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Toward a governance barometer for stormy times in Emerging Markets

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Abstract

Financial institutions are concerned by the quality of local institutions where they will invest capital as well as human resources and technology. In developing countries, political stability, curb of corruption and ease of doing business are considered by most investors as the key variables to boost attractiveness. Higher degrees of political instability are associated with lower growth rates of GDP per capita. Regarding the channels of transmission, political turmoil adversely affects growth by lowering the rates of productivity and physical and human capital accumulation. Income per capita, institutional stability and democracy are correlated because economic and socio-political institutions transform growth into comprehensive and inclusive development.

Today, with mounting global economic and geopolitical turbulences, measuring and anticipating the evolution of governance and institutional stability have never been more challenging. Our recent research shows that governance can provide risk managers with a reliable warning signal of socio-economic and political turmoil. To measure the level of governance, a new composite indicator has been built for 130 developing countries. Its added value stems from a wide range of sub-indices including business conditions, institutional stability, corruption, and human freedom, as well as an "expert assessment" that is based on seasoned country risk analysts. This new indicator has been evaluated in several convincing ways. A high relationship is observed between the governance barometer and low income per capita, institutional fragility, and corruption. This global indicator of governance could be a useful risk warning tool for financial and cross-border investment strategies. It remains that the structure of the new measure means scores will evolve slowly and cannot be expected to flag an immediately impending crisis.

Keywords: Country Risk, Governance, Corruption, Debt crisis, Inclusive development, Capital Flight, Socio-political stability.

I.   Introduction: Rising uncertainty makes investment strategies in search of crystal balls.

Financial institutions face growing uncertainty regarding the global economic, financial, and geopolitical environment. In mid-2025, one worrying development has been the decline of the dollar which, unusually, coincided with rising U.S. interest rates, hence the scope of a fiscal risk premium. Policy uncertainty weighed on investor sentiment. Gold prices kept rising to reach the unprecedented price of nearly $3,500/oz in Q2-2025. The prospects of full-blown global trade tensions, where partners retaliate to match US rising tariffs, could trigger stagflation prospects for developed and developing countries.

Once this gloomy context has been established, the fact remains that there will be winners and losers, both among financial institutions, investment banks, industrial enterprises and laboratories, and more generally among countries. As far as the latter are concerned, reduced

liquidity and the flight to safer assets (e.g., gold) could worsen debt servicing capacity. To boost growth in the context of high real rates and tighter access to financial markets, emerging market countries (EMCs) will more than ever compete to attract FDI flows. Cross-border investment helps fill financing gaps while bringing technology transfers, job creation, tax revenues and export-driven investment. But a growing number of countries face large balance of payments deficits, with weaker export revenues, larger import bills, and heavier debt ratios. In times of financial and political volatility, risk aversion begins with the sell-off in corporate and frontier market bonds that highlights investors' worries, leaving weaker companies and countries struggling to repay their debts. Liquidity tensions are the canary in the coal mine, announcing solvency difficulties. Debt defaults loom. The key question is: which countries will show resilience while others will fail? Financial institutions need a reliable barometer to identify EMCs on the brink of failing and those which offer credible investment and robust financial prospects.

II.   In search of reliable early warning signals.

Financial institutions strive to identify which countries offer robust growth trajectories with stable socio-political environment and strong debt servicing capacities. The problem starts looking at early warning signals of socio-political and financial turbulence. Most traditional risk signals are at best disappointing, at worst biased and generate additional risks (e.g., rating agencies, IMF reports, country risk indices). Regarding rating agencies, they have missed each debt crisis since the mid-1980s. They adjust their risk assessment too late and then overreact, downgrading countries while triggering regional spill over (e.g. Asian crisis, Global financial crisis). Economic analysis companies have not done a better job. The latest WEF Global Risks Report states[1]: "The global outlook is increasingly fractured across geopolitical, environmental, societal, economic and technological domains. Optimism is limited as the danger of miscalculation or misjudgment by political and military actors is high". That, clearly, does not shed much light to decide whether to invest in Ivory Coast or in Vietnam and Ghana, if one manages an export-driven cocoa producing company. One of the WEF Global Risks Report's key findings, which captures insights from more than 900 global experts, is that "state-based armed conflict is the biggest risk of 2025, creating a tinderbox context in which leaders must also manage escalating long-term environmental and social threats. By 2035, environmental risks are expected to dominate, reflecting a failure in international action on climate change."[2] But then how banks can decide whether Thailand or Morocco offer more reliable socio-economic prospects? Likewise, the 2025 Marsh's Political Risk Report states: "Today's heightened geopolitical risk environment leads organizations to reassess the geopolitical assumptions that guide their risk management decisions and investment strategies. Many long-standing assumptions — such as the stability and security of trade flows, and the reliability of supply chains from specific regions, are increasingly in flux[3]". Once again, managers, investors, and risk advisers are struck by the accuracy of the remark but despair at its limited usefulness.

III.   Can risk managers rely on official lenders to get alerts on governance quality and country risk developments?

The IMF and the World Bank have historically faced criticism for insufficient emphasis on governance and corruption when providing emergency financing to governments with weak institutional frameworks. Even states facing severe governance and institutional challenges have continued to access official international lending. Academic research shows that there is no evidence that less corrupt governments receive more foreign aid[4]. On the contrary, more corrupt governments receive more aid. Abruptly recognizing that poor governance is detrimental to inclusive development, the IMF promoted a Framework for Enhanced Engagement on Governance in 2018. In parallel, the IMF has provided technical assistance to help foster good governance, such as promoting public sector transparency and accountability. Still, the ten countries most indebted to the IMF (nearly 70% of its loan portfolio) are by no means impressive examples of good governance, transparency, and institutional quality.[5] They include Argentina, Egypt, Pakistan, Ukraine, Ecuador, DR Congo, Angola, Kenya, Ghana, and Ivory Coast. Moreover, several countries with persistent governance challenges have been eligible under the IMF's

enhanced debt reduction framework. [6]. One of the latest recipients of a massive 64% debt relief, equivalent to a US$4.5 billion debt reduction, was Somalia at end-2023[7], one of the worst corrupt countries by all standards. Despite the country's stubborn corruption, the World Bank still boasted in 2024 that "With support from the international community, Somalia has successfully implemented wide-ranging reforms aimed at rebuilding its economy and state institutions, despite a challenging domestic and external environment[8]" As recently as June 2024, the IMF asserted that the Common Framework for debt reduction aimed at accelerating the process of debt relief, stressing the examples of Ghana, Chad, Zambia, and Ethiopia[9]. In such contexts, debt reduction may have limited impact on poverty alleviation and institutional reform unless accompanied by robust governance conditions. A key question remains whether IMF lending frameworks adequately incentivize governance improvement, or risk inadvertently reinforcing conditions associated with instability and inequality. Looking at the twenty developing countries that concentrate 83% of the IMF's outstanding loans, and excluