



INDEPENDENT EVALUATION GROUP

# Governance and Anti-Corruption

## Ways to Enhance the World Bank's Impact

EVALUATION BRIEF

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# Governance and Anti-Corruption

## Ways to Enhance the World Bank's Impact

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Evaluation Brief 2

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# Governance and Anti-Corruption: Ways to Enhance the World Bank's Impact

The Bank has made significant efforts since the mid-1990s to highlight the harmful effect of corruption on development and has developed a number of mechanisms to help countries improve governance and fight corruption. However, progress on outcomes has been slow. It should be noted at the outset that improving governance is a complex, long-term process. All evidence shows that the quality of governance is strongly correlated with broader measures of development (in levels), suggesting an interdependence, so that anti-corruption initiatives in the developing world will have to be a part of, and dependent on, each country's broad, complex, and long-term state-building process, supported by a strong commitment by developed countries to tighten their policies as well.

This note summarizes suggestions for enhancing the Bank's work on helping countries deal with poor governance and corruption and in ensuring that funds disbursed by the World Bank are protected from abuse. Its purpose is to inform the ongoing discussions at the Bank on its governance and anti-corruption strategy. The findings are generally anchored in past evaluations described in the attached note. New evaluations are under way in the Independent Evaluation Group (IEG) on governance and public sector reform, legal and judicial reform, decentralization, and doing business indicators that will shed deeper light on these complex issues.

The findings (so far) and suggestions are summarized under three broad categories: how to improve engagement and support to countries, how to improve Bank-financed operations, and how to enhance the Bank's

corporate stance toward governance and anti-corruption.

## I. Improving Support to Countries

- **Go Beyond Process Reforms and Follow the Money.** Despite great efforts over the past 10 years, there are indications that corruption is showing no signs of improvement, and could even be worsening. Past efforts were heavily focused on processes such as safeguards, procurement, financial management, and public sector reform. Progress on some of these measures when the country is receptive has been positive, but public sector reform in general has shown relatively weak outcomes. Visible progress has been achieved, for example, in several European Union (EU) accession countries. But in many instances, countries have met these requirements on paper, and even agreed to the “cosmetic” changes that the Bank requires, while the underlying incentives and opportunities for corruption remain unaffected. The Bank should expect to help countries to be more transparent about large financial flows to complement the existing process approach.
- **Work More Actively to Increase Demand for Better Governance and Improved Country Practices.** The Bank's governance work focuses heavily on top-down rules and regulations and on systemic processes such as public expenditure management systems, civil service reform, anti-corruption commissions, and the like. These reforms will be ineffective unless demand for reform comes from more aware citizens within the country. More active approaches are needed to encourage demand for change through greater transparency, encouragement of civil society, freedom of the press, and public information disclosure in close collaboration with local institutions.

- **Concentrate Greater Attention on Countries with Poor Governance and Weak Performance.** While there are many countries where results are not being achieved and indicators of governance and corruption are poor, there are just as many where results are being achieved, despite poor indicators of governance. Given limited internal resources, one approach is to devote greater attention to the former to achieve win-win outcomes on governance and results, while trying to better understand the dynamics between governance and results in countries with good results along with poor governance. In countries with weak governance, establish clearer benchmarks of progress and get a much better understanding of the root causes of poor governance—especially its historical, social and political aspects. In countries with a history of weak governance, and especially where there is an abrupt turn-around in the political regime, lend prudently while staying engaged.
- **Encourage Fiscal and Financial Transparency on Revenues from Extractive Industries (EI).** In countries where a substantial share of economic activity comes from extractive resources, fiscal and financial transparency is typically weak. The World Bank Group (WBG) should vigorously pursue country-wide and industry-wide disclosure of revenues from EI and related contractual arrangements such as production sharing agreements, concession, and privatization terms. The Bank should support disclosure of EI revenues and their use in resource-rich countries, following the U.K. government’s Extractive Industries Transparency Initiative (EITI). The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) should also consider requiring their private sector clients to publish their payments to governments and encourage the PWYP (publish what you pay) initiative.

## II. Improve Bank Operations

- **Corruption Affects Projects in All Sectors.** Better governance and lower corruption are positively correlated with the success of Bank projects. The link between corruption

and country performance—for example, economic growth—is more varied and diverse. The positive link with Bank projects is not surprising, since Bank loan proceeds (like the funds of other multilateral development banks [MDBs] and aid agencies) largely go through the public sector. Therefore, it makes sense to direct anti-corruption efforts toward Bank operations of all types. Governance and anti-corruption are seen largely as a Poverty Reduction and Economic Management (PREM) Network activity, but must now become central to all our operations. Some of the networks are moving in this direction, and this shift should be accelerated and strengthened. In fact, the Bank has often achieved better results on governance and anti-corruption through sector reforms in banking, energy and other utilities, and on procurement, when government ownership was present than it has through attempts at wider public sector reforms and visible anti-corruption measures, such as the establishment of anti-corruption commissions.<sup>1</sup>

