

Rethinking Governance: Empirical Lessons Challenge Orthodoxy

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Executive Summary

Merely a short decade ago, governance issues did not figure prominently in the agenda of international financial and development institutions. In fact, the absence of governance reforms was arguably the most glaring omission of the “Washington Consensus” of the past decade, on the 10 tenets of sound economic policy-making. The challenges of governance and corruption were often ignored altogether. It was frequently argued that even though there were ethical concerns, governance and corruption were not central to economic development, and thus outside the mandate of the international financial institutions (IFIs). Some analysts even argued that corruption could at times be beneficial to development—the “grease-of-the-wheels-of-commerce” argument. A turning point took place at the time of the IMR/World Bank Annual Meetings in 1996, when the President of the World Bank placed the corruption issue center stage as a worldwide challenge for development. This was followed by support from the IMF and other such institutions, complementing the work of Transparency International.

Since those meetings, supporting local initiatives in a number of countries, many IFIs and bilateral donor agencies have significantly scaled up their support of anticorruption and public-sector reform programs. There have been a number of successful initiatives in selected countries, and in particular institutions, and also good showcases at the subnational level (some cities and towns, thanks to some reformist majors). Some of these initiatives have been supported by the World Bank and other development agencies. Further, we need to take into consideration that these efforts have taken place against the backdrop of a relatively undeveloped state of the art in the complex and multidisciplinary field of governance and anticorruption—especially compared with well-established areas such as public finance, international trade, and financial sector reforms. It is thus timely to try to distill some lessons from experience and recent research, and also—where warranted—to challenge received wisdom. The increasing availability of data on permits us to address thorny governance issues from an empirical perspective and leads us to question some entrenched orthodoxies.

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Summarizing new research and data, in this draft paper (‘Rethinking Governance’) we present an analysis of evidence from various sources, and in with some particular focus on a recent survey of firms’ executives, and complemented with the worldwide aggregate governance indicators dataset that we have constructed as part of a long term research project. In taking this empirical route, and distilling the evidence, we implicitly question received wisdom, such as: (1) corruption and misgovernance are virtually synonymous, and that addressing them requires a similar approach across countries; (2) it is virtually impossible to define and measure key concepts in this field, and thus a “softer” qualitative approach is needed; (3) to attain concrete progress, the focus has to be on traditional public sector management and legal measures; (4) steady progress has been recently attained in governance worldwide; (5) administrative bribery within the public sector bureaucracy in emerging economies ought to be the main focus in corruption control, and, (6) the shaping of the investment climate is fully in the hands of public sector officials.

We challenge these views summarized above, contending that they contain myths or that they miss key elements within a broader framework. Instead, it is warranted to put forth an alternative approach. This needs to be informed by a rigorous review of the evidence. This is now possible, thanks to the development of a new set of governance indicators. What does the evidence point to? First, we find significant differences across regions in terms of governance performance, as well as variation across the different components of governance. We also find significant variance across countries within regions. Even within OECD countries there are some mediocre performers, while within the emerging regions there are countries such as Chile, Botswana, Costa Rica and Slovenia that exhibit better governance in some dimensions than some rich countries. Related, our research challenges the mistaken view that governance is a ‘luxury’ good that only rich countries can afford, often associated with the apologists for poor governance, who argue that once countries will become wealthy good governance will prevail. To the contrary, we find that there is a positive direction of causality only in the direction from improved governance to higher standards of living, and not vice versa. This essentially means that there is no automatic virtuous circle whereby higher incomes due to improved governance (or other factors) will result in further improvements in governance. Instead, governance requires difficult and continuous action through political leadership and will.

But then, is governance improving? We find that on average, there has been scant if any progress in good governance worldwide, in controlling corruption, and in improved institutional quality. This contrasts with the gains attained worldwide on macro-economic stabilization, technology absorption, and quality of infrastructure, for instance. Why such lack of progress on average? There is of course much variance across countries, which can be related to leadership and political will. Yet there is also a case for revisiting the conventional approaches of the recent past in this arena. Indeed, the evidence is suggestive on the need to transcend the narrow public sector management approaches within the executive championed by many public sector specialists from the north. Among other pitfalls, this approach has ignored the capacity and political constraints faced by many emerging countries, and it has also failed to confront the stark reality of how the private sector significantly influences public governance in many settings

(including, as we have witnessed in the wake of scandals, in some OECD countries as well). This corporate-public governance nexus challenges traditional notions of the functioning of politicians and parties, of the public sector (and its decision-making) itself, as well as the orthodox views on the determinants of the investment climate in a country. They, in turn, argue for revisiting conventional approaches to promote institutional reform.

