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## GOVERNANCE RATINGS AS USEFUL TOOLS TO MEASURE DEMOCRATIC PERFORMANCE IN CENTRAL AND EASTERN EUROPE?

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### Abstract

The paper discusses the utility of existing qualitative governance ratings for comparing the performance of democracies in Central and Eastern Europe. Four different indicators are compared: These are the “Governance Indicators” developed by the World Bank Institute, the “Nations in Transit” study by Freedom House, the “Progress in Transition” rating by the European Bank for Reconstruction and Development and a newly created rating of governance performance, the “Bertelsmann Transformation Index”.

First, we argue that governance ratings can contribute to the study of democracy because they can enable us to explore the causal links between practices of policy-making on the one hand policy outcomes and input variables on the other. Then we compare how the four ratings conceptualize and measure governance. Finally, the rating results are compared for the region as a whole (27 countries) and for a subset of six countries, thus facilitating statistical validation as well as exemplary in-depth discussion of assessments. The main finding is that high aggregate correlations and a high share of equally rated countries indicate a high degree of validity, but also an insufficient level of specificity. That is, the ratings are not able to sufficiently identify specific features of governance which seems largely due to the lack of a well-established governance concept.



## Introduction

The simultaneity of transitions from state socialist systems of political rule and the similarity of the aims of political and economic reform have rendered Central and Eastern Europe a region uniquely suited to cross-national comparative evaluation. The monitoring of EU accession preparations and criteria by the EU Commission has so far been the most comprehensive and politically important evaluation in the region. The annual progress reports of the Commission have to be seen as part of a wider trend associated with processes of transnational integration that rely on cross-national comparisons of policy performance.

Such comparisons and their numerical representations, governance indicators, are increasingly used by international organizations and agencies to support lesson drawing and the transfer of best practices across national settings.<sup>1</sup> Indicators are expected to disclose practices of bad governance and to provide incentives for negatively rated states to improve their performance. For donors of development aid and the international public, governance indicators promise to increase the transparency of development processes and to improve the international commitment to development aims, as in the case of the UN's Millennium Development Goals. Moreover, indicator-based country evaluations inform and orient the allocation of development aid, for example when the US Government links access to its Millennium Challenge Account to good performance with respect to "governing justly, investing in people and promoting economic freedom".<sup>2</sup> Reflecting these trends and corresponding expectations from policy-makers and practitioners, scholars have begun to develop systematic evaluations of the policy performance of governments (cf. e.g. Knack, Kugler and Manning 2002; Lijphart 1999; Roller 2002; Schmidt 2002).

Such assessments rely on quantitative or qualitative data, surveys or polls and they are frequently expressed in numerical ratings, allowing for positioning or ranking of countries in the respective monitoring dimensions. Some ratings assess the quality of democracy or human development, others focus on particular effects of governance such as the perception of corruption or the economic competitiveness. Some indicators seek to monitor input or process aspects of the political system (e.g. accountability, citizen participation), others relate to the quality of public administration and management or to more specific policy outcomes. Thus there is a variety of concepts and measuring techniques that are covered by the summary terms "governance indicators" and "governance ratings" in this paper.

The paper will evaluate the utility of existing governance ratings for the study of democracies in Central and Eastern Europe (CEEC) by comparing four different studies that have been developed to measure the quality of governance and policy-making. Among the existing ratings, we have selected four studies that assess

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<sup>1</sup> For a recent overview, see (UNDP 2004).

<sup>2</sup> <http://www.mca.gov/>, accessed 5 March 2005.

governance in relatively broad terms and have become well-known references of developments in the region:

(1) “Nations in Transit”: This expert poll is published annually by the US-based NGO Freedom House (FH) and rates progress and setbacks in political reforms in 27 East European countries (Schnitzer and Motyl 2004);

(2) “Governance Indicators”: This dataset is compiled by experts from the World Bank Institute (WBI) who synthesize 25 separate data sources of 18 different organizations (Kaufmann, Kraay, and Mastruzzi 2003). The Governance Indicators measure the quality of governance in 199 countries, based upon a two-year period of observation.

(3) “Progress in Transition”: In its annual “Transition Report”, the European Bank for Reconstruction and Development (EBRD) rates progress in transition to a market economy for 27 countries of Eastern Europe and the former Soviet Union (European Bank for Reconstruction and Development 2004).

(4) “Bertelsmann Transformation Index”: The Germany-based Bertelsmann Foundation (BF) publishes the results of a bi-annual expert poll that measures the progress made by 116 developing and transition countries on the way to democracy and market economy (Bertelsmann Foundation 2004).

All four studies use some quantitative data but qualitative assessments constitute the main basis of the numerical ratings and their aggregation to indices. In this respect, they differ from rankings based exclusively on quantified data, such as the UNDP’s Human Development Index. We argue that these ratings provide a valid assessment of governance quality in general and reflect major political changes, but that they should be further differentiated in order to distinguish patterns of governance.

First, we discuss the conceptual role of governance ratings in relation to assessments of democracy and democratic performance. Second, the governance concepts underlying these studies will be analyzed and compared. In the third section of the paper, the approaches used to measure governance are studied. We then seek to validate the results of the ratings (Adcock 2001; Gaber 2000). For this purpose, the fourth section asks whether the governance ratings are empirically associated with each other and with third indicators. Fifth, we perform a case-oriented content validation by investigating whether and how the ratings reflect cross-temporal variation in the configuration of executives and policy changes for a small subset of CEEC: Bulgaria, the Czech Republic, Hungary, Poland, Serbia and Montenegro and Slovakia.

## **1. Democracy, democratic performance and governance**

If governance ratings are to contribute in a meaningful way to the study of democracy and democratic performance, we need to clarify the relationship between governance and democracy. A starting point may be the observation that notions of good governance have been used in the development debate to replace the normatively demanding and potentially discriminatory concept of democracy. The following definition of good governance, for example, does not presuppose the existence of democratic elections: “Good governance is epitomized by predictable, open and enlightened policy-making; a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; a strong civil society participating in public affairs; and all behaving under the rule of law.” (World Bank 1994)

All the elements of this definition may, theoretically, exist in a political system without free and fair elections that would usually be characterized as autocratic. However, the quoted definition also implies that a democratic environment is likely to support good governance as even the minimalist version of an electoral democracy provides institutional arrangements that facilitate open policy-making, executive accountability, participation and the rule of law.

Due to its emphasis on functions and processes, a governance concept can guide assessments and comparisons of political systems irrespective of whether they are classified as consolidated democracies, defective democracies or autocracies. The governance perspective focuses on the quality of policy-making and evaluates democratic rules and procedures in view of their impact on this quality. Such a perspective shares two advantages of graded approaches to the distinction between democracy and nondemocracy (Collier and Adcock 1999). First, autocracies need not be excluded as something qualitatively different and, second, fine-grained differences between regimes close to the dividing line between democracy and autocracy can be captured better by the concept.

