Measuring governance

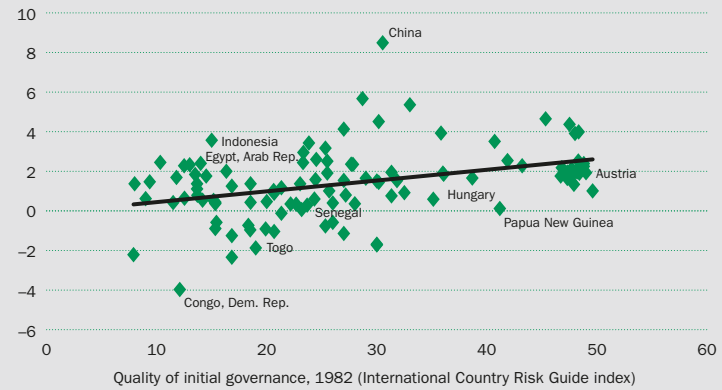
The breakup of the Soviet Union and the emergence of democracies in many developing countries have increased interest in governance. Good governance, strong institutions, and control of corruption are important for development success. Failures of the state can negate development gains, particularly in low-income economies, many of them fragile states.

Improvements in data and econometric techniques have permitted large cross-country studies on the impact of governance and institutions on investment and growth. This research has produced strong evidence that the quality of governance has a big impact on economic growth, a relationship that is robust over time and across countries (figure 5a). It shows that corruption discourages private investment and distorts resource allocation in ways that hurt the poor. Research also finds that public spending to expand primary education and reduce child and infant mortality produces more benefits in countries with less corruption. And it finds that good governance in a country increases the likelihood of development projects succeeding.

The World Bank defines *governance* as the way public officials and institutions acquire and exercise authority to provide public goods and services, including education, health care, infrastructure, and a sound investment climate. Bad governance is often equated with corruption. But the concepts, while related, are different. Corruption, the abuse of public office for private gain, is an outcome of poor governance, reflecting the breakdown of accountability. Fighting corruption requires addressing underlying failures of governance.

As citizens, investors, policymakers, and donors become more aware of the importance of good governance to development, they increasingly demand information that better tracks progress and increases the transparency of public sector management and anticorruption programs (box 5b). The growing interest in the quality of governance has driven what a recent Organisation for Economic Co-operation and Development publication describes as "explosive growth in the use of quantitative indicators in developing countries" (OECD 2006, p. 13). At least 140 sets of governance indicators, with thousands of individual indicators, are now publicly available. Some look at rules, some at how the rules are implemented, some at outcomes, and some are aggregate measures, summarizing more specific indicators.

Governance and growth go together **5a**



Over a very long period countries with better governance at the beginning of the period grew faster. The International Country Risk Guide index comprises five elements of governance: corruption in government, rule of law, risk of expropriation, repudiation of contracts by government, and quality of the bureaucracy.
Source: World Bank staff estimates.

Types of governance indicators

Rules indicators attempt to establish the presence or absence of rules and processes. Do countries have laws guaranteeing the right to information? Do they have independent anticorruption commissions? Are budget documents published?

Such indicators are used to measure specific institutional reforms. They require narrow and explicit definitions of what is being measured. Typically, these indicators are prepared by country experts and validated by outside experts.

Interpreting these indicators is not easy. There may be clarity about the existence of a specific rule, law, or legal body, but this does not make the resulting indicators more objective than perception-based indicators. Those who frame the questions have a concept of a "good system" and may impose their own prejudices and values. Nor do formal rules necessarily lead to desired outcomes. An anticorruption commission, for example, may not guarantee less corruption (figure 5c). And while the rules may have normative values of their own—access to budget documents, for instance, is desirable in itself—it is not clear how they influence governance outcomes or reforms. Most important, assessments of complicated rules are subject to errors of fact and judgment, particularly when the analyst has to determine the net effect of many conflicting rules and regulations.

The *Doing Business* indicators in table 5.3 are based on information collected by local experts. The methodology uses factual information about laws and regulations to assess the business climate of a country. The results at the two extremes are far from surprising. New Zealand, Singapore, and the United States are the easiest countries to do business in, while the fragile states of Democratic Republic of Congo, Central African Republic, and Guinea-Bissau are the most difficult. However, China and India, two of the fastest growing economies in the world, rank 83rd and 120th, suggesting either that their rules are not a serious impediment to growth or that the business environment is not as unfavorable as these rankings imply.