- **Re-examine Guidelines for Project-Related Corruption.** The Bank’s policy is zero tolerance for corruption in lending operations, but there remains considerable lack of clarity in how this policy should be applied when allegations of corruption surface in Bank projects. Moreover, the burden of proof to initiate actions when there are allegations of corruption is more often on the Bank than on borrower authorities. This makes it difficult and costly to initiate remedial action. The Bank and the borrower authorities should be allies, not adversaries, in the campaign against corruption. New staff guidelines are needed to provide greater clarity on the proper response to allegations of corruption and to remove ad hoc treatment across projects.
- **Reduce Opportunities for Corruption in Infrastructure.** There appear to be greater opportunities for corruption in infrastructure projects, related to procurement, contracts, and regulatory capture, given the large sums of money involved. With public-private partnerships, which involve large contracts handled by low-wage public servants, such opportunities intensify. These opportunities can be reduced

by convincing countries to avoid complex financial structures, practice greater transparency, and employ enhanced competition. One useful avenue would be to compare and publicize costs of delivering services and service delivery times to foster better benchmarking.

- **Conduct Physical and Financial Audits on a Sample of Social Fund and Community-Based and -Driven Projects.** Community-based and -driven approaches present a very powerful tool to circumvent corrupt government and get funds directly into the hands of communities. However, evaluation of both community-based and -driven projects and social funds shows that these approaches do not control overall corruption—only the nature of corruption changes. They are not magic bullets. Evaluation also shows that audits (physical and financial), and even the threat of an audit, reduce corruption. Conduct such special audits on a sample of such projects and keep them available as part of the toolkit to discourage corruption.

### III. Enhance Corporate Policies

- **Encourage Developed Country Institutions and Businesses to Tighten Their Practices.** Corruption is a two-way street, and the briber is as responsible as the bribee. In this regard, the role of international business in bribing, and of international banks in sheltering bribe-based capital flight, needs much greater scrutiny and attention. The local private sector should also be enrolled in the fight against corruption through IFC and MIGA work with partners. The developed countries should also play a role by ensuring that their businesses are punished for paying bribes and that

international banks do not accept stolen funds, and return them if discovered. The Organisation for Economic Co-operation and Development (OECD) and UN conventions (UNAC) could be used more aggressively to work with countries and implement their agreed-upon standards.

- **Encourage Partners and MDBs to Follow Similar Procedures.** The Bank and its shareholders should try to adopt similar procedures and policies on governance and anti-corruption across all aid, and not just at the World Bank. An MDB Task Force is looking into this issue for better coordination across the MDBs. Many bilateral aid programs focus on governance, but the approaches and objectives vary widely. The Bank could help harmonize approaches to governance and anti-corruption.
- **Establish a Governance and Anti-Corruption Advisory Council.** In view of the sensitivity of governance and anti-corruption issues, and the potential concern that the Bank can be charged (even if incorrectly) with political interference, the Bank might consider establishing a Governance and Anti-Corruption Council made up of highly respected individuals from across the world. The Council would advise the president and senior management and communicate with political leadership in countries on governance and anti-corruption issues.

IEG is looking at this issue from several different angles, including an ongoing evaluation of the Bank's work on low-income countries under stress (LICUS), fiduciary work, governance and public sector reform, legal and judicial reform, and decentralization. IEG will report further as we get more detailed results.



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# Background Analysis



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# 1—Governance and Anti-Corruption: The Efforts So Far

Governance<sup>2</sup> and anti-corruption are central elements of the World Bank Group's work in supporting economic development. Much progress has been made over the past decade in bringing governance and anti-corruption to center stage in development. The Bank's work on governance became explicit and more systematic with the 1996 Annual Meeting Speech of the President and the 1997 *World Development Report* on the role and the effectiveness of the state.

## Bank Has Made New and Intensified Efforts

Since then the Bank's governance work has focused on seven broad areas:

- **Developing indicators of governance** and doing more analytical work on aspects of governance and the business climate.<sup>3</sup> Most of these are survey-based perception indicators. They typically ask business groups and citizens about aspects of governance—such as delivery of services, bribery, rule of law, and general perceptions of government effectiveness. Some new work is also developing direct quantitative indicators, but this remains very limited.
- **Governance and anti-corruption** are now central features in every country assistance program of the World Bank, with public sector and judicial reform as key elements. This work is seen as the responsibility of the PREM Network but has not been addressed with equal priority in the work of the Bank's other networks, although well-designed sector reform programs and projects in such areas as transport, finance, energy, and the like lead to better governance and reduced corruption, with strong government ownership.
- **Governance forms a key component of IDA allocations** through the Country Policy and Institutional Assessment (CPIA), in which assessment of governance forms a key component. In addition, a special weight is attached to governance in International Development Association (IDA) allocations.<sup>4</sup> Governance, therefore, gets a double weight in IDA allocations.
- **Financial management plans are required of every project, along with the existing procurement oversight.** Core diagnostics related to public expenditure, procurement, poverty, and financial accountability have been introduced and are required of all IDA countries. Most country teams have, over the past five years, completed these assessments.
- **Community-driven and -based approaches have become more popular as mechanisms to help money reach people directly, circumventing corrupt governments.** Such approaches are commonly used in conflict-ridden countries as well as in countries where corruption is egregious and widespread. The main idea is to provide communities a role in decision making (community-based) and sometimes direct control (community-driven) in the use of resources allocated for their betterment.
- **For countries with severe governance problems, the special category of LICUS was created.** These are countries with a CPIA rating below 3 and a governance rating below 3. The objective of creating a special category of LICUS countries<sup>5</sup> was to try and find special ways to deal with countries with very poor governance. These countries are often conflict ridden, with state authority that has collapsed to a level where even the basic functions

of government, such as law and order, are difficult to maintain.

