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The Good Governance Problem:

Doing Something About It



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More information about the Program can be found at:

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**THE GOOD GOVERNANCE
PROBLEM: DOING
SOMETHING ABOUT IT**

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WORLD PEACE FOUNDATION
PROGRAM ON INTRASTATE CONFLICT AND CONFLICT RESOLUTION
BELFER CENTER FOR SCIENCE AND INTERNATIONAL AFFAIRS
JOHN F. KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY
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WORLD PEACE FOUNDATION

PROGRAM ON INTRASTATE CONFLICT AND CONFLICT RESOLUTION

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Contents

List of Tables and Figures	i
Introduction	1
Improving Governance in the World: Creating a Measuring and Ranking System <i>Robert I. Rotberg</i>	3
The Rationale	4
Governance Defined	5
The Virtue of Objective Measurement	8
Choosing Reliable Indicators	10
Pilot Testing	11
Schooling and Health Services	16
Summing the Scores	17
Correlating the Pilot Scores against Existing Indices	22
Conclusion	24
Appendix	27
Creating a New Ranking System for Governance? A Conference Report <i>Deborah L. West</i>	31
Preface	31
I. A New System?	32
II. Existing Indices: Comparative Methods	41
III. Utilizing Measurement: What Is Required	52
IV. The New Proposal	59
V. The Governance Index: Going Forward	67
Concluding Note	74
Conference Participants	75
Books of the World Peace Foundation (since 1980)	77
WPF Report Series	79

List of Tables and Figures

Figure 1.1	KSG Governance Score 2000: Asia	18
Figure 1.2	KSG Governance Scores 1996–2000: Middle Africa	19
Figure 1.3	KSG Governance Score 2000: Latin America	20
Figure 1.4	KSG Governance Score 2000: Southern Africa	21
Table 1.1	Correlation of Indicators: Middle Africa	22
Figure 1.5	Middle Africa Indicators Comparison	24
Figure 1.6	Asia Indicators Comparison	27
Figure 1.7	Latin America Indicators Comparison	27
Figure 1.8	Middle East and North Africa Indicators Comparison	28
Figure 1.9	Southern Africa Indicator Comparison	28
Table 1.2	Correlation of Indicators: Asia	29
Table 1.3	Correlation of Indicators: Latin America	29
Table 1.4	Correlation of Indicators: Middle East and North Africa	29
Table 1.5	Correlation of Indicators: Southern Africa	29

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Introduction

We all seek to be governed well so as to maximize our own personal wellbeing and the wellbeing of our fellow Americans, Europeans, Africans, our fellow nationals, or our fellow city dwellers or townsmen. Governance is the word that describes the tension-filled interaction between citizens and their rulers, and the various manners in which diverse kinds of governments enable their constituents to achieve satisfaction and material prosperity, or to thwart those and related aspirations.

Often we of the developed North take governance for granted, and assume that our governments will deliver a quantity and quality of governance sufficient to meet the fundamental needs of voters. If not, the remedy for improved governance – for better street maintenance, better medical insurance, or a robust foreign policy – is usually found through the mobilizing of interest groups, representations to a governmental authority, or by action at the ballot box.

But most of the world's inhabitants are unable this readily to hold their governments accountable, to participate in or influence their governments, or to use electoral mechanisms to bring about significant changes in the manner in which they are governed. Thus governance becomes at best a capricious endeavor and, for so many of the peoples of the developing world, especially the poorest and the most afflicted by war and disease, a synonym for autocracy and despotism. Strengthening governance directly improves the lives of governed, especially the poorer inhabitants of the least developed nations.

Upgrading the governance capabilities and governance effectiveness of the countries of the developing world is hence essential for better development and the reduction of conflict.

No amount of exhortation from Washington, London, Brussels, or Tokyo will accelerate the practice of beneficial governance. However, a detailed report card, country by country, could at least allow us a) to ascertain which countries were well or poorly governed, and why, and b) to suggest in what areas countries needed improvement. The experience of existing ranking systems for nation-states, or of credit rating systems for countries, indicates that such a carefully detailed report card system would indeed concentrate the minds of governments and their leaders, and lead at least to some of the desired ameliorations. It will compel countries to recognize that governance counts, that good governance is measurable and bad governments can no longer hide, and, helped by an independently produced score card, provide both the carrot and the stick for positive change.

This Report outlines a rationale for and a method of ranking the countries of the world according to the quality of their governance. It suggests the establishment of a new non-governmental organization to oversee the process, and details how that NGO would create the necessary rating system.

The first part of the Report is a concept paper – “Improving Governance in the World,” – that was prepared for and presented to the third of a series of World Peace Foundation/Program on Intrastate Conflict conferences on measuring governance. It has been revised for this Report.

The second part of the Report is a detailed summary of the discussions on good governance and the problems of measuring governance at the third conference, held in early May, 2004, at the Kennedy School of Government, Harvard University. Deborah West’s summary is not intended to be a verbatim transcript of the proceedings of the conference, but it does faithfully capture much of the essence and nearly all of the critical agreements and disagreements of a two-part discussion of a) the entire problem of developing methods of measuring the quality we call good governance, including issues of indicators and proxies; and, b) the overall argument in the concept paper as well as many of the specific suggestions advanced in that document.

Policy makers and donors, as well as students and scholars seeking improved governance, should ponder this Report, and its conclusions. In particular, everyone seeking better outcomes in and for the less developed parts of the world will presumably appreciate that good governance is crucial. The concept paper and parts of the discussion propose a way of strengthening good governance, and hence economic and political outcomes, by rating countries on their strengths and showing where they need to improve. The ultimate object is a better life for the world’s poor.

– Robert I. Rotberg and Deborah L. West

Improving Governance in the Developing World: Creating a Measuring and Ranking System

Robert I. Rotberg

Good governance is...the single most important *factor in eradicating poverty and promoting development.*

– Kofi Annan (1998)

A distinguished economist asks: in one word why do African countries remain so much poorer and riddled by conflict than their Asian and South American peers?

*The one word answer is **governance.***

Good governance is a precious commodity in the nation-states of the developing world. Only a few of the 120 or so polities that comprise the developing world are widely regarded as well-governed, and most of the 120 rank below the median on official lists generated by the UN and the European Union, or on one or more of the 50 compilations that purport to rate nation-states according to the particulars of their governing attributes.¹ How to improve the governance capabilities and governance effectiveness of the developing world is thus a daunting and urgent challenge.

Given that three-fifths of all of the people in the world live in the developing world, given the fact that the vast majority of those billions of people endure or suffer from being mal-governed, given the reality that nation-state failure in considerable part is a function of mal-governance, and further given the likelihood that poor governance provides grievances and fertile ground for the nurturing of terror and terrorists, how to strengthen the quality of governance in the developing world is a timely, critical, and worthy endeavor.

¹ For a compilation of those ranking systems and a discussion of the method, see Marie Besançon, *Good Governance Rankings: the Art of Measurement* (Cambridge, MA, 2003). Marie Besançon's excellent ideas helped to improve this paper. Jennifer Tobin helped to initiate the original project, years ago. Also see the World Bank's new compilation of 140+ data sets: <http://www.worldbank.org/wbi/governance/govdatasets/>

Moreover, the new Millennium Challenge Account and other donor and indigenous attempts to strengthen governance in the developing world all depend on implicit characterizations of a nation-state's governance. Providing careful, explicit guides to governance would greatly strengthen and legitimize those endeavors.

This paper proposes that we start ranking nation-states, especially those in the developing world where the problems are compelling, by governance quality. A new non-governmental organization will be needed. But the analogous model exists: Transparency International already separates the most corrupt from the least corrupt. We should now distinguish between those countries that govern well, for their citizens, and those who cheat their inhabitants by governing poorly.

The Rationale

Devising a rating method which would array nation-states of the entire world according to their governance capabilities could focus the countries themselves; their citizenries; international, regional, and national oversight organizations; and donors on the problem of good governance, and its remedies. In order to be credible, however, any rating scheme would have to be as objective as possible; it would be more easily viewed as a valid enterprise if it avoided subjective modes of measurement. Any attempt to construct and then to use a ranking system for governance quality is guaranteed to be controversial; those nation-states which rank low on the scales of governance will take exception and claim bias. But their civil societies will be emboldened by ranking efforts, especially if such efforts can be defended as responsible. Good governance, after all, is a value judgment. Hence, the need to strive for maximum transparency and objectivity.

The rationale for independently rating sovereign nation-states is multifold: 1) They obviously cannot rate themselves. International and regional organizations cannot do so either, belonging as those entities do to their members. The attempt by the New Partnership for Africa's Development (NEPAD) to devise a method of prodding members of the African Union to govern more effectively is equally inhibited, and so far limited in scope and untested in practice. 2) No generally acceptable system now exists, although several dozen partial schemes, none of which is wholly objective in approach, begin to approximate what is called for here. The most comprehensive of those currently available schemes is the World Bank's Governance Matters III: Governance Indicators for 1996-2002, but it explicitly refuses to rank, per se, and is itself a compilation of indices that are mostly subjective in origin. The UN Development Program's Human Development Index is an excellent source of comparative data, but does not set out to rank nation-states according to their governmental effectiveness. 3) Rating nation-states (and corporations and organizations of all kinds) has long been done with regard to sovereign credit risk, fiscal probity, debt questions, and so on. 4) In particular areas that are

related to or an intrinsic component of governance, such as corruption, freedom, competitiveness, trade openness, receptivity to private enterprise, contract enforcement, and so on, rating systems already exist that are broadly accepted and useful. Transparency International's Corruption Perceptions Index has compelled countries in the developing world to acknowledge the depths of their corruption and to focus on reducing corruption and improving their comparative rankings. Freedom House's Freedom in the World index lists countries that are not free or only partially free, and donors, investors, and the nations themselves have accordingly paid attention and attempted to strengthen their standings.

Each of these rating systems is helpful in grasping and judging important aspects of governance attainments. But each is based on perceptions – on the subjective judgments of internal or external evaluators, some or all of whom can be accused of unwitting bias. What is required is a more comprehensive, holistic, objective, and quantifiable method of ranking the countries of the developing world on their governmental performance accomplishments. From such a hard-to-challenge index could come gradual but widespread improvement in the way in which the citizens of the developing world are governed. That is an aspiration and more than a pious hope.

Governance Defined

Governance is the delivery of political goods to citizens: the better the quality of that delivery and the greater the quantity of the political goods being delivered, the higher the level of governance.² Delivery and performance are approximately synonymous in this context. If a government patches the streets or fixes broken stoplights, it delivers valuable political goods and performs creditably for its constituents. Indeed, governments (and nation-states) exist primarily to provide in that manner for their taxpayers or inhabitants; governments exist to perform for their citizens in areas and in ways that that are more easily managed and organized by the overarching state than by private enterprises or collective civic enterprises. The provision of physical security – from outside attack and from crime – is a prime example.

Nation-states deliver political goods to persons living within designated borders. Having inherited, assumed, or replaced the monarchs of yore, modern states ideally focus and answer the concerns and demands of their citizens. They organize and channel the interests of their peoples, often but not exclusively in furtherance of particular national goals and values. They buffer or manipulate external forces and influences, champion the local or particular concerns of their adherents, and mediate between the constraints and challenges of the

² Good governance certainly depends on social trust, but the approach in this article differs considerably from that expressed in Valerie Braithwaite and Margaret Levi (eds.), *Trust and Governance* (New York, 1998).

international arena and the dynamism of their own internal economic, political, and social realities.³

It is according to their performances in the governing realm that states succeed or fail. That is, stronger states may be distinguished from weak states according to the levels of their effective delivery of political goods. Such goods are those intangible and hard to assess claims that citizens once made on sovereigns and now make on nation-states and the governments of those states. Political goods encompass indigenous expectations, conceivably obligations, inform the local political culture, and together give content to the social contract between ruler and ruled that is at the core of state and citizenry interactions.⁴

Under this definition, it is true that secure, authoritarian but well-performing nation-states could (and sometimes do) score higher than democratic, insecure, less-effective deliverers of essential political goods. How the quasi-democratic nation-states ultimately rank depends to some extent on how indicators for political freedom and rule of law are weighted versus indicators for security, economic prosperity, infrastructural accomplishments, educational and medical delivery, and so on. Fortunately, as is demonstrated below, in the real world only those partially democratic states that supply high levels of political goods can rank with the fully democratic countries, providing the latter perform reasonably well for their citizens, especially in the area of security. The dreadful despotisms (e.g. North Korea, Turkmenistan, Zimbabwe) always fall to the bottom of the scale, even if they provide a certain type of tough security.⁵

³ The discussion in these paragraphs follows that advanced in Robert I. Rotberg, "The Failure and Collapse of Nation-States: Breakdown, Prevention, and Repair," in Rotberg (ed.), *When States Fail: Causes and Consequences* (Princeton, 2004), 2-6 ff.

⁴ For political goods, see J. Roland Pennock, "Political Development, Political Systems, and Political Goods," *World Politics*, XVIII (1966), 420-426. See also Mancur Olsen, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge, Mass., 1965), 15, and the footnotes on that page; "Public Goods," in Hugh Stretton and Lionel Orchard, *Public Goods, Public Enterprise, Public Choice* (London, 1994), 54-79. See also Renate Mayntz, "Common Goods and Governance," in Adrienne Heritier (ed.) *Common Goods: Reinventing European and International Governance* (Lanham, MD, 2002), 15-27.

⁵ Several scholars have sought to measure the absence of good governance. Thus, those countries which are the most "greedy" (Paul Collier and Anke Hoeffler, "Greed and Grievance in Civil Wars," *Oxford Economic Papers*, forthcoming) or who show a high ability to extract resources from their constituents (Nicolas van de Walle, "The Economic Correlates of State Failure: Taxes, Foreign Aid, and Policies," in Rotberg [ed.], *When States Fail*, 99), the gathering of real revenues over predicted revenues, can be said to govern more effectively. See Marina Arbetman and Jacek Kugler (eds.), *Political Capacity and Economic Behavior* (Boulder, 1997); Yi Feng, Jacek Kugler, and Paul J. Zak, "The Politics of Fertility and Economic Development," *International Studies Quarterly*, XLIV (2000), 667-693. See also Paul Collier, "Doing Well Out of War," in Mats Berdal and David M. Malone (eds.), *Greed and Grievance: Economic Agendas in Civil Wars* (Boulder, 2000), 91-111. Collier and Hoeffler, "Economic Causes of Civil Conflicts and their Implications for Policy," *World Bank Working Paper* (Washington, D.C., 2000).

There is a hierarchy of political goods. None is as important as the supply of security, especially human security. Individuals alone, almost exclusively in unique circumstances, can sometimes arrange their own security. Groups of individuals can band together to purchase goods or services that provide more or less substantial measures of security. Traditionally, and usually, however, individuals and groups of individuals cannot effectively substitute privately procured measures of security for the full panoply of publicly provided security.

States are obliged by definition to provide national security – to prevent cross-border invasions and infiltrations, and loss of territory. They are obligated to deter domestic threats to or attacks upon the national order and social structure. Nation-states are charged with preventing crime and related assaults on domestic human security. They are pledged to help their citizens resolve any differences with the state and/or with their fellow inhabitants without recourse to arms or other forms of physical coercion.

When, and only when, reasonable provisions for security exist within a country, especially a fragile nation-state or a newly reconstructed nation-state in the developing world, can governments deliver other desirable political goods. Among those essential goods, after security, rule of law is primary. Effective, meaningful modern states provide predictable, recognizable, systematized methods of adjudicating disputes and regulating both the norms and the prevailing mores of a host society. The essentials of this political good are usually embodied in codes and procedures that together comprise an enforceable body of law, security of property and contract, an independent and efficacious judicial system, and a set of norms that embody the values contained in the local version of a legal system. The World Bank defines rule of law as “the extent to which agents have confidence in and abide by the rules of society...[including] perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts.”⁶

Another key political good enables citizens to participate freely, openly, and fully in politics and the political process, in order to govern themselves. This good of political rights encompasses the essential freedoms: the right to participate in politics and to compete for office; respect and support for (and the existence of) national and regional political institutions, such as legislatures and courts; tolerance of dissent and difference; and fundamental civil liberties and human rights.

Among the other basic political goods that states typically supply (although privatized forms are possible, and are increasingly sought by citizens in the developing world) are medical and health care; schools and educational instruction; roads, railways, harbors, and airports – the physical arteries of commerce; communications networks; a money and banking system, usually presided over by a central bank and lubricated by a nationally created currency;

⁶ www.worldbank.org/wbi/governance/pdf/govmatters3.pdf, 2004

a beneficent fiscal and institutional context within which citizens can pursue personal entrepreneurial goals, and potentially prosper; a political and social atmosphere conducive to the emergence and sustainability of civil society; and a fully articulated system for regulating access to the environmental commons.

Nation-states are judged by their citizens and by other states and international bodies according to the extent to which they deliver some, most, or all of these political goods. Better governance obviously consists of a fuller delivery across the spectrum of political goods, with security, rule of law, and macroeconomic stability and growth outweighing the provision of other political goods in any evaluations – even rough or subjective ones – of a nation-state’s overall performance. The bottom line, always, must concern the rights and expectations of citizens: Are citizens being governed as well as they would prefer to be governed? Should citizens expect to receive more and better political goods? How can the state be more responsive to their needs, and in what areas?

The Virtue of Objective Measurement

How best can good governance – the delivery of more and better political goods – be measured? If nation-states are to be ranked from high to low, automatically suggesting invidious comparisons and demanding the calibration of national differences finely, this article (and earlier intimations) proposes that objective criteria are easier to defend than subjective ones, and that objective indicators are much easier to quantify. Without numbers derived from objectively measured attempts to turn performance in a particular area of governance, say education, into a score, and then to sum the scores of all of the many indicators, it is almost impossible to devise a ranking method which is credible and acceptable. Moreover, without such scores, any ranking system that lists more than the subjective best and the worst of countries is almost certain to be suspect.

The delivery of political goods is almost impossible to measure directly. Is Ruritania more or less secure than its neighbors? Does Ruritania have more or less rule of law? Is it politically free? Are its citizens receiving more or less instructional quality and fuller medical services than other countries in the developing world, or even in its region? Are Ruritania’s economic attainments fully reflected in its listed GDP per capita, its GDP growth rates, and/or the size of its governmental deficits or inflation rates? Is civil society empowered? Those are among the key questions; answering them as objectively as possible contributes to an ability to answer the overall question: Is Ruritania better or more poorly governed than its neighbors?

The indirect method of objective measuring is well tried, if hardly ever explicitly with regard to good governance.⁷ In order to measure governmental

⁷ See Robert William Fogel, Stanley L. Engerman, Roderick Floud, et al, “Secular Changes in American and British Stature and Nutrition,” *Journal of Interdisciplinary History*, XIV (1983), 445–481.

performance, proxy indicators must be agreed upon that will as completely as possible capture the real delivery of political goods to citizens. Each proxy indicator should be the aggregation of one or more proxy sub-indicators, and a final raw score comprises the total of all of the indicators.

The proxy indicator approach permits objectivity, and thus quantification. However, it is no easy task to decide on indicators and sub-indicators, and to verify that each does in fact measure what each purports to measure. To begin with a straightforward example, do the World Health Organization's two widely-employed health and life expectancy indices, compiled as they are from nationally-supplied health statistics, fully capture Ruritania's accomplishments and deficiencies in the medical and health field? Can we truly say that a country that ranks well on these indices has a better health delivery system than a country that ranks lower according to the index? Or, do we need more than one sub-indicator to begin approximately to capture a full measure of Ruritania's delivery of the political good of health?

