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Questions and Answers: Governance Indicators

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This page provides answers to the most relevant and most commonly raised issues. Indicators contained in the 2004 paper: [Governance Matters III: Governance Indicators for 1996-2004](#) and the most recent 2005 paper: [Governance Matters IV: Governance Indicators for 1996-2005](#).

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What is meant by Governance?

Governance can be broadly defined as the set of traditions and institutions by which the power of the government is exercised. This includes (1) the process by which governments are selected, monitored, and held accountable; (2) the capacity of the government to effectively formulate and implement sound policies; and (3) the extent to which citizens and the state for the institutions that govern economic and social interaction.

For more information, consult [the Governance Matters III paper](#) (pages 3-5) and/or [the Governance Matters IV paper](#).

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What are the 6 dimensions of the Governance Indicators?

The six dimensions of Governance are: Voice and Accountability; Political Stability and Absence of Violence; Government Effectiveness; Regulatory Quality; Rule of Law; and Control of Corruption.

Voice and Accountability includes in it a number of indicators measuring various aspects of the process, civil liberties, political and human rights, measuring the extent to which citizens can participate in the selection of governments.

Political Stability and Absence of Violence combines several indicators which measure the likelihood that the government in power will be destabilized or overthrown by possible violent means, including domestic violence and terrorism.

Government Effectiveness combines responses on the quality of public service provision, the bureaucracy, the competence of civil servants, the independence of the civil service, and the credibility of the government's commitment to policies.

Regulatory Quality instead focuses more on the policies themselves, including measures to reduce market-unfriendly policies such as price controls or inadequate bank supervision, as well as the burdens imposed by excessive regulation in areas such as foreign trade and business.

Rule of Law includes several indicators which measure the extent to which agents abide by the rules of society. These include perceptions of the incidence of crime, the predictability of the judiciary, and the enforceability of contracts.

Finally, **Control of Corruption** is a measure of the extent of corruption, conventionally measured as the abuse of public power for private gain. It is based on scores of variables from polls of experts and citizens.

For further details, [consult the Governance Matters III paper](#) (pages 4-5) and/or [the Governance Matters IV paper](#).

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How frequently are the Governance Indicators updated?

The Governance Indicators are updated every two years. All relevant information (in methodological papers, interactive charts, and world maps) for the last round of updates is available on the web at: <http://www.worldbank.org/wbi/governance/govdata/>. The next round of updates will be posted in early 2007.

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Will you go further back in time to compile Governance Indicators for years prior to 1996?

No, 1996 will remain our starting year. As we go back in time, we would have to drop sources that became available only in recent years. Dropping sources would decrease both the number of sources (i.e. higher standard error) and the interpretation of changes over time (as changes could be affected by the subtraction of sources rather than an actual change in its performance).

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Why are margins of error important?

Inherent to all Governance Indicators is a margin of error, which might vary from country to country and is attributable to two factors: (i) cross-country differences in the number of sources in which each country appears and (ii) differences in the precision of the sources in which each country appears.

In spite of the considerable number of individual sources used (which tends to decrease measurement error), there are still substantial margins of error associated with governance indicators. This implies among other things that it is difficult to assign many countries to a definitive level of governance, and even more difficult to compile indicators that are consistent over time. It should be emphasized however that over time the standard errors have been sensibly reduced as the number of sources utilized has increased. Indeed, while average standard errors in 1996 were 0.22, in 2004 the figure was reduced to 0.11.

It is also very important to notice that the margins of error we emphasize are not uniform across all indicators we use to construct our aggregate governance indicators: measurement error is higher for indicators of governance and institutional quality. An advantage of our measures of governance is that they are explicit about the accompanying margins of error, whereas these are most often left implicit in measures of governance.

For a more thorough discussion, [consult the Governance Matters III paper](#) (pages 15-16) and [the Governance Matters IV paper](#) (pages 27-31).

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Is the precision of these governance Indicators higher than for others, and is it improving?

Perceptions-based or subjective measures of governance contain important information that objective indicators, particularly in emerging economies. For example, we show in [the Governance Matters III paper](#) that the firm's perceptions of the difficulty of starting a new business, or of the time and cost to start a new business, depend solely on the relevant legal framework governing business entry and taxation (and not on corruption). These issues are also importantly influenced by the degree of corruption in their countries (developing countries), suggesting that not only do formal rules matter, but also the manner in which these rules are applied and enforced.

As a result, it should not surprise that the precision of the Governance Indicators is generally higher than for other objective indicators. In [the Governance Matters III paper](#), we designed the indicators so that objective indicators could indeed be exposed to margins of errors much larger than those constructed on the basis of subjective data.

It should also be emphasized that over time the standard errors have been sensibly reduced as the number of sources utilized has increased. Indeed, while average standard errors in 1996 were 0.22, in 2004 the figure was reduced to 0.11.

For more details, consult the [Governance Matters IV paper](#) (pages 27-31) and [the Governance Matters III paper](#) (pages 12-15).

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Why do you use subjective measures as opposed to objective indicators?

The primary reason for this choice is that for many of the key dimensions of governance the confidence that property rights are protected, objective data are almost by definition and so there are few alternatives to the subjective data on which we rely.

Perceptions-based or subjective measures of governance contain important information, objective indicators, particularly in emerging economies. For example, we show in the perceptions of the difficulty of starting a new business, or of their tax burdens, do not reflect the relevant legal framework governing business entry and taxation. Rather, firms' views are importantly influenced by the degree of corruption in their country (particularly so in countries suggesting that not only do formal rules matter, but also the institutional environment applied and enforced.

For more details, consult the [Governance Matters IV paper](#) (pages 27-31) and the [G paper](#) (pages 22-24).

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How do I interpret changes in countries' estimates over time?

A change over time could be attributed to 4 factors. First of all, it could come from a country assigned to a country by the same source over time. This is the most common and reflects changes in perceptions of the country's performance. A second factor is the country whose ratings might be different from the average ratings from pre-existing sources. A third factor is the relative performance may also reflect the addition of new countries to the aggregate. If we add a country with a governance rating that is high relative to those countries already in the construction all the countries which rank lower than this country will receive lower scores. A fourth factor is the country's performance could derive from a change in the weights in the aggregation. However, these last two factors typically have only very small effects on changes.

The first factor is by far the most relevant. To prove this, for each country we have calculated the agreement ratio, which changes in the individual sources agree with the direction of change in the aggregate. We are building an 'agreement ratio', calculated as the number of sources that agree with the direction of change divided by the sum of the number of sources that agree and number of sources that disagree. We find that the agreement ratio is quite high for countries with large changes in governance. For all countries and indicators, we find an average agreement ratio of 0.86 for the period 1996-2004. For Government Effectiveness, the agreement ratio ranges from a low of 0.76 for Government Effectiveness, Voice and Accountability. This provides some confidence that for countries with large changes in governance estimates, these changes are being driven primarily by changes in underlying

For more details, consult [the Governance Matters III paper](#) (pages 16-19) and the [G paper](#) (pages 10-13).

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How confident can we be that over time changes are indeed significant?

The margins of error associated with levels of governance are substantial. Since changes in governance are small relative to levels of governance, it is safe to assume that most of the observed changes are neither statistically nor practically significant. However, there are some cases where changes are large enough that the 90% confidence intervals in the two periods do not overlap, and so we can identify cases of changes over time that are likely to be of practical significance.

We develop a formal statistical methodology, as well as some simple rules of thumb to identify cases of governance that are likely to be statistically and practically significant. Over the eight years of our governance indicators, we find that in about 10 percent of countries we can be 90 percent confident (at the 10 percent significance level) that governance has changed substantially, while at a low level, roughly 20 percent of all observed changes stand out as significant. Important to note is the great deal of agreement among our many data sources about the direction of change in governance for most countries. Overall this reminds us that, while in general institutional quality changes are slow, also countries where one can point to sharp improvements or deteriorations over an extended period are of particular interest given the common perception that, while deterioration can take place rather quickly, improvements are always very slow and incremental.

A more detailed discussion of confidence intervals, standard errors and changes over time is provided in the [Governance Matters III paper](#) (pages 14-19, see also figure 3 on pages 49-51) and the [Governance Matters IV paper](#) (pages 15-26).

