Transparenting Transparency: Intial Empirics and Policy Applications

Kaufmann, Daniel and Bellver, Ana

September 2005

Preliminary draft, September, 2005 -- for discussion and comments

'Transparenting Transparency'

Initial Empirics and Policy Applications

Ana Bellver and Daniel Kaufmann [1], The World Bank

Abstract

Major conceptual contributions of a number of Nobel-laureates in putting forth a framework linking the citizenry's right to know and access to information with development, have already had a major influence in various fields. However, implementation of transparency-related reforms on the ground remains checkered around the globe. Further, in contrast with other dimensions of governance -such as rule of law and regulatory burden-, there is a gap between the extent of the conceptual contributions in the transparency field and the progress on its measurement and empirical analysis, which has been wanting. Our paper is a contribution attempting to partly fill these empirical and policy-related gaps.

We contribute to empirics by undertaking an initial construction of a transparency index for 194 countries based on over twenty 20 independent sources. An Unobserved Component Model (UCM) was used to generate the country ratings and the margins of error. The indices comprise an aggregate transparency index with two sub-components: economic/institutional transparency, and political transparency. The results emphasize variance. Exemplary transparency is not the exclusive domain of a particular region, and there are transparency-related challenges in countries in each region and income categories. Further, there is significant within-country variation, with large differences in performance between economic/institutional and political dimensions of transparency. Mindful of the challenges in inferring causality, we also find that transparency is associated with better socio-economic and human development indicators, as well as with higher competitiveness and lower corruption. Much progress can be attained without requiring inordinate amount of resources, since transparency reforms can be substantial net 'savers' of public resources, and often can serve as a more efficient and less financially costly substitute to creating additional regulations and/or regulatory or governance bodies. We provide a number of concrete examples of specific transparency-related reforms within a strategic framework, as well as a brief country illustration - the case of Chile.

[1] Preliminary draft discussion paper presented at the IMF conference on transparency and integrity, held on July 6th-7th, 2005. Inputs by M. Mastruzzi, A. Kraay and R. Islam are gratefully acknowledged. Errors and views are solely the authors' and do not necessarily reflect the official position of the institution or its Executive Directors.

‘Transparenting Transparency’

I. Transparency and Development: Introduction

Nobel prizes have been awarded for bringing attention to the importance of information in the functioning of the markets. George Akerlof, Michael Spence and Joseph Stiglitz received the Nobel Prize in 2001 for their analysis of how imperfect information can lead to market failures. Why are interest rates often excessively high on local lending markets in developing countries? Why do people who want to buy a good used car turn to a dealer rather than a private seller? Why does a firm pay dividends even if they are taxed more heavily than capital gains? For more than two decades, the theory of markets with asymmetric information has been a lively field of economic research. Countless applications extend from traditional agricultural markets in developing countries to modern financial markets in developed economies.

In democratic societies, access to information and transparency can also be considered as a human right. As Stiglitz (1999) points out, there is a basic right to know, to be informed about what the government is doing and why. In principal-agent situations, citizens have the right to know about their agent’s behavior, especially when the agents are governments or international organizations and the principals are the general public. However, beyond the human rights and the market efficiency arguments, transparency is also critical for human development because it provides incentives for redistribution and inclusiveness. Amartya Sen won the 1998 Nobel Prize for illustrating the role of information and “entitlement” in the functioning of the markets. His extensive research on famines in the great Bengal, Sahel, Bangladesh and Ethiopia showed that famines had occurred in years when the supply of food was not significantly lower than during previous years. The problem was not the shortage of food but lack of information and “voice”. People will starve when their entitlement is not sufficient to buy the food necessary to keep them alive.

This political economy argument reveals the potential of information for human development. Transparency is important not only because it increases the efficiency in the allocation of resources, but also because it may help in ensuring that the benefits of growth are redistributed and not captured by the elite. As in any other institutional reform, the challenge to bringing about transparency and accountability lies in incentives. Even if transparency brings out a more efficient allocation of resources and more responsive institutions, why governments would implement such a reform? If politicians know that they are subject to public scrutiny and that their successes will be rewarded with public support, they will have incentives to include other constituencies in their political agendas and ensure the majority of the population’s needs are met. This social contract between the state and its citizens by which citizens grant power to the executive and demand accountability in return lies at the core of the development process. Yet in countries where state capture or predatory leadership remains a challenge, transparency reforms are likely to be resisted by certain groups in society and within the institutions themselves. In these cases, entry points for reform would lie in civil society and in building new alliances with the potential beneficiaries of disclosure.

The towering conceptual contributions of the Nobel-laureates in putting forth a framework linking the citizenry's right to know and to access to information with development are undisputable, and have already had a significant influence in various fields. However, actual implementation of transparency-related reforms on the ground, while not devoid of stellar examples and progress in some countries, remains checkered globally. Further, there has been a significant gap between the extent of the theoretical (such as asymmetric information) and conceptual contributions in this area, on the one hand, and the progress on measurement and empirics in the field of transparency. This is in contrast with other dimensions of governance, such as corruption, rule of law, and regulatory framework, where a plethora of indices exist, which have spun a significant empirical literature in these areas. Further, related to these twin gaps in the empirical and policy reform areas, there has been a paucity of writings on transparency which decompose (or 'unbundle') this generic theme into specific components more amenable to policy intervention.

Our paper is a contribution attempting to partly fill these inter-related empirical and policy-related gaps. In order to do so, we review the existing literature, present various definitions of transparency, provide an initial empirical framework towards worldwide indicators on various dimensions of transparency, suggest some initial empirical results, and address concrete policy and institutional innovations related to transparency reforms.
The first part of the paper presents different definitions of transparency followed by a brief review of the literature. Most of the literature has focused on the role of transparency in preventing financial crises and in monetary policy-making and it is only recently that more attention has been paid to information asymmetries in political markets and the role transparency can play in improving efficiency in the provision of public services. We then review another phenomenon that has received insufficient attention – yet which has the potential of changing the way citizens relate to their governments-, namely the worldwide spread of Freedom of Information (FOI) laws. Twenty years ago only ten OECD nations had laws which specifically guaranteed the rights of citizens to access information from public institutions. Today, over fifty countries have adopted comprehensive FOI laws and over thirty have pending efforts all over the world.

We then turn to the initial construction of an aggregate transparency index for 194 countries based on more than 20 independent sources, which comprises the aggregate transparency index and its two sub-components: economic/institutional transparency and political transparency. After a brief description of the methodology, the results of the regression analysis are presented. The last section, before concluding, reviews concrete policy issues in implementing transparency reforms, and provides in brief as an illustration the case study of Chile.

II. Definitions of transparency

There is no commonly agreed definition of transparency. Some definitions used by international organizations focus on ensuring public access to information For instance, the World Trade Organization states that ensuring “transparency” in international commercial treaties typically involves three core requirements: (i) to make information on relevant laws, regulations and other policies publicly available, (ii) to notify interested parties of relevant laws and regulations and changes to them; and (iii) to ensure that laws and regulations are administered in a uniform, impartial and reasonable manner.

In the same vein, the draft Multilateral Agreement on Investment (MAI) states that to ensure transparency “each contracting Party shall promptly publish or otherwise make publicly available its laws, regulations, procedures and administrative rules and judicial decisions of general application as well as international agreements which may affect the operation of the Agreement”. The OECD (2002) describes a transparent business environment as one in which economic agents possess essential information about the environment in which they operate and that search cost and information asymmetries do not place an undue burden on them.

Reference not only to the amount of information but also the scope, accuracy and timeliness of such information is made in Vishwanath and Kaufmann (1999) and Kaufmann (2002) where transparency is defined as the “increased flow of timely and reliable economic, social and political information, which is accessible to all relevant stakeholders”. The information provided should also be accessible, relevant, of good quality and reliable. Similarly, but focusing specifically on economic transparency, Islam (2004) bases her transparency index on the timely availability of economic data, whereas the Open Budget Project defines budget transparency as public access to budget information, including publication of budget reports and efforts to facilitate public disclosure and understanding of the budget.

This emphasis on ensuring effective communication and understanding from the public is shared by other documents such as the IMF’s Fiscal Transparency Guidelines. For this institution, monetary and financial policy transparency is the “environment in which the objectives of the policy, its legal, institutional and economic framework, policy decisions and their rationale, data and information related to monetary and financial policies and the accountability of the policymaking body are provided to the public in an understandable, accessible and timely basis”. The OECD (2002) also embraces a broader view that considers transparency as the result of a two-way communication between governments and other interested parties.

Underlying these definitions we always find the idea that transparency is closely related to accountability. The purpose for demanding transparency is to allow citizens, markets or governments to hold institutions accountable for their policies and performance. This notion of enhancing accountability is highlighted in Florini (1999) where transparency is seen as “the release of information by institutions that is relevant to evaluating those institutions”. Because transparency is a tool to facilitate the evaluation of public institutions, the information provided needs to account for their performance. At the same time, the public must be able to interrogate the information provided and use it to hold institutions accountable. According to the Transparency Task Force at Brookings University, transparency can be regarded as the openness of institutions, that is, the degree to which outsiders (such as citizens or stockholders) can monitor and evaluate the actions of insiders (such as government officials or corporate managers).

Thus, transparency can be a powerful tool to build trust in institutions among citizens. In the course of legitimizing the emerging EU polity, transparency was considered as the principle capable of bringing about a more democratic policy-making (Moser, 2001). Opening up the legislative and executive procedures was seen as essential to building trust among citizens and counter the so-called 'democratic deficit' of the newly created European institutions.

Yet, it is important to differentiate transparency from another phenomenon very often is associated with- that is, corruption. The most common definition of corruption is the "use of public office for private gain"; whether the provision of information is related to higher or lower degree of corruption and under which circumstances transparency can be an effective tool in reducing it is still subject to debate in the literature as we will see in the next section.

III. Review of the literature

The importance of information flows for the functioning of the markets has been well documented in the literature (Stigler, 1961; Stiglitz and Weiss 1981 among others). Improvements in information can reduce the magnitude and consequences of principal-agent problems[2] leading to more efficiency in the allocation of resources not only in economic and financial markets but also in political markets. This section reviews briefly the existing literature on transparency and its potential impact.

Transparency and economic and financial markets

Most of the academic literature on transparency and accountability has focused on the role of transparency in preventing financial crises and in monetary policy-making. Partly this relatively recent interest on transparency reflects concern for the inherent volatility of global financial markets and the recent trend towards greater central bank independence in a large number of countries.

Over the past decade we have witnessed financial crises in emerging economies across the globe –Mexico (1995), East Asia (1997), Russia (1998), Brazil (1998) and Turkey

[2] A principal-agent problem arises when a work is delegated: one person, the principal, hires an agent to perform tasks on his behalf but he cannot ensure that the agent performs them in precisely the way the principal would like. The decisions and the performance of the agent are impossible and or expensive to monitor and the incentives of the agent may differ from those of the principal. Examples of principal-agent situations can be found in the corporate world, where the principal are the shareholders and the agent the managers of the firm, within the firm, where the principal are the managers and the agent the employees or in the political system where the principal are the citizens and the agent is the government.

(2001)- characterized by weaknesses in the domestic financial sector. As highlighted by Rahman (1998) accounting and disclosure played a key role in the East Asian crises. Most of the corporations and banks in the five East Asian countries did not follow international accounting standards in reporting those financial transactions that appear to have been responsible for triggering the financial crisis. Mehrez and Kaufmann (1999) also illustrate how poor transparency combined with new and deregulated financial markets may lead to unsustainable investment and large exposures and vulnerability of financial institutions. Based on empirical evidence from a dataset of 56 countries from 1977 to 1997 the study shows that an increase in transparency of fiscal and monetary policy or macro economic data decreases the probability that financial liberalization would lead to a crisis. Furthermore, lack of accountability of the executive[3] and lack of independence of the Central Bank were pointed out by the Economist (1998) as one of the causes of the "tequila" crisis.

Among the range of proposals to avoid similar crises in the future, consensus has emerged on the global strategy to increase transparency of domestic financial sectors. There have been numerous efforts by the international community to set up standards for financial transparency including:

- IMF's Code of Good Practices on Transparency in Monetary and Financial Policies [4]
- Accounting standards for the public sector set by the International Federation of Accountants and auditing standards set by the International Organization of Supreme Audit Institutions.
- transparency principles for international banking established by the Basle Committee on Banking Supervision
- OECD Best Practices for Budget Transparency
- OECD Declaration on International Investment and Multinational Enterprises,
- APEC transparency standards in Trade and Investment Liberalization and Facilitation.
- OECD Anti-bribery Convention, 1996 Inter-American Convention against Corruption, the 2003 UN Convention against Corruption and the 2003 African Union Convention on Preventing and Combating Corruption.
- Other international agreements currently under discussion with reference to transparency standards are the WTO Agreement on Procurement, the Charter for Transparency on International Financial Institutions (IFIs) and the OECD Multilateral Agreement on Investment (MAI)

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[3] In particular, reference is made to the lack of accountability of the presidency. In the article a cabinet member is quoted saying: "If there had been any real checks on the executive in 1994, we simply would not have been able to issue nearly $30 billion of dollar-denominated debt behind Congress's back."

[4] The Fund carries out reports on the observance of this Standards and Codes (ROSCs) on a periodical basis at the request of the member countries. ROSCs were developed to provide an assessment of institutional issues following the emerging market crises of the 1990s. They assess members against internationally accepted standards of good practice in 11 (recently updated to 12) areas covering three broad issues: transparency, financial market regulation and corporate governance. The production and publication of ROSCs is voluntary for all members and the reports explicitly avoid providing a rate.

In this context it is widely argued that transparency reduces market uncertainty about policy-makers' preferences, resulting in more predictable monetary policy and more efficient financial markets. Distortions in information within financial markets are crucial in explaining the large influx of foreign capital into emerging markets as well as its rapid departure in times of crisis. Lack of transparency in policy decision-making and unsystematic disclosure of information relevant for the formation of rational expectations obliges private agents to review their expectations raising the variability of asset prices, consumption and investment, increasing the risk of investments. The latter translates into higher risk-premiums demanded on investments, which in turn increases the rate of interest. Public disclosure of information can therefore mitigate market inefficiencies created by adverse selection and moral hazard providing easier access to capital markets and better terms for government financing.

Transparency is also an important component of good governance on its own right reinforcing the independence, accountability and integrity of financial sector regulators. In general, inflation-targeting central banks are believed to be both highly transparent and accountable (see for example, Faust and Svensson, 1999; Blinder, 2000; Hallett and Viegi, 2001). Fracasso et al. (2003) evaluate inflation reports provided by 19 inflation-targeting central banks in terms of quantity, frequency and quality of the information and conclude that decisions taken by central banks that achieve consistently high ratings are more predictable that those with less appreciated reports. Disclosure of information also facilitates accountability, and where potential policy conflicts arise among government agencies, it encourages policy consistency. Rather than whether transparency is desirable or not, the debate has shifted to how financial institutions can achieve better transparency (Winkler, 2000; Camilleri, 2005).

Countries with more transparent policy environments tend to perform better in international financial markets (OECD, 2003; Erbaş, 2004). Using a micro dataset on international portfolio holdings, Gelos and Wei (2002) examine the impact of country transparency during the period 1996-2000. The study distinguishes between government and corporate transparency. For governments, it considers macroeconomic data availability (timeliness and frequency) and transparency in the conduct of macroeconomic policies[5], whereas corporate transparency refers to availability of financial and other business information about firms in a country. The study finds clear evidence that international funds invest systematically less in less transparent countries. Government opacity and corporate opacity have separate, depressing effects on investment

[5] The study uses a data set on investment positions by individual international funds in various countries from eMergingPortfolio.com (formerly Emerging Market Funds Research, Inc.). To measure transparency and predictability of a government's macroeconomic policies, an index measure of macro policy opacity is constructed based on Oxford Analytica scores. For about half of the countries, Oxford Analytica relied heavily on the ROSCs produced by the IMF. The frequency and timeliness of government information release, is based on the indices developed by the IMF on the frequency and timeliness of national authorities' macroeconomic data dissemination. The variable Corporate Transparency is based on the level of financial disclosure and availability of information reported in the survey carried out for the Global Competitiveness Report of the World Economic Forum.

For example, a country like Venezuela could increase by 300 percent its international portfolio investment if it increased its transparency to Singapore's level. They also find moderate evidence that lack of transparency makes investors more likely to engage in herding behavior; that is, when dealing with less transparent countries, investment decisions are more likely to be determined by what other fund managers are doing as opposed to a rational, independent assessment of market fundamentals. During economic crises, fund managers "flee non-transparent countries and invest in more transparent ones."

The adverse effect of opacity on the cost and availability of capital in 35 countries is assessed by PricewaterhouseCoopers (2002). Their Opacity Index suggests that Russia may has been losing up to $10 billion a year in potential foreign investments because of corruption, inadequate accounting procedures, weaknesses in its legal system and lack of reliable financial information. Calculating the risk premium imposed by opacity as the increased cost of borrowing faced by countries due to lack of information in areas that affect capital markets, the study concludes that countries like Russia and China, with a risk premium of 1,225 and 1,316 basis points in 2000 had to pay international investors an extra 12% or 13% of their sovereign debt due to lack of transparency. [6] Corruption has also been found to affect negatively investment flows. Based on data on investment flows from the early 1990s, Wei (1997) illustrates how corruption reduces the host countries' ability to attract foreign investment. If a country like the Philippines could reduce its corruption level to the level of Singapore, other things being equal, it would have been able to raise its investment/GDP ration by 6.6 per cent. Wei (1998) suggests that China's underachievement in attracting FDI based on its size, proximity to some major source countries and other factors might be related to this.

The message that emerges from the literature is clear, investors tend to stay away from countries with high corruption levels and lack of reliable information. Nevertheless, regression analysis does not aboard the issue of causality and it is difficult to disentangle what is driving what. For example, it is not evident whether countries become more transparent when they become rich, or whether being more transparent helps them to become rich. Because many countries that are transparent have usually implemented other good policies, it is also difficult to separate the effect of transparency from the effect of these policies. Glennerster and Shin (2003) use a number of techniques to separate out the effect of transparency from these other factors and they found that countries that adopted transparency reforms[7], introduced and encouraged by the IMF

[6] Opacity is defined in the PWC report as "the lack of clear, accurate, formal, easily discernible, and widely accepted practices" and the composite O-Factor is calculated by averaging (on an equally weighted basis) the various components of opacity for each country: corruption, legal system, government macroeconomic and fiscal policies, accounting standards and practices (including corporate governance and information release), and regulatory regime. The index was based on a survey carried out in 2000 among a pool of experts in each country. Unfortunately, against the initial intention, the index has not been published again.

[7] Using data for 23 emerging market economies during 1999-2002, the paper assesses the effect of three reforms introduced on a voluntary basis by the IMF designed to increase the flow of information to the public and markets. They are: the publication of IMF country documents and, in particular, Article IV reports, which evaluate the macroeconomic performance of all member countries, the production and publication of ROSCs, which assess members' institutions and the creation of the Special Data

after the 1997–98 Asian crisis, saw substantial reductions in their spreads relative to those that did not adopt the reforms. Greater transparency not only reduced the borrowing costs for those countries who adopted the reforms but also encouraged them to follow better policies (for example, publishing accurate reserves figures is likely to encourage countries to hold higher levels of reserves). The study found no evidence that countries published only when they had good news to share.

The results of Glennerster and Shin (2003) suggest that markets are prepared to reward - or penalize less- countries for revealing the details of their policies even when the news are not good, partly because they think that countries that are honest about any failings are more likely to fix them. Markets tend to penalize the country in particular when they see that it is not transparent. The news may not always be good, but, on average, countries that are more open will have significantly lower borrowing costs. Similarly, Gelos and Wei (2002) observed that in transparent countries, fund managers are willing to wait for further confirmation before engaging in a costly reallocation of assets, whereas lack of transparency seems to make investors somewhat suspicious of economic news.

In the corporate world, information also contributes to overcome the principal-agent problem. Firm managers are supposed to be agents of the owners, who hold stock, but shareholders and investors have only imperfect information to determine whether the company is being well-managed and whether they should invest in it. Transparency and disclosure mitigate the information asymmetry and have been long recognized as an integral part of corporate governance. Patel, Balic and Bwakira (2002) found that firms with higher transparency and disclosure are valued higher than comparable firms with lower transparency and disclosure, consistent with the notion that market places a premium on companies with lower asymmetric information problem. Furthermore, recent accounting scandals like Enron, Tyco or WorldCom among others, have forced countries to approve stricter financial disclosure requirements for companies listed in stock markets.

But as Williams (2001) argues, for companies that have come under the spotlight, simply meeting the legal requirements to regularly report financial (and sometimes environmental) information to shareholders and regulators is no longer enough, they need to go further in transparency. Today, transparency issues affect every relationship firms depend on for success: employees, global networks of business partners and suppliers, consumers and NGOs, investors. With demands for transparency originating from all sides and for all imaginable issues, transparency has become an essential component of a corporate strategy beyond the risk management approach. The strategic value of greater transparency is to build trust among stakeholders. Companies can only build stakeholder relationships based on trust if they are proactive about transparency, or in other words, if

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Dissemination Standards (SDDS) which sets common definitions for macroeconomic data, minimum frequency and timeliness standards. Three quarterly measures of transparency where constructed based on whether a country has published an Article IV report or ROSC and met the specifications of the SDDS. An indicator of lack of transparency was also constructed which measures a country's decision not to take the opportunity to publish and Article IV report.

they anticipate and deliberately disclose the information stakeholders seek in order to provide reassurance that the firm is trustworthy.

Transparency and governance

Transparency has also received attention as another dimension of governance. In this field, a consensus seems to have emerged that poor governance have substantial, adverse effects on economic growth and development indicators. Economist and policy makers have long recognized that institutions matter in determining economic performance (Rodrik and Subramarian, 2002; Acemoglu, Johnson and Robinson, 2002; Knack and Keefer 1995, La Porta et al., 1998; Olson, 1965; Rigobon and Rodrik 2004, Edison, 2003, Kaufmann and Kraay 2002, Kaufmann, Kraay and Mastruzzi, 2005; Williamson, 2000) and the modern economic literature on rent seeking has analyzed thoroughly the relationship between trade distortions, rent seeking behavior and economic inefficiencies (Krueger, 1974; North, 1990, Murphy, Shleifer and Vishny, 1991).

Moreover, Kaufmann and Kraay (2002) examine the causal relationship between governance and growth. Their results show a strong positive casual effect running from better governance to higher per capita income and the absence of a "virtuous circle" in which higher incomes lead to further improvements in governance. Improvements in institutional quality or governance are unlikely to occur merely as a consequence of economic development. Quite the opposite, as countries become richer, influential elites can resist demands for improvement in governance as evidence on state capture in some Latin American countries reveals.

But what is the relationship between transparency and governance?. In one of the few studies on the issue, Islam (2003) explores how information flows improve governance and institutional quality in 169 countries. Her regression analysis shows that countries which provide better economic information in terms of quantity and quality also govern better for a wide number of governance indicators such as government effectiveness, regulatory burden, control of corruption, voice and accountability, the rule of law, bureaucratic efficiency (from Kaufmann and Kraay) and contract repudiation and expropriation risk[8].

Another study that explores the relationship between transparency and governance is Chan-Lee and Sanghoon (2001) which presents estimates about the "informational quality" of financial systems for 34 emerging market economies (EMEs) (13 of which are in Asia) and 21 OECD countries for 1995-1998[9]. Informational quality is defined as

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[8] Controlling for regional dummies (such as Africa, Middle East and North Africa, East Asia, South Asia or Eastern Europe) or adding years since independence as an additional variable does not alter the main conclusion: transparency is significantly correlated with governance indicators. Even in countries where much of the information packaging and dissemination to the general public is controlled by government, a government that publishes more economic information governs better on average. The transparency index was found to be significant even after controlling for newspaper circulation, freedom of the press and the presence of a Freedom Information Law.

[9] 27 microeconomic-cum-institutional indicators are grouped under three categories: institutional-governance environment, the regulatory environment-structural strength of banking systems, and the

the capacity of the institutional governance environment (and the incentive structures it engenders) to generate information base on which financial systems and economic development depend. The results suggests that the institutional-governance environment is by far the dominant factor determining global informational quality, while the regulatory environment and structural strength of banks, followed by capital markets are the next two most important variables. Income levels are also significant but along with "political obstacles" are at the bottom of the list.

Although, corruption and lack of transparency are treated in some studies as two sides of the same coin[10], it should be noted that the relationship between both phenomena is far from been thoroughly explored. In one of the few studies on the issue, Mauro (2004) builds a general equilibrium model in which "bad equilibrium" is characterized by pervasive corruption and low investment and growth. An important policy implications of this model is that policies aimed at improving transparency and, more generally, disseminating information help in controlling corruption and fostering economic growth. However, without outside intervention, governments might be unable to break the vicious circles their countries seem to be stuck in.

Evidence from micro studies such as Reinikka and Svensson (2003) shows the importance of public access to information in reducing corruption In the late 1990s, the Ugandan government initiated a newspaper campaign to boost schools' and parents' ability to monitor officials' handling of a large school-grant program and reduce corruption[11]. The results of the campaign were striking: capture was reduced from 80 per cent in 1995 to less than 20 per cent in 2001. The provision of information empowered citizens to demand certain standards and monitor and challenge abuses by public officials. The more exposed were teachers and the community to the information campaign, the greater the reduction in the capture. In the same vein, Yang (2005a) shows how preshipment inspection of imports (PSI) programs can contribute to combat corruption in customs agencies by providing an independent source of information and reduce the information asymmetry that can be exploited by the importer.

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functional quality of capital markets. These estimates are circa 1995-1998, although preliminary estimates are also presented for 1985. The "global informational quality" index is a weighted average, in which the first two categories receive twice the weight of the capital market.

[10] For example, Drabek and Payne (2002) take the Transparency index of the Country Risk Guide published monthly by Political Risk Services (PRS) to assess the impact of transparency on FDI. The index is constructed as an aggregate of level of corruption, law and order, bureaucratic quality, contract viability and the risk of expropriation.

[11] Reinikka and Svensson (2003) evaluate the impact of the campaign using distance to the nearest newspaper outlet as an instrument for exposure of the community and the teachers to the information campaign. They find a strong correlation between proximity to a newspaper store and reduction in the capture since the newspaper campaign started, which represents a significant change in pattern from the five-year period preceding the campaign. Instrumenting for head teachers' knowledge about the grant program, they find that public access to information is a powerful deterring to capture of funds at the local level.

However, transparency may also its downside when it is only partially applied. Although corruption is more likely to be detected in a more transparent organization, as inevitable side effect, potential corruptors receive better information about the identities of key decision-makers; thereby enhance incentives to establish “connections” for corruption. Mehmet (2001) presents a theoretical model with explicit links between transparency, incentives to build connections and the use of connections for corruption. If this “connections effect” is important and dominates the effect on the detection probability, corruption may actually increase when the organization becomes (locally) more transparent. For sufficiently large improvements in transparency the detection effect dominates the connections effect and then more transparency reduces corruption.

Although this hypothesis that transparency can actually increase corruption has not been supported by the evidence thus far, the conclusion reached by some micro-studies does require caution in this regard. Thus, evidence provided by Yan (2005b) on custom reform in the Philippines and Wykes (2005) on managing oil revenues in Congo Brazzaville seem to confirm that when partially applied, transparency can lead to a switch to alternative methods of corruption without having any significant impact on the overall amount of funds diverted.

Transparency and political markets

Despite of being of critical importance, not much attention has been given in the literature to the importance of transparency in the political arena which contracts with the attention it has received in the economic/financial area. In political markets, as in any other market, imperfection of information gives rise to agency problems between those governing and those that they are supposed to serve. Transparency and information flows have therefore an important role to play in ensuring that politicians get the right incentives to serve to the majority of the population.

Ferejohn (1986), Persson and Tabellinin (2001), and Blumkin and Gradstein (2002) apply the principal-agency framework to policy decision making whereby the ruling government is viewed as an agent whose actions are only imperfectly monitored by the public. Blumkin and Gradstein (2002) find that the ruling government tends to be more corrupt the less transparent is the decision making process. Lack of transparency magnifies the moral hazard problem in the interaction between the electorate and the ruler, making the control of the later more difficult. The more open and democratic is the political system, the lower the degree of corruption.

But transparency is not only important to improve governance. The policy process is a continuum process where influences from a range of interest groups are received at each stage from agenda setting, to the identification of alternatives, weighting up the options, choosing the most favorable and implementing it. Thus, transparency and dissemination of information at each stage is critical to allow different social groups to participate in the decision-making process. The broader the dissemination the better the allocation of resources will meet the needs of the majority of the population. Three political market imperfections are highlighted by Keefer and Khemani (2005) as particularly important for understanding government incentives to serve the poor: lack of information among voters about the performance of politicians, social fragmentation among voters and lack of credibility of political promises to citizens.

These imperfections help in explaining why political competition fails to induce the optimal provision on public goods.. Keefer and Khemani (2005) point out to the difficulties citizens have in evaluate the quality and efficiency of public services and determining who is responsible for them as an explanation for pervasive failures of service provision. Thus, information constraints reduce the ability of citizens to hold politicians accountable and encourage politicians to cater to special interest, distorting incentives to provide social services to poor people. As shown by Brinkerhoff and Keener (2003) local communities in Madagascar who were better informed and able to hold district authorities accountable, were able to demand better services and that the budget was allocated according to community priorities. Similarly, Reinikka and Svensson (2004) found that rather than being passive recipients of flows from the government, Ugandan schools use their bargaining power to secure greater shares of funding. Schools in better-off communities managed to claim a higher share of their entitlements. The provision of information can therefore be a powerful tool in increasing the bargaining power of disadvantage schools.

The media can play a key role in increasing government accountability to the general public. It can also be crucial in increasing the political leverage of certain groups, empowering rural and remote communities. Strömberg (2002) illustrates how between 1933 and 1935 the United States federal assistance to low-income households was greater in counties where more households had radios and thus were better informed about government policies and programs. For every percentage point increase in the share of households with radios in a certain county, the governor would increase per capita relief spending by 0.6 per cent. Politicians also allocated fewer relief funds to areas with large share of illiterate people. The radio also improved the relative ability of rural America to attract government transfers. In total, radio increased the funds allocated to a rural county relative to an identical urban county by an estimated 20 percent. Similarly, preliminary results also indicate that African-Americans and people with little education gained from the introduction of television in the 1950s.

In the same vein, Besley, Burgess and Prat (2003) conclude that higher penetration of the media promotes greater responsiveness by public agents. Their study on media access in different states in India shows how government allocations of relief spending and public food distribution during natural disasters were greater in states with higher newspaper circulation. Greater local presence of the media allowed citizens to develop a collective voice and the effect was greater for newspapers in local languages. However, as pointed out by Glennerster (2005) more evidence is needed not only on the role of information in service provision but also on the existence of mechanisms of voice and participation that empower communities to act on that information and initiate reform.

The importance of the demand in the provision of information is highlighted in Allum and Agça (2001) study on economic data dissemination practices of 180 countries. From the explanatory variables considered, country size was found to have a major influence on data dissemination, with larger countries having stronger dissemination records due to higher demand. On the contrary, countries with small populations and therefore lower demand for information disseminate data on a less frequent and timely basis, although cost and capacity considerations are likely to be important. The data suggest that sociopolitical variables have also a strong influence on the dissemination of economic data. In particular, variables such as adult literacy and political participation seem to influence the amount of information provided by public institutions. This is also true for external demand for information: relatively open countries or countries active in international capital markets present stronger dissemination records.

IV. Freedom of Information (FOI) Laws: Necessary but Insufficient?

As we have seen the potential benefits of transparency are many. It can improve investment climate and performance in financial markets. It can also reinforce the independence and integrity of financial institutions, promotes the public debate and facilitates early identification of the weaknesses and strengths of policies. Rightly implemented, it can provide an important guard against abuses, mismanagement and corruption. Legislatures, the media and civil society are better able to hold the executive to account when they have information on its policies, practices and expenditures. Increase transparency may also increase faith in government and commitment to policy trade-offs enhancing social cohesion. For instance, if the public can better understand what their government is doing and why, they may have more confidence in that government developing citizen trust in democratic institutions. But as it is argued in this section, the provision of information is not enough. For it to be effective, the information has to be selective and targeted to different social groups who should have the capacity to analyze it and act on it.

Box 1. Access to Information Law and Citizen Monitoring- Mexico

How many cows are in Mexico?, how much milk was produced in the country in 2003? or which parliamentarians had unjustified absences from Parliament? were some of the request for information answered during 2004 under the Mexican Law of Transparency and Access to the Public Governmental Information. The Access to Information Law was approved in Mexico as part an historical effort to broaden democracy and open government information to public scrutiny after the election in July 2000 of the first victorious presidential candidate from outside the powerful Partido Institucional Revolucionario (PRI) in more than seventy years. Such was the interest among the general public that 47,186 requests for public information were received the first 14 months after passing the law. The information is accessed through a user-friendly portal (www.sisi.org.mx) where all the answers are published. Mexico is the country who spends more in providing information to the public, 22 million dollars, followed by the United States with 20 million dollars and Canada with 3 million dollars.

Mexico also promotes citizens monitoring of public institutions. The Guide for the Citizen Monitoring prepared by the Mexican Ministry of Public Administration facilitates two types of monitoring:

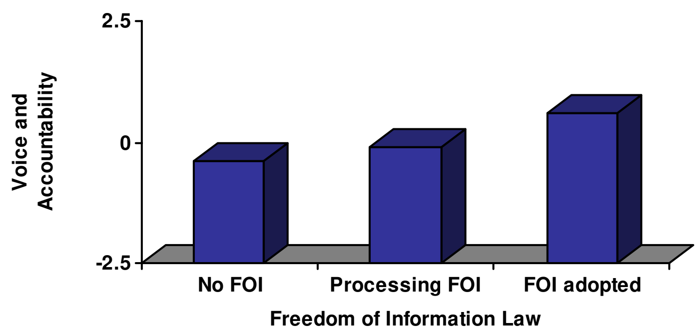
1. The first one is based on the exercise of the right to the information and on the effective and efficient use of the Federal Law of Transparency and Access to the Governmental Public Information.
2. The second proposes to use access to the information to monitor performance of public institutions including measurement and observation instruments like surveys to the users of public services; interviews with public servants and visits to government institutions to collate information.

The Guide for the Citizen Monitoring is available in the site www.monitoreociudadano.gob.mx, where documentation, a capacitating workshop and a space of dialogue to share experiences can be found on monitoring, citizen participation and access to the public information

Access to government records and information is an essential requirement for enhancing transparency. And it is important that the right to access information is guaranteed by law. Even though ministers and officials may recognize the importance of transparency, the political and bureaucratic pressures to control information can be irresistible. Merely the act of adopting a law can limit certain abuses and can make people aware of their rights. It is also a way of signaling government's commitment to transparency and the first step of institutionalize the right to access information and provide resources to it.

Moreover, the law can be an important tool in building democratic attitudes and enhancing trust in institutions. As the case of Mexico (described in Box 1) and Thailand illustrate (Chogkittavorn, 2002), the law can encourage people to ask their government for information changing the way citizens relate to their institutions, and strengthening democratic values. One of the main benefits of FOI laws is that they allow citizens to directly interact with public institutions without depending on lawyers, journalist or elected representatives. Graph 1 shows how FOI laws and voice and accountability go hand in hand. Countries who have adopted FOI laws are the ones where citizens enjoy greater voice and were able to demand the adoption of such a law and vice versa, FOI laws could also be contributing to enhance voice and accountability within a country.

Graph 1. FOI Law vs. Voice and Accountability, 2004



Sources: Voice & Accountability: KK 2004; FOI: Global Survey, 2004. # of countries per x-axis category: No FOI (103), Processing FOI (31), FOI Adopted (60).

Governments around the world are increasingly adopting FOI laws and making more information about their activities available. Over fifty countries have now adopted comprehensive Freedom of Information Acts and over thirty more have pending efforts. While the vast majority of countries that have adopted laws are northern, much of the rest of the world is also moving in the same direction. In Asia, nearly a dozen countries have either adopted laws or are on the brink of doing so. In South and Central America and the Caribbean, half a dozen countries have adopted laws and nearly a dozen more are currently considering them. Openness is also starting to emerge in Africa. South Africa enacted a wide reaching law in 2001 and many countries in southern and central Africa, mostly members of the Commonwealth, are following its lead. For a review of existing FOI laws see Ackerman and Eréndira (2005b) and Banisar (2004).

Box 2. FOIA law discloses British and US farm subsidies

For the first time the United Kingdom disclosed information on the amounts and recipients of EU Common Agricultural Policy (CAP) subsidies on March 22, 2005 thanks to a request filed by the Guardian newspaper under the new British Freedom of Information Act. The figures show that the Queen received more than £769,000 in EU farm subsidies in fiscal years 2003-04, while Prince Charles benefited from around £300,000 in agricultural payments to his personal estate, the Duchy of Cornwall, and the Duchy's Home Farm. Critics of the subsidies have been complaining for long that they primarily benefit multinational corporations and the wealthiest landowners. The system has changed since the period covered by these figures, and payments are no longer based on the amount of land and animals farmed. Farmers can now produce what the market needs and are rewarded for preserving the countryside, although there are no limits to individual owners.

Similar and far more detailed information on United States farm subsidies has been available since a lawsuit brought by the Washington Post forced the U.S. Department of Agriculture to reveal the data in 1996. The ruling, which found the release of the information a matter of "significant public interest," empowered advocacy organizations to create a massive online database of farm subsidy payments from raw data obtained using the U.S. Freedom of Information Act.

The Environmental Working Group, an NGO based in Washington, D.C., successfully obtained under FOIA details of a little known government program mysteriously labeled the "upland cotton-marketing certificate program." Documents reveal that the program is really a disguised farm subsidy that will cost American taxpayers $1.7 billion this year alone. The New York Times reported that most members of Congress it had contacted about the program had no knowledge of its existence. Individual textile companies received as much as $107 million to purchase American cotton. The program was but one component of the massive 2002 farm bill that Congress approved.

Source: www.freedominfo.org

However, the enactment of a FOI law is only the beginning. For it to be of any use, it must be implemented and public institutions must change their internal cultures. As the following examples of information obtained under FOI laws show, public institutions tend to resist releasing information. Perseverance of civil society is therefore crucial in ensuring that the law is actually implemented and effective. Box 2 describes how the British and the US Government have been forced to release information on farm subsidies requested by the media and NGOs.

Other examples shown in Box 3 illustrate how FOI laws have been used to exposed hidden lobbying expenditures in Japan and UK, lavish expending of Canadian officials, graft in Indian public service, details of the 2003 diplomatic quarrel between Mexico and Cuba, Human rights violations of Slovak old regime, Apartheid military dealings in South Africa and participation in bribery schemes of UK and Russian Oil companies. The FOI law was also instrumental in forcing the Scottish Education Minister to keep publishing performance tables in which parents rely to assess school's academic achievements.

Box 3. Information released under Freedom of Information Laws around the world.

1. CANADIAN OFFICIALS' LAVISH SPENDING EXPOSED. Information released under a Canadian access to information statute revealed outrageous travel costs incurred by the Premier of Alberta and his entourage. The information disclosed included evidence of orange juice costing $27 a glass, a four day rental of a van and a truck totaling $8,000, and a $2,600 lunch tab for 12 people in Mexico.

2. HIDDEN LOBBYING EXPENDITURES REVEALED IN JAPAN. In an official 2002 company report, the All Japan Liquor Merchants Association covered up the amount it spent on lobbying efforts. According to documents obtained from the Public Management Ministry by The Yomiuri Shimbun newspaper under Japan's Freedom of Information Law, some ¥26.5 million the Association reported as political campaign contributions actually went to lobbying efforts which coincided with the repeal of national licensing requirements for liquor merchants, and involved cash payments to lawmakers.

3. INDIAN CITIZEN INVOKES RIGHT TO KNOW AND EXPOSES GRAFT. In the Indian state of Maharashtra, one man took on his city government when he used a local FOI statute to expose a widespread pattern of abuse by elected officials and civil servants who used government cars for personal use, including visits to tourist resorts and religious pilgrimages.

4. MEXICAN GOVERNMENT ORDERED TO DISCLOSE DETAILS OF 2003 DIPLOMATIC QUARREL WITH CUBA. Mexico's Federal Institute of Access to Information (IAFI) ordered the Ministry of the Interior to release documents detailing events from 2003 that almost resulted in the severing of diplomatic relations between the two countries.

5. SLOVAK ORGANIZATION REVEALS HUMAN RIGHTS VIOLATIONS OF OLD REGIME. The Institute on National Memory, a state-funded organization in Slovakia established to provide the public with access to files gathered by the communist-era intelligence services, said that it had received as many as 4,000 requests by June of 2004. The files offer a vast picture of information gathered on citizens, agents employed by the regime and collaborators.

6. JOINT NGO EFFORTS REVEAL APARTHEID MILITARY DEALINGS IN SOUTH AFRICA. Working together, the Swiss National Science Foundation Project and South African History Archive, under threat of lawsuit, compelled the Armaments Corporation of South Africa (AMRSCOR) to disclose documents revealing extensive dealings between the Swiss weapons industry and the Apartheid era government. For months AMRSCOR had refused to release the documents that the NGOs were entitled to under South Africa's freedom of information statute -- the Promotion of Access to Information Act.

7. SECRET MEETINGS DISCLOSED IN BRITAIN. Repeated requests by the Guardian for information confirming the existence of secret meetings between Prime Minister Tony Blair and a big Labor Party political donor appear to have finally paid off. The controversy goes back about two years, when Blair had a series of breakfast meetings with Paul Drayson, a vaccine multimillionaire. Within weeks of the meetings Drayson's company was awarded a lucrative government vaccine contract, without any formal bidding.

8. PUBLIC HAS RIGHT TO SEE SLOVAK PRIVATIZATION CONTRACTS. The Slovak Justice Minister has ordered that details of Slovakia's most recent round of privatization of state owned industries be disclosed. At issue are incentives promised by the Slovak Government to foreign corporations who increase their investments over time. The decision will have serious implications for the details of other high profile privatizations in Slovakia, including the telephone giant Slovak Telecom.