The proposition implicit in the suggestion that an array of indicators, if cleverly chosen by a consensus of knowledgeable experts, is capable of providing an effective proxy for governmental performance according to each critical category, assumes that proxy indicators can reliably capture the essence of what we should be attempting to measure. The issue should not be whether or not to use proxies, since nothing better or more direct is available to supply information about the performance of a government with regard to political goods. Proxies are better than nothing. The issue is how to reach a consensus among experts, and then how to fine tune and improve upon proxies as we gain experience with the construction of a more complete index.

Explicit, additionally, is the proposition that measuring governmental performance requires measuring outcomes (outputs), not inputs. Thus, to use the health example, we are required to use proxies that will inform us about a government's delivery of political goods; the WHO indices do just that, disclosing how well a country's citizens are faring in terms of their overall health outcomes. It is less helpful, as a proxy for performance, to rely on inputs, in this case the percentage of total official budgets spent on the provision of health services. We want to know primarily not what a government's good intentions (budgetary provisions) may have been, but what it actually accomplished with those appropriated funds. Indeed, as the World Bank says, "On average, the relationship between public spending on health and education and...outcomes is weak or non-existent."⁸ If a country is more rather than less corrupt, appropriated funds may indeed have been siphoned away from service delivery into individual pockets, so the mere fact that a nation-state budgets or expends more for health or education than its neighbors may mean little. (In some

⁸ World Bank, "Overview," *World Development Report* (Washington, D.C., 2004), 11

circumstances, inputs may provide additional proxies or sub-indicators, but they cannot be a primary or sole source of measurement.) Results count.

For some kinds of political goods the search for effective proxies is easily accomplished by employing well-tried objective and/or subjective indicators, e.g. World Bank GDP or GNI data, World Bank gini coefficient numbers, or Transparency International country ranking numbers (based on subjective inputs). Yet, not all developing countries are represented in the available indices; the poorer and the most problematic are often missing from TI's lists, and the World Bank's gini numbers (World Development Indicators: Distribution of Income or Consumption) are unavailable for some developing countries and are not compiled afresh each year.⁹ Even where data are available, too, they may be suspect. It might be assumed, for example, that Interpol crime statistics are available for every country. Not so. And it might further be assumed that the available data on crimes are accurate and verified. But Interpol, like so many international bodies, relies on the statistical services in the data providing polities. Not all of the poorer and least well-governed countries have effective statistical offices. Some routinely supply suspect or doctored numbers, thus making many internationally-compiled indices unreliable. Indeed, Interpol itself warns that its figures should not be used to compare across countries because there are different legal definitions of punishable acts, and many different statistical methods are used to report the data. In a few nation-states, censuses have never been held or not been held for decades. The smoothing of data then becomes an art, not a science. Elaborate methods must thus be devised to organize and deploy the various data available for each of the necessary indicators and sub-indicators.

Choosing Reliable Indicators

Not all political goods carry equal value in measuring a country's governance. The more significant are indeed the hardest to assess – the hardest for which to find or devise acceptable proxy indicators. Measuring whether citizens are secure is among the more difficult and more critical components of our proposed governance rating system. A Human Security index will be of great assistance when it is constructed. Data on crimes and crime rates are valuable, but the deficiencies of the Interpol compilations have been noted. Even more problematical are existing methods of determining whether a nation-state is secure within its own borders – whether it provides high levels of political security to its citizens. (How accurately to rank authoritarian states in this regard is an additional problem. North Korea, Belarus, and Burma are secure, but for whom and at what cost?¹⁰) One possible indicator of that critical element is the annual number of deaths in intrastate conflicts. Another might count the number

⁹ The gini numbers ultimately derive from Klaus Deininger and Lyn Squire, "Measuring Income Inequality: A New Data Set," *World Bank Economic Review*, X (1996), 565–591.

¹⁰ See, e.g., the discussion of Gabon, below.

of clashes or violent incidents between a government and its opponents. Several datasets do provide relevant information in a helpful manner, even if critical definitions are sometimes begged.¹¹

Finding acceptable indicators and sub-indicators that fully articulate the extent to which a country has an effective rule of law is equally difficult conceptually. How best is it possible to assess, objectively, whether Ruritania's judicial system is independent and free of executive constraint? How best can investigators evaluate citizens' access to the legal system, and the extent to which they are fairly treated? Are contracts upheld? Are there arbitrary arrests without recourse to the law? Answers to these and similar questions help rate a government's performance on the rule of law continuum, but crafting indicators that truly can be proxies for the range of attributes which we commonly bundle together as the rule of law remains hard. Using Freedom House approximations of the degree of freedom in a country does not perfectly respond to rule of law concerns. Even Freedom House's newly gathered data specifically on the rule of law are based on external perceptions of experts – hardly the objective judgments required.¹² Is objectivity possible?

Pilot Testing

These suggestions and judgments are based on experience as well as theory. For six years at the Kennedy School of Government, Harvard University, graduate students in my courses on politics and leadership in the developing world have experimented with various methods of developing proxy indicators and sub-indicators for good governance across the nation-states of the developing world. They have found it possible to rank countries from best governed to least well governed, and they have done so across regions as well as within regions. (A ranking of countries within regions may have distinct advantages, comparing like with like.) Since the students manipulating the available data have changed year-to-year and course-to-course, the overall ranking method has not necessarily been refined with each additional year of study. However, aggregating their diverse efforts over many years enables us to extract examples that demonstrate how the proposed method of ranking works (and has worked in about a dozen separate iterations). We can also conclude that the student efforts, using real data in ways that have never before been attempted, have essentially produced pilot trials of the efficacy of the larger goal of studying and measuring governance in the developing world. There is a critical caveat, too: It

¹¹ See Nils Petter Gleditsch, Peter Wallensteen, et al, "Armed Conflict 1946–2001: A New Dataset," *Journal of Peace Research*, XXXIX (2002), 615–637; Meredith Reid Sarkees, "The Correlates of War Data on War: An Update to 1997," *Conflict Management and Peace Science*, XVIII (2000), 123–144; Monty G. Marshall, Ted Robert Gurr, and Barbara Harff "Internal Wars and Failures of Governance, 1955–2002," Computer file, 2002. <http://www.cidcm.umd.edu/inscr/stfail>

¹² See Sarah Repucci and Christopher Walker (eds.), *Countries at the Crossroads, 2004: A Survey of Democratic Governance* (New York, 2004).

would be wrong to assume that the actual scores (and the resultant relative rankings) prepared by the various student groups are themselves definitive. Instead, those rankings should be regarded as illustrative, based as they are on energetic and dedicated research limited severely by time.

The results of the student experiments demonstrate both the problems and the possibilities of the good governance ranking method here proposed. Since the students were asked each year to invent or re-invent a quantifiable method for measuring governance, each year the indicators and sub-indicators were similar to but not congruent to those of a previous effort. Even within a given year, separate groups of students pursued slightly different approaches, each group seeking to create the best possible analytical framework for accurately capturing the quality of governance in the developing world. Some groups employed twelve indicators and three to five sub-indicators under each indicator to assess governance across a regional or a global range of countries. Other groups believed that they could evaluate governance attributes with fewer than twelve indicators. All groups were united, however, in seeking to find proxy measures for the delivery of security, law, freedom, prosperity, schooling, and medical attention. In some cases, inevitably and unwittingly, students found themselves employing overlapping measurements in, say, the health and educational areas. (The students were not limited to discovering objective proxies since none exist for certain indicators. Moreover, the student researchers were constrained by time.) Some groups felt that a government's performance should also be judged on how well it empowered civil society, protected the environment, and/or was responsive to concerns of gender.

For the security indicator, the approaches of most groups were roughly analogous, but for this indicator and for the other indicators, their different routes were instructive. A group ranking nation-states in the Middle East and North Africa composed its security indicator of sub-indicators for the presence or absence of armed opposition groups, the presence or absence of armed conflict, the amount of crime per 100,000 people, military expenditures as a percentage of GDP, and the number of military and police per 1000 people. The last two sub-indicators contributed much smaller fractions of the total score for security than the other three.

Another group in the same year, this time ranking countries in Latin America and the Caribbean, weighted human security (the amount of crime) heaviest among the sub-indicators for security. Other sub-indicators were the presence or absence of conflict, and the military budget as a percentage of the total national budget. That group, and others, might have considered whether the police to population ratio was a reasonable proxy for crime. A third group in the same year, for Middle Africa, focused primarily on human security, tracking the numbers of homicides, rapes, serious assaults, theft, counterfeit money cases, and narcotics trafficking cases per 100,000 population. That group also coded for

the absolute number of internal conflicts and the absolute number of opposition force combatants.

A fourth group, covering Asia, decided that the security indicator could most aptly be composed of sub-indicators that focused on the extent to which the central government controlled its own hinterland. It therefore coded for the number of refugees and internally displaced persons per 100,000 people (as a proxy for internal conflict). It also examined “the security of the vulnerable,” especially trafficking of women and children, and personal security (murder, assault, and theft rates), and military expenditures as a percentage of GDP. This last sub-indicator gives too much weight, however, to authoritarian states, especially to those devoting large percentages of their budgeted (and non-budgeted) expenditures to repression.

A fifth group, examining the Southern African Development Community (SADC) countries, analyzed security by constructing sub-indicators for “conflict intensity,” refugee population numbers, and crime. Under “conflict intensity,” this group gave a maximum number of points to each country without conflict and then scaled fewer points for the other countries in its sample, depending on the number and intensity of conflicts within their borders – all according to the Heidelberg Institute of International Conflict Research’s Conflict Barometer. For refugees, this group (and other groups) used United Nations High Commissioner for Refugees (UNHCR) data. For crime, all of the groups relied on Interpol statistics, however flawed. They might have compared Interpol data to UN Survey of Crime Trends data.

This last group measured the amount of rule of law in its region by drawing on World Bank Governance Research Indicator Country Snapshots (a compilation of compilations) for both corruption – “the use of public office for private gain,” and rule of law – “the positive societal mechanism for punishing crime, protecting private property, enforcing contracts, and maintaining reforms.” For some countries there are individual bribery indices, such as the one that Transparency International compiled in 2001 for Kenya. Two-thirds of the urban sample polled in that year reported the existence of bribery in daily encounters with public institutions; 78 percent paid bribes to public law enforcement officials. Individual households in Kenya were reportedly devoting 31 percent of their incomes to satisfying bribe takers (assuming that the cost of bribes to businesses would be passed on completely to consumers).¹³

The Asian group parsed its rule of law into political stability, using a World Bank rule of law indicator as a proxy because it purported to measure “the extent to which agents have confidence in and abide by the rules of society.” The latter include “effectiveness and predictability of the judiciary, and the enforceability of contracts.” This group also evaluated policy transparency/stability, using the World Bank control of corruption indicator, the

¹³ www.transparency.org/dnld/kubi.pdf

World Bank regulatory quality indicator, and the World Bank government effectiveness indicator. This last proxy is defined as “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 government’s commitment to policies.”¹⁴ One group suggested that the number of judges per 1000 people was a useful proxy, citing the enormous delays of judicial review in India, for example.

For rule of law, according to the Middle East group “the predictability of the outcome, including enforceable codes of laws and other methods of legal accountability,” it created sub-indicators measuring the enforcement of contracts and judicial predictability, government effectiveness, property rights, political stability, and the independence of the judiciary. For its sub-indicator scores for the first, second, and fourth items, this group used the World Bank’s Governance Matters III dataset. It is derived from about twenty-five individual outside scores, all subjective. For property rights, this group relied on the Index of Economic Freedom, drawn as it is from a Heritage Foundation and *Wall Street Journal* source, plus Economist Intelligence Unit and U.S. State Department reports on human rights practices. To measure judicial independence, this group employed a Freedom House survey that gave scores for that sub-indicator as part of its civil liberties rankings. This group also noted that useful rule of law sub-indicators might also have focused on the transparency and effectiveness of the legislative process, the manner in which judges were selected, and whether or not the executive branch dominated the others. But insufficient data were available to score countries on such attributes.

Many groups constructed an indicator for political freedom, that is, for the existence of functioning participatory democratic institutions and the rights and freedoms that make such institutions viable. Typical sub-indicators were voice and accountability; political stability; press and media freedom, voter participation rates, political rights, civil liberties, female adult literacy rates, and the existence or not of the death penalty. They might also have attempted to create a sub-indicator measuring respect for human rights.

Datasets which can be used to fill in some of the cells in this indicator’s matrix exist in Freedom House’s Freedom in the World survey, the Heritage Foundation’s Index of Freedom, and the World Bank’s Governance Matters III. Also helpful is Polity IV’s dataset on Political Regime Characteristics and Transitions, 1800–1999, which can be deployed to measure aggregate levels of openness, political competition, and constraints on executives.¹⁵ One group used

¹⁴ Daniel Kaufmann et al, *Governance Matters III: Governance Indicators for 1996–2002* (Washington, D.C., 2003), 4.

¹⁵ Keith Jagers and Ted Robert Gurr, “Tracking Democracy’s Third Wave with the Polity III Data,” *Journal of Peace Research*, XXXII (1995), 469–472, explain how regime type can be attributed to political and social factors such as open elections and individual liberties. They then go on to suggest that Polity III builds on the Polity I coding of the “authority characteristics” of every

information from this last set, when compared and combined with the Freedom House scores, to create an “ability to change government” sub-indicator. For freedom of the press, Reporters without Borders listings and Freedom House’s Press Freedom survey are authoritative, based as they are on numbers of arrests, prohibitions, and publication prohibitions.

Every group used relative economic success or GDP growth as an indicator of effective governance. Constructing sub-measures was fairly straightforward: GDP per capita in constant dollars, inflation rates, foreign direct investments as percentages of GDP, and donor assistance as percentages of GDP were all utilized. Additionally, some groups added a sub-indicator for inflation rates and for budget surpluses/deficits. One group (below) wondered whether GDP per capita levels alone could measure good governance sufficiently.

One group subdivided the outputs of economic policy (in order to capture governance more fully) into macroeconomic and monetary/fiscal outputs. Under the first it measured both GDP per capita and GDP growth per capita. It further developed several proxies for poverty/inequality, including gini coefficient scores, the percentages of populations that were “poor” (using official global definitions of \$1 a day); in order to examine trade openness it weighed trade as a percentage of GDP and gross foreign direct investment inflows as a percentage of GDP. Deficits as percentages of GDP are also relevant. Under the monetary rubric, this group looked at inflation, contract intensive money – the ratio of non-currency money to the total money supply, M2 (roughly the amount of money held outside banks), the present value of debt as a percentage of GDP, fiscal balances, and the amounts of domestic credit available to the private sector.¹⁶ Relative levels of foreign currency reserves is a further helpful measure. All of these data are readily available in the World Bank’s World Development Indicators dataset, from the International Monetary Fund’s statistical packages, or from compilations by regional development banks.

Economic performance is usually enhanced if a nation-state’s arteries of commerce – its infrastructure – are robust. Every group found ways of measuring paved road miles or kilometers per capita and per area, numbers of airport landings and departures, harbor capacities (for those countries that were

country in the international state system. Polity II employed nine rather than six operational indicators of “institutional authority characteristics,” especially political participation, constraints on executive decision-making, the scope of state regulation of non-political activities, the recruitment of chief executives, and the centralization of the state. Polity III used improved annual democracy and autocracy indicators. Polity IV represents a further extension of the time series and adds detail and complexity. It also represents a recoding of some of the earlier material. See also the full Polity IV Dataset Users’ Manual and the Polity IV Variable List. But, as very good as it is, the Polity I-IV data series was not designed to measure governance in the full sense set out in this paper.

¹⁶ For contract intensive money, see Christopher Clague, Philip Keefer, Stephen Knack, and Mancur Olson, “Contract-Intensive Money: Contract Enforcement, Property Rights, and Economic Performance,” *Journal of Economic Growth*, IV (1999), 185–211.

not landlocked), and teledensity – telephone land lines and mobile users, telephone faults, internet usage, and personal computers per 1000 people. The groups also sought to measure comparative electric power and natural gas power transmission and usage. Some found ingenious methods of aggregating data for access to potable water and sanitation. The International Telecommunication Union supplied some of the necessary data. So did the Central Intelligence Agency World Fact Book and other fact books, the Economist Intelligence Unit reports, a web-based Overview of Africa Internet Status, and World Health Organization reports for water and sanitation.

Schooling and Health Services

Governments in the developing world are traditionally and almost without exception tasked by citizens with delivering the highest possible quality schooling and medical care that their treasuries can afford. Measuring those governance outcomes should be straightforward, but in fact every group of students who focused on these two indicators learned that devising appropriate and informative sub-indicators was unusually challenging. The Asian group, for example, decided that the net enrolment ratio in primary education, adult illiteracy rates, literacy gender parity indices, pupil-teacher ratios, the percentage of all teachers who were certified, the average years of schooling (educational persistence), years of compulsory schooling, and public expenditures on all education as a percentage of total governmental expenditures would demonstrate how well a nation-state was educating its citizens. The Latin American group added the percentage of GDP spent on schooling, primary expenditures per student, and the primary completion and repetition rates to the list of sub-indicators. UNESCO's Institute for Statistics, the World Bank's World Developing Indicators dataset, and regional development banks supply much of the required information.

For health outputs, useful sub-indicators include life expectancy levels, infant mortality percentages as a proportion of 1000 live births, the maternal mortality ratio per 100,000 live births, childhood immunization rates, HIV prevalence rates, hospital bed numbers per 1000 population, and health expenditures as percentages of budgets and GDP. (The underlying presumption was that good governance showed up in health outcome results.) But the most important sub-indicator, summing up mortality rates and life expectancies, is the World Health Organization's Health-Adjusted Life Expectancy (HALE) Index, earlier referred to as the WHO's Disability-Adjusted Life Expectancy Index (DALE). (HALE measures life expectancy adjusted for morbidity and time spent in poor health. It measures the equivalent number of years in full health that a newborn can expect to live, based on mortality rates and prevailing health

states.)¹⁷ For some regions additional sub-indicators summing up the incidence and treatment of diseases like malaria, tuberculosis, and dengue fever are appropriate. The World Health Organization's Global Atlas of Infectious Diseases, The United Nations Statistics Division's Population and Vital Statistics Report, World Development Indicators, UNICEF's State of the World's Children, UNAIDS, the UN Demographic Yearbook and the UN's World Population Prospects, and regional specialized institutions such as the Pan American Health Organization, compile much of the necessary data.

Many groups sought to provide an indicator for quality of governance assessing how nation-states looked after their environments. But doing so is difficult and controversial. The Middle East and North Africa group decided to construct a sub-indicator that would measure air quality, that is, the emission of greenhouse gases (carbon dioxide), the emission of ozone-depleting chlorofluorocarbons used as refrigerants, cleaning solvents, aerosol propellants, and plastic foams (CFCs), and the number of passenger cars per 1000 people; another tried to measure water quality, that is, access to improved sanitation and reduced organic water demands on biological oxygen (BOD); and a third sought to capture the extent to which a developing country protected wildlife. Another group used the average annual percentage change in forest cover as a sub-indicator. The UN Environmental Program, UNICEF, the UN Statistical Yearbook, the World Health Organization, and World Development Indicators all supply some of this information.

