

UNITED NATIONS

Economic and Social Commission for Western Asia



Governance indicators: a proposed methodology



Objectives and outline



Summarize the proposed indicator for monitoring governance in the region, in particular for those countries in transition, with emphasis on how this indicator intends to bridge the shortcomings observed in other available indices

- I. The need for an Arab Governance Indicator
- II. Methodology for constructing the indicator
- III. Brief example
- IV. Potential uses of the indicator

I. Importance of monitoring governance



The World Bank estimates that the governance gap in the MENA region costs annually on average 1.0-1.5% of GDP

- Countries affected by elite capture tend to have lower investment and growth rates of the private sector
- Governance gap affects small businesses disproportionately
- In a governance deficit environment, public service delivery is often regressive and leakages and delays in resource transfers tend to penalize rural areas and the poor disproportionately

I. Importance of monitoring governance



Recent research has shown that

- Governance enhance resilience against shocks
- Countries with better governance escape unemployment spells more quickly
- Good governance and a conducive business environment can be more important than labor market reforms in creating jobs
- Good governance is correlated with a healthy private sector, efficient public services, equality, economic stability and a myriad of other positive indicators of socioeconomic prosperity

I. Importance of monitoring governance



Given the established link between governance and development, it is crucial to closely monitor governance through suitable indicators that

- shed light on specific bottlenecks
- suggest policy options
- serve as entry points for governance reforms
- enhance public service delivery
- empower citizens
- link experiences of countries with similar challenges

I. Importance of monitoring governance



There are many governance or governance-related indicators available. However, by and large, they

- are not context-specific
- lack actionability and link to policy options
- confound de jure and de facto, inputs and outcomes

In addition, some of them

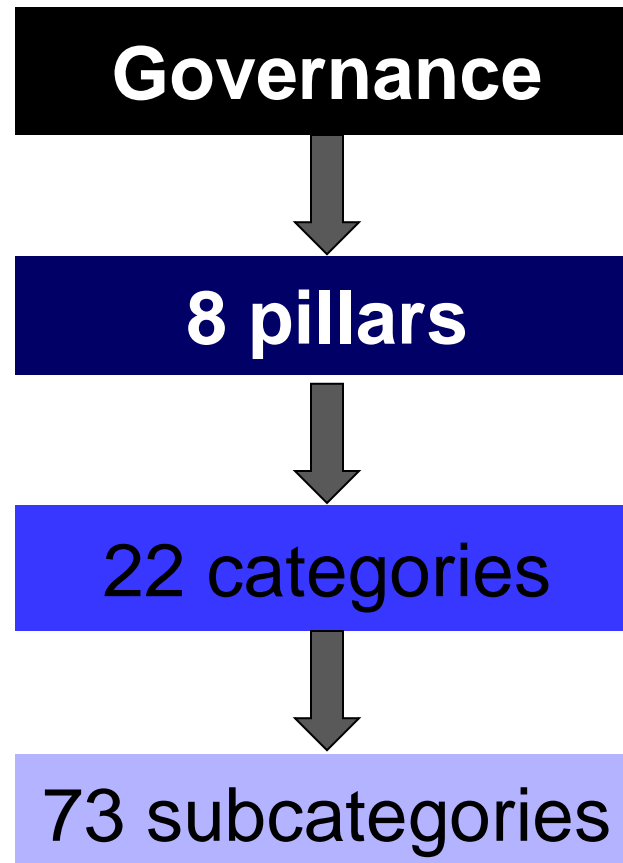
- have a strong ideological bias
- lack validity or have statistical deficiencies

Steps for the construction of the indicator

1. Operationalization
2. Selection of variables
3. Aggregation
4. Presentation of results

II.1 Methodology: Operationalization

The notion of governance in a transition context is conceptualised through a four-level structure



II.1 Pillars (P)

Constitution

**Institutional
effectiveness**

**Political
transformation**

**Provision of
public goods**

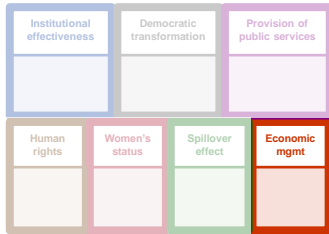
**Human
rights**

**Women's
status**

**Violence and
instability**

**Economic
governance**

II.1 P → Categories (C)



Economic governance

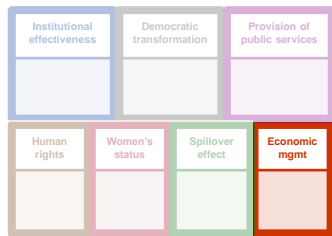
Macroeconomic management

Private sector

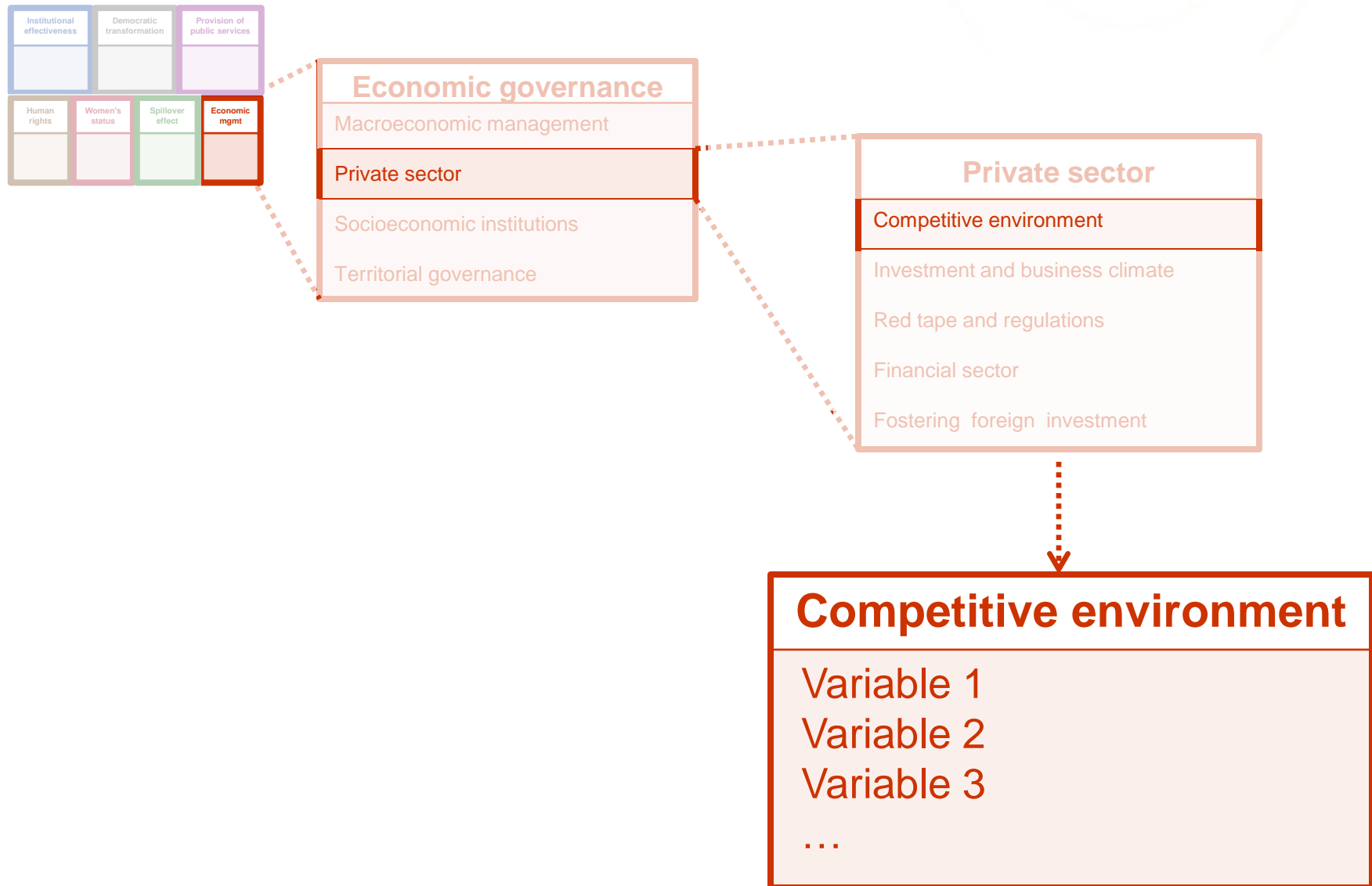
Socioeconomic institutions

Territorial governance

II.1 P → C → Subcategories (S)



