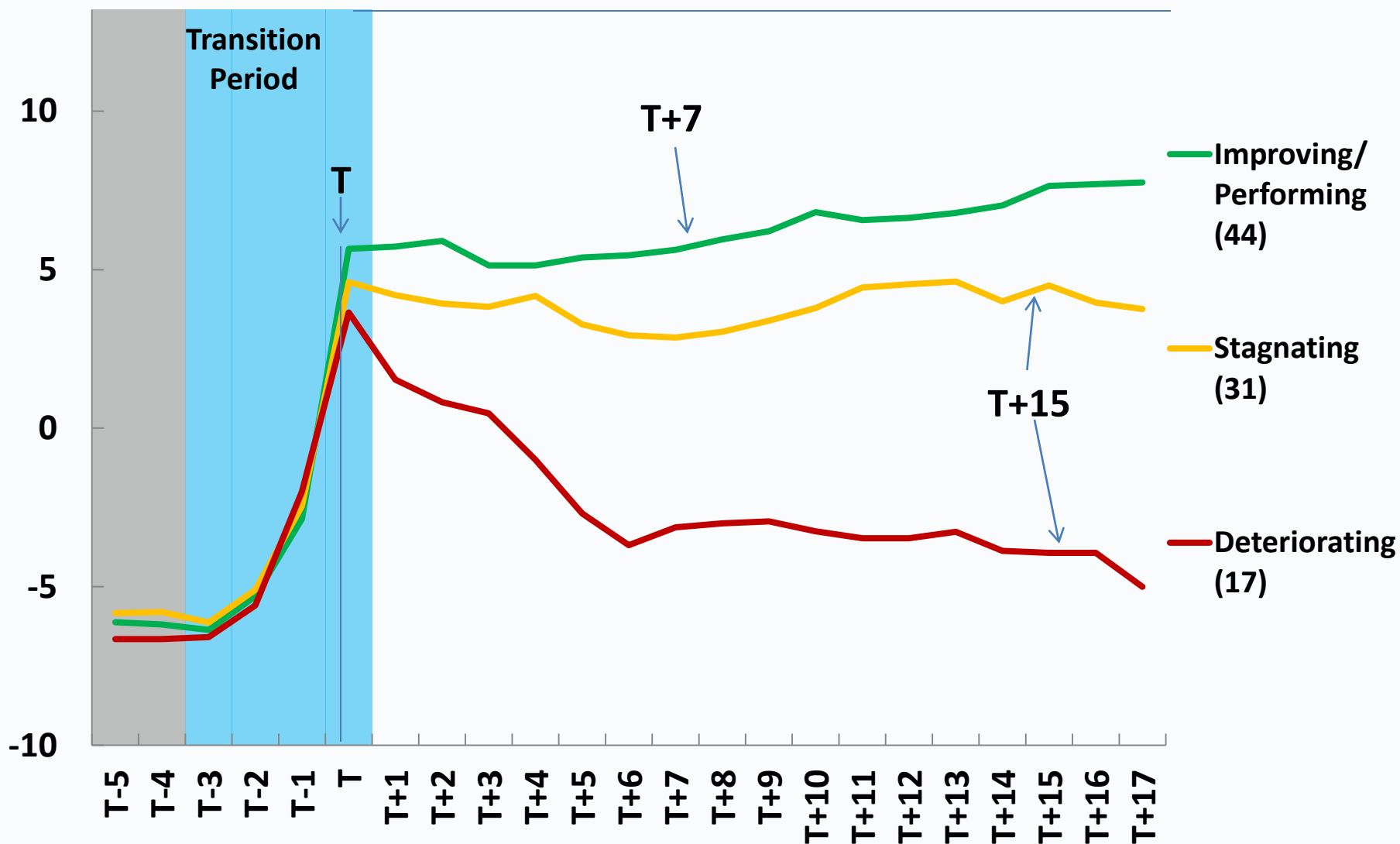
'Net Democracy' Scores Pre-, During & Post-Transition

Average Polity Scores for 77 countries



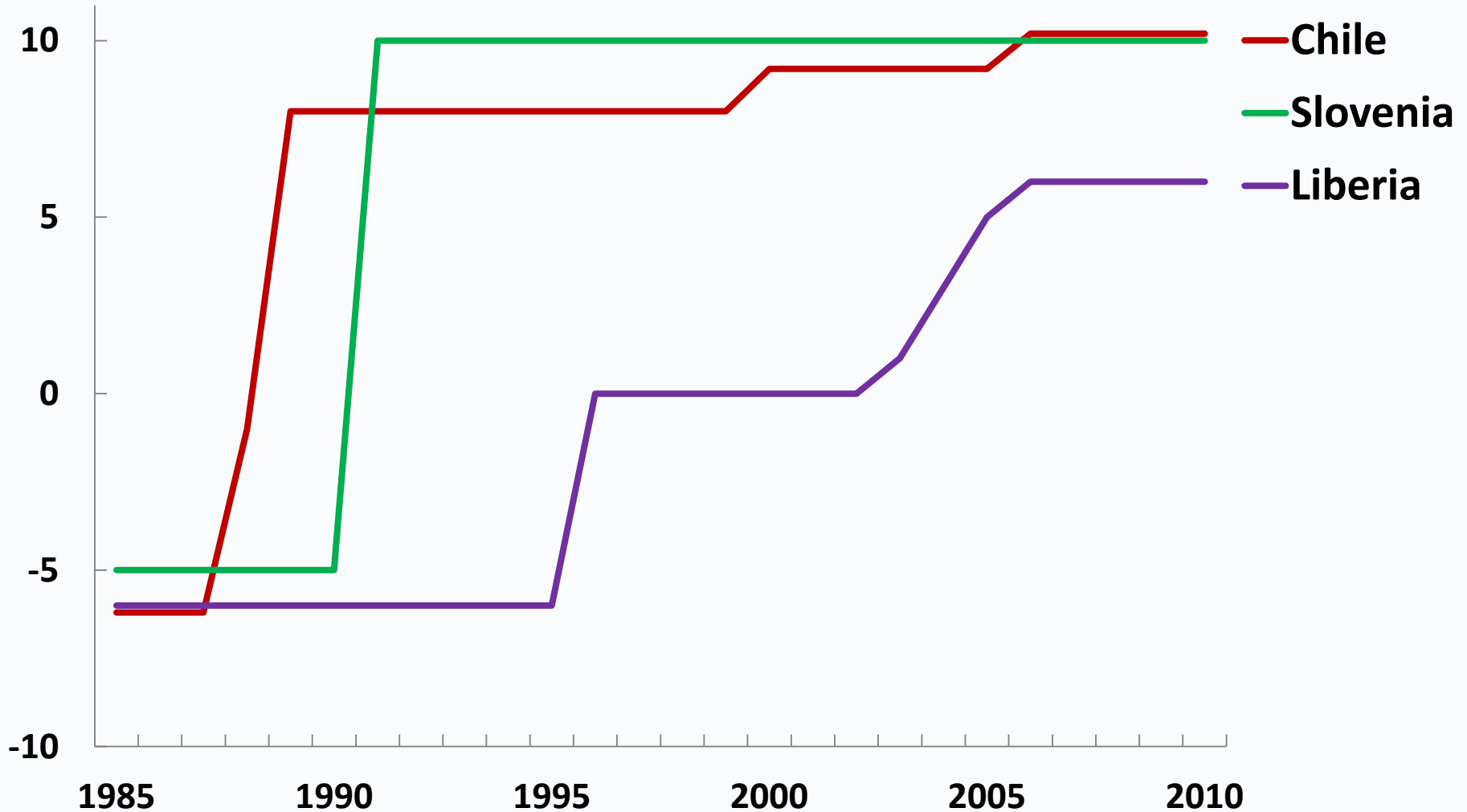
Source: Polity IV Project: Political Regime Characteristics and Transitions, 1800-2010. In T-5 the sample consists of 92 countries.

