

## WORLDWIDE GOVERNANCE INDICATORS: REGULATORY QUALITY, 2008

The Worldwide Governance Indicators (WGI) project of the World Bank reports aggregate and individual governance indicators for 212 countries and territories over the period 1996–2008, for six dimensions of governance: Voice and Accountability, Political Stability/Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption.

The aggregate indicators combine the views of a large number of enterprises, citizens and expert survey respondents in industrial and developing countries. The individual data sources underlying the aggregate indicators are drawn from a diverse variety of survey institutes, think tanks, non-governmental organizations, and international organizations.

The World Bank uses an Unobserved Component Model (UCM) to aggregate the various responses in the broad six clusters. This model treats the “true” level of governance in each country as unobserved, and assumes that each of the available sources for a country provide noisy “signals” for the level of governance. The UCM then constructs a weighted average of the sources for each country as the best estimate of governance for that country. The weights are proportional to the reliability of each source. This means that more precise sources (in the sense of providing less noisy signals of governance) receive more weight in the aggregate indicators. The resulting estimates of governance have an expected value (across countries) of zero, and a standard deviation (across countries) of one. This implies that virtually all scores lie between –2.5 and 2.5, with higher scores corresponding to better outcomes.

When determining Regulatory Quality the World Bank focuses on policies themselves. The Indicator includes measures of the incidence of market-unfriendly policies such as price controls or inadequate bank supervision, as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development.

Among European countries and non-European OECD countries Ireland, Denmark, the United Kingdom and Australia dominate the top scores in

the 2008 Regulatory Quality Indicator. Spain, Hungary, Cyprus, France and Japan have been classified as countries with a medium level of Regulatory Quality. The countries with the lowest score are Turkey, Mexico, Romania and Korea (Table).

To provide a comparison over time, the Figure illustrates the changes for the Regulatory Quality Indicator over the decade 1998–2008. The 1998 score is shown on the horizontal axis and the 2008 score on the vertical axis. Countries located above the 45-degree angle line exhibited improvements in Regulatory Quality, while countries below the line exhibited deteriorations in Regulatory Quality. The salient feature of this graph is that most countries are clustered quite close to the 45-degree line, indicating that

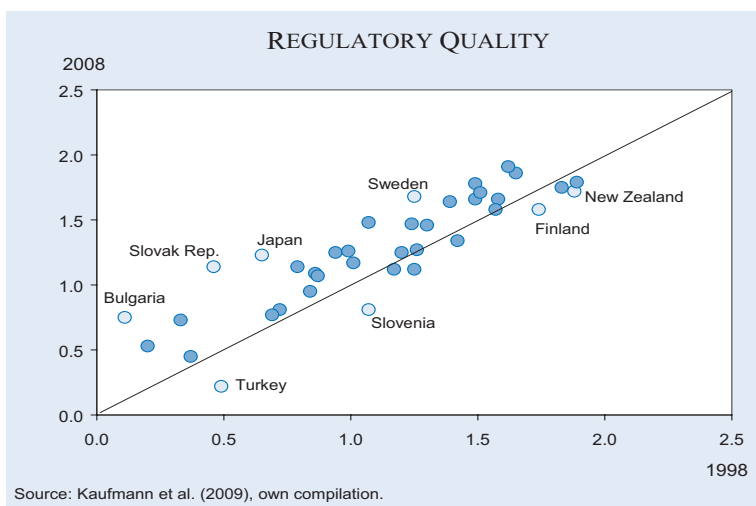
**Table**

**Worldwide Governance Indicators: Regulatory Quality, 1998 and 2008**

Country	Governance Score 1998	Governance Score 2008
Australia	1.49	1.78
Austria	1.39	1.64
Belgium	1.07	1.48
Bulgaria	0.11	0.75
Canada	1.49	1.66
Cyprus	1.20	1.25
Czech Republic	0.86	1.09
Denmark	1.65	1.86
Estonia	1.24	1.47
Finland	1.74	1.58
France	0.94	1.25
Germany	1.30	1.46
Greece	0.72	0.81
Hungary	0.99	1.26
Iceland	1.25	1.12
Ireland	1.62	1.91
Italy	0.84	0.95
Japan	0.65	1.23
Korea	0.33	0.73
Latvia	0.87	1.07
Lithuania	0.79	1.14
Luxembourg	1.51	1.71
Malta	1.01	1.17
Mexico	0.37	0.45
Netherlands	1.83	1.75
New Zealand	1.88	1.72
Norway	1.42	1.34
Poland	0.69	0.77
Portugal	1.17	1.12
Romania	0.20	0.53
Slovak Republic	0.46	1.14
Slovenia	1.07	0.81
Spain	1.26	1.27
Sweden	1.25	1.68
Switzerland	1.58	1.66
Turkey	0.49	0.22
United Kingdom	1.89	1.79
United States	1.57	1.58

Note: Only European and non-European OECD countries are included.

Source: Kaufmann, D., A. Kraay, M. Mastruzzi (2009).



changes in the Regulatory Quality Indicator in most countries are relatively small over the eleven-year period covered by the graph. But improvements have been made in Bulgaria, Slovak Republic, Japan and Sweden. In contrast there has been a decline in countries such as Turkey, Slovenia, Finland and New Zealand.

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## References

Kaufmann, D., A. Kraay and M. Mastruzzi (2009), "Governance Matters VIII: Aggregate and Individual Governance Indicators 1996–2008", *Policy Research Working Paper* no. 4978.

World Bank, *Worldwide Governance Indicators, 1996–2008*, <http://info.worldbank.org/governance/wgi/index.asp>.