Summing the Scores

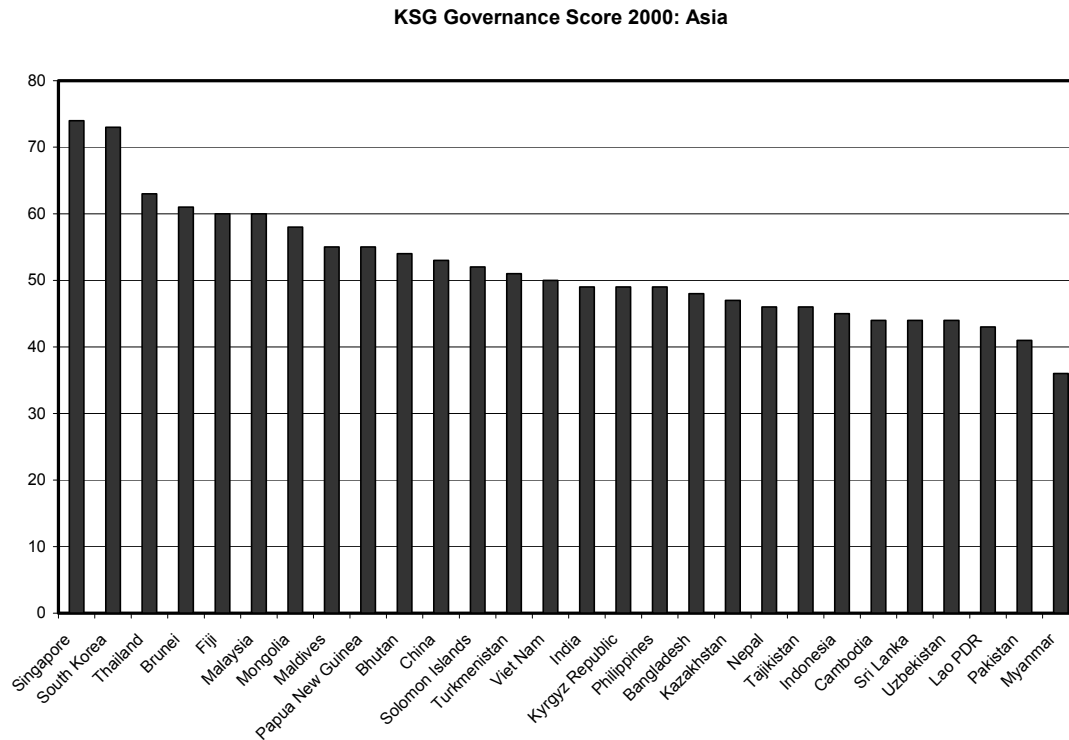
Fortunately, when indicators and sub-indicators are arranged as explained above, and the individual indicator scores are summed, the results comprise overall national governance scores which by and large seem reasonable. Most of the individual indicator rankings also appear to accord with common sense. When either the overall governance ranking number or any one of its component indicator ratings seems unexpected, then further scrutiny of national performance is desirable. The overall or component scores may draw attention to unappreciated attributes or deficits of the particular nation-state. Alternatively, the score or scores may reflect poor data or misapplied hypotheses.

A few examples will illustrate the possibilities in this method. For Asia, the most well-governed states (2000 data) were Singapore, South Korea, Thailand, Brunei, and Fiji; at the bottom of the same list were Myanmar (Burma), Pakistan, Laos, and Cambodia. China ranked eleventh out of twenty-nine and India was eighteenth. Brunei's higher than expected placement is probably explained by a high rating (after top-rated Singapore) in the rule of law list, being in a comparable place on the infrastructure table, and receiving reasonably high

¹⁷ An official explanation is "Any of a number of summary measures which use explicit weights to combine health expectancies for a set of discrete health states into a single indicator estimating the expectation of equivalent years of good health."

ratings for security. Otherwise, the top and bottom countries of the Asia table jibe with impressionistic evidence. The fact that the snapshot year chosen was 2000 also explains the high (twelfth place) ranking of the Solomon Islands (which has since been plunged into civil war). It may also explain in large part why war-torn but otherwise prosperous and fast-growing Sri Lanka rated twenty-fourth, after Indonesia and Tajikistan, and barely above Uzbekistan.

Figure 1.1

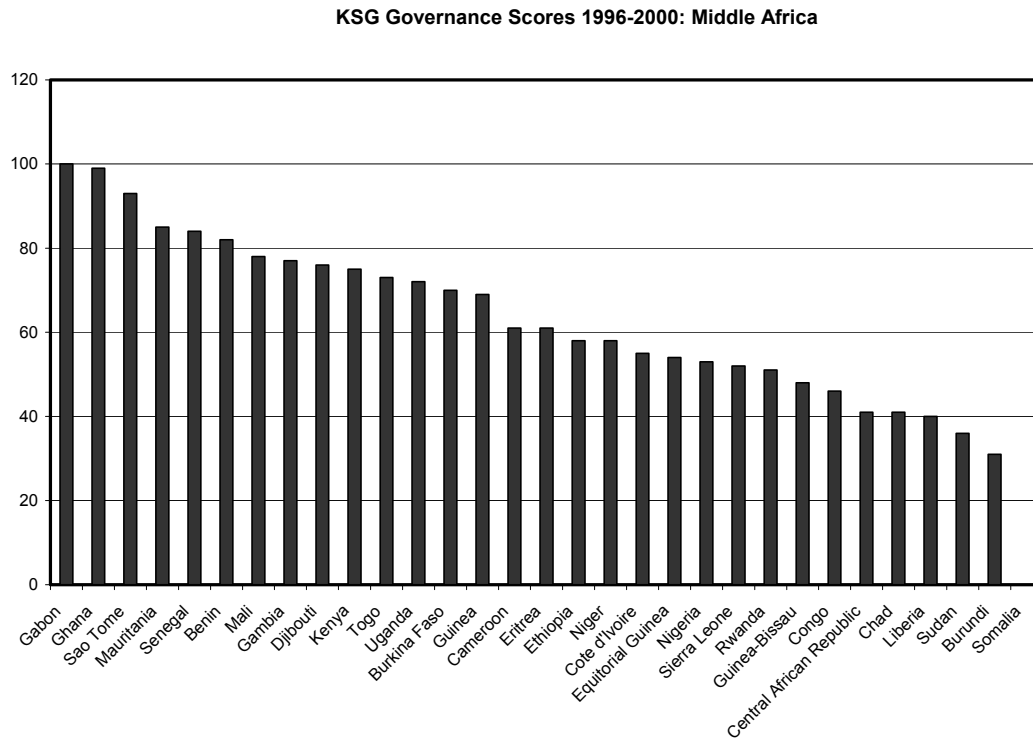


Singapore and Brunei ranked high because they were wealthy and delivered a high order of political goods to their citizens, particularly security. The fact that both were downgraded in their total scores because of deficiencies in the supply of political rights and freedoms illustrates the strength of the method (they ranked high despite some low-rated variables) and the critical importance of deciding how to weight the value of each indicator. If political rights were deemed less valuable to good governance than security, for example, both Singapore and Brunei would have fared less well in the final overall evaluation.

In Middle Africa (using 1996 to 2000 data), Gabon, a tightly-run autocracy for decades, was judged best governed. Democratic Ghana was second, followed by Sao Tome and Principe, Mauritania, and Senegal. At bottom were Somalia,

Burundi, the Sudan, and Liberia. Sierra Leone was in the bottom third, Kenya in the upper third. Togo, whose president took power in a coup thirty-seven years ago and who runs his tiny country with a heavy hand, was ranked eleventh, below Kenya and ahead of Uganda. That may be an anomaly.

Figure 1.2

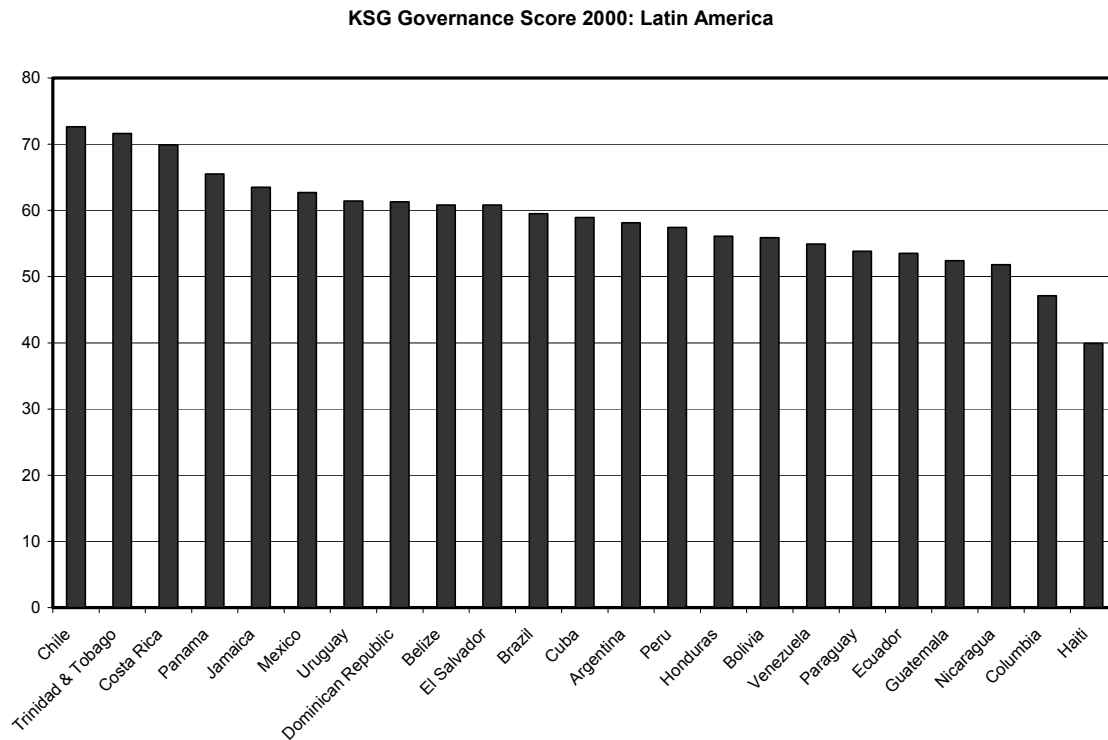


Gabon gained first place largely because it came first on the security indicator, third on rule of law, second on the economic indicator, and as high as sixth on political freedom. But in Gabon's case, the high security rating reflected the absence of internal armed conflict (a reflection of President Omar Bongo's French-butressed heavy controlling hand), at least during the years chosen for review, and the way in which armed conflict was defined – for French troops did put down riots against Bongo during the 1990s. Likewise, human security numbers had probably been deflated by the absence of homicide numbers (as reported to Interpol for the years in question). Gabon's high economic standing resulted from the country's oil wealth and limited population. Its sixth place ranking for political freedom may even have been over generous, for legislative elections throughout the 1990s were widely regarded as fraudulent, tightly manipulated as they were by Bongo. More recently, too, Bongo has changed the constitution so that he can remain in office indefinitely. In fact, Gabon's twelfth

place ranking for rule of law more completely captures the country's institutional weaknesses, its massive corruption, and the impaired quality of its judiciary. Yet, the twelfth place ranking was insufficient to bring Gabon down from first place in its region because security was so heavily weighted among the indicators. Thus, although Gabon almost certainly was rated too highly, that aberrance means mostly that the kind and weighting of sub-indicators and indicators requires careful calibrating and testing.

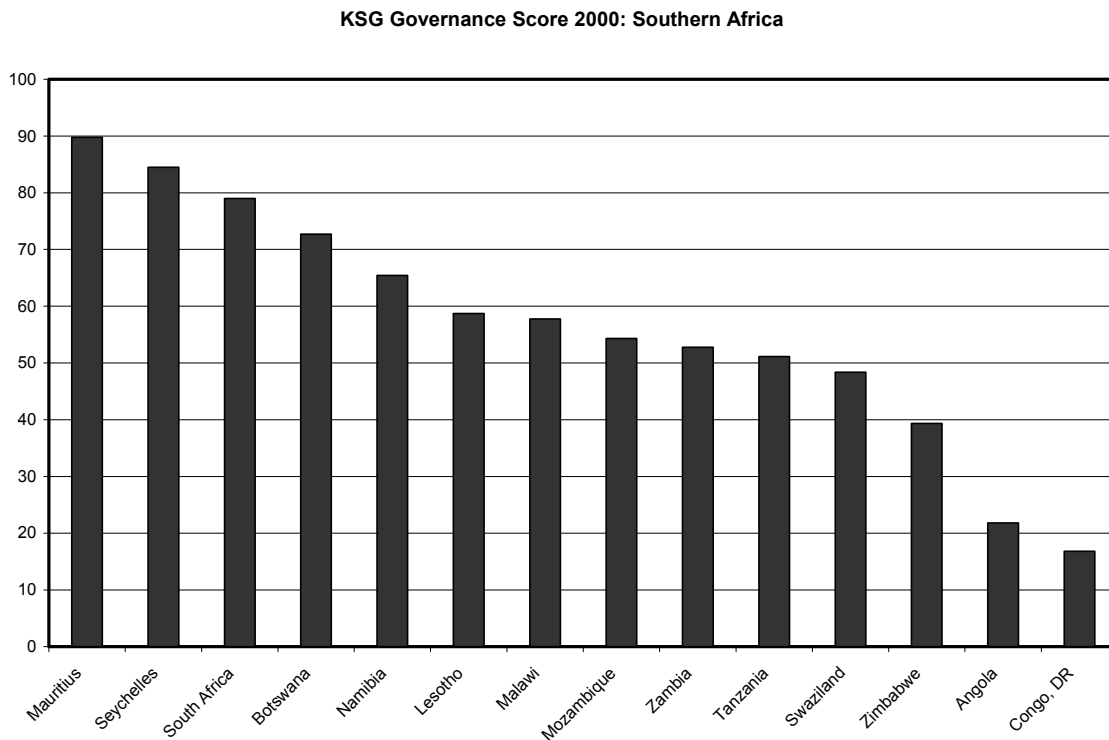
The Latin America and Caribbean group rated Chile first, Trinidad and Tobago second, Costa Rica third, and Panama fourth (on 1998 to 2002 data). At the bottom were Haiti, Columbia, Nicaragua, and Guatemala. Paraguay and Ecuador were just above Guatemala. Jamaica was fifth, which seems high, ahead of Mexico. Jamaica placed about fifth or sixth on most of the indicators, contributing to its overall sum. Columbia's very low overall place reflected its position as the least secure of all twenty-three countries, and as one (according to the student-gathered material) of the least economically successful. It was also near the bottom on the political rights and civil liberties indicator.

Figure 1.3



For Southern Africa, Mauritius, the Seychelles, South Africa, and Botswana were the top four (1997–1998 and 2001–2002). The Democratic Republic of the Congo, Angola, Zimbabwe, and Swaziland comprised the bottom four. Thus there were no particular surprises, especially for those two sets of years. But this group also wondered how its rankings would equate to rankings of the same countries in the same years if GDP per capita were the sole criterion for ranking good governance. The best governed four were identical using either method. Angola and Zimbabwe would have ranked much better on GDP alone, however. Malawi and Zambia, ranked in the middle of the Southern African countries by the full method, would have dropped down the scale if GDP had been the sole criterion.

Figure 1.4



What the student pilot efforts have demonstrated is that ranking the countries of the developing world according to their qualities of governance, using elaborate proxy indicators to evaluate levels of performance and sub-performance, is plausible, and capable of leading to reasonable and defensible results. The mix of objective- and subjectively-derived data represents the best efforts and combinations to date. To replace the more detailed subjective numbers with truly objective quantifications would mean extensive fieldwork

and/or the development of new objective measures capable of being applied by data collectors within each country (were sufficient funds available). Absent such on the ground data collection and analysis, the trend of the quantified results prepared by various student groups make sense, and give confidence that the endeavor is worthy, if needing considerable additional scrutiny and attention. What is required going forward, however, are more fully refined indicators and sub-indicators, each tested laboriously, and a statistically-valid method for smoothing data and/or replacing missing data points.

Correlating the Pilot Scores against Existing Indices

Do the students' indices measure something substantially different from other available indices, indicators, or sub-indicators? Some of the sub-indicators, such as the UN's Human Development Index, are highly correlated with the student measures. The World Bank's Government Effectiveness measure would be expected to have a high correlation with an overall "governance index."¹⁸ Table 1.1 shows exactly how, for the Middle African states (one example), the KSG index compares with the Heritage Foundation's Index of Economic Freedom (Heritage), Freedom House's Annual Freedom in the World Index (FreedomH), "Real GDP per Capita" (LnGDP), the United Nation's Human Development Index (UNHDI), the Government Effectiveness Index (GE), and Transparency International's Corruption Perceptions Index (CPI).¹⁹

Table 1.1

MIDDLE AFRICA (CORRELATION of Indicators)

	KSG Index	Heritage	FreedomH	LnGDP	UNHDI	GE	CPI
KSG Index	1.0000						
Heritage	-0.7284	1.0000					
FreedomH	-0.5708	0.5022	1.0000				
LnGDP	0.2804	-0.062	0.1811	1.0000			
UNHDI	0.3779	-0.128	-0.034	0.7664	1.0000		
GE	0.6730	-0.599	-0.427	-0.2063	-0.1766	1.0000	
CPI	0.2165	0.0217	-0.284	0.0462	-0.1588	0.3249	1.0000

¹⁸ Government Effectiveness is one of six indices developed by the World Bank to measure governance. Dani Kaufmann, Art Kraay, and Massimo Mastruzzi. 2003, "Governance Matters III: Governance Indicators for 1996–2002," World Bank Policy Research Working Paper 3106 (Washington, D.C., 2003),

<http://www.worldbank.org/wbi/governance/pubs/govmatters3.html>. The World Bank clusters 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 to form the government effectiveness indicator.