A governance concept also allows to develop indicators that assess both the input and output dimensions of a given political system. In contrast, the concepts of electoral or liberal democracy are usually being disaggregated into attributes such as participation, contestation or accountability that are primarily measured by input-related indicators. Among these indicators are the conduct of free and fair elections, the existence of a multi-party system capable of interest representation or the presence of democratic checks on executive power. These democracy concepts tend to neglect the performance of a political system and thus do not provide information that may be crucial for the endurance of a democracy.

Most comparative studies concerned with the quality of democracies have assessed the performance of these systems by studying policy outcomes (Berg-Schlosser 2004; Foweraker and Landman 2002; Schmidt 2002). The most frequently used outcome indicators include socioeconomic indicators such as growth

rates of Gross Domestic Product, per capita levels of Gross National Income, the Human Development Index or survey data on citizens' satisfaction with democracy (cf. e.g. Roller 2002 and section 5 below). Arend Lijphart has, for example, used the size of welfare redistribution, spending on environmental protection, incarceration rates and development aid as indicators to compare the performance of democracies (1999). Outcome and also output indicators provide useful information on democratic performance, but most of these indicators report aggregate results of policy-making that may also depend on the general economic, social or international situation of a country. Such indicators can not be easily disaggregated and attributed to a specific pattern or style of governance.

Indicators that are more directly related to the practice of policy-making seem to be able to clarify the causal links between this practice and policy outcomes on the one hand, the input dimension of the political system on the other hand. The meaning and scope of the term governance have, however, been subject to an ongoing debate among social scientists and practitioners who have produced numerous different conceptualizations (Hyden, Court and Mease 2003; Kersbergen and van Waarden 2004; Pierre 2000). Up to now there has not been a convincing theoretical integration of these proposals that could constitute a 'root concept' similar to Robert Dahl's polyarchy concept in the democracy literature (cf. e.g. Croissant and Thiery 2000; Lauth 2004). Thus, it is not possible to use such a concept as the yardstick against which to evaluate the conceptualization of governance in existing indices. The above-mentioned definition of good governance, for example, does not constitute a common platform among various international development agencies.

## **2. Conceptualization**

Therefore the following analysis is confined to asking how the concepts underlying the four governance ratings are specified and whether their internal organization appears logical and plausible (Munck and Verkuilen 2002). Of the four ratings, only the World Bank Institute and the Bertelsmann Foundation seek to explain their key concepts in more detail.

The authors of the WBI Governance Indicators define governance broadly as "the traditions and institutions by which authority in a country is exercised. This includes (1) the process by which governments are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them." (Kaufmann, Kraay, and Mastruzzi 2003, 2). These three functions are operationalized in six dimensions with the respective scores: (1) voice and accountability; political stability and absence of violence; (2) government effectiveness; regulatory quality; (3) rule of law; control of corruption.

Among these dimensions, “Government Effectiveness” appears to be most similar to the other three concepts and indicators of governance studied here. This dimension combines responses “on the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government’s commitment to policies.” (Kaufmann, Kraay, and Mastruzzi 2003, 3) This dimension is constructed from responses provided by 13 separate surveys and polls (see the annex for a detailed list).

The BF index is based on a concept of governance that is described as actor-centric and oriented towards the aims of democracy and market economy. “The concept of management used defines transformation management as the performance, capacity and accountability of actual political actors. (...) actors demonstrate good transformation management when they orient their policies toward the goal of a market-based democracy, use resources effectively, exhibit good governance, build a broad consensus about reform in society and cooperate with international partners.” (Bertelsmann Foundation 2004) This governance concept is part of a larger assessment exercise labeled Bertelsmann Transformation Index (BTI) where the state of development of a “constitutional democracy” and “socially responsible market economy” are measured separately. The total number of BTI criteria is 23.

To operationalize the BF concept of Transformation Management, five criteria are distinguished and rated individually: reliable pursuit of goals; effective use of resources; governance capability; consensus-building; international cooperation. “The criterion on the reliable pursuit of goals asks whether, and to what extent, political actors pursue strategic and consistent goals for reform. (...) The effective use of resources as a criterion asks, inter alia, whether a government can successfully curb corruption and provide sufficient public services. The criteria of governance capacity and consensus-building point to different aspects of successful management. Whereas a persistence in pursuing goals linked with accountability and the ability to learn is vital, so too is the ability to prevent existing conflicts from expanding into deep divisions. The criterion of international collaboration proceeds from the assumption that successful transformation management entails productive and reliable cooperation with external supporters and actors.” (see annex for a detailed list of criteria items)

The EBRD and FH do not offer explicit definitions of their governance concepts. The EBRD report represents a distinct governance rating insofar as it has been designed to measure the results and the quality of economic policy-making in CEEC. EBRD staff assesses the extent to which transition countries have reached the standards of industrialized market economies in nine areas covering four main elements of a market economy: markets and trade (3 areas), enterprises (3 areas), infrastructure (1 area) and financial institutions (2 areas) (see annex). In contrast with the other three studies, the EBRD ratings are restricted to the crucial area of economic reform and focus on specific policy outputs.

In the FH study, “Governance” constitutes one of six categories that are aggregated into a “Democracy Score”. The other five categories are electoral process; civil society; independent media; constitutional, legislative and judicial framework; corruption. Each category is further detailed in checklists of 6-10 questions (see annex for the governance category). Under the governance category, the study “considers the stability of the governmental system, as well as legislative and executive transparency; the ability of legislative bodies to fulfill their law-making and investigative responsibilities; decentralization of power; the responsibilities, election, and management of local governmental bodies; civil service reform; and the freedom of the civil service from excessive political interference and corruption.” (Schnetzer and Motyl 2004)

Of the four governance ratings, the EBRD and WBI ratings best reflect a consistent conceptual logic that avoids an overlap, omission or conflation of components (Munck and Verkuilen 2002, 7-14). The FH rating merges several different components – government stability, parliamentary control, decentralization and civil service reform – into one category, thereby raising the problem of multidimensionality. The BF rating contains components – reliable pursuit of goals, governance capacity – that appear to measure very similar aspects, thus creating redundancy.

Among the four governance ratings compared here, the focus of the EBRD rating differs most clearly from the other studies. Both the FH and the BF ratings evaluate governance/management as part of a larger assessment of democracy (and market economy) in CEEC. The FH rating includes aspects of the “input” dimension of the political system such as the election of local self-government and the accountability of executives to parliament. WBI and BF focus more on policy-making and the government machinery. Their governance concepts highlight practices and activities, while the (implicit) FH concept is more concerned with rules and institutions of governance. Whereas the BF management rating is centered on the political leadership, FH emphasizes that its ratings are not intended to assess specific governments.

### **3. Measurement and aggregation**

This section compares how the four governance ratings measure the components of their concepts and aggregate them into scores and indices. A first difference between the governance indicators is that FH and BF complement their numerical ratings with analytic reports that give verbal assessments of the rating items for each country. This improves the validity of the ratings since a reader can seek and find justifications for the scores in the evidence reported (cf. section 5 below for such a validation strategy). The EBRD notes the reasons for all changes in country ratings in a list attached to the transition scores and provides two pages of information on the history and current agenda of economic reforms in the countries. The WBI provides only the numerical ratings.