- **An Institutional Integrity Unit was established to help detect fraud in the Bank and in Bank-financed projects.** This unit was established to investigate corruption among Bank staff as well as issues of corruption in Bank-financed projects. Its

investigations are triggered by allegations of corruption. While this unit does not have any judicial powers, its investigations can lead to actions against corruption among Bank staff, sanctions on companies involved in fraud in Bank-financed projects, and provision of information to countries investigating fraud in Bank-financed projects.

## 2—Progress Has Been Slow

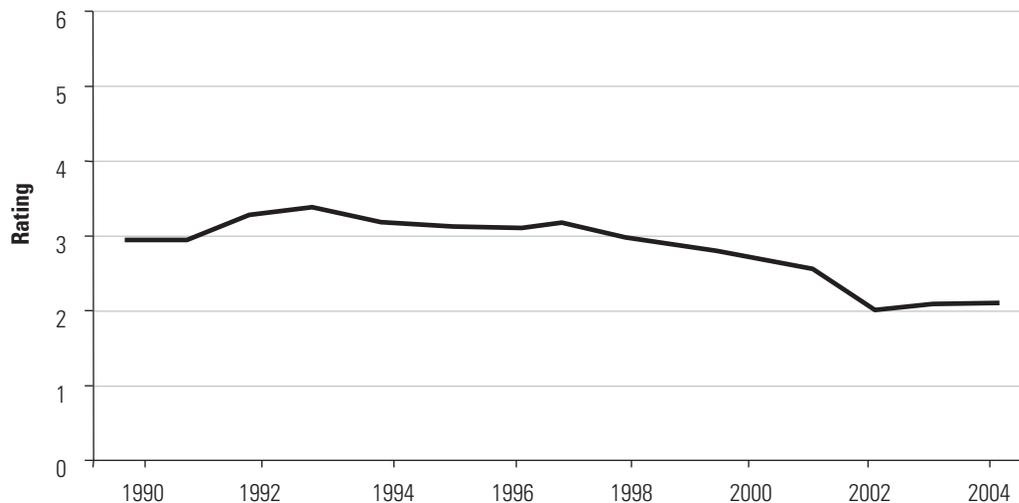
Between 1996 and 2005, important initiatives were taken on governance and anti-corruption, but there remains a perception that real progress has been slow. There are several reasons for this perception:

- **Indicators for governance show deterioration** since the mid-1990s, or at least do not show significant improvement<sup>6</sup> despite all the efforts made so far to help countries improve governance (see figure 1a, b). The most comprehensive governance indicators are being assembled at the World Bank Institute (WBI) by combining a number of external and internal indicators, including the Bank's own internal indicator, the CPIA. Overall they show a deterioration, or at least show no improvement. Only the CPIA shows a small improvement in governance, but this could indicate

effort rather than outcome, because the CPIA is an in-house indicator, not based on surveys. Bank staff who produce the CPIA sometimes rate an improvement when certain policy actions are taken, such as passage of new legislation, without clear evidence that the actions have actually been implemented on the ground. The Business Environment and Enterprise Performance Survey (BEEPS) shows some improvement in governance indicators, but it is restricted to one Region, Europe and Central Asia. European Union (EU) accession has been a major driver of institutional improvements in several countries in the Region.

- **Public Sector and judicial reform has led to institutional reforms**, but in many instances countries appear to be willing to go through the process of reform, while

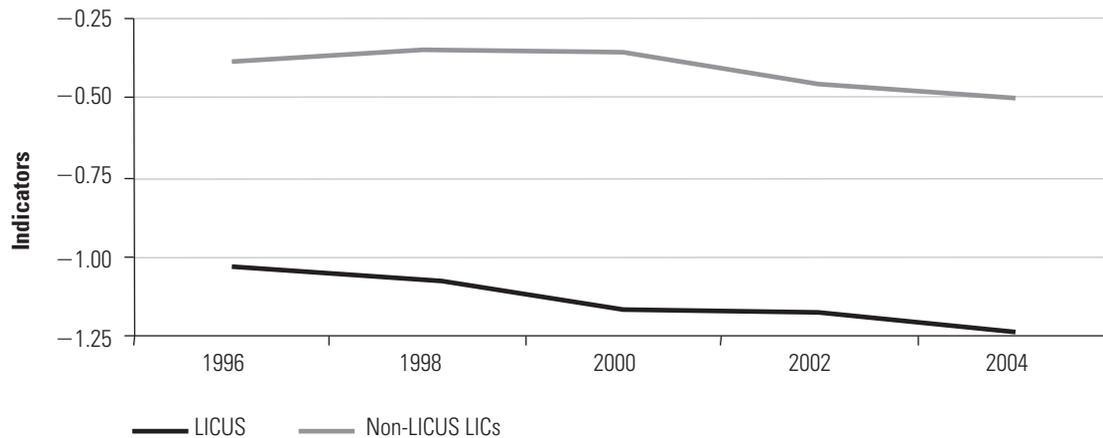
**Figure 1a. Corruption Remains Deeply Rooted in Developing Countries**



Source: 2004 Annual Review of Development Effectiveness (IEG, 2004, Washington, DC, World Bank).

Note: ICRG: Index of corruption.

**Figure 1b. Governance Indicators for LICUS Countries and Non-LICUS Low-Income Countries (LICs)**



Source: Based on Kauffman, Kraay, and Mastruzzi (KKM).

underlying governance deteriorates, or at best remains as poor as before. Many countries have embarked on institutional reforms, such as civil service reforms, public expenditure management reforms, public enterprise reforms, and judicial reforms. Project performance in the area of public sector reform appears to be relatively weak, and sector-wide assessments show a relatively lower success rates than any other sector. Moreover, such reforms will take a long time to show results and are sometimes more cosmetic than real. In the meantime governance deteriorates because the control of the political elite over resource flows is largely unaffected by such reforms.<sup>7</sup> In some cases, one suspects that the political elite agrees to go along with such reforms because they are well aware that the process of reform will take a long time, and their control of overall resources will be unaffected in the meantime.

- **The core sector work of the Bank in health, education, agriculture, infrastructure, and the like is not directly linked to anti-corruption.** Systemic anti-corruption issues are largely dealt with by PREM, while sector staff in other networks are not as focused on governance and corruption issues in their sectors. This is changing to some extent, because there is now a growing con-

sciousness that delivery of services is affected by institutional and governance issues. But the change is very slow. Projects are being designed using checklists for safeguards, procurement, and fiduciary, but these are often seen as requirements rather than as exercises that add value. There is limited interaction between the project work and the PREM sector-led anti-corruption work, although some of this is now changing.

- **The procurement and financial control framework is well regarded but it is still insufficient.** The Bank's procurement and financial management systems have high-quality processes in place, but in countries or systems where institutions are weak, increasingly sophisticated mechanisms are allegedly used to circumvent the Bank's safeguards. While hard evidence is difficult to come by,<sup>8</sup> there is a perception that even such elaborate control frameworks are being circumvented. Very sophisticated collusion among bidders is difficult to detect, and the Bank needs to find ways to reduce the avenues for corruption by bringing greater transparency to the process and employing tougher sanctions once problems have been detected.
- **The community-driven approaches are useful for getting funds to people but ap-**

**pear unable to stem corruption.** For quite some time the Bank has held the view that one way to reduce corruption is to deliver money directly to the local communities and to increase their involvement in how funds intended for their benefit will be spent (community-based development) or to give them direct control over resources (community-driven development). The logic is that if communities have more say or involvement, it is a self-policing mechanism against corruption, because they are unlikely to steal resources intended for their own benefit. But even such approaches have to function within the local political reality. This is the same political reality that leads to underdevelopment: the control of economic resources by a narrow, local elite is often difficult to circumvent by a donor-driven, community-based approach. Where genuine grassroots community initiatives exist, building on them has worked well. But where such a grassroots mobilization does not exist, donor projects—including those from the World Bank—have been usurped by local elites. Impact evaluation of even the flagship community-driven development project—the Kecamatan Development Project in Indonesia—indicates that the community-driven development approach has changed the nature, but not the level, of corruption.<sup>9</sup> Such approaches must be carefully implemented, because they may even undermine governance, in the long-term, by weakening further the institutions of local government.<sup>10</sup>

- **The LICUS approach has not yet helped improve governance.** The governance indicators for LICUS countries have also not shown any improvement—if anything, they seem to be deteriorating. The LICUS countries have now been termed fragile states. Under an aid-allocation

system based on performance, such countries would have received very limited assistance, but by classifying them into a separate category, such countries have continued to receive IDA allocations. The bulk of the increase in IDA assistance to these countries has gone to post-conflict countries. So far the Bank does not appear to have found a viable way to help these countries improve their poor governance record. The approach has merely allowed the Bank to remain engaged with the low-performing and weakly governed LICUS countries, while maintaining a performance-based resource allocation system in the non-LICUS countries. Lately the Bank has shifted focus in the LICUS/fragile states to the concepts of state-building and peace-building.<sup>11</sup> But these approaches, which are central to the LICUS/fragile states approach, need greater elaboration if they are to be useful for operational work.

- **The threshold of proof for initiating action on corruption in Bank-financed projects is a law-based investigative trigger.**<sup>12</sup>

The Bank follows a policy of zero tolerance in the projects it finances, but the guidance to staff on how to respond to allegations remains unclear and is therefore applied inconsistently. Moreover, the onus of responsibility appears to be on Bank staff rather than on the borrower. The responses of Bank operational staff appear to vary from Region to Region. A more consistent approach is needed. More broadly, there is a need to tackle project-related corruption as a development issue, which requires remedial action in partnership with country authorities. Once allegations of corruption surface, the onus of responsibility must shift to the borrower to show evidence of actions taken to address the issue. If no remedial action is taken, penalties can then be applied.