In particular, from this reality, orthodox institutional reform measures that ought to be specifically questioned include common (and often highly touted and costly) initiatives such as anti-corruption 'campaigns', the creation of new public institutions to improve governance or address corruption (such as another 'Anti-Corruption Commission' or 'Government's Ethics Office'), or the passage of yet another set of new laws (virtually all countries have decent anti-corruption laws in the books). Similarly, focusing narrowly on internal oversight rules within the executive, or civil service pay, has not been conducive to overall progress in good governance. In fact, much of the traditional public sector management approach as well as the western template-driven legal approaches, may have been over-rated for emerging markets.

But is there an alternative approach? Instead, in looking ahead, much further focus on external accountability approaches is required, where emphasis would be placed on transparency, accountability and oversight emanating from institutions outside of the public sector. Specifically, we argue for tilting the pendulum away from traditional public sector management approaches towards external accountability mechanisms which emphasize the power of: i) transparency mechanisms (including many innovations related to e-governance); ii) institutionalizing the use of empirically-based monitoring tools (including [worldwide governance indicators](#) and in-country [diagnostic tools](#) for action programs); iii) participatory 'voice' and collective action approaches, where consensus-building takes place with the involvement of the executive, legislative, judiciary, civil society, and the private sector), and, iv) incentive-driven reforms, recognizing that institutions and individuals ultimately respond to the appropriate set of incentives (instead of over-reliance on ethical guidelines or exhortations, plethora of internal organizational manuals and rules, legalistic measures by fiat, etc.).

If these 'voice'-driven and transparency mechanisms, backstopped by the 'power of data', are to indeed play a much larger role, then the corporate-public sector nexus can be addressed more effectively, and progress can be expected to take place in two important dimensions. First, in providing systems conducive to more effective and sustained (through focus on incentives, transparency and prevention) checks and balances on the public sector, and, second, in ameliorating the extent of capture of state institutions and policies by vested interests of the elite (and also including the leveling the 'influence'-playing field, which in so many settings has been monopolized by the powerful few). Consequently, the deeper probing into complex political factors, which do vary significantly from one setting to the other, and whose manifestations may include particular forms of state capture, unequal distribution of influence, and distortive systems of political finance, ought to play a much more prominent role in the formulation of realistic programs.

The work in the next phase needs to be anchored on the specific priorities identified with rigor within each country, with local stakeholders having the lead. In-depth country-specific governance diagnostics, in partnerships with local think tanks, survey and monitoring institutions, and experts within the country, comprises one important set of rigorous tools. They involve surveying users of public services, enterprises, and public officials, so to provide a detailed governance mapping of the key institutions, causes and consequences within a country, and they permits probing deeper into the private-public sector governance links, to draw informed and realistic programs.

Collective responsibility does not just apply to a commitment for concerted action within a country: the role of the international community is also pivotal, involving the responsibility of the IFIs, the G-8 and bilateral donor agencies, and the mighty Multinationals – in working with emerging countries promoting good governance. Which governance path the international community and emerging countries embark on in the coming years may prove critical for whether there will be an appropriate climate for renewed investment and private-sector growth in emerging markets, for poverty alleviation and for progress on the UN's Millennium Development Goals. Finally, at least as paramount is to focus on the dozens of countries that a dispassionate review of the data indicates that currently they are in governance crisis – and among them some failed states. The concern has ceased to be merely one of an economic nature, or one of ethics, or of altruism: a failure to address widespread misgovernance within a broad developmental framework is likely to further increase the likelihood of cross-national security threats in the future. The stakes are higher nowadays; the costs of tolerating misgovernance have increased.

Access to full paper and data: http://www.worldbank.org/wbi/governance/pubs/rethink_gov.html

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