A second difference between the studies is that the WBI creates its Governance Indicators by selecting and synthesizing data from other studies, while the three other studies are based on data generated by the raters themselves. The WBI team selects items from other polls and surveys that are associated with the respective WBI governance dimensions. In the case of Government Effectiveness, the total number of sources is 13, while the number of sources for the CEEC varies between four and 11, depending on the country. All scores are then standardized and weighted according to their representativity and precision. This procedure allows to estimate governance as “the mean of the distribution of unobserved governance conditional on the [...] observed data points” for a country (Kaufmann, Kraay, and Mastruzzi 2003, 9). Its sophisticated mathematical model allows the WBI to give a margin of error for each estimate, thereby improving the objectivity of its scores.

A third difference concerns the base periods used to determine the ratings and assessments. FH and EBRD take the preceding year as the basis, which corresponds to the calendarial year (FH) or to unspecified mid-year points of time (EBRD). WBI bases its ratings on the most recent available data sources which implies that its base period can not be precisely defined. BF claims to take into account a five year period for its management assessment, reaching from 1998 to 2003 in the case of the first index published.

Fourth, scales are constructed on an ordinal level but are treated as interval level measurements in all four studies. The EBRD scale ranges from 1 (little or no change from a centrally planned economy) to 4+ (standards equal to an industrialized market economy) and calculates plus and minus signs by adding and, respectively, subtracting 0.33 points. The FH ratings are based on a scale of 1 (highest level of democratic progress) to 7 (lowest level) that is differentiated into steps of 0.25 points. The BF Management Index uses a scale ranging from 1 (criterion not met) to 10 (criterion fully met). Both FH and BF aggregate their scores by forming the mean values, thereby assuming an interval level of measurement. WBI estimates range between  $-2.5$  (worst governance) and  $+2.5$  (best governance) on a continuous scale.

Fifth, none of the four studies provide sufficiently detailed accounts about the rating process that would allow others to replicate and check the results (Munck and Verkuilen 2002, 18-19). According to the brief methodological notes given by FH, its ratings are developed in four steps. First, the authors of the country reports suggest scores for all six categories. Second, a board of academic advisors reviews the ratings, compares them across countries and establishes a consensus. Third, report authors may criticize a score if the advisors increased the author’s proposal by more than 0.50 points. Fourth, FH staff approves the final ratings of the categories and calculates the summary “Democracy Scores”.

The BF rating procedure is very similar, but entails an additional review loop: First, country experts analyze and rate the extent to which a country fulfills the criteria. Second, each country report is reviewed by another country expert who suggests a second rating. Third, regional experts review the reports and establish a

rating on the basis of the two proposals, thereby considering differences among countries of the same world region. Fourth, a board of academic advisors reviews, recalibrates and decides the ratings by comparing across regions.

The EBRD provides little information on its rating process, stating only that the ratings reflect the judgment of the “EBRD’s Office of the Chief Economist” (EBRD 2004, 199). While the WBI gives a detailed explanation of the mathematical model used to calculate scores, it does not provide disaggregated data from the sources used for calculation.

Sixth, BF differs from the other governance ratings in that it aggregates its management ratings by weighting the five individual ratings with a “level of difficulty”. This factor is envisaged to capture the difficulty of structural conditions (poverty, legacies of civil war, absence of civil society traditions, weak state capacity, weak human capital) governing elites are faced with in a transformation process. The weighting factor appears plausible on the basis of the BF governance concept that attempts to measure the performance, responsibility and capacity of the political leadership – qualities that are influenced by structural conditions. In effect, the factor confers a bonus upon good management under difficult circumstances.

A seventh difference concerns the construction and presentation of indicators. The WBI Governance Indicators and the Bertelsmann Transformation Index rank countries, based on their ratings. In contrast, FH’s “Nation in Transit” and the EBRD indicators on progress in transition rate countries but are not summarized in ranking tables. The FH, EBRD and WBI ratings have undergone several changes since their first publication which renders their comparability over time problematic. For example, until 2004 FH aggregated its ratings into two distinct scores: democratization and rule of law.

By aggregating their scores for categories and criteria into one and, respectively, three indices, FH and BF incur the associated loss of information in order to communicate a more intelligible result. Only the BF publication attempts to justify the rule applied for aggregation, i.e. calculating the unweighted mean of the component scores (Bertelsmann Foundation 2004; cf. for a critique of aggregation methods, cf. Freudenberg 2003). The EBRD and WBI refrain from further integration and confine themselves to releasing their nine and six individual, semi-aggregated scores. The main features of the four governance ratings are compared in table 1 below.

Table 1: Overview of governance ratings

	<b>FH: Nations in Transit</b>	<b>WBI: Governance Indicators</b>	<b>EBRD: Progress in Transition</b>	<b>Bertelsmann Transformation Index</b>
<b>Institution</b>	NGO	international agency	international agency	NGO
<b>Mode of comparison</b>	rating	rating & ranking	rating	rating & ranking
<b>Country coverage</b>	27	199	27	116
<b>Base period of assessment</b>	1 year	undetermined	1 year	5 years
<b>Latest available period</b>	2003	2002	2003/04	1998-2003
<b>Frequency</b>	1995- annual – 7x	1996- biannual – 4x	1994- annual – 10x	2004- biannual – 1x
<b>Concepts constructed/measured</b>	progress in democratization and rule of law	quality of governance	progress in economic reform	status of democracy and market economy, management performance, trend
<b>Specific governance concept</b>	governance	government effectiveness	economic reforms to transform a centrally planned economy into an industrialized market economy	management performance of leading political actors in transformation and development processes
<b>Governance concept criteria</b>	stability of the governmental system; authority of legislative bodies; decentralization of power; responsibilities, election, and management of local governmental bodies; legislative and executive transparency	efficiency, proficiency of civil service, administrative and management capacity, government stability, policy consistency, infrastructure provision (total items: 40)	large- and small-scale privatisation, enterprise restructuring, price liberalisation, trade & foreign exchange system, competition policy, banking reform & interest rate liberalisation, securities markets & and non-bank financial institutions, infrastructure reform	commitment to democracy and market economy, effective use of resources, reform management, consensus-building, international cooperation
<b>Concept dimensions</b>	1	6	4	4
<b>Categories of measurement</b>	6	6	9	23
<b>Indicators scored</b>	6	250	9	23
<b>Items asked</b>	49	250	9	62
<b>Measurement level</b>	ordinal	ordinal /nominal	ordinal	ordinal
<b>Scale differentiation</b>	1-7 (24 steps)	-2.5 - +2.5 (continuous); initial scales not specified	1-4.33 (11 steps)	1-10 (10 steps)
<b>Data basis</b>	qualitative	qualitative	qualitative	qualitative
<b>Data generation</b>	expert poll	secondary analysis of existing data sources	expert poll	expert poll
<b>Index construction</b>	unweighted means of categories/indicators	means of categories, weighted according to representativity and precision	no aggregation	means of categories, weighted by level of difficulty

#### 4. Convergent and nomological validation

This section asks whether the scores produced by the different ratings are empirically associated with each other (convergent validation) and with other indicators of policy outcomes (nomological validation). To investigate these questions, a first step is to compute the bivariate correlations among the ratings for all 27 CEEC covered by the studies. Such a validity test is confronted with the problem that the base periods of assessment, while overlapping, are not identical. In order to simplify the comparison, we assume that those editions of the governance ratings that were published in the same year refer to approximately the same period.

