

# **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) 18<sup>th</sup> Annual  
Conference, Cairo, Egypt, March 25<sup>th</sup>, 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
<b><u>Experts</u></b>				
<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 &amp; Multilaterals</i>			AfDB, ASD, CPIA	IFD
<i>Academics</i>			IPD	
<b><u>Survey Respondents</u></b>				
<i>Firms</i>				GCS, WCY, WBES, ES, BEEPS
<i>Individuals</i>			AFR, LBO, GWP, VAB	WVS, GCB
<b><u>Aggregate Indicators Combining Respondents</u></b>			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

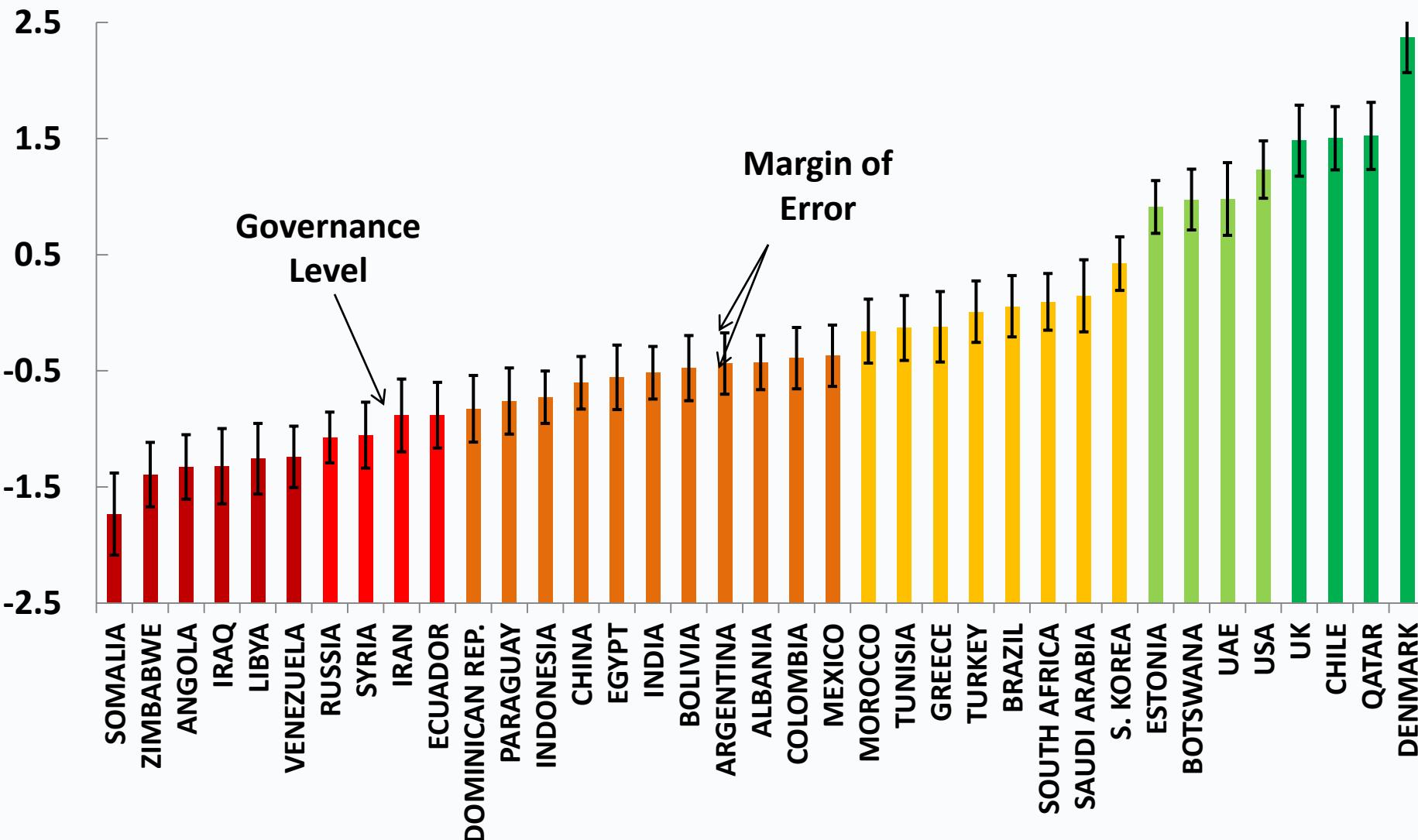
- Data on six dimensions of governance covering 213 countries over the period 1996-2010
- Synthesis of hundreds of underlying indicators taken from over 30 different organizations & data sources
- Aggregate and individual indicators interactively available at [www.govindicators.org](http://www.govindicators.org), 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*

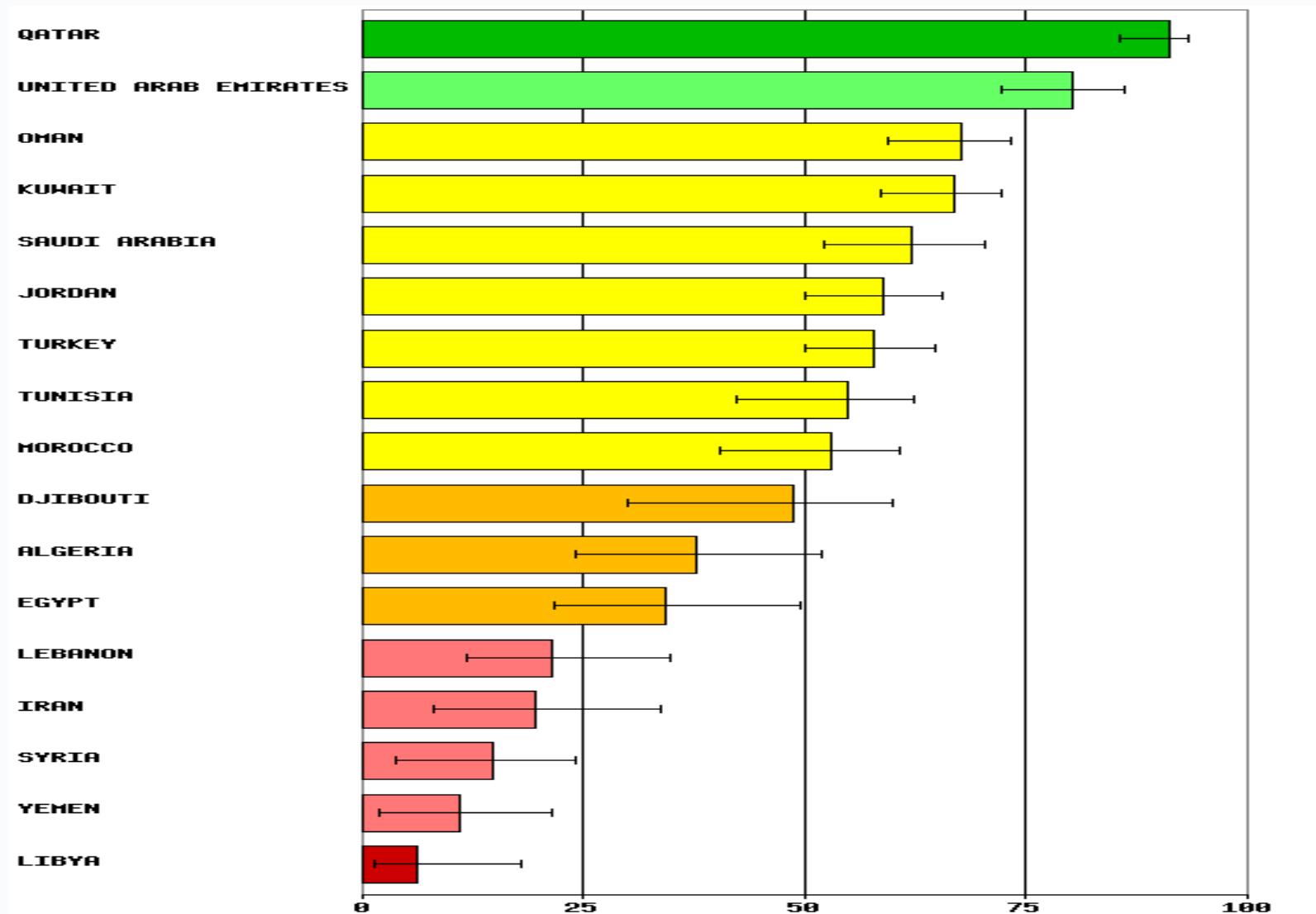
# Control of Corruption in Select Countries, 2010

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](http://www.govindicators.org); Dark red indicates countries in the bottom 10<sup>th</sup> percentile rank; light red between 10<sup>th</sup> and 25<sup>th</sup> percentile rank; orange between 25<sup>th</sup> and 50<sup>th</sup>; yellow between 50<sup>th</sup> and 75<sup>th</sup>; light green between 75<sup>th</sup> and 90<sup>th</sup> and Dark green between 90<sup>th</sup> and 100<sup>th</sup> percentile (exemplary governance)

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

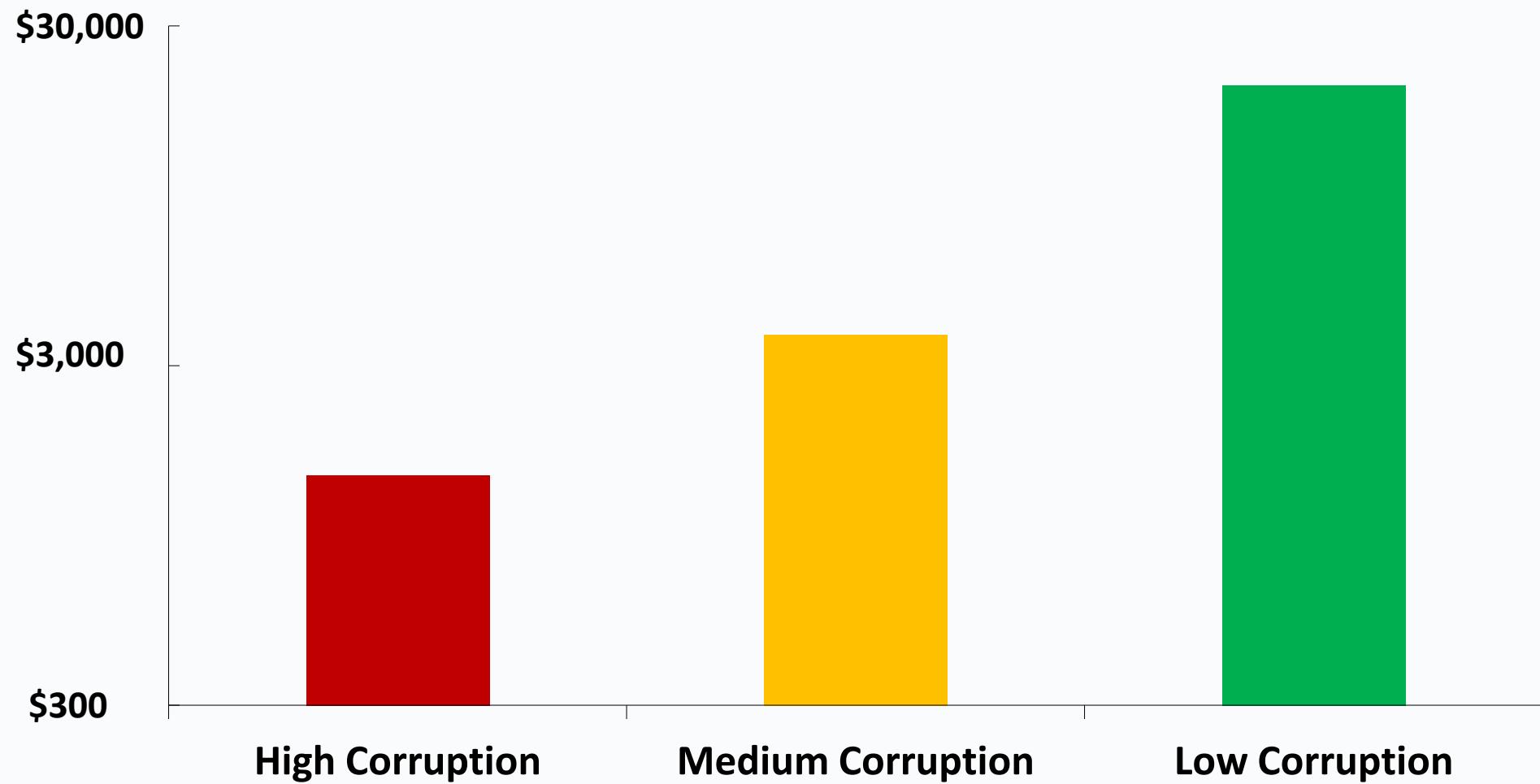


Source: WGI: A Summary of Data, Methodology and Analytical Issues," by D. Kaufmann, A.Kraay and M. Mastruzzi, October 2011 – [www.govindicators.org](http://www.govindicators.org)