'Net Democracy' Scores for Transitioning Countries, by Democratic Performance Groups (Polity)

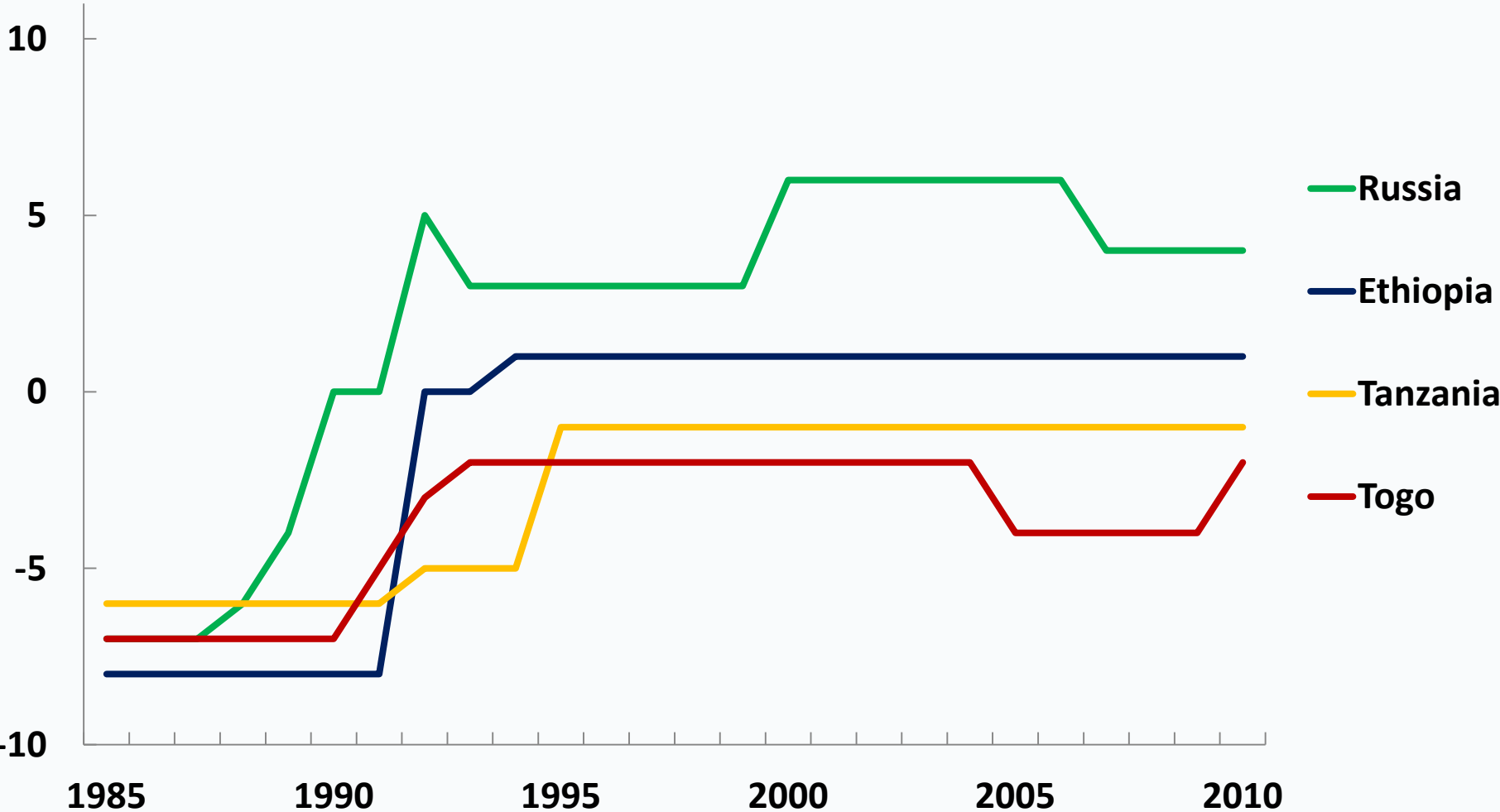


Source: Polity IV Project: Political Regime Characteristics and Transitions, 1800-2010. There are 44 countries in the improving/performing category; 31 in the stagnating category and 17 in the deteriorating category

Institutional Performance: Select Countries from Improving/Performing Group, 1985-2010