Part of the explanation may lie in what the data represent. For comparability, the data refer to businesses in each country's most populous city, which may not be representative. The reports cover only domestically owned, limited liability companies and a limited set of transactions. Indicators of the time it takes to start a business involve judgment by local experts. Businesses may get things done faster, if they deploy "speed money," or slower, if they are poorly informed about policies and procedures. For the serious analyst the indicators are only a starting point. Understanding what the data say opens doors to better understanding governance.

Who uses governance indicators? **Box 5b**

- *Citizens* are more conscious of the need to hold their governments accountable, and governance indicators increase awareness of the quality of governance. The indicators can provide citizens with information to monitor service delivery and measure how their government—local, provincial, or national—is performing. Citizens can compare indicators with those of similar countries.
- *Investors, lenders*, and *businesses*, both domestic and foreign, know that the quality of governance influences the investment climate and the return on investments. They want to be better informed about the governance and corruption risks that they are likely to face. Many of the earliest efforts to provide governance indicators came from credit and investment risk evaluation agencies in response to these commercial needs.
- *Governments*, following the maxim that "what you cannot measure you cannot manage," need to monitor their own performance to improve the effectiveness of their policies and institutions and to better understand how outcomes can be improved. Governance indicators can provide benchmarks against which governments can measure their progress.
- *Donors* are accountable to their citizens for the development assistance they provide. They are thus anxious to know that the resources that they provide will be used for the intended purposes and to compare performance across countries. In preparing their development assistance strategies, they rely on governance assessments that use a wide range of governance indicators. These governance assessments are used to inform country programming and assistance priorities, allocate aid money using transparent and consistent criteria, provide a basis for a dialogue with partner governments, and assess political and fiduciary risks, among other purposes.

Outcome indicators—some highly specific, others more general—attempt to measure the consequences of governance. Typically, they are perceptions-based indicators that capture the views of relevant stakeholders or interested observers, including experts, officials, researchers, decisionmakers, opinion makers, businesses, and citizens. The indicators provide information on how the rules operate in practice (figure 5d). But they have some problems. It is difficult to identify a connection between particular rules and particular outcomes. And outcome indicators are often measured on a cardinal scale—say, from 1 to 5 or 10. Unless the criteria for assigning specific scores are clear and independently verified, there is a risk of arbitrary scoring and confusion about the relative importance of scores.

Four frequently used sets of outcome indicators—covering civil and political rights, political risk, corruption, and overall governance (table 5e)—rely on expert assessments or a combination of expert assessments and surveys of firms, households, and opinion makers. Expert assessments are cheaper and with careful benchmarking may be used for cross-country comparisons. But experts often disagree, so it is best not to rely on any one set of experts.

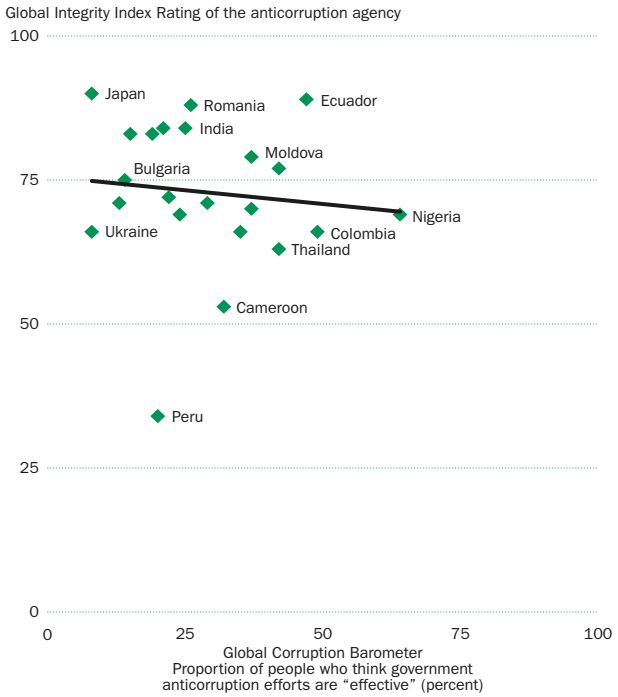
Surveys of firms and households may be better grounded in country realities. The views of respondents matter, because they are able to act on their beliefs. If they believe the courts are highly corrupt, they will avoid seeking legal recourse through the courts and instead choose arbitration or informal means of settling disputes. While governments may discount outsiders' views, citizens and firms' views matter.