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### 3—Better Understanding of the Relationship between Governance and Development Is Needed

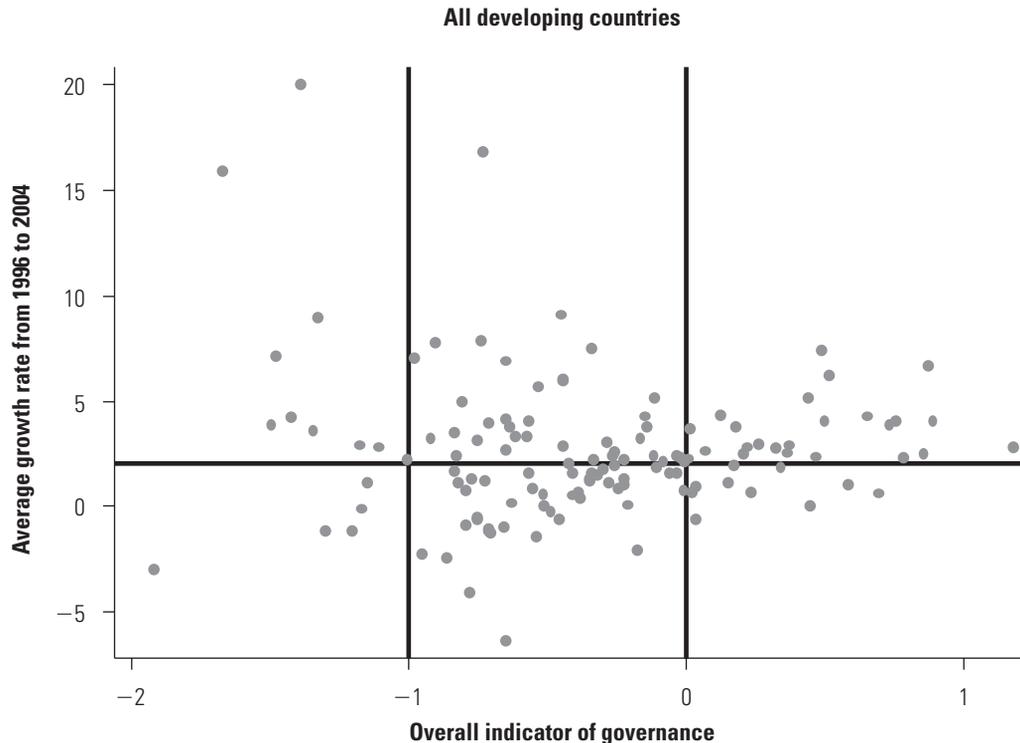
The first step toward such an approach is to try and improve our understanding of the complex nature and types of governance arrangements and to deepen analysis on how governance and corruption affect development.

In addition to perception indicators,<sup>13</sup> which have been criticized for a number of reasons (see Arndt and Oman 2006)<sup>14</sup> there is need for physical indicators of performance, costs, and quality that would allow countries and agencies to better benchmark their activities. For example, in the infrastructure sector we should get more systematic data on costs of construction, energy, telecommunications, water, and quality indicators such as time taken to get goods through ports, customs, and the like. These data will help sector operations to address issues of governance and efficiency and to better understand why service delivery parameters vary across the world. It will also help borrowers to see where they are not getting value for their money. Some of this work is now under way.

While corruption is harmful to development, it must be recognized that there are many developing countries that have experienced rapid growth (see figures 2a and 2b) and reasonably effective service delivery<sup>15</sup> for periods of time, along with poor governance and high levels of perceived corruption. Even within the same region, these relationships show a very weak correlation. We need to understand not just the level, but also the nature, of corruption and its links to development.<sup>16</sup> Why do some

countries—especially in Asia—deliver better services and achieve faster growth than others, even in environments of weak institutions (see figure 3)? One explanation could be that growth is affected by many channels. Remittances, now several times larger than aid, have also played an important part in helping countries (such as Albania, Armenia), or have allowed countries to manage despite governance problems (such as Philippines or countries in Central America). A second reason is that nongovernmental organizations (NGOs) have also played an important role in delivering services, as in Bangladesh.

It can be argued that the medium-term relationship between governance and growth is weak, but that in the long run the relationship between governance and the level of development is strong. This is no doubt true. Developed countries have better governance indicators and stronger institutions than developing countries. But this does not help us understand the dynamics of growth and governance. On the long-run relationship between governance and growth, there are at least two competing hypotheses. One argues that with good institutions, checking arbitrary behavior by government and establishing rules lead to human and physical capital formation and growth and prosperity. The other approach argues that growth starts with human and physical capital accumulation, which leads to growth, and as incomes rise, it leads to demands for better governance and democracy. You end up with good governance being correlated with higher levels of development—but causality is more complex.