II.1 $P \rightarrow C \rightarrow S \rightarrow$ Individual variables



II.1 Methodology: operationalization

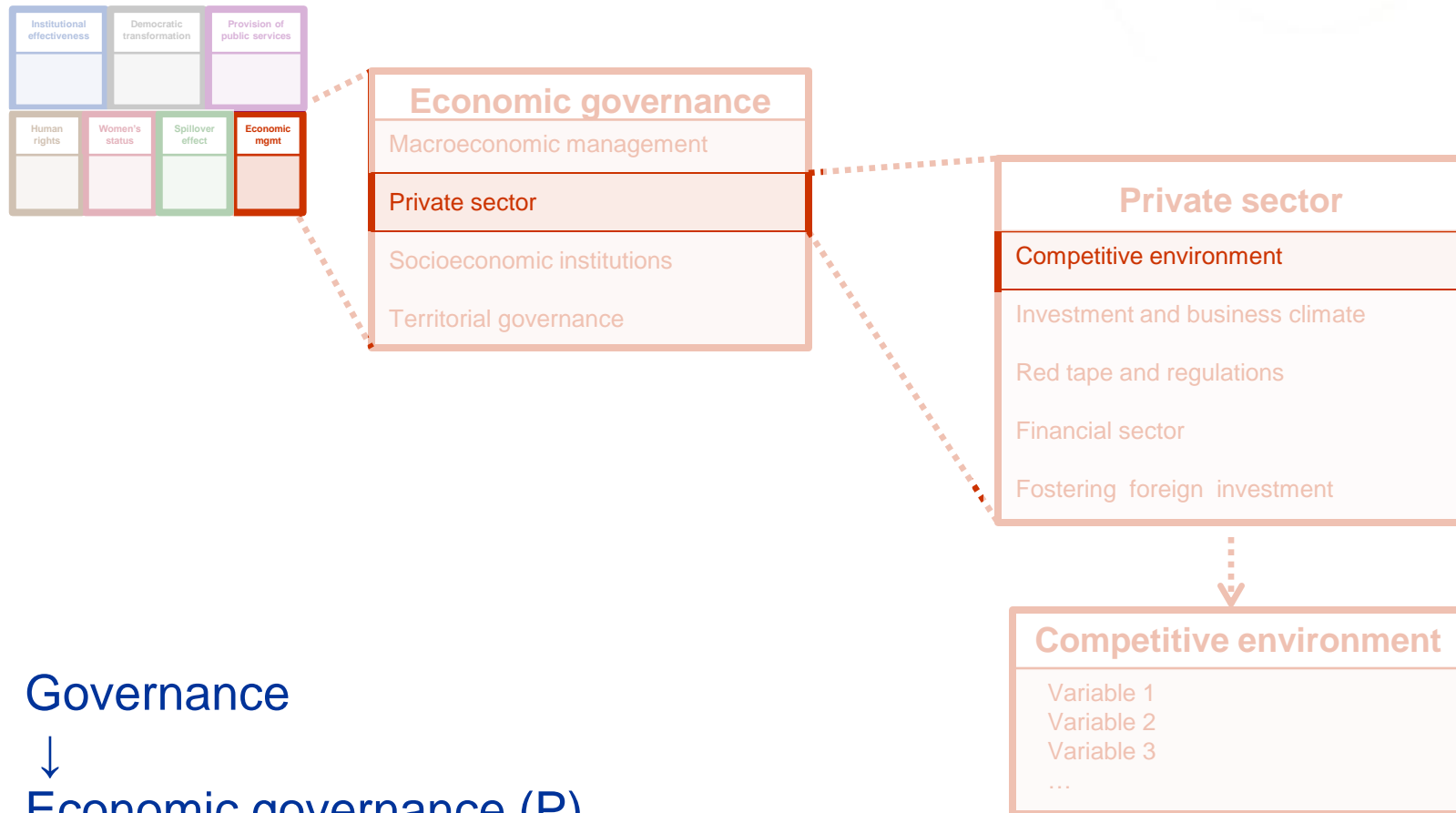


Trade-off between synthesis of information and level of specificity and relevance

Instead of one or a few all-encompassing indicators, the AGIs will present a number of indices that cover the entire spectrum of governance

This will preserve the multidimensionality of the concept and it will allow the study of the interactions between its different elements

II.1 Methodology: operationalization



- ✗ Governance
- ↓
- ✗ Economic governance (P)
- ↓
- ✓ Private sector (C)
- ↓
- ✓ Competitive environment (S)

II.2 Methodology: data sources



The indicator will take advantage of the governance-related information available