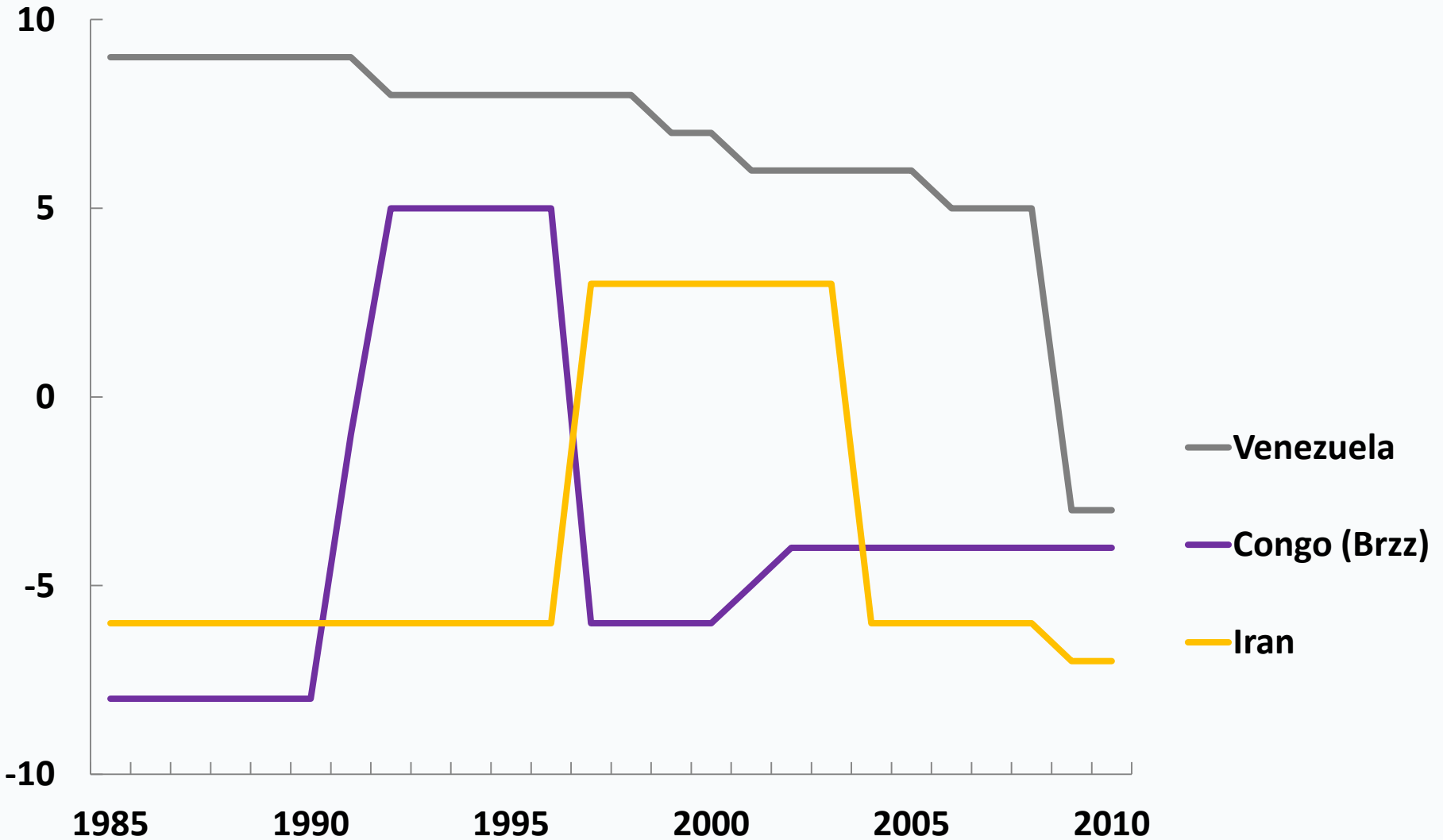


Institutional Performance: Select Countries from Stagnating Group, 1985-2010

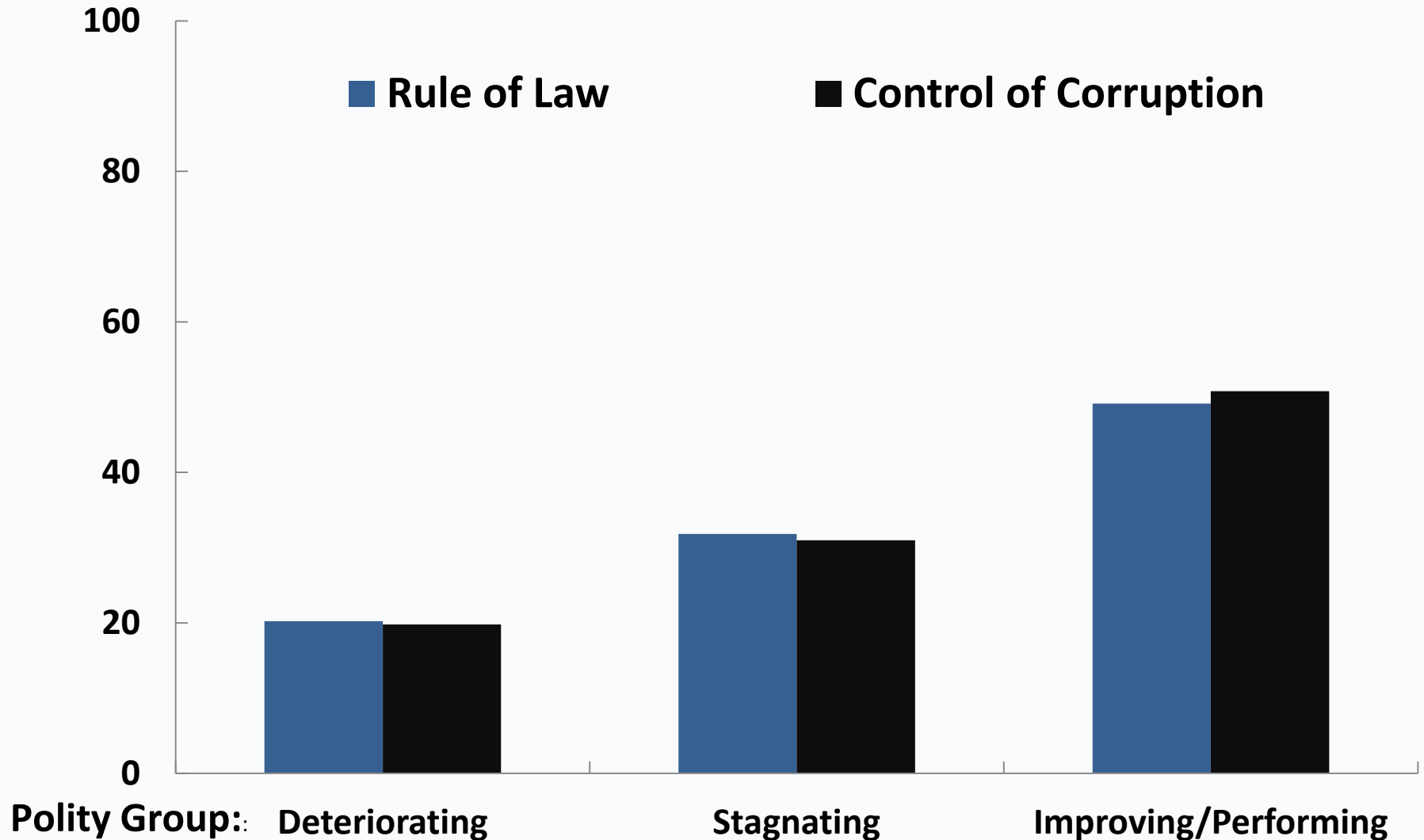


Source: Polity IV Project: Political Regime Characteristics and Transitions, 1800-2010.