Table 2 below is based on the latest editions of the ratings, mainly referring to the year 2003. Tables 2 and 3 contain the correlation coefficients from the governance ratings published in 2003 and 2001. For the calculations, the point estimate of the WBI ratings and the unweighted mean of the nine different EBRD scores are used. To reflect the longer period covered by the BTI Management Index, the 2004 edition of this index is included in tables 3-5 that refer to the base years 2002-1998. In table 6, the correlations among the earliest available WBI governance indicators and the FH and EBRD ratings published in 1997 are shown.

The tables reveal very high and highly significant correlations among the studies, despite the different underlying governance concepts discussed in the second section of this paper. The correlations do not indicate that the FH governance ratings, including aspects of democratic accountability, would differ from the WBI and BTI ratings which emphasize the efficiency and management dimension of governance. Rather, the results support the assumption that all studies measure aspects of the same empirical phenomenon. Even the EBRD ratings, designed to assess economic policy making and economic reforms, are strongly correlated with the other ratings. Their high correlation with the other ratings also indicates the close relationship of governance and economic reform performance.

*Table 2-6 Pearson correlations among governance indicators, subsequent periods of measurement, 27 Central and East European countries*

2004 editions	FH, Nations in Transit, Governance	BTI, Management Index
FH, Nations in Transit, Governance		-.922(**)
EBRD, Transition Progress	-.853(**)	.846(**)

\*\* The correlation is significant on the level of 0.01 (2-tailed).

2003 editions	WBI, Government Effectiveness	FH, Nations in Transit, Governance	BTI, Management Index
FH, Nations in Transit, Governance	-.962(**)		
BTI, Management Index	.873(**)	-.917(**)	
EBRD, Transition Progress	.913(**)	-.872(**)	.841(**)

\*\* The correlation is significant on the level of 0.01 (2-tailed).

<b>2001 editions</b>	<b>WBI, Government Effectiveness</b>	<b>FH, Nations in Transit, Governance</b>	<b>BTI, Management Index</b>
<b>FH, Nations in Transit, Governance</b>	-.867(**)		
<b>BTI, Management Index</b>	.698(**)	-.850(**)	
<b>EBRD, Transition Progress</b>	.873(**)	-.909(**)	.762(**)

\*\* The correlation is significant on the level of 0.01 (2-tailed).

<b>1999 editions</b>	<b>WBI, Government Effectiveness</b>	<b>FH, Nations in Transit, Governance</b>	<b>BTI, Management Index</b>
<b>FH, Nations in Transit, Governance</b>	-.939(**)		
<b>BTI, Management Index</b>	.797(**)	-.821(**)	
<b>EBRD, Transition Progress</b>	.874(**)	-.903(**)	.694(**)

\*\* The correlation is significant on the level of 0.01 (2-tailed).

<b>1997 editions</b>	<b>WBI, Government Effectiveness</b>	<b>FH, Nations in Transit, Governance</b>
<b>FH, Nations in Transit, Governance</b>	-.921(**)	
<b>EBRD, Transition Progress</b>	.860(**)	-.889(**)

\*\* The correlation is significant on the level of 0.01 (2-tailed).

The negative correlations between the FH ratings and the other ratings are due to the fact that FH assigns lower scores to better performing countries, whereas the other studies associate better performance with higher scores. For the years 2001 and 1999, the BTI governance ratings are less similar to the other ratings, indicating that the validity of the BTI rating is lower for these years. Within the period measured by the BTI, the most recent year appears to have been most decisive for establishing the scores. The EBRD rating and the WBI rating appear to have become more similar in the course of the years, whereas no clear trend is visible for the FH rating and the other two ratings. The high correlations between the WBI and FH ratings are partly caused by the fact that FH ratings of Governance constitute one of the 4-11 data sources used to construct the WBI rating.

This dependency reinforces the general caution we have to apply in interpreting high correlations as an indication of validity, since it “may mean that all indices are reflecting the same bias (...) and leaves unresolved the critical issue of multidimensionality” (Munck and Verkuilen 2002, 29-30). Therefore we performed a principal component analysis of the ratings covering the four subsequent reference years for which comparable ratings exist (see table 7). All four sets of ratings could be reduced to a single component that explains between 87 and 94 per cent

of the total variance. This result provides further support for the unidimensionality of the governance concept underlying the four studies.

Table 8 shows the degree to which each of the three studies of which time series exist have changed their ratings over time. It measures the bivariate correlations of the ratings given in four periods between 1995 and 2003, each consisting of a reference year and the period two years earlier. As the table illustrates, there has been little change from one period to another. This may be taken as indicating a lower degree of change in governance performance compared to the early nineties (though this can be assumed only on the basis of intuitive evidence). The results may also be read as an indication of the time demands of governance reforms, whose results materialize only in a midterm perspective.

*Table 7: Component matrices, factor loadings*

<b>Editions</b>	<b>2004</b>	<b>2003</b>	<b>2001</b>	<b>1999</b>	<b>1997</b>
<b>FH, Nations in Transit, Governance</b>	-.967	-.977	-.946	-.978	-.978
<b>BTI, Management Index</b>	.965	.945	.781	.880	-
<b>EBRD, Transition Progress</b>	.939	.943	.905	.926	.966
<b>WBI, Government Effectiveness</b>	-	.976	.851	.965	.966

Method of extraction: principal component analysis, varimax rotation. Only one component was extracted

*Table 7: Bivariate correlations of governance indicators, subsequent periods of measurement*

	<b>WBI Government Effectiveness</b>	<b>FH Governance</b>	<b>EBRD Transition Progress</b>
<b>2003/2001</b>	.911**	.949**	.982**
<b>2001/1999</b>	.931**	.982**	.988**
<b>1999/1997</b>	.916**	.957**	.965**
<b>1997/1995</b>	-	-	.951**

WBI data refer to 2002, 2000, 1998 and 1996. \*\* The correlation is significant on the level of 0.01 (2-tailed).

In a second step, we ask how many and which countries are assessed equally by the studies. To compare the ratings, it is necessary to standardize the rating scales. For this purpose, each indicator is rescaled by subtracting the mean (across countries) and dividing by the standard deviation (across countries), so that each indicator has a mean of zero and a standard deviation of one. In addition, the FH ratings were inverted prior to this z-transformation in order to make them comparable with the other three ratings. The resulting table of comparable scores (table 8) is confined to the 2003 editions of the ratings but includes the BF Management Index.