Arab Democracy Index	Education Database UNESCO	Institutional Profiles Database	Resource Governance Index
Arab Opinion Index	Environmental Performance Index	Institutions and Elections Project	Rule of Law Index
Bertelsmann Transformation Index	Failed State Index	International Property Rights Index	Social Institutions and Gender Index
Cingranelli-Richards Human Rights Dataset	Gallup World Poll	Linaburg-Maduell Transparency Index	State of the World's Children
Conflict Data Program	GenderStats	Open Budget Index	Sustainable Governance Indicators
Corruption Perceptions Index	Global Competitiveness Index	PEFA	Trends in International Mathematics and Science Study
Database of Political Institutions	Global Peace Index	Press Freedom Index	World Energy Outlook
Ease of Doing Business Index	Global Water Intelligence Statistics	Quality of Government Expert Survey	+ <i>many more</i>

II.2 Methodology: data sources



Criteria used to select variables from external sources

1. Relevancy
2. Methodologically sound
3. Variety of sources
4. Coverage of topics
5. Limited bias and/or normative assumptions
6. Coverage of the ACTs
7. Updated information

II.2 Methodology: data sources



This will be complemented with new variables constructed specifically for the indicator. Among others,

- calculations using existing data sources
- desktop research
- expert assessment for specific areas

Most of this data will be of qualitative nature and will be used to complement the available quantitative information (mainly to be included in country analytical reports)

II.3 Methodology: aggregation



Three possible methods to aggregate variables

- Data-based methods
- Optimization algorithm
- Exogenous weights

(Categorized) equal weighting is proposed:
transparent, easily communicated method that
does not rely on enlarging the sample

But selection of variables becomes critical

II.4 Methodology: presentation



Not intended as a comparison or ranking tool

Point of reference is essential

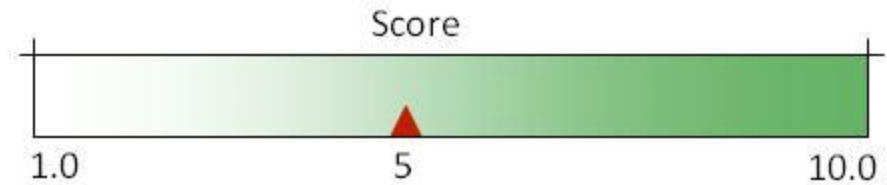
This is a diagnostic tool for policy purposes →
actionable indicators

Preference for a scorecards/dashboard by country
designed in a way that strong and weak areas can
be immediately identified

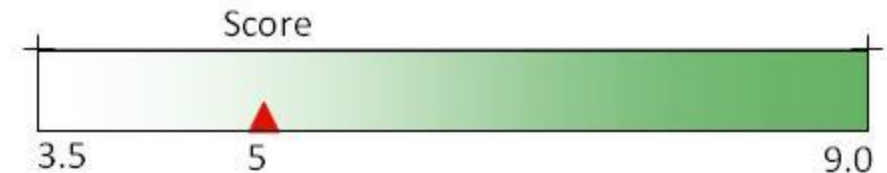
II.4 Methodology: presentation

Some options to present the results

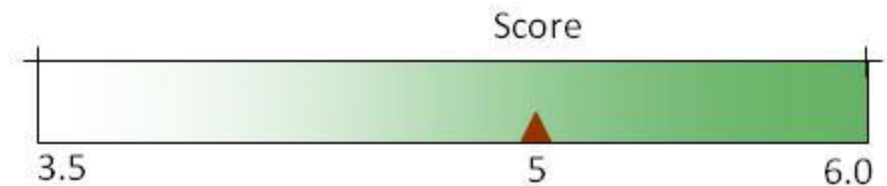
1. Theoretical range



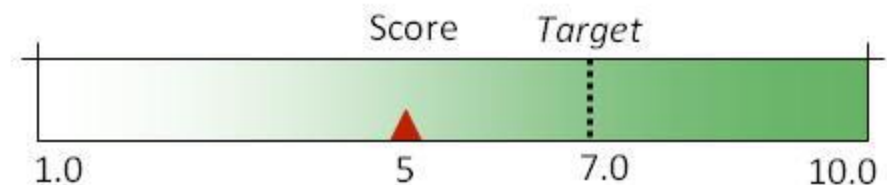
2. Empirical overall range



3. Range over benchmark



4. Targets



II.5 Methodology: pending questions

1. Although ideally input, process and outcome variables should be separated, in practice this is not straightforward
2. Missing values: impute or not?
3. What should be favoured when deciding aggregation method? Transparency or another statistical properties
4. How to incorporate the qualitative information?
5. Conceptualization of some pillars as cross-cutting