9. BRITISH AND RUSSIAN OIL COMPANIES EMBARRASSED BY DISCLOSURE. Oil giant British Petroleum (BP) may wish it never merged with Russian oil company TNK. According to CIA documents released in late 2003 under America's Freedom of Information Act, the then-head of TNK, Simon Kukes (now CEO of Russian Petroleum giant YUKOS), is said to have regularly participated in bribery schemes.

Source: www.freedominfo.org

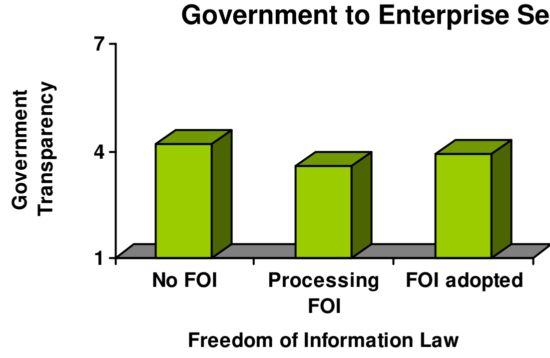
Mendel (2004) lists the international and comparative standards that should underpin freedom of information legislation:

- Principle 1. Maximum disclosure. Freedom of information legislation should be guided by the principle of maximum disclosure.

- Principle 2.Obligation to publish. Public bodies should be under an obligation to publish key information.
- Principle 3. Promotion of Open Government. Public bodies must actively promote open government.
- Principle 4. Limited Scope of Exceptions. Exceptions should be clearly and narrowly drawn and subject to strict “harm” and “public interest” test.
- Principle 5. Process to Facilitate Access. Requests for information should be processed rapidly and fairly and an independent review of any refusal should be available.
- Principle 6. Costs. Individuals should not be deterred from making requests for information by excessive costs.
- Principle 7. Open Meetings. Meetings of public bodies should be open to the public.
- Principle 8. Disclosure takes Precedence. Laws which are inconsistent with the principle of maximum disclosure should be amended or repealed.
- Principle 9. Protection for Whistleblowers. Individuals who release information on wrongdoing must be protected.

Moreover, access laws will be ineffective if citizens and non-governmental organizations lack the capacity to exercise their right of access or the resources to pursue complex requests. Similarly, access laws will not be used if elements of civil society are unable of recognizing the potential benefits of the disclosure of certain information or incapable of acting on it afterwards. There is no point in having a law that provides for the right to access to information if there is not clear and effective mechanism to enable citizens to use the law and if the content and benefits of the law have not been communicated through a broad communication campaign. Currie and Klaaren (2003) and Roberts (2003) illustrate the challenges in implementing FOI laws in the case of South Africa and Canada where few public and private institutions were aware of the mere existence of the law or the mechanism to access information. In the same vein Ackerman and Eréndira (2005) show examples of how top users in almost any country are the media and corporations in search of information which can be of private commercial interest for them

Graph 2. Freedom of Information (FOI) Law vs. Extent of Information Actually Provided by Government to Enterprise Sector, 2004



Sources: Government transparency: Executive Opinion Survey (EOS), 2004 & FOI: Global Survey, 2004. # of countries per x-axis category: No FOI (26), Processing FOI (26), FOI Adopted (51).

As Table 1 and Graph 2 show, the mere existence of an act does not mean that access to information is possible or that the information provided is reliable and relevant. Countries who have adopted a Freedom of Information law differ a lot in the extent and quality of the information they provide to their citizens and the private sector.

Table 1. Freedom of Information Laws and Government Transparency, 2004

	NO FOI	Processing FOI	FOI Adopted
Good Information from Government (EOS)	Bahrain, China, Gambia, Hong Kong, Luxembourg Malaysia, Mali, Mauritius Morocco, Singapore Switzerland, Taiwan Tunisia, United Arab Emirates	Chile, Germany, Ghana, Namibia Zambia	Australia, Canada, Denmark, Finland Iceland, India, Ireland, Japan Netherlands, New Zealand, Norway, Sweden, South Africa United Kingdom, United States
Medium Information from Government (EOS)	Algeria, Costa Rica Cyprus, Jordan Macedonia, Madagascar Malta, Vietnam	Botswana, Brazil El Salvador, Indonesia Kenya, Malawi Mozambique, Nigeria Sri Lanka, Uganda	Austria, Belgium Colombia, Estonia France, Greece, Israel, Jamaica South Korea, Lithuania, Mexico, Philippines, Portugal, Slovak Republic Slovenia, Spain, Thailand, Trinidad And Tobago
Poor Information from Government (EOS)	Chad, Egypt Venezuela Zimbabwe	Argentina, Bangladesh Bolivia, Ethiopia Guatemala, Honduras Nicaragua, Paraguay Russia, Tanzania Uruguay	Angola, Bosnia-Herzegovina Bulgaria,Croatia, Czech Republic, Dominican Republic, Ecuador, Georgia, Hungary, Italy, Latvia, Pakistan, Panama, Peru, Poland, Romania, Serbia, Turkey, Ukraine

Source: Freedominfo (2004) and EOS (2004).

Civil society groups such as press, ombudsmen and non-governmental organizations play a key role in the promotion and adoption of Freedom of Information Laws and in ensuring that the laws are effectively implemented. In Paraguay, the Parliament adopted a FOI law in 2001 which restricted speech and was so controversial that media and civil society groups successfully pressured the government to rescind it shortly after it was approved. In other countries, the Public Information Act was designed to restrict public information, not promote it. Or as in the case of Albania and Bosnia, some laws are adopted and never or hardly ever implemented. Independent oversight bodies are sometimes weakened by lack of funds which prevent timely appeals. Excessive fees are often charged to prevent requests. To last, it is important that once the FOI law is approved, civil society keeps pressing to effectively enforce that right. Finally these changes towards a more transparent institutional framework should be embedded into the system so they are not subject to the discretion of different governments.

V. "Transparenting" Transparency: Towards construction of an aggregate transparency index.

Paradoxically, in spite of much progress in constructing indices of governance and corruption, little if any, progress has been made in terms of broad indices of transparency[12]. This represents a first attempt to construct such an index with the information available on different indicators of transparency. We expect to refine the index as new indicators became available, hoping to represent more and more accurately a phenomenon with so many dimensions such as transparency.

Transparency as a mechanism to promote accountability assumes both the right and the capacity to articulate accountability demands. It assumes the capability and willingness of political-economic institutions to provide information that is relevant to evaluate their performance and citizen's capacity to interrogate that information and demand accountability. To broadly encompass this notion of transparency, we have incorporated both the political and the economic/institutional elements in constructing an aggregate transparency index.

The first component we label as Economic and Institutional Transparency. It assesses the degree of accessibility and usefulness of the information provided by public institutions or, in other words, the self-imposed accountability within the state machinery. The areas covered by this sub-component are: economic transparency, e-government, access to information laws, transparency in the budget process, transparency of policy and transparency of the public sector.

Information and communications technologies (ICT) are increasingly used in developing and developed countries alike to deliver public services and provide information about institutional performance. The relevance of the information display on official websites and the tools provided to enable citizens' participation are good indicators of institutional transparency and accountability. In the economic/institutional component we have included three objective assessments of the information provided by public institutions, ie. Islam's economic transparency index and the surveys on e-government carried out by the United Nations and Brown University's Center for Public Policy.

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[12] To the best of our knowledge, three transparency indicators have been published to date. The first one is the Economic Transparency index compiled by Islam (2003) based on availability of economic data which has been included in our component of economic/institutional transparency. The second one is the Fiscal Transparency index published by Hameed (2004), based on the observance of IMF's *Code of Good Practices on Fiscal Transparency*. Unfortunately we have not been able to include this index given that the ROSCs are carried out on voluntary basis and in different years for each country which makes it difficult to establish comparisons. The third one is the "global informational quality" index developed by Chan-Lee and Sanghoon (2001) for 1995-1998. Again, we have not bee able to use this index given the short time-frame. More information on these three indexes can be found in the review of literature section.

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Box 4. Impact of E-Government on improving transparency and reducing corruption.

The following case studies demonstrate the potential impact of e-government applications on transparency and corruption. For them to be effective and sustainable, it is important that e-government applications are built on a sequence of objectives: increasing access to information first, ensuring that rules are transparent, and finally building the ability to trace decisions/actions of individual civil servants.

1. Seoul Municipality, South Korea

The OPEN (Online Procedures Enhancement for Civil Applications) system of Seoul Municipality exemplifies the impact on corruption of making transparent the decision-making process and the actions of individual civil servants. The system displays an anticorruption index (comparing five services that are most susceptible to corruption), educates citizens on rules and procedures, and enables real-time monitoring of progress of an application for a permit or license. It makes completely open and transparent those administrative practices that were vulnerable to corruption.

In the first 13 months of the OPEN system, civil applications published by each city department totaled 28,000, and the number of visits to the OPEN site reached 2 million by the end of year 2000. Results from a survey of 1,245 citizens showed that 84.3% believed that OPEN led to greater transparency. Other surveys conducted by the local chapter of Transparency International in 2000 and 2001 indicate a growing interest but a marginal decline in user satisfaction over time. There was little change in the perceived benefits of *reduced time* or *easy access.* However the percentage of respondents identifying *greater transparency* (25.1% in 2000) and *prevention of corruption* (9.3% in 2000) as benefits did go down over this time-period by 3.3 and 1.4 % respectively.

2. Computerization of land records, Karnataka ,India

The Bhoomi (meaning land) project of on-line delivery of land records in Karnataka (one of the 26 states of India) demonstrates the benefits of making government records more open so that citizens are empowered to challenge arbitrary action. It also illustrates how automation can be used to take discretion away from civil servants at operating levels.

The Department of Revenue in Karnataka has computerized 20 million records of land ownership of 6.7 million farmers in the state. In the past, under the manual system, land records were maintained by 9,000 Village Accountants, each serving a cluster of 3-4 villages. Farmers had to seek out the Village Accountant to get a copy of the Record of Rights, Tenancy and Crops (RTC) -- a document needed for many tasks such as obtaining bank loans. Bhoomi has reduced the discretion of public officials by introducing provisions for recording a mutation request online. Farmers can now access the database and are empowered to follow up.

3. Electronic procurement in Chile

A comprehensive e-procurement system includes three components: information and registration; e-purchasing, and e-tendering. The Chilean system has focused on the first component of adequate public notification and oversight. Unlike many other countries, the Chilean system is operated by a private company. The e-system, entirely Internet based, was launched at www.compraschile.cl. in October 1999. A new Presidential Act was passed to allow e-commerce transactions, creating a new and common legislative framework, and replacing the DAE (Direccion de Aprovisionamiento del Estado) the main purchaser of the public sector with a smaller agency. The new purchasing agency supervises the system, provides technical assistance and, for some commodities, negotiates aggregated contracts. In the first phase, 454 suppliers (in 75 different business areas) and 16 public agencies were registered in the e-system. By June 2001 nearly 4000 firms were registered with the site.

Even though the participation in the e-system was expected to be mandatory for all public organizations, after two years of operation less than 18% of public procurement is notified on the web site. This was attributed to weakening of political support and resistance from labor in DAE. In the absence of a systematic study, it is difficult to quantify the impact on corruption. Savings ranging from 7 to 20% have been reported on public sector procurement done through the site.

Source: Administrative Corruption: How Does E-Government Help?, Professor Subhash Bhatnagar Indian Institute of Management, Ahmedabad, India, 2003

As discussed in the previous section, the legalization of the right to access information is an important step towards more transparency in the public sector. Thus, we have included a variable in this sub-component of the transparency index that refers to the adoption of Freedom of Information laws to protect citizen's right to access information from public institutions.

Another important area to hold governments accountable is to monitor how they take decisions regarding the budget and how they spend revenues. As the primary economic policy document, transparency and participation in the budget are particularly important to assess whether governments are financially accountable. Three related-variables have been added to the economic/institutional sub-component: objective assessments provided by the International Budget Project, the Latin American index on budget transparency and selected questions from the OECD/WB survey on Budget Practices and Procedures. Other variables that have been included are indicators based on perceptions about the transparency of the civil service from experts of multinational institutions (such as the World Bank, African development Bank or Economic Commission for Africa) and the transparency of policy from business surveys (such as World Economic Forum and the Institute for Management Development).

Yet, the right to hold institutions to account is meaningless without the capacity and resources, political and financial, to exercise that right effectively. The second sub-component of the index shows the degree of Political Transparency and includes elements such as transparency of political funding, openness of the political system and freedom of the press to monitor government's performance and express the people's voice.

Box 5. Disclosure of political funding

Unfortunately, not all countries practice the principle of open reporting political finances. At the contrary, less than one third of the 118 countries surveyed for the Money in Politics Handbook (USAid, 2003) have finance disclosure laws that require political parties to reveal their sources of campaign funds. 3 percent have no disclosure laws whatsoever and another 17 percent practice a kind of "hidden" disclosure whereby they collect some political finance information, but do not release the information to the public.

Even when disclosure is mandatory, the vast majority of reporting still takes the form of aggregate numbers. However, without itemization of contributions or expenditures, the reports cannot be audited. Outside of North America, disclosure laws are most prevalent among the countries in Eastern and Western Europe. All nations surveyed from the former Soviet Union have disclosure laws. In Eastern Europe overall, 89 percent have some form of reporting campaign

The transparent option: Germany
Following the assumption that German industry was instrumental in the rise to power of Hitler and his Nazi party, the German constitution of 23 May 1949 (Grundgesetz) stipulated: "Parties… must account to the public for the sources of their funds" (article 21, section 1, clause 4). The Constitution was amended in 1983 after a political finance scandal (the "Flick affair"), to demand further transparency and have political parties to "publicly account for the sources and use of their funds and for their net assets". Reports include data for all levels of a party organization, federal headquarters, regional and local sections. Parties have to attach to their annual report a list of all donors who contributed during the year a total amount in excess of DEM 20,000. These annual reports are verified by chartered accountants and presented to Parliament.

Source: Funding of Political Parties and Election Campaigns, Institute for Democracy and Electoral Assistance, 2003 and Money In Politics Handbook: A Guide to Increasing Transparency in Emerging Democracies, USAid Office of Democracy and Governance, 2003.

To construct the index we have used data from 18 different sources[13] for 194 countries. The individual variables selected provide information on different dimensions of economic/institutional and political transparency at the country level with the intention of being published periodically. The sources (listed in Table 2) range from international organizations such as United Nations, OECD and the World Bank, political and business risk-rating agencies such as World Economic Forum, Institute for Management Development, Center for Public Integrity, Centre for Public Policy (Brown University) or non-government organizations such as Freedominfo, Transparency International, International Budget Project, Freedom House or Reporters Without Borders.

Some of the variables used to construct the indicators originate from 'objective' measures of transparency; for example the existence of Freedom of Information laws (Freedom info) or mandatory requirements for political funding disclosure, the availability of information on official web sites or online tools for public participation (Global e-government survey by the Centre for Public Policy or the UN E-government survey), or 'objective' assessments against fiscal, budget and public expenditure benchmarks (i.e WB/OECD Budget Practices and Procedures survey or International Budget Project). Other individual variables rely on perception-based measures of transparency from enterprise surveys or polls of experts from international organizations. Both types of indicators have their own merits, as discussed thoroughly in Kaufmann, Kraay and Mastruzzi (2005) and complement each other, capturing different dimensions of transparency. Objective assessments evaluate aspects such as the content, quality and frequency of the information provided by public institutions. Whereas perception-based data contribute to understand whether the general public is actually getting that information or whether the decision-making process in public institutions is clear and transparent. If the country adopts a Freedom of information Law but the general public, or even the institutions themselves, are not aware of its existence or do not know the mechanism to access the information, transparency cannot be considered as fully achieved.

The sources of data also vary with respect to their coverage. A number of sources cover a very large sample of developed and developing countries, while others cover small sample of countries. Although most of these sources are representative, in the sense that the sample of countries they cover is representative of the world as a whole, the methodology used to construct the two transparency sub-components takes these differences in country coverage into account. Appendix 1 contains a table indicating which sources were treated as representative and non-representative. The data from individual sources were transformed into common units for aggregation across sources.

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[13] Detailed information on each source can be found in Appendix 2.

Similarly to the Governance Indicators published by Kaufmann, Kraay and Mastruzzi (2003, 2004)[14], we have used an Unobserved Component Model (UCM) to aggregate the individual variables in each transparency sub-component. This model treats the "true" level of institutional transparency and political transparency in each country as unobserved, and assumes that each of the available sources for a country provide noisy "signals" of the level of transparency. The UCM then constructs a weighted average of the sources for each country as the best estimate of that transparency sub-component for that particular country. The weights are proportional to the reliability of each source. Therefore, the model minimizes the margins of error by automatically assigning lower weights to those sources that have larger noise and/or measurement errors. Technical details of the UCM are explained in Kaufmann, Kraay and Mastruzzi (2004, 2005). The resulting estimates of transparency 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 more transparency. By construction, the world average in each case is zero. The overall transparency index was constructed as a simple average of the two sub-components.

When interpreting the results it is important to keep in mind the limitations of aggregated index such as this one. We cannot stress enough that, despite efforts to standardize data sources, these indicators are subject to error. Hence, small inter-temporal or inter-country differences should be treated with caution. Rather than establishing cross-country comparisons or rankings, the main objective of the transparency index is to contribute to the debate and offer a set of indicators so each country can monitor progress over time. Only country-specific diagnostics can provide enough detailed institutional information to form the basis for a strategy to improve transparency and accountability in the public sector.

[14] The six governance indicators (voice and accountability, political stability, government effectiveness, regulatory quality, control of corruption and rule of law) are available at www.worldbank.org/wbi/governance.

Table 2. Sources of Transparency Data

Dimension of transparency	Variable	Concept measured	Source	Publication	Coverage
Ec/Institutional Transparency					
	ISL 2004	Publication of economic variables	WB (R. Islam)	Transparency Index 2004	worldwide
	IBP 2004	Budget transparency	International Budget Project	Opening Budgets to Understanding and Debate, 2004	developing and transitional countries
	IBPL 2003	Budget transparency	Fundar/International Budget Project	Latin American Index of Budget Transparency	Latino American countries
	OECD 2004	Budget transparency	OECD/WB	Budget Practices and Procedures survey	OECD countries
	UNE 2003	E-government	United Nations	World Public Sector Report 2003	worldwide
	EGOV 2004	E-government	Centre for Public Policy	Global E-Government 2004	worldwide
	AGI 2004	Transparency civil service	UN Economic Commission for Africa	African Governance Indicators, 2005	African countries
	CPIA 2003	Transparency public sector	World Bank	WB internal assessment	non-OECD countries
	CPIAA 2003	Transparency public sector	African Development Bank	ADB internal assessment	African countries
	GII 2004	Access to information	Center for Public Integrity	Public Integrity Index	worldwide
	FGS 2004	Freedom of information	Freedominfo	Global Survey 2004	worldwide
	EOS 2004	Communication of policy	World Economic Forum	Executive Opinion Survey	worldwide
	WCY 2004	Transparency of policy	Institute for Management Development	World Competitiveness Yearbook	OECD countries
Political Transparency					
	TI 2004	Political Funding Disclosure	Transparency International	Global Corruption Report 2004	worldwide
	EOS 2004	Transparency in political funding	World Economic Forum	Executive Opinion Survey	worldwide
	POL 2002	Openness of political institutions	Polity IV Project	Political Regime Characteristics and Transitions, 1800-2002	worldwide
	FRH 2004	Free Press	Freedom House	Freedom House (Freedom in the World)	worldwide
	FHT 2004	Independence of the media	Freedom House	Freedom House (nations in Transit)	transition economies
	HUM 2003	Freedom of speech	CIRI	CIRI Human Rights dataset	worldwide
	RSF 2003	Free Press	Reporters Without Borders	Reporters Without Borders	worldwide
	EOS 2004	Free Press	World Economic Forum	Executive Opinion Survey	worldwide
	GII 2004	Free Press	Center for Public Integrity	Public Integrity Index	worldwide

VI. Transparency Matters for Economic and Human Development

This section presents the results from the empirical analysis of the transparency index and its two sub-components: economic/institutional transparency and political transparency. By construction the theoretical boundary of each index goes from -2.5 to 2.5. Given that the indices are benchmarked to have a zero mean, the comparisons established below are relative to rest of world, assuming the same average world index.

The level of transparency of countries across the world varies considerably with the overall transparency index ranging from -1.73 to 2.03. High-income countries as a group have higher transparency than the rest of the economies and among them, the highest transparency was observed in countries such as Denmark, Australia and Netherlands. In the group of medium-income countries there was more variation, with the highest value for countries such as Chile, Estonia, Lithuania and Taiwan, confirming that transparency is not necessarily the domain of any geographical region or cultural background. Appendix 3 contains the list of countries in alphabetical order with the value of each index. Per regions, the EU accessed countries follow OECD countries in transparency levels. This is not surprising as these countries experienced significant institutional changes in order to meet the requirements for EU accession which placed them ahead of other non-advanced economies in terms of transparency. This group of countries has achieved similar levels of political transparency, although they still show significant variation in terms of institutional transparency.

Table 3. Average Transparency Indices per region, 2004

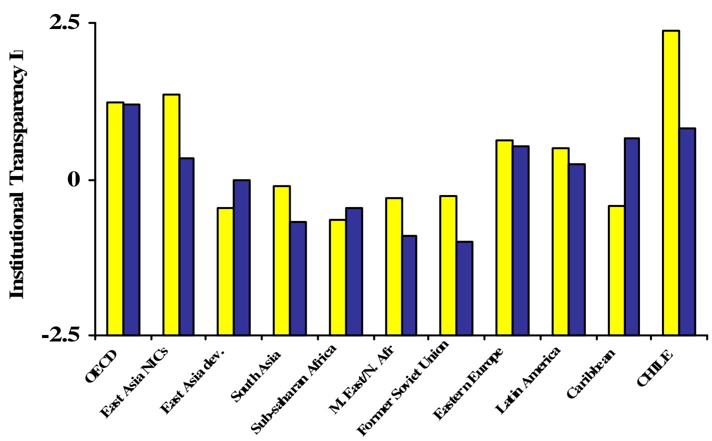
	Num. Obs.	Ec/Institutional Transparency	Political Transparency	Overall Transparency
OECD	24	1.54	1.18	1.36
		(0.58)	(0.25)	(0.35)
Non-OECD	170	-0.22	-0.17	-0.19
		(0.70)	(0.93)	(0.68)
EU accessed countries	10	0.87	0.99	0.93
		(0.51)	(0.10)	(0.27)
(excluding high income)				
Eastern Europe & Central Asia	20	-0.07	-0.58	-0.33
		(0.56)	(0.63)	(0.52)
East Asia and Pacific	22	-0.37	-0.032	-0.20
		(0.68)	(1.12)	(0.66)
Middle East & North Africa	15	-0.47	-1.15	-0.81
		(0.39)	(0.36)	(0.32)
South Asia	8	-0.12	-0.66	-0.39
		(0.63)	(0.45)	(0.52)
Sub-Saharan Africa	47	-0.64	-0.44	-0.54
		(0.29)	(0.74)	(0.48)
Latin America	18	0.48	0.24	0.36
		(0.72)	(0.45)	(0.50)
Caribbean	14	-0.42	0.60	0.09
		(0.45)	(1.00)	(0.62)

Note that by construction the world average of each index is zero (standard deviations in brackets).

Latin America is the third region in terms of transparency with higher ec/institutional transparency than political transparency on average. In this region greater variability is found in the level of institutional transparency with countries like Chile on the 3rd position in the global ranking and countries like Honduras, on the 116 position. Political transparency, although lower on average levels, presents less variability. On the other side of the spectrum, Middle East and North Africa is the region that shows the lowest average transparency and the lowest political transparency. Countries such North Korea, Equatorial Guinea and Turkmenistan are among the least transparent countries in the world. Sub-Saharan Africa is the region with the lowest institutional transparency.

It is interesting to compare the level of economic/institutional transparency versus political transparency. The political transparency index is the one which shows greater variance ranging from -2.14 to 1.45 especially in non-OECD countries. As can be seen in the graph below, OECD countries show similar levels of political transparency and transparency in public institutions. However, this is not the case in other regions. East Asia and Pacific, Sub-Saharan Africa and the Caribbean are regions where the institutional transparency is lagging behind the levels of political transparency. In most part of the world further advances are still to be done for the level of political transparency to reach the standards set in the economic/institutional arena, ie. Eastern Europe & Central Asia, East Asia NICs, Middle East & North Africa, Latin America, Former Soviet Union and South Asia.

Graph 3. Economic/Institutional transparency and Political transparency, 2004 preliminary



Index ranges between -2.5 (worst) to 2.5 (best)

Whereas not many resources are needed to implement some transparency reforms, especially in the area of political transparency; other institutional reforms might be demanding in terms of human and technical resources. In order to assess the extent to which capacity constraints explain the level of institutional transparency in a region and not the lack of political will we have run a regression where Institutional Transparency is the dependent variable and Gross National Income per capita and Political Transparency the regressors. The results are shown in the table below. For the full sample and the non-OECD countries, political transparency and income per capita are significant at 5 per cent level in explaining the level of transparency of public institutions. In the group of OECD countries, only political transparency is significant and explains less proportion of the variance. Controlling for various regional dummies (such as EU accessed countries, Latin America, the Caribbean, East Asia & Pacific, South Asia, Middle East & North Africa and Sub-Saharan Africa) does not alter these results significantly[15].

Table 5. Ec/Institutional Transparency in World Regions, 2004

	All countries	OECD countries	non-OECD countries
GNI per cap	0.50**	-0.10	0.52**
	(0.05)	(0.17)	(0.08)
Pol Transp	0.27**	0.86*	0.23**
	(0.59)	(0.54)	(0.06)
Constant	0.10	0.73	0.79
	(0.04)	(0.59)	(0.5)
# obs	165	23	142
R^2	0.57	0.30	0.34

** indicates significance at .05 level and *** at .01 level.
Source: GINI per cap: World Development Indicators, 2003.

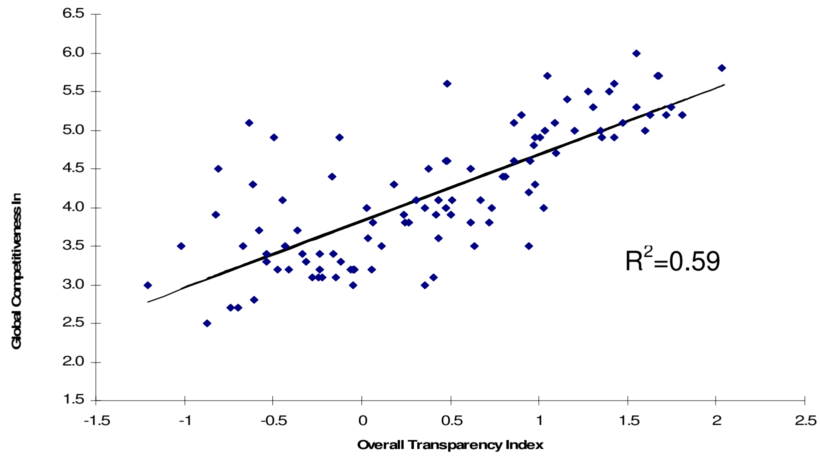
Two main conclusions can be drawn from these results. First, that transparency is not a question of resources. A lot of steps can be taken to enhance transparency in the political system and freedom of the press that do not require great amount of resources but serious commitment on the part of the government. Political transparency was highly significant in influencing the degree of economic/institutional transparency in both OECD and non-OECD countries. Nevertheless, these results also highlight the role donors can play in those countries that have shown commitment towards transparency by undertaking some transparency reforms but need resources and technical assistance to be able to implement more challenging reforms in terms of resources such as e-government, economic or budget transparency.

What seems clear is that transparency varies systematically with income. Countries that rank higher in wealth are also more transparent. The correlation between gross national income per capita in US dollars and the overall transparency index is 0.72, which is coherent with earlier studies on governance that found a positive correlation between institutional governance and cross-country differences in income per capita.

Transparency has also an impact on the competitiveness of local businesses. A more transparent institutional environment can contribute to increase the rate of return of investments in many ways. When policies and administrative procedures that guide investment decisions are clear and transparent, uncertainty and business costs are lower, leading to more efficient investment decisions. The graph below plots the global competitiveness index published by the World Economic Forum for 104 countries and the overall transparency index. More transparent countries also seem to be more competitive in the global market.

[15] When the regional dummies were included in the equation two of them were significant at the 5% level (Sub-Saharan Africa and the Caribbean).

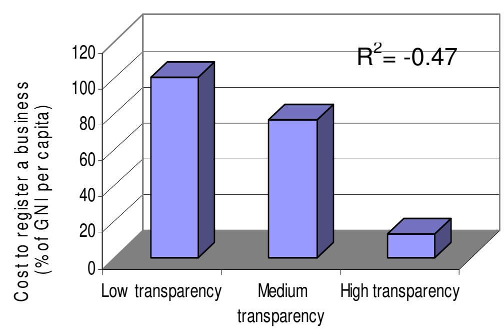
Graph 3. Overall Transparency Index and Global Competitiveness Index (GCI)



Source: GCI: World Economic Forum (2004), Overall Transparency Index, 2005

Taking the establishment of a business as an example of administrative procedure, we find that more economic/institutional transparency is associated with lower costs to register a business. Graph 4 shows how on average, in low transparent countries more than 80 per cent of income per capita is needed to register a business, compare to the 13 per cent in countries with high transparency.

Graph 4. Ec/Institutional Transparency and Cost to register a business



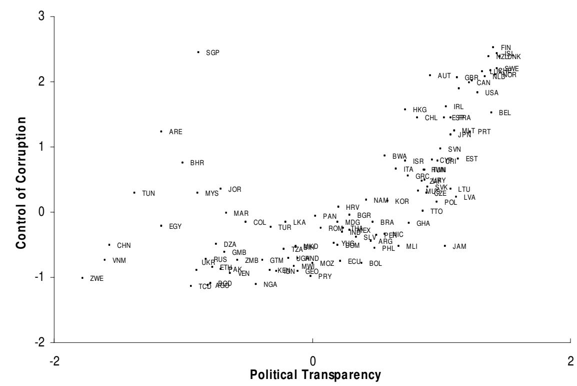
Source: Cost of business: World Development Indicators, 2002; Ec/Institutional Transparency Index 2005.

Furthermore, transparency in the public sector can also be a direct mechanism to promote competition. When the process to allocate public contracts is transparent, greater competition among suppliers results in better quality of the services and goods offered [16]

[16] The following question was taken from the EOS survey as proxy for transparency in public contracts: 4.12 When deciding upon policies and contracts, government officials usually favour well-connected firms and individuals or are neutral? And for quality of local suppliers: 9.07. The quality of local suppliers in your country is poor as they are inefficient and have little technological capability or very goof as they are internationally competitive and assist in new products and process development? Correlation between both variables is 0.6.

Transparency is also associated with other governance indicators such as control of corruption and government effectiveness. As the regressions in Table A1 of the Appendix show, transparency is significant in reducing corruption, even after controlling for differences in income per capita and administrative regulations. Different specifications, including two variables for corruption -control of corruption (KK) or composite bribery (EOS)- and testing for any of the three indices of transparency does not alter the main result. Administrative regulations are important in curbing corruption but also the degree of institutional transparency and the degree of political transparency in the country.

Graph 5. Ec/Institutional transparency and Bribe frequency & Graph 6. Political Transparency and Corruption.

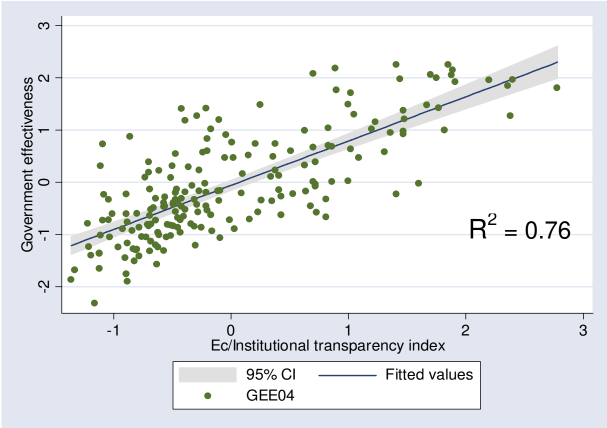


Sources: Bribe Frequency: EOS 2004, Control of Corruption: KK 2004, Ec/Institutional Transparency Index, 2005, Political Transparency Index, 2005.

In table A2 of the appendix we test the marginal contribution of economic/institutional transparency on global competitiveness; the result is a highly significant impact even after controlling for income per capita. The same for government effectiveness (see Table A4 of the appendix and Graph 7). For the same level of income, a country with a more transparent environment has more effective government agencies in providing public services. As one could expect, government effectiveness is influenced to a greater extent by institutional transparency than political. What is noteworthy is that both variables go hand in hand in explaining control of corruption (see graphs above), highlighting the value of transparency and disclosure of information within the institutions themselves and also the role of social monitoring. In the case of political transparency, graph 6 shows a U-shaped curve suggesting important non-linearities in the marginal contribution to control of corruption: political transparency is powerful where there is some degree of political competition - if there is no competition (quasi-authoritarian or 'managed' democracies), then the impact of political transparency in curbing corruption is much lower.

To analyze further the influence of transparency and the political system on variables such as global competitiveness and control of corruption, we introduce an interactive term in the regression to test the hypothesis that political transparency is likely to have an impact on countries with certain level of political freedom where political rights are guaranteed. The results are shown in Table A3 of the appendix. The interactive term is positive and highly significant, suggesting that political transparency is likely to have an impact only after reaching a threshold of political rights, that is when political institutions in the country play a meaningful role and are representative. This has important policy implications, as efforts to increase demand-led activities and social participation to enhance institutional transparency and accountability will only be successful in countries where political rights are guaranteed and the media, political parties, parliament and other democratic institutions are independent and have real decision-making capacity.

Graph 7. Government Effectiveness (KK) & Ec/Institutional Transparency



Sources: Government Effectiveness: KK 2004, Ec/Institutional Transparency Index, 2005.

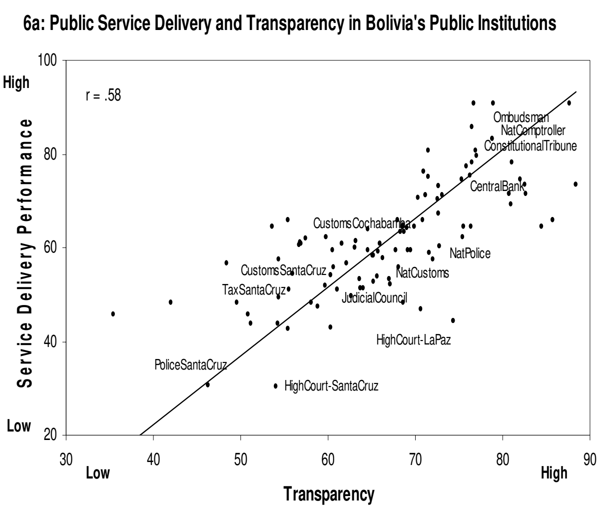
The importance of demand of information in pressing for transparency reforms can be assessed using the number of radios per capita as a proxy. We have seen some evidence in the literature of the role of the mass media in spreading and coordinating information among citizens and the radio is still the most extended way of communication across the world. Table A5 of the appendix presents the results of the regression analysis in which transparency in a country is explained by the number of radios per capita and the income per capita. Even after controlling per income, the number of radios per capita is highly influential in the degree of overall transparency. This relation holds for the full sample of countries and the non-OECD countries. The radio, however, is no longer the main way of mass communication in OECD countries and therefore its relationship with the degree of transparency in this group of countries is not significant. Further research will have to be done on the impact of other communication technologies such as the internet or television on the level of institutional and political transparency in rich countries.

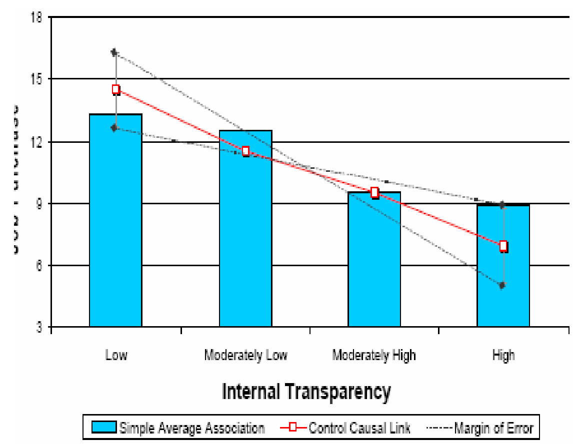
Lastly, to explore the effect of transparency on human development, we have run a regression where transparency and income per capita explain the level of development of a country measured by three human development indicators: life expectancy at birth, female literacy rate and child immunization. In each case, transparency appears to be significantly related to human development even after controlling for income per capita. See A6 and Graphs A2 and A3 in the appendix.

As we have seen, transparency can be associated with better economic and human development indicators. However, correlation does not imply causality and even though we have tried to account for differences in income per capita, further research needs to be done to disentangle the causal relationship between transparency and human and economic development. The limitations of the data available pose a great challenge for any advance in this area. More indicators are required to capture the different dimensions of transparency but also time-series to capture the temporal dimension.

Given this considerations, it is important to look at micro data within one country. Based on an in-depth survey of 1,250 officials in over 100 public institutions in Bolivia, Kaufmann, Mastruzzi and Zavaleta (2003) explore the impact of transparency on public service delivery. In this study transparency is measured as the percentage of cases where the actions of public officials and the decision making are transparent. The main results indicate that service delivery performance depends negatively on the level of corruption and positively on external voice of users and transparency. Furthermore, voice and transparency related determinants seem to be more relevant in explaining performance of public agencies than conventional public sector management variables such as wage satisfaction or meritocracy.

Graph 8. Transparency of Public Institutions and Public Service Delivery and Graph 9. Transparency of Public Institutions and Purchase of public positions, Bolivia.





Source: Kaufmann, Mastruzzi and Zavaleta (2003), based on 90 national, departmental and municipal agencies covered in the Public Officials Survey.

Bribery and corruption was also found to depend positively on the degree of politization and negatively on internal transparency of the agency and on meritocracy. The graphs above show how institutions with higher transparency standards were seen as providing services of better quality and how internal transparency within government agencies was significant in preventing the purchase of public positions.

The study tries to account for endogeneity, that is, the possible spurious correlation between the dependent and independent variables that might exist due to the effect of some non-observable factor across variables by the same firm, known as "kvetch" factor. To address this possible bias, different "kvetch" control factors are included such as extent of government inefficiency, extent of government helpfulness, quality of public services and quality of the postal service as viewed by the firm. Yet in all cases, the inclusion of the "kvetch" control variable did not alter the magnitude and significance of the other variables in the different specifications.

VII Policy Applications: Transparency Reforms as Second Generation Institutional Change.

Despite their potential benefits, transparency reforms have been insufficiently appreciated and integrated into institutional reform programs. This is surprising given that transparency programs are well-suited to overcome two of the lessons drawn by Levy and Kpundeh (2004) when reviewing past experience in institutional reform. Firstly, that the obstacles of building state capacity are at least as political as they are technical and therefore more attention should paid to the demand side. Transparency reforms can be very effective in altering the incentives of political leaders to serve a broad range of social groups. Secondly, that institutional reform is a cumulative process where it is key to identify entry points for reform which even though modest in themselves, have the potential to catalyze further changes down the road. Again, given their effectiveness in mobilizing social support and given that that they are not necessarily intensive in resources; transparency programs might be politically more feasible and constitute invaluable entry-points to other institutional reforms.

In many countries, while some progress has been made in economic transparency, that is not the case in political transparency or social monitoring and hence more focus is needed on this area. Top-down oversight strategies need to be complemented with bottom-up mechanisms designed to improve government accountability. In recent years, a growing number of initiatives have been based on civil society participation to strengthening accountability in the public sector. Initiatives such as participatory budgeting, administrative reform acts, social audits, citizen report cards, and community score cards all involve citizens in the oversight of government and are considered "social accountability" initiatives. One of them is the "Transparency pacts" implemented in Colombia as instruments to combat corruption and promote efficiency. The transparency agreements are signed between local elected officials and their constituents whereby the town hall provides the community with information related to the performance of local institutions and a committee is established with representatives from civil society to monitor performance and hold local authorities accountable.

Other initiatives of social accountability in Latin America and the Caribbean where citizens play an important role in the definition; monitoring and evaluation of government activities are described in Civil Society Team (2003). Cases such as the Community Information System for Primary Health Care in the Municipality of Arismendi (Venezuela) or the Participatory Monitoring of Land and Housing Policy in the

Municipality of Quilmes (Argentina) show that civil society and public institutions can complement each other in enhancing quality of public services.

Moreover, transparency reforms can be substitutes to the otherwise common tendency in governance or institutional reforms to over-regulate and create additional public institutions (such as Anticorruption agencies, etc). Among other benefits, information disclosure programs are generally thought to cost the government far less than drafting and implementing industry wide regulations. As a result of these presumed benefits, information disclosure programs might also be politically more feasible than new coercive regulations. Same as with the FOI laws, disclosure requirements empower citizens to monitor performance of private corporations. Thus, information disclosure programs have been characterized as the third wave of environmental regulation – following the original regulatory approach and the subsequent introduction of market-based incentives (Cohen, 2001). The Toxics Release Inventory (TRI), one of the most celebrated transparency policies in the US, is credited with reducing toxic releases by nearly half in a little more than a decade with the consequent reduction in accidents in chemical plants[17]. Other disclosure programs in the US have focused on drinking water safety and risk management plans for chemical releases and similar programs have been implemented in other countries and contexts, including India, Indonesia, Philippines, Colombia, Mexico and Brazil (Afsah et al., 1997).