- █ 90<sup>th</sup>-100<sup>th</sup> percentile
- █ 50<sup>th</sup>-75<sup>th</sup> percentile
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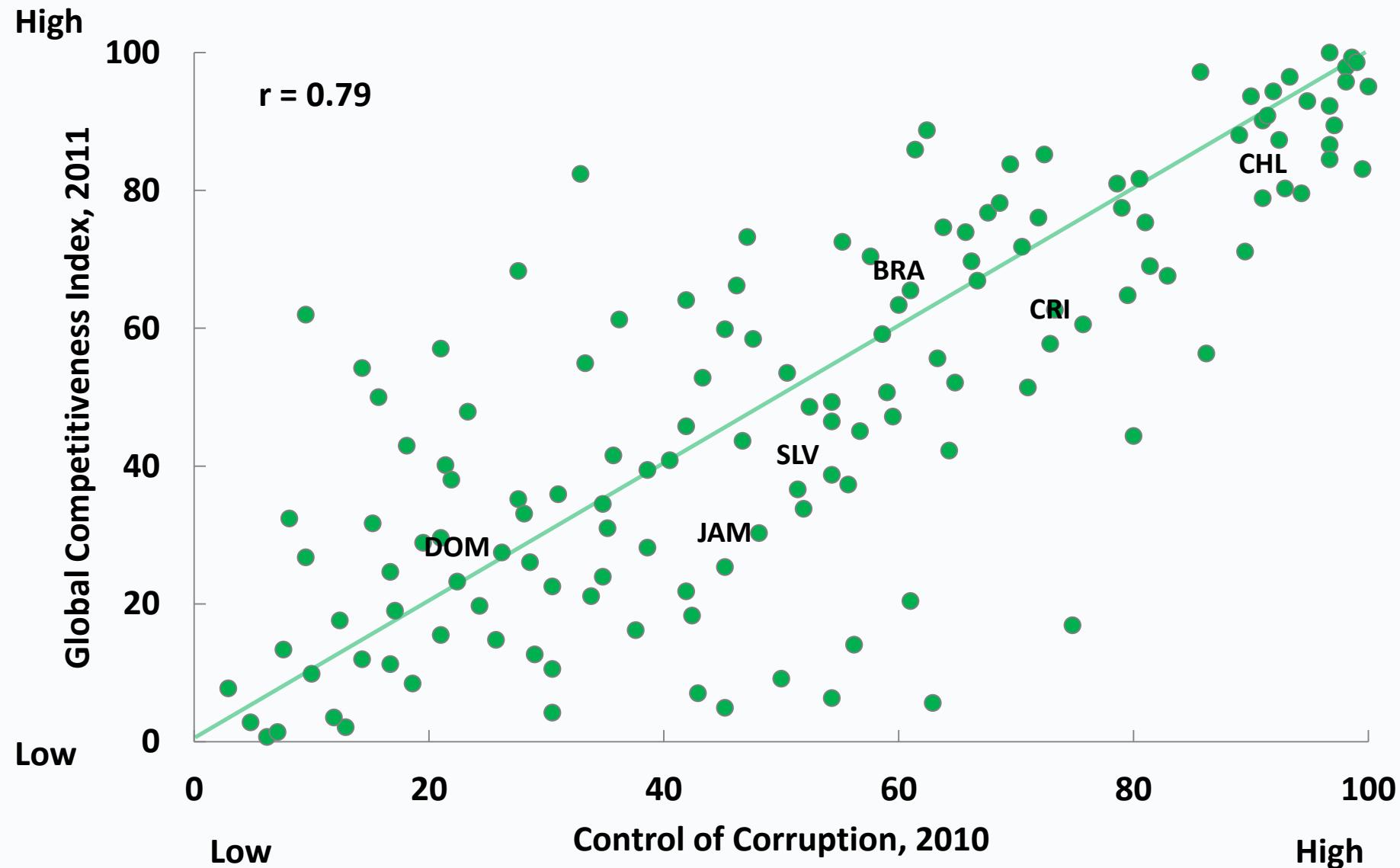
# Does Governance & Corruption Matter?

# The 300% Development Dividend From Improving Governance & Controlling Corruption



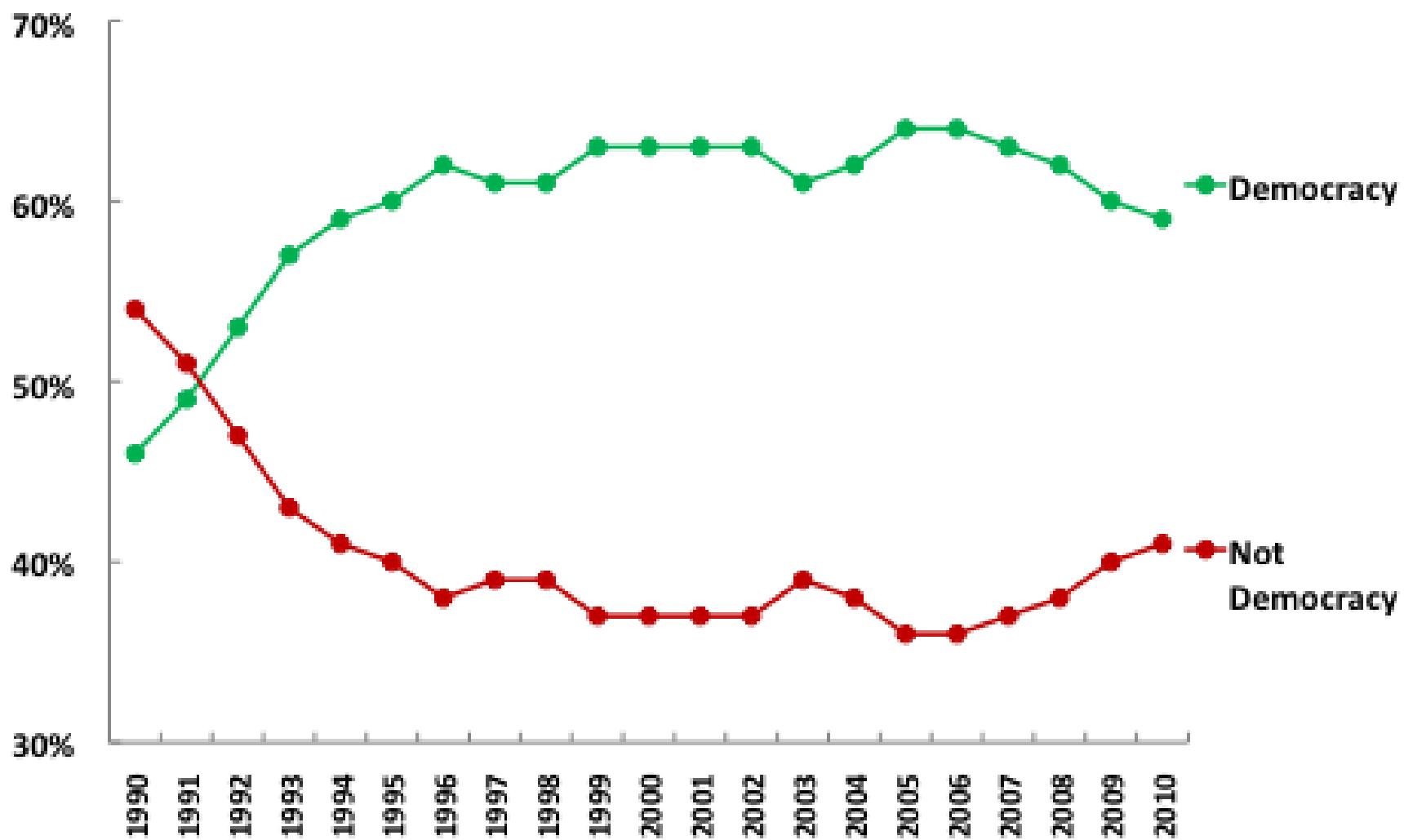
Data Source for calculations: KK 2004. Y-axis measures predicted GDP per capita on the basis of Instrumental Variable (IV) results for each of the 3 categories. Estimations based on various authors' studies, including Kaufmann and Kraay.

# Control of Corruption and WEF GCR Competitiveness, 2010



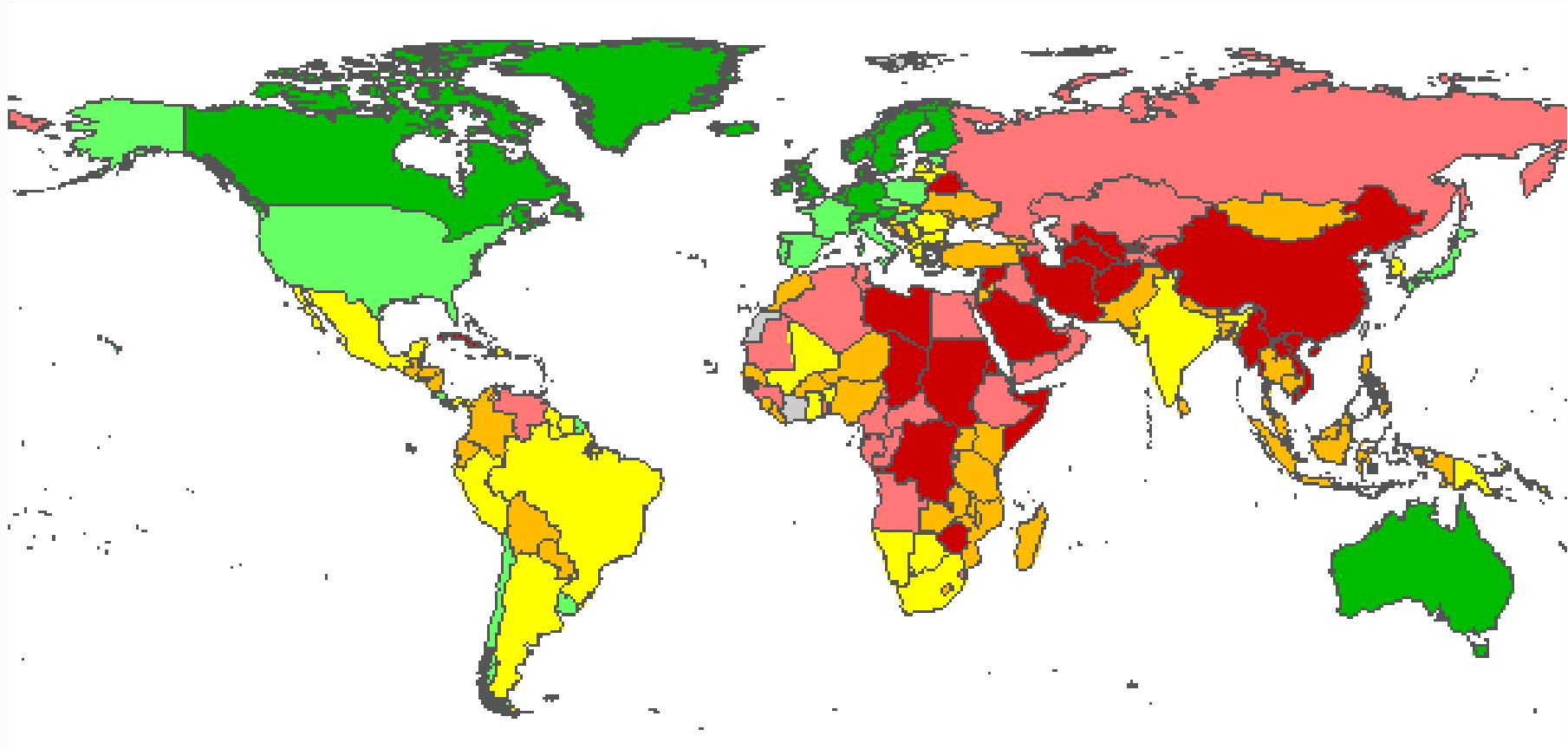
# **Corruption: fundamental driver, symptom, or proximate cause?**