III. Illustrations



Pillar: Economic management

Category: Private sector

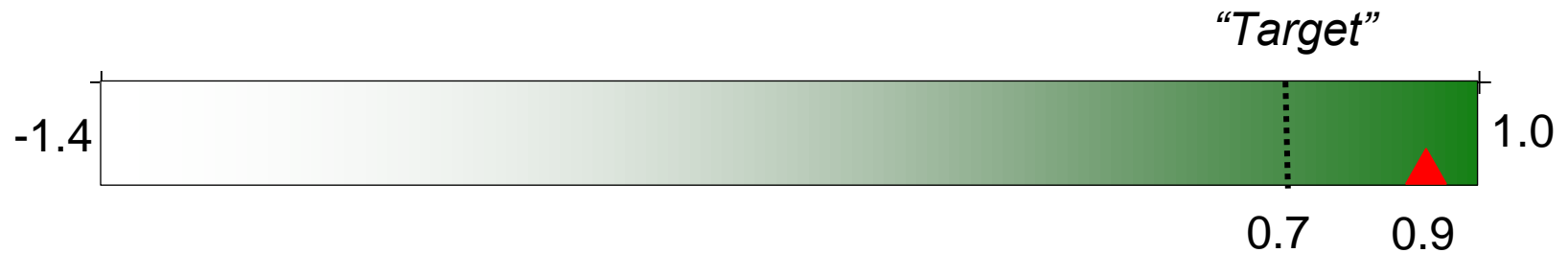
Subcategory: Competitive environment

This subcategory aggregates the following variables

1. Market-based competition
2. Incidence of administered prices
3. Barriers to market entry
4. Anti-monopoly policy
5. Intensity of competition
6. Extent of market dominance

III. Illustrations

Score for Jordan in the subcategory “Competitive environment”



III. Illustrations



Pillar: Economic governance

Category: Private sector

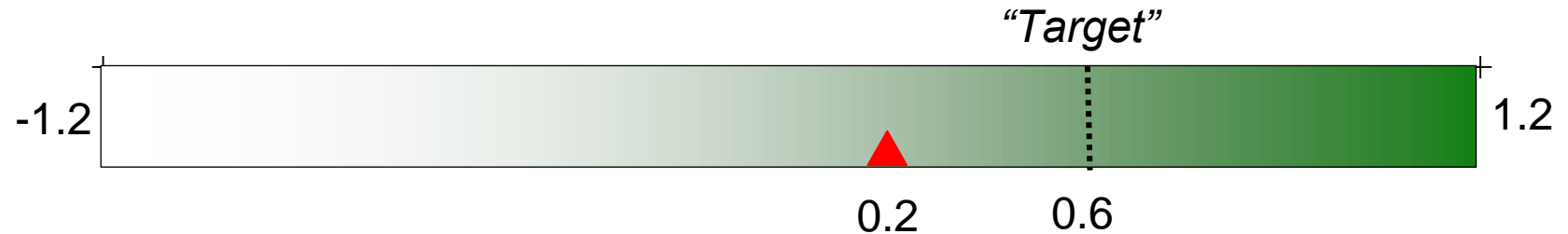
Subcategory: Investment and business environment

This subcategory aggregates the following variables

1. Investor protection
2. Security of contracts
3. Public-private cooperation
4. Public support for private sector activity in strategic sectors
5. Investment profile
6. Financing conditions