There are few household surveys on governance, but many firm-level surveys. The World Bank's Enterprise Surveys provide an overview of the international investment climate, reporting on some governance outcomes, such as unofficial payments as a share of firms' sales, the time required to resolve disputes in court, the cost of providing security against crime, and the efficiency and client orientation of the tax system.

The distinction between rules and outcome indicators is not absolute. Some rules indicators also implicitly measure outcomes. As noted, the time required to register a business is the outcome of applicable regulations and not a measure of the time it actually takes.

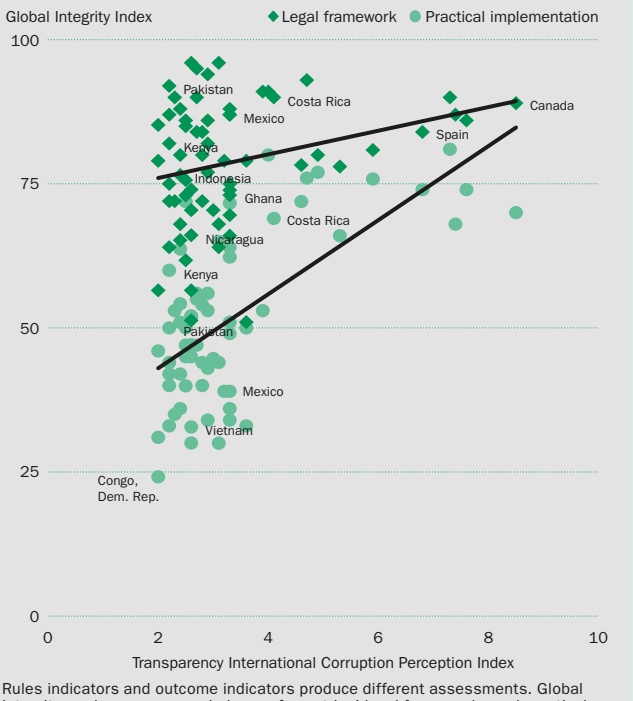
Actionable indicators or second-generation indicators stem from the desire to identify specific policies, procedures, and institutional arrangements that contribute to the overall quality of governance. Actionable indicators have received greater attention as part of the World Bank's Governance and

Not producing the desired results **5c**



Anticorruption agencies should help reduce corruption, but even when agency rules and implementation are rated highly by experts, citizens are not convinced that their governments' efforts are effective. This appears to confirm other research findings that cast doubt on the effectiveness of such agencies. Citizens may also be using their survey responses to send a message to their governments about the need to do more.
Source: World Bank staff estimates.

Governance in theory and in practice **5d**



Rules indicators and outcome indicators produce different assessments. Global Integrity produces summary indexes of countries' legal frameworks and practical implementation of controls on corruption. Scores on the practical implementation measure generally lie below the legal framework measure. And the practical measure is more strongly correlated with Transparency International's broad-based Corruption Perception Index, suggesting that the Transparency International sources put more weight on outcomes than on rules.
Source: World Bank staff estimates.

Anticorruption Strategy. These indicators look beyond the rules to how they are actually implemented (table 5f). Some examples of these indicators follow:

- The Public Expenditure and Financial Accountability program aims to provide governments and donors a shared pool of information on public financial management performance and a common platform for policy dialogue.
- The Global Integrity Index is based on six key aspects of global integrity: civil society; public information and media; elections; government accountability, administration. and civil service; oversight and regulation; and anticorruption and rule of law. These six aspects cover 23 subcategories and 290 indicators, all narrowly and explicitly defined.

Such indicators are called "actionable" for four reasons:

- They provide more clarity about the steps governments can take to improve their ratings.
- They shed light on the efficacy of certain public sector reforms in improving governance.
- They are replicable—that is, independent observers can arrive at roughly the same scores when the questions are explicit and precise.
- They allow meaningful discussion between the raters and those being rated and thus stimulate policy dialogue on these issues.

Efforts like those described in table 5f are planned or under way in other areas, including public accountability, human resources management, and provincial and local governance.

Despite these efforts, major gaps remain in topical coverage (such as legal and judicial reforms), country coverage, periodicity, and methods. Actionable indicators are subject to many of the same measurement errors as other governance indicators. Experts may disagree even over narrowly defined assessments. The coverage of countries and years, while expanding, is still limited. The Global Integrity Index provides two observations for only 25 countries and three observations for only 8. Much work remains to be done in understanding which of the profusion of "actionable" indicators are also "action worthy," in the sense of leading to desired governance and development outcomes. Progress is bound to be gradual, a long-term undertaking needing the support of key development institutions.