Table 8: Standardized country ratings, 2003 editions

	WBI	BF	EBRD	FH	equal ratings	standard deviation
Albania	-0,3	0,1	-0,4	0,0		0,2
Armenia	-0,2	0,1	0,0	-0,3		0,1
Azerbaijan	-0,9	-0,9	-0,5	-0,9	3	0,2
Belarus	-1,0	-1,5	-1,8	-1,4		0,3
Bosnia and Herzegovina	-0,9	-0,5	-0,7	-0,6		0,1
Bulgaria	0,3	0,7	0,6	0,4		0,2
Croatia	0,7	0,8	0,7	0,4	2	0,2
Czech Republic	1,4	0,9	1,2	1,3		0,2
Estonia	1,5	1,5	1,2	1,3	2	0,3
Georgia	-0,7	-1,3	0,0	-0,7	2	1,2
Hungary	1,5	0,9	1,5	1,2	2	0,3
Kazakhstan	-0,7	-0,9	-0,1	-1,2		0,4
Kyrgyzstan	-0,7	-0,8	-0,2	-1,1		0,3
Latvia	1,3	0,6	0,9	1,3	2	0,3
Lithuania	1,2	1,3	0,9	1,2	2	0,2
Macedonia, FYR	-0,1	0,1	0,0	-0,1	2	0,1
Moldova	-0,5	-0,9	-0,4	-0,6		0,2
Poland	1,2	0,8	1,2	1,5	2	0,2
Romania	-0,1	0,4	0,2	0,4	2	0,7
Russian Federation	-0,2	0,2	0,0	-0,4		0,2
Serbia and Montenegro	-0,6	0,8	-0,8	0,0		0,6
Slovakia	1,0	1,2	0,9	1,3		0,2
Slovenia	1,5	1,0	0,7	1,3		0,3
Tajikistan	-1,3	-0,8	-1,1	-1,1	2	0,2
Turkmenistan	-1,6	-2,0	-2,7	-1,5		0,4
Ukraine	-0,6	0,1	-0,3	-0,4		0,3
Uzbekistan	-1,1	-1,7	-1,3	-1,2		0,2

Source: own calculations. Figures are rounded, single extreme scores are marked.

Of the 27 Central and East European countries, ten are rated (roughly) equally by two of the four studies, and one country (Azerbaijan) was rated equally by three of the four studies. The divergence between of the four ratings, indicated by the standard deviation, was highest in the cases of Georgia, Romania and Serbia and Montenegro. In Georgia, the EBRD rating is more positive than the other three ratings, two of which are equal (WBI and FH). For Romania, two ratings (BF and FH) are moderately positive, while the other two are negative. For Serbia and Montenegro, the BF score is the most positive, while the EBRD and WBI are the most negative.

This mixed picture does not indicate a systematic deviation of one rating, but when “extreme” (i.e. single highest or lowest) scores are counted, the BF and EBRD ratings turn out to be either the most positive or most negative ones in 17 (EBRD: 13) of 64 (i.e. 2x27) cases. The divergence of the BF rating can be explained by the impact of the structural difficulty factor that tends to increase management scores of countries with difficult conditions and decrease the scores for “easy” cases. (If the unweighted BF management scores are compared, the number of extreme ratings decreases to 12.) In the case of the EBRD rating, the observed divergence seems to confirm the conceptual divergence between the EBRD

focus on economic reform and the broader governance focus of the other three ratings.

The divergences should, however, not be overstated. In 56 per cent of the cases (15 countries) the standard deviation of the scores was less than 0.25 which confirms the high aggregate correlations among the ratings. In ten cases, WBI scores coincide with FH (5), EBRD (3) and BF (2), rendering WBI the most mainstream rating in the sample. The FH scores coincide with WBI (5), BF (2) and EBRD (1) in eight cases. The WBI's mainstream position seems to express its conceptual intention of integrating other ratings. Yet it should also be noted that the varying degrees of identical ratings do not correspond to the similarities in concept specification identified above, between the more policy- and management-oriented concepts of BTI and WBI on the one hand, the more input-oriented concept of FH on the other.

In a third step of nomological validation, we assume that the quality of governance is reflected in policy outcomes. A better governance rating can then be expected to be associated with better policy outcomes. We take the UNDP's Human Development Index (HDI) and the Gross National Income (GNI) per capita at purchasing power parities (PPP) as aggregate indicators of socioeconomic development (Berg-Schlusser 2004; Welzel 2000). In addition, we also consider the EBRD ratings of progress in economic transition as outcomes of governance.

*Table 9: Bivariate Correlations*

	<b>HDI 2002</b>	<b>GNI pc 2003 (PPP)</b>	<b>EBRD, Transition Progress</b>
<b>WBI, Government Effectiveness</b>	.436(*)	.477(*)	.913(**)
<b>FH, Nations in Transit, Governance</b>	-.445(*)	-.492(*)	-.872(**)
<b>BTI, Management Index</b>	.519(**)	.536(**)	.841(**)
<b>EBRD, Transition Progress</b>	.385	.409(*)	1

\*\* Significant on the level of 0.01 (2-tailed). \* Significant on the level of 0.05 (2-tailed). Pearson correlations for the governance ratings published in 2003, except for the BTI that was published in 2004.

Table 9 above shows that the BF Management Index is most strongly correlated with the two quantitative indicators, followed by the FH and WBI indicators. With respect to the results of the more complex economic reforms reflected in the EBRD ratings, the WBI indicator shows the highest correlation. In other words, the BF and WBI ratings would best predict HDI and GNI p.c. values and, respectively, progress in economic reform.



## 5. Case-based content validation

This section investigates whether the ratings reflect the changes of executives in selected countries. This validation strategy assumes that the concepts underlying the different ratings can be expected to capture such changes. To compare the ratings over time, diagrams are plotted from the governance ratings discussed in the previous sections. Since the Bertelsmann index has so far been published only once, the three other studies are used, including ratings that cover the period between 1995 and 2003. All points of time for which data exist are marked. Squares denote FH ratings, triangles represent EBRD ratings, and rhombuses stand for WBI ratings. The rating scales are not standardized in order to avoid distortions resulting from the change of means and standard deviations between years. Only the FH ratings are inverted so that higher scores represent improvements in governance. Since the rating scales thus continue to have different ranges, the degree of change is not directly comparable. Due to their wider range of 4.75 and more, the FH ratings show changes more visibly in the diagram, while the EBRD and WBI ratings (with minimum ranges of 2.2 and 1.9) swing less widely. But the tendencies and direction of change can be traced from the diagrams.

The following countries were selected for the comparison: Bulgaria, Czech Republic, Hungary, Poland, Serbia and Montenegro and Slovakia. They represent both advanced transition countries where only minor changes of executive configuration occurred in the period from 1995 and 2003 (Czech Republic, Hungary, Poland) and countries that experienced major political changes in that period (Bulgaria, Serbia and Montenegro, Slovakia). This allows to check the sensitivity of the ratings with respect to small-scale and large-scale changes in governance.

In most cases, the curves shown in the diagrams are roughly parallel. For *Bulgaria*, the FH ratings improve from 1997 until 2002, reflecting the initiative mainly taken by the government of Ivan Kostov to reform public administration. The FH country reports positively note the adoption of laws on the state administration, the civil service and the public access to information. The 2003 FH rating is slightly more negative, criticizing that governments failed “to meet the expectations of Bulgarian society, particularly in the economic arena.” (Karatnycky, Motyl, and Schnetzer 2003, 185) The EBRD ratings show a constant upward trend. The WBI ratings improve from 2000 onward in accordance with the EBRD ratings, but are surprisingly high for the first period of measurement and appear to be lowest for the period around 2000, not for 1996/97 when Bulgaria experienced a deep political and economic crisis. In 1996 the WBI estimated Bulgaria’s Government Effectiveness to be even higher than the effectiveness of Poland’s government.

In the case of *Serbia and Montenegro* or Yugoslavia, all three ratings show a clear upward trend between 2000 and 2003, depicting the reforms launched after the fall of Milosevic in October 2000. In the case of the FH and EBRD ratings, the increase is particularly steep between 2000 and 2001, but slows down from 2002

to 2003. The FH report explains this with the unresolved power struggle between the late Serbian prime minister Zoran Djindjic and the federal president Vojislav Kostunica. The EBRD assessment from 2001 reflects the liberalisation of prices and of foreign trade, and the following year's increase is mainly due to the progress in privatising and restructuring large enterprises.

For the Czech Republic, Hungary, Poland and Slovakia, the EBRD ratings are fairly constant and at a high level, indicating the advanced stage of economic transformation in the four countries. However, the fact that all four countries are approaching the top of the scale (4.33) also implies that the EBRD scale is becoming a less appropriate instrument to differentiate among these countries. For these four countries, the WBI ratings appear to be largely in line with the other two ratings. The synthetical approach of the WBI rating does not allow to substantiate the year-to-year changes with verbal explications referring to the factual changes behind the alteration of the figures, a restriction that renders the WBI indicator less useful for in-depth comparisons of small groups of countries.

The FH ratings for *Hungary* fall in parallel with the government of Viktor Orbán entering office. The 2000 report criticizes the government's attempts to shift power from the parliament to the executive (Karatnycky, Motyl and Piano 2000). In the following report, Hungary's governance rating is downgraded further, arguing that the Orbán government reduced the time for parliamentary deliberation, adopted a two-year budget, rejected opposition attempts to set up investigative committees and sought to partially replace the parliament's legislative functions with government decrees (Karatnycky, Motyl and Schnetzer 2001). The pattern of prime ministerial governance that evolved in Hungary is thus primarily conceived as a change in executive-legislative relations that jeopardizes the democratic accountability of the executive. Contrary to FH, the WBI ratings for Hungary increase from 1998 to 2000, suggesting that the effectiveness of the government has increased.

In the *Czech Republic*, FH ratings decrease by 0.25 points in 2002, apparently because the report notes that parliamentary investigative committees have "not yet proven very effective" (Karatnycky, Motyl and Schnetzer 2002, 159), illustrating this with the failure of a parliamentary committee to investigate the causes of the collapse of the largest Czech bank (IPB). The adoption of a civil service law in 2002 did not lead to an improvement in the rating. FH retained its 2001 governance rating for the Czech Republic although the government began a significant reform of public administration by adopting laws on regional self-governments.

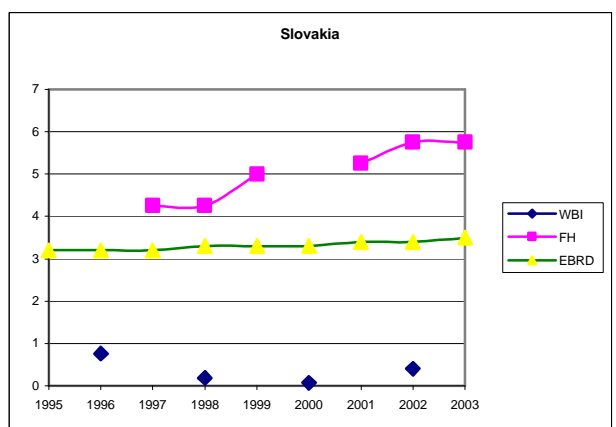
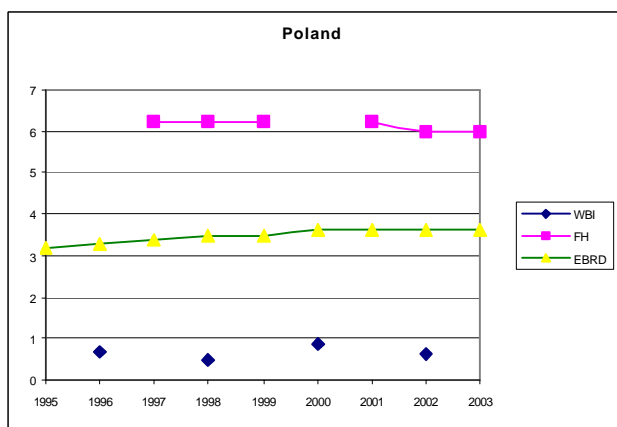
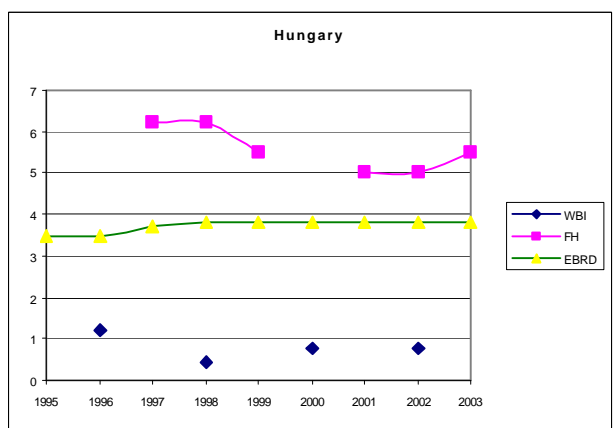
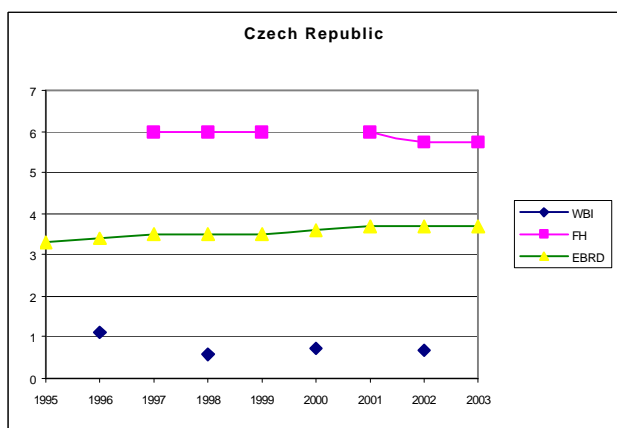
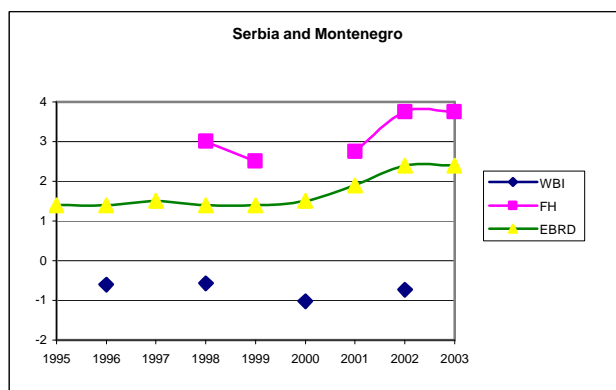
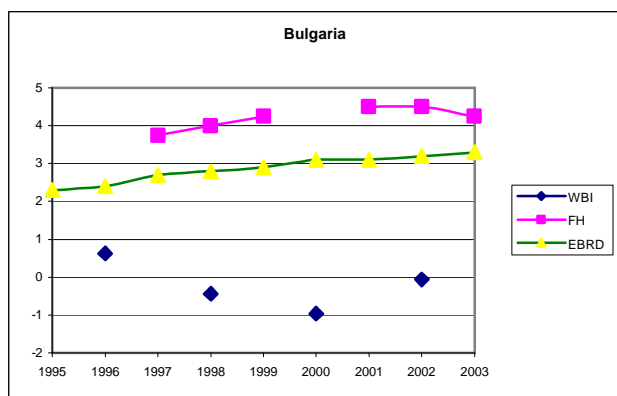
Similarly, the FH rating for *Poland* does not note the reforms initiated by the government of Jerzy Buzek in the education, health care and pension systems, the restructuring of regional government and the adoption of a new civil service law in 1999. These changes are mentioned but the governance rating of (a fairly positive) 1.75 points was retained from 1997 until 2001. Neither are improvements in the efficiency of law-making and the transposition of EU legislation reflected in the rating (Zubek 2003). In 2002, the rating was downgraded by 0.25 points, while the reason for this does not emerge from the respective section in the 2002

