

A Good Governance Index for Pacific Island Countries Update

Governance Program

PIAS-DG

University of the South Pacific, Suva, Fiji Islands

What is Indicators



- A measurement that reflects the status of a system. Indicators reveal the direction of a system (a community, the economy, or the environment), whether it is going forward or backward, increasing or decreasing, improving or deteriorating, or staying the same.
- An indicator provides evidence that a certain condition exists or certain results have or have not been achieved. Indicators enable decision-makers to assess progress towards the achievement of intended outputs, outcomes, goals, and objectives.

What is Indicators



■ Generally, indicators are essential to assess the effectiveness of policies (e.g. decentralisation policy, gender policy) and they can help in monitoring if capacity building efforts yield the expected results. In some cases, the design of an indicators system can help creating a platform to involve civil society and private sector. Also, monitoring through indicators can provide an objective account of achievements.

What is Indicators



- **Qualitative and Quantitative indicator:** Some indicators are relatively easy to quantify (e.g. the number of criminal cases processed by Police, the size of 'slush fund' for a parliamentarian relative to the total government expenditure).
- But some indicators are not easy to quantify (e.g. quality of teachers or medical doctors, quality of judicial system or law enforcement, etc).

What is Index



- If there is only one index number representing a condition it is very easy to tell if it is improving across time and if the condition in country A is better than that in country B.
- However, if we use more than two quantitative indices to evaluate a certain condition how we can compare them across countries and across time? In this case, we can use the 'index' to '**aggregate**' two quantitative indicators to one index number so that the comparison is possible.

Examples of Governance Indicators



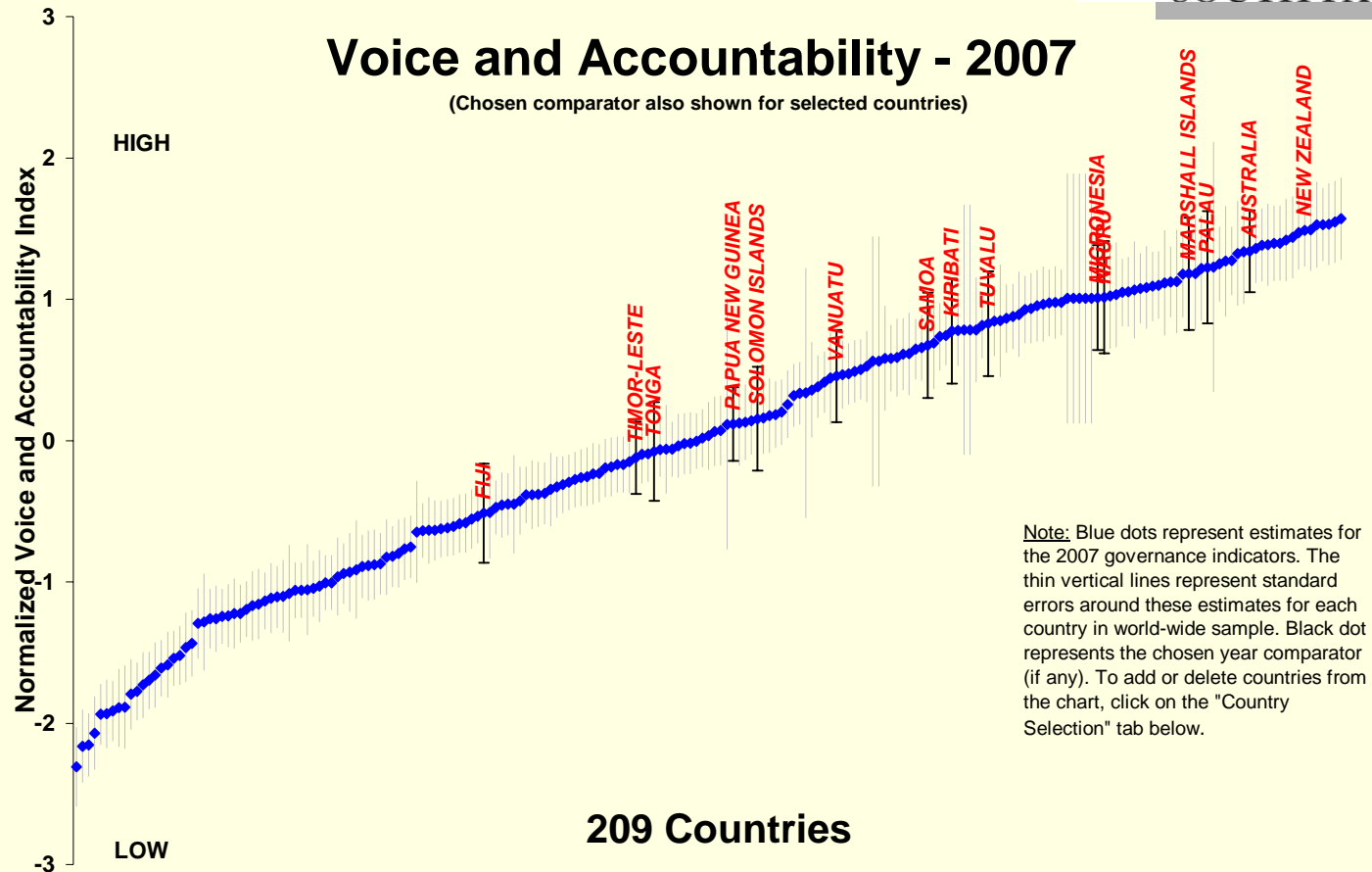
- Examples of governance related indicators
 - UNDP's *Human Development Index*
 - Freedom House's *Freedom in the World*
 - Transparency International's *Corruption Perception Index*
 - World Bank's *Governance Matters Series*
 - PIAS-DG's *Good Governance Indicator*