III. Illustrations

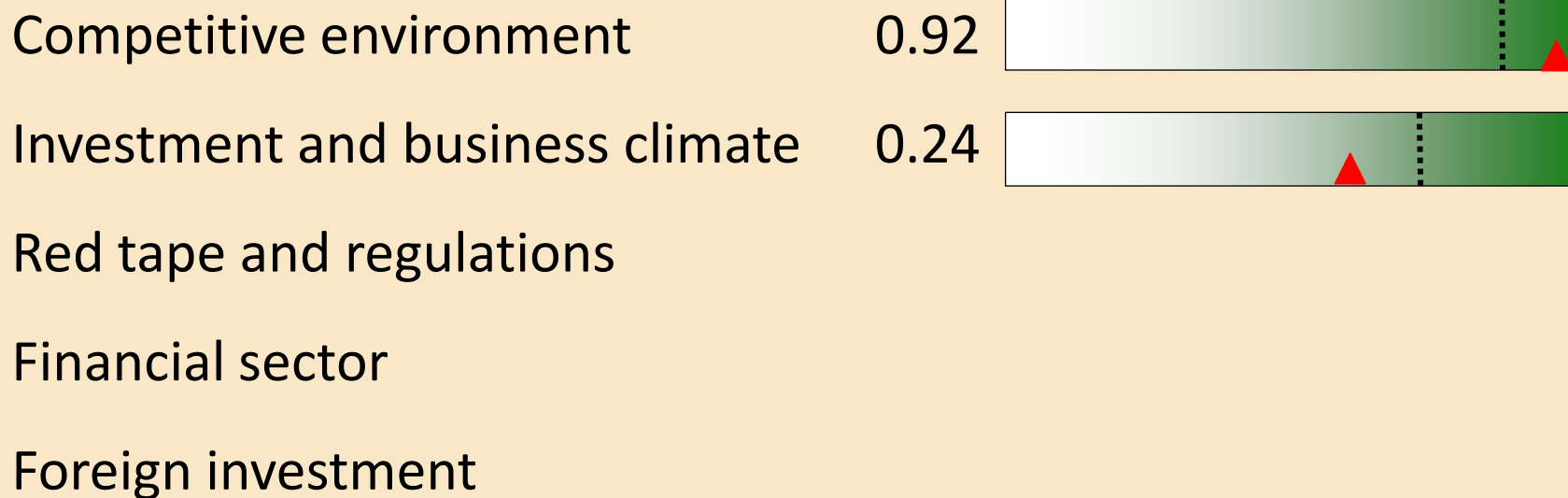
Score for Jordan in the subcategory
“Investment and business environment”



III. Illustrations

Economic governance

Private sector



III. Illustrations

Economic governance

Economic management

Fiscal and debt management

Monetary and foreign exchange policies

External accounts and resilience to ext. shocks

Private sector

Competitive environment

0.92



Investment and business climate

0.24



Red tape and regulations

Financial sector

Foreign investment

Socioeconomic institutions

Central bank

Statistical institution

Supreme auditing institution

Territorial governance

Development of the rural sector

Sustainability and natural resources mgmt

III. Illustrations

Constitution

Institutional effectiveness

Political transformation

Provision of public goods

Human rights

Women's status

Violence and instability

Economic governance

Private sector

C. E. 

I. & B.E 

...

III. Illustrations: correlations

Constitution

Institutional effectiveness

Accountability & transparency

Political transformation

Civil society strength

Provision of public goods

Human rights

Women's status

Violence and instability

Economic governance

III. Illustrations: correlations

Constitution

Institutional effectiveness

Corruption in the security sector

Political transformation

Security sector reform

Provision of public goods

Security

Human rights

Fundamental rights (*de facto*)

Women's status

Violence and instability

Economic governance

III. Illustrations: correlations

Constitution

Institutional effectiveness

Political transformation

Provision of public goods

Legitimacy

Social cohesion

Social policy

Human rights

Women's status

Violence and instability

Economic governance

Social and economic inclusion

IV.1 Summary of value-added



Although other governance indicators exist, the proposed indicator will try to improve upon them by

- taking a regional focus that allows for a deeper analysis and focus on context-specific factors
- focusing on policy diagnosis and actionability
- using appropriate but simple and transparent statistical methods
- including comprehensive data on governance, quantitative and qualitative, from many sources
- serving as a regional platform for better statistical capacity and data availability for governance

IV.2 Uses of the indicators



The main goal of the governance indicator is to serve as a diagnosis tool for policy purposes

It could be used to quickly identify the strong and weak areas of governance for a country, including co-movements of related subcategories

It may suggest new, evidence-based policy options to improve governance

It could serve to measure the outcome of policy actions through specific, measurable indicators

IV.2 Uses of the indicators



The use of a target for each subcategory serves to provide context and, if derived from a benchmark of “similar” countries, could be used as a source of positive performance cases from countries facing comparable challenges

The indicator could also be used by development agencies to design programs and measure their impact

IV.2 Uses of the indicators



It will be openly available and will follow a simple, transparent and reproducible methodology to create acceptability

A goal is to generate national ownership through partnerships with official institutions and civil society organizations

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