# 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](http://www.govindicators.org).

■ 90<sup>th</sup>-100<sup>th</sup> percentile

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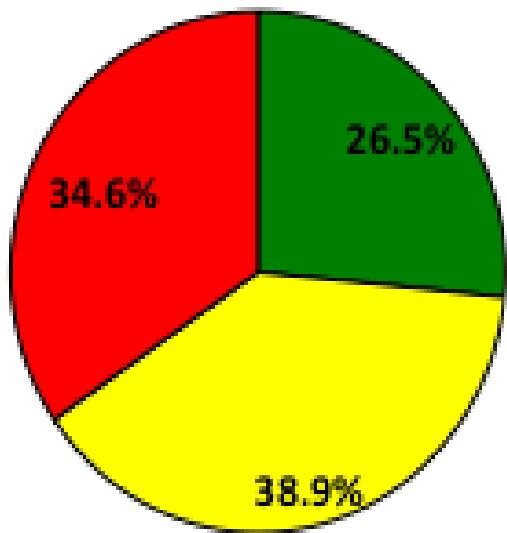
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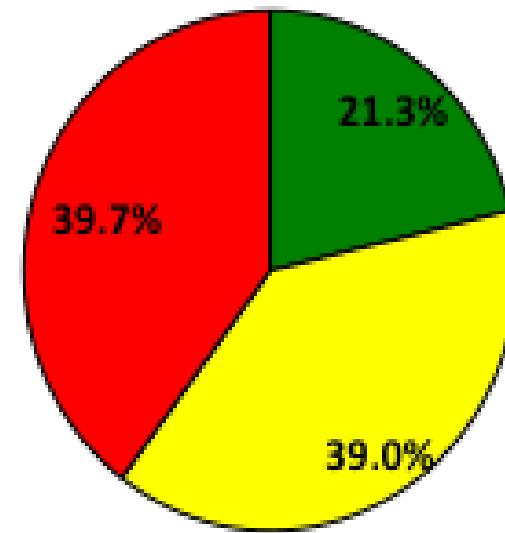
# Freedom of the Press, 1994 and 2010: Developing Countries

## Freedom of the Press:

- Not Free
- Part Free
- Free



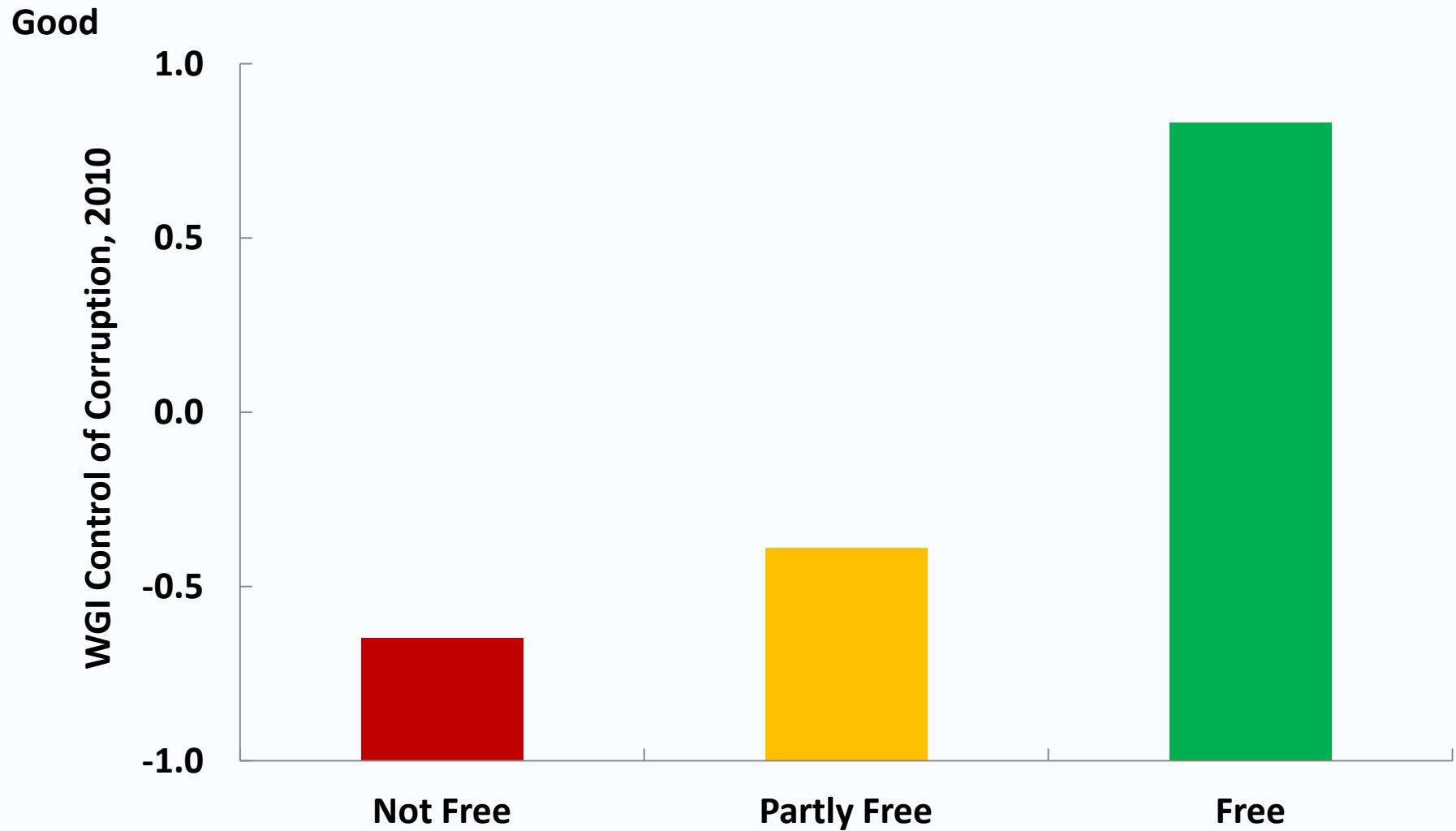
% countries in 1994



% countries in 2010

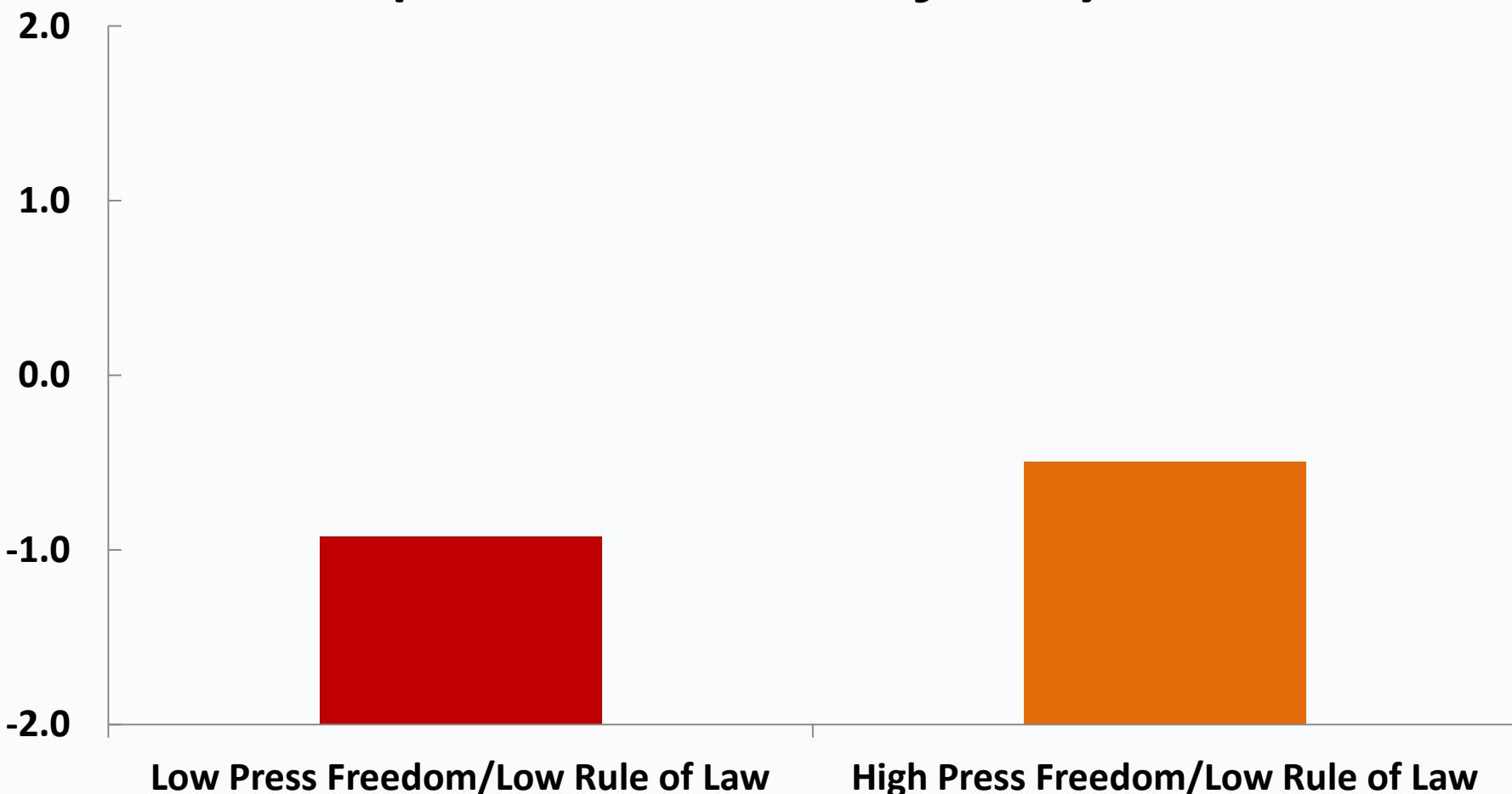
Source: 2010 Freedom House. Pie Chart measures percentage of countries in the region with free press (rating of 30 or below), partly free (ratings between 30 and 60) and not free (rating above 60). Sample consists of 165 non-OECD countries

# Freedom of the Press associated w/ better Control of Corruption (& civil liberties more generally is associated with better performance of World Bank-funded projects – see WBER article 1997)