Governance Matters series



- WB's Governance Matters series; "Governance Matters VII" (Kaufman, Kraay, and Mastruzzi, 2008) uses composite indices for six governance dimensions.
- All these six composite indices are included in the indicators chosen by the US government to measure the governance quality of developing countries in determining eligibility for the Millennium Challenge Account.

Governance Matters series



Source: "Governance Matters VII: Governance Indicators for 1996-2007" by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi.

Disclaimer: The governance indicators presented here reflect the statistical compilation of responses on the quality of governance given by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries, as reported by a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The aggregate indicators in no way reflect the official position of the World Bank, its Executive Directors, or the countries they represent. As discussed in detail in the accompanying papers, countries' relative positions on these indicators are subject to margins of error that are clearly indicated. Consequently, precise country rankings should not be inferred from this data.

Problems of perception based indicators



- Subjectiveness of the indicators can be a source of resistance of the developing country governments accepting them as fair evaluations of their governance quality (Knack, 2002).
- Also, non-transparency in constructing the indicators produced by for-profit or non-government organizations is a problem (*Ibid*).
- Frequently do not cover Pacific Island Countries (PICs)
- Even Governance Matter series relies on small numbers of source data for PICs

Critics from SSGM, ANU



- Lack of transparency
- Comparability over time
- Selection bias (selected sample represent targeted population correctly?)
- Difficult to operationalise
- Measuring quality of governance difficult
- Perception-based surveys unreliable, little agreement on what is 'good' and/or 'effective'
- Large margins of error

Critics from SSGM, ANU



- **OK for ‘quick glance’ assessments on broad levels of governance performance, but due caution required for other uses**
- Indicators sometimes ‘inappropriately’ used
TI: “Some government sought to use corruption scores to determine which countries receive aid, and which do not. TI does not encourage CPI to be used in this way.”