report which contains largely the same formulations as the report for the previous year.

In the case of *Slovakia*, the improvement of the FH rating between 1999 and 2002 expresses the reforms launched by the government of Mikulas Dzurinda, including, inter alia, the preparation of legislation to decentralize public administration and to create regional self-government.

Such a case-based validation may certainly be charged of introducing subjective assessments. However, the empirical events mentioned seems all too obviously related to Governance as constructed by the FH study that their neglectance remains implausible, counterintuitive and thus affects the validity of the FH ratings.

Figures 1-6: Trajectories of governance in selected CEE countries



Note: The curves depicting FH ratings are interrupted as the 1999-2000 period was covered by one rating only. For technical reasons, WBI scores are not linked through a curve.

## Conclusion

Our comparison of the four different governance ratings has shown that they represent different underlying concepts which is most obvious in the case of the EBRD's focus on economic reforms. But also the other three ratings exhibit conceptual differences, ranging from WBI's concern with effectiveness over the BF's focus on political elites to the merging of input and output aspects in the FH study. If the approaches to measurement and aggregation are compared, further marked differences emerge, although all four ratings are ultimately based on expert assessments.

Given this variety, it is somewhat surprising that the ratings produce scores that are highly correlated with each other and can be reduced to one component. This suggests that the four ratings measure aspects of a single empirical phenomenon. The country-by-country comparison of the standardized scores confirms this finding insofar as 11 of 27 CEEC were rated equally by two or three studies and as the standard deviation of the scores was relatively low in the majority of the cases. These empirical similarities and associations imply that each of the ratings can be used as a tool to measure democratic performance with a fairly high degree of validity. This impression is underpinned by the in-depth analysis of the ratings for the six selected CEEC that has found the ratings able to adequately capture major political changes.

But this case-based validation has also noted divergences among the scores for some countries and at some points of time, while it was difficult or impossible to trace a convincing rationale for this divergence in the conceptualization, operationalization or empirical data selection of the studies. These observations and the high aggregate correlations also indicate that the ratings are not differentiated and specific enough to recognize those particular features of governance that we would expect the respective theoretical concepts to capture. Critics may thus argue that the ratings do not allow to identify distinctive patterns of policy-making and, moreover, that none of the four governance ratings adds many new insights to the knowledge accumulated by the others.

Such a critical verdict is, however, not fully justified by the validation tests in this paper. The disaggregated comparison of standardized scores has revealed that the EBRD and BF ratings provide more distinct, profiled evaluations due to their focus on economic reforms (EBRD) and their weighting strategy (BF). Furthermore, the nomological validation has shown that the predictive power of the rating differs with respect to policy outcomes. These findings can be read as evidence of several differentiated tools being available to measure particular aspects of governance and to shed light on the links between governance practices/styles and policy outcomes. In this respect, our governance ratings represent modest steps towards a "second generation" of more discriminant governance indicators (Knack, Kugler and Manning 2002).

In contrast with the quoted protagonists of second generation governance indicators, we argue that “subjective” ratings based on expert assessments can not be fully replaced by “objective” quantitative indicators and will be necessary to assess the performance of political systems fully. The way forward will not only the refinement of empirical indicators or improved measurement methods but will also require conceptual improvements. Compared to the field of democracy measurement with its increasingly elaborate concepts and operationalizations, the limited precision and sensitivity of the governance ratings studied in this paper seems largely due to the vagueness of governance as a theoretical concept. Although some conceptualizing efforts have been made by the governance ratings studied here, mainly by the WBI and the BF studies, the components of the concepts still reflect predominantly inductive approaches and lack conceptual integration. More research is needed to clarify the relationship between patterns of democracy, their associated patterns of governance and the operational indicators facilitating a comparative assessment of these patterns. Yet this is a challenge not only for raters, but also for scholars of comparative politics.

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## **Annex**

### **I. Checklist of questions for the governance assessment, Freedom House, Nations in Transit 2003**

1. Is the governmental system stable? What are the major indicators of stability?
2. Does the legislature have the resources it needs to fulfill its law-making and investigative responsibilities?
3. Do executive and legislative bodies operate openly and with transparency? Is draft legislation easily accessible to the media and the public? Is there something like a “freedom of information act”?
4. Describe the constitutional and legislative environment regulating subnational levels of government. Is substantial power decentralized to subnational levels? What specific authority do they have? Are subnational officials chosen in free and fair elections?
5. Do subnational governments have sufficient revenues to carry out their duties? Do they control their own local budgets?  
Do they raise revenues autonomously or receive them from the central state budget?
6. Is there a competent and professional civil service at the national and local levels? Has the civil service code/system been reformed? Are local civil servants employees of the local or central government? Is the civil service subject to excessive political interference?