Institutional Performance: Select Countries from Deteriorating Group, 1985-2010

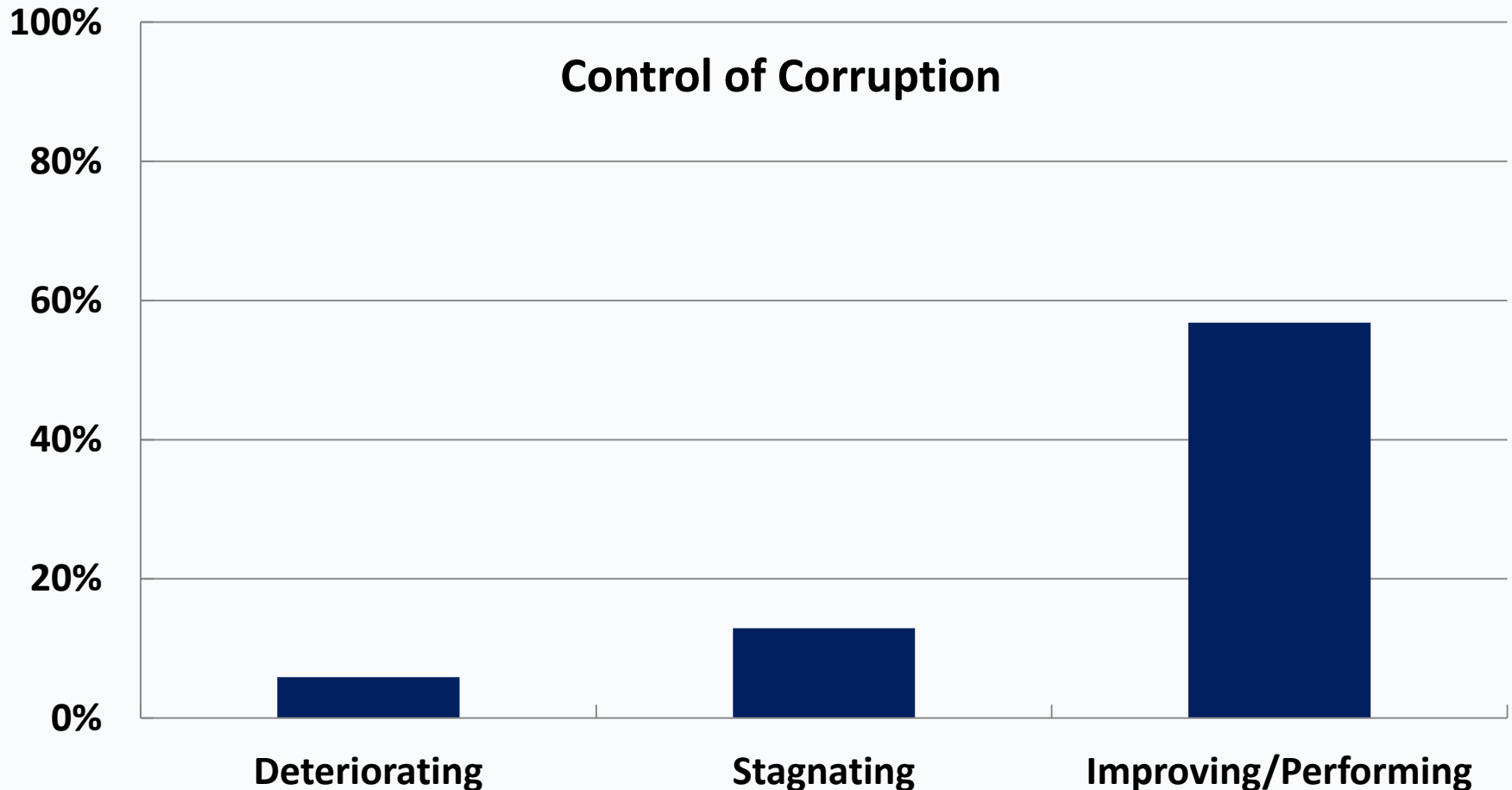


How Well Do the 'Democratizing' Transition do in Rule of Law & Control of Corruption (*WGI 2010, by Polity Performance Category*)



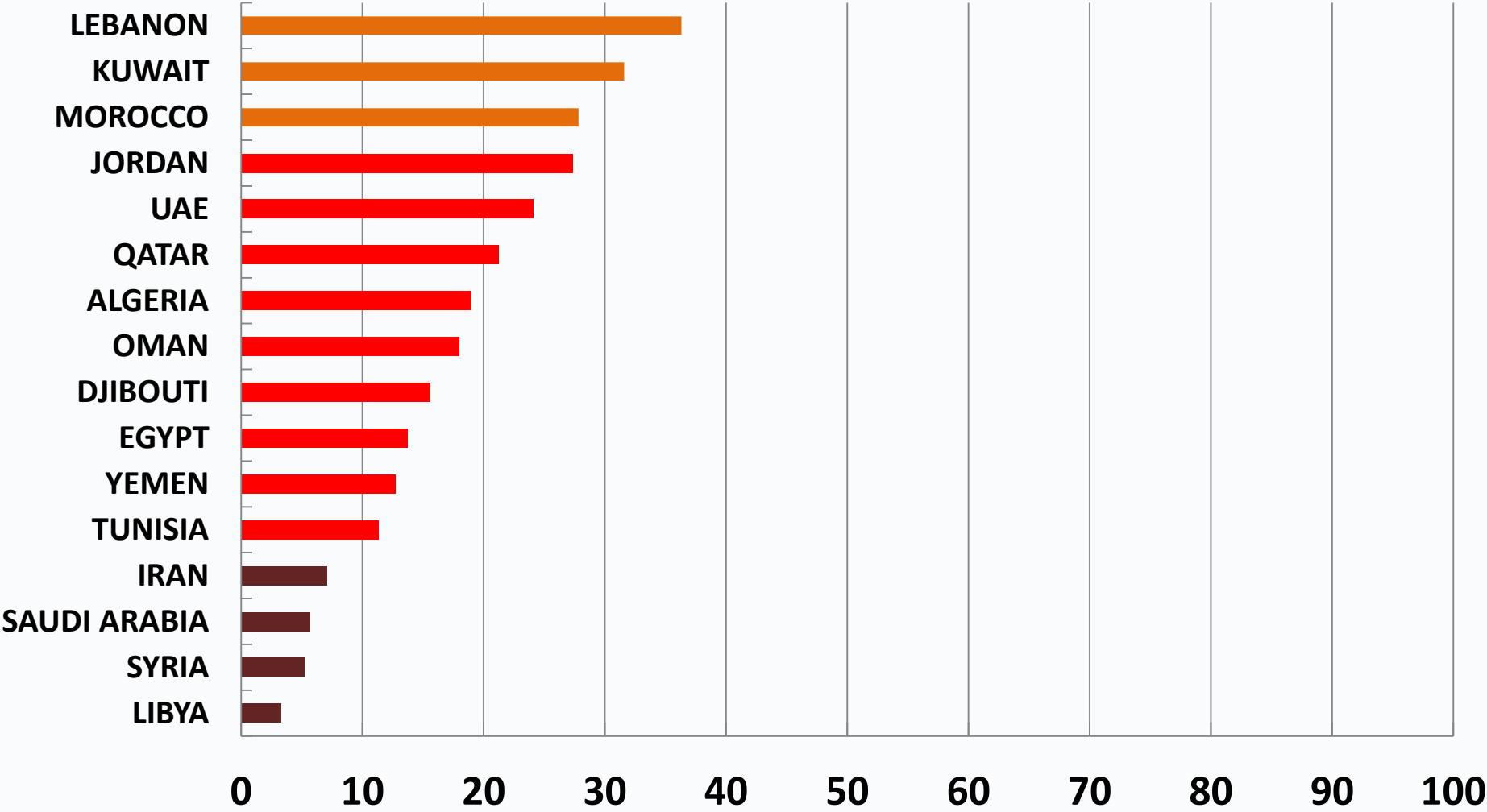
Sources: Polity IV Project: Political Regime Characteristics and Transitions, 1800-2010; *WGI: A Summary of Data, Methodology and Analytical Issues*, by D. Kaufmann, A. Kraay and M. Mastruzzi, October 2011 – www.govindicators.org