PIAS-DG's Good Governance Index



- Our Index provides an alternative measure of governance quality which is almost entirely based on objective data.
- Exceptions are two indicators from Freedom House, *Freedom in the World* and *Press Freedom Survey*
- A substantial proportion is based on official statistics.
- We try to assure transparency in the construction of the Index.

3 Dimensions of Governance



- *The rule of law (4 sub-dimensions)*
- *Government effectiveness (3 sub-dimensions)*
- *Regulatory quality (2 sub-dimensions)*

- *9 sub-dimensions*

The Rule of Law



(a) Political freedom

1. Freedom House scores in political freedom and civil liberties
2. Proportion of female parliamentarians

(b) Political stability

1. Change of regimes
2. Number of parties constituting the government
3. Major political instability

The Rule of Law (continue)



(c) Judicial effectiveness

1. Share of expenditure in judiciary
2. Share of expenditure in law and order

(d) Media independence

1. Freedom House's *Press Freedom Survey*
2. Internet access per 1000 people

Government Effectiveness



(a) Bureaucratic efficiency

1. Telephone (mainlines+mobiles) per 1000 people
2. Budget surplus/deficit
3. Expenditure on education
4. Expenditure on health

(b) Economic management

1. Central government debt
2. Export to GDP ratio

Government Effectiveness (continue)



(c) Extent of corruption

1. Economic services expenditure
2. Government consumption expenditure relative to total expenditure

Regulatory Quality



(a) Strength of financial institutions

1. Money and quasi money relative to GDP (M2 to GDP ratio)
2. Contract intensive money ratio
3. Domestic credit to private sector as percent of GDP
4. Domestic credit provided by banking sector as percent of GDP
5. Interest rate spread

Regulatory Quality (continue)



(b) Extent of competition

1. Electricity availability
2. Size of government relative to GDP

Normalization

- Using the highest and lowest values in seven countries in 7 countries. For some indicators, the normalization is done after taking natural logarithm (similar to HDI and UGI of UNHABITAT).