### **II. Data sources used to synthesize the government effectiveness rating, World Bank Institute, Governance Indicators**

#### **Representative Sources**

##### **State Capacity Project, Columbia University:**

1. Rate the administrative and technical skills of the country’s civil service (occupying middle and higher management roles).
2. Rate the efficiency of the country’s national bureaucracies overall.
3. Rate the efficiency of the country’s local-level government bureaucracies overall.
4. Rate the effectiveness of coordination between the central government and local-level government organizations.
5. Rate the state’s ability to formulate and implement national policy initiatives.
6. Rate the state’s effectiveness at collecting taxes or other forms of government revenue.
7. Does the central government produce a national budget in a timely manner?
8. Do local governments produce budgets in a timely manner?
9. Rate the state’s ability to monitor socioeconomic trends, activities, and conditions within its borders
10. Rate the state’s ability to create, deliver, and maintain vital national infrastructure.
11. Rate the state’s ability to respond effectively to domestic economic problems.
12. Rate the state’s ability to respond effectively to natural disasters.

##### **Global Insight’s DRI, McGraw-Hill:**

1. *Government Instability* : An increase in government personnel turnover rate at senior levels that reduces the GDP growth rate by 2% during any 12-month period.
2. *Government Ineffectiveness*: A decline in government personnel quality at any level that reduces the GDP growth rate by 1% during any 12-month period.
3. *Institutional Failure*: A deterioration of government capacity to cope with national problems as a result of institutional rigidity that reduces the GDP growth rate by 1% during any 12-month period.

##### **Country Risk Service, Economist Intelligence Unit:**

1. Quality of bureaucracy
2. Excessive bureaucracry / red tape

### **International Country Risk Guide, Political Risk Services**

1. *Government Stability*. Measures the government's ability to carry out its declared programs, and its ability to stay in office. This will depend on issues such as: the type of governance, the cohesion of the government and governing party or parties, the closeness of the next election, the government's command of the legislature, and popular approval of the government policies.
2. *Bureaucratic Quality*. Measures institutional strength and quality of the civil service, assess how much strength and expertise bureaucrats have and how able they are to manage political alternations without drastic interruptions in government services, or policy changes.

### **World Markets Online, World Market Research Center**

1. *Policy consistency and forward planning*: How confident businesses can be of the continuity of economic policy stance - whether a change of government will entail major policy disruption, and whether the current government has pursued a coherent strategy. This factor also looks at the extent to which policy-making is far-sighted, or conversely aimed at short-term economic (and electoral) advantage.
2. *Bureaucracy* : An assessment of the quality of the country's bureaucracy. The better the bureaucracy the quicker decisions are made and the more easily foreign investors can go about their business.

### **Non-representative Sources**

#### **Afrobarometer survey**

1. Trust in Police

#### **Business Enterprise Environment Survey, World Bank**

2. How problematic are telecommunications for the growth of your business
3. How problematic is electricity for the growth of your business.
4. How problematic is transportation for the growth of your business.

#### **Business Risk Service, Business Environment Risk Intelligence**

1. Bureaucratic delays

#### **Country Policy and Institutional Assessments, World Bank**

2. Management of external debt
3. Management of development programs
4. Quality public Administration

#### **Nations in Transit, Freedom House**

1. *Government and Administration* : Government decentralization, independent and responsibilities of local and regional governments, and legislative and executive transparency are discussed.

#### **Global Competitiveness Report, World Economic Forum**

2. Competence of public sector personnel
3. Quality of general infrastructure
4. Quality of public schools
5. Time spent by senior management dealing with government officials

#### **Latinobarometro survey**

1. Trust in Police

#### **World Competitiveness Yearbook, Institute for Management and Development**

2. Government economic policies do not adapt quickly to changes in the economy
3. The public service is not independent from political interference
4. Government decisions are not effectively implemented
5. Bureaucracy hinders business activity
6. The distribution infrastructure of goods and services is generally inefficient

### III. Bertelsmann Transformation Index: Management criteria

<b>13. RELIABLE PURSUIT OF GOALS:</b> THE GOVERNMENT COMMUNICATES AND SEEKS TO ACHIEVE STRATEGIC, CONSISTENT GOALS FOR REFORM.	
	13.1 Does the government set strategic priorities?
	13.2 Does the government back a consistent and coherent policy of reform?
	13.3 Can the government induce social and economic actors to trust its policies?
<b>14. EFFECTIVE USE OF RESOURCES:</b> THE GOVERNMENT MAKES OPTIMUM USE OF AVAILABLE ECONOMIC, CULTURAL AND HUMAN RESOURCES.	
	14.1 Does the government make efficient use of available resources?
	14.2 Does the government implement its reform policy effectively?
	14.3 Does the government provide sufficient public services for developmental progress?
	14.4 Can the government curb corruption successfully?
	14.5 Is the political elite able to harness existing cultural legacies as a resource for reform?
<b>15. GOVERNANCE CAPABILITY:</b> THE GOVERNMENT MANAGES REFORMS IN A POLITICALLY ASTUTE MANNER AND CAN ACHIEVE ITS POLICY PRIORITIES EVEN IN THE FACE OF POLITICAL RESISTANCE.	
	15.1 Do the leading political actors work flexibly? Are they willing and able to learn? Can they replace failed policies with innovative ones?
	15.2 Does the government have enough political authority to deliver reforms?
	15.3 Does the government avoid dislocating economic resources?
	15.4 Are the reformers politically astute in their choice of tools and strategies?
<b>16. CONSENSUS-BUILDING:</b> THE GOVERNMENT ESTABLISHES A BROAD CONSENSUS ABOUT REFORM WITH OTHER ACTORS IN SOCIETY, WITHOUT SACRIFICING ITS REFORM GOALS.	
	16.1 Do the major political actors agree on building a market-based democracy?
	16.2 Can the reformers exclude or co-opt actors who have anti-democratic veto powers?
	16.3 Can the government manage political cleavages so that they do not escalate into irreconcilable conflicts?
	16.4 Can the government build solidarity, understood as a fundamental willingness to act cooperatively, among citizens and social groups?
	16.5 Can the political elite bring about reconciliation between the victims and perpetrators of past injustices?
<b>17. INTERNATIONAL COOPERATION:</b> THE COUNTRY'S POLITICAL ACTORS ARE WILLING TO COOPERATE WITH OUTSIDE SUPPORTERS AND ORGANIZATIONS.	
	17.1 Do the political actors cooperate with bilateral or multilateral international donors in bringing about transformation toward democracy and a market economy?
	17.2 Does the government give the international community a sense that expectations will be reliably fulfilled?
	17.3 Are political actors willing to cooperate with neighboring countries in regional and international organizations?

### IV. EBRD Transition Report: components of transition indicators

#### Markets and trade

1. Price liberalisation
2. Trade & foreign exchange system
3. Competition policy

#### Enterprises

1. Large-scale privatisation
2. Small-scale privatisation
3. Governance & enterprise restructuring

#### Financial institutions

1. Banking reform & interest rate liberalisation
2. Securities markets & non-bank financial institutions

#### Infrastructure

1. Infrastructure reform