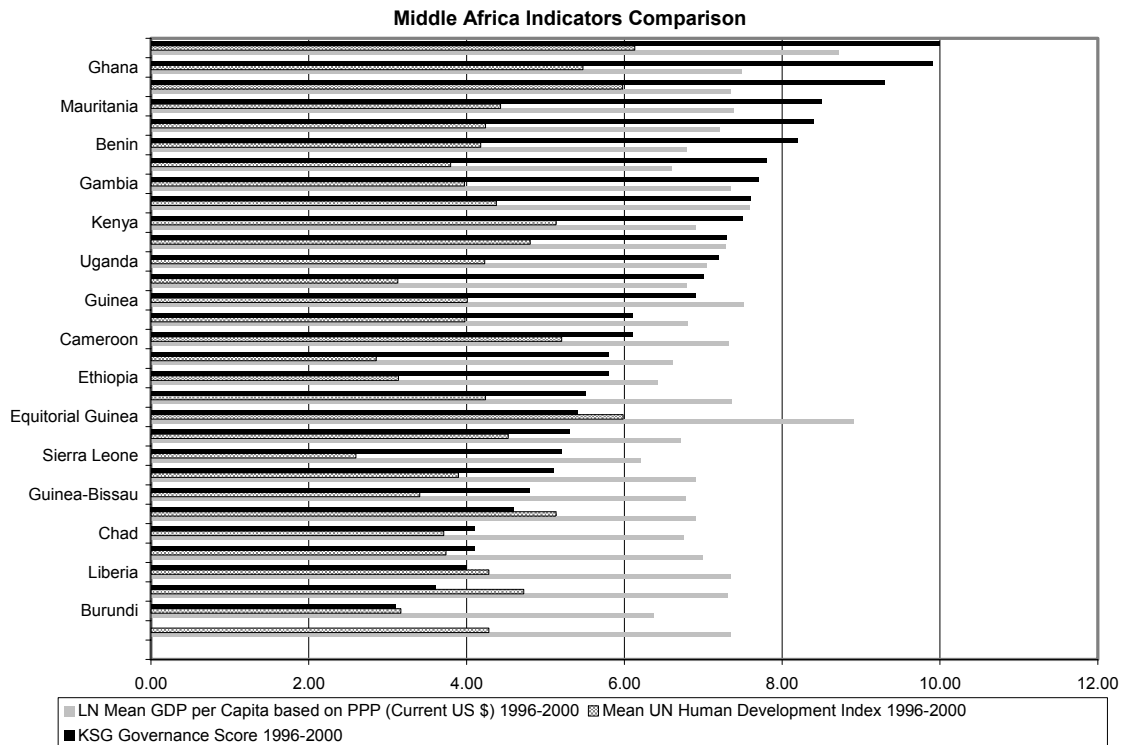
¹⁹ The natural log of the IMF measure for Real GDP per Capita is used here. (Marie Besançon, assisted by Donald Lambert, compiled the students' data with the other indicators, calculated the correlations, and constructed the comparison graphs.)

The highest overall correlation between indices for Middle Africa is between the GDP per capita measure and the UN's Human Development Index at 0.766. This figure indicates a strong linear association between the two variables. Although the association among the Middle African States between the KSG index in this section is a negative 0.728 with the Heritage Index, the strongest positive correlation coincides with the World Bank's Government Effectiveness measure. This correlation of 0.6730, though fairly substantial, does not reach the standard benchmark of 0.75, indicating a similar effect on a dependent variable in a simple regression.

The KSG index, the natural log of the Real GDP per capita, and the UN's Human Development Indicator are depicted graphically for Middle Africa below (Figure 1.5). Clearly, with this group of states, the UNHDI measures something different from "governance." For instance, Mauritania and Liberia have very similar scores on the Human Development scale (as noted by the white and black dotted lines), while Mauritania is far better governed than Liberia, a failed state. The log of the Real GDP per capita is also very similar for these two nations.

Correlations tables for each of the country groupings was calculated and can be found in the Appendix. For the Latin American countries, the KSG index most highly correlated with the World Bank's Government Effectiveness Index at 0.838, indicating a very similar measure. Among the Asian countries, GDP correlated highly with the KSG index at 0.723. However, in Middle Africa, the correlation between GDP and the students' index was only 0.280, a very low similarity. Across the board, the other measures of governance such as the Government Effectiveness Measure do not capture the essence of good governance in the same manner as the KSG index, nor does a measurement for overall prosperity such as the Real GDP per capita indicate how well a nation is governed. An overall ranking for total governance that could be constructed from primarily objective data, from the students' pilot study, shows an effective scale that significantly captures something unique. (See also the graphic representations of comparisons for Latin America, Asia, Southern Africa, and Middle East and Northern Africa – all in the Appendix).

Figure 1.5



Conclusion

If there is acceptance of the general validity of the proposed method, assuming that the method must be refined, then the remaining questions are normative and implementational. Would, as is assumed, lower ranked countries focus on and seek to improve the ways in which they are governed and perform governmentally for their citizens? Would foreign investors pay attention to the available rankings and shun those countries ranking lower on the list than their neighbors, petroleum and other mineral producers presumably excepted? Would donors, most important, use the rankings to discriminate in favor of the better-governed countries, as President Bush's Millennium Challenge Account prescribes? Would donor giving and lending therefore provide an incentive to sharpen the ranking method here advocated, the better to strengthen governance in the developing world, especially in the poorest and most conflicted countries? Would rankings, coupled perhaps with a quantitatively driven pro bono advisory system, help the least well governed to do better? Would such a data-rich ranking method lead to less conflict and more development as governance across the developing world improves? That certainly is an aspiration sufficient to inspire this proposal.

Converting the concept into a full-fledged governance ranking system requires the creation of a new non-partisan, non-profit, non-governmental organization; staff; and the investment of seed funding. It also requires the acceptance of the general idea by many if not all of the prospective stakeholders – nation-states in the developing world and donors such as the members of the G-8. It further requires additional work on and rigorous testing of the hypotheses that underlie the proposal and the proxy indicator method. Additional development of the proxy indicators themselves is necessary. Further pilot runs will be important.

These are necessary caveats. But the problem of governance quality in the developing world is massive and well-recognized. Improving governance is thus an urgent endeavor. The efforts of NEPAD and the Association of Southeast Asian States (ASEAN) are certain to be insufficient in the near term. Now is the time to measure governance in order to improve the lives of citizens across the globe. The creation of an effective good governance ranking system and an advisory service for governance will help meet that critical challenge.

Appendix: Comparison of Indicators and Correlations

Figure 1.6

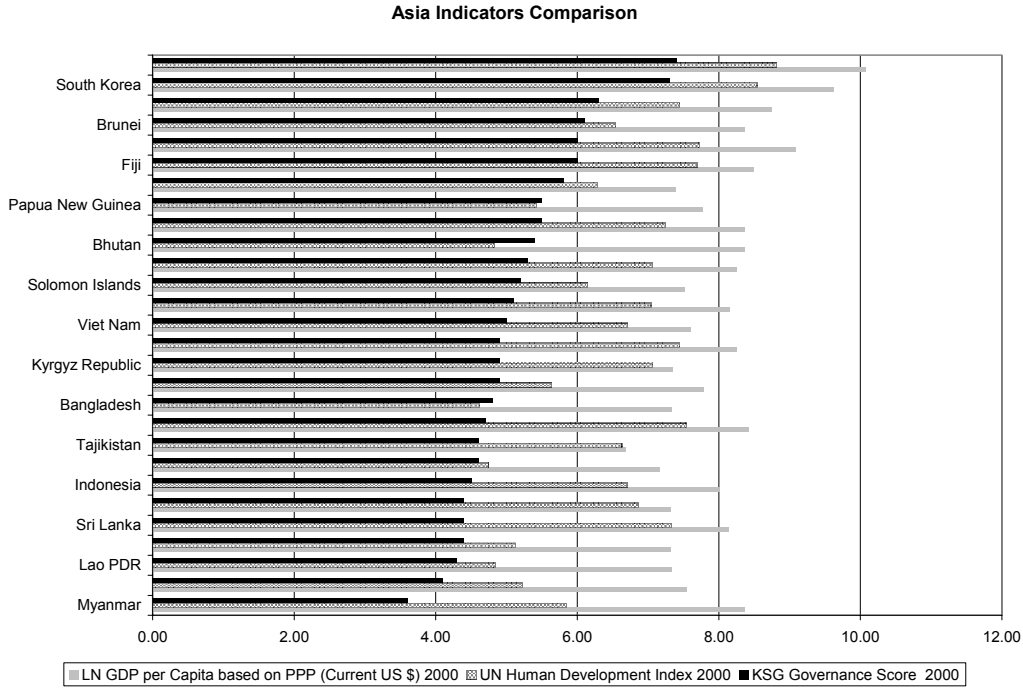


Figure 1.7

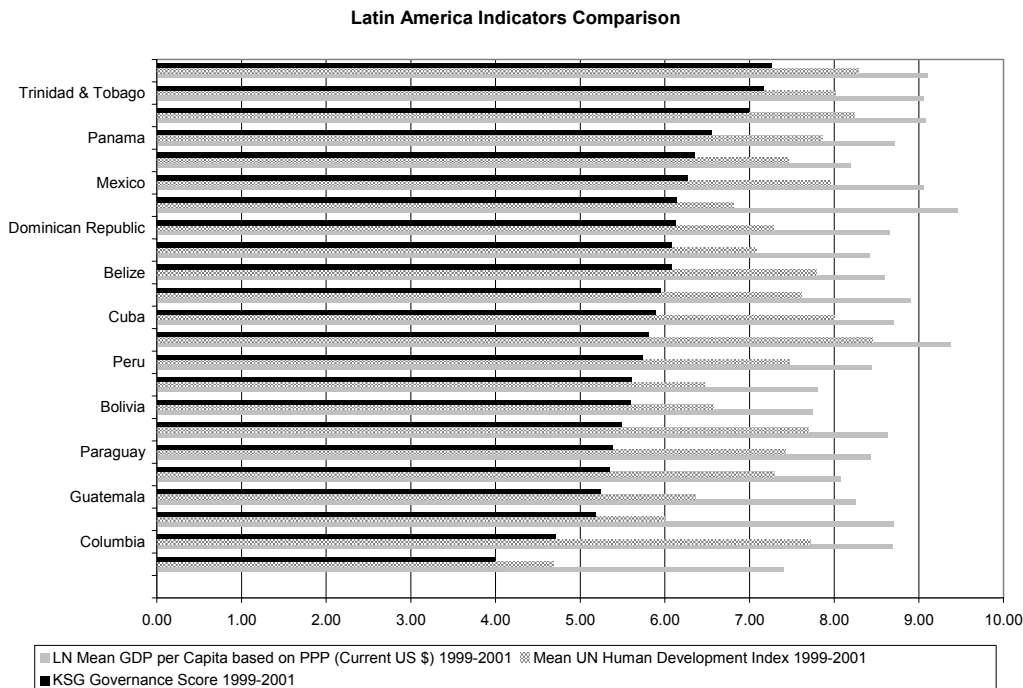


Figure 1.8

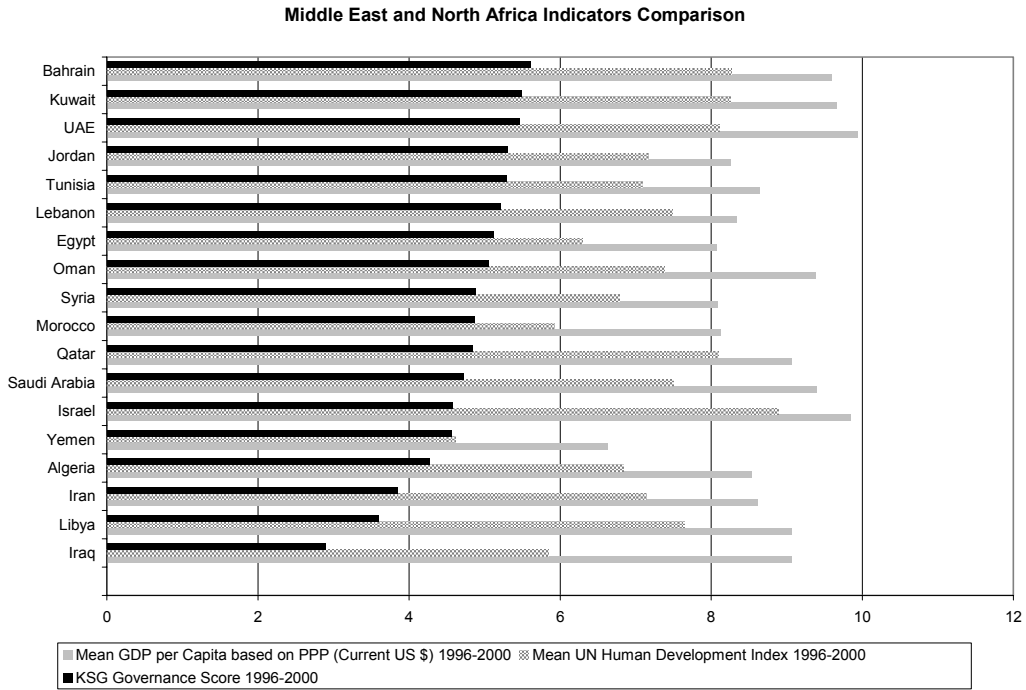


Figure 1.9

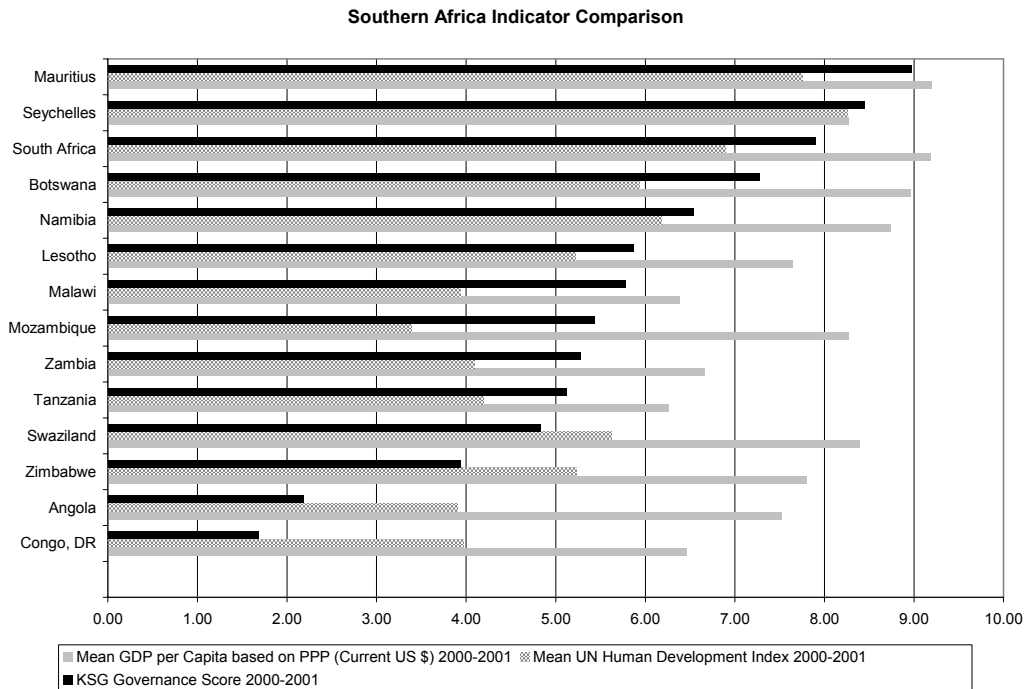


Table 1.2**ASIA (CORRELATION of Indicators)**

	KSG Index	Heritage	FreedomH	LnGDP	UNHDI	GE
KSG Index	1.0000					
Heritage	-0.7060	1.0000				
FreedomH	-0.3468	0.4888	1.0000			
LnGDP	0.7232	-0.6964	-0.1423	1.0000		
UNHDI	0.6026	-0.5176	-0.1114	0.6940	1.0000	
GE	0.7334	-0.7186	-0.1791	0.6757	0.3340	1.0000

Table 1.3**LATIN AMERICA (CORRELATION of Indicators)**

	KSG Index	Heritage	FreedomH	LnGDP	UNHDI	GE	CPI
KSG Index	1.0000						
Heritage	-0.4834	1.0000					
FreedomH	-0.5827	0.7893	1.0000				
LnGDP	0.6082	-0.324	-0.350	1.0000			
UNHDI	0.6991	-0.333	-0.277	0.6984	1.0000		
GE	0.8379	-0.516	-0.509	0.7394	0.5997	1.0000	
CPI	0.6642	-0.362	-0.266	0.4939	0.3408	0.7497	1.0000

Table 1.4**MIDDLE EAST AND NORTH AFRICA (CORRELATION of Indicators)**

	KSG Index	Heritage	FreedomH	LnGDP	UNHDI	GE	CPI
KSG Index	1.0000						
Heritage	0.2529	1.0000					
FreedomH	0.7028	0.6604	1.0000				
LnGDP	-0.6596	-0.4749	-0.8062	1.0000			
UNHDI	-0.4641	-0.4820	-0.8355	0.9388	1.0000		
GE	-0.2569	-0.6614	-0.6244	0.8632	0.8626	1.0000	
CPI	-0.5615	-0.7654	-0.8930	0.9236	0.9133	0.9020	1.0000

Table 1.5**SOUTHERN AFRICA (CORRELATION of Indicators)**

	KSG Index	Heritage	FreedomH	LnGDP	UNHDI	GE	CPI
KSG Index	1.0000						
Heritage	-0.2781	1.0000					
FreedomH	0.1492	0.6676	1.0000				
LnGDP	0.6061	0.0457	0.2809	1.0000			
UNHDI	0.7781	0.0231	0.3887	0.7063	1.0000		
GE	-0.0770	-0.7930	-0.8094	-0.1083	-0.3146	1.0000	
CPI	-0.1296	-0.4746	-0.6235	-0.0207	-0.1320	0.7081	1.0000

Creating a New Ranking System for Governance? A Conference Report

Deborah L. West

Preface

The summarized discussion of the meeting on April 2-3, 2004 that follows adds to and enriches Robert I. Rotberg's "Improving Governance in the World: Creating a Measuring and Ranking System." Both the paper and the individual commentary below extend the research and observations contained in WPF Report 36, Marie Besançon, *Good Governance Rankings: The Art of Measurement* (Cambridge, MA, 2003), the first substantial output of the Belfer Center Program on Intrastate Conflict and World Peace Foundation project on good governance.

All attributed comments were made strictly in the individual's personal capacity and do not necessarily reflect the opinions of his/her organization.

The commentary is edited lightly. For authenticity, transparency, and clarity, we decided to retain colloquialisms and "conference" rather than literary speech. Please note that although the text may read as if it is a full transcription, it is not. What follows is a summary that faithfully reflects the intent and the words of the speaker, but is a less than full rendering.

—Deborah L. West

I. A New System?

Besançon: I thought that we could visually look at what the KSG idea of a governance indicator was and how it stacked up against other indicators. I made a table from some of the indicators from the last class and looked at how the governance indicators looked on GDP per capita. Did they measure the same thing or something different? How did ours stack up against the other indicators; they aren't all measuring the same thing. Looking at the tables, the correlations weren't exactly the same. Freedom House and Heritage correlate pretty well. .75 is the measure for high correlation, and Freedom House and Heritage are at .9. I threw in Hoeffler and Collier's "greed" data as well. If there were enough data, we could have run regressions, but there weren't enough.

Rotberg: The graphs help us to see that the KSG students' efforts for six years demonstrate that their methods produce different results from the existing indicators. The results aren't necessarily better or worse, but they are different. GDP was added to see if a simple GDP correlation would prove that GDP could be a proxy for governance. Clearly, that is not how it works – the correlation isn't there.

There can be good correlation at the top and the bottom, but significant differences in the middle. What the students did is important because it demonstrates that this system adds value. The student groups had eight weeks to three months to do this, and it's a project that really takes at least a year to complete properly.

There could be a way of measuring governance in the developing world (or the whole world). Some indices currently do the whole world, but because of practical matters, this project started with the developing world.

The analogy is that Transparency International brought corruption out of the closet. It started a decade ago to focus on corruption and forced countries in the developing world to look at corruption and be ashamed if they were at the bottom of the list. There isn't any empirical evidence that countries have in fact improved their governance in the corruption area based on Transparency International, but there is anecdotal evidence, and clear evidence that countries are concerned with the issue.

When we ran the African Competitiveness Index in 1998, we saw that countries were willing to do something about corruption. Civil society is empowered to use these indices as a cudgel, potentially to bring about change.