Aggregate indicators are composite measures combining the scores on many separate indicators. Among the most widely used and cited governance indicators are the World Bank's Worldwide Governance Indicators, which draw on 33 sources to produce indicators on six dimensions of governance for 212 countries and territories, and Transparency International's Corruption Perceptions Index, which draws on 12 sources and covers 180 countries.

Examples of governance outcome indicators **5e**

Indicator or objective	Nature and number of indicators	Country coverage
Since 1972 *Freedom House* has produced *Freedom in the World,* an annual survey that provides an "evaluation of the state of global freedom as experienced by individuals." http://www.freedomhouse.org	Countries are scored on political rights and civil liberties outcomes on a 1–7 scale and then rated not free, partly free, or free. The ratings are based on a checklist of 10 political rights and 15 civil liberties.	193 countries and 15 related and disputed territories.
Since 1980 *Political Risk Services Group* has produced *International Country Risk Guide* (ICRG) to meet the needs of clients for an in-depth analysis of potential risks to international business. http://www.prsgroup.com	The political risk guide assigns points to 12 risk components relevant to governance.	140 countries monthly and 21 annually.
Since 1995 *Transparency International* has ranked countries by the degree to which corruption is perceived to exist among public officials and politicians. The Corruption Perceptions Index (CPI) defines corruption as "the abuse of public office for private gain," encompassing both administrative and political corruption. http://www.transparency.org	The CPI is a composite, a poll of polls, that draws on corruption-related data from expert and business surveys by a variety of independent institutions. The CPI reflects views from around the world, including in-country experts. The 2007 CPI draws on 14 polls and surveys from 12 independent institutions.	180 countries.
Since 1999 *Worldwide Governance Indicators* have provided aggregate governance outcomes from 1996 onward. http://www.govindicators.org	Governance is measured along six dimensions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.	212 countries.

Aggregation is not unique to governance indicators. Weighted averages or more complex statistical methods are used to produce broad indicators of social conditions. The United Nations Development Programme's Human Development Index is an example. Aggregation is also necessary to summarize the results of large sets of "actionable indicators." For example, the World Bank uses the aggregate Country Policy and Institutional Assessment (CPIA) rating, an average of 16 more detailed components, to allocate concessional lending across countries. Properly designed, aggregation can provide estimates of the variance of the underlying indicators. But it also loses some of the detail, reducing its usefulness as a policy tool. It is important, therefore, to provide access to the underlying indicators, as the Worldwide Governance Indicators now do in most cases (figure 5g).

Aggregate indicators, despite their limitations, have opened doors to much research and analysis on governance and corruption. They provide a starting point for drilling down deeper into country governance systems. And the increasing variety and richness of disaggregated indicators—covering more topics in more depth for more countries over longer periods, using a variety of methods—enables drilling down even further and increasing understanding of the factors driving aggregate success or failure.

Drilling down: the Worldwide Governance Indicators **5g**

Worldwide Governance Indicators Indonesia 2006	Sources	Year	Governance score	Standard error
Voice and accountability	14	2006	–0.25	0.14
Political stability	10	2006	–1.17	0.22
Government effectiveness	14	2006	–0.38	0.15
Regulatory quality	12	2006	–0.26	0.17
Rule of law	19	2006	–0.82	0.13
Control of corruption	17	2006	–0.77	0.13

WGI sources (partial list)	Type	Values
Bertelsmann Transformation Index	Experts	0.61
Institute for Management and Development World Competitiveness Yearbook	Survey	0.38
International Budget Project Open Budget Index	Experts	0.41
Political Risk Services International Country Risk Guide	Experts	0.41

Open Budget Index 2006 (partial list)	
Executive's budget proposal	Questions 1–55, 67, 68, 69
Citizens budget	Question 61
Pre-budget statement	Questions 72, 73, 74
Auditors report	Questions 112–114, 116, 120–122

61. Does the executive publish a "citizens budget" or some nontechnical presentation intended for a wide audience that describes the budget and its proposals?

Starting from the Worldwide Governance Indicator of Voice and accountability, it is possible to drill down to the underlying indicators on which it is based. And for some it is possible to go farther, to the scoring of individual questions. Good documentation and access to the original data make aggregate indicators more useful.