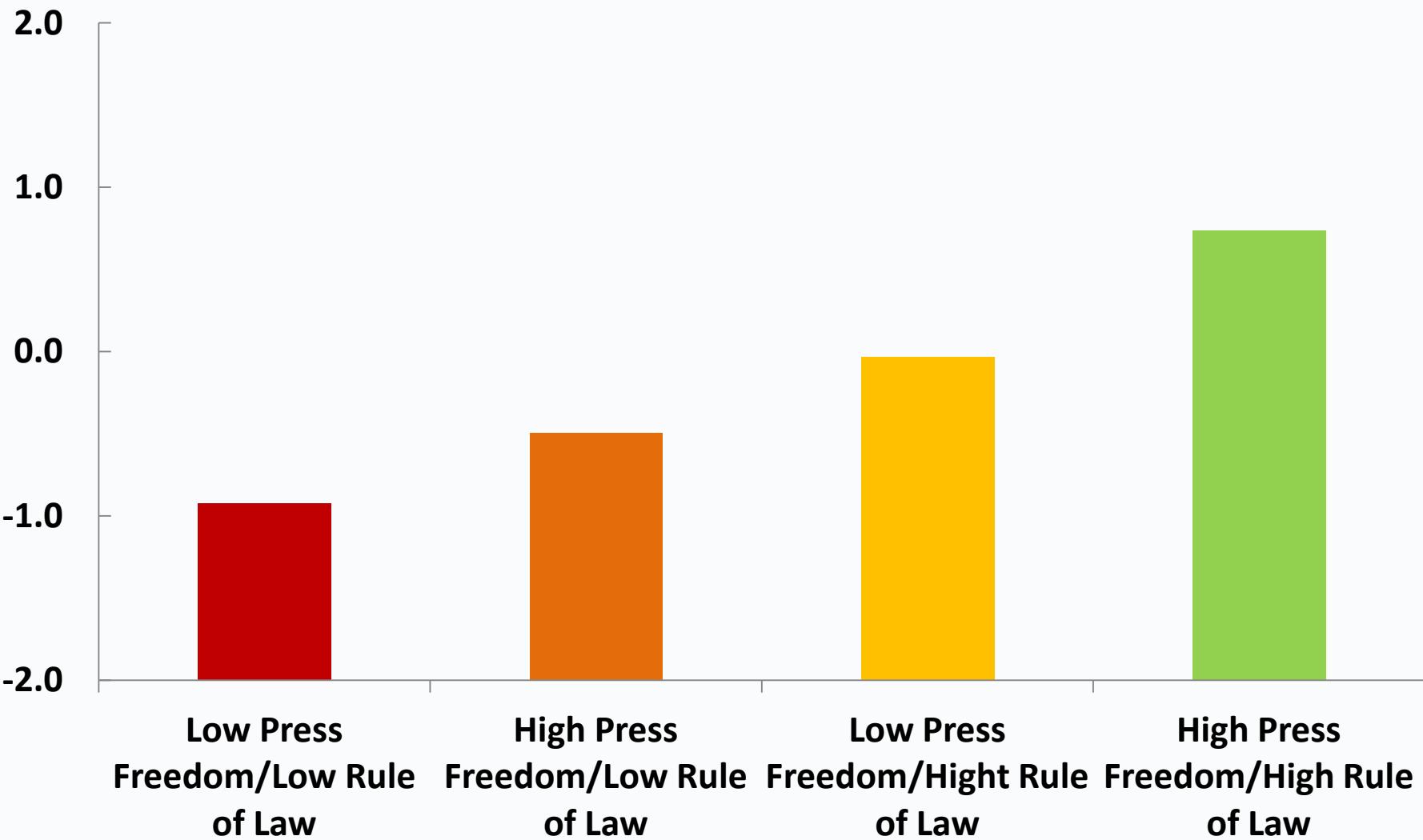


Source: WGI: A Summary of Data, Methodology and Analytical Issues," by D. Kaufmann, A. Kraay and M. Mastruzzi, October 2011 – [www.govindicators.org](http://www.govindicators.org). & Freedom House, "Press Freedom", 2011. Terciles according the Press Freedom criteria – free press (rating of 30 or below), 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

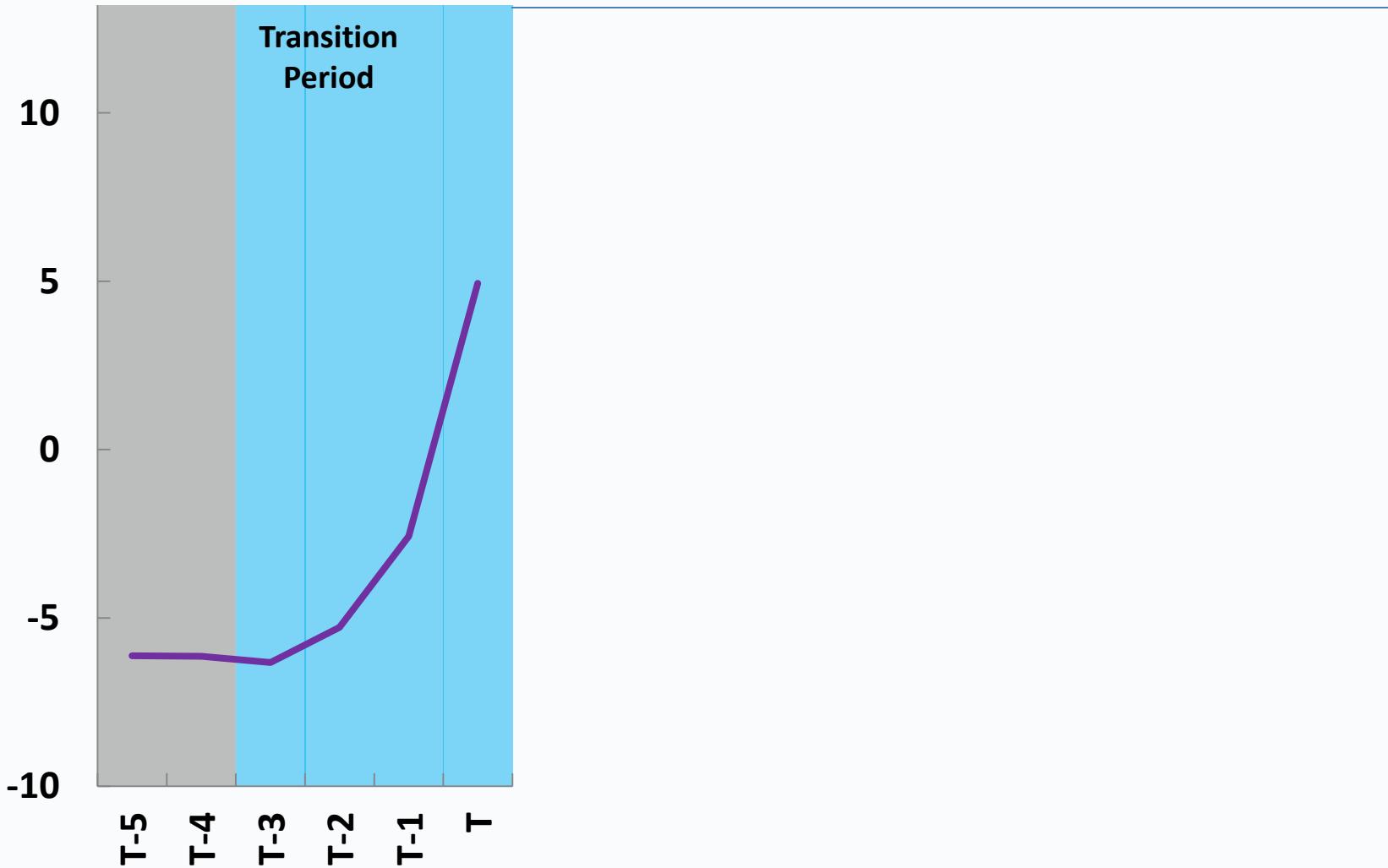


Sources: Kaufmann D., A. Kraay, M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues , September 2010; Freedom House, Freedom of the Press, 2005-2009 editions

# **Democratic Transitions, and Corruption**

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

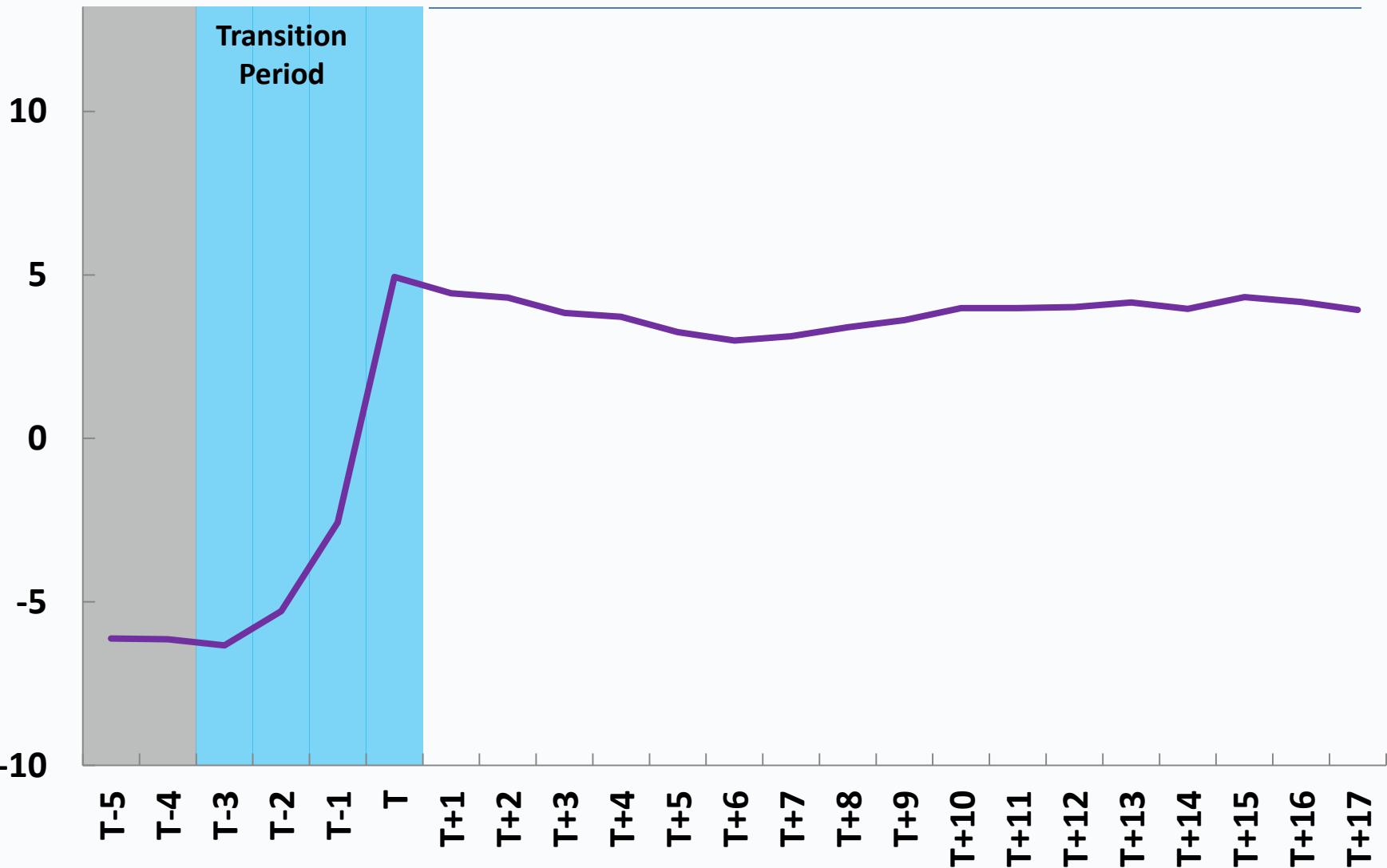
## *Average Polity Scores for 91 countries*



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

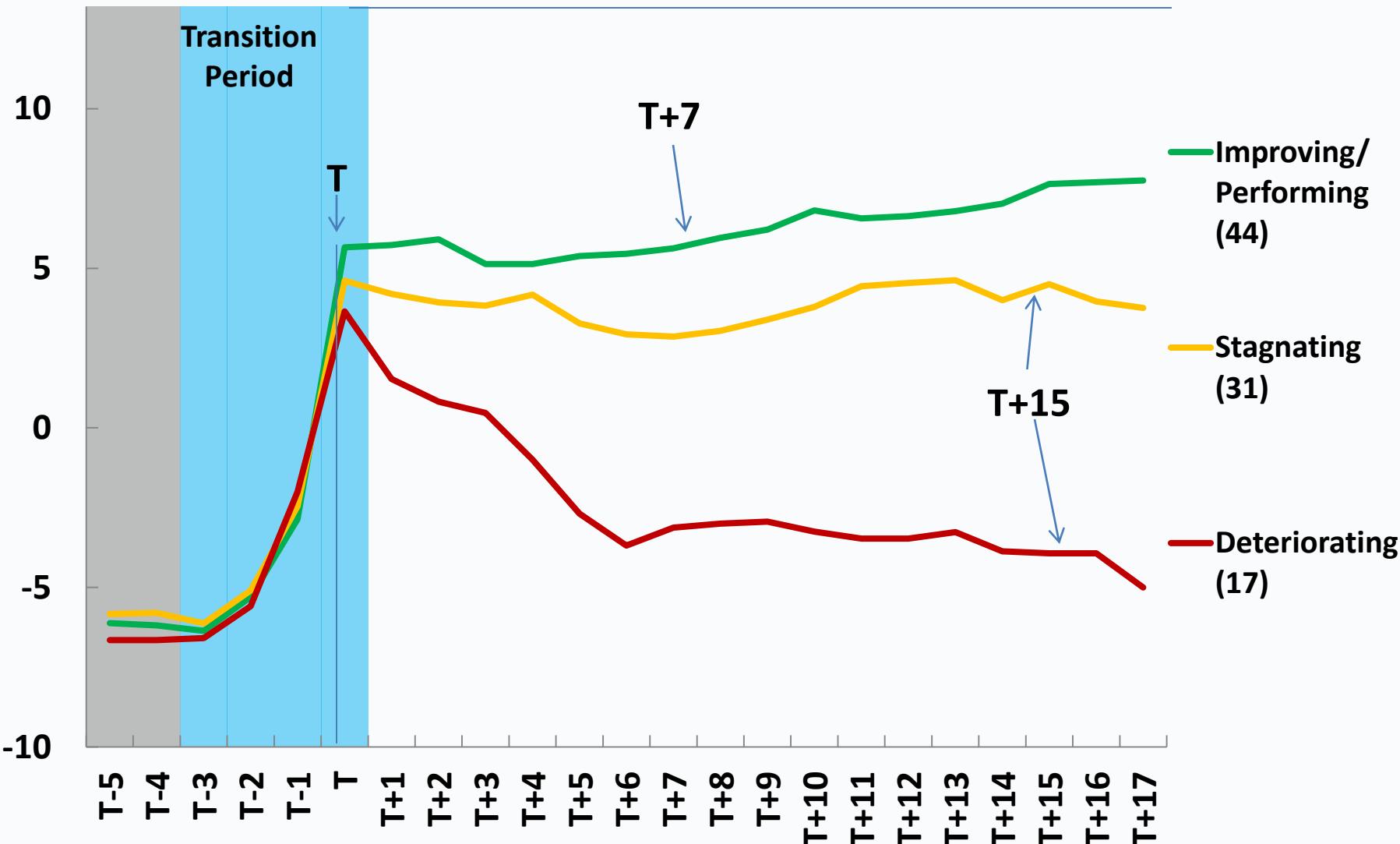
# ‘Net Democracy’ Scores Pre-, During & Post-Transition

## Average Polity Scores for 77 countries



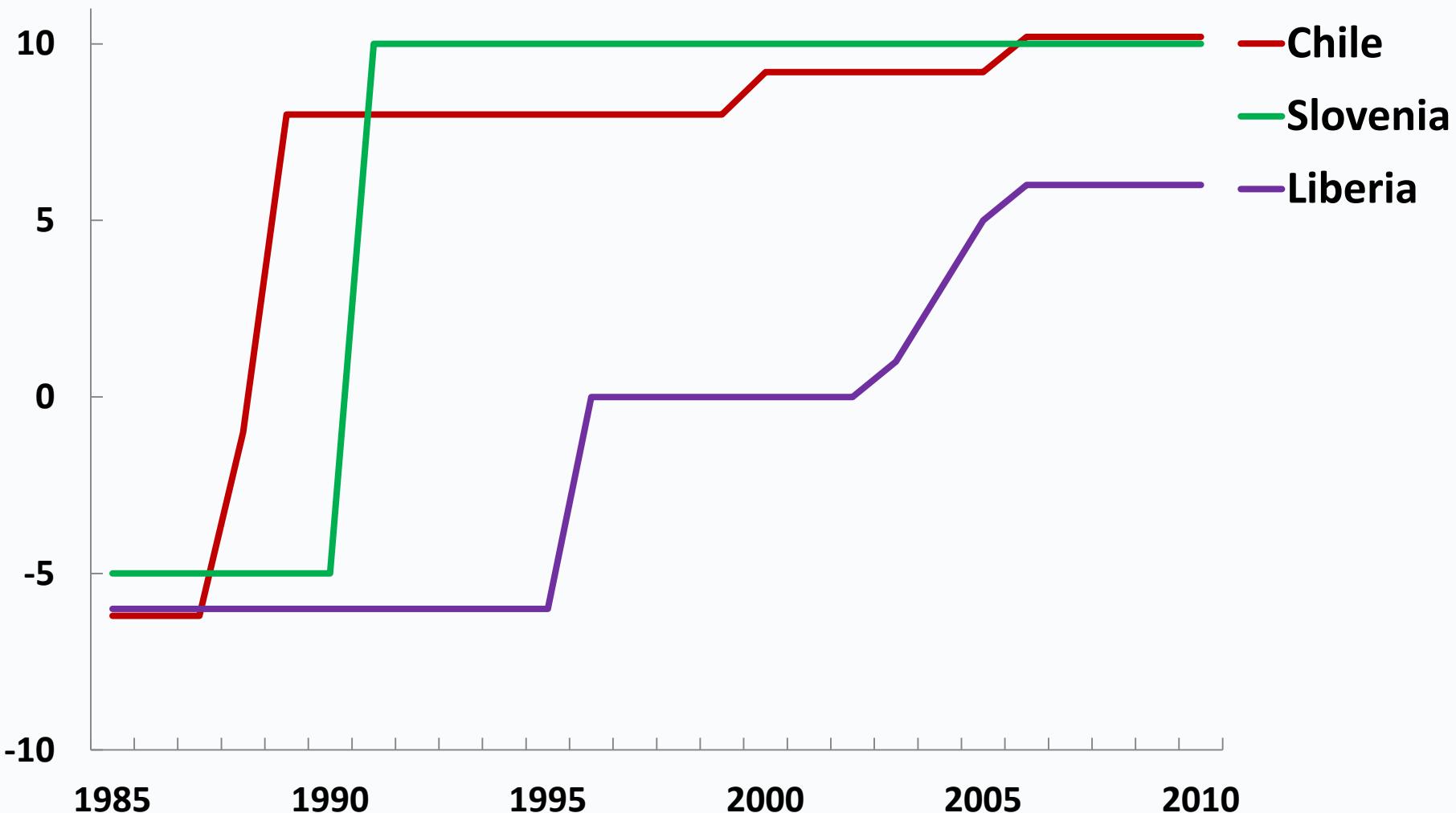
Source: Polity IV Project: Political Regime Characteristics and Transitions, 1800-2010. In T-5 the sample consists of 92 countries.

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

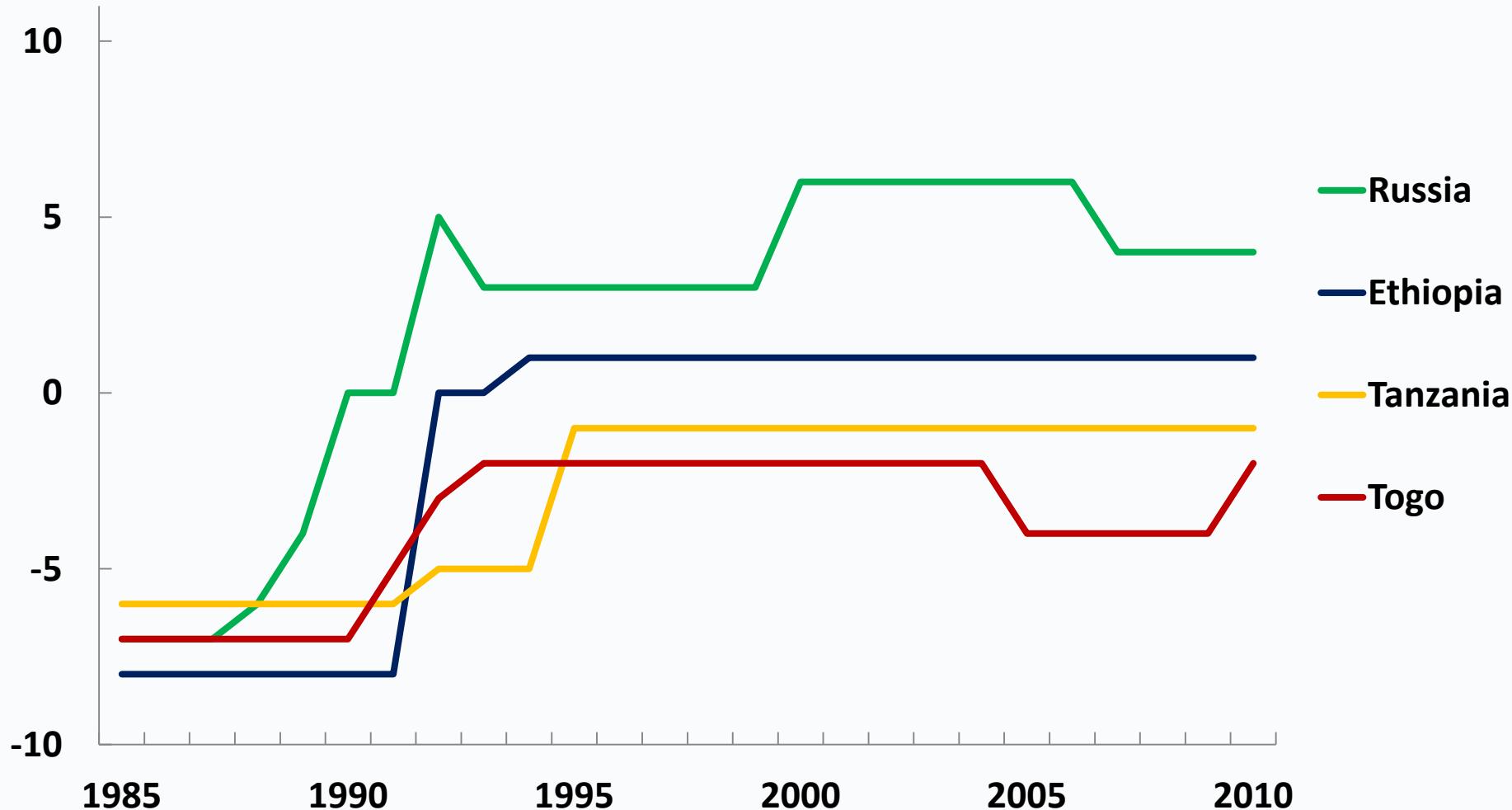


Source: Polity IV Project: Political Regime Characteristics and Transitions, 1800-2010. There are 44 countries in the improving/performing category; 31 in the stagnating category and 17 in the deteriorating category

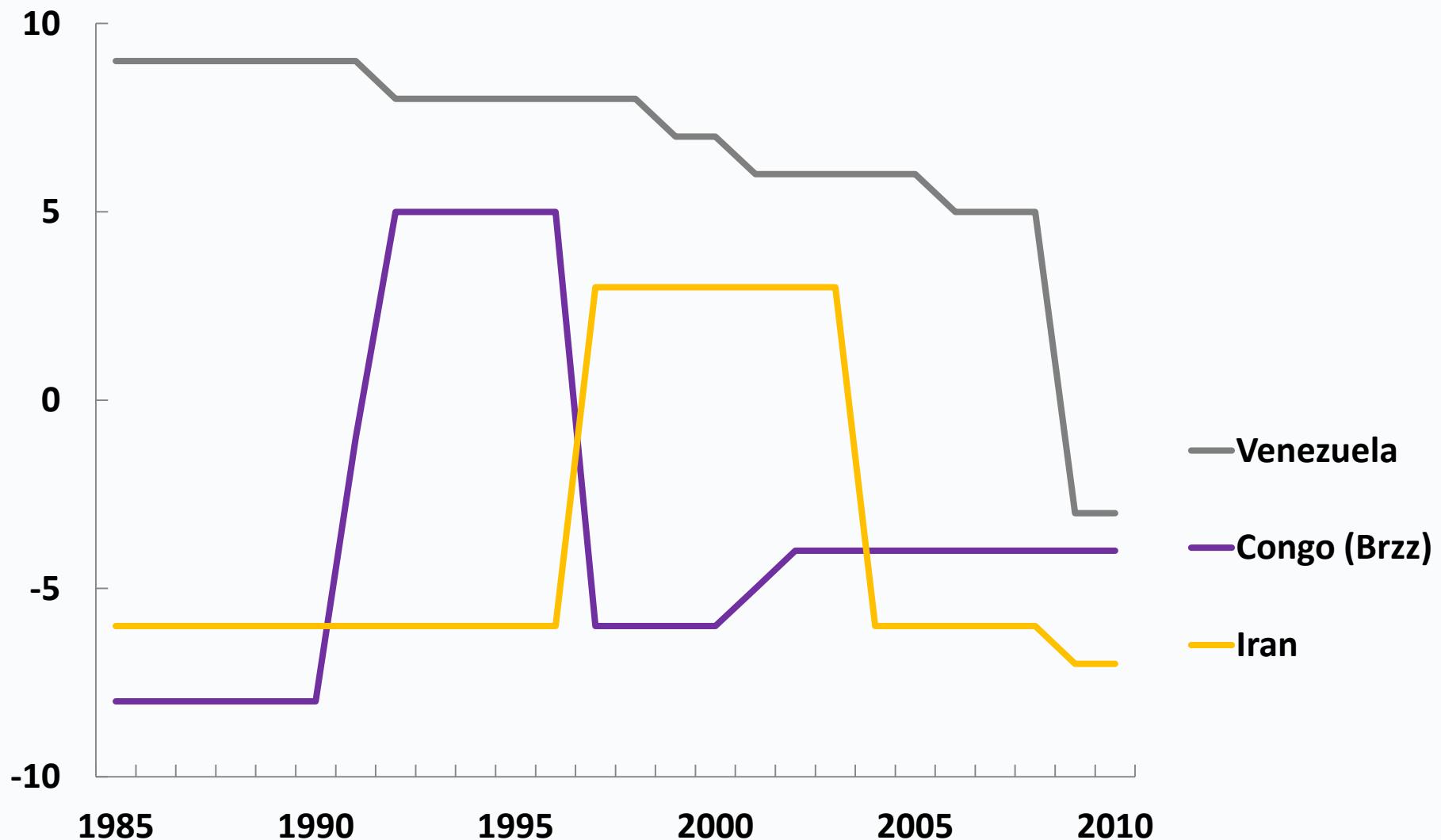
# Institutional Performance: Select Countries from Improving/Performing Group, 1985-2010



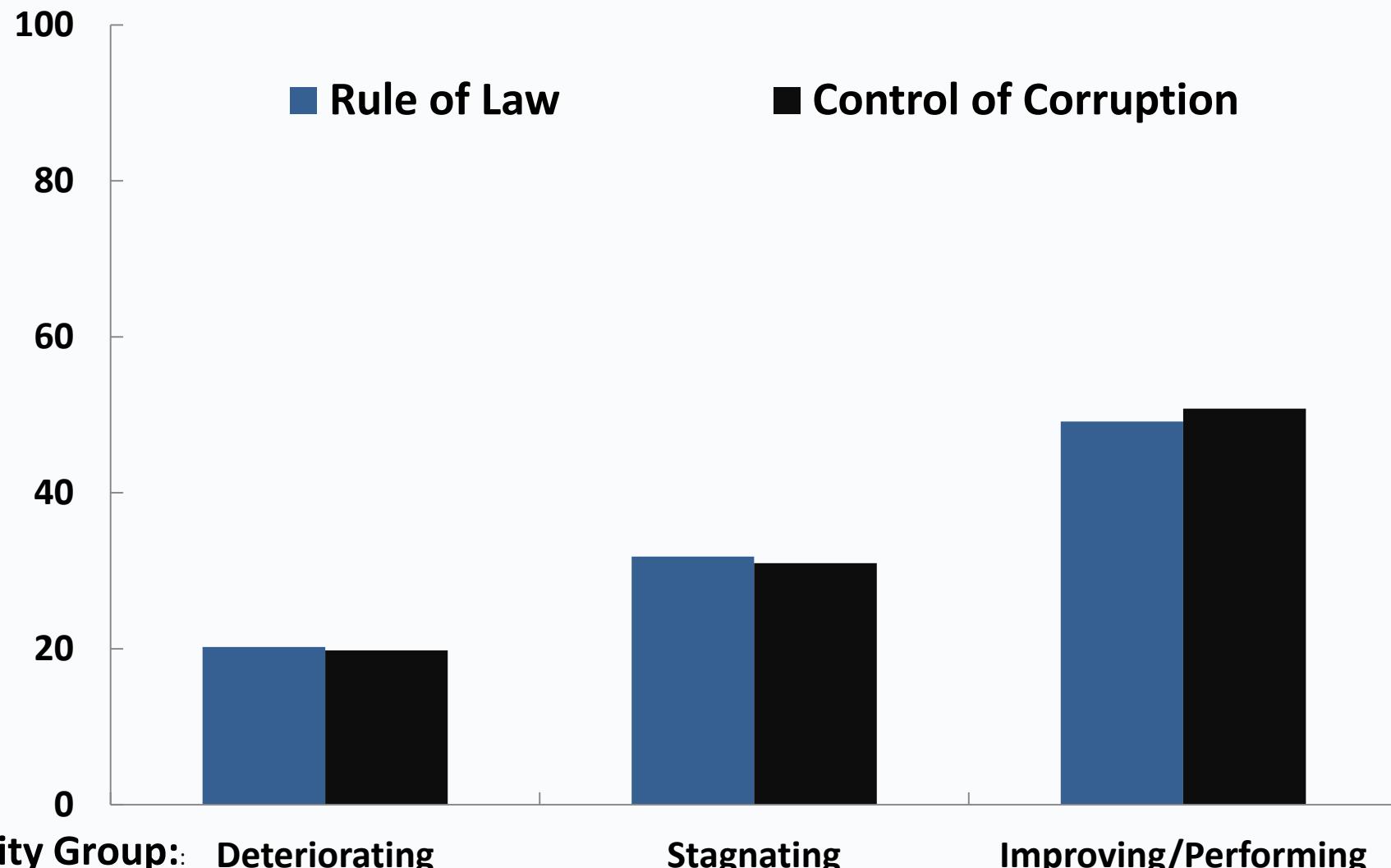
# Institutional Performance: Select Countries from Stagnating Group, 1985-2010



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

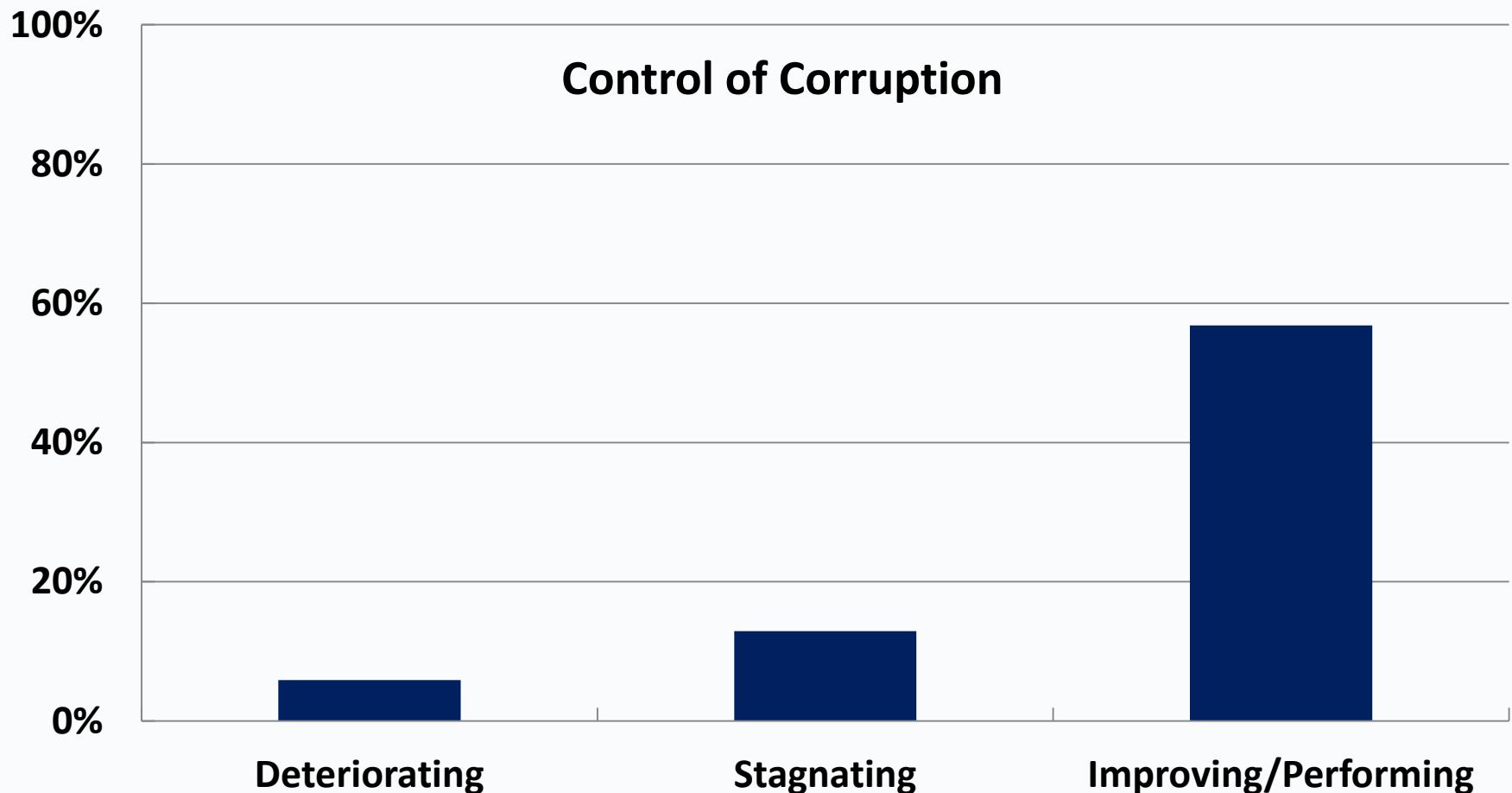


# How Well Do the ‘Democratizing’ Transition do in Rule of Law & Control of Corruption (WGI 2010, by Polity Performance Category)



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](http://www.govindicators.org)

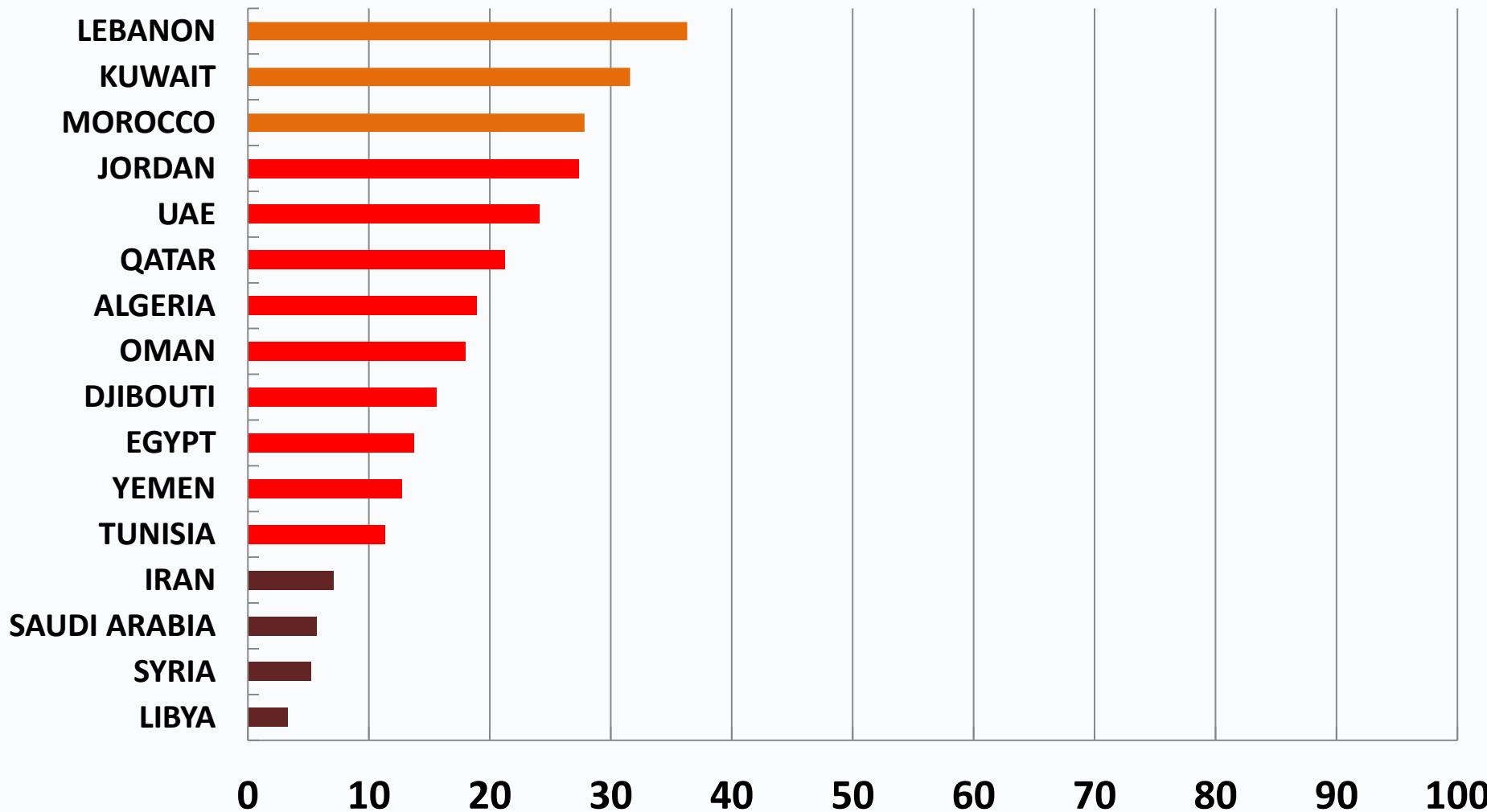
# Probability of (Relatively) Successful Control of Corruption performance in 2010, by Polity-Democratic Performance Category



*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](http://www.govindicators.org)

# **The International Community, Aid Effectiveness, and Transition**

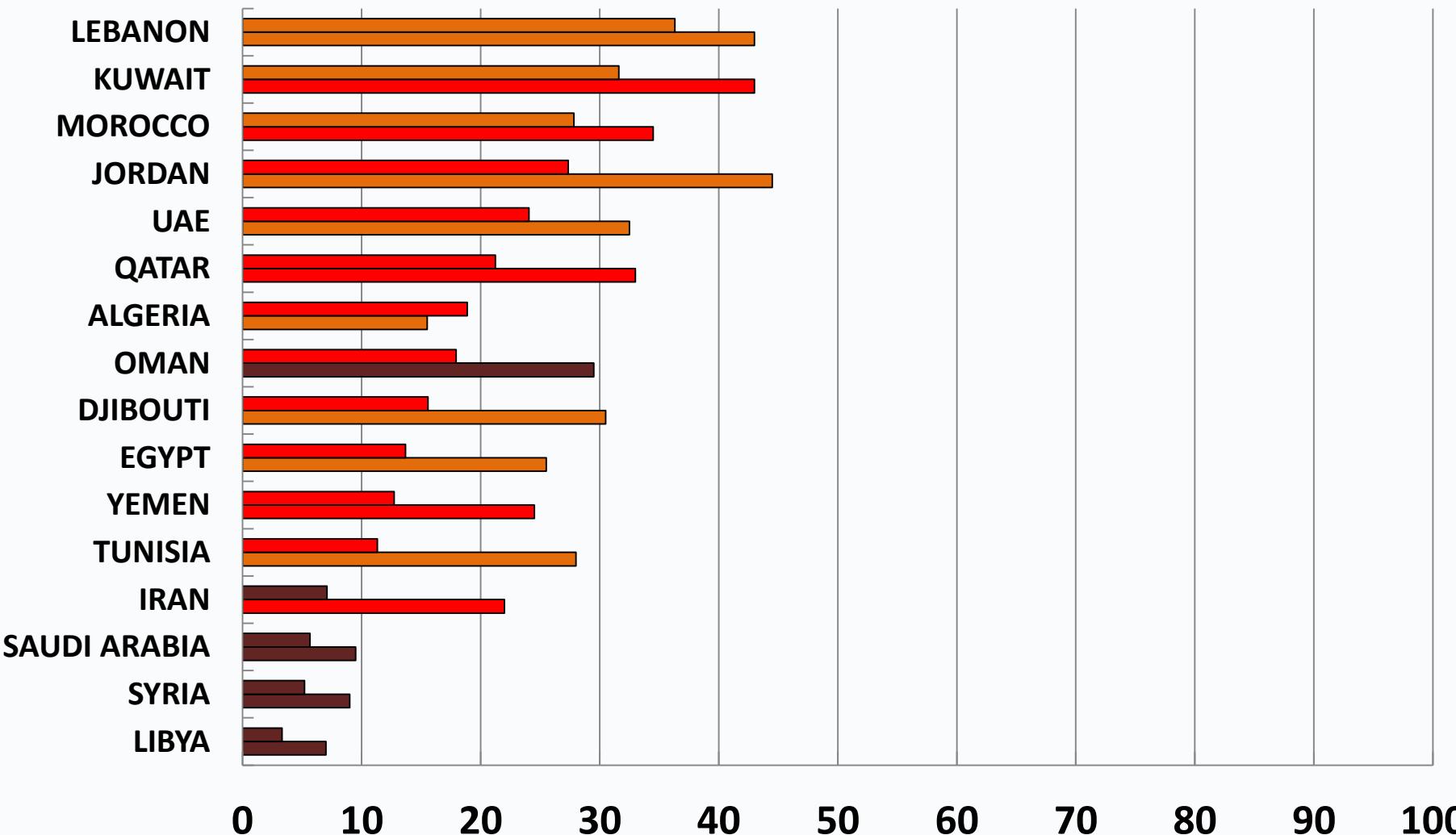
# Voice & Accountability in the Arab World, 2010



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

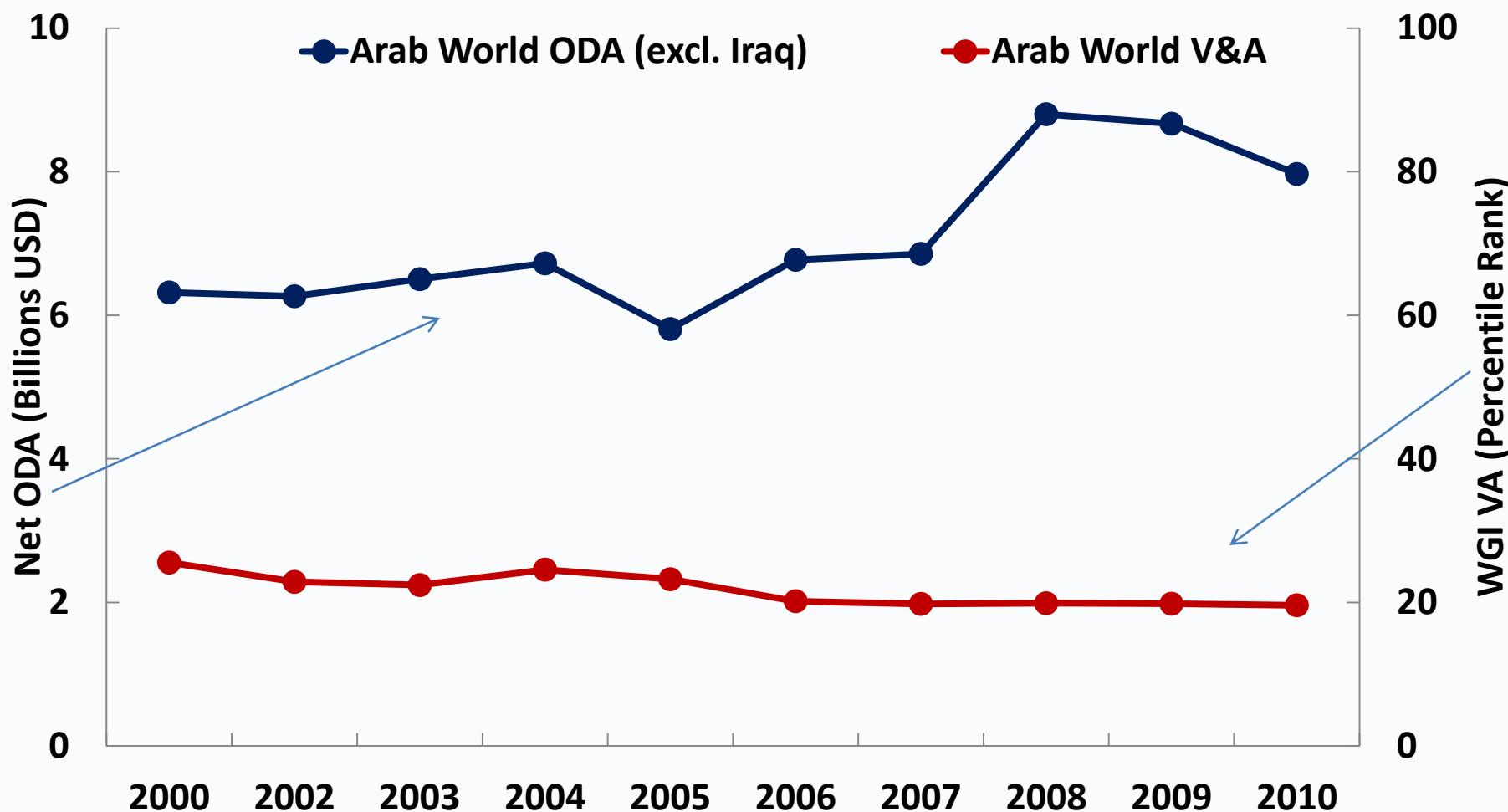
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# Voice & Accountability in Arab World: 2000 (bottom bar) & 2010 (top bar)



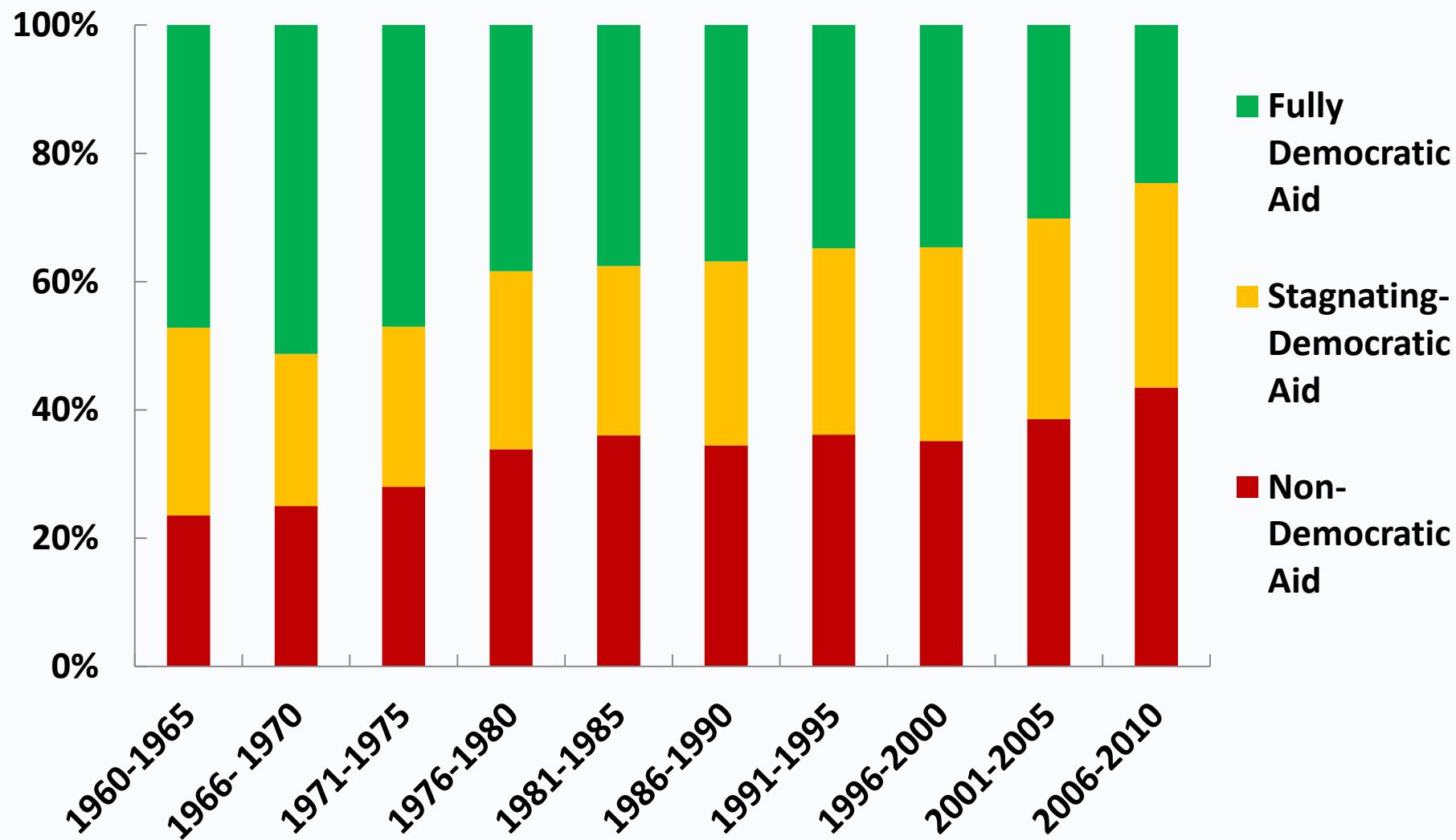
Source: WGI: A Summary of Data, Methodology and Analytical Issues," by D. Kaufmann, A.Kraay and M. Mastruzzi, October 2011 – [www.govindicators.org](http://www.govindicators.org)