$$Index_value = \frac{x_{it} - lowest}{highest - lowest}$$

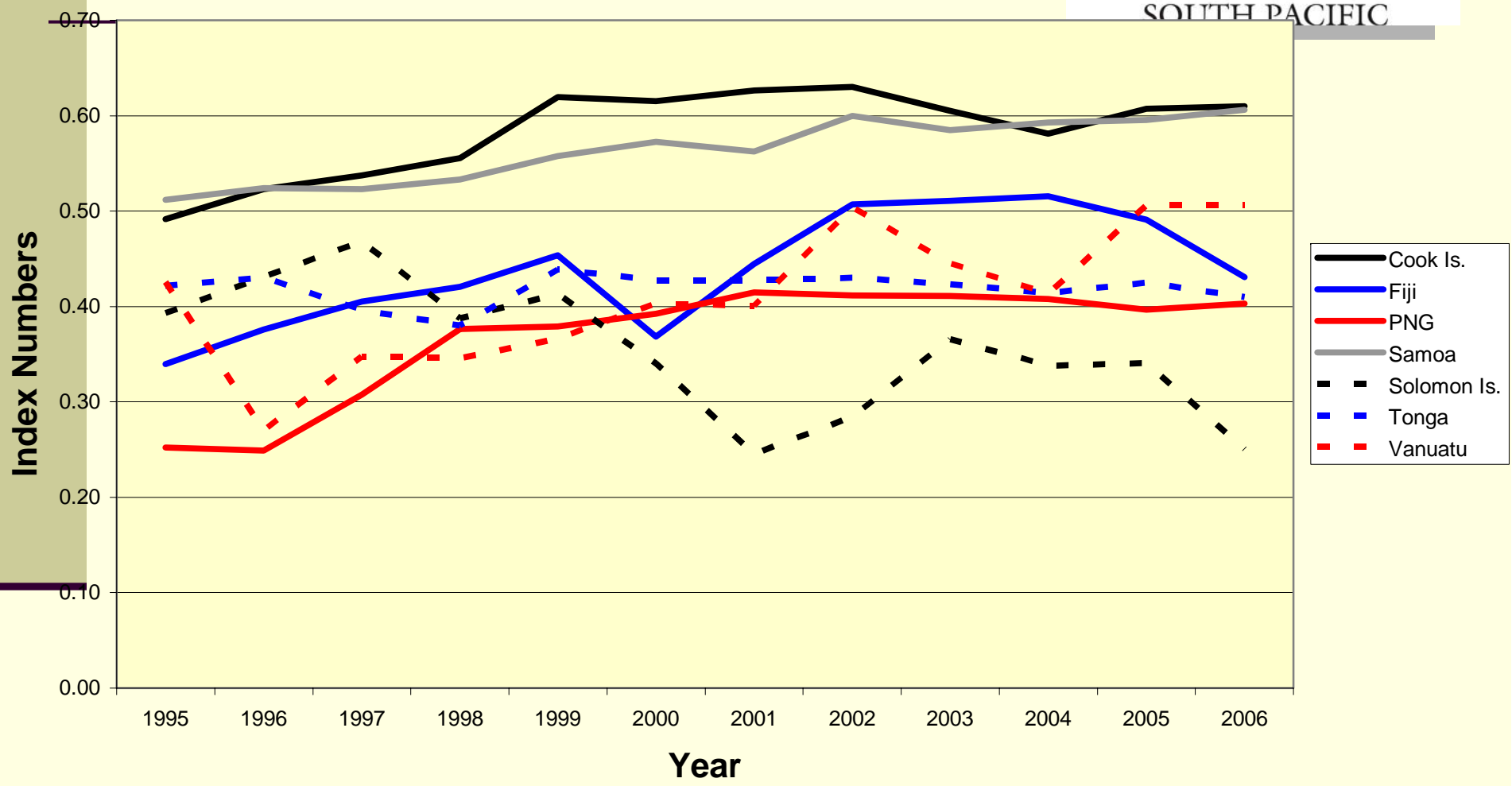
$$Index_value = \frac{\ln(x_{it}) - \ln(lowest)}{\ln(highest) - \ln(lowest)}$$

Aggregation

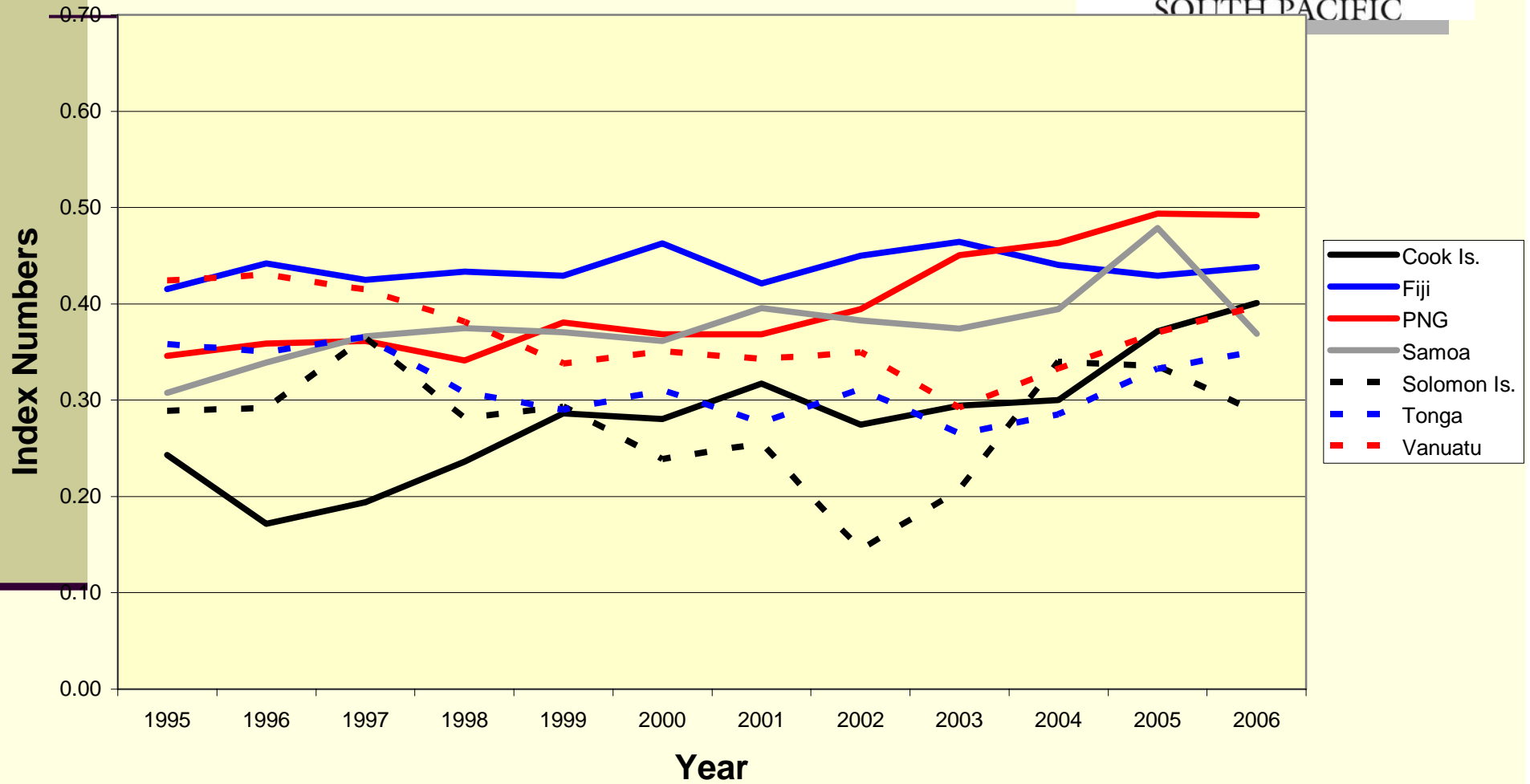


- Simple arithmetic means after normalization are used for aggregating sub-dimensional (nine), dimensional (three), and then for the total index.
- Statistical techniques such as principal component analysis might be considered later to determine more appropriate weights.

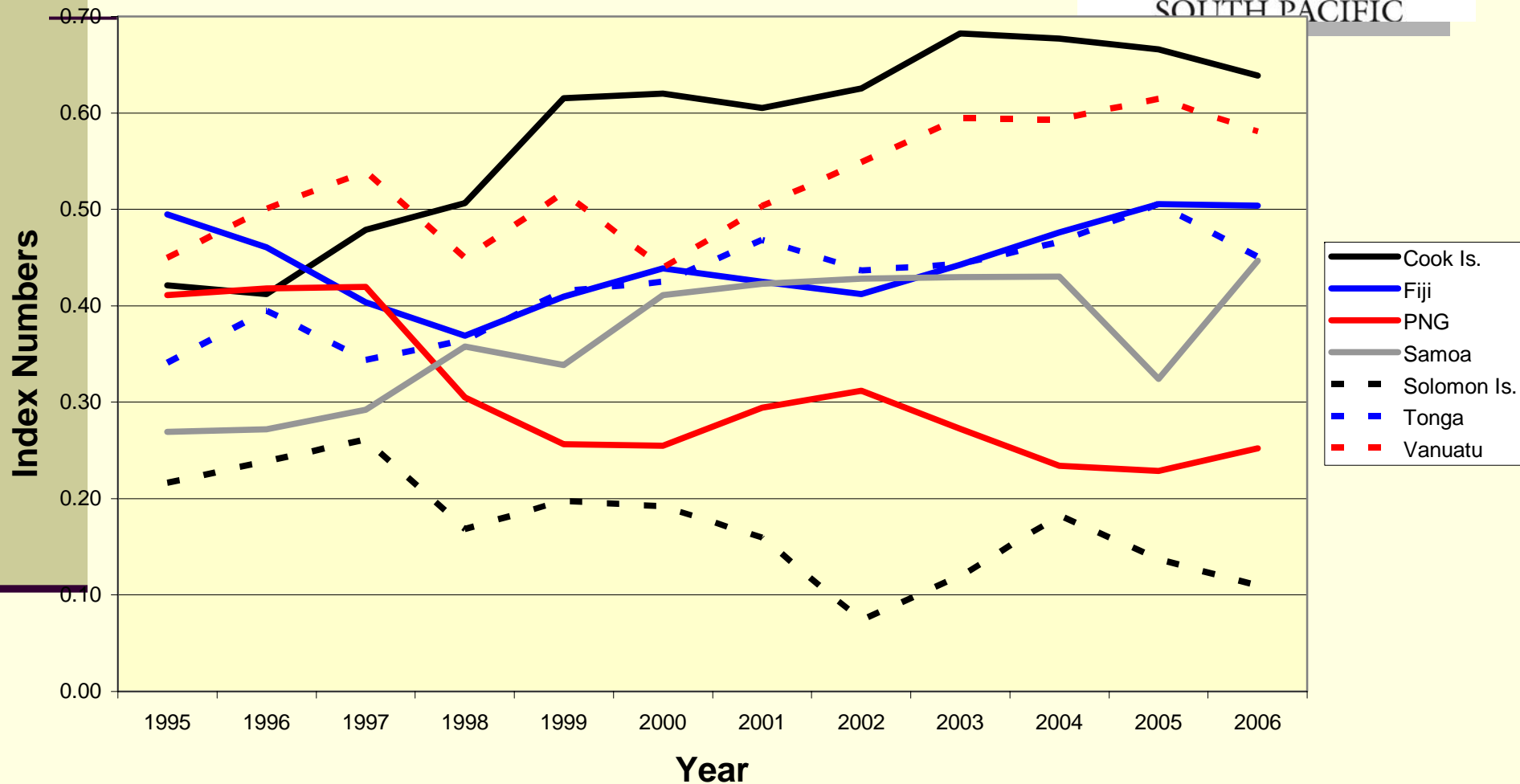
Rule of Law Index of Seven PICs



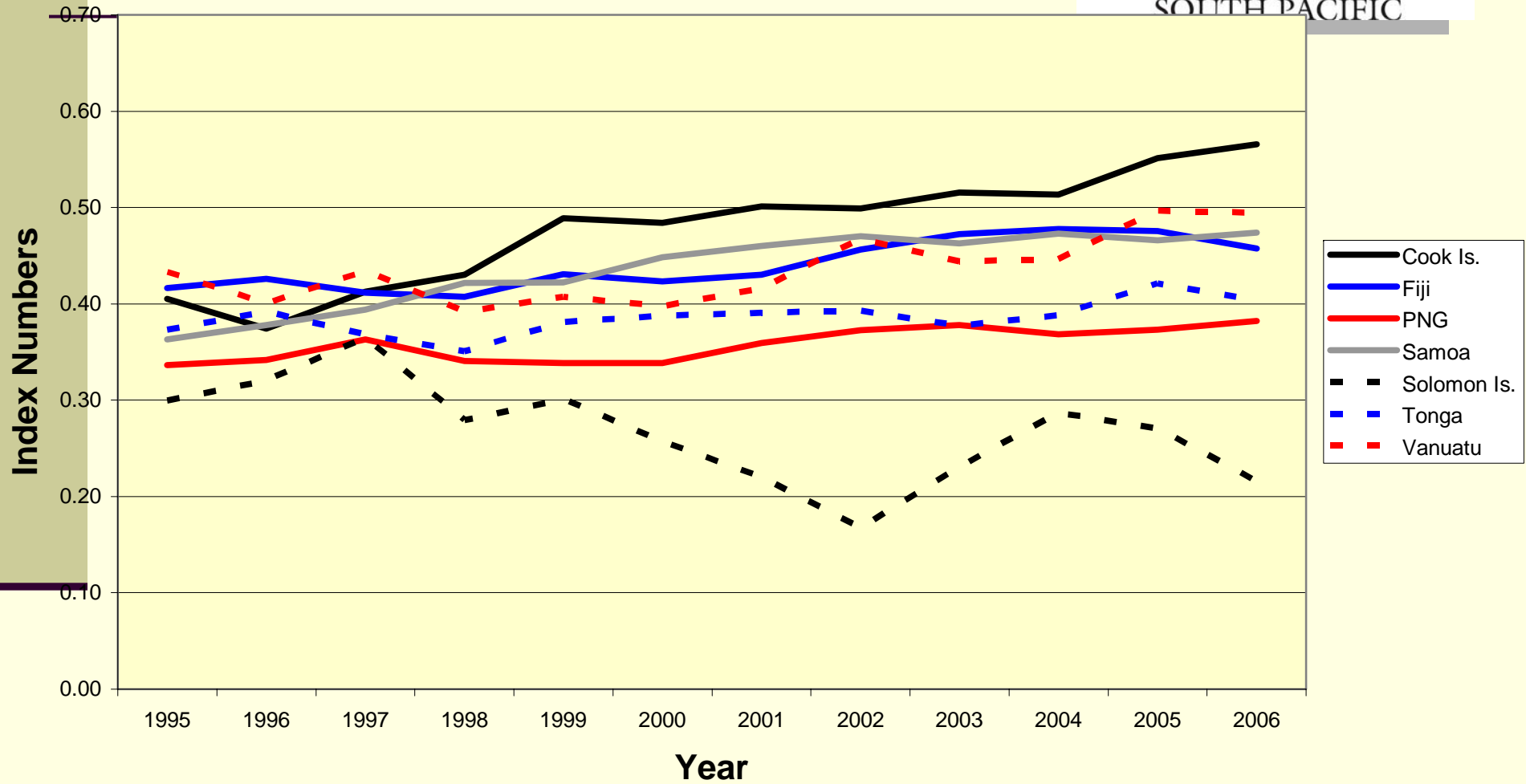
Government Effectiveness Index of Seven PICs



Regulatory Quality Index of Seven PICs



Good Governance Index of Seven PICs



Limitations



- Highly aggregated → Not examining the details.
- Proper proxies are used?
- Three core dimensions and nine sub-dimensions are arbitrary → No theory behind it but following common sense and other governance indicators.

Limitations



- No confidence measurement (how reliable the numbers??)
- Index is only useful to see and compare general trend and comparison across time and across countries quickly.
- However, more detailed in-depth country-focused analyses which will capture local knowledge and context are required for policy making.

Conclusion



- Hopefully, Good Governance Indices can provide useful information by which to monitor changes in the quality of governance over time.
- The intention is to continue to modify and improve the indicators. → Greater precision with improved availability of data and more direct measures of governance dimensions

Conclusion (continue)



- No claim or guarantee that our index will give a complete picture.
- The important issue is whether the governance index reflects the quality of governance in a fair manner and useful for Pacific Island governments.

GGI reference group meeting



- Time: Monday, 28 July 2008 9am – 3:15pm.
- Place: University Bure, the University of the South Pacific
- Discussion: What we can do to improve the Good Governance Indicators for the Pacific Island Countries: New Dimensions? New Indicators?

GGI reference group meeting



- Your participation will be greatly appreciated. If you are going to attend the meeting, please inform your attendance to nakagawa_h@usp.ac.fj by 5pm on Wednesday, 23 July (for catering convenience). Please refer to the flyer for more details.