The proposal is to form a new NGO analogous to Transparency International which would try to bring governance out of the closet and improve it. Freedom House might argue that it's already being done; World Bank does the data but can't rank it. The second question is: if there is a need for a governance index, how should we do it?

I argue that the closest we can come to an objective method will enable us to get away from the selection bias which is inherent in the subjective forms which are currently more in use and easier to do.

When my students look at corruption and discover that of the fifty-three countries in Africa, Transparency International can only do ten (or whatever the number), that doesn't cover a large part of the developing world. We want to use an array of established data to develop an new objective method, using proxies. We would have to spend a year exploring the proxies. You can look at Interpol statistics to find proxies for human security, but the data are falsified. How do you develop a better method? You need to go into the field and collect data closer to the ground. GDP is fine, and GINI can be helpful. You can also measure road miles per capita, road kilometers per square kilometer, paved roads, internet access, all of which would indicate infrastructure as proxy for governance. Freedom House does this, but the new method could be improved.

Outputs should be measured, not inputs. The students mixed inputs and outputs, knowing that outputs were better, but substituting inputs when outputs weren't available. In addition, because it was part of the exercise, they were forced to reinvent the wheel every time.

Jonah: Despite all of these shame and blame projects, most states' behavior hasn't changed. Civil societies can use indices and publications effectively, but most political leaders make assertions about corruption, etc., and don't enforce actual change. When you approach problem governments, they note that corruption is everywhere and list the examples. I often respond that the developed countries can afford some dose of corruption, but the developing countries cannot and should not.

Similarly with governments, there is a global problem with governance, not just in the developing world. Many countries are run poorly. But if you have a poor government in D.C., there are countervailing institutions which mitigate the effect. In many developing countries, the government is the primary institution, and if it's poor, everything else collapses.

The same malaise can be different in different situations. In order to impact leaders you must be aware of what you're doing. Lee Kuan Yew knew that he couldn't run Singapore in an independent, democratic way because he had a goal. You must be aware of context.

Rotberg: It is important to include the whole world in such rankings. Belarus, Ukraine, and North Korea would rank below Botswana, for example.

Karatnycky: You are looking at levels of development as a condition of governance. Resources, roadwork, and internet connectivity are measurements of resource and development. Below \$1500 per capita GNI, it is hard to show

distinctions, because the lack of development is the problem. You have to give attainable aims. Governance should not be completely dependent on the country's level of development.

Issues like voice and accountability, etc., are influenced by resource levels, but can be judged within a set of cohorts (e.g., income range) relatively independently of the absolutes of development. Some of the political goods are economic and social goods, and that is where there is a lack of clarity. Maybe they are not weighted as heavily as the paper suggests. The initiative is valuable and does not duplicate other efforts. A governance index modeled on the Transparency International approach could be good.

There are things that need to be worked out. Provision of security and military expenditure don't necessarily correlate. If a government has few external threats and a high military output, or many external threats and a low military output, how do you judge them against each other? Where are we really measuring capacity? That needs to be the measurement of good governance, not resource capabilities.

Rotberg: A government that does not enable in the economic area is poorly governed. A country can be poor even while lots of money is going to the ruling clique. We need to look at bad examples like Zaire of the 1960s and the Congo today and how Mobutu drained the country.

Botswana gained its diamond wealth after 1975. It had five miles of tarred road at independence in 1966, but by 1975 there were hundreds of miles of paved roads. The government was poor but decided to use its funds for the people. The question is where do we begin? Bad examples include Chad pre-petroleum; Under Nyerere, Tanzania disinvested rather than invested and the results are evident.

Karatnycky: But you could look at that in proportional expenditures.

Rotberg: That's the input-output problem. You see where the money is supposed to go, but not necessarily where it is actually spent. In some places you can see the positive output.

Jonah: We are hearing here about what the World Bank and IMF are doing. Policy has been put in place where they determine where the resources will go. The danger is that you may deliver the goods but that does not mean that you govern well.

Rotberg: If a citizen wants an array of political goods from the government (stability, security, education, health, and a chance to become prosperous), then governments are responsible as rulers for supplying or enabling those political

goods. Becoming more prosperous is one of those goods. Roads are one way of approaching that question.

Kotecha: I am quite impressed with the work done by a variety of institutions here. How can I contribute to this dialogue? There are similarities and differences for ratings for emerging markets and financial instruments. The ratings I have worked on are for debt insurance and investment strategies. If countries want investment, they need to pay attention to their ratings.

Who are the users of this governance rating? The Millennium Challenge Account (MCA) is one user. It has sixteen indicators mandated in the act. Donor agencies are another user, and results on indices make differences in what countries get for aid. Bilateral and multilateral agencies would be included, and private investors. Equity investors look at sovereign ratings and credit ratings. Bear in mind who the ratings should address. Will they pay for them? Standard & Poor's does its ratings for a fee. Corporations buy them, as do countries because investors pay attention to the ratings. If donors pay attention, then the ratings will command value.

What is the value? S&P has credibility. How did it achieve credibility? Independence, a long track record, and a captive audience of investors. If there is an establishing agency here, it won't necessarily have credibility even if it has a lot of funding. You must look at the audience, the value of the service, who will pay for it, and credibility.

You can run into problems of conflicting legitimate indicators. We always had a combination of quantitative and qualitative analyses.

Rotberg: If Tajikistan sees its low rating, they can see how that is derived and how it could be improved.

Miles: I've often found that first differences are more important than levels. We talk about levels such as poverty. The lack of opportunity is even more depressing. Whether or not countries create an environment of opportunity is a big issue. You want to measure outputs, not inputs. Government-produced infrastructure is not an output because it may or may not do anything.

There are clear cases where you can measure infrastructure as an output (e.g., Argentine railroads, U.S. canals). These projects were done because of financial opportunity by private investors, and are therefore output.

Besançon: There needs to be an atmosphere of good governance covered by proxies.

Miles: Those proxies show government coming in and fixing things, but opportunities may arise when government steps back. Corruption can be an

underlying problem in that there is a lack of opportunity because of government restrictions.

Anderson: What do you mean by inputs and outputs? We define an outcome as a social consequence of an output.

Rotberg: I'm talking about outcomes in your parlance.

Anderson: Outcome is the opportunity, output is the government doing something. The roads measure reveals a lot. At the UK Department for International Development (DFID), we are measuring whether states are failing or not. One of the measures we used was the portion of country covered by roads. Brazil comes out badly because of Amazonia, which isn't covered in roads and shouldn't be. Looking at an objective indicator without linking it to subjective indicators creates mistakes.

It is important to note the link to development. The right to a fair trial can only work if there's a transcript, judges have rooms, there is legal representation, etc. – all of which cost money. There is a link between governance and expenditure. Can governments mobilize domestic and foreign resources? If so, they can often do more. The involvement of resources is part of governance.

Rotberg: The students always included a sub-indicator of foreign aid flows to look at that issue. One indicator doesn't provide the answer to governance; there are several. Brazil's internet access is very high, for example.

Marshall: The work that the students did was really useful. But one of the difficulties is that it is very complicated. We need to narrow it down, unbundle governance, and come up with simple things everyone can agree upon, otherwise we get into the problem of what different things mean.

Making this a transparent process is useful. The question of effective use of resources needs to be born in mind. Some things are costly but the choices a government makes are important. How do you measure that?

The index should be global, even if it's of limited utility in the vast majority of countries. It should not be a question of "us" and "them."

Hodess: There's been a lot of talk about corporate governance. How can we use that experience? How does the private sector contribute to quality of life and social goods, how does the system work?

Rotberg: There's a lot of OECD work on corporate governance. I thought that the bigger issue was government governance and I didn't want to muddy the waters.

Hodess: There are parts of the world where it's not that separate. In some places, policy doesn't happen without the private sector playing a major role in policy.

Galaydh: 1) We are talking about governance and cannot just focus on government. In terms of developing countries, it's a strategic mistake to conceive the government of some developing countries as the primary driver. In some places companies, or the donor community, play a major role. It's not just the government making policy.

2) The kind of government we're talking about assumes the old stories of rational choice. The type of development that is assumed here – such as security – we have to look at the subtext. Are we talking about roads for open trade, hinterland to the port for export, infrastructure that affects people's lives? Governance is not just a matter of being integrated into the world economy.

3) Outside resources. Is the idea that donor governments will look at these indices and decide whether the country is worthy of foreign aid? What is being done here doesn't have any predictive abilities. If there is no strategic significance to a place, it won't matter that much to donors. Korea used American resources well but they got massive amounts from the U.S. for strategic reasons. If you have oil, Shell doesn't need to read the indices, they'll just go.

4) These kinds of indicators are an extractive industry. The countries don't gain from them. The kind of data that is provided is good for research and teaching, but not for the purposes of public policy making. The data is not usable for Somalia or Gabon.

Transparency International grabs the headlines and seeing their lists gives us reason to pause, but I am worried about another project that thinks that useful work is being done, but the work does not benefit the poor countries.

Rotberg: My hope is that Malawi, for example, which wants MCA and DFID money, would pay attention to a rating system that rates it below its competitors, and try to improve. It could see where its grades are low, and improve them.

There will be ways to provide assistance, counseling, advocacy, etc.; that is part of the proposal. Even if the people in charge of the country don't use the indices, civil society can use it to put pressure on the government to move up the scale.

Galaydh: Nigeria cannot be moved by an index like this. Nigeria is a world unto itself. The UNDP Human Development Index has been around and provides information in terms of social investment for the donor community. It has tables which indicate what type of foreign aid flows where; it correlates social programs and other measures. It also looks at the military and security. For Malawi to go to DFID or MCA assumes that all are reading from the same page. Any taxi driver from the Arab world can tell you how things are en route from the airport to the hotel without a Transparency International index. What worries

me most is that there is a lot of work being done that is taken out but not plowed back, or is not suitable for policy making.

Miles: Every year finance ministers complain about their Heritage Foundation rankings. You can't get every country to react. This year I have noticed an increase in countries eligible for MCA coming to us and checking how we're ranking them. We've also had calls from countries we don't rank asking to be ranked.

Besançon: Transparency International influenced elections in Nigeria and mobilized civil society. Rankings won't change everything, but they had significant influence on this one issue.

Hodess: As an NGO, we're struggling to rank countries and to see what is going inside the countries. We also need to know more in order to influence countries at the country level. There could be a double approach.

Karatnycky: Returning to the governance data, you can look at roads, etc. from the government's perspective. How are the resources being spent? Look at that through an audit mechanism. It is possible to advise a range of infrastructure, which could be very helpful. The money may be used ineffectively, or very effectively.

Rotberg: The indicators would be smoothed in a longitudinal pilot study.

Bekoe: This is an opportune time for such a ranking system because there is increased interest in Africa through the New Partnership for Africa's Development (NEPAD). It is accepted as a ranking by the governments as well as the industrialized countries.

Woolcock: The debate about the marginal value of having another index has been won. The tools are there. The independence question is fair game. When I look at these things, my job is to take the World Bank's data and do something about it. How legitimate is naming and shaming? There is enormous scope and variation of performance in the big countries, like India. It doesn't help to know who's responsible. Sub-national units play an increasingly important role.

How do we come up with tools to address these issues? Why do different systems within one government perform so differently? Or sections of the country?

Rotberg: We could all probably agree on the best and worst governed countries. It's the great middle that's tough. How do those things parse out? We could use correct rhetoric in talking about where good governance is and isn't, but also help those countries get on the MCC list and/or fix problems.

Museveni thinks that Uganda is well governed but it isn't. He needs to know what the ranking is and look at it. He would ask why other countries rank where they do.

Miles: Ascending and descending levels of governance are important, again the *first difference*.

Woolcock: Educational money in Uganda was disappearing, Only 13 percent made it to the people. Government surveys showed where the leak was. That particular tool had a huge impact on Uganda. We need more of that kind of tool.

Rotberg: You can compose the indicators in as fine a format as possible. My favorite is contract intensive money – it shows the confidence in the banking system.

Karatnycky: If you use these aggregated rankings, they may be less helpful. But in the disaggregated environment, the measurements may be far apart. This can help point out problem areas to the government and present a solution.

Kotecha: Having done ratings in a different context, what I used to say is that everyone is equal within the AAA rating, there is no plus and minus. Otherwise you're upgrading and downgrading all the time. It is more useful to establish a range than a ranking. There is not much difference between 61 and 62.

Rotberg: Freedom House does it, but it's not as useful. It's a gross rather than a fine measurement.

Jonah: Definition is another issue. You try to quantify good governance and bring in indices which cause other problems. Qaddafi delivered political goods to Libya, but it was not good governance. You have to both quantify and qualify.

Galaydh: In Somalia, government is effective only in one small part of the country. There is no overall government there but if you look at some indicators, things are being done without a government that weren't done when the country had a government. Somalia's phones are very good and the internet is growing. It's the best in Africa. Civil society is doing it, not government. Enforcement as well as entrepreneurship are also in the hands of civil society. Homicide, robberies, and rape are all down. Mogadishu is safer on these issues than neighboring countries. Governance is beyond government. We have to look at input and institutional arrangements. Somalis have shown that there's no need for a state but the downside is horrendous. Non-state actors need to be taken into account in Somalia. The state has been disposed of, which is destroying the

country. Somalia needs a neutral public service; it needs to look at governance differently and not just follow what Britain or Canada suggest.

Wingle: What is the definition of governance? You need to be measuring a particular point in time, which is not easy. My definition would focus on policies allowing the private sector to invest. What purpose will this measurement be used for? We are using it for the allocation in aid.

It can provide an incentive effect to donors. Even if it doesn't, we could put our money into some of these environments to enterprises with promise.

I've been involved in the MCA on deciding which indicators to use. Are the indicators something the government can control? Do the data come from an outside source? The Bush administration wants to take this question seriously. This one pot of money will be apolitical (others may not be). There is some discretion involved – there are gaps in the data, and important trends to be taken into account.

Marshall: If the proposed governance rating indicator existed, would the MCA use it?

Wingle: Countries have to rule justly, invest in people, and offer economic freedom. MCA has lists of what the indicators come from – subsets under the three broad categories. You have to pass half of the indicators in each category. These indicators aren't set in stone but if a better index comes along, we would use it.

It's difficult to go to Transparency International and explain why Uganda doesn't pass. One thing that would be useful is to say why they're not passing, and what they can do to improve.

Rotberg: Malawi can't get funds because their AIDS rate is so high.

Kotecha: The MCA is breaking new ground, and I hope it catalyzes many groups. It has tremendous potential.

These indicators are not cast in stone. It is important for the index to change, to be adjusted to fit a new context.

Anderson: Some users of this data don't have disposable income, and they are important. Can we use others signals to substitute for pricing since we can't sell it?

Aid conditionality doesn't work. If the indicators are going to be used by donors anyway, we need to think about the target audience.

1) Keep in mind that a lot of outcomes are because of non-state actors (e.g. Guyana). That is a challenge. 2) How do we measure the impact of multinational companies and donors? (World Bank, IMF, etc.) 3) The nation-state as a unit of analysis can be a problem. The northern third of Uganda is in chaos and Uganda

is otherwise well-governed. Nepal is in the middle even though the government only controls 20 percent of the country's territory.

Rotberg: The students deal with the Nepalese, Guyanese, and Ugandan examples because of the lack of security. Security deals with those issues. We ought to be able to construct indicators which capture all of the things we're talking about. The indicators can be improved once the starting model has been constructed.

Kotecha: Do you see adjustments and weightings for different countries?

Rotberg: Weighting is very important and smoothing the data is critical.

II. Existing Indices: Comparative Methods

Transparency International

Hodess: I thought it would be important for me to mention at the outset that Transparency International is an NGO, an advocacy organization, not a research institution. We were set up to be action oriented. Though our research arm has been growing, it's a new component, and we are always looking for innovative ways to work on this issue, the Corruption Perception Index (CPI) being the most prominent tool.

The CPI was developed by accident in 1995. There was no plan that this was an essential aspect of our work. Someone developed it and it became public. It meets a lot of objectives. The first is including the public sector (politicians) among the experienced observers. Our method is a survey of surveys. The respondents are both locals and expatriates. If you only ask Economist Intelligence Unit (EIU) analysts, they're not on the ground. Expatriates and locals have more experience. The CPI offers a snapshot of those making trade decisions. Another objective is to create public awareness of corruption.

CPI is a survey of surveys. It evolved from eight sources when it started to seventeen in the last CPI. There are 133 countries covered, up from 80-odd. We have increased country coverage by increasing both the number and sources of the surveys. The surveys are donated to us. The data is given to us in confidence, and then we do more work on it.

We rate countries where we can get three surveys on corruption. We include surveys for up to the last three years. The CPI doesn't really show what's happening now, it shows three years ago. It is slow to indicate change, but we don't expect countries to zoom up and down. Countries are scored on a ten-point scale.

CPI has evolved after consultations with its board. It has become more rigorous in methodology, consistency, and the number of sources. A big change for us is how we package the material. We've created background papers,

regional tables (to create competition and compare like to like), and FAQs, and translated the press release into five languages. We try to explain what CPI can be and what it isn't.

The last CPI showed Finland, Iceland, and Denmark at the top and Haiti, Nigeria, and Bangladesh at the bottom.

The Bribe Payers Index (BPI) is another index that we offer. Surveys of tendency for corruption tend to show bad scores for the less developed countries. We didn't want just to target the global South. In 1999 we looked at what big firms and developed countries were paying bribes. A lot of businesses don't know about the BPI. We wanted to see which countries were seen as being a source of bribery. Here the data isn't donated, we have to commission it. We worked with Gallup. BPI is based on a small number of interviews with executives, banks, and law firms (all both local and expatriate) to get their perspective on what is going on. The instrument costs \$185,000, plus staff costs. We're trying to think about how to get around the cost. We've done it twice, in 1999 and 2001. Companies from leading export nations are seen as widely bribing other countries. We could also see which industries were worst – public works, construction, arms, defense, and oil and gas.

We increased the sample sizes in the countries where surveys were made and what they were asked about. We refined questions, and adjusted scales. We were interested in the comparative aspect of having two BPIs so we didn't tinker too much. We're trying to evaluate if this information is available in a different format because we think that this is an expensive way to get at the information.

Australia ranked as the least corrupt in bribe paying, Russia as the most. It is interesting to note that people in their own countries tend to rate their countries worse than outsiders do.

Marshall: People are asked to talk about countries they know about, which can limit the response and skew the answers. More people know the U.S., so it gets more responses (and the score is lowered).

Hodess: We also have projects on some of the fields that are seen as most corrupt.

The Global Corruption Barometer is another instrument, which not as many people have heard of. Our expert surveys weren't telling us what the public thought about corruption and how it had changed for the better or the worse. We aim to roll this project out as often as possible, hopefully yearly, to assess changes in public opinion. We ran this as part of Gallup's Voice of the People survey. Voice of the People is an omnibus survey where Gallup allows NGOs and other organizations to add questions at a low rate. The first survey is from 40,000 people in forty-seven countries.

We didn't find any surprises. This was a limited tool of five or six questions. Corruption is pervasive and troubling. People most want to get corruption out of political parties. We're now in the process of revising the

questions, and looking at whether the questions worked. It will run again this spring, and we should be able to include more countries.

The poorest people saw corruption affecting them the most. We looked at vote buying and how corruption affects political life. Pakistanis say that it isn't a major problem, for example.

The CPI has been established as a leading cross-country indicator, used to help determine international flows of capital and emerging markets.