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

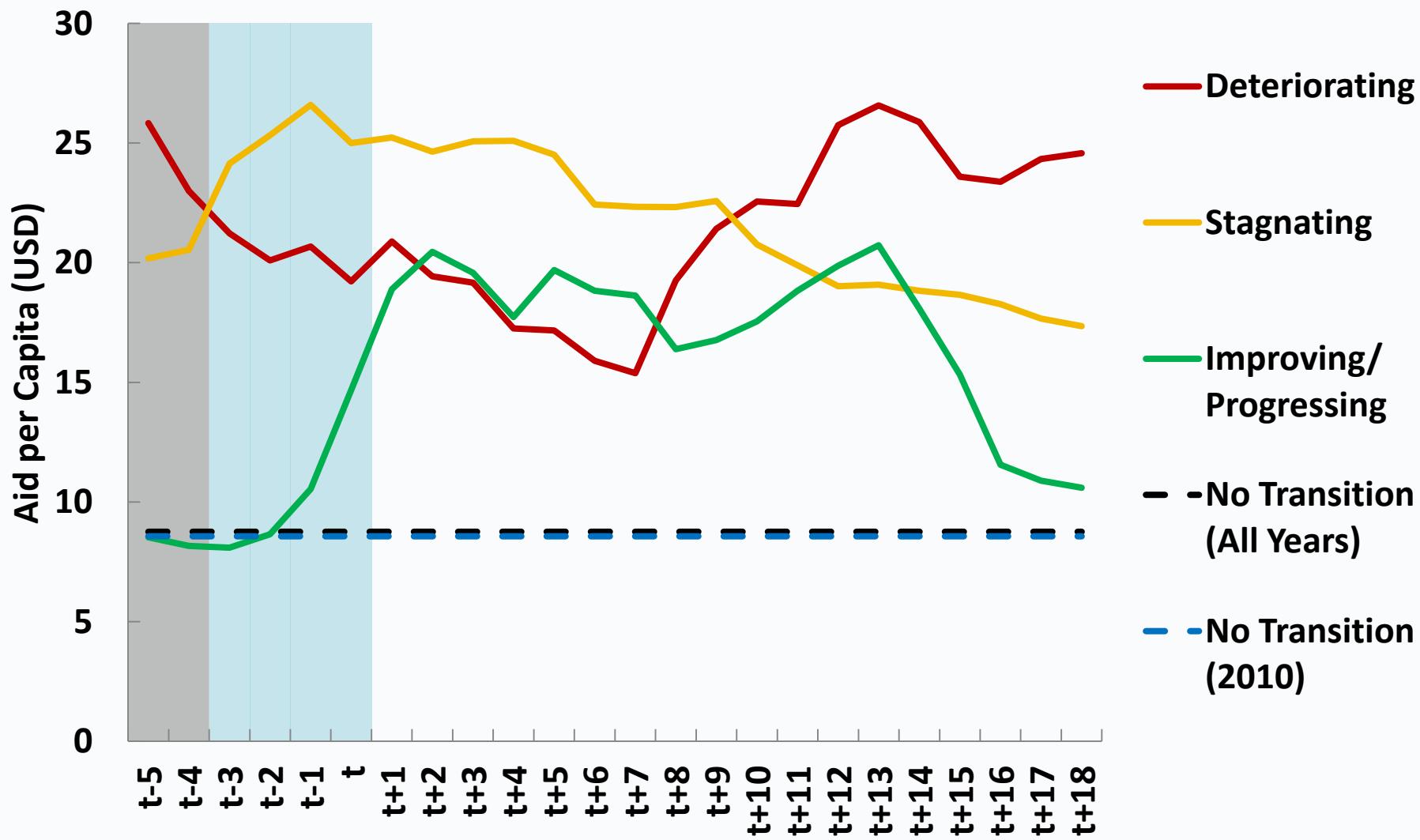


Note: WGI = Worldwide Governance Indicators; V&A: Voice and (democratic) Accountability; ODA = official development assistance. Iraq is excluded, representing a special case. Sources: D. Kaufmann, A. Kray and M. Mastruzzi, "The Worldwide Governance Indicators: Methodology and Analytical Issues," 2011,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

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



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

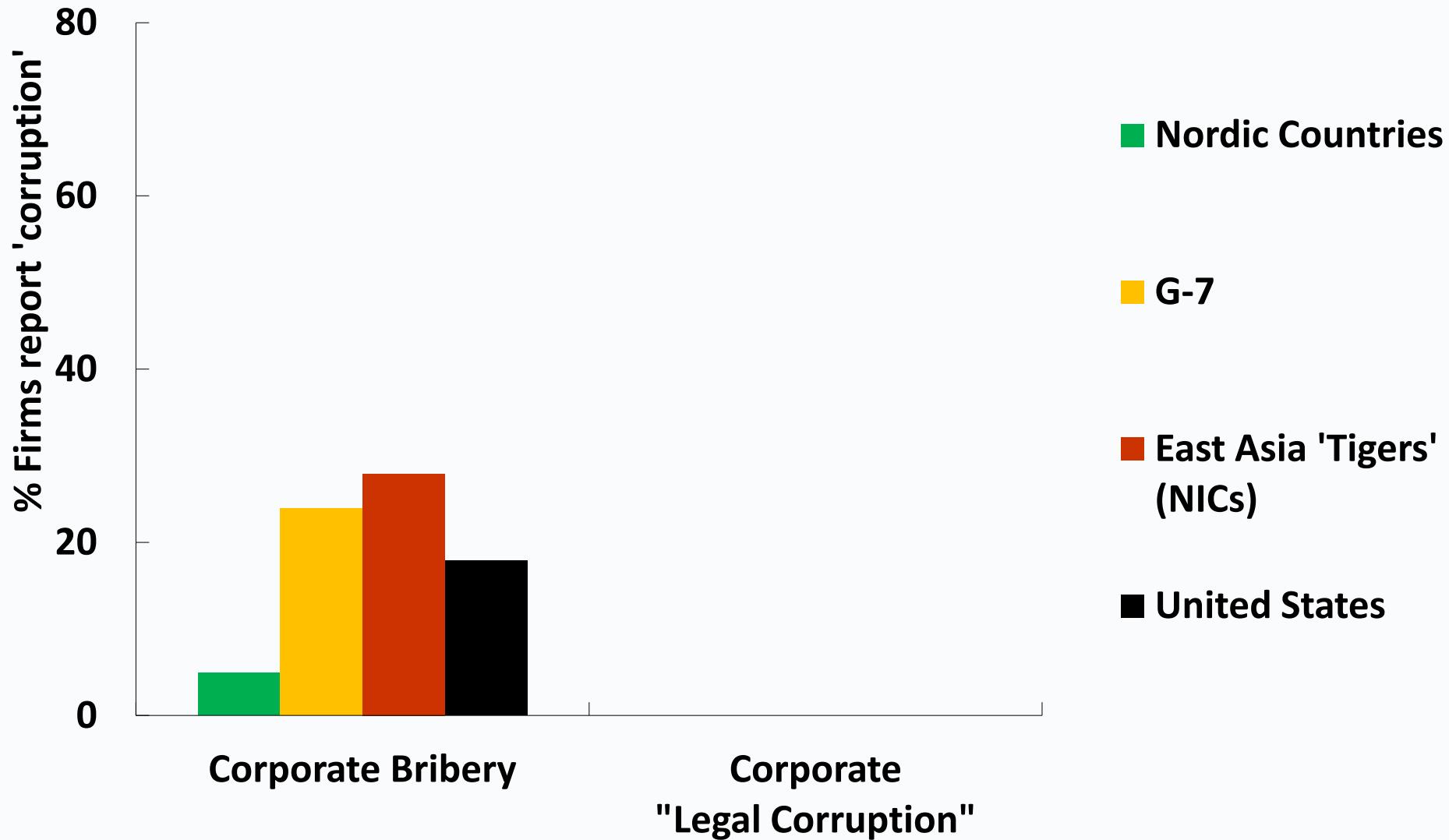


# **State Capture & Legal Corruption:**

## ***A Worldwide Challenge***

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

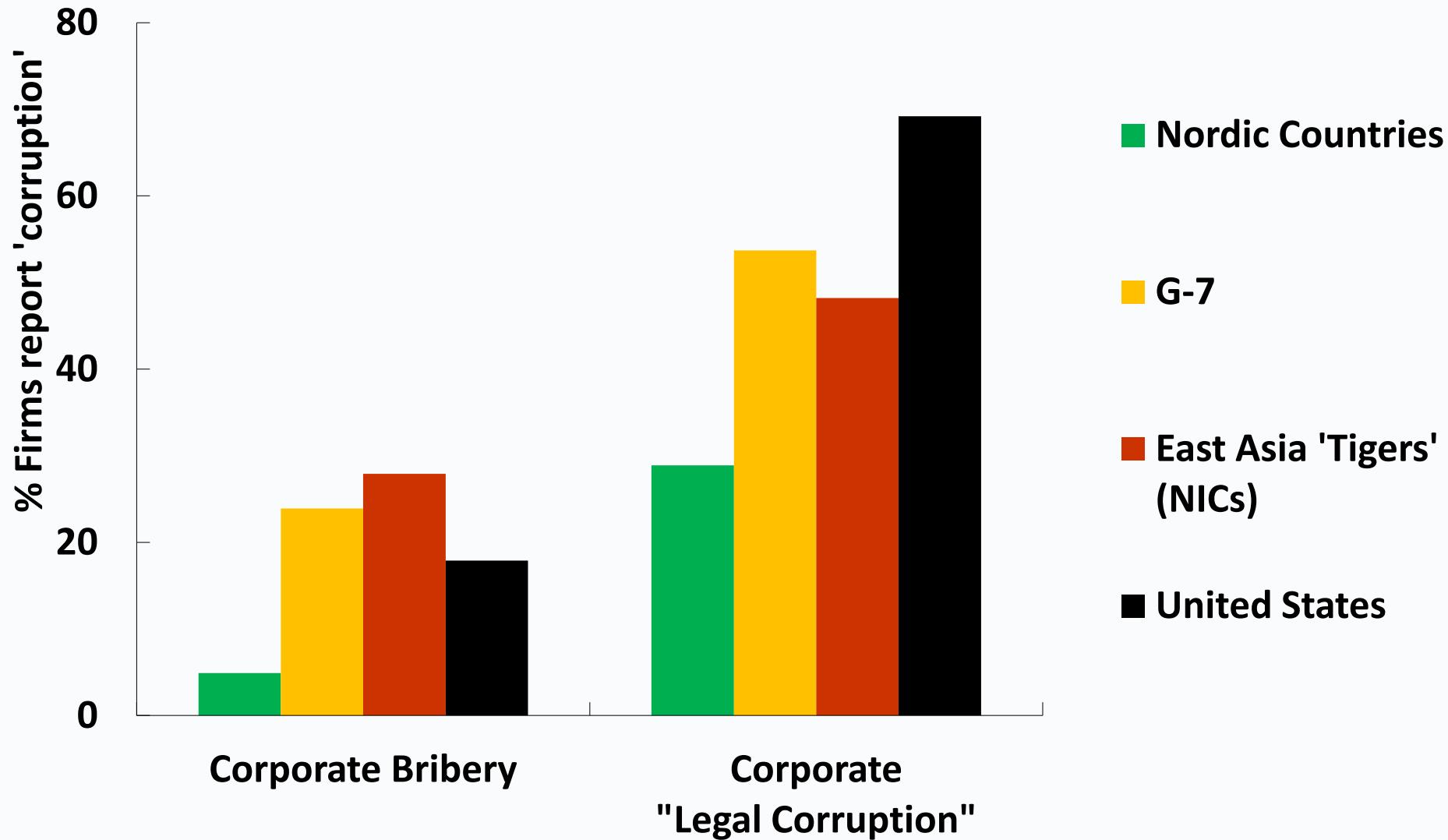
% Firms report 'corruption'



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**