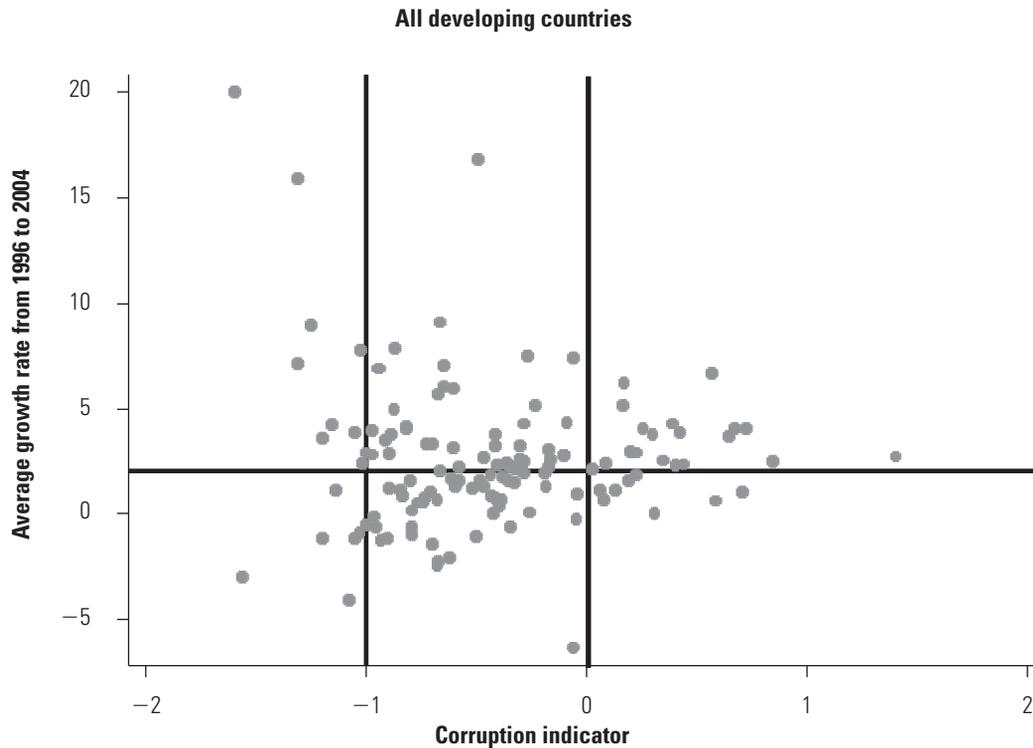
**Figure 2a. Medium-Term Growth and Governance Indicators: Weak Correlation**

Note: Using Kaufmann, Kraay, Mastruzzi (2005).

The former approach has been empirically verified by a number of studies (Knack and Keefer 1995;<sup>17</sup> Mauro 1995;<sup>18</sup> Hall and Jones 1999;<sup>19</sup> Acemoglu, Johnson, and Robinson 2001, 2002;<sup>20</sup> Easterly and Levine 2003;<sup>21</sup> Dollar and Kraay 2003;<sup>22</sup> and Rodrik, Subramanian and Trebbi 2002<sup>23</sup>). But the instruments used in these studies to establish causality have been questioned, and recent studies have challenged the direction of causality and have tried to show that the relationships among growth, human capital formation, and institutions goes in the opposite direction (Glaeser and others 2005),<sup>24</sup> or at least quite complex (Rajan and Zingales 2006; Arndt and Oman 2006).<sup>25</sup> Given the high correlation between income, education, and institutional quality, it is not surprising that the direction of causality is under debate and will probably remain so. Clearly more work is needed on the complex interaction among

governance, corruption, and development that is more country specific and helps identify which aspects of governance need greater attention at different levels of development. In many cases work on government effectiveness will provide better results, in others the judicial and legal system may need attention, and in some cases bringing greater voice and accountability will be helpful.

It should be noted that while the relationship between the medium-term growth and governance indicators is weak, there is a strong correlation between the percentage of projects with a satisfactory rating and good governance and less corruption (figure 4a and 4b).<sup>26</sup> This correlation is even stronger for investment loans. The positive association of governance and corruption indicators with the degree of success of Bank projects is not surprising, since

**Figure 2b. Medium-Term Growth and Perception-Based Corruption Indicators: Weak Correlation**

*Note:* Using data from Kaufmann, Kraay, Mastruzzi (2005).

Bank loan proceeds (like the funds of other MDBs and aid agencies) largely go through the public sector. One implication of these results is that it makes sense to direct anti-corruption efforts toward Bank operations of all types. Governance and anti-corruption are seen largely as an activity for the economic group, but must now become central to all sectors. Some of the sector teams are moving in this direction, and this shift should be accelerated and strengthened. In many cases the Bank's sector work on improving financial systems, energy regulation, and greater transparency in tendering processes has done more to reduce corruption and

improve governance than its direct anti-corruption initiatives.

However, the lack of a clear association between medium-term growth and governance suggests that a more nuanced approach may be needed in helping countries improve governance and fight corruption. For countries with weak governance and poor performance, a greater focus on improving governance is clearly a win-win approach. But, in countries where growth is high despite poor governance indicators, a better understanding of the dynamics between governance and development is needed.