Causality is difficult. Countries have been looking more into their own corruption problems – which sectors, how to deal with it. We've stimulated research and provoked further probing into what the gross figures mean.

There's been an advocacy impact – it has created public debate and broken taboos. Cameroon ranks low, and being shamed caused a chapter to open there. Some countries have distanced themselves from Transparency International because of the continued shame and the embarrassment of ranking low despite anti-corruption efforts.

Political parties are seen as a major problem. We could put practical advice into our report. We're trying to get academia and activists to join forces.

The political impact is that the indices have challenged governments and societies that rate poorly. They've raised the profile on reform efforts. Some governments have set a goal to improve their score. The indices can influence government policy and legislation.

We looked at measurement tools in Africa for DFID. Our chapters are leading efforts to help find out diagnostics in specific countries and figure out how to improve. This has strong potential for informing reform and change.

Heritage Foundation

Miles: What stood out to me in Rotberg's governance paper was the phrase that governance can be measured by the quantity and quality of political goods delivered to citizens. That's diametrically opposite to Heritage's approach. We have to differentiate between two concepts – the twentieth and twenty-first century views of economy.

The twentieth century view is about transfers of income and governments – larger governments controlling more resources were seen as being better. Aid was measured in the amount of infrastructure and projects created.

The twenty-first century paradigm views the world differently. There is no distinction between developing and developed countries. All countries are developing. Even the U.S. is constantly reacting to changing world conditions. We shouldn't view it as us vs. them because we all face the same conditions. The focus of the twenty-first century approach to governance is on people. People should use their abilities to the fullest. Can they get shelter, food, and clothes? People aren't allowed to do that in much of the world. Governments throw up roadblocks – tariffs, high tax rates, regulations, and a lack of property rights. Some people are treated less equally before the law. Individuals can't convert

one form of wealth into opportunity to do things such as start a business. In the twenty-first century view, a good government creates rules in which individuals can flourish and reach their potential. We need to measure not the interests of the bureaucrats, but the people's interests, which I believe Heritage does.

Our index offers ten factors. Corruption is implicit in trade policy. How much of the economy's resources does the government take? How stable are money, capital flows, and foreign investment? If foreigners invest, can they repatriate earnings? How is credit allocated – by government, private banks, domestic or foreign? How free are wages and prices to rise and fall? Is there a strong rule of law? Can people buy and sell property and will courts enforce contracts? Regulation is another form of tax – the more regulation, the higher the tax. We also look at informal market activity. Where regulations are high, property rights not enforced, and there is a lot of corruption, people will choose to perform activities outside the formal market.

Our rankings are scored 1-5, 1 being good. We take the average of those ten scores as the overall country score. Countries are divided into free, mostly free, somewhat free, and repressed. Economic freedom is distributed geographically – vast chunks of Asia, Africa, and Latin America don't recognize economic freedom.

We've been doing this index for ten years, and we can start doing empirical tests between what we're measuring and how the world works. This year we undertook several tests. Is it appropriate to give equal weight to each of these ten factors? Occam's Razor suggests that it is, but we looked at it and tested it empirically. An expert on this kind of statistics tried using a principal components technique. Equal weighting turned out to be as good as the most optimal statistical weighting approach that he could come up with.

Each of these ten factors is equally important. They are like the parts of a car. A car won't go if it's missing an essential part. Most countries with perpetual poverty are missing multiple parts. In contrast, Chile has done well and put together all the parts. As a result, it has insulated itself against much of the downturn experienced by its neighbors.

We looked at the change in scores over the last seven years, which gave us a sample of 142 countries. We ranked the countries from those with the biggest improvement to the smallest improvement, and to those whose scores had declined. We divided the ranking into quintiles. Then we went and measured the average growth rate in each of the quintiles. There is a clear correlation between the rankings and growth. The countries which improved the most under our scores had about double the economic growth of those whose scores improved the least. These ten criteria seem to work pretty well.

Freedom House

Karatnycky: We cover five zones and do a press freedom survey, funded by private donors and foundation support. We've launched three contracted surveys, one with USAID, and two surveys with the State Department, one on women's rights in the Middle East and North Africa and one on crossroads countries – thirty countries in that middle area, the gray zone of semi-democracies. We're looking at the murky middle.

Our methodologies are listed in a handout. Freedom House is in its thirty-second year. It was started by some eminent political and social scientists. The survey evolved over time, and became more standardized in 1989. Political rights and civil liberties were each divided into further rubrics. We use a 1-7 scale with 27 subsets, and three levels of performance which are problematic analytically but get a lot of press attention. There is less difference between low free and high partly free states. It is an American based survey. Scores are compared through a series of meetings, and accompanied by 2000-word analytical articles. We now have a thirty-one year time series of data. We have changed the questions conservatively, but the changes have affected less than 10 percent of the overall score. The decentralization question was removed seven or eight years ago. It was hotly debated but we ultimately decided that sovereign people could decide whether decentralization was in their best interest.

Our work is used fairly substantially. Our survey is mostly American, done by Americans, unlike some of the other surveys, which are done by more international or primarily international researchers. We look for people from both parties and try to be unbiased. Even though people consider Freedom House to be centrist or centrist right, others note that our ratings system has been somewhat more generous to governments trending left rather than right.

We have seven rubrics on civil rights and political liberties. We've been doing raw scores and not publishing them, but we are starting to compare the raw scores across the board and preparing to publish the aggregate of the scores.

We were created in the heat of the Cold War, so the standards that were set for political rights were not based on development, understanding that weaker states may have poorer performance. This year we looked at gross national incomes and freedom statistics. Forty-three percent of the free countries are high income, 40 percent are middle income, and 18 percent are low income. Among not free states, only 10 percent are high income, while 76 percent are low income. Income does correlate to governance.

In the middle income range – at GNI of \$1500-6000, levels of freedom are middling. If you go to a GNI of \$300, only 3 of 29 countries are even partly free. The MCA is grappling with this by creating cohorts within income levels. It is a higher achievement for poorer countries to manage good governance.

The tenure of a particular level of freedom was also looked at. Of 192 states, only 24 have had the highest level of freedom for the whole time. Seventeen had experienced 15-30 years of freedom. Everyone else had less (note

that some countries were new). 114 countries have at some point reached high freedom, 88 are at that point today. Once they reached it, only 12 countries have declined drastically (Argentina, Burkina Faso, Chile, Greece, Grenada, Lebanon, Peru, and Surinam). Once a country reaches a certain threshold of performance, it rarely lapses into the worst category.

We do not assess purely government performance. We also assess aggressive non-state actors. A robust civil society and free media can mitigate some other negative factors.

We try to address the major standards relating to good governance – dispersal, checks and balances, and pluralism of inputs. These can be institutionalized in state structure, or in the robustness of civil society.

Repucci: I have helped organize a new survey, *Countries at the Crossroads*. It covers thirty countries and addresses a larger range of questions specifically relating to governance indicators.

The survey was developed with support from the State Department. We wanted to look at the middle performers and developed a new methodology using four categories that track some of the ruling justly issues important to the MCA: civil liberties, rule of law, anti-corruption and transparency, and accountability and public voice. We used other organizations' questions as the basis for the methodology. We hired authors who were academics, journalists, and policy people, mostly from outside of Freedom House, and they came from around the world. We hired one person per country. They gave scores from 0 to 10 on each question and wrote narratives to track the questions and explain where the scores came from. Regional advisors oversaw the process. It was more in depth than the big Freedom House survey, but covered fewer countries. We hope to expand it with more funding.

Some problems we encountered were that having people rate countries from 0–10 on 83 questions was overwhelming. We need to pare that down. Ten was too many points, and too murky in the middle range. We changed the system to 0–7. We found some questions which need to be changed. The tradeoff to us when going ahead with this is whether we can maintain a baseline vs. changing and fixing inherent problems. It should be rolled soon and posted on our website.²⁰ We're not publishing the raw scores, just one score for each category because we didn't have enough confidence in each of our scores for this year. We're working toward more transparency to help people with diagnostics. The book should be out in a month.

Karatnycky: Like the BPI, there is a potential for distortion. It's the low end of the spectrum, and we don't want the better performers to think they're doing all

²⁰ <http://www.freedomhouse.org/research/crossroads/cac.htm>

that well. East Timor was the best in the survey. Norway and Sweden score around a 7, and no country scored above 4.5 in this cohort.

Manby: How do you keep comparisons consistent if you have hired individual reporters for each country who don't know what you have said on other countries?

Repucci: We developed scoring rules and aimed to define what each point equaled. Zero equals no laws, no implementation, 1 was some implementation, etc. One problem was the dichotomy between laws on the books and implementation. Former Soviet Union countries have good laws and little implementation, while Jordan's situation is reversed. That's a problem we're trying to work out.

Rotberg: Hodess talked about studies being donated. How do you control what comes in and control comparability? How are Heritage Foundation's scores compiled 1 to 5? Some questions cannot be answered even by someone who thinks he knows the country well.

My students started differently. They tried to develop scoring methods drawing on available data – the hardest available possible data. Some data is easy to come up with – economic data, for example. The proxies require judgments, and it's not always easy to get good statistical data, or good comparative data (e.g., between Finland and Equatorial Guinea).

Hodess: The difficulty of objective data in the corruption case is what kind of information is available. Convictions indicate where the judiciary works but data is lacking. If a country is working well against corruption, there might be more about corruption in the media vs. a country bad in corruption. Our indices aren't filled with objective proxies, but the work of the national chapters does include objective and subjective data. Colombia is doing a big project on corruption, but they can get good government data which is not available around the world.

Our donated data comes from the EIU, Freedom House, Nations in Transit, Gallup, World Bank, etc. – most of the usual suspects. It's not a matter of apples and oranges; the surveys are all apples, though they might be different kinds.

Karatnycky: There is no philosopher's stone for proxies. In Uzbekistan, human rights issues arise because of the state torturing and abusing its citizens. Any of their state data will have huge flaws. Interpol data is based on what's gotten from governments, which isn't always reliable. Governments have to function to a certain standard before their data becomes usable, but you can't capture the lowest countries.

Rotberg: You can use Human Rights Watch reports to check data, and you can use different kinds of indicators.

Karatnycky: If a state is bad for human security, you need to capture that. How do you deal with the autocratic states?

Rotberg: These things can be teased out. The reverse is Freedom House asking other people if Uzbekistan is implementing the laws, but there is selection and observer bias to be guarded against.

Miles: We try to be objective and use sources such as the EIU, Price Waterhouse, World Bank, IMF, and some State Department reports. We have researchers call individual embassies to try to pinpoint information. Once we have the information, the same person grades the same criterion across all the countries to try to make the score consistent. Some are based on computable data such as fiscal burden, tax rates, change in government expenditures, etc. This system works pretty well for five indicators.

For the other five, we set up scoring guidelines, which should make it pretty consistent. We hope that the errors average out.

Cuba's score improved and we got a lot of questions about it. The Cuban government produces a number for inflation. We all know that the number doesn't relate to reality, but we decided that since we were using the numbers from other governments, we had to treat Cuba the same way. Their lack of forthrightness is captured in other criteria.

Manby: How do you define regulation? Property rights are a form of regulation, which presumably you support? Some regulations are clearly good, like requiring children to go to school.

Miles: We look at regulations on labor markets (e.g. France's 35 hour work week), how many steps does it take to open a business, things like that.

Anderson: An effective state needs to be in place before it can be regulated. Guinea-Bissau is about to get a bunch of oil money. It has a high level of restrictions, but it has about three people actually regulating the banks. The government needs to create a banking sector rather than freeing it up.

Miles: Yes, you do need a certain level of attainment. Someone visited from Ethiopia and said there was lots of credit available there, but it was all government money, not private. The government shouldn't create a bank, but should open up the domestic banking system and let foreign banks enter as well.

Anderson: International human rights instruments are tough. There's state terror and extra-state terror. There are questions about value judgments and how detailed to get. People in Europe go ballistic over certain scores because they have state owned media.

Karatnycky: The Crossroads survey looks at government performance, which excludes non-state actors, except that the state can't control them. We look at solitary, nasty, and brutish on the Hobbes index. Are people protected from state violence, oppression, etc.? The survey of freedom answers those questions. We don't get at the poor dimension. We look at the quality of the institution but we don't judge them differently for having less income. We can examine the relation of poverty and performance, but don't score that way.

Miles: You said that countries with low incomes had less freedom. We're measuring the same thing in different ways. I think Freedom House results are consistent with Heritage. As countries develop a middle class, they get more demands for economic freedom. In China, the middle class has grown, there has been some prosperity from property ownership. China just added some property rights to its constitution. I believe that reflects the voice of the middle class.

Karatnycky: Is it the quality of liberty and economic freedom that leads to better growth, or vice versa? Where is the causality?

Miles: We believe that repression of opportunity keeps people from attaining higher levels of growth.

Karatnycky: We look at a broad range of issues, but it's a manageable set. If you do an overall, aggregate index, the more components you have, the less the rankings mean. The greater the breadth of the governance index, the more problematic it will be.

Galaydh: How do we frame the individual indices by each of these three NGOs? Is it the three blind men and the elephant? If we're talking about governance, we need to capture the complexities of the business of governance. Why are the UNDP indices not used? The capabilities approach to development is an umbrella for these orientations. The UNDP index is broader and wider and for the purposes of public policymaking, it is more accessible and acceptable. The numbers aren't cooked up by the developing world.

Rotberg: UNDP captures "short" but does it capture "brutish"?

Galaydh: Yes, political rights are captured by some of these issues. You might disagree with one index, but it's composite and captures the bulk of what's being

discussed. Heritage focuses on economic freedoms, but that is just one component of overall governance.

Heritage looks at where Chile is now, Freedom House looks at the broad historical sweep – its economy went through some terrible experimentation, even though it is doing okay now. The cost of all of that is not factored in. Freedom House accounts for the ups and downs.

Karatnycky: Over the last thirty years, Chile was rated not free 20 percent of the time, partly free 30 percent, and free 50 percent.

Miles: Heritage numbers match that pretty well.

Galaydh: How representative is a year or two?

Miles: We have ten years of data and counting to work with.

Galaydh: Is there a way to conflate time series indices which represent these components? I'm impressed with Transparency International and that's what has to be taken into account in having inputs from the countries, getting closer to the ground. The methodologies are good, and getting the input from the ground makes up for the fact that the surveys are donated. It makes the index more acceptable to the international community.

Rotberg: That's the object. Getting close to the ground is critical.

Karatnycky: You are posing the right questions, getting at relationships, and teasing out what relates to development, but you're creating an impossible burden for the institutions doing this work. We're correlating to different factors. So far, efforts have been primarily American, but Europe and Latin America are starting to do more as well. Some of that work has to be done outside of the NGOs. There are now some decent time series data and indicators that people are looking at.

Miles: Your concerns are consistent with the rankings we get. We each have different ways of answering the chicken-egg problem. We are trying to look at where causality comes from.

Galaydh: Are your ten rubrics in line with looking at governance from the vantage point of the role of the state? Britain under Prime Minister Margaret Thatcher was known for a program of privatization, but the government formed a regulatory agency for telecommunications because there is need for regulation of private enterprise. Look at Eastern Europe. If the regulatory framework is not in place, you get into treacherous territory in terms of corporate governance,

accountability, and transparency. Focusing on the ten economic factors, without government oversight, is very dangerous.

Manby: Does Heritage look at the process by which regulations are developed? France's people don't want their regulations changed.

Kotecha: Correlations are the strongest between Freedom House and Heritage (on a one-year basis). Correlation is higher in some regions. Correlations with Transparency International are low. Where is the aggregate here? There are issues between aggregation and judgment, and income levels and transparency. In the end we are stuck with a limited product because it won't take the subjective into account, or if it does, it won't be transparent.

Hodess: From an NGO perspective on index building, we look at how we can serve the people we're judging. There are a lot of things to fix in the North as well as the South. It's not just a matter of whether the U.S. government will use an index for aid, but how can people in their countries use these indices to forward change? Our Africa project tried to capture what the different indexes get at and how they are being used.

Miles: I never argued for anarchy. Government should create the rules of the game for people to play. In the U.S., we eliminated federal oversight of telecommunications and now have greater freedom and less cost. France's vote could be interpreted in different ways. We're in a period of economic uncertainty. France can proceed as it wants to, and it experiences the consequences of its choices – it has one of the lowest growth rates in Europe.

Bekoe: How can countries move in and out of the Crossroads survey?

Repucci: We'd like to expand the Crossroads surveys – hang onto the countries we have, and potentially add more. We have tried to find experts who are in the countries frequently.

Karatnycky: Globalization in the absence of political freedom leads to greater inequalities, but with political freedom it leads to growth.

Kotecha: It's interesting that Heritage has ten factors and Freedom House has more but they track very similarly.

III. Utilizing Measurement: What Is Required

Manby: I'm working on a new project for the Open Society Institute, called the Africa Governance Monitoring and Advocacy Project (AfriMAP). It is partly based on an existing OSI project known as EUMAP, looking at how the European Union accession countries are conforming to the *acquis communautaire*, the EU's requirements for respect for democracy, human rights, the rule of law, etc. The EUMAP reports have chapters on each of the ten accession countries, and an overview chapter, pointing out the main themes. The primary audience for their reports was the European Commission. EUMAP developed a questionnaire, had experts fill them out, refined the process, and met with government officials to discuss the results. It is now beginning to work on existing EU countries also. The transformation of the OAU into the AU and the NEPAD peer review mechanism is the equivalent basis of my project; though it is also intended to be freestanding of AU and NEPAD processes. AfriMAP aims to follow a similar methodology to that of EUMAP to produce standardized, systematic reports on aspects of governance in Africa (in principle on all 53 countries, though we are starting with only four, in west and southern Africa, in the first instance). These reports, qualitative / analytical rather than quantitative in methodology, will be produced in cooperation with national civil society organizations and presented to the relevant AU structures, including the NEPAD peer review mechanism, and to national governments and donors. We will be integrating advocacy into the process.

The first theme that AfriMAP will look at is the justice sector and the rule of law. The second is political representation issues (including elections). Why is it that even in African countries with good elections, there are problems? What are the problems related to the elected (and "elected") and their relations with their constituents? The third theme is anti-corruption, though the particular aspect is yet to be decided. Other themes are likely to be added as the project develops.

There's a lot of cynicism about NEPAD and I share some of that, but also think it is a significant development which opens up an advocacy space which was not there before. NEPAD should be assessed on its own terms, what its motivators say it is doing – which is not to rank countries in Africa nor to pass judgments in a pass-fail or scoring way, but rather to be a process that identifies problems and helps to search for the solutions. It is on that basis that it should be judged – whether it will succeed is of course still unknown.

NEPAD has problems. It's very wide, from human security to infrastructure to governance, etc. The process is supposed to happen very quickly. How seriously can you look at two countries per quarter? The secretariat is new, under-resourced, and lacks technical competencies. Consultants will be hired, but there will be consistency issues.

Another complication is that NEPAD is a political process and will be seen that way – even though there are efforts to portray it as a technical review. Its origins are political. It forces governments to take responsibility for these issues that are more than technocratic but it won't be easy to get change.

Another problematic aspect is that civil society has a limited role in the process. Its input is very controlled. The peer review questionnaire will go to the government, which will decide who the civil society stakeholders are that should be involved in the process; then the idea is that government and civil society will produce a consensus report which will be submitted to the peer review mechanism/eminent persons group. There is no process for gaining civil society input that doesn't agree with the government.