Selected actionable governance indicators **5f**

Indicator or objective	Nature and number of indicators	Country coverage
Public Expenditure and Financial Accountability Assessment, initiated in 2001, measures critical dimensions of open and orderly public financial management systems. www.pefa.org.	28 high-level indicators that capture six dimensions of public financial management.	67 completed, of which 26 are publicly available.
OECD Assessment Methodology for Public Procurement Systems, developed over 2003–04 through an Organisation for Economic Co-operation and Development Development Assistance Committee– and World Bank–led roundtable and now being piloted, measures compliance, performance, and transparency and integrity of public procurement systems. www.oecd.org/dac.	12 indicators with 54 subindicators in four broad areas: legislative and regulatory framework, institutional framework and management capacity, procurement operations and market practice, and integrity and transparency.	22 countries participating in pilot program; reports available online for 9.
Open Budget Index, launched in October 2006 by civil society organizations in 59 counties, provides comprehensive practical information to gauge a government's commitment to budget transparency and accountability. www.openbudgetindex.org	122 items that assess public availability of key budget documents, quality of information, and timeliness of dissemination.	59 in 2006; 88 targeted and 80 expected for 2008
Global Integrity Index, launched in 2002 by the Washington, D.C.,–based Center for Public Integrity and a new independent nonprofit called Global Integrity formally started in 2005, assesses the existence and effectiveness of anticorruption mechanisms that promote public integrity. The index evaluates the existence of laws, regulations, and institutions; their implementation; and the access average citizens have to those mechanisms. www.globalintegrity.org	More than 290 discrete integrity indicators generate the index, which is organized into six broad categories.	25 countries in 2004, 41 in 2006, 48 in 2007, 33 assessed at least twice.

Why governance is difficult to measure

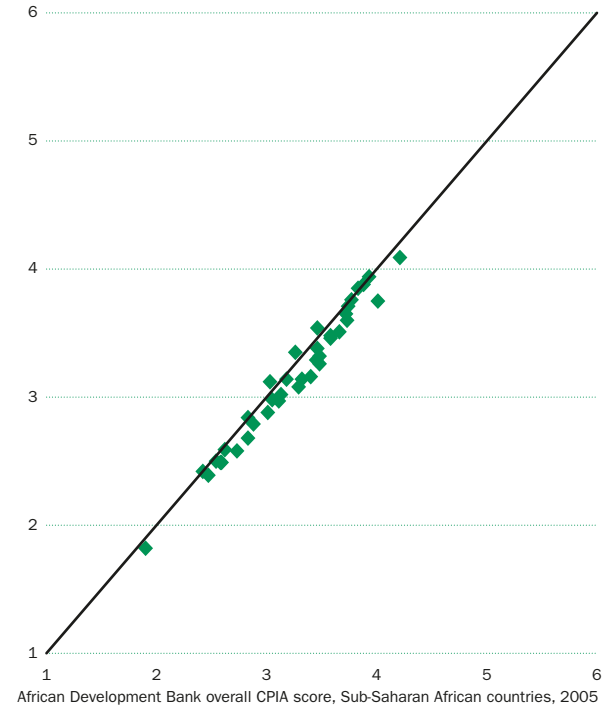
Measuring governance is not easy. A broad concept, governance embraces many institutions and the formal and informal rules that guide their operation. Governance also involves a range of players—citizens, their elected leaders, public officials, and those delivering services—who respond to the incentives created by these rules. Formal rules are more readily observed. Informal rules, less easily measured, may have a greater influence on the quality of governance and require a much deeper understanding of the workings of society. That is why many governance measures rely on the views of experts or the managers of firms—because they understand the principles of governance or have practical experience of the formal and informal rules of the game (figure 5h). Demand for such measures comes from a variety of stakeholders (see box 5b).

Measuring governance can involve assessing how public institutions work as a whole or in their many parts, such as the effectiveness of the judiciary or the bureaucracy or the process for setting and monitoring the budget. Because the concepts are so broad, the same terms may be applied in many different ways. Thus, the *rule of law* may be interpreted narrowly—to mean whether the country's laws are clear and well understood, whether property rights and contracts are effectively enforced. Or they may be interpreted more broadly—to mean the equality of all citizens in the eyes of the law so that no individual, however powerful, stands above the law. Reaching a consensus on such concepts is not easy (figure 5i). Because most definitions tend to be broad, the boundaries between different indicators risk being blurred.