Voluntary information disclosure is also growing as a result of social demand. A study on the 1,000 largest global companies found that 24 per cent of them had issued environmental reports in 1999 compared to 17 per cent in 1996 (KPMG, 1999). The Global Reporting Initiative, a voluntary framework for environmental and sustainability reporting, recently reported that over 100 companies worldwide have adopted their new reporting standards[18]. Another initiative that is growing is the Extractive Industries Transparency Initiative (EITI) which aims to increase transparency in transactions between governments and companies within extractive industries. The objective is the publication on a regular basis of all material oil, gas and mining payments by companies to governments and all material revenues received by governments from these companies to a wide audience in a publicly accessible, comprehensive and comprehensible manner. In addition, the EITI requires that payments and revenues are independently audited, applying international auditing standards.

[17] Such as the accident in the pesticide plant in Bhopal (India) which killed more than 2,000 people and injured more than 10,000 and was in partly responsible for the adoption of the disclosure law. See Cohen (2002) and Fung, Graham and Weil (2002) for more details on this and other disclosure programs in the US.

[18] See www.globalreporting.org.

Box 6. The Extractive Industries Transparency Initiative (EITI)

What is EITI?
The Extractive Industries Transparency Initiative (EITI) is a coalition of governments, companies, civil society groups, investors and international organizations. The EITI supports improved governance in resource rich countries through the full publication and verification of company payments and government revenues from oil, gas and mining. Many countries are rich in oil, gas, and minerals and studies have shown that when governance is good, these can generate large revenues to foster economic growth and reduce poverty. However when governance is weak, they may instead cause poverty, corruption, and conflict – the so called "resource curse". The EITI aims to defeat this "curse" by improving transparency and accountability.

What are the benefits of implementing EITI?
The primary beneficiaries of EITI are the governments and citizens of resource-rich countries. Knowing what governments receive, and what companies pay, is critical first step to holding decision-makers accountable for the use of those revenues.
Resource-rich countries implementing EITI can benefit from an improved investment climate by providing a clear signal to investors and the international financial institutions that the government is committed to strengthening transparency and accountability over natural resource revenues. Companies and investors, by supporting EITI in countries where they operate, can help mitigate investment risk: corruption creates political instability, which in turn threatens investments which are often capital intensive and long-term in nature. Civil society can benefit from an increased amount of information in the public domain about those revenues that governments manage on behalf of citizens, thereby increasing accountability and improving transparency. In summary, implementing EITI as part of a programme of improved governance will help to ensure that oil, gas, and mining revenues contribute to sustainable development and poverty reduction.

Which countries are implementing EITI?
Some twenty countries have either endorsed, or are now actively implementing EITI across the world – from Peru, to Trinidad and Tobago, Azerbaijan, Nigeria, and East Timor. For the most recent list of countries and information on what they are doing, look at the "Implementation" section of the EITI website at http://www.eitransparency.org/countryupdates.htm

International Financial Institutions (IFIs) are also being subject of the growing demand for transparency. The Global Transparency Initiative has developed the IFI Transparency Resource which recommends transparency standards for IFIs and evaluates ten IFIs[19] across 250 transparency indicators, covering areas such as governing bodies, policies and strategies, lending cycle and accountability mechanisms among others.

Transparency reforms, while they often require some political capital and leadership, generally are not as costly as other institutional reforms in terms of resources or capacity. Reforms to increase the freedom of the press, disclosure of contributions to political parties, financial disclosure programs for public officials, the publication of public tenders or other information relevant on internet are all transparency reforms that are not resource-demanding. In fact, once the benefit side is factored in, other transparency reforms such as e-procurement or control systems to prevent corruption are likely to be huge net savers of resources.

[19] The IFIs evaluated are: African Development Bank (AFDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB), International Financial Corporation (IFC), Inter-American Investment Corporation (IIC), International Monetary Fund (IMF), Multilateral Investment Guarantee Agency (MIGA) and World Bank (WB). More information on www.ifitransparencyresource.org

The study carried by KPMG (2002) with the collaboration of 700 UK purchase managers estimate the typical benefits in e-procurement in around 7.8 per cent with no significant differences between the private sector and the public sector. Similarly, the State of North Carolina has estimated the benefits attributable to E-Procurement in the first two full years after the system was implemented in $162 million in savings: $127 million in price reduction savings, and $35 million in purchase order creation efficiencies. And 'Project Zanzibar' an ambitious central government electronic marketplace to be implemented initially among 78 US central government departments and agencies could save the public sector $100m over three years.

Private firms can play an important role in disseminating information and ensuring the benefits of transparency are maximized. Leslie and Zoido (2005) assess the role of a profit-seeking firm, Transparent Markets (TM), in collecting and selling information about forthcoming drug procurement auctions in Buenos Aires hospitals. Their empirical analysis indicates that the information helps potential bidders to participate in more auctions for more drugs at more hospitals, and to participate in auctions which tend to have relatively fewer competing bidders. It is estimated that TM caused a 2.9% decrease in the total cost of drugs for these hospitals which in absolute terms constituted a saving of US$2.9 million, or 9.4 million Argentine pesos. The firm provided value for both their customers and procurers, at the expense of bidders that do not purchase the announcement information.

Box 7. e-Transparency for Development: Improving Government Services for Rural Citizens in India

In 2000, the State Government in Madhya Pradesh, India, set up a chain of computer kiosks to help provide better access to government information and services in one of its districts – Dhar District. 20 kiosks ("soochanalayas") were initially set up in various rural centres, with each kiosk typically serving a population of 20,000-30,000 villagers. A further 18 kiosks were added later.

eTransparency-related information and services provided include:

- Land records: farmers can apply for the official map and land record required to apply for loans.
- Below poverty line and other lists so that families can check directly to see whether or not they are listed before applying for special welfare schemes.
- Grievance registration against public servants without traveling to district headquarters.
- Market prices: prices for agricultural goods from the district wholesale markets are made available to farmers via the kiosk. Farmers can then wait until the right price is reached, rather than having to rely on intermediaries or loss US$0.50 of income making a special journey to distant market.
- Other services set up include: rural email facility; a village auction site; a matrimonial site; an "ask the wiseman" service for children; an "ask the expert" service for farmers; a village newspaper; an e-education site; and employment news (aimed at semi-skilled workers).

Gyandoot is one of few e-transparency projects to have made a specific effort at assisting disadvantaged groups. Although the project has still many challenges in terms of financial sustainability, infrastructure, improve attention to schemes for the poor, it has already delivered some benefits of transparency:

- The project has fully succeeded in generating awareness (72% of users) of Information and Communication Technology (ICT) amongst the rural community at large. Specifically, the youth (16% of users) are excited about the new employment opportunities arising out of ICT.

- The citizens perceive a shift in corruption levels, especially in terms of access to information and lesser harassment by the government officials. While more attention is needed to new forms of corruption that have substitute previous channels.

- Government officials feel that Gyandoot has improved their accountability. Now they have to comply with promised time of complaint disposal. This is also expressed by 25% of the users.

- Transport costs, wage losses and discrimination have been reduced on some occasions, especially for the most disadvantaged groups (from lower castes, or the disabled). Public availability of welfare scheme lists has also enable families to correct their omission from the lists.

Source: A. K. Sanjay and V. Gupta, *Gyandoot: Trying to Improve Government Services for Rural Citizens in India*. Case Study num. 11, eGovernment for Development 2003

And these are only examples of direct and quantifiable benefits of transparency. Other benefits such as the prevention of bankruptcies, savings due to prevention of corruption, reduction in racial and gender discrimination or health benefits are much more difficult to quantify. The following two examples were mentioned in the study carried out by Fung, Graham and Wei (2002). The Nutrition Labeling and Education Act of 1990 which requires food processors to label products with amounts of key nutrients was an important step towards transparency in the United States where chronic diseases such as heart ailments, cancer and diabetes are the largest cause of preventable deaths, killing more than 1,5 million people every year. Disclosure is intended in this case to encourage Americans to eat healthier food and put pressure on manufactures to produce healthier products. In the same vein, the prestigious Institute of Medicine called in 1999 for a new disclosure system to reduce medical mistakes in hospitals, another largest cause of death in the United States. High rates of errors are costly not only in terms of deaths and injuries but also in loss of trust by patients in the health care system, loss of morale by health care professionals, loss of productivity. In economic terms alone, estimated national cost of preventable hospital errors[20] resulting in injury or death totaled in between $17 and 29 billion a year.

Transparency reforms might be politically more feasible that other institutional reforms, given that they are less resource-demanding, more effective in mobilizing social support and suitable for gradual implementations. However, it is important to pay attention to the cost and benefits to potential users and disclosers of information when designing those reforms. Disclosing information can clash with the interest of groups, organizations or individuals who might be better off with the current situation. At the same time, the benefits of disclosure are often diffuse. Beneficiaries may be consumers, investors, employees, rural community residents who might not be even aware of the impact of such reforms which in any case may take some time to materialize. A detailed analysis of the nature of the information problem and the costs and benefits to different social agents in each case can help in designing a reform that fosters support and ensures sustainability.

Unfortunately not many studies have looked deep into the political economy of transparency reforms. One exception in this area is the study carry out by Fung, Graham and Weil (2002) on six cases from the United States[21]. The study analyzes the dynamics of transparency and what makes some initiatives to improve over time and have the planned social and economic impact while others degenerate into costly paperwork exercises. Substantial benefits to users, the presence of third party organizations to press for system improvement, and economic or political dynamics that lead some disclosers to promote improved transparency are all factors that influence sustainability.
In the last part of this section, we are going to describe two case studies. The first one is the implementation of financial disclosure programs for public officials. The second case

[20] Preventable errors are not due to rare slips or bad doctors, but to patterns of health care that have created systematic risks.
[21] The reforms analyzed are: financial disclosure to reduce investment risks to the public; banks' reporting of home-lending practices to minimize racial and gender discrimination; nutritional labeling to reduce risks of chronic disease; disclosure of toxic releases to minimize pollution; financial reporting by labor unions to minimize corruption; and efforts to create a transparency system for tracking medical mistakes in hospitals.

study looks deep into the situation of Chile, the third country in the world in terms of institutional transparency but which is lagging behind in political transparency.

Financial Disclosure for Public Officials

One area that is receiving increasing attention in the new wave towards transparency is financial disclosure programs for public officials. While these requirements were first imposed on the executive branch, they now are accepted as applying to members of the legislative and judicial branches[22] as well. In some countries asset declarations are recently being published under new FOI laws. Public or not, income and asset disclosure can be an invaluable tool to promote transparency and accountability in the public sector if properly designed and effectively applied. The box below lists ten best practices related to the implementation of financial disclosure. Issues such as the content of the declaration (including assets of spouses and dependents), the verification of the information, investigation and sanctions for illegal enrichment are aspect of ultimate importance when designing a financial disclosure program.

Box 8. Ten best practices in financial disclosure programs.

1. Assets to be disclosed: for thorough compliance with the principle, the disclosure of assets should be broad, including any real estate and movable property, intangible, rights, non-material assets, all kinds of income, participation in corporations or other kind of business and any other type of property that may have an economic value.
2. Persons who must disclose: consensus exists that financial disclosure should be mandatory for public officials in the three branches of power: legislative, executive and judiciary. What it seems not so clear is whether it should be applied to all levels in public administration or only to top-levels. Due to lack of resources most countries only request middle and senior officials to declare their assets.
3. Family members: public officials should disclose not only their own property but also that of their spouses and minor children, individually or as a group. The rationale for including family members is to avert the divestment of income and assets by a judge to family members to avoid disclosure.
4. What to disclose: disclosure should include any real property, intangible rights, non-material assets, all forms of income and their sources, any participation in corporations or other kind of businesses as well as foundations. In addition, it should include all financial obligations, business relationships and gifts. It is advisable to request a copy of the annual income tax declaration submitted to ensure consistency.
5. Time of disclosure: the disclosure should be done before assuming the office, when finishing the term, and annually while in the position.
6. Accessibility of the information: the asset declarations should be easily accessible to the general public, and the person requesting the information should not be investigated for requesting it. The law should explain clearly which the process to access the information is.
7. Collecting entity: the entity collecting the disclosure of assets should have a clear procedure for collecting, systematizing and disclosing the information and this entity should have a determined degree of autonomy and not be completely dependent on the institutions whose officials are obligated to disclose their assets.
8. Enforcement mechanism and verification: an independent institution, such as the collecting office, should be in charge of the implementation of a preventive mechanism which monitors compliance with the disclosure and verifies the contents of the statements. The establishment of a systemic, accessible report should be developed and maintained on an on-going basis. This office must also have powers and budget to follow up the information provided and investigate cases of potential illegal enrichment and conflict of interests arising from the disclosure statements. The office must also be competent to act as a denouncing party in front of a prosecutor or a judge.
9. Sanctions for non-compliance: a clear system of sanctions should be established for those officers who do not present the information in a timely manner.
10. Illegal enrichment as a crime: Excessive assets, income, gifts, and liabilities that grossly outweigh one's earned salary are all indicators of illegal enrichment. Criminal Codes should include illegal enrichment as a crime, including public officials as potential perpetrators.
11. Conflict of interest: disclosure of interest should be part of the financial disclosure. Legislation to prevent and penalize the conflict that may arise between the public duty and private interest of public officials should be in place.

annex). Examples of countries where asset declaration is mandatory for public officials are (in brackets where the declaration is public): Albania (public), Argentina (public for parliamentarians), Bangladesh, Brazil (public for parliamentarians), Colombia, Ghana, Guatemala, India, Indonesia (public), Italia (public), Kenya (public for parliamentarians), Korea (public), Latvia (public), Mexico (public optional), Nicaragua (public for parliamentarians), Panama, Philippines (public), Portugal (public), Romania, South Africa ((public for parliamentarians), Spain, Sri Lanka, Tanzania, Turkey, Uganda (public), Ukraine, USA (public) and Venezuela (public for parliamentarians).

However, for the disclosure program to be effective resources should be devoted for verification and investigation. The Police Royal Commission Report (2005) on corruption in the Malaysian police force revealed that no action was taken against a senior officer who made an asset declaration amounting to RM34 million. Sometimes, there is not institutional capacity to even enforce the disclosure requirement. Indonesian law requires that asset disclosure reports be filled out by almost 55,000 elected officials and top government officers and returned to a specific government office within a prescribed period of time. Without sufficient funds for the office to follow up, only about 50 percent of those required to return the report actually do so.

An effective and simple way of avoiding this type of situations is to make the asset declarations available to the general public. Social monitoring and social has proven to be very effective, especially in countries with scare resources. An intermediate option is the one followed by Mexico, where public officials can decide whether to make the declaration public or not. In practice, top level officials end up publishing their declarations due to social pressure. The lifestyle checks carried out by the Philippine Center for Investigative Journalism are an example of how social monitoring can improve effectiveness of asset declarations as tools against corruption. The Center conducts lifestyle checks on public officials[23] and assesses consistency with the statement of assets and liabilities that government employees are required to file every year. Describe. The Center spent eight months investigating the unexplained wealth of Philippine President Joseph Estrada and their reports became cornerstones in the impeachment trial against the President (for more details see Møller and Jackson, 2004).

<u>Chile: unbundling transparency</u>

In the global report on governance published by the World Bank in 2004, Chile occupies one of the first 30 places, among 200 countries, in terms of government effectiveness and quality of the rule of law. Likewise, Chile is found among the first 25 places in control of corruption, and in 12th place in quality of the regulatory framework. The average for the rest of Latin America is located below number 100 in the indicators of governance. Since 1996 Chile has made considerable advances in these indices of governance, in contrast to the rest of the continent. Although there is still an important gap with the “exemplary” Northern countries, the country has reached levels of governance of various rich countries of the OCDE.

[23] The lifestyle checks are published on the web site of the Center (www.pcij.org/HotSeat/lifestyle).

The Central Bank of Chile is found among the best rated in the world in the evaluation carried out by Fracasso, Genberg and Wyplosz (2003) on information provided by 19 inflation-targeting central banks. Chile also comes out well evaluated in business surveys such as World Economic Forum one, for several manifestations of corruption. When businessmen choose from a long list of problems which are the three primary obstacles to operate successfully in the country, only 3 per cent includes corruption. The high probity in Chile as for traditional demonstrations of corruption contrasts with the mediocre evaluation done by the same businessmen on illegal financing of political parties (with more than half discontent with the situation in the country, compared with Finland with less than 21%), and in different aspects of the provision of information by the government. Indeed, in our transparency index, Chile scores 2.38 in economic/institutional transparency and yet, it only scores 0.82 in political transparency.

It would be, therefore, a serious error for Chile to enter into a comfort zone. 'Sunlight is the best disinfectant' is an expression that summarizes the power of transparency. Transparency empowers citizens in terms of social monitoring, it can lead to savings in the provision of services (as the reduction in more than 50 per cent in the cost of public school lunches in Buenos Aires after being published), and it also allows to immediately investigate potential cases of illegal enrichment or lack of transparency in public purchases. Transparency is a great replacement of regulation without its costs.

Box 9. Basic Scorecard: 10 Transparency Reform Components

- Public Disclosure of Assets and Incomes (and outside earnings) of Candidates, Public Officials, Politicians, Legislators - & dependents
- Public Disclosure of Political Campaign contributions by individuals and firms, and of campaign expenditures
- Public Disclosure of Parliamentary Votes, without exceptions
- Effective Implementation of Conflict of Interest Laws, separating business, politics, legislation, & government
- Publicly blacklisting firms bribing in public procurement
- Effective Implementation of Freedom of Information Law, with easy access to all to government information
- Fiscal/Financial transparency: central/local budgets; EITI
- E-procurement: transparency (web) and competition
- Adoption and implementation of 'Lobby Law'
- Judiciary transparency and disclosure on funding, assets of judges, and on full disclosure of judicial decisions

The challenge in Chile is consequently to make the relation between private money and political funding more transparent. Chile is currently discussing in Congress the draft of a financial disclosure law for public officials. This constitutes an opportunity to advance in this area as it happened with the quota reforms in the past. A strategy that promotes transparency would include aspects such as financial disclosure, access to information law, public purchases and disclosure of electoral financing. Firstly, the adoption of an effective law on financial disclosure, which would apply to public officials, parliamentary and judges; would include espouses (officially married or not, with separation of goods or not) and also dependents; and would require the effective verification of the content of those declarations and clear sanctions to illegal enrichment. In addition, it is necessary to typify the crime of illegal enrichment. Publication of asset declarations is also important, with easy access to all, over the Internet, annually (not every four years or only to enter or to leave the charge published.

Secondly, it is required to have free access to public information. Chile has been legislating in this area for years now, for example with the Law of Probity of 1999, but in an inadequate form. Different public distributions dictate regulations that hinder obtaining information, and the exceptions are too general and subject to the will of the public servants. A modern law on access to information is required to provide in a quick and efficient way (and on the Internet) public information, with very few exceptions, captured in the law. Just as it was done recently in Mexico with the creation of the Instituto Federal de Acceso a la Information (IFAI), it would be useful to create an institution to promote the right of access to information with budgetary autonomy and decision-making powers. In Mexico today, instead of remaining without information, or waiting and appealing for months in courts, if an applicant is denied access to information, or she or he claims to have obtained partial information, it is possible to go to the IFAI[24]. Some tax evasions and details of the rescue of the bank by the government during the crisis known as “tequilazo" have been revealed in this way. Another important area in terms of transparency is procurement. It is crucial to complement the advance already achieved by Chilecompra (as to competitive bidding) with similar advances for ‘sole sourced’ procurement. There would be a need to eliminate general guidelines that do not permit the publication of invitations to bid because of 'confidential and reserved' clauses, which in practice mean that all public procurement of some Ministries could be except from the transparency requirement

Finally, there are also pending measures on political financing, given the instinctive tendency of private money to influence the public sphere. Publishing on the Internet who contributes what to which candidate and political parties would be an important step towards transparency, same as the publication of the expenses in electoral campaigns. In addition, the adoption of lobby legislation is still outstanding to make this activity more transparent, and at the same time facilitate the participation of social groups poorly organized (small farmers, consumers, etc). Every supplier of the State that has been caught in bribery acts should be excluded from the system of public purchases. Similarly to what the World Bank does. The Bank is the only international organization that publishes a “black list", which is on the Bank’s website and contains 300 companies and individuals that cannot submit a bid for having been involved in corrupt acts.

[24] www.ifai.org.mx

VII. Conclusions

Despite their potential to promote accountability of public institutions and improve government efficiency in the provision of public services, transparency reforms have been insufficiently appreciated and integrated into institutional reform programs. Most of the literature has focused on the role of transparency in preventing financial crises and in monetary policy-making. It is only recently that more attention has been paid to information asymmetries in political markets and the role that transparency can play in improving efficiency in the provision of public services. This is partly a consequence of the lack of progress that has been made in codifying and measuring different dimensions of transparency compared with advances in other areas such as corruption. In fact, in part of the literature, corruption and transparency are treated as synonymous despite being completely different phenomena.

