Corruption in transition: reflections & implications from governance empirics

Daniel Kaufmann, Brookings Institution

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?**

<table>
<thead>
<tr>
<th>Experts</th>
<th>Rules</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lawyers</td>
<td></td>
<td>DB</td>
</tr>
<tr>
<td>Commercial Risk Rating</td>
<td>GII</td>
<td>FRH/CCR</td>
</tr>
<tr>
<td>Agencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Governmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizations</td>
<td></td>
<td>GII</td>
</tr>
<tr>
<td>Governments &amp; Multilaterals</td>
<td></td>
<td>AfDB, ASD, CPIA</td>
</tr>
<tr>
<td>Academics</td>
<td></td>
<td>IFD</td>
</tr>
<tr>
<td>Survey Respondents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firms</td>
<td></td>
<td>GCS, WCY, WBES, ES, BEEPS</td>
</tr>
<tr>
<td>Individuals</td>
<td></td>
<td>AFR, LBO, GWP, VAB</td>
</tr>
<tr>
<td>Aggregate Indicators</td>
<td></td>
<td>TI, WGI, IIAG</td>
</tr>
<tr>
<td>Combining Respondents</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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

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

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

Freedom of the Press, 1994 and 2010: Developing Countries

Freedom of the Press:
- Red: Not Free
- Yellow: Part Free
- Green: Free

% countries in 1994:
- Red: 34.6%
- Yellow: 38.9%
- Green: 26.5%

% countries in 2010:
- Red: 21.3%
- Yellow: 39.7%
- Green: 39.0%

Source: 2010 Freedom House. Pie Chart 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). Sample consists of 165 non-OECD countries.
Freedom of the Press associated with better Control of Corruption (& civil liberties more generally is associated with better performance of World Bank-funded projects – see WBER article 1997)

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

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)

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

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

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

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’

- Nordic Countries
- G-7
- East Asia 'Tigers' (NICs)
- United States

Source: Author’s calculations based on EOS 2004.
Bribery vs. ‘Legal Corruption’ (& soft Capture), 2004

% Firms report ‘corruption’

Source: Author’s calculations based on EOS 2004.
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