That governance is difficult to measure does not imply that governance is not measurable. Nor should demonstrable errors of measurement deter the effort. All indicators are subject to error. The national accounts reported in *World Development Indicators* are estimated and later subject to revision, at times very large. Because it is difficult and costly to obtain reliable data through surveys and official records, maternal mortality is often estimated from models. Poverty estimates depend on surveys of household consumption patterns and the judgment of experts about an appropriate poverty line.

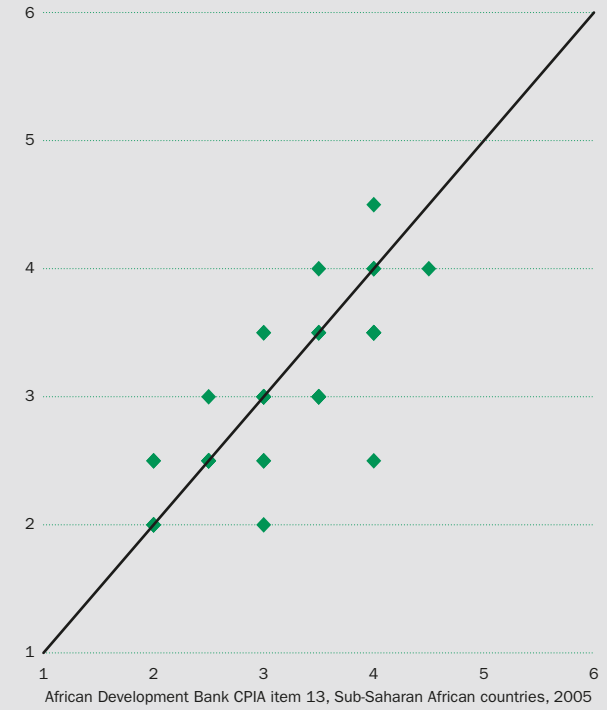
Still, measuring corruption is particularly problematic. Those with direct knowledge of corruption are likely to want to keep it secret. In some cases administrative corruption can be gauged through surveys of citizens and business or the judgments of informed experts. But often the state's capture by special interests is difficult to assess because that lies outside the direct experience of citizens and small businesses.

Experts generally agree on governance assessments at the aggregate level . . . **5h**



The World Bank and African Development Bank rate countries independently using similar Country Performance and Institutional Assessments (CPIA), an aggregation of 16 specific scores. Overall scores are normalized to a scale of 1 to 6.
Source: World Bank staff estimates.

. . . but experts can still disagree, even using a very specific assessment protocol **5i**



On CPIA item 13, which assesses the quality of budgetary and financial management, differences between the scores assigned by the World Bank and African Development Bank for an individual component differ by as much as 1.5 points on a scale of 1 to 6.
Source: World Bank staff estimates.