Probability of (Relatively) Successful Control of Corruption performance in 2010, by Polity-Democratic Performance Category



The International Community, Aid Effectiveness, and Transition

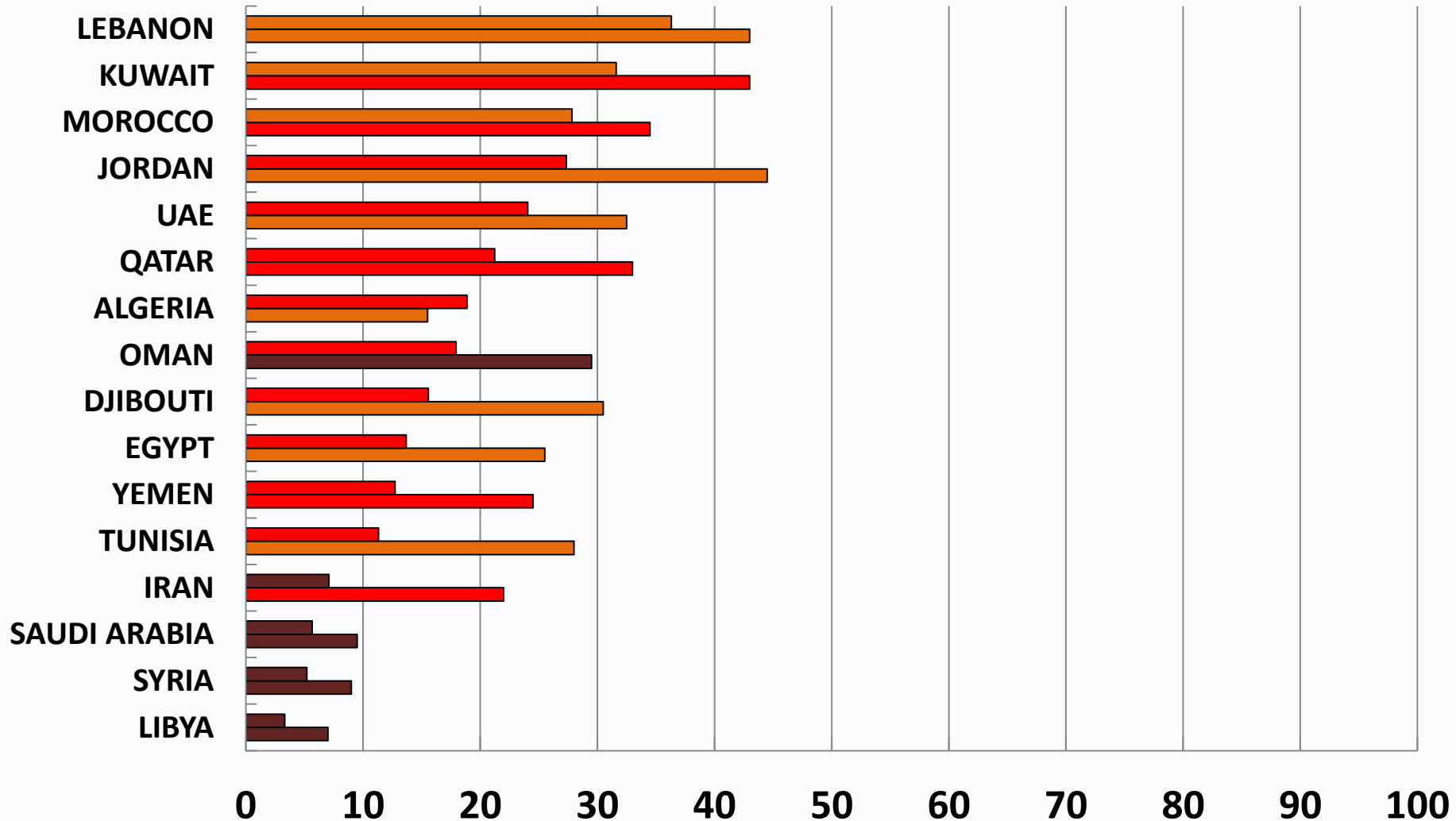
Voice & Accountability in the Arab World, 2010



Source: WGI: A Summary of Data, Methodology and Analytical Issues," by D. Kaufmann, A.Kraay and M. Mastruzzi, October 2011 – www.govindicators.org

■ 90th-100th percentile
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Voice & Accountability in Arab World: 2000 (bottom bar) & 2010 (top bar)



Source: WGI: A Summary of Data, Methodology and Analytical Issues," by D. Kaufmann, A.Kraay and M. Mastruzzi, October 2011 –