In this paper we have tried to contribute to such an effort with the construction of an aggregate index of transparency for 194 countries based on more than 20 independent sources combining objective assessments of transparency with "perception-based" data. The index is developed around two different components: economic/institutional transparency and political transparency. Increasing transparency through accessible, relevant, and accurate information is necessary but not a sufficient condition for accountability. Citizens also need the capacity and resources, political and financial, to exercise that right effectively. Our results suggest that transparency is not necessarily the domain of any geographical region or cultural background with countries from all over the world occupying the top positions in the raking. OECD countries enjoy similar levels of economic/institutional and political transparency while in most parts of the world further advances are still to needed for the level of political transparency to reach the standards set in the economic/institutional arena

Transparency is not a question of major financial resources either. Many steps can be taken to enhance transparency in the political system or to increase the freedom of the press that do not require a great amount of resources but serious commitment on the part of the government. However, institutions also need to be strengthened to be able to meet the new demand for information. Our results show the role donors can play in those countries that have shown commitment towards transparency by undertaking some transparency reforms but need resources and technical assistance to be able to implement more challenging ones. Transparency also appears to be significant in reducing corruption. Together with administrative regulations, the degree of transparency in the institution and the degree of political transparency in the country have a significant effect in curbing corruption. In the case of political transparency, the relationship is not linear: political transparency is powerful where there is some degree of political competition. That is, political transparency is only influential after reaching certain levels where institutions in the country play a meaningful role. If there is no competition (quasi-authoritarian or "managed" democracies), then the impact of political transparency in curbing corruption is much lower. The results also show the importance of the demand for information and the media in pressing for transparency reforms.

From the analysis, it seems clear that transparency is associated with better economic and human development indicators, even after controlling for differences in income. Thus, for the same level of income per capita, countries ranking higher in the overall transparency index are also more competitive in international markets, and their population has a higher life expectancy at birth and higher rates of female literacy and child immunization. Although other studies (Glennerster and Shin, 2003; Kaufmann, Mastruzzi and Zavaleta, 2003) support the idea of a positive causal effect running from better governance to better outcomes, further research needs to be done to disentangle the causal relationship between transparency and development when more transparency indicators and time-series become available worldwide.

The skeptics of transparency might be right in pointing out the interest of international investors behind the global movement towards transparency and its limitations in challenging the status quo in countries with a high degree of state capture or predatory leadership. However, this might also underestimate the power of transparency and its irreversibility. Once the institutional files are open to public scrutiny, it becomes difficult for any government to backtrack or be selective about the information that is going to be accessible, and it is only a matter of time before demands for transparency in other areas arise. In fact, international financial institutions and multinational corporations are already being the target of those demands. Breaking up the monopoly of information will empower civil society in developing countries to participate in discussions about their own future. Transparency is already changing the way citizens all over the world are relating to their governments and constitutes a unique opportunity to make governments accountable and start reversing the distortions created in the internal democratic process during the decolonization process and decades of international aid.

In concluding on an interim basis in this work-in-progress endeavor on transparency, we emphasize not only the preliminary nature of this work, so to elicit feedback at an early stage, but also the need for delving deeper into some key issues, such as validation and finalization of worldwide transparency indices (with its proposed sub-components), further work on untangling directions of causality in the significant associations that are evident from the data, and further deepening on the concrete policy applications by providing a framework to tailor transparency strategies and different types of transparency reforms to different typologies of countries.

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APPENDIX 1. Financial Disclosure Policies

	Head of State		Parliamentarians				Public Officials				
	mandatory	public	mandatory	public	time period to access	cost to access	mandatory	family members	public	time to access	cost to access
Albania	no	-	no	-	-	-	yes, middle and senior officials	yes	yes[25]		
Argentina	yes (1)	yes (1)	yes (1)	yes (1)	>1 month (1)	free or cost of copies (1)	yes, only senior		yes (1)	>1 month (1)	free or cost of photocopy (1)
Australia	no (0)	no (0)	yes (1)	yes (1)	>1 month (1)	often (0.75)	no	0	0	0	0
Bangladesh	no	-	no	-	-	-	yes, all public officials	yes	no		
Brazil	yes (1)	yes (1)	yes	yes (1)	>1 month (1)	free (1)	yes all public officials		no (0)	0	0
Colombia	yes	no	yes	no	-	-	yes all public officials	no	no	-	-
Germany	no (0)	-	no (0)[26]	-	-	-	no	-	0	0	0
Ghana	yes (1)	no (0)	yes	yes (1)	>1 month (1)	sometimes (0.5)	yes, middle and senior officials	no	no (0)	0	0
Guatemala	yes (1)	no (0)	yes (1)	no (0)	-	-	yes, senior		no (0)	0	0
India	no (0)	-	yes	yes (1)	> 1yr (0.25)	sometimes (0.5)	yes, senior[27]	no	no (0)	0	0
Indonesia	yes (1)	yes (1)	yes	yes (1)	>1 month (1)	free (1)	yes		yes (1)	>1 month (1)	released by the press (1)
Italy	no (0)	-	yes	yes (1)	>1 month (1)	free (1)	yes		yes (1)	>1 year, not updated (0)	free (1)
Japan	yes (1)[28]	yes (1)	yes	yes (1)	>1 month (1)	free (1)	no	-	0	0	0
Kenya	yes (1)	no (0)	yes	yes (1)	>1 month (1)	often (0.75)	yes, senior	yes	no (0)	0	0
Korea	yes	yes	yes	yes	yes, >1 month	free	yes, middle and senior officials	yes	yes	>1 month	released by the press

[25] Although the law doesn't mention how citizens can access the information

[26] There is no asset disclosure requirement; although MPs have to disclose publicly their positions in various organizations and corporations and whether they continue their pre-mandate occupation. That information is very comprehensive and publicly available

[27] Each cadre of officials has its distinct set of rules

[28] Although there is no regulation, asset disclosure has been established as a practice among Cabinet Ministers

Latvia	no	-	no	-	-	-	yes, middle and senior officials	no	yes	>1 month	released by the press
Mexico	yes (1)	yes (1)	yes	yes (1)	>1 month (1)	sometimes (0.5)	yes, middle and senior officials	yes	optional (0)	0	0
Namibia	no (0)	-	yes	yes (1)	>1 month (1)	free (1)	no	-	optional (0)	0	0
Nicaragua	yes (1)	yes (1)	yes	yes (1)	>1 month (1)	free (1)	yes		has to be motivated[29] (1)	>1 month (1)	free (1)
Nigeria	yes (1)	no (0)	yes (1)	no (0)	0	0	only when necessary, senior	only unmarried children under 18yr	no (0)	0	0
Panama	yes (1)	no (0)	no[30]	no (0)	0	0	yes (1)		no (0)	0	0
Philippines	yes (1)	yes (1)	yes	yes (1)	>1 month (1)	free (1)	yes, all public officials	yes	yes (1)	delays due to record retrieval (0.75)	free (1)
Portugal	yes (1)	yes (1)	yes	yes (1)	>1 month (1)	free (1)	yes	dn	yes (1)	>1 month (1)	free (1)
Romania	yes	no	yes	no	-	-	yes, senior	yes	no		
Russia	yes (1)	yes (1)	yes	no	-	-	no mandatory[31]	-	0	0	0
South Africa	yes (1)	yes (1)	yes	yes (1)[32]	>1 month (1)	free (1)	yes	dn	no (0)	0	0
Sri Lanka	yes	no	yes	no	-	-	yes, senior	yes	no		
Tanzania	yes	no	no	-	-	-	yes, middle and senior officials	yes	discretion of minister		
Thailand	yes	no	yes	no	-	-	yes, senior	yes	no		
Turkey	yes (1)	no (0)	yes	no	-	-	yes, all public officials	yes	no (0)	0	0
Uganda	yes	yes	yes	yes			yes, middle and senior	yes	yes		

[29] The disclosure has to be motivated the Comptroller's Office and to the official. The Comptroller can allow or not for the disclosure
[30] Only, the president of Parliament has to submit an asset disclosure
[31] By law they are expected to provide asset info but there is no asset declaration per se. In practice what it is available is scant and not very telling. Citizens have access through the press.
[32] Only the public section of the disclosure form

USA	yes (1)	yes (1)	yes (1)	yes (1)	>1 month (1)	free (1)	yes, almost all federal officials (each state has own legislation)	yes	yes (1)	> 6 months (0.5)	free or cost of copy and mailing (1)
Ukraine	yes (1)	yes [33]	no (0)	0	0	0	no (0)	0	0	0	0
Venezuela	yes (1)	yes (1)	yes	yes (1)	no (0)	no (0)	yes (1)		no (0)	0	0
Zimbabwe	no (0)	-	no	-	-	-	no		0	0	0

Sources

Public Integrity index (score in brackets**)** **http://www.publicintegrity.org/ga/**

25 countries: Argentina, Australia, Brazil, Germany, Ghana, Guatemala, India, Indonesia, Italy, Japan, Kenya, Mexico, Namibia, Nicaragua, Nigeria, Panama, the Philippines, Portugal, Russia, South Africa, Turkey, Ukraine, United States, Venezuela and Zimbabwe.

Questions:
- In law, citizens can access the asset disclosure records of senior civil servants?
- In practice, citizens can access the asset disclosure records of senior civil servants within a reasonable time period?
- In practice, citizens can access the asset disclosure records of senior civil servants at a reasonable cost?
- In law, are there conflict of interest regulations for senior civil servants?
- In law, citizens can access the asset disclosure records of parliamentarians?
- In practice, citizens can access the asset disclosure records of parliamentarians within a reasonable time period?
- In practice, citizens can access the asset disclosure records of parliamentarians at a reasonable cost?

WB Administrative and Civil Service Reform website (http://www1.worldbank.org/publicsector/civilservice/assets.htm)

Review of asset disclosure laws of 18 countries (Albania, Bangladesh, Brazil, Ghana, India, Kenya, Korea, Latvia, Mexico, Philippines, Romania, Sri Lanka, Tanzania, Thailand, Turkey, Uganda and the United States) with information on:
- Historical Information
- Coverage
- Filing frequency and method
- Declaration content
- Punishment for breach
- Public access

[33] The asset declaration of presidential candidates are published in mass media

Appendix 2. Transparency index 2004[34] *(preliminary- not for quotation or to establish rankings)*

	Ec/Institutional Transparency			Political Transparency			Overall Transparency	
	score	%rank	std. error[35]	score	%rank	std. error	score	%rank
AFGHANISTAN	-1.21	2	0.37	-1.08	17	0.18	-1.15	7
ALBANIA	-0.10	59	0.35	0.03	48	0.12	-0.04	52
ALGERIA	-0.42	43	0.25	-0.74	28	0.16	-0.58	28
ANDORRA	-0.42	44	0.41	1.27	92	0.20	0.43	69
ANGOLA	-0.68	25	0.25	-0.81	26	0.16	-0.74	23
ANTIGUA AND BARBUDA	-1.11	5	0.37	0.08	50	0.20	-0.51	32
ARGENTINA	0.81	80	0.26	0.46	59	0.16	0.63	78
ARMENIA	0.26	68	0.35	-0.62	34	0.12	-0.18	42
AUSTRALIA	2.20	98	0.31	1.24	91	0.16	1.72	98
AUSTRIA	0.90	83	0.34	0.91	76	0.16	0.90	83
AZERBAIJAN	-0.71	20	0.33	-0.96	20	0.12	-0.83	18
BAHAMAS	-0.29	50	0.37	1.22	89	0.20	0.46	72
BAHRAIN	0.01	63	0.36	-1.00	19	0.16	-0.50	33
BANGLADESH	-0.43	42	0.32	-0.79	27	0.16	-0.61	27
BARBADOS	-0.39	45	0.37	1.11	85	0.20	0.36	67
BELARUS	-0.16	58	0.35	-1.49	8	0.12	-0.82	19
BELGIUM	1.02	85	0.34	1.39	97	0.16	1.20	91
BELIZE	0.10	65	0.35	0.95	78	0.19	0.53	76
BENIN	-0.57	31	0.21	0.53	61	0.17	-0.02	52
BHUTAN	-0.69	23	0.35	-1.06	17	0.17	-0.88	15
BOLIVIA	0.43	72	0.31	0.38	57	0.16	0.40	68
BOSNIA-HERZEGOVINA	-0.20	56	0.34	-0.12	45	0.12	-0.16	44
BOTSWANA	-0.20	55	0.20	0.57	62	0.16	0.18	61
BRAZIL	1.00	84	0.27	0.47	60	0.16	0.73	80
BRUNEI	-1.09	6	0.37	-1.17	14	0.19	-1.13	8
BULGARIA	0.72	78	0.32	0.29	55	0.12	0.51	75
BURKINA FASO	-0.39	45	0.20	0.08	50	0.17	-0.16	45
BURUNDI	-0.62	28	0.25	-1.14	16	0.17	-0.88	14
CAMBODIA	-0.45	41	0.34	-0.59	35	0.17	-0.52	31
CAMEROON	-0.69	23	0.21	-0.92	22	0.17	-0.81	20
CANADA	2.40	99	0.34	1.22	90	0.16	1.81	99
CAPE VERDE	-0.39	46	0.25	0.40	58	0.19	0.01	54
CENTRAL AFR. REP.	-1.12	4	0.25	-0.73	29	0.17	-0.92	11
CHAD	-0.80	17	0.20	-0.94	22	0.16	-0.87	15
CHILE	2.38	99	0.29	0.82	69	0.16	1.60	96
CHINA	0.34	68	0.33	-1.57	5	0.16	-0.62	27

[34] An Unobserved Component Model (UCM) has been used to aggregate the individual variables in each transparency sub-component: Ec/institutional and Political. The Overall Transparency index was calculated as a simple average of those two sub-components. By construction the theoretical boundary of each index goes from -2.5 to 2.5 with higher scores corresponding to more transparency and a world average of 0.

[35] In spite of the considerable number of individual sources used, there are still substantial margins of error associated with these transparency estimates, which can be attributable to (i) cross-country differences in the number of sources in which a country appears, and (ii) differences in the precision of the sources in which each country appears. This implies among other things that caution is required when interpreting the results and it is not advisable to establish rankings or comparisons among countries. More information on governance indicators can be found on http://info.worldbank.org/governance/kkz2004/q&a.htm#5

COLOMBIA	0.64	75	0.28	-0.51	37	0.16	0.06	56
COMOROS	-0.90	10	0.25	-0.02	46	0.18	-0.46	34
CONGO	-0.88	12	0.25	-0.40	38	0.17	-0.64	26
Congo, Dem. Rep. (Zaire)	-0.78	18	0.25	-1.33	10	0.18	-1.05	8
COSTA RICA	0.36	69	0.29	0.97	79	0.16	0.67	79
CROATIA	0.63	75	0.32	0.21	52	0.12	0.42	69
CUBA	-0.57	31	0.41	-2.07	1	0.17	-1.32	4
CYPRUS	-0.17	58	0.36	0.93	77	0.16	0.38	68
CZECH REPUBLIC	1.02	85	0.30	0.89	74	0.12	0.95	85
DENMARK	1.89	97	0.34	1.45	100	0.16	1.67	97
DJIBOUTI	-0.88	13	0.25	-0.79	26	0.18	-0.83	17
DOMINICA	-0.50	35	0.35	1.10	84	0.20	0.30	64
DOMINICAN REPUBLIC	0.68	76	0.34	0.20	51	0.16	0.44	70
ECUADOR	-0.31	48	0.29	0.22	53	0.16	-0.05	51
EGYPT	-0.47	37	0.20	-1.17	15	0.16	-0.82	19
EL SALVADOR	0.53	74	0.29	0.34	56	0.16	0.43	70
EQUATORIAL GUINEA	-1.19	2	0.25	-1.65	4	0.18	-1.42	2
ERITREA	-1.03	8	0.25	-1.84	2	0.17	-1.44	2
ESTONIA	1.82	95	0.33	1.13	87	0.12	1.48	95
ETHIOPIA	-0.62	28	0.20	-0.78	28	0.17	-0.70	23
FIJI	-0.28	51	0.35	0.62	64	0.17	0.17	60
FINLAND	1.70	94	0.34	1.40	98	0.16	1.55	96
FRANCE	1.77	95	0.34	1.07	83	0.16	1.42	94
GABON	-0.68	24	0.21	-0.71	30	0.17	-0.69	24
GAMBIA	-0.66	25	0.20	-0.68	32	0.16	-0.67	25
GEORGIA	-0.34	47	0.32	-0.11	46	0.12	-0.23	42
GERMANY	1.47	92	0.31	1.14	88	0.16	1.30	92
GHANA	-0.27	52	0.19	0.75	68	0.16	0.24	63
GREECE	0.21	66	0.34	0.74	68	0.16	0.47	72
GRENADA	-0.73	19	0.35	1.14	88	0.20	0.21	62
GUATEMALA	-0.25	52	0.31	-0.38	39	0.16	-0.32	38
GUINEA	-0.84	15	0.25	-0.90	23	0.18	-0.87	16
GUINEA-BISSAU	-0.96	9	0.25	-0.60	34	0.17	-0.78	22
GUYANA	-0.21	54	0.35	0.91	76	0.18	0.35	65
HAITI	-0.88	13	0.35	-1.17	13	0.17	-1.03	10
HONDURAS	-0.45	40	0.32	-0.11	45	0.16	-0.28	39
HONG KONG	1.00	84	0.46	0.72	67	0.38	0.86	82
HUNGARY	0.86	82	0.32	0.87	73	0.12	0.86	82
ICELAND	0.89	83	0.34	1.43	99	0.17	1.16	90
INDIA	0.72	78	0.29	0.23	53	0.16	0.48	73
INDONESIA	0.35	69	0.28	-0.28	41	0.16	0.03	55
IRAN	-0.40	44	0.35	-1.42	9	0.17	-0.91	12
IRAQ	-0.82	16	0.37	-0.95	21	0.17	-0.89	13
IRELAND	1.67	93	0.34	1.04	81	0.16	1.35	93
ISRAEL	1.47	91	0.34	0.72	67	0.16	1.09	89
ITALY	1.31	88	0.31	0.65	65	0.16	0.98	87
IVORY COAST	-0.81	16	0.25	-0.69	32	0.17	-0.75	22
JAMAICA	0.41	72	0.34	1.03	81	0.16	0.72	79
JAPAN	1.48	92	0.31	1.08	84	0.16	1.28	91
JORDAN	0.38	70	0.30	-0.71	31	0.16	-0.16	43

KAZAKHSTAN	-0.17	57	0.33	-1.23	13	0.12	-0.70	24
KENYA	-0.54	33	0.19	-0.33	40	0.16	-0.43	36
KIRIBATI	-1.01	9	0.38	0.71	66	0.20	-0.15	45
KOREA, NORTH	-1.33	1	0.37	-2.14	0	0.17	-1.73	0
KOREA, SOUTH	1.36	89	0.32	0.59	63	0.16	0.98	86
KUWAIT	-0.47	38	0.37	-0.56	36	0.17	-0.51	32
KYRGYZ REPUBLIC	-0.51	35	0.35	-1.05	18	0.12	-0.78	21
LAOS	-1.11	5	0.35	-1.65	4	0.17	-1.38	3
LATVIA	0.51	73	0.34	1.12	86	0.12	0.81	81
LEBANON	-0.31	48	0.35	-0.85	25	0.18	-0.58	28
LESOTHO	-0.47	38	0.21	0.35	56	0.17	-0.06	49
LIBERIA	-1.36	0	0.37	-1.03	18	0.17	-1.19	6
LIBYA	-1.09	6	0.37	-1.86	2	0.17	-1.48	1
LIECHTENSTEIN	0.25	67	0.41	1.31	93	0.20	0.78	80
LITHUANIA	0.83	81	0.34	1.07	82	0.12	0.95	84
LUXEMBOURG	0.70	77	0.35	1.31	94	0.18	1.01	87
MACEDONIA	-0.11	59	0.34	-0.13	44	0.12	-0.12	47
MADAGASCAR	-0.49	37	0.25	0.20	52	0.16	-0.15	46
MALAWI	-0.68	24	0.20	-0.14	44	0.16	-0.41	37
MALAYSIA	0.63	74	0.33	-0.88	24	0.16	-0.13	47
MALDIVES	-0.05	61	0.35	-0.78	27	0.19	-0.42	36
MALI	-0.56	32	0.20	0.67	65	0.16	0.06	56
MALTA	0.83	81	0.36	1.10	85	0.19	0.97	85
MARSHALL ISLANDS	-0.56	32	0.38	1.31	93	0.20	0.37	67
MAURITANIA	-0.61	29	0.25	-1.08	16	0.16	-0.84	17
MAURITIUS	-0.20	56	0.20	0.82	70	0.16	0.31	64
MEXICO	1.60	93	0.26	0.29	54	0.17	0.94	83
MICRONESIA	-1.04	7	0.35	1.04	82	0.20	0.00	53
MOLDOVA	-0.01	62	0.35	-0.52	36	0.12	-0.26	40
MONACO	-0.21	55	0.41	1.27	92	0.20	0.53	76
MONGOLIA	-0.21	54	0.33	0.41	58	0.17	0.10	57
MOROCCO	-0.22	53	0.20	-0.67	33	0.16	-0.44	35
MOZAMBIQUE	-0.49	36	0.20	0.01	47	0.16	-0.24	40
MYANMAR	-0.63	27	0.37	-2.03	1	0.17	-1.33	3
NAMIBIA	-0.36	46	0.19	0.42	59	0.16	0.03	55
NAURU	-1.12	3	0.41	0.80	69	0.20	-0.16	44
NEPAL	0.03	64	0.33	-0.94	21	0.17	-0.46	34
NETHERLANDS	1.75	94	0.34	1.34	95	0.16	1.55	95
NEW ZEALAND	1.88	96	0.34	1.37	96	0.16	1.63	97
NICARAGUA	0.16	66	0.27	0.57	62	0.16	0.36	66
NIGER	-0.78	18	0.21	-0.35	39	0.17	-0.57	29
NIGERIA	-0.51	34	0.20	-0.43	37	0.16	-0.47	33
NORWAY	1.44	90	0.34	1.42	98	0.16	1.43	94
OMAN	-0.04	62	0.37	-1.27	12	0.17	-0.65	25
PAKISTAN	0.23	67	0.34	-0.70	31	0.16	-0.24	41
PALAU	-0.70	22	0.41	1.35	96	0.20	0.33	65
PANAMA	0.70	76	0.31	0.02	48	0.16	0.36	66
PAPUA NEW GUINEA	-0.61	30	0.35	0.90	75	0.18	0.15	59
PARAGUAY	-0.09	60	0.34	-0.01	47	0.16	-0.05	50
PERU	0.73	79	0.29	0.50	61	0.16	0.61	77