Measurement errors

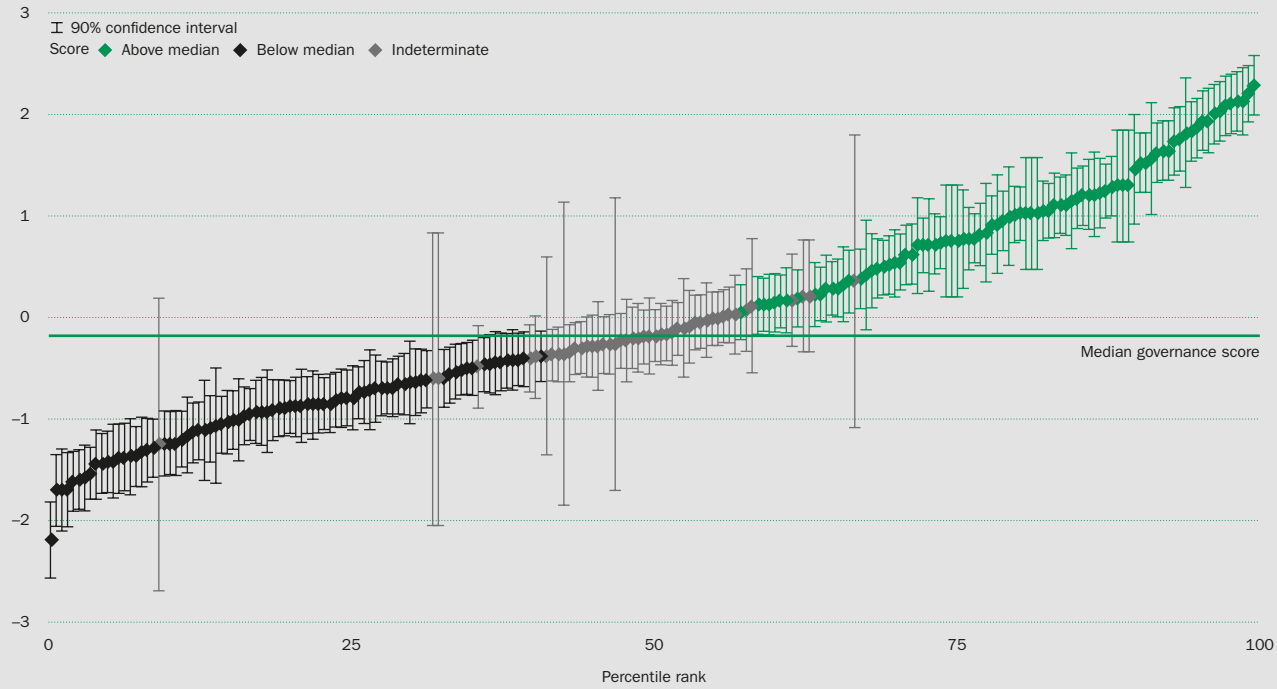
All governance indicators are subject to significant measurement errors, but these errors are rarely reported. Measures based on sample surveys are subject to sampling error, and those based on expert assessments to informant error. Because any indicator is an imperfect measure of the broader concepts it pertains to, a third source of error might be called proxy error. High levels of overall corruption in the customs service, even if accurately measured, might not reflect corruption in the country. To increase the reliability of governance measures, measurement errors should be quantified and reported where possible.

In combining information from different sources, aggregate indicators can smooth the idiosyncrasies of their underlying components. The Worldwide Governance Indicators, for instance, draw on indicators from 33 sources to produce six aggregate indicators. The statistical model for combining the indicators assumes that the observed empirical indicators of governance provide noisy or imperfect signals of the fundamentally unobservable concept of governance. The model estimates the variance of the aggregate estimate for each country, conditional on the observed data, and provides estimates of the variance of the underlying indicators as well (Kaufmann and Kraay forthcoming). The more the individual indicators agree, the smaller is the measured error of the aggregate.

In explicitly measuring margins of error, the Worldwide Governance Indicators inform users of the uncertainty surrounding the estimates. For some countries with similar scores, overlapping confidence intervals make comparisons of differences meaningless. But statistically reliable statements can be made in many cases when scores differ by larger amounts. Figure 5j shows the World Governance Indicators government effectiveness scores and margins of error for 212 countries. The 81 countries at the lower end of the distribution of governance have scores that are almost certainly below the median, and the 85 countries at the upper end of the distribution are almost certainly above the median (with a probability of 90 percent or higher). But for the 46 countries in the middle of the distribution there is at least a 10 percent chance that a score below the median could be above it, or vice versa.

Recognition of measurement errors should discourage naïve ranking of countries on governance performance. Transparency International, which uses country rankings as a way of shaming countries into fighting corruption, nevertheless cautions users against comparing countries with close scores. Its country rankings also cannot be compared from year to year as country coverage keeps changing and expanding.

Comparing governance scores in the light of uncertainty **5j**



Countries' scores on the Worldwide Governance Indicators aggregate indicator of government effectiveness are shown in rank order. The error bars show a 90 percent confidence interval around each score. Because of measurement error, differences in scores cannot be determined with certainty. In this example the scores of the 46 countries in the middle of the distribution cannot be determined to be significantly above or below the median value.
Source: World Bank staff estimates.

Looking ahead

The proliferation of governance indicators has led to several recent efforts to take stock of where this work stands and what the next areas of emphasis should be (see UNDP 2007a; Knack, Kugler, and Manning 2003; Arndt and Oman 2006; World Bank 2006g; Kaufmann and Kraay forthcoming; Levy 2007; Thomas 2006).

Four priorities stand out.

First, it is important to evaluate all governance indicators, exposing them to peer review and strengthening them to increase public confidence in their use. The methods and underlying assumptions used to produce them should be carefully reviewed. The quality of the underlying data should be evaluated, including the role of experts and surveys. And methods of better estimating the uncertainties associated with all measures of governance should be studied so that users of data are aware of the uncertainties they are dealing with.