**Figure 3. Rapid Growth Comes with Variance in Governance Quality**

Country	Growth in GDP per capita (1990–2003) <sup>a</sup> percent	Avg. ICRG ratings (3 yr. avg. 2002–2004) <sup>b</sup> percent of total	Change in avg. ICRG ratings (1990–2004) percentage change	WBI governance indicators (2002) <sup>c</sup> percentile rank 0–100	Time required to establish a business (2004) <sup>d</sup> days
China	8.6	55.7	2.0	43.2	48
Vietnam	5.8	55.6	17.4	37.2	50
Maldives	4.9	n.a.	n.a.	65.8	12
South Korea	4.8	69.0	38.0	72.5	22
Lebanon	4.3	54.7	71.5	15.5	46
Chile	4.1	62.1	11.0	87.5	27
Mozambique	4.1	56.5	37.4	73.6	153
Mauritius	3.9	n.a.	n.a.	65.2	46
Slovenia	3.9	65.9	n.a.	81.6	60
India	3.8	68.1	86.2	47.9	71
Cambodia	3.8	n.a.	n.a.	29.7	86
Malaysia	3.7	67.3	–4.1	39.5	30
Poland	3.7	59.9	11.7	58.3	31
Thailand	3.7	57.6	17.7	61.0	33
Bhutan	3.5	n.a.	n.a.	56.2	62
Guyana	3.5	61.8	117.4	44.5	46
Sudan	3.4	58.7	92.4	7.4	38
Malta	3.3	76.2	32.9	85.6	n.a.
Lao PDR	3.3	n.a.	n.a.	71.4	198
Sri Lanka	3.3	60.9	48.4	50.4	50
Samoa	3.2	n.a.	n.a.	66.2	68
Dominican Republic	3.2	60.6	41.1	47.3	75
Belize	3.2	n.a.	n.a.	60.4	n.a.
Bangladesh	3.0	49.6	122.5	23.1	35
Tunisia	3.0	64.7	14.3	54.9	14
Iran	3.0	61.4	7.7	28.2	47
Cape Verde	3.0	n.a.	n.a.	60.1	n.a.
Lesotho	3.0	n.a.	n.a.	46.4	92
Uganda	3.0	56.7	41.2	29.0	36

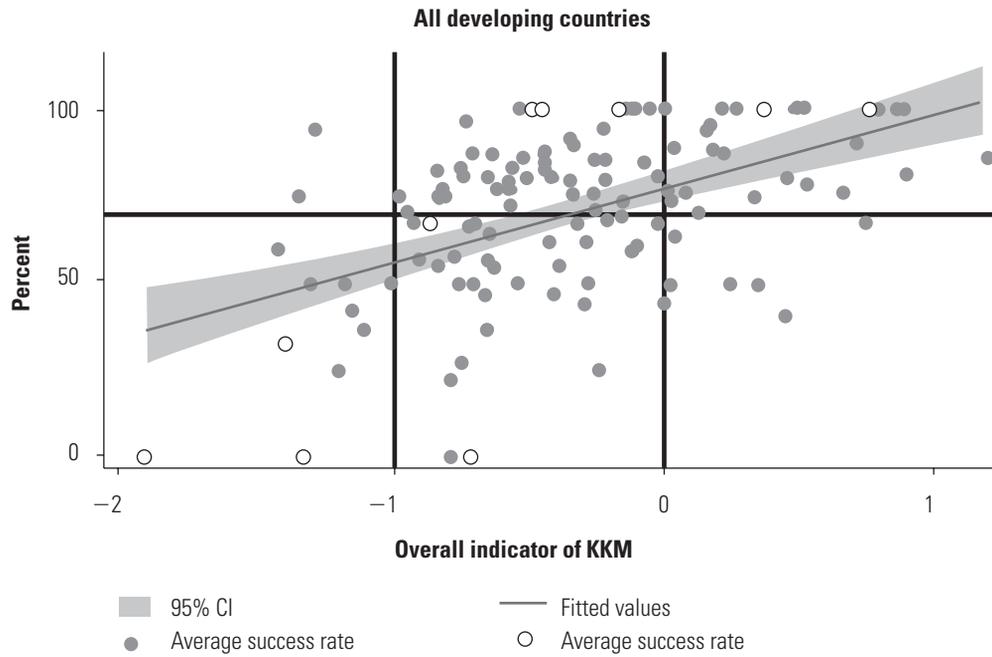
a. *Source:* World Bank Database. The 29 (of 143) developing countries with GDP growth above 3% between 1990 and 2003.

b. *Note:* International Country Risk Guide (ICRG) political risk indicators for government stability, corruption, law and order, democratic accountability, and bureaucracy quality. Percentage based on a total possible rating of 34 points.