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What are the underlying sources for the Governance Indicators?

Our data sources reflect the perceptions of a very diverse group of respondents. For each indicator, data are drawn from 32 sources and 30 different organizations.

Several of our data sources are surveys of individuals or domestic firms with first-hand experience of the governance situation in the country. We also capture the perceptions of country and multilateral development agencies, reflecting these individuals' in-depth experience of the country they assess. Other data sources from NGOs, as well as commercial risk rating agencies, are based on assessments on a global network of correspondents typically living in the country the indicator measures.

For more details on these organizations, [click here](#).

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In simple terms, how is the aggregation methodology carried out to produce the Governance Indicators?

We use an Unobserved Component Model (UCM) to aggregate the various responses. This model treats the "true" level of governance in each country as unobserved, and the available sources for a country provide noisy "signals" of the level of governance. The model estimates the weighted average of the sources for each country as the best estimate of governance. The weights are proportional to the reliability of each source. The resulting estimates of governance are expected to be close to the expected value (across countries) of zero, and a standard deviation (across countries) of one. Virtually all scores lie between -2.5 and 2.5, with higher scores corresponding to better governance.

For technical details, [consult the Governance Matters III paper](#) (pages 8-12) and/or the [Governance Matters IV paper](#).

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What is the impact on your aggregate indicators of some underlying sources being better than others?

The Unobserved Component Model (UCM) that we use to aggregate the various responses constructs a weighted average of the sources for each country, where the weights are proportional to the reliability of each source. Therefore, the model minimizes the margins of error by giving lower weights to those sources that have larger noise and/or measurement errors.

For technical details, [consult the Governance Matters III paper](#) (pages 8-12) and/or the [Governance Matters IV paper](#).

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How many countries are covered by the Governance Indicators?

Coverage varies depending on the indicator and the year. For 2004, Government Effectiveness and Control of Corruption have the most coverage (209 countries), while Regulatory Quality has the least (109 countries).

For a complete list of countries for each Governance Indicator, consult [Appendix C of the Governance Matters III paper](#).

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Can we infer any global trend over time from the Governance Indicators?

Our indicators measure governance in units where the average score for the world a period. Therefore, the Governance Indicators are only meant to capture countries' relative performance. We can however use our indicators jointly with our underlying sources to draw global trends. For instance, since many of our individual sources show a deteriorating trend, then we can safely infer that a country's deterioration in its relative position is not necessarily an overall improvement in other countries, but rather is likely to reflect a poorer performance.

For a more detailed discussion, [consult the Governance Matters III paper](#) (pages 8-11) and [the Governance Matters IV paper](#) (pages 13-14).

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How does the introduction of 'persistence' affect the interpretation of changes in governance?

There are two types of persistence which tend to have opposite effects upon the significance of a change in data: persistence in governance and persistence in the measurement error.

Persistence in governance is quite common. Quality of institutions tends to change very slowly. A change in the governance framework in any given country tends to be highly correlated with previous values. Persistence in governance, however, produces large effects upon the interpretation of changes. Given any observed change in governance levels, the higher the persistence, the more likely that any such change is the result of pure noise and therefore less likely to reflect a true change in unobserved governance. In the limit where governance is perfectly correlated over time, we would know for sure that any change observed in the data must reflect only fluctuations in the measurement error, so we would completely discount the observed change in the data.

On the other hand, persistence in the error term can produce symmetrically opposite effects. Persistence in the error term could occur, for example, in the presence of methodological flaws in the sources used to measure the governance score. Given any observed change in governance levels, the more persistence in the error term, the more likely that any such change understates the true change in governance.

Overall, we find that the effect of persistence in governance tends to dominate the effect of persistence in the error term. This suggests a further dimension of caution in interpreting the significance of changes over time.

For a more detailed discussion, consult [the Governance Matters IV paper](#) (pages 16-17).

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Why do you distinguish between representative and non-representative sources?