PHILIPPINES	1.41	89	0.30	0.48	60	0.16	0.95	84
POLAND	1.09	87	0.31	0.96	78	0.12	1.03	88
PORTUGAL	1.47	91	0.31	1.22	90	0.16	1.35	92
QATAR	-0.86	14	0.37	-0.73	30	0.18	-0.79	21
ROMANIA	0.41	71	0.31	0.07	49	0.12	0.24	62
RUSSIA	0.09	64	0.29	-0.82	25	0.11	-0.36	37
RWANDA	-0.47	39	0.25	-1.30	11	0.17	-0.89	13
WESTERN SAMOA	-0.51	34	0.35	0.83	70	0.20	0.16	60
SAN MARINO	-0.89	11	0.37	1.23	91	0.20	0.17	61
SAO TOME AND PRINCIPE	-0.92	10	0.25	0.68	66	0.20	-0.12	48
SAUDI ARABIA	-0.33	47	0.37	-1.50	7	0.17	-0.91	11
SENEGAL	-0.46	39	0.21	0.33	55	0.17	-0.06	50
SERBIA AND MONTENEGRO	-0.29	49	0.37	0.17	51	0.12	-0.06	49
SEYCHELLES	-0.64	26	0.25	-0.26	41	0.19	-0.45	35
SIERRA LEONE	-0.69	22	0.25	-0.42	38	0.18	-0.56	30
SINGAPORE	1.85	96	0.35	-0.88	24	0.16	0.49	74
SLOVAK REPUBLIC	0.70	77	0.32	0.89	75	0.12	0.80	81
SLOVENIA	1.20	87	0.30	1.00	79	0.12	1.10	90
SOLOMON ISLANDS	-0.89	11	0.35	0.61	64	0.20	-0.14	46
SOMALIA	-1.16	3	0.41	-1.36	10	0.18	-1.26	5
SOUTH AFRICA	0.38	70	0.19	0.85	71	0.16	0.61	77
SPAIN	1.05	86	0.34	1.02	80	0.16	1.04	88
SRI LANKA	0.43	73	0.34	-0.21	42	0.16	0.11	58
ST. KITTS AND NEVIS	-0.70	21	0.35	0.94	77	0.20	0.12	58
ST. LUCIA	-0.09	61	0.35	1.34	95	0.20	0.62	78
ST. VINCENT AND THE GRENADINES	-0.27	51	0.35	1.22	89	0.20	0.48	73
SUDAN	-0.83	15	0.25	-1.54	6	0.17	-1.18	6
SURINAME	-1.08	7	0.36	1.08	83	0.20	0.00	54
SWAZILAND	-0.80	17	0.21	-1.27	11	0.17	-1.03	9
SWEDEN	1.91	97	0.34	1.44	99	0.16	1.67	98
SWITZERLAND	1.41	90	0.35	1.38	97	0.16	1.40	93
SYRIA	-1.04	8	0.37	-1.48	8	0.17	-1.26	4
TAIWAN	1.23	88	0.54	0.87	74	0.16	1.05	89
TAJIKISTAN	-0.72	20	0.35	-1.01	19	0.12	-0.87	16
TANZANIA	-0.45	40	0.20	-0.22	42	0.16	-0.34	38
THAILAND	0.72	79	0.33	0.24	54	0.16	0.48	74
TIMOR, EAST	-0.30	49	0.43	0.60	63	0.18	0.15	59
TOGO	-0.57	30	0.25	-1.24	12	0.17	-0.90	12
TONGA	-0.64	27	0.35	0.06	49	0.20	-0.29	39
TRINIDAD AND TOBAGO	0.02	63	0.34	0.86	72	0.16	0.44	71
TUNISIA	-0.24	53	0.25	-1.37	9	0.16	-0.81	20
TURKEY	0.86	82	0.30	-0.32	40	0.16	0.27	63
TURKMENISTAN	-1.12	4	0.38	-1.78	3	0.12	-1.45	1
TUVALU	-1.22	1	0.41	1.02	80	0.20	-0.10	48
UGANDA	-0.29	50	0.20	-0.18	43	0.16	-0.24	41
UKRAINE	0.81	80	0.31	-0.89	23	0.12	-0.04	51
UNITED ARAB EMIRATES	-0.10	60	0.36	-1.16	15	0.16	-0.63	26
UNITED KINGDOM	2.36	98	0.34	1.12	87	0.16	1.74	99
UNITED STATES	2.78	100	0.31	1.28	93	0.16	2.03	100

URUGUAY	0.15	65	0.33	0.87	73	0.16	0.51	75
UZBEKISTAN	-0.76	19	0.38	-1.51	7	0.12	-1.13	7
VANUATU	-0.89	12	0.35	0.87	72	0.20	-0.01	53
VENEZUELA	-0.43	41	0.30	-0.64	33	0.16	-0.53	31
VIETNAM	-0.42	42	0.34	-1.61	5	0.16	-1.02	10
WEST BANK GAZA	-0.55	33	0.77	-1.51	6	0.19	-1.03	9
YEMEN	-0.70	21	0.35	-0.97	20	0.17	-0.83	18
ZAMBIA	-0.49	36	0.20	-0.58	35	0.16	-0.54	30
ZIMBABWE	-0.64	26	0.20	-1.77	3	0.16	-1.21	5
Num. obs	194			194			194	
Min	-1.36			-2.14			-1.73	
Max	2.78			1.45			2.03	
Average	0.00			0.00			0.00	
Std Dev	0.90			0.99			0.83	

Appendix 3. Results of the regression analysis

Table A1. Transparency and Corruption

	Dependent Variable: Control of Corruption (KK)						Dependent Variable: Composite Bribery (EOS)					
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
UCM Institutional Transparency	0.38			0.38			0.31			0.34		
	*5.29****			*5.26****			*3.70****			*4.11****		
UCM Political Transparency		0.41			0.41			0.21			0.24	
		*6.72****			*6.66****			*3.61****			*4.03****	
UCM Overall Transparency			0.57			0.58			0.37			0.41
			*7.16****			*7.27****			*3.97****			*4.58****
Administrative regulations	0.48	0.50	0.50	0.44	0.48	0.47	0.56	0.57	0.57	0.50	0.52	0.52
	*6.81****	*6.98****	*7.56****	*6.40****	*7.04****	*7.34****	*7.78****	*8.55****	*8.74****	*7.91****	*8.97****	*9.22****
Economic Expectations	-0.08	-0.06	-0.07				-0.13	-0.11	-0.12			
	1.22	*1.04*	*1.32*				*1.97**	*1.62*	*1.73**			
GDP per capita (PPP)	1.16	1.26	0.98	1.13	1.23	0.94	1.26	1.46	1.24	1.15	1.36	1.11
	*7.76****	*11.42****	*7.54****	*7.33****	*10.74****	*6.95****	*8.69****	*14.28****	*9.02****	*7.95****	*13.44****	*8.38****
Growth Rates 2001-2003				-0.01	-0.01	-0.01				-0.04	-0.04	-0.05
				0.49	*0.63*	*1.02*				*2.86****	*2.45***	*2.89****
Observations	**104**	**104**	**104**	**104**	**104**	**104**	**104**	**104**	**104**	**104**	**104**	**104**
Adj R-squared	**0.80**	**0.82**	**0.84**	**0.8**	**0.82**	**0.84**	**0.81**	**0.8**	**0.82**	**0.82**	**0.81**	**0.83**

T-stats in italics below each coefficient estimate; * significant at 10% level; ** significant at 5% level; *** significant at 1% level

Sources: Administrative Regulations, Economic Expectations and Composite Bribery (average of 7 categories), drawn from EOS 2004, range from 1 (worst) to 7 (best). GDP per capita (PPP, log) drawn from Heston-Summers and CIA Factbook. Growth rates drawn from WDI 2004. Control of Corruption (drawn from KK 2004) ranges from -2.5 (worst) to 2.5 (best).

Table A2. Institutional Transparency

	Dep Variable: Control of Corruption			Dep Variable: Global Competitiveness Index	
	1	2	3	4	5
UCM Institutional Transparency	0.61	0.25	0.37	0.34	0.66
	*8.59****	*3.93****	*1.14*	*4.75****	*2.02***
Political Rights	0.14	0.11	0.16	-0.01	0.04
	*5.14****	*5.43****	*3.79****	*0.37*	*0.85*
Political Rights * Institutional Transparency			**0.04**		**0.01**
			0.85		*0.25*
GDP per capita (PPP)		1.05		1.12	
		10.36***		7.61***	
Observations	**188**	**188**	**188**	**103**	**103**
Adjusted R-squared	**0.58**	**0.73**	**0.59**	**0.77**	**0.61**

T-ratios in italics. A constant term was used in all regressions but not shown here

Table A3. Political Transparency

	Dep Variable: Control of Corruption				Dep Variable: Global Competitiveness Index	
	1	2	3	4	5	6
UCM Political Transparency	0.61	0.44	-0.37	0.05	-1.28	-0.24
	*3.80****	*3.63****	*2.01***	*0.34*	*2.87****	*0.69*
Political Rights	0.03	-0.04	0.12	0.01	0.19	-0.04
	0.41	*0.68*	*2.22***	*0.20*	*2.43***	*0.59*
Political Rights * Political Transparency			**0.20**	**0.08**	**0.31**	**0.11**
			*6.58****	*3.10****	*5.16****	*2.14***
GDP per capita (PPP)		1.26		1.15		1.23
		12.88***		9.96***		7.24***
Observations	**188**	**188**	**188**	**188**	**103**	**103**
Adjusted R-squared	**0.42**	**0.72**	**0.52**	**0.74**	**0.56**	**0.77**

T-ratios in italics. A constant term was used in all regressions but not shown here

Table A4. Transparency indexes and Governance indicators, 2004

	Gov. Effectiveness	Voice & Accountability	Control of Corruption
GNI per cap	0.55***	0.10**	0.64***
	(0.44)	(0.44)	(0.05)
Ec/Inst Transp	0.56***	0.09	0.31***
	(0.75)	(0.75)	(0.08)
Pol Transp	0.12**	1.05***	0.24***
	(0.06)	(0.06)	(0.07)
Constant	-0.01	0.02	-0.02
	(0.03)	(0.03)	(0.03)
# obs	165	165	164
R^2	0.82	0.81	0.81

** indicates significance at .05 level and *** at .01 level. Standard errors in brackets.
Source: Government effectiveness, Voice & Accountability and Control of Corruption: KKZ 2004.

Table A5. Overall transparency and number of radios per capita

	All countries	OECD	Non-OECD
GNI per cap	0.34***	0.17**	0.38***
	(0.88)	(0.67)	(0.19)
Radio per cap	0.35***	0.05	0.99***
	(0.10)	(0.04)	(0.25)
Constant	0.00	1.79	0.22
	(0.08)	(0.21)	(0.11)
# obs	43	7	36
R^2	0.67	0.75	0.52

** indicates significance at .05 level and *** at .01 level. Standard errors in brackets.
Source: Radio per capita: World Development Indicators, 2003.

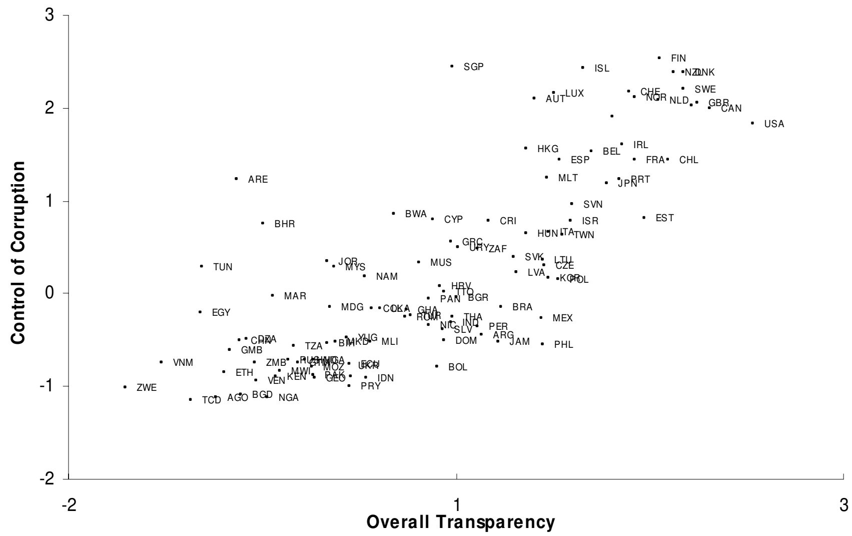
Table A6. Transparency and Human development indicators

	Life Expectancy	Fem. Literacy	Immunization
GNI per cap	0.42***	0.62***	0.31***
	(0.08)	(0.18)	(0.09)
Transparency	0.38***	0.41***	0.27***
	(0.10)	(0.16)	(0.14)
Constant	-0.02	0.21	0.10
	(0.06)	(0.10)	(0.06)
# obs	164	76	163
R^2	0.43	0.36	0.24

** indicates significance at .05 level and *** at .01 level.
Source: Life expectancy, Female Literacy and Immunization: World Development Indicators, 2003.

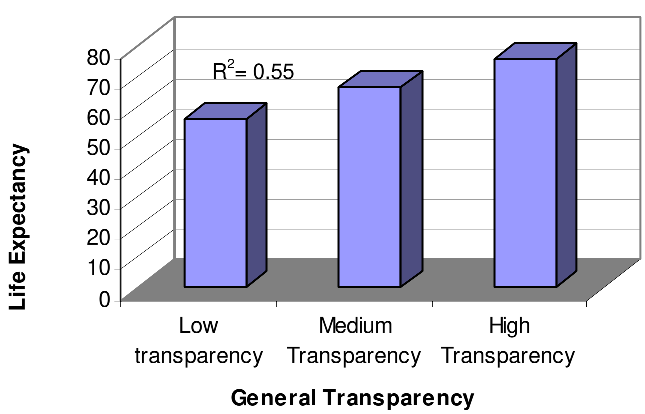
Appendix 3. Additional graphs.

Graph A1. Control of Corruption and Overall Transparency



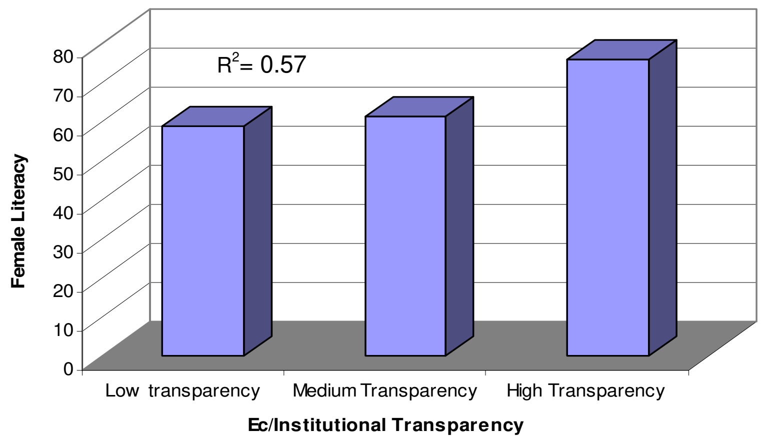
Source: Control of Corruption: KK04, Overall Transparency Index 2005.

Graph A2. Transparency vs. Life expectancy



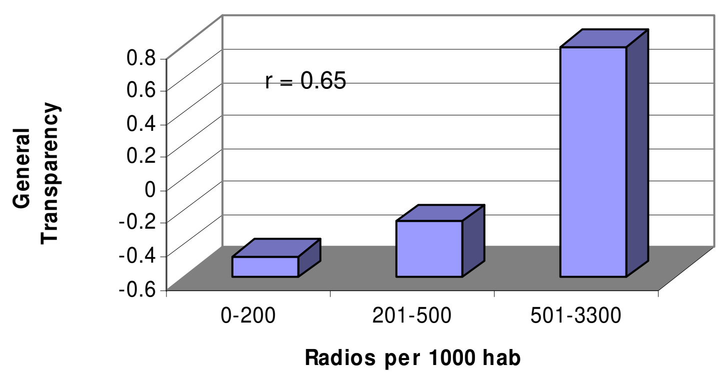
Sources: Life expectancy: World Development Indicators 2002, Overall Transparency Index 2005, #countries 185.

Graph A3. Ec/Institutional Transparency vs Female Literacy Rate



Sources: Female Literacy Rate: World Development Indicators 2002, Ec/Institutional Transparency Index 2005, #countries 185

Graph A4. Radios per 1000 hab. vs. Overall Transparency Index



Sources: Radio per 1000 people (World Development Indicators 2002); Overall transparency Index 2005, #countries 49.

Appendix 4. Components of Aggregate Transparency Indicators

Table A5. Economic/Institutional Transparency		
Variable	**Coverage**	**Concept measured**
Representative sources		
ET 2004	worldwide	Publication of economic variables
UNE 2003	worldwide	E-government
EGOV 2004	worldwide	E-government
FOI 2004	worldwide	Freedom of information laws
CPEOS 2004	worldwide	Communication of policy and transparency in public contracts
Non-representative sources		
AIGII 2004	worldwide[36]	Access to information
IBP 2004	Developing and transition economies	Budget Transparency
OCDE 2004	OCDE countries	Budget Transparency
IBPL 2003	Latin American countries	Budget Transparency
AGIT2004	African countries	Transparency civil service
CPIA 2003	developing countries	Transparency, Accountability and Corruption Public Sector
CPIAA 2003	African countries	Transparency and Corruption Public Sector
WCY 2004	OECD countries	Transparency of policy

Table A6. Political Transparency		
Variable	**Code**	**Concepts measured**
Representative sources		
PDTI 2004	worldwide	Political Funding disclosure
PFEOS 2004	worldwide	Transparency in political funding
POL 2002	worldwide	General openness of political institutions
FRH 2004	worldwide	Free Press
HUM 2003	worldwide	Freedom of speech
RSF 2003	worldwide	Free Press
FPEOS 2004	worldwide	Free Press
Non-representative sources		
FP GII	worldwide	Free Press
FP FHT	transition economies	Free Press

[36] Variables from the Public Integrity Index have been considered as non-representative because the index only covers 25 countries, even though they are from all geographical regions.

Appendix 5. Sources of Transparency Data

A1: African Development Bank (ADB)

http://www.afdb.org/

The African Development Bank (ADB) is a major development bank in Africa. Established in 1963 in order to promote economic and social development, the Bank has grown into a $33 billion, multinational development bank, with 52 African countries and 24 other shareholders.

The African Development Bank develops its own "Country Policy and Institutional Assessment" for its own Client sample. Similarly to the World Bank's CPIA, the ADB Indicators annually assess the quality of African Development Bank borrowers' policy and institutional performance in areas relevant to economic growth and poverty reduction.

The variable included in the Ec/Institutional Transparency indicator is "Transparency / corruption"

A2: Centre for Public Integrity (CPI)

http://www.publicintegrity.org/ga/

The Center for Public Integrity is a nonprofit organization that conducts investigative research and reporting on public policy issues in the United States and around the world. The Center has published a Public Integrity index assessing the institutions and practices that citizens can use to hold their governments accountable to the public interest including the following categories:

1. Civil Society, Public Information and Media: Civil Society Organizations; Access to Information; Freedom of the Media.
2. Electoral and Political Processes: National Elections; Election Monitoring Agency; Political Party Finances.
3. Branches of Government: Executive; Legislature; Judiciary.
4. Administration and Civil Service: Civil Service Regulations; Whistle-Blowing Measures; Procurement; Privatization.
5. Oversight and Regulatory Mechanisms: National Ombudsman; Supreme Audit Institution; Taxes and Customs; Financial Sector Regulation.
6. Anti-Corruption Mechanisms and Rule of Law: Anti-Corruption Law; Anti-Corruption Agency; Anti-Corruption Agency; Rule of Law and Access to Justice; Law Enforcement.

