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Strengthening Governance: Ranking Countries Would Help

The demonstrated link among poor governance, poverty, and nation-state failure makes strengthening the quality of governance in the developing world an urgent task. In weak, troubled states, there is a strong likelihood that an excess of grievances will offer fertile ground for the nurturing of terrorism. Thus, improving the governance capabilities and effectiveness of developing countries is crucial not only to fostering their economic development, but also to reducing the potential for local and global conflict.

Governance is the term used to describe the tension-filled interaction between citizens and their rulers and the various means by which governments can either help or hinder their constituents' ability to achieve satisfaction and material prosperity. In developed countries, citizens often take it for granted that their leaders will help them meet their fundamental needs. Furthermore, they understand that they possess the tools to improve governance when they are dissatisfied: mobilizing interest groups, employing legal means, or acting at the ballot box.

Most of the world's inhabitants, however, are unable to hold their rulers accountable, to participate in or influence their governments, or to use electoral mechanisms to affect significant change. Governance thus becomes a capricious endeavor at best and, for so much of the developing world, especially the poorest countries and those ravaged by war and disease, a synonym for autocracy and despotism. It is the plight of many: three-fifths of the world's population lives in the developing world, and the vast majority

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suffer from being poorly governed. In those parts of the world, strengthening governance directly improves the lives of the governed.

Past efforts have demonstrated that no amount of exhortation alone from Washington, London, Brussels, or Tokyo will accelerate the practice of beneficial governance. Tying donor assistance to good governance conditionalities may help at the margin. Programs such as the Millennium Challenge Account (MCA), which aims to provide U.S. financial assistance only to those poorer nation-states making an effort to implement good governance, are well intentioned. In their assessment of governance quality, however, they rely more than they should on available indices that are inherently subjective (and thus prone to bias) and are therefore less than transparent. Moreover, even the well-intentioned and well-directed MCA (and similar attempts by other donors) are also fundamentally political, choosing their recipients on the basis of impressionistic more than rigorously objective criteria. Strengthening local civil societies in general could also add pressure to any internal national momentum for better governance.

There is abundant talk in diplomatic and assistance circles about the need to improve governance in the developing world. Yet, little has been done or accomplished, largely because there is no basis on which a nation-state's governance effectiveness and quality can be assessed objectively and meaningfully, compared to the standards or best practices in its neighborhood or region. It is therefore essential to introduce a new method that is rigorous, bias-free, and capable of distinguishing degrees of good governance among countries.

This new method should spotlight those nation-states that govern unusually poorly, clearly contrasting them with their neighbors or allies who govern more effectively and thus perform more creditably for their citizens. A new nongovernmental organization (NGO), funded broadly or by a range of developing-world nation-states themselves, would be able to issue an annual report card. It would reveal which countries are well or poorly governed and why, as well as suggest the specific areas in which each country needs improvement. Such a system will compel countries to recognize that governance counts internationally as well as locally; that good governance is measurable and bad governments can no longer hide; and, in so doing, provide both the carrot and the stick for positive change.

The Rationale for Ranking

No generally acceptable, objective governance-ranking system exists today, although several dozen partial schemes contain approaches that are useful. Rating systems for intrinsic components of governance such as corruption, freedom, competitiveness, trade openness, political risk, receptivity to private enterprise, and contract enforcement, among others, already exist. 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 countries and is itself a compilation of indices that are mostly subjective in origin. The UN Development Program's Human Development Index is another excellent source of comparative data, but only on attainments of development, such as health and education. It does not set out to rank nation-states according to their governmental effectiveness.

Ranking can, however, make a difference. The efforts of NGOs in relevant fields demonstrate the potential for a governance ranking system to affect significant change. The most compelling example is Transparency International (TI), the Berlin-based NGO that ranks nation-states according to the perceived levels of their corruption. TI has managed to shame countries and rulers in Africa and Asia to reduce corruption at the national level, leading more nations to seek to be perceived as less corrupt. TI's system has also proved that outside rating systems can embolden and support civil society activists within afflicted countries (having done so demonstrably in many of the developing world's more graft-ridden states). Beyond issuing corruption rankings, TI has local chapters in many countries that focus on helping governments act against corrupt activities. Similarly, establishing a new governance NGO could help regimes adopt good governance practices and serve their citizens more effectively.

Improving governance is crucial to reducing the potential for nation-state failure.

The experience of other existing ranking systems for nation-states, such as credit rating systems, confirms that a carefully detailed report-card system would catch the eye of government leaders, international organizations, investors, and donors and would lead to at least some of the desired improvements. When Moody's or Standard & Poor's downgrades a country's sovereign credit rating, investors and donors take notice; purchasers of bonds and securities know that they will need to absorb greater risk. So do even the least responsible rulers of the downgraded countries, largely because it is in their personal self-interest; their political futures and the incomes of their countries are affected. International organizations and transnational investors also pay attention to such increased risk, as it leads to lending becoming more problematic.

The MCA based its first round of selected recipient countries on data derived from the World Bank, Freedom House, the Heritage Foundation, and

TI. Because economic growth is impossible in the absence of good governance (witness the levels of per capita gross domestic product (GDP) achieved in Botswana, Mauritius, Singapore, and Taiwan versus those of Angola, Burma, Congo, Nigeria, and Zimbabwe—all intrinsically wealthy nation-states), donors are likely to welcome a sophisticated, new report-card system detailing countries' governance practices. Donor aid agencies and the international lending agencies need such a tool, if only to target those countries that, on close inspection, are less well governed than popularly assumed.

U.S. policymakers would also pay heed. A comprehensive report card would enable them to focus antiterrorism efforts on those countries ranked at the lower end of the governance scale, presumably where the absence of good governance predisposes local populations to ethnic violence and increases the likelihood of civil war. Evaluating governments, including Arab or Asian regimes, for their practice of good or weak governance could potentially be more influential than unilaterally asserting whether a government is democratic, particularly if anti-Americanism continues to grow overseas. This result comes about both because governance is perceived to be more directly in the interests of citizens overseas, not America's interests, and also because the rating agency proposed would be a nongovernmental agency, reducing the skepticism with which anything Washington does overseas is currently viewed.

Overall, rating governance would set in motion a virtuous, competitive cycle among neighbors and throughout the developing world of governance improvement, while simultaneously reducing the threat of terrorism. Using Moody's Investment grades, TI's Corruption Index, or Freedom House's Freedom in the World as models, a nongovernmental entity should be established to rank countries by governance and to advise interested governments on how to improve their own practices. The challenge is not as difficult as it may seem because many of the components, such as corruption, freedom, and trade openness, already exist. What is required is a more comprehensive, holistic, mostly objective, and quantifiable method of ranking developing countries according to their governmental performance accomplishments.

Political Goods Set the Standard

Governmental performance can be assessed, and thus countries can be ranked, by measuring how many or how few political goods a nation-state provides for its inhabitants; stronger states may be distinguished from weaker states according to the effectiveness of their delivery. The higher the quality and the greater the quantity of the political goods delivered, the better the level of governance. 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 well for its constituents.

Political goods are the somewhat intangible and difficult-to-quantify claims that citizens once made on sovereigns and now make on the governments of their nation-states. Political goods include indigenous expectations and, conceivably, state obligations; inform the local political culture; and collectively give substance to the social contract between ruler and ruled that is at the core of interactions between states and their citizenries. Indeed, governments (and nation-states) exist primarily to provide for their taxpayers or inhabitants, to perform for their citizens in areas and in ways that are more easily managed and organized by the overarching state than by private enterprises or collective civic bodies. The provision of physical security from outside attack and from crime is a prime example. Political goods include citizens' desires to be secure, to exist under a robust rule of law, to be free politically, to enjoy a stable economic environment, to have access to high quality educational and health services, and so on.

Donor aid agencies and the international lending agencies need such a tool.

The most important political good is the supply of security, especially human security: freedom from crime and threats to the person. Groups of individuals can theoretically band together to purchase goods or services that provide substantial measures of security. Traditionally and most typically, however, individuals and groups are more securely protected by publicly provided security arrangements. Only when reasonable provisions for security exist within a country, especially in a fragile, newly reconstructed nation-state in the developing world, can governments deliver other desirable political goods.