This distinction allows for minimization of the imprecision of point estimates due to non-representative underlying sources. First of all, non-representative sources are more likely to be subject to sampling error given their more limited scope (for instance, a source rating only rich countries will produce higher ratings than other sources covering a more balanced panel of low and high-income countries). In technical note, the distribution of unobserved governance in the subset of countries covered by non-representative scope sources is not the same as that in the world as a whole. As a result, for these sources, the assumption that unobserved governance in the countries covered by these sources follows a normal distribution, as is required by the maximum likelihood procedure, is less likely to be valid.

For a more detailed discussion, [consult the Governance Matters III paper](#) (pages 8-11) and [the Governance Matters IV paper](#) (pages 13-14).

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How can I see what variables were actually used to compile the latest set of Governance Indicators?

[Appendix A of the Governance Matters IV paper](#) lists all the sources that were used, along with a description and weblink to the respective homepages.

[Appendix B of the Governance Matters IV paper](#) instead provides details on how we aggregate data from each of these sources to our six governance clusters.

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What options do I have to access the data?

[Appendix C of the Governance Matters IV paper](#) provides a printout of all the data. For each country the estimate level, the standard error and the number of sources used.

Alternatively, you can download the complete dataset in excel format directly from the data tailored to your needs. To do so, [click here](#).

For a more complete access to data, charts and related information, visit the [interactive](#)

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What implications can we draw in regards to the Millennium Challenge Account

The MCA allocation rule is designed to ensure that MCA funds will be allocated to low relatively sound policies and institutions. A group of 70 countries that are eligible for funds from the World Bank, and which have per capita incomes less than \$1435 in 2004, will receive MCA funds in 2005. According to the MCA eligibility rules, this set of countries will be selected based on performance criteria covering three dimensions of performance: "governing justly" (6 criteria), "promoting economic freedom" (6 criteria), and "promoting environmental protection" (4 criteria). Four of the governance indicators are constructed (voice and accountability, government effectiveness, rule of law, and control of corruption) and proposed as performance indicators under the MCA's "governing justly" performance dimension, with the remaining two for this dimension being measures of civil liberties and political rights. In addition, a fifth governance indicator, Regulatory Quality, is included under the "promoting economic freedom" dimension. In order to qualify for MCA assistance, countries must (a) be in the top half of countries according to the corruption rating from the governance indicators, and (b) be in the top half of potentially eligible countries on at least half of each of the performance criteria under the three dimensions of performance. This rule is designed to ensure that resources are channeled to countries that are performing well in a variety of dimensions of governance, and in which corruption is relatively low.

However, it is important to note that the substantial margins of error associated with the governance indicators mean that it is difficult to assign many countries to a definitive performance category based on the estimated level of governance. This point applies to any of the MCA criteria. Given the large margins of errors, some countries ranked under the median might in fact belong to the top half of the distribution. Classifications based on individual indicators, or even on a single aggregate indicator, run the risk of mis-classifying countries due to the margins of error inherent in all indicators.

This underscores the need for a certain degree of flexibility in the MCA allocation rule and the need for caution when using governance indicators to classify countries into groups. To avoid misclassification, it is important to look at a variety of indicators and additional source data, especially in borderline cases. As an illustration, consider the Control of Corruption indicator. The Millennium Challenge Account aid program requires recipient countries to score above the median of 70 potentially-eligible countries on this indicator. We can use our estimates of governance and the margins of error to assess the likelihood that corruption in a country actually falls above the median. Using the 2004 data, we can identify a group of 17 poorly-performing countries, or about one-quarter of the sample, where there is less than a 10 percent chance that corruption in these countries actually falls above the median. For another 23 countries, or about a third of the sample, we are quite confident that corruption in these countries falls above the median, with a probability of at least 90 percent. In contrast, for the remaining 30 countries, the probability that they fall above the median is somewhere between 10 percent and 90 percent, and so we have less confidence that these countries are correctly classified. If we raise the confidence threshold to 25 percent and 75 percent, we find that only about 20 countries out of the 70 countries fall in this zone of uncertainty.