There may be unrealistic expectations on NEPAD. It can't deal with Zimbabwe, Togo, or Swaziland, for example. NEPAD has reached a good degree of name recognition, but the AU and the regional economic communities (SADC, ECOWAS etc) have other structures which might better deal with issues such as Zimbabwe. Though the interaction between NEPAD and those structures still needs to be worked out – including, for example, with the AU's Conference on Security, Stability, Development and Cooperation in Africa (CSSDCA), which overlaps with NEPAD in many respects and often has better and more concrete commitments.

There will be donor relationship problems. How will NEPAD interact with the MCC, with the G8 Africa Action Plan, etc.?

Despite all these issues, NEPAD and the associated changes within the OAU-AU are important developments with opportunities to move the continent forward.

As regards the proposal on the table at this meeting, I can see the interest in ranking processes but I am skeptical about the idea of ranking governance. An instrument is rather needed that tells you what the problems are and what is needed to solve them. What are the levers for change, and what is the likelihood of using the levers? Which countries are in need of urgent interventions (e.g. Côte d'Ivoire in the late 1990s)? If you look at the paper by Robert Rotberg, he notes that the Solomon Islands, for example, ranked highly in 2000, even though the country has since been plunged into civil war – surely a useful measurement system should have picked up the problems that led to violence? An analytical narrative report might be more useful. However, a governance ranking could be helpful in a propaganda/advocacy sense, as you see happens with Transparency International's Corruption Perception Index.

Millennium Challenge Account

Wingle: I've been working on the Millennium Challenge Corporation (MCC) as part of an inter-agency group. The Millennium Challenge Account (MCA) is new money. It's not meant to be the only U.S. assistance or to replace existing assistance, USAID, or famine relief. For example, immunizations and the environment are important everywhere, and those issues need to be handled regionally. The U.S. will continue to provide some funds for strategic regions.

The MCA is set aside as a separate pot to reward good governance. What is the best way to achieve economic growth? Bush laid it out in his speech—1) the environment into which the money goes matters; 2) in order for economic growth to be successful, it must be done in partnership with the country and integrated into the overall plan; 3) monitoring and evaluation is a component of the program. What is the best way of achieving a particular outcome?

The selection issue is why I'm here today. We are a consumer of many of the indices here as well as the proposed index. The selection component of the MCA is important because it provides an incentive effect and creates a quasi-constituency for reform. Even before the first dollar has been dispensed, countries are starting to adopt necessary reforms. The second component is because of aid effectiveness. Our aid will be more effective if it goes into a good environment.

We're essentially taking a measure of soil fertility. Our assistance needs structure on the ground to be effective. What is the policy, the enabling environment that allows you to get to your goals? The crudest measure is GDP per capita.

The selection process is the beginning for us, then the countries will be asked to submit contract proposals. We are asking countries: What needs to be changed? Some of those things may not be financial, they may be policy, but the two can be bundled together. Countries should not just look at the pot of money and how it can be spent.

Selecting the indicators was a long process. We met thirty times, including meetings with NGOs that provide indices. We looked at what correlates to economic growth. Can the private sector go in and create growth? We tried to avoid factors that were caused by growth. We looked at country coverage. We have 75 of the poorest countries in the world that will be eligible to compete in the first year. We wanted to use transparent indicators, not just U.S. government ones. We needed to form a compact with Congress and avoid problems with earmarks, which can complicate the process and provide disincentives to the countries if they know that they will be getting a certain amount of money for a certain problem.

Countries have to pass half the indicators and can't be at the bottom for any. The number of countries selected will probably be ten to twenty. The indicators aren't set in stone, they may change in the future. We want an incentive effect. We want to remain consistent in the level of achievement, but the indicators used may change.

It's on an 18-month budget cycle. The money will not all be dispersed during that time, but it should be obligated by then. Foreign aid is particularly tricky because of the budget cycle – it is difficult to plan around changes in the budget. We're trying to set aside money for the first two or three years of the compact. Once a country enters a compact, if its absolute performance slips we'll cut it off or increase assistance. Compacts should be for three to five years and work on a specific economic bottleneck. We do have the flexibility to walk away.

UK Department for International Development (DFID)

Anderson: When creating an index, one must ask: Who is the audience? What is the purpose? Whose governance is measured? What's measured? What are the pitfalls? What principles should we follow? I think we need to focus on the last.

The potential audience includes politicians and officials in a given country, ordinary citizens, international and local business, and international civil society and aid agencies. Not all of these are of equal value. Should any be excluded? If the index was only aimed at the international audience and not the in-country audience, that would be a mistake.

Who owns the indicators? Are they credible, and what's the added value?

The purpose of indicators is to analyze one institution or process and track it over time. One can enhance analysis of one country, track historical change in one country, use it for comparisons, and seek correlations among variables. Donors use indices as diagnostic tools – tools to shape policy intervention, design programs, shape strategy, and aid allocation decision. In the last five years, donors have been giving more aid to good performing countries although this practice is controversial.

No single set of indicators will fulfill all those functions and it's misleading to try to capture all of those. Is this an extractive industry, or do locals have ownership? Who is the governance for?

Who is interested in rule of law? International business, international aid agencies, local business, urban poor, and rural poor are all interested in different areas of rule of law. There are strong indices for international business but not rural poverty. Most of the rule of law indicators we use don't begin to touch the rural poor, even if we try.

Under rule of law, you can look at inputs – the percentage of GDP spent on courts, courts per 100,000 in population, institutional output (number of cases tried per judge per year, disputes settled per 100,000, and outcomes – debts paid, property boundaries settled, person-years spent under trial, and local and international perceptions of courts.

The problems in constructing indexes include measuring superficial institutional characteristics and not capturing the underlying processes. The UK is riddled with formal political rules that aren't transparent or accountable but work because of social expectations. Lack of ownership is a potential big problem. There are contested values and one can end up comparing apples and oranges.

I have nine proposals for the principles:

- 1) Ensure global coverage.
- 2) Maintain local ownership. Indicators should be produced and used by people in the countries being measured.
- 3) Use the index for headlines, but use underlying indicators for everything else.
- 4) Be transparent. Reveal sources, datasets, calculations.
- 5) Be objective. Use objective indicators as far as possible but subjective indicators should not be excluded entirely.
- 6) Prioritize. Focus on a small number of core governance issues (e.g., human security, controls on executive power, voice and accountability, transparent financial flows). Make hard choices about what to exclude (e.g., multiparty elections, most human rights standards).
- 7) Be people-centric. Focus on functions and experience of governance, not pre-ordained institutional reforms (e.g., people's experience in court matters more than if the judge has degree from Harvard).
- 8) Be inclusive. Indicators should be sensitive to the governance experiences of poor and rich, women and men, rural and urban populations.
- 9) Seek to measure governance impacts of non-state actors and international actors.

Jonah: These principles are very important and come close to my experience. They are useful for poverty reduction and less controversial than this morning's value-loaded indices.

Hodess: What reactions has MCA gotten from other donor countries?

Wingle: We have been approached by donors, and some recipient countries have questioned indicators and ask if something is captured correctly. We invite comments on our website and use that feedback.

The MCC is administered by the MCA. Its board includes the Secretary of State, the CEO of MCC, the USAID head, and other outside appointees produced in a bipartisan way, vetted by the president, and confirmed by the Senate. We have consulted with DIFD, and the Canadians, Japanese, Norwegians, and Dutch.

Marshall: The process of governance is important and that's what we're trying to get at. How do you identify the constraints and how they are overcome? The difficulty with evaluations is that people focus on the ranking rather than the complexity underneath. How are countries making progress? Anderson's principles got at that, but it is difficult to measure progress, and it happens over time. We're getting more challenges than solutions.

Jonah: What about the OECD? They usually coordinate donor positions.

Kotecha: Priorities are very important. It's tempting to put everything in but there are tough choices to be made in every category. It should be open to change but prioritizing the initial needs is the biggest challenge.

On MCC, there is a great challenge to do things differently. The World Bank has big disbursements and big resources. Will MCC have new conditionality – will it be different from the World Bank or IMF, especially if the resources aren't the same?

Woolcock: We've been using automobile analogies. We're trying to come up with a better Blue Book. Cars often break down because of small things. Do we need another *Consumer Report* or a set of really rigorous diagnostics? Many of these countries are not particularly comparable; the lessons learned may not apply. There is a lot to be gained by finding out where the bottlenecks are.

Anderson: The OECD has started a project called Metagora, creating a common set of development indicators. It is funded by Switzerland, Sweden, France, and the Netherlands. The project wants to use household surveys around the world to measure governance. The donors are worried that this will be very expensive. It's three or four years away from getting off the ground.

Manby: If you want to understand what's really going on, you have to go into greater depth. Choosing some targets leaves aside others. One must look at governance not just as experienced by potential investors, but by those at the bottom of the heap. Even if the laws are on the books at the top, do they make it down to the bottom?

Wingle: The MCA is trying to get away from traditional conditionality, in which a country promises to reform, gets a loan, doesn't change much, gets a new loan, and still doesn't change much, i.e. dollars for promises. The World Bank is changing as well and moving toward grants. The MCA involves ex post conditionality. You get the money after you've done something.

How do you spur reform? The country needs to decide what it is interested in tackling, and come up with how it should do so. We have a more open-ended process and will have to rely on outside technical review panels.

Cars do break down because of small problems. We don't need a ranking system because our system is binary. We could weight things but it doesn't get us somewhere. The conditions aren't necessarily exchangeable. You can't have eight tires and no brakes on the car; you need four of each. It's hard to explain this in a way that's not an economic model. The different items on the MCA's list aren't substitutes, they're complements.

Jonah: You need to pool resources rather than compete. Can't you get them all together to hash it out?

Kotecha: I'd like to push harder on selection. The lead taken by MCC is important. It made indicators a tool for qualifying and giving aid. That's the biggest reason to do these indicators. The capacity isn't there locally, so this project should be aimed at international donors. There needs to be good data from low levels on the ground, but they don't need to be the target or the ones compiling the data.

Rotberg: I disagree.

Anderson: It's possible to prioritize indicators with better information. It can take a while to come up with the right question. (e.g., a simple test for alcoholism: Have you ever been annoyed when someone asks you about your drinking?)

Wingle: Once we're beyond the selection process, these countries need to look at their bottlenecks, and that question has fewer diagnostics than the allocation of aid question. Developing that tool would be of enormous help. Analyzing whether changes helped is another thing to be examined. Where is the space to add value? To my mind, it's in the middle space.

Hodess: What we need is measurements. How can we do that if not in this format?

Manby: In practice, interviewing teachers, principals, and pupils in three schools per country may be the best way to understand the five biggest issues in the education system, for example, rather than trying to devise broad objective indicators such as class sizes etc. Statistics are important, but not the whole analysis.

IV. The New Proposal

Rotberg: I associate myself with most of what Anderson presented, which was a very helpful prescriptive outline for the task.

I was persuaded last night and today that a global ranking method is superior to ranking just the developing world. We clearly need a control group. We might need to do all 192 countries.

Anderson made the good point about trial and error and finding **the** indicators that work best.

It is possible to answer most of the questions raised and fulfill all of the principles, if not immediately, then over a five-year period. It is important to be as comprehensive as possible rather than selective. It is more parsimonious to try to do a ranking system which comes as close as we can to depicting governance rather than only looking at several key issues, which are already covered by other indices. Governance can't be covered without focusing on Hobbes' "short," which demands outputs and outcomes in education and health. Governments may provide opportunities for their clients to improve their health.

Esty *et al* looked at rising infant mortality as the most robust indicator of failed states, though they have revised it. I think that governments that govern well do so on behalf of their people in areas including health, economic opportunity, education, political freedom, etc. Most of my students developed 11, 12, or 13 indicators. I'm not suggesting a set number.

Comprehensiveness appeals to me because one can then be more diagnostic. It is very important to rank for the headlines and to provide diagnostics for in-country work. I want to help the people in countries that are being governed poorly. If others are helped, that's fine too. If civil societies in countries can use a new tool to shout more loudly about the quality of their governance, then we have moved one step forward. The middle class in the developing world is aware of these issues, but there is no one indicator they can use to make a difference.

A professional long-term project could use a time series to control for exogenous factors. It could also monitor how governance is improving or regressing over a ten year period.

The big objection to what I'm suggesting is that the data are weak and inconsistent, and we must find a way to have this process administered somewhere but owned locally, and data collected locally. We need to develop a collection method and develop new data sources. If the Interpol statistics are wrong, let's find another way to collect that information. We don't have to rely entirely on existing data pools. There won't be anything in some countries, and they couldn't be ranked until there's a validated method developed. For example, problems in Côte d'Ivoire or the Solomon Islands could have been captured by time series data.

There are sections in both our failed states books that talk about how to tell whether a state is failing, and those indicators are the same as you might have here.²¹ Those indicators include inflation and rule of law. In the case of the Solomon Islands, it's a small society where the shock of change came very quickly. My favorite case is Zimbabwe, because one can track all these indicators downhill since 1998.

How does one measure governance and hold income and inequality and size constant? Africa is more of a problem because it has more countries, and more small countries, and fifteen landlocked tropical countries (with disease burdens) but the WHO Hale index tracks that. You'd need to hold income constant, but it can be done.

There's a question of integration. It is important to try to be fully integrated because otherwise we're not capturing how poor governance impacts citizens. Fifty percent of the people are urban in the developing world, but 50 percent are rural, and they should not be forgotten.

What governance factors have contributed to Mauritius and Botswana's success? Mauritius and Guyana both started from the same place, but one is a basket case, and one is growing rapidly. They diverged because of governance questions. If one went back, one could show the divergence points, look at them over time, find the causalities, and get at the chicken and egg problem. We could see if it is true that countries are on the whole poorer because their governance is insufficient.

Burma is a good example. The supreme leader of the ruling military junta has announced that Aung San Suu Kyi will be free within days and they'll move toward change in a controlled environment. Burma is at the bottom of all lists now for all the proper reasons. If we had governance indicators, we could actually see if Burma improved incrementally. We don't have an instrument to say to Burma, you can get out of U.S. sanctions if you go from 0 on governance rankings to 10.

Some countries will be impossible to work with initially (e.g., Laos) but eventually we would figure out how to observe the last dozen. Very poor countries could not pay for the service of ranking, but eventually they would want to be ranked well in order to attract foreign investment.

Anderson: Comprehensiveness is good if it is done in a way that doesn't muddy up the indicators. The CIA failed states indicator used infant mortality as a predictor, and threw away a lot of other indicators that went with it because it was the most robust. Where indicators are largely reporting on the same or overlapping phenomena, you need to select one out.

I don't think health and education belong in this kind of index. I think it will be almost impossible to control for income for those two. We already have a human

²¹ Robert I. Rotberg (ed.), *When States Fail: Causes and Consequences* (Princeton, 2004); Robert I. Rotberg (ed.), *State Failure and State Weakness in a Time of Terror* (Washington, D.C., 2003).

development index, and ways to measure those two, so we shouldn't include them unless we can tease out the governance issue from those two measures.

Rotberg: States provide security and opportunity to flourish economically, but citizens always want education and health. They can both be provided privately (and are because the state can't) but citizens of the poorest countries see their governance as failing to perform if the schools and medical system don't work. Health and education are outcomes of good governance.

Karatnycky: Could you look at it in terms of government effectiveness? It's not just a question of how much is spent, but how far the money goes.

Woolcock: There's zero correlation between education and increases in spending.

Manby: Are the statistics plausible at all? Statistics in most countries with poor governance are very unreliable.

Miles: The only reason for governments to educate citizens is to perpetuate a certain level of citizenship.

Woolcock: Governments have a responsibility for certain sectors, and health and education fall under that.

Rotberg: There is a social contract. Government effectiveness is what we're trying to get at. There's no point in having a state unless it functions on behalf of its people.

Miles: Theoretically the people own the state, but who owns it in practice? The farmers seem to own the U.S., they get subsidized, and they are a small percentage of the population. Special interests get more than others.

Kotecha: I think the most important priority needs to be thought about. Credibility is very important in the rating business; it's the only way you can get people to pay attention. Independence is an instrument of credibility. You can't be credible without being independent. You have to be global, ethically sound, and credible in a recognizable way. It will be successful if the index predicts failed states, or more donor nations accept it, or if it becomes a reference point in peer review discussions or investment decisions. In some respects, the credit rating agencies have become important in this respect because there's nothing else that gets at what they focus on.

Hodess: I'm very interested in collaborative work. If the governance index tool starts, and we work together, what happens if there's a catastrophe right before

our indicators come out? How will that help the country? How do you support governments and institutions in times of change or crisis? What can this do on a practical level? The end result concerns me, as does the predictive value.

Marshall: I agree on the credibility question. Transparency International is seen as credible because it didn't have a vested interest. There's a packaging issue which gets to the question of what's the purpose of the ranking system and who is it being marketed to. It would be most useful if it's positive and forward looking, and asks how we can move forward and build consensus about what the issues and bottlenecks are.

Government effectiveness is an important point. It's not just the outcome, it is a question of whether, given the resources and constraints, the outcome is reasonable.

Galaydh: Why are we still talking about the state and the developing nations? Whatever happened to globalization and exogenous forces that are playing very important roles in where countries are going or not going? The IMF and World Bank are the ones who have pushed the notion of transparency and accountability, but are they transparent or accountable? There will be new indicators and criteria used by the MCC, which is encouraging. How do we get as close to the ground as possible? There is a search for elegance in ideas and analysis, which might satisfy certain circles, but ultimately, if we are going to be on the side of angels, then we need to go the extra step and provide a sense of representation – giving voice to the voiceless.

In Côte d'Ivoire, things have fallen between the cracks, but where do you find the main factors contributing to the failure? Is it internal? Is it falling prices of cocoa and coffee? Factoring in the role of major players is key. How did Botswana negotiate with mining companies and recruit expertise? You can't just take for granted that market forces will help you along and that if you create the conditions, everything will fall into place.

Manby: Relationships with donors are important. What does it mean if you're Senegal and get 50 percent of your funding from outside sources? A related issue is regional integration. A large number of countries in Africa are not economically viable except as a result of donor aid, and it is hard to think of indicators that could capture this.

Zimbabwe and Burma are really not that interesting in this context. It's obvious what is happening in those countries and you don't need indicators to see it. These indicators are more interesting in Ghana or Senegal. They are not basket cases, though they need to improve, but how?

I am sure that there is a correlation between global economics and national governance, but would a governance ranking explain that better? Could these governance rankings have predictive value? It would be nice, but is not necessary (or likely). But they should have explanatory value. How helpful is it

to tell a multi-ethnic, multicultural society that it is intrinsically more difficult to govern and give no suggestions for what to do about it?

Karatnycky: Civil society forces are exogenous too. It's not just a problem in developing states. Governance is about the policies a government implements, regardless of its motivation. The essays should explain the causes (e.g., donor requirements) but you can't separate it out.

Besançon: Governance is a level of analysis; it can tell you what and who needs to change. The other things are explained in a different way.

Anderson: I have two main concerns. Some of the things which feature in the Freedom House index are culturally contested. The more detail you get into about what you think is important, the more contested that detail will be. We can't all agree on what's good, but we can agree on what's really bad. I think that having a narrower focus and getting more agreement will enhance the credibility of the index. Small indicators also help factor out economy. The parsimonious model would require a lot of thought. I have two personal favorites – something on human security and the transparency of financial flows through government.