After security, rule of law is of primary importance. Effective 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 include an enforceable body of law, security of property and contract, an independent and efficacious judicial system, and a set of norms that comprise the values contained in the local version of a legal system.

Another key political good enables citizens to participate freely and fully in politics and the political process. This political good encompasses citizens' essential freedoms: the right to participate in politics and to compete for office; respect and support for national and regional political institutions; tolerance of dissent and difference; and the existence of fundamental civil liberties and human rights.

Among other basic political goods typically supplied by the state 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 facilitated by a nationally or regionally created currency; 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.

Rating would set in motion a virtuous, competitive cycle improving governance.

Each of these criteria can be measured by creating proxy indicators and subindicators. For example, the extent to which an economic environment is conducive to entrepreneurial initiative and the pursuit of prosperity is reflected by GDP growth rates, inflation levels, and gini coefficient spreads, all of which can be measured and ranked by country. Indicators appropriate for security, rule of law, and other criteria are also available. Essentially, putting numbers on performance tells us whether within a region or across regions a country is doing better than its neighbors or others. Those who are falling behind can catch up or at least be encouraged to do so. Is one country more or less secure than its neighbors? Does it have more or less rule of law? Is it politically freer? Are its citizens receiving more or less instructional quality and medical services than other countries in the developing world or even in its region? Is civil society empowered? These are some of the key inquiries. Only by answering them as objectively as possible are we able to answer the overall question: Is one country better or more poorly governed than its neighbors?

Measuring governmental performance requires measuring outcomes, not inputs. The proposed NGO must employ proxies that assess a government's delivery of political goods, not its budgetary allocations. Primarily, the goal is to discern what a particular government has actually accomplished with its appropriated funds, rather than simply to study its original intentions (as good as they may have been). For example, in a more corrupt country, appropriated funds may have been siphoned away from service delivery into individual pockets; the mere fact that a nation-state appropriates or expends more for health or education than its neighbors may in fact produce few quantifiable results.

Using proxy indicators as indirect measures for governance leaves a number of questions unanswered. Do results that are quantifiable really capture the essence of governance? For example, are we actually able to evaluate citizen satisfaction? Can governance and governmental capacity for good be separated from income level, that is, should we assess less well-endowed countries according to the same criteria as wealthy ones? Does the proposed method account for the difficult cases? Secure, authoritarian, but well-performing nation-states could (and sometimes do) score higher than democratic, insecure, less-effective deliverers of essential political goods. How quasi-democratic nation-states ultimately rank depends to some extent on how indicators for political freedom and rule of law are weighted against indicators for security, economic prosperity, infrastructural accomplishments, educational and medical delivery, and so on. Fortunately, 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 security category). Despotisms such as North Korea, Turkmenistan, and Zimbabwe always fall to the bottom of the scale, even if they provide a certain type of tyrannical control and ostensible stability.

Additionally, data are unequal. 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 World Development Indicators: Distribution of Income or Consumption numbers are unavailable for some developing countries and are not compiled every year. Even when data are available, they must be suspect. Yet, the proposed method presumes that proxy indicators can reliably capture the delivery of a political good by obtaining in-country quantitative measures and seeking to refine them with an emphasis on reliability and comparability with data from neighboring countries. Currently, proxies are the most effective and direct way of supplying information about government performance. The focus should be on reaching a consensus among experts about appropriate proxies and then fine-tuning the proxies while working toward the construction of a complete index. All of the questions raised are answerable given sufficient research time and attention; none presents an insurmountable obstacle.

Testing Potential Ranking Systems

Aggregate efforts by six years worth of graduate-student work at Harvard University's Kennedy School of Government illustrate that the proposed method of ranking can work and indeed already has worked in about a dozen separate iterations. Different student groups have experimented with various methods of developing proxy indicators and subindicators for good governance in the nation-states of the developing world. Using these indicators, they have been able to rank countries from best governed to least well governed and have done so across and within regions.

Pilot efforts demonstrate that ranking countries produces defensible results.

The experiments have collectively demonstrated that rule of law can be measured by assessing the effectiveness and predictability of the judiciary, the number of judges per 1,000 people (the more judges, the less judicial delay), the number of political prisoners, the level of corruption, the extent of demonstrated respect for private property, and the ability to enforce contracts.