This example shows that we can use this kind of data to identify with considerable confidence both strong and weak performers. But at the same time the presence of margins of error reminds us that countries near the middle of the pack are much more difficult to make given the uncertainty in measuring governance with any type of data. Fortunately, the decrease in margins of error (due to the increase in sources) have reduced the number of countries with a non trivial probability of being misclassified as explained in [the Governance Matters IV paper](#) (pages 8-10). We first performed the calculations in late 2002, shortly after the announcement of the initial MCA eligibility

the older version of our 2000 Control of Corruption indicator, we found that 23 out of percent of countries) fell in this intermediate zone. This much higher proportion of in reflected the fact that the old version of or 2000 Control of Corruption indicator relied data sources than we now have available to us for both 2000 and 2004.

For a more detailed discussion, [consult also the Governance Matters III paper](#) (page

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How have potential ideological biases in poll agencies' ratings been addressed?

We address this issue as follows. Our identifying assumption is that surveys of firms tainted by ideology, since they reflect the views of a large number of respondents in is possible that the views of a smaller number of raters affiliated with a particular ideology of that group. We can therefore identify the effects of ideology by looking at countries between the ideology of the government in power, and the difference in the to countries by a poll of experts and a survey of individuals and firms. We implement Bank's Business Environment Survey for 2000, and an indicator variable that takes 1 if government in power is left-of-center, 2 if it is center, and 3 if it is right-of-center, taking political institutions constructed by Beck et. al. (2001). The coefficient on the ideology capture the extent to which a given poll of experts rates countries with left-systematically differently from a survey (a positive coefficient indicates that the poll is right-of-center governments more highly relative to a survey). Our results showed that which appears to have a consistent ideological bias, with the Heritage Foundation as scores to countries with right-of-center governments than the corresponding survey fairly modest in magnitude.

For a more detailed discussion, [consult the Governance Matters III paper](#) (pages 24

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What is the criteria to assign different colors to countries in the interactive charts?

Each country color pattern follows a simple quartile distribution (for illustrative purposes 75th percentile) is in green (with top 10% colored in darker green), the second best is yellow, the third (over 25th) is in orange, and the fourth is in red (with bottom 10th in that this simple color coding does not account for the size of the confidence intervals based on the point estimates.

To access interactive charts and/or maps, visit our [interactive webtool](#).

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How confident can we be that rankings drawn from point estimates are accurate?

Because of margins of errors, we cannot make precise rankings. However, we can use confidence intervals. If we for instance divide the distribution of countries' estimates (low-high governance rating), we can calculate the probability that any given country is on opposite side of the distribution.

A more detailed discussion of confidence intervals, standard errors and rankings can be found in [Governance Matters III paper](#) (pages 11-14, see also figure 1 on pages 45-47) and the [paper](#).

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How confident can you be that sources are independent from each other, as an aggregation process?

It is true that an important assumption of our Unobserved Component Model is that it is across sources. This assumption in particular imposes the identifying assumption that the sources might be correlated with each other is because they are both measuring the

unobserved governance dimension.

We have taken several steps to ensure that this assumption would hold. In the first place, we included sources which were themselves constructed upon other indicators used in the survey. For instance, we did not include the Corruption Perceptions Index (CPI) by Transparency International because the CPI is itself an aggregate of a number of individual sources, all of which were included in our corruption indicator.

Secondly, we were very cautious in flagging risk rating agencies who would base their assessments of other agencies included in our sample. We have to the best of our knowledge excluded any source of governance data where we found it was explicitly based on another one of our indicators.

If errors are positively correlated across sources despite the precautions we have taken, it would have little effect on the governance estimates we construct. However, it would imply that the estimates we have constructed are conservative, and that the true level of imprecision of the indicators is greater than we have estimated.

For more details, consult the data section in [the Governance Matters III paper](#) (page 10).

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What is the best use I can make of these indicators?

Notwithstanding the substantial increase in data collection for the 2004 update, which improved country coverage and improved the precision of the aggregate indicators, margins of error that in the future the availability of additional data will enable further improvements in the presence of margins of errors imply that we cannot make precise rankings of the country point estimates.