Rotberg: Andy Mack in British Columbia is working on a human security index.

Hodess: The international budget project is working on financial flows through government.

Anderson: In August 2001, I spent two weeks in Punjab in Pakistan. I interviewed women about micro-credit schemes. Women were concerned about four hurdles:

- 1) Property rights (livestock, bicycles, plows). They needed protection from theft.
- 2) Their husbands' addiction to heroin.
- 3) Terrorism (Sunni, Shi'ite bombings at mosques).
- 4) U.S. policy. (This answer surprised us, but arose over and over.)

Bekoe: How do you hold income constant? If the social contract is fulfilled by donors, how does that fit into the governance picture? There is no government in Somalia, but some services are provided.

Rotberg: How do you get at government effectiveness? Human security is part of it. What about water? Whose responsibility is it to get water to the people? People in Botswana have the highest recorded HIV prevalence rate but they know that their government provides free anti-retrovirals and mandatory testing. Citizens of Botswana are getting some return from their government. How do you measure that against Namibia, with similar resources, but less

government return? I think that human security is the most important thing and if it were weighted, it should be weighted the highest. In South Africa, the state isn't delivering the full opportunity to its citizens because there's so much crime.

Jonah: I worry that we are creating too much of a dependency within a polity by expecting the government to do so much. The citizens want the government to do everything. I believe in the night watchman state. We have to be careful in expecting the state to take so much of the burden. This is a problem in many African countries.

Anderson: Government effectiveness needs another indicator, though I don't know what it is. In DFID we're playing around with a two-axis model: government capacity (subjective coding) and a demonstrated ability to mobilize domestic and international resources for poverty reduction.

The Belgians use an indicator of what percentage of the GDP can be extracted in taxes. Does the government produce accurate statistics?

Woolcock: This approach is very demand side. Aid effectiveness is relatively small issue, whereas agriculture subsidies make a much bigger difference, and trade policies are stacked against certain places. How can there be a more just system of trade policies? What are donor countries' attitudes on trade policies, not just on donations?

Rotberg: If Haiti were better governed, Haitians in Boston would provide greater flows of remittances and greater exogenous investment. Remittances are 40 percent of Uganda's economy.

Galaydh: Remittances are the only thing keeping Somalia afloat. They say that the best foreign aid to Somalia is rain and allowing Somalis to immigrate. The U.S. has allowed large numbers of Somalis. I don't know why, but that's the best aid the U.S. has given.

Miles: Ireland's greatest export for years was people, but the government changed and become an innovator in Europe. The economy is booming and suddenly Ireland is importing people.

Kotecha: I endorse the attention to exogenous factors, but what do you measure? Exogenous shocks affected the debt crisis – interest rates and currency fluctuations can be crucial. What do you focus on?

In the financial sector, it's possible to look at a larger range of variables. Look not just at flows, but at openness of economic structure (more subject to external factors, globalization). There is a lot of data on those factors – money laundering, etc.

Collier did some studies showing that stability of grants has mattered more than taxation, which is something to take into account for balance of payments.²²

Rotberg: It is important to get a strong proxy for the role of the economy in good governance, and raise the number of indicators. I'm worried about what we will miss if we reduce the number of indicators.

Kotecha: You would need to do testing and eliminate correlated variables.

Wingle: The definition and purpose of the index needs to be established first. Are we measuring a system we don't impact, or trying to get a government to change, or trying to allocate aid? Do a lesser number of variables cover the issues? Does more measurement of the system change the system?

Manby: The data points are interesting in and of themselves but if you're trying to devise proxies, the danger is that you'll have an effect only on that particular proxy indicator rather than improving the underlying problem the proxy was designed to represent. The difference from the numbers used, for example, in the UN's Human Development Index is that if you reduce infant mortality that is undoubtedly a good thing; but if you take a proxy indicator – such as the percentage of successful prosecutions – the danger is that government officials under pressure to improve their ranking will take steps to increase that percentage by, for example, dropping at the outset all charges that are not open and shut cases, or by using torture to extract confessions. You can create perverse incentives.

Rotberg: India has the longest constitution and the longest civil court waiting time but weighted against other areas, India is better governed than many other poor states. The more we know, the more we can encourage a country to focus on the area that needs improvement. We could also look at the number of political prisoners and other issues.

It is important to integrate the existing indices to the extent that they're valuable and useful. The World Bank does it but I don't think it's as useful. It is important to be as objective as possible, but use the subjective measures where necessary. Predictability of outcome is important. If the same inputs, then the same outputs.

Jonah: We should not enter this enterprise just focusing on aid allocation. Weights need to be very seriously considered. In Sierra Leone, in a period of

²² Paul Collier, Anke Hoeffler, and Cathy Pattillo, "Aid and Capital Flight," A preliminary draft prepared for the UNU/WIDER conference on Sharing Global Prosperity. Helsinki, 6–7 September, 2003; Paul Collier, and David Dollar, "Aid Allocation and Poverty Reduction," *European Economic Review*, XLVI (2002), 1475–1500; Paul Collier, Anke Hoeffler, and Cathy Pattillo, "Flight Capital as a Portfolio Choice," IMF Working Paper 171 (Washington D.C., 2001).

turmoil and instability, security was always the number one thing that government could provide.

Hodess: A broad set of indicators provides an analytic capacity and detail. But what if there are two problematic sectors? How do you know what to address first?

Rotberg: The hope is to construct something like this and develop a neutral objective advisory capacity capable of answering those questions.

Anderson: I would argue that there are a lot of calls for predictive capacity, but I argue against that. You use different variables to look forward than to look at the present. You can't predict and describe with the same variables.

I argue against this index being used for aid allocation, which needs specific indicators. Everything about governance would not work as well for aid allocation. You will alienate a lot of people if you focus toward aid allocation.

I would say that the purpose is somewhere around an environment allowing people to fulfill their human potential. The target audience should be a broad political audience. Hold to account governmental decisions shaping the broader environment for human activities.

Marshall: Donors might use it as part of their tools and that's okay, but it shouldn't be designed specifically for that.

Hodess: Transparency International's audience is policy makers and civil society and activists.

Karatnycky: Freedom House is trying to create pressure against closed societies.

Wingle: We need a definition and a purpose. Definition is easier for some of the NGOs at the table. Governance is really broad and the definition is very broad.

Karatnycky: If you construct an interesting index, why not let aid allocation use it?

Kotecha: It is okay for them to use it, but don't target it toward that purpose in order to maintain credibility.

Hodess: Who could fund it?

[Several]: It would have to be the donor community.

Miles: The Heritage Foundation only takes money from individual donors, not government or corporate contracted.

Repucci: There are ways to make subjective indicators more objective. They can be designed so that they can be graded the same way. Subjective indicators should not be ruled out just because they are subjective. Also, indicators tend to build on each other, and we are now all using each others' indicators to create our own, thus making them self-reinforcing.

Galaydh: I thought we were doing this to see how to integrate the existing indicators, and be self critical as to whether they serve the main purposes. It is useful to search for an integrated way of looking at this. If it is credible, global, and non-partisan, it has merit. We must also be cost effective.

Rotberg: What's the difference between fulfilling human potential and diagnosis?

Anderson: Diagnostic indicators are more finely detailed.

Hodess: That's a second prong of the effort. Do it for awareness building.

V. The Governance Index: Going Forward

Rotberg: Let's set out a purpose and see if it satisfies everyone. How will the purpose be fulfilled? There are several models on the floor:

- 1) Compiling existing indices.
- 2) Creating something new and more comprehensive (not necessarily excluding the existing indices).

If number 2, how? How can we use the experience of those who have gone before? Once an index is created, how do you measure success?

Kotecha: We had rudimentary comparisons between our ratings and defaults, which proved that our ratings were good. How do you prove it over time?

In terms of the audience, ours included agencies, donors, poor in countries, and emerging markets. OECD is an important audience, and one that we didn't address.

Jonah: If we make the index global it would be serious. What annoys many in the developing countries is that they are lectured by people in more developed countries that share the same problems. Statistically, Cuba's health indicators are much better than those of the United States.

Wingle: The mission statement is the first step, then the definition of what we're assessing. What makes up good governance? Involve people who are governed. Once you have those categories, get more involvement from the broader community.

Rotberg: We could start by developing resources and testing a pilot index on a small group of countries or a region. That might be an intermediate step before the global index.

In previous years, my students have taken either a region or the world. This year it was broken up into regions, which had some value.

Marshall: It is important to test the index. I don't think the first indicators developed will necessarily work out. There are good ways to do a pilot that aren't terribly expensive. Who is going to do this?

Woolcock: What the World Bank and I are interested in is getting into quasi-experimental data. Putnam did research on Italy by looking at intra-country and interdepartmental variance. Those measures are underutilized, or in the experimental stage. I understand the constraints that would limit us to weights and ratios, but the other stuff is more useful to the countries. We're trying to look at how long it takes to get a birth certificate. Can you get one at all? How long does it take? There are ethical issues around some of these things, and that's a realm that has been underutilized in social science.

Karatnycky: There should be partnership with research institutions in the South in order to maintain credibility.

Rotberg: One could do a pilot in four countries and pick ones with cooperative institutions.

Wingle: I didn't mean just test a survey. Get countries to talk about what information they want. I don't think the mission statement is nailed down. After that, we can decide on countries, methods, proxies, etc. There needs to be a roadmap for the process, if we're serious.

Rotberg: There is an ecological danger; how do you pick four countries that are representative, and how big does the number get?

Woolcock: You could pick countries with some sort of commonality – post colonial, same colonial heritage for example.

Anderson: One way forward is to combine the existing indices, or doing what the students have done, or pare it down to a small number of indices, or find new indicators, which is troublesome.

I'd argue for not mixing up too many colors and getting black paint. Being inclusive just to be inclusive is not of value. Look for what you can cut out.

We need to be smarter about measuring governance. We don't have a lot of good indicators for governance, and we should look to develop new

indicators, and work on it over time. The way the Human Development Index went about things is instructive. The caveat about this method is cost.

Rotberg: If you mine existing data sources in countries and see what works, you can develop proxies. We haven't talked about the role of proxies and how to develop good ones. If you have good proxies you might be able to find good data. Some places have better data.

Manby: There's a great danger in measuring what is already measured. The way forward should be more about trying to get at what the twelve measurements of government would be and what proxy measures might be. Then look at what is out there and what needs to be new. There are cost implications, but it is more constructive.

Rotberg: My students have used the same thing to see if government is effective in education. The proxy is pupil-teacher ratio at different levels, number of textbooks per pupil, years of teacher training, and other educational measures.

Manby: There is a question about whether the statistics in a country correspond to reality. You also need to do a lot of intellectual work to come up with the right proxies, and then see whether you have the data available or not. One interesting proxy might even be an assessment of whether government statistics are reliable, since accurate statistics are so central to devising useful policies.

Rotberg: Rule of law is a tough one. My students always fall back on Freedom House ratings.

Lyden: We could have found others if we'd had time, or gotten on the ground.

Rotberg: Rule of law in 2002 included the prison population, pre-trial detainees, property rights, and the World Bank rule of law indicator.

Manby: That's getting into the cross-referential problem, where one index refers to the findings of another which refers back to the first – so there's no independent assessment.

Rotberg: Look at that and that work it out on the ground. In addition, each student had to write a qualitative paper about one country to contrast the quantitative results.

Hodess: What about the World Bank indicators? We should look at what we like and what we don't like. Use it as a reference to bounce ideas off of.

Anderson: Most of the World Bank stuff draws on subjective indicators and that's where there is room for improvement. We are trying to improve the rule of law indicators because we don't think they capture what we're looking for. He explicitly draws on subjective indicators because he thinks they are important. They are, but it is time to try something different.

If we go on the ground in a country to try to capture rule of law, it may not correlate to existing scores. If we're measuring government, we need to get at enabling capacity, and I don't think the World Bank numbers do.

Wingle: We looked at Transparency International and sent out cables to all of our posts asking for background information.

Rotberg: That is still somewhat subjective.

Wingle: Yes, and it is not transparent, but it dealt with other issues. If we had perfect estimates, we'd use those.

Karatnycky: Data are imprecise and the judgments are aggregate, which can make it hard to start a dialogue.

Woolcock: So much of what we are doing involves finding a bunch of paralegal workers to mediate between the different systems. We need to get people who are products of a given community and can understand the complexity, but have had training in how formal systems work.

Why do people still turn to the system even when it doesn't really work? We find this fact curious. There are some resources to capture it, but not necessarily a body of evidence supporting a rigorous method. There are cases we can look at such as Yemen and Cambodia, but it is difficult to work in high conflict areas.

Anderson: Predictability is not a good measure for rule of law. There was a crisis in the legal system in Nigeria because lawyers would bribe the judges. When the judges started taking bribes from both sides, the predictability declined.

Hodess: Regarding credibility: who is involved, how do we get specific, how do we buy in, how do you account for people's time and effort, and get the funds, etc. There may be some piggybacking opportunities at the beginning. Before anything too ambitious gets going we can look into that.

Marshall: This cannot be done well on a low budget. There is a time issue as well. To go to these pilot countries there has to be discussion and involvement on the ground, which adds additional cost and time. How much do surveys cost? There are staff costs as well.

Rotberg: If we have a group of people working on the index and then we start with long-term pilot work in-country, using a rough set of indicators which can be tested and modified. Next, see how the indicators measure against what locals think. Then you get back to the laboratory bench and look at what you have and what you want to have.

Hodess: This should be as low cost as possible. So much money is spent on things that aren't used. Don't build an expensive colossus.

Rotberg: There is a failsafe and a catch 22. If you work with an in-country think tank, you will have some cost effectiveness and reality checking built in.

Manby: You could take two approaches. Either start by setting up a broad-based steering group from varied backgrounds, to give legitimacy to the initiative, which would include some of us plus additional members. Then re-have this whole debate with that committee. Alternatively, start a pilot project with what you have now and then go forward to set up a steering committee, consult with in-country partners, etc. and take the project forward on a wider basis once you have the results of the pilot. Cost is a serious problem. Diagnosis and prediction are more useful than ranking. Ranking can be useful too but must be done properly.

Rotberg: Transparency International started diagnosing first and then began ranking, but its efforts didn't work until they had the ranking. People then paid attention to the CPI.

Hodess: The capacity to diagnose came later. When major change happens in a country you don't know what to do first. A dozen countries have had new administrations voted in on an anti-corruption platform – how do we advise them? What do you do with that scenario? The diagnosis capacity is just starting to gain some sophistication.

Kotecha: Going into depth on a few countries is beneficial but ranking is relative across many countries. The deficiencies lie in lacking a more comprehensive approach. Better aggregation across the board with more countries would be more cost effective in terms of getting the answers you want.

Anderson: Yes. If we design something around a small number of pilots that are unrepresentative, it won't guide the true goal.

Rotberg: How do we deal with the lack of in-country data?

Jonah: I've been surprised at the persistent lack of data for many countries. There are no data and this lack presents a very serious problem. Sierra Leone's statistics exist only on paper. Can you help us create more reliable data?

Anderson: I'm attracted to the idea of quasi-experimental data based on sampling instead of the whole society. You can't gather the data in country with low administrative capacity.

I am also worried about a comparative index driven by the experience of a small number of pilots.

Wingle: What are the alternatives?

Manby: You have to go with the best pilots you can get, balancing cost with quality and representativeness.

Rotberg: One should seek funding to devise a set of indicators which can be built in theory, tested in aggregate against existing data sources, and then the first pilot could be tested against the second using field work. Do extensive field work on testing the package. Inform A with B in order to achieve something which could be plugged in across the board.

This suggestion overlaps a bit with some of the existing indicators but draws on some. Part of a pilot would be to discover what's in some of these existing indices. There's a lot of work to be done.

Hodess: What are the periodicity, review process, and measure of success?

Rotberg: This project is not worth doing once. We would need to create a long-term funding source. The project must be sustainable, and if it's good, it will be.

Kotecha: If you can document that you have a better widget, you'll get support. How it's financed is important too. Heritage has individual donors – that's not out of the question.

Rotberg: I use political/public goods for governance. If there's a better way to measure performance, let's use it, but I haven't found it.

Wingle: Proxies suffer from measurement error and proxy error. What about contract enforcement, days to start a business, etc. Those are transparent and objective, but labor intensive.

Rotberg: That's part of it. If you can objectively measure the months it takes to get a birth certificate, that's an objective data point. I'm trying to get away from selection bias.

Wingle: It's not like taking temperature outside. What a government says and what the people say about how many days it takes to start a business can be very different.

Hodess: Do you have a secret list about what you thought worked best to use as a springboard?

Rotberg: The paper summarizes this past year's results and we have the other years. They are not yet in a form to be used as a template because they were done in a rush.

Besançon: The World Bank has a world governance survey (the Goran Hyden project).

Anderson: Sources for democratic governance indicators are coming out from UNDP. But UNDP is opposed to ranking. It feels that indicators should be owned in-country and not compared. UNDP is a potential partner as it works in-country on coming up with indicators. It only works with certain countries though.

Rotberg: There is a need for research not done by member countries.

Kotecha: A steering committee is needed at the beginning. If you do the study and get good indicators that offer added value, we will still have to deal with the fact that a lot of these things are subjective. A steering or rating committee is necessary to examine the inputs and assess them. Make the committee known, in addition to transparent numbers.

Anderson: There are new epidemiological techniques. The difficulty with the ratings approach is that you are making predictions. We need to triangulate different kinds of points. Legitimacy is something to keep in mind.

Rotberg: Legitimacy is the final test of state failure. It is critical, but the twelve indicators add up to legitimacy. For example, Uganda offers lots of freedom of press, and freedom of expression, but no freedom of assembly, no freedom to campaign, or of religion. We can measure that.

A Concluding Note

The consensus of at least some members of the group appeared to be that creating a new NGO, or a new system, to measure governance systematically and to rank countries accordingly, was an idea whose time had come. There seemed to be a general feeling that ranking nation-states by their governance qualities could lead to changed behavior, that is, to better governance (especially in the world's less well-governed states). Transparency International's Corruption Perception Index arguably has had that effect for corruption. Nation-states are concerned if they are ranked at the low end of that scale. At the very least, governments should be concerned if they rank in the second half of the proposed governance rating table.

The conference participants insisted that any new ranking system be applied to all countries, not just to those in the developing world. They saw the continued value of qualitative, non-objective methods, but also favored developing rigorous, objective methods of assessing the performance of countries.

Specific indicators were not discussed in any detail. There was some agreement about the need to find acceptable ways to measure such factors as security, rule of law, economic performance, political freedom, schooling, health services, etc. as proxies for good governance. At the same time, many participants were conscious of the need to correlate governance with stages of development, and to find clever ways to discount performance criteria for disadvantaged nation-states.

An intermediate step will be to test the paradigm of measurement of governance by a number of pilot studies. Doing so will enable both skeptics and supporters to perfect the several possible ranking methods, and to assess the extent to which a governance rating scheme will add value to existing rating methods, some of which (discussed at the meeting) do rank at least some of what can be termed the benchmarks of good governance.

If the pilot trials are to be held, substantial funds must be raised for them and for a preliminary launching of the proposed new system to rank governance.

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- **Bronwen Manby**, Director, Africa Governance Monitoring and Advocacy Project (AfriMAP), Open Society Foundation-London
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