www.govindicators.org

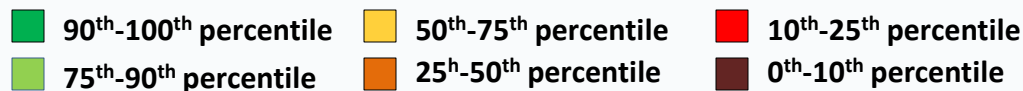
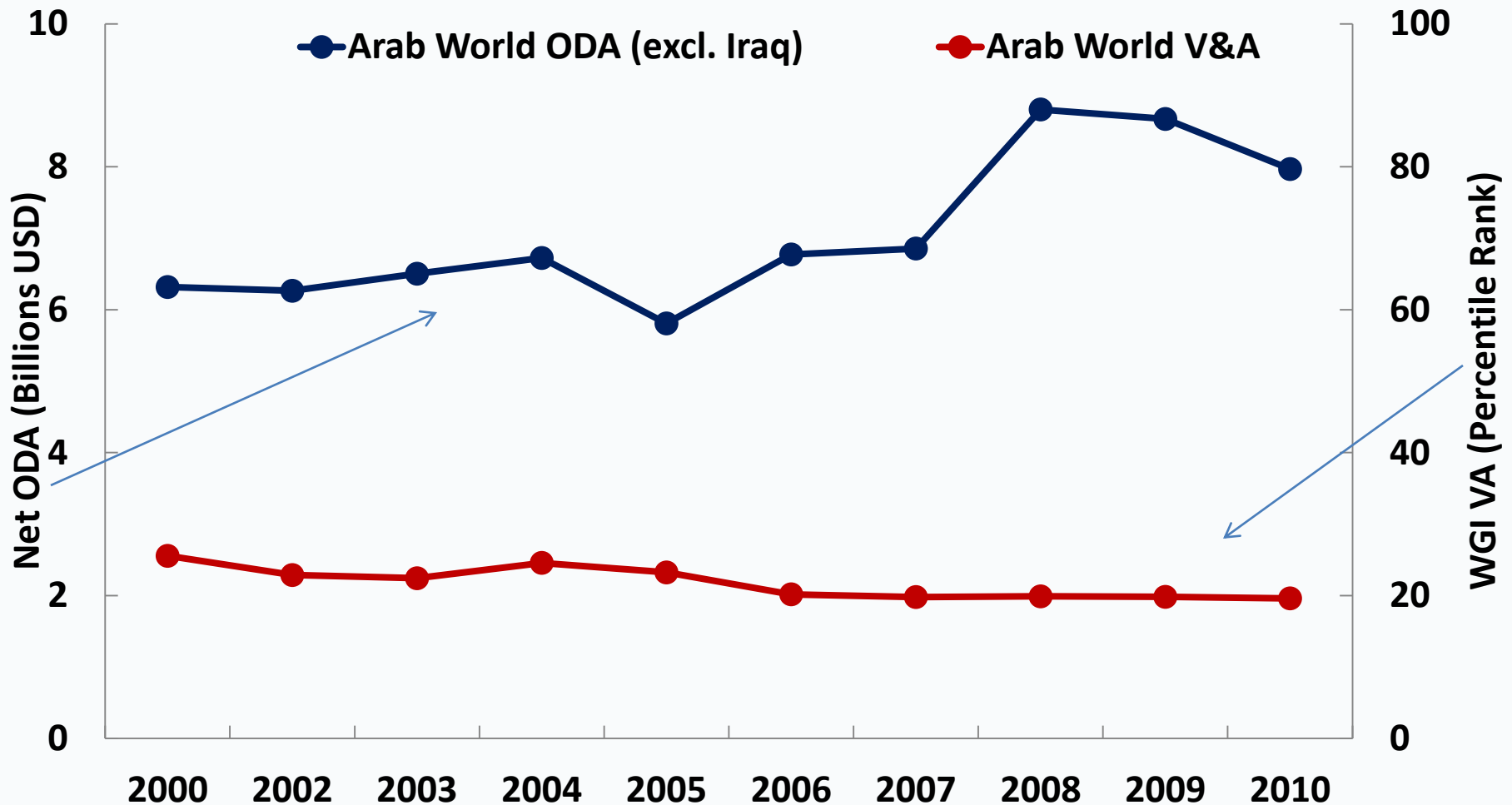
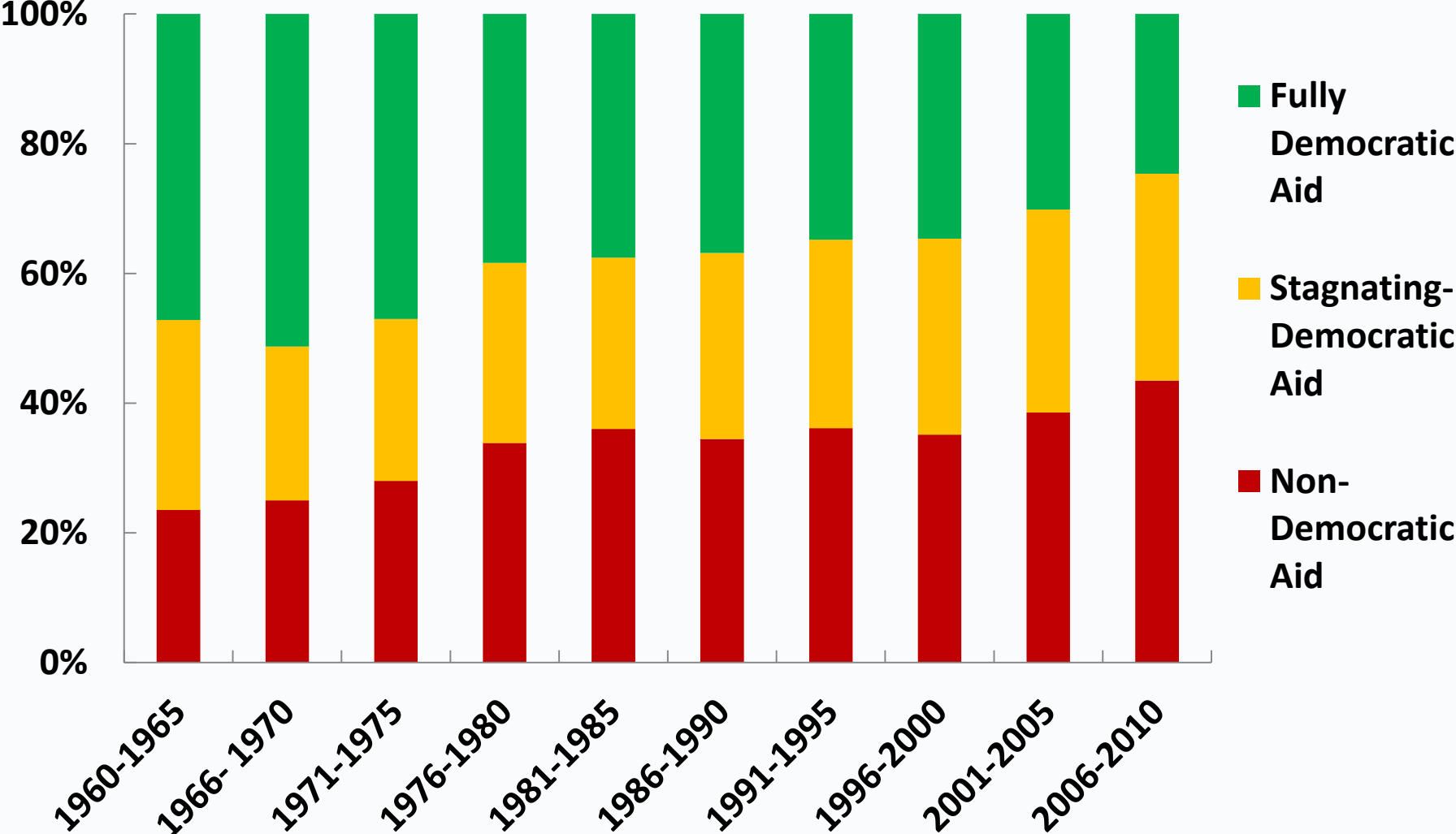