It covers 25 countries around the world, including Argentina, Australia, Brazil, Germany, Ghana, Guatemala, India, Indonesia, Italy, Japan, Kenya, Mexico, Namibia, Nicaragua, Nigeria, Panama, the Philippines, Portugal, Russia, South Africa, Turkey, Ukraine, the United States, Venezuela and Zimbabwe. In each country, the Center for Public Integrity used teams of at least five researchers, working independently, to compile the material for the Country Reports. A country team typically consisted of a lead social scientist, an investigative journalist and five country readers forming a peer-review panel.

Two variables from the category "Civil Society, Public Information and Media" were included in the following Transparency indicators:

- Ec/Institutional Transparency: "Access to Information", ie. In law do citizens have a right of access to information? and In practice, is the right of access to information effective?

- Political Transparency: "Freedom of the media", ie. legal guarantees to free media and speech, the ability of citizens to form media entities and the ability of the media and journalists to report freely and safely when investigating corruption matters.

A3: Centre for Public Policy (Brown University)

http://www.insidepolitics.org/egovt04int.pdf

The Global E-Governance Index is compiled by the Brown University's Center for Public Policy and it covers 1,935 national government websites for the 198 nations around the world. The Centre has published reports for 2001-2004.

Official websites are evaluated for the presence of various features dealing with information availability, service delivery, and public access. Features assessed included the name of the nation, region of the world, and having the following features: online publications, online database, audio clips, video clips, non-native languages or foreign language translation, commercial advertising, premium fees, user payments, disability access, privacy policy, security features, presence of online services, number of different services, digital signatures, credit card payments, email address, comment form, automatic email updates, website personalization, personal digital assistant (PDA) access, and an English version of the website.

Range for the E-Government index- 0 (bad)-100 (good) based on availability of publications and databases (72 points) and number of online services (28 points).

Global E-governance Index was included in the Ec/Institutional Transparency sub-component.

The main difference between Global E-Government Index and the one developed by United Nations, is that the later measures how well e-government serves human development and therefore focuses on web sites of ministries / departments dealing with health, education, social welfare, employment and finance. Global E-Government Index addresses different scope of activities and it does not measure e-participation.

A4: CIRI Human Rights Database

www.humanrightsdata.com

The Cingranelli & Richards Human Rights Database contains standards-based quantitative information on government respect for 13 internationally recognized human rights for 195 countries, annually from 1981-2003. It contains measures of government human rights practices, not human rights policies or human rights conditions. CIRI currently includes measures of the practices of governments that allow or impede citizens who wish to exercise their:

- Physical integrity rights--the rights not to be tortured, summarily executed, disappeared, or imprisoned for political beliefs. The scores of these variables can be summed to form a statistically valid cumulative scale (Cingranelli and Richards, 1999; Richards, Gelleny, and Sacko, 2001).
- Civil liberties such as free speech, freedom of association and assembly, freedom of movement, freedom of religion, and the right to participate in the selection of government leaders. The scores of some of these variables can be summed to form a statistically valid cumulative scale (Richards, Gelleny, and Sacko, 2001).
- Workers' rights
- Rights of women to equal treatment politically, economically, and socially.

The variable included in the Political Transparency indicator is "Freedom of Speech". This variable indicates the extent to which freedoms of speech and press are affected by government censorship, including ownership of media outlets. Censorship is any form of restriction that is placed on freedom of the press, speech or expression. Expression may be in the form of art or music.

A5: Freedominfo

www.freedominfo.org

Freedominfo is a virtual network that links freedom of information movements around the world in their struggle for greater openness. The site is a one-stop portal that describes best practices, consolidates lessons learned, explains campaign strategies and tactics, and links the efforts of freedom of information advocates around the world. It contains crucial information on freedom of information laws and how they were drafted and implemented, including how various provisions have worked in practice.

The freedominfo.org site is edited by a multinational volunteer Editorial Board, and is hosted and staffed by George Washington University's National Security Archive, the leading non-profit user and advocate of the U.S. Freedom of Information Act. Grants from the Open Society Institute, the Ford Foundation, the John S. and James L. Knight Foundation, and the John D. and Catherine T. MacArthur Foundation underwrite the site. The "Global Survey- Freedom of Information and Access to Government Records Around the World" was compiled by David Banisar of the University of Leeds and Privacy International. The survey describes the situation of freedom of information laws in each country as in October 2004.

The information contained in the survey was included in the Ec/Institutional Transparency indicator with the following codification: 2 = Comprehensive access law enacted, 1 = Pending effort to enact law and 0 =No operative law.

A6: Freedom House (FRH, FHT)

http://www.freedomhouse.org

Freedom House is a non-governmental organization which promotes democratic values around the world. Freedom House was established in 1941 and is headquartered in New York City.
We rely on data from two Freedom House publications. "Freedom in the World" which was launched in 1955 and became an annual publication in 1978, covering 192 countries and/or related and disputed territories and "Nations in Transit" which was launched in 1995 and covers 28 post-communist countries.

Freedom House develops its assessments using a team of academic advisors, in-house experts, published resources, and local correspondents including human rights activists, journalists, editors and political figures. Freedom House staff also conduct regular fact-finding missions to countries being assessed. An academic advisory board provides input to the project in general.

Freedom in the World (FRH)

This publication evaluates political rights and civil liberties around the world.
Freedom House defines political rights as those freedoms that enable people to participate freely in the political process, and civil liberties as the freedom to develop views, institutions and personal autonomy apart from the state. For all countries, the subjective assessments are based on checklists of rights and freedoms. A Freedom House team assigns a rating to each item on the checklist and produces an initial assessment for each country. The team then assess whether the checklists might have missed an important factor for a particular country. The scores are then reviewed to ensure quality and consistency across countries and a final rating is produced.

The variable included in the Political Transparency indicator is "Freedom of the Press" which includes
- Laws and Practice: Assess whether or not dissent is allowed, if private media are permitted alongside governmental broadcasting, if independent media, in practice, are permitted to express diverse views
- Political Influence over Media Content: This category reflects political pressure on the content of both privately owned and government media, and takes into account the day-to-day conditions in which journalists work, threats from organized crime, or from religious extremists, for example, often generate self-censorship and so negatively affect the media environment
- Economic influence over Media Content: Influence may come from the government or from private entrepreneurs. This reflects competitive pressures in the private sector that distort reportage as well as economic favoritism or reprisals by government for unwanted press coverage
- Actual Incident of Violations of Press Freedom: Murders, arrests, suspension and other violations create a sense of fear which may discourage objective reporting

Freedom House Nations in Transit (FNT). This publication evaluates the progress in democratic and economic reform in post-communist countries. Country surveys are written by Freedom House staff or consultants and are reviewed by academics and senior Freedom House staff. Each report is divided into nine sections, ranging from the political process to progress in price liberalization. For each section, a preliminary rating is based on a checklist of issues. The academic oversight board establishes the final ratings by consensus following extensive discussions and debate, which are reviewed by the Freedom House rating committee.

The variable included in the Political Transparency indicator is “Independent Media” which includes: Press freedom, public access to a variety of information sources, and independence of those sources from undue government or other influences.

A7: International Budget Project (IBP)

http://www.internationalbudget.org/

The International Budget Project was formed within the Center on Budget and Policy Priorities in 1997 to nurture the growth of civil society capacity to analyze and influence government budget processes, institutions and outcomes. The overarching aim of the project is to make budget systems more responsive to the needs of society and, accordingly, to make these systems more transparent and accountable to the public.

Open Budget Initiative

The Open Budget Questionnaire is an independent assessment of public access to budget information from the perspective of civil society organizations. The Questionnaire also covers other budget transparency issues in order to explore ways of improving public understanding and involvement in the budget. IBP has worked with independent groups to apply the method in 36 countries and plans to expand coverage to 60 countries in the next two years

In 2004 the Open Budget Questionnaire was carried out in 36 countries: Argentina, Azerbaijan, Bangladesh, Bolivia, Botswana, Brazil, Bulgaria, Burkina Faso, Colombia, Costa Rica, Croatia, Czech Republic, Ecuador, El Salvador, Georgia, Ghana, Honduras, India, Indonesia, Jordan, Kazakhstan, Kenya, Malawi, Mexico, Mongolia, Namibia, Nepal, Nicaragua, Peru, Poland, Romania, Russia, Slovenia, South Africa, Uganda, and Zambia.

An average simple was calculated with the 3 categories of the Open Budget and included in the Ec/Institutional indicator:

- Executive Budget Documents (availability of) (Budget year and beyond, Prior year and before, Comprehensiveness)
- Monitoring and Evaluation Reports (availability of) (In-year monitoring reports, End-of-year evaluation reports)
- Encouraging Public and Legislative Involvement (Highlighting policy and performance goals, Involvement of legislature, Facilitating public discourse and understanding)

Score: 100 (good) - 0 (bad)

The Latin American Index of Budget Transparency 2003

http://www.internationalbudget.org/themes/BudTrans/LA03.htm

Organizations in ten Latin American released the results of a year-long study on budget transparency and participation in their countries. The effort was coordinated by Fundar, a Mexican non-governmental organization, and leading non-governmental organizations and academic researchers in the following countries have participated: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Nicaragua, and Peru.

4 expert panels (Legislators, Media, Academic experts, NGOs) are asked to evaluate different aspects of the budget process in their countries such as access to budget information, citizen’s participation and credibility of institutions. Each country receives an overall transparency rating from 1 to 100, with 100 being highly transparent

The following variables are included in the index: Citizen participation, Role and participation of the legislature, Information on macroeconomic criteria, Budget allocation, Changes in the budget, Budget oversight, Capacities of external control body, Credibility of the internal comptroller, Accountability, Supervision of federal officials, Information on federal debt, Quality of information and statistics, Responsibilities among governmental levels and Timelines of information

The index was included in the Ec/Institutional Transparency indicator.

A8: Institute for Management Development (WCY)

http://www.imd.ch

The Institute for Management Development is an research and educational organization based in Lausanne, Switzerland. It has published the World Competitiveness Yearbook since 1987. Until 1996, this was a joint effort with the World Economic Forum. The World Competitiveness Yearbook analyzes the competitive environment in 47 countries. It is based on both objective data and surveys of perceptions. The survey questions over 4,000 local and foreign enterprises operating in the countries under analysis. Mean scores on the survey questions are reported in the yearbook for all countries. In the table below we list the questions included in the governance database.

The variable included in the Ec/institutional Transparency indicator is Transparency of Government policy

A9: OECD/WB Budget Practices and Procedures Survey

http://ocde.dyndns.org/

It includes 44 Countries: Algeria, Belgium, Chile, Egypt, Greece, Ireland, Jordan. Morocco, Peru, South Africa, Turkey, Argentina, Bolivia, Colombia, Finland, Hungary, Israel, Kenya, Netherlands, Portugal, Spain, UK, Australia, Cambodia, Czech Republic, France, Iceland, Italy, Korea, New Zealand, Slovak Republic, Suriname, USA, Austria, Canada, Denmark, Germany, Indonesia, Japan, Mexico, Norway, Slovenia, Sweden, Uruguay.

For the Ec/Institutional Transparency index, questions related to the following categories were included ias a simple average:

- Procurement (Do public procurement procedures define standard practices for bid deposit, bid opening, evaluation, publications and record-keeping? Are there standardized procedures manuals, forms and documents made available to contracting entities and training establishments? and special programmes to disseminate information and training to potential bidders in the private sector? Are compliance with procurement regulations audited? Is there a minimum threshold value above which “open and competitive” tender procedures must be used?)
- Internal Control and Internal Auditing (Are internal audit procedures clear and subject to effective process review by external auditors? Are all spending units required to have an internal audit unit if they are not served by that of a line ministry? Are the internal audit reports made available to the external auditor?)
- Budgeting, Accounting and Financial reporting (Are audited final accounts published and available publicly?, Are government entities subject to financial audits by an external auditor?, Are the findings of the National Audit Body available to the public?, Are audit results circulated and discussed in Parliament?, How are the subjects of audits determined?, Is there a system to track audit recommendations once issued?)
- Budget Documentation (Is the Budget Document presented to the Legislature comprehensive?, Is the budget documentation placed on the Internet?)
- Types of Data Reported in Budget Documents (Do budget documents cover extra-budgetary funds and activities? Is there a legal framework for the ways that extrabudgetary activities are managed and reported?),
- Performance information (Are performance results made available to the public?, Is the performance data externally audited)
- Control and audit of budget practices and processes of government agencies (Internal audit is made regularly in most government agencies?, Are external audits made public?),
- Reporting on and Audit of Finances for the Judiciary (Is there an internal audit of the judiciary’s financial management systems?, Are financial reports on revenues collected subject to external audit?), Donor Funding and the Budget (Are donor funds “on-budget”?, Is information on donor conditionalities published?

A10: Polity IV Project

www.cidcm.umd.edu/inscr/polity

The Polity IV dataset includes 161 contemporary countries, including all countries where the 2002 population exceeds five hundred thousand. The long-established members of the international system are coded beginning in 1800. More recently established countries are coded for the year in which their first independent government was formed--usually the year of independence, sometimes a few years earlier or later.

The variable included in the political transparency index is Institutionalized Democracy where democracy is conceived as three essential, interdependent elements:
a. the presence of institutions and procedures through which citizens can express effective preferences about alternative policies and leaders.
b. the existence of institutionalized constraints on the exercise of power by the executive.
c. the guarantee of civil liberties to all citizens in their daily lives and in acts of political participation.

The Democracy indicator is an additive eleven-point scale (0-10) calculated as the weighted average of competitiveness of political participation, openness and competitiveness of executive recruitment, and constraints on the chief executive.

A11: Reporters Without Borders (RSF)

http://www.rsf.org

Reporters Without Borders - headquartered in Paris - is an international organization dedicated to the protection of reporters and respect of press freedom in the world. In 2002, International Reporters Without Borders published its first worldwide press freedom index, compiled for 139 countries. The organisation's initiatives are being carried out on five continents through its national branches and its offices in Abidjan, Bangkok, Buenos Aires, Istanbul, Montreal, Nairobi, New York, Tokyo and Washington. It also works in close co-operation with local and regional press freedom organisations and with members of the "Reporters without Borders' Network."

The index was drawn up by asking journalists, researchers and legal experts worldwide to answer 50 questions about the whole range of press freedom violations (such as murders or arrests of journalists, censorship, pressure, state monopolies in various fields, punishment of press law offences and regulation of the media).

The Press Freedom Index from RSF was included in the Political Transparency indicator.

A12: Transparency International (TI)

www.transparency.org

Transparency International is a non-governmental organization devoted to combating corruption. The Global Corruption Report (2004) published by Transparency International focuses on corruption in the political process, and on the impact of corrupt politics on public life in societies across the globe. The report includes an assessment prepared by Michael Pinto-Duschinsky on Political Finance Disclosure programs in 119 countries.

The information from the database was included in the Political Transparency indicator with the following codification:
4- High disclosure- ie. Countries where three categories of disclosure are required:
   a. disclosure by political parties of income and/or expenditure accounts
   b. disclosure by candidates of income and/or expenditure accounts
   c. disclosure of the identity of donors to political parties
3- Medium disclosure: only two types
2- Low disclosure (only one kind of disclosure)
1- Hidden disclosure (Government see financial reports but not public)
0- No disclosure

A13: United Nations Economic Commissions for Africa (UNECA)

http://www.uneca.org/

Established in 1958, the Economic Commission for Africa is one of five regional commissions under the administrative direction of United Nations headquarters. As the regional arm of the UN in Africa, it is mandated to support the economic and social development of its 53 member States, foster regional integration, and promote international cooperation for Africa's development.

The Africa Governance Indicators is the result of a study initiated by the United Nations Economic Commission for Africa, as part of the first major continent-wide study to measure and monitor progress of governance in Africa, published in "Progress towards Good Governance in Africa." The objective of the research was to ascertain current public perceptions of the state of governance in the region. By placing strong emphasis on local and national surveys, and incorporating the views of a wide cross-section of society, it aimed not only to take a snapshot of the perception of governance in various countries, but also to highlight key capacity deficits and encourage the sharing of intraregional experience and knowledge on the challenges to good governance

The following African Governance Indicator was included in the Ec/Institutional sub-component: "Civil service transparency / accountability".

A14: United Nations, World Public Sector Report

http://www.unpan.org/dpepa_worldpareport.asp

The World Public Sector Report, 2003, E-Government at the Crossroads includes a survey on the use of Information Communication Technologies by Government in the following areas: general, education, health, social welfare, finance and employment. The survey was carried out among the 191 Member States (173 with internet presence, 18 without internet presence)

In the Ec/Transparency indicator two indexes were included as a simple average:
<u>E-Government Readiness Index</u> (quantitative)
- capacity or aptitude of the public sector to use ICT
- comprises Web Measure Index (presence/absence of specific electronic facilities/services available in official government site plus 5 additional Ministries), Telecommunication Infrastructure Index (weighted average of PCs, internet users, phone lines, online population, mobile phones and TVs per 1000 persons), and Human Capital Index (adult literacy and enrolment ratio).

<u>E-Participation Index</u> (qualitative)
- willingness, on part of the government, to provide high quality information/service and effective tools for citizens' participation.
- assessment of a total of 21 citizen informative and participatory services/facilities in e-information, e-consultation and e-decision making on a scale on 0-4.

A15: World Bank (WB)

http://www.worldbank.org

<u>Country Policy & Institutional Assessment (CPIA)</u>
The Country Policy and Institutional Assessment (CPIA) annually assess the quality of World Bank borrowers' policy and institutional performance in areas relevant to economic growth and poverty reduction. Country assessments began in the World Bank in the late 1970s to help guide the allocation of lending resources. The methodology has evolved over time, reflecting lessons learned and mirroring the evolution of the development paradigm. While in earlier years assessments focused mainly on macroeconomic policies, they now include other factors relevant to poverty reduction, such as social inclusion, equity and governance.

The CPIA consists of equally weighted criteria representing the policy dimensions of an effective poverty reduction and growth strategy. The criteria are grouped in four clusters. Cluster A, Economic Management, covers economic policies. Cluster B, Structural Policies, covers a broad range of structural policies: trade policies, financial depth, market competition, and environmental sustainability. Cluster C, Policies for Social Inclusion and Equity, focuses on social equity and broad-based growth, and aims to capture the extent to which a country's policies and institutions ensure that the benefits of growth are widespread, contribute to the accumulation of social capital, and direct public programs to poor people and reduce their vulnerability to various kinds of shocks.

Cluster D, Public Sector Management and Institutions, aims to capture key aspects of good governance. For each of the criteria, countries are assessed on a scale of 1 (low) to 6 (high). The ratings are prepared by the World Bank's country economists and focus on the quality of the country's current policies and institutions, which are the main determinants of the present prospects for aid effectiveness. The rating assigned for each criterion reflects a variety of indicators, observations, and judgments: ratings are based on country knowledge obtained from country dialogue and the Country Assistance Strategy (CAS) process, the available body of economic and sector work (ESW), project preparation and supervision, and project and CAS monitoring and evaluation.

The variable included in the Ec/Institutional Transparency indicator is “Transparency, accountability and corruption in public sector”

Islam Economic Transparency Index

http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2003/07/08/000094946_03062104301553/Rendered/PDF/multi0page.pdf

The Economic Transparency index published by R. Islam assesses how much economic information Government is willing to disclose by evaluating availability on official web site, World Development Indicators (World Bank) or International Financial Statistics (IMF) of the following variables at the “desirable” frequency level:

- GDP
- Unemployment
- CPI
- Imports
- FDI
- Exchange rate
- Government revenue (Central Government fiscal revenue)
- Government expenditure
- Money supply (M_2)
- Deposit interest rate

The index is currently being updated. 2002 index includes 169 countries (145 developing, 24 developed).

A16: World Economic Forum (WEF)
http://www.weforum.org

The World Economic Forum (WEF) is an independent, not-for-profit organization bringing together top leaders from business, government, academia and the media to address key economic, social and political issues in partnership. The WEF was founded in 1971 and is headquartered in Geneva, Switzerland.

Since 1996, the WEF has sponsored the Global Competitiveness Report, an annual publication produced in collaboration with the Harvard Institute for International Development (HIID). As background for this report, the WEF conducts the Global Competitiveness Survey, which measures the perceptions of business executives about the country in which they operate. The survey asks top managers to rank on a 1 to 7 scale their opinion on issues in eight broad areas: 1) Openness, 2) Government, 3) Finance, 4) Infrastructure, 5) Technology, 6) Management, 7) Labor, and 8) Institutions.

In 1998 and 2002 the WEF sponsored separate surveys of countries in Africa and Middle East, respectively. We incorporated them in the Global Surveys, resulting in an increase of country coverage in 1998 and 2002 of 20 and 8 countries, respectively.

Below we list the variables included in each of the transparency indicators:
Ec/Institutional Transparency:
- “Firms are usually informed clearly and transparently by the Government on changes in policies affecting their industry”
- “When deciding upon policies and contracts, Government officials favor well-connected firms”
(the simple average of these two questions was included in the aggregated sub-component)

Political Transparency
- “Newspapers can publish stories of their choosing without fear of censorship or retaliation”
- “Extent of direct influence of legal contributions to political parties on specific public policy outcomes”