For political freedom, that is, for the existence of functioning participatory democratic institutions and the rights and freedoms that make such institutions viable, the subindicators utilized by the students were voice and accountability, political stability, press and media freedom (number of newspapers closed and journalists jailed), voter participation rates, political rights, civil liberties, female adult literacy rates, respect for human rights, and the existence (or not) of the death penalty for criminals.

GDP per capita in constant dollars, inflation rates, foreign direct investment (FDI), and donor assistance as percentages of GDP all help to measure relative economic success. To distinguish qualities of governance more finely, it is also helpful to measure GDP growth per capita; national poverty/inequality based on gini coefficient scores; the percentages of populations that qualify as "poor" (using the official global definition of earning $1 a day); trade openness as a percentage of GDP; and gross FDI inflows as percentages of GDP. Deficits as percentages of GDP are also relevant. Inflation levels usually distinguish between well- and poorly run countries, as does the amount of contract-intensive money: the ratio of noncurrency money to the total money supply (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. Relative levels of foreign currency reserves provide additional insight into the performance of a government in the economic sphere.

Economic performance is enhanced if a nation-state's infrastructure is sound. It is thus important to measure paved road miles or kilometers per capita and per area; numbers of airport arrivals and departures; harbor capacities (for those countries that are not landlocked); and teledensity: telephone landlines and mobile users, telephone faults, internet usage, and personal computers per 1,000 people. Comparative electric power and natural gas power transmission and usage are also helpful statistics. Aggregating data for access to potable water and sanitation, although difficult to find and assess, reveals additional information about governmental performance.

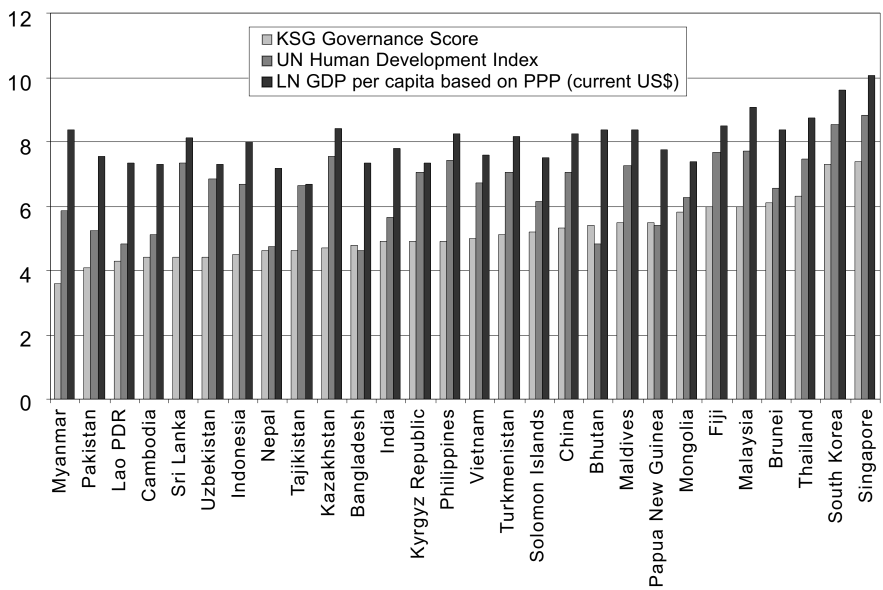
Governments in the developing world are traditionally and almost without exception tasked by citizens to deliver the highest possible quality schooling and medical care that their treasuries can afford. Measuring those governance outputs seems straightforward, but devising appropriate and informative subindicators has proved challenging. Nevertheless, analyzing net enrollment ratios in primary education, adult illiteracy rates, literacy gender-parity indices, pupil-teacher ratios, the percentage of certified teachers, the average number of years of schooling (educational persistence), the number of years of compulsory schooling, and public expenditures on education as a percentage of total governmental expenditures demonstrates how well a nation-state provides for its citizens' education.

Ranking governance would provide both the carrot and the stick for positive change.