The Governance Indicators however can serve the purpose of providing individual countries with monitorable indicators of governance they can use to benchmark themselves against over time. We recognize there are limitations to what can be achieved with this kind of cross-country aggregated data. Therefore, this type of data cannot substitute for in-depth, country-specific diagnostics as a basis for policy advice to improve governance in a particular country but is viewed as a complementing tool.

A more detailed discussion of confidence intervals, standard errors and rankings can be found in [the Governance Matters III paper](#) (pages 11-14 and pages 45-47) and the [Governance Indicators](#).

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It may be useful to measure it, but does governance really matter?

It matters enormously. We find that a country improving its quality of governance from the lowest level can in the long term quadruple the income per capita of its population, and simultaneously reduce poverty and illiteracy. And the direction of causality is clear: it goes from better governance to economic growth and vice versa. In other words, governance is not a 'luxury' good that only wealthier countries enjoy as an automatic result of development. To the contrary, it requires continuous political will and difficult work.

There is by now a strong consensus among both academics and policymakers that good governance is the fundamental basis for economic development. Academic research has focused on the quality of institutions on growth in the very long run, noting that there is a strong causal impact of good governance on growth in per capita incomes worldwide. Estimates of this "development dividend" of good governance suggest that a realistic one-standard-deviation improvement in governance would raise incomes in the long run by up to three-fold.

Such improvement in governance by one standard deviation is feasible, since it is only a small difference between the worst and best performers, and would correspond, for instance, to the difference between the current ratings of voice and accountability between the level of Myanmar to that of Kazakhstan to that of Georgia, or from the level of Georgia to that of Botswana. Rule of Law, a one standard deviation difference would for instance constitute the in-

of Somalia to those of Laos, or from Laos to Lebanon, or from that of Lebanon to Italy while for Control of Corruption it is the improvement from the levels of Equatorial Guinea, Honduras or Uganda, or from those of Uganda to those of Lithuania or Mauritius, or those of Portugal, or from those of Portugal to the stellar standards of Finland, Iceland

Even over much shorter periods such as the past 10 years, countries with better institutions grow faster. Of course, there is variation around these relationships, since governance is not the only matter for development – but it certainly is a very important factor deserving policy attention.

For a more detailed discussion, consult the papers [Governance Matters IV](#), [Governance Without Governance](#).

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Why are there a few countries with ratings above 2.5 or below -2.5?

Given our assumption about governance being normally distributed, there is a 99% chance that a rating would fall between -2.5 and 2.5. However, under very extreme circumstances, a country can exceed these thresholds. This simply means that the country has an extremely poor or extremely good record (above 2.5) in that specific governance indicator.

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Should weak governance performance in poor countries be discounted because of their poverty?

In recent years the international community has rightly turned its attention to the problem of underdevelopment in Africa. Not only is Africa poorer than other regions in the developing world, but it is also starkly behind other regions in terms of progress towards the Millennium Development Goals. To continue to make progress, many countries in Africa will need to double their per capita incomes over the next 25 years to attain the goal of halving poverty by 2005. There is widespread consensus that a combination of foreign aid inflows, together with concerted domestic policy effort, is necessary to meet this challenge.

In light of the strong positive effect of governance on development, and in light of its current low level of delivery, it is then a matter of considerable concern that governance performance in Africa is on average quite weak. Countries in Africa are poor, and too often they are also poorer than the world average. Some observers have argued that we should discount the poor governance performance of the region based on the fact that these countries have very low income and that good governance costs money to provide. Yet, as described in [the Governance Matters IV paper](#) (page 38), recent research provides very little evidence in support of the proposition that poor governance is attributable to Africa's poverty. Rather, most of the action is in the opposite direction: better development outcomes lead to better governance.

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What are the 'halo effects' and what impact do they have upon the strong positive correlation between governance and income?

Perceptions-based measures of governance such as the ones we develop are potentially subject to biases. One common critique is that perceptions of governance are biased upward because respondents view the development success of the country in question as evidence of good quality. This type of bias is sometimes referred to as a "halo effect", and some argue that such "halo effects" might be significantly responsible for the highly positive correlation between governance and income. Yet, as described in [the Governance Matters IV paper](#) (pages 32-36), such effects would need to be implausibly large to account for cross-country correlations between governance and income.

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