Figure 1. Evolution of Development Assistance versus Voice and Democratic Accountability in the Arab region, 2000-2010



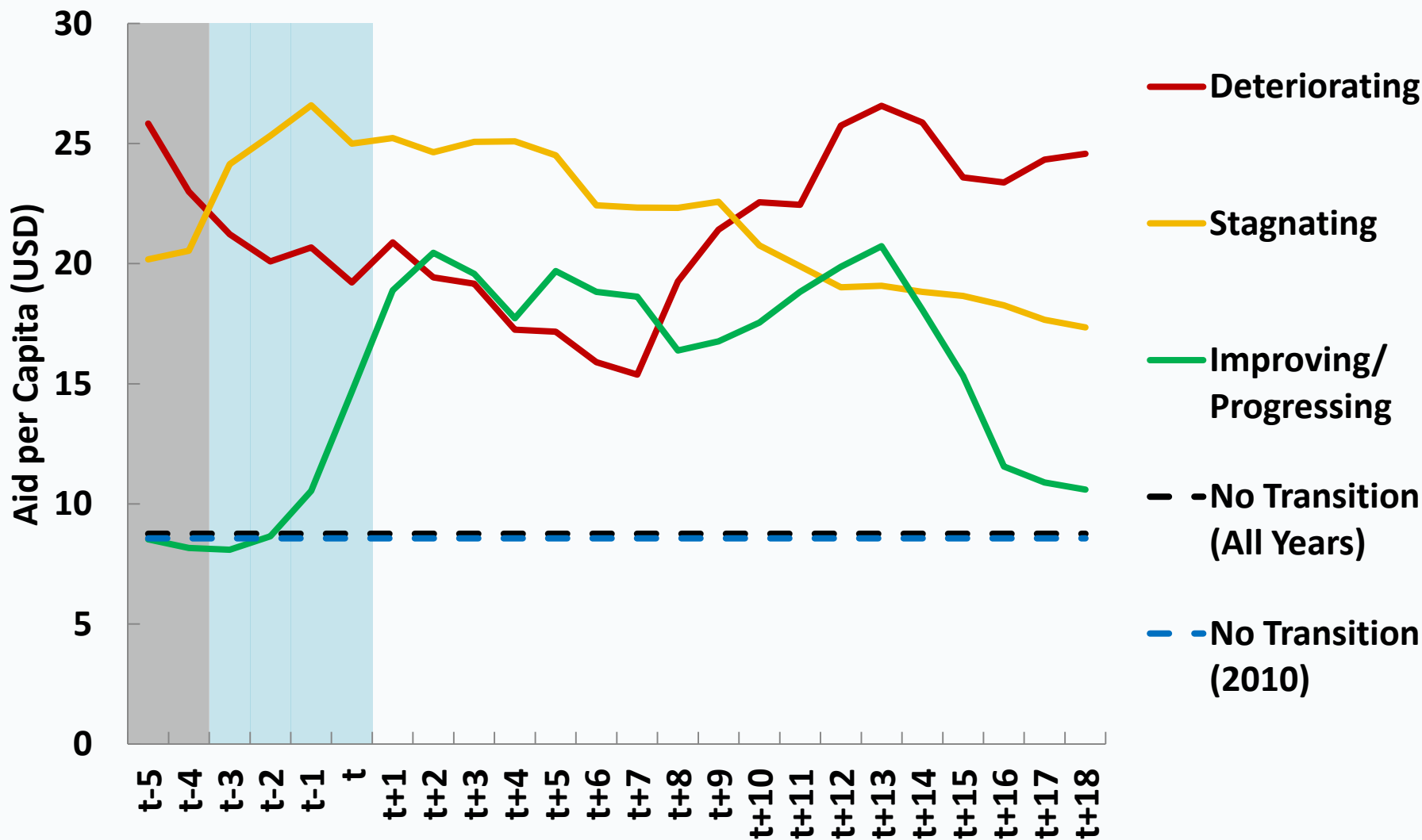
Note: WGI = Worldwide Governance Indicators; V&A: Voice and (democratic) Accountability; ODA = official development assistance. Iraq is excluded, representing a special case. Sources: D. Kaufmann, A. Kray and M. Mastruzzi, "The Worldwide Governance Indicators: Methodology and Analytical Issues," 2011, at www.govindicators.org; Organization for Economic Cooperation and Development, Development Assistance Committee Database.

Share of Aid to Recipients, By Recipient Category (1960-2010)



Source: Polity IV Project: Political Regime Characteristics and Transitions, 1800-2010; OECD, DAC, 2012