For health outputs, useful subindicators include life expectancy levels, infant mortality percentages as a proportion of 1,000 live births, the maternal mortality ratio per 100,000 live births, childhood immunization rates, HIV prevalence rates, the numbers of hospital beds per 1,000 people, and health expenditures as percentages of budgets and GDP. The underlying presumption is that good governance shows up as good delivery of health services. The most important subindicator, summing up mortality rates and life expectancies, is the World Health Organization's Health Adjusted Annual Life Expectancy (HALE) Index. HALE measures life expectancy adjusted for morbidity and time spent in poor health. It provides the equivalent number of years in full health that a newborn can expect to live, based on mortality rates and prevailing health states. In some regions, additional subindicators representing the incidence and treatment of diseases such as malaria, tuberculosis, and dengue fever should be used.

When the indicators and subindicators are arranged and the individual indicator scores are summed, the results are overall objective national-governance scores which, by and large, seem to meet the test of reason and common sense. Although a few surprises have emerged, an example illustrates the possibilities in the method for producing valid results. In Asia, the best-governed states in a student-examined sample (based on data for 2000 only) were Singapore, South Korea, Thailand, Brunei, and Fiji; at the bot-

Figure I: Asia Governance Indicators, 2000



tom of the same list were Myanmar (Burma), Pakistan, Laos, and Cambodia. China ranked 11th out of 29, and India ranked 18th.

Brunei's higher-than-expected placement is probably explained by a high rating (after top-rated Singapore) in the rule of law and infrastructure categories, as well as reasonably high ratings for security. Otherwise, the top- and bottom-ranked countries of the Asia table are consistent with common impressions. The fact that the snapshot year chosen for this particular experiment was 2000 also explains the high (12th-place) ranking of the Solomon Islands, which subsequently plunged into civil war. Using a single year's data may also largely explain why Sri Lanka, which was war-torn but otherwise (since 2000) has been prosperous and fast-growing, rated 24th, after Indonesia and Tajikistan and barely above Uzbekistan.

Singapore and Brunei rank near but not at the very top of the overall rankings for Asia because of their wealth and because they deliver many essential political goods to their citizens, particularly security. Both were downgraded somewhat in their total scores, however, because of deficiencies in providing political rights and freedoms. That downgrading illustrates the intrinsic strength and utility of the method (they ranked high despite some low-rated variables) and the critical importance of deciding how to weigh the value of each indicator. If political rights had been deemed less valuable to good governance than security, for example, both Singapore and Brunei would have fared more poorly in the final overall evaluation.

At a minimum, the student pilot efforts demonstrate that ranking countries of the developing world according to their qualities of governance using elaborate proxy indicators to evaluate levels of performance is plausible and can produce reasonable and defensible results. The mix of objectively and subjectively derived data represents the best efforts and combinations to date. To replace more detailed subjective numbers, for corruption and rule of law, for example, with truly objective quantifications will require extensive fieldwork and/or the development of new objective measures capable of being applied by data collectors within each country when sufficient funds become available. Absent such on-the-ground data collection and analysis, the trend of the quantified results prepared by the student pilot groups makes sense and verifies that this endeavor is indeed promising. What is required for the future, however, are more fully refined indicators and subindicators, each tested laboriously, and a statistically valid method for smoothing data and/or replacing missing data points.

Time for an Impartial Evaluation of Governance

Converting this proposal into a full-fledged governance ranking system will require creating a new, nonpartisan, non-profit NGO and the investment of seed funding from foundations, a consortium of donors, or international organizations. It will also require the general idea to be accepted by many if not all of the prospective stakeholders: nation-states in the developing world and donors such as the Group of Eight. Any attempt to construct and then use a ranking system for governance quality is guaranteed to be controversial; those nation-states which rank low on the scales of governance may take exception and claim bias. There will thus need to be extensive additional work on and thorough testing of the hypotheses that underlie the proposal and the proxy indicator method to establish the system as comprehensive, independent, and responsible.

The aforementioned are necessary caveats, but as the threat of nation-state failure and the problem of governance quality in the developing world becomes increasingly daunting and well documented, the need to improve governance grows consistently more urgent. Existing efforts are too subjective, partial, and insufficient. Creating an effective, impartial good-governance ranking system and advisory service will help meet this critical challenge.