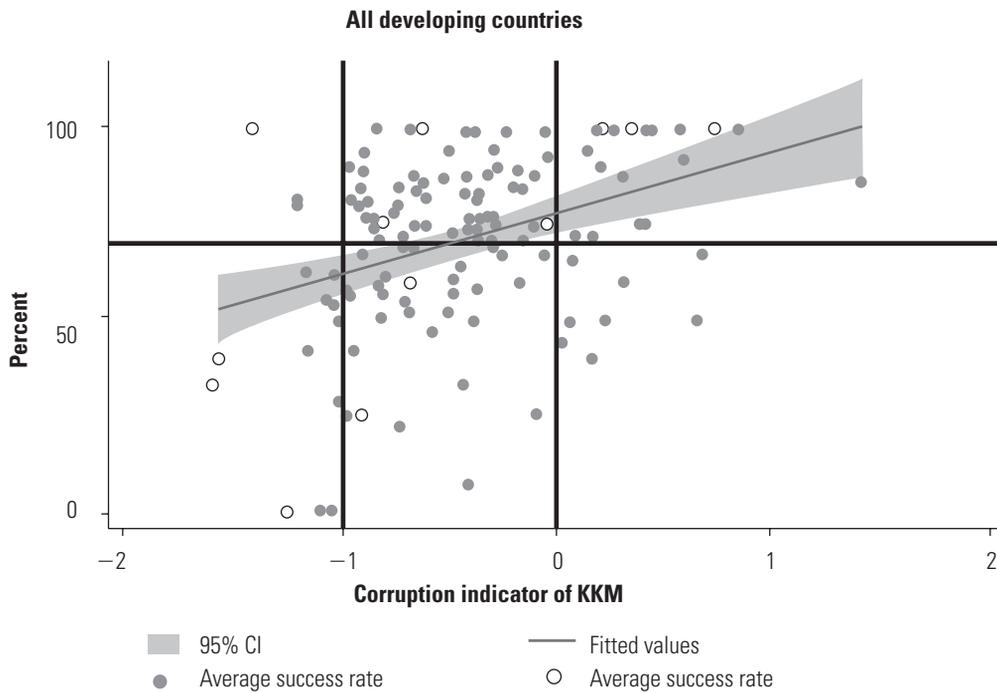
c. *Source:* Kaufmann, Kraay, and Mastruzzi (2003). Governance Indicators for 1996–2002: Composite rating of voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption indicators.

d. *Source:* World Bank Doing Business: Benchmarking Business Regulations Database. The rate shows the average number of days needed to establish a business.

**Figure 4a. Percentage of Successful Projects and Overall Governance: Strong Correlation**



**Figure 4b. Percentage of Successful Projects and Corruption: Strong Correlation**





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# Endnotes

1. See *IEG Annual Review of Development Effectiveness*, 2006.
2. There is no common definition for the term *governance* and its definition varies across organizations, but it is broadly defined to refer to the effectiveness of the state in acquiring and exercising the authority to provide and manage public services. Corruption is an outcome of the failure of the interface between the state and society.
3. This is the work of the World Bank Institute (WBI), the work done under the CPIA by OPCS and the regions and the work done under the rubric of the Business Climate work by the PSD group. Some regional work is also available such as the Europe and Central Asia Region's Business Environment and Enterprise Performance Survey (BEEPS).
4. Governance features twice in the IDA allocation, once as part of the CPIA which is the performance yardstick for the IDA allocation and separately for the extra weight attached to governance on top of the performance allocation itself.
5. The name is now changed to "fragile states."
6. ICRG indicators show deterioration in corruption since the mid-1990s. Kaufmann, Kraay, and Mazuzi (2005, "Governance Matters IV: Governance Indicators for 1996–2004," World Bank Policy Research Working Paper Series No. 3630), after surveying the 12 indicators used in their work, conclude that there has been no improvement in the governance indicators since 1996 and, if anything, the weight of the evidence shows a deterioration.
7. IEG's Kenya CAE update warned of the lack of real institutional change in the country and the need for caution.
8. When problems are identified the Bank has recourse to a variety of options—requesting a review of bids, misprocurement, sanctions, etc.
9. See "Monitoring Corruption: Evidence from a Field Experiment in Indonesia," Benjamin A. Olken, NBER, October 2004.
10. Based on IEG's evaluation of World Bank support for community-based and -driven development.
11. See also Fukuyama, 2005, *State-Building: Governance and World Order in the 21st Century*, Ithaca, NY, Cornell University Press.
12. IEG's report on Anti-Corruption Activities in World Bank Assistance.
13. Perception indicators are useful—but are subject to wide margins of error—and must be carefully used. Moreover, changes in perception could come from greater awareness as well as changes in underlying governance problems. It is also important to unpack the indicators for governance—which include a combination of political, administrative and judicial variables.
14. Arndt, Christiane, and Charles Oman, 2006, "Uses and Abuses of Governance Indicators," OECD Development Centre Studies.
15. IEG's recent impact evaluation of health in Bangladesh shows how Bangladesh was able to improve its health outcomes—such as infant and maternal mortality.
16. WDR 1997 showed that it is not just the level, but the predictability of corruption that affects growth.
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Human Capital, or Constituencies?" NBER Working Paper 12093, National Bureau of Economic Research, Inc.; Christiane Arndt and Charles Oman, 2006, "Uses and Abuses of Governance Indicators," OECD Development Centre Studies.

26. The regressions show a strong significant effect of governance on project performance, controlling for income per capita and education. The same results were obtained in *World Development Report*, 1997, and in Dollar, David, and Levine, Victoria, 2005, "Sowing and Reaping: Institutional Quality and Project Outcomes in Developing Countries," World Bank Policy Research Working Paper No. 3524.



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