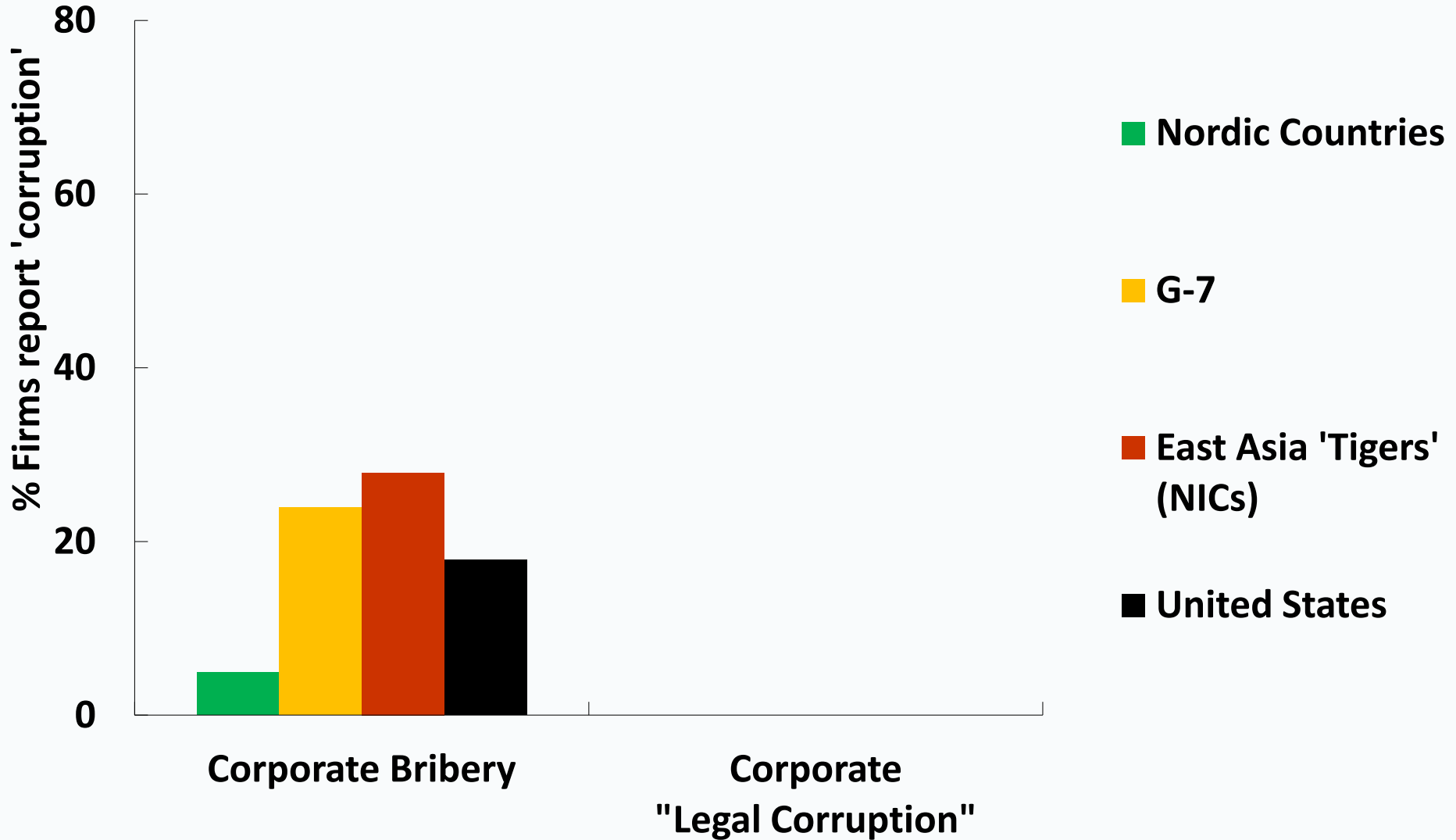
Aid per Capita To Transitioning Countries, by Performance Group (3-Year Moving Averages)



State Capture & Legal Corruption: *A Worldwide Challenge*

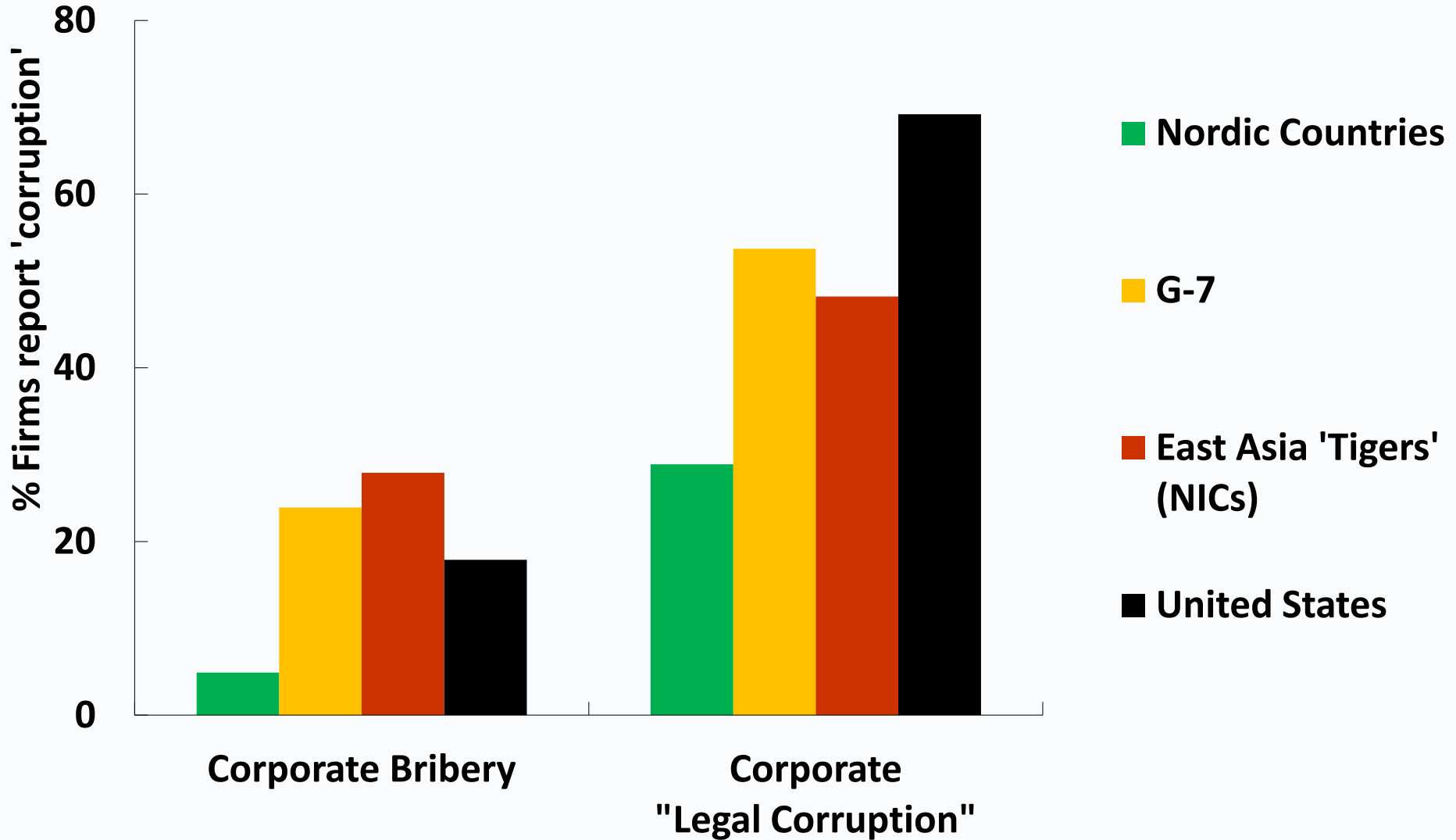
Bribery vs. 'Legal Corruption' (& soft Capture), 2004

% Firms report 'corruption'



Bribery vs. 'Legal Corruption' (& soft Capture), 2004

% Firms report 'corruption'



Six Implications - *as contributions to debate*

- 1. Governance can be measured: triangulation; transparency about imprecision, & interpretative caution**
- 2. Governance and Corruption Matters**
- 3. Aid strategies ought to support democratic governance**
- 4. Transitions can succeed or fail, and controlling corruption is key, and difficult**
- 5. But one does not ‘fight corruption by fighting corruption’: voice & democratic accountability, gender rights, transparency, rule of law, procurement systems, etc.**
- 6. State Capture as a form of high level corruption & misgovernance**