Second, given the strong interest from policymakers in indicators of remediable policy or institutional failures, progress on action-worthy indicators is a high priority. To build on the promise of the initial round of Public Expenditure and Financial Accountability (PEFA) Assessments, formally launched two years ago, it will be important to extend them to more countries, to conduct regular periodic assessments, and to ensure that results are disseminated. The example of PEFA generating information on the quality of public financial systems also opens the door to similar approaches in other areas. The World Bank has already identified some key areas for undertaking similar assessments, including decentralization, public accountability, and human resources management. Decentralization is particularly promising, because it enables central governments to monitor the performance of provincial and local governments, improving information on governance in the country as a whole.

Third, one difficulty with the proliferation of disaggregated, specific indicators is that they do not provide guidance to users on which of the many subindicators are most critical to particular governance outcomes. Research on this is a high priority, to identify a core set of the most important indicators that influence governance outcomes, allowing governments and donors to focus their reforms on those critical areas.

Fourth, given the growing recognition of how understanding a country's political economy can produce better development outcomes, the quality of current efforts to measure political trends and outcomes should be reviewed for their capacity to shed light on development prospects and outcomes.

These and other issues could be part of a program of work led by the World Bank, as a major user and producer of governance indicators (box 5k).

This section of *World Development Indicators* includes a broad range of indicators that shed light on the effectiveness and accountability of governments and their interaction with the private sector. Tables 5.2–5.6 provide an overview of the climate for investment and doing business and of the tax and regulatory roles of the state. Table 5.8 provides the World Bank's Country Policy and Institutional Assessment data for 77 International Development Association–eligible countries. Other tables show data on financial markets, public and private provision of infrastructure, and defense, all of which depend on effective government spending and oversight.

Governance indicators are now routinely collected and used by the World Bank for a number of purposes.

Resource allocation. The Bank's Country Policy and Institutional Assessment Indicators (CPIA) enter into the International Development Association (IDA) country performance rating (CPR) with an effective weight of 67 percent. The CPR is used as part of the IDA performance assessment, which is used to allocate IDA resources among eligible countries.

Global monitoring. The 2006 *Global Monitoring Report* included 13 governance indicators in its statistical appendix (see table).

Governance indicators from *Global Monitoring Report*

Category	Indicator
Overall governance performance	1. Control of corruption (Worldwide Governance Indicators) 2. Corruption perceptions index (Transparency International) 3. Unofficial payments (Enterprise Surveys) 4. Policy outcome (CPIA cluster a–c average) 5. Aggregate public institutions (CPIA cluster d) 6. Licensing time (Doing Business) 7. Time spent on regulations (Enterprise Surveys)
Bureaucratic capability	8. Budget/financial management (CPIA 13) 9. Public administration (CPIA 15)
Checks and balances institutions	10. Voice and accountability (Worldwide Governance Indicators) 11. Rule of law (Worldwide Governance Indicators) 12. Property rights and rule-based governance (CPIA 12) 13. Executive constraints (Polity IV)

Country governance monitoring. Diagnosing governance obstacles at the country level and designing and monitoring reforms, now a requirement under the World Bank's new Governance and Anticorruption Strategy, employ a range of aggregate and actionable indicators including the Worldwide Governance Indicators, the Transparency International indicator, Public Expenditure and Financial Accountability indicators, the Doing Business indicators, the investment climate assessments, public financial management studies, the World Bank Institute Governance and Anticorruption diagnostic surveys, and quantitative service delivery surveys and report cards. These feature in the Bank's analytical and advisory assistance, project documents, and country assistance strategies.

Actionable indicators. The Bank's new Governance and Anticorruption Strategy calls for the development and promotion of actionable indicators, including decentralization, public accountability, human resources management, and the Public Expenditure and Financial Accountability (PEFA). This work includes extending the coverage of PEFA and the Global Integrity Index to more countries and encouraging countries to permit the publication of PEFA data.

Research. In studies on governance outcomes World Bank research increasingly uses large cross-country governance databases including Polity IV, the database of political institutions; the Worldwide Governance Indicators; and Transparency International's Corruption Perceptions Index.

Data. Bank staff manage, produce, and analyze several databases on governance: the Investment Climate Assessments, the Doing Business database, the Database of Political Institutions, and the annual *Governance Matters* report (Kaufmann, Kraay, and Mastruzzi 2007, *Governance Matters VI*), which since 2003 has generated annual aggregate indicators on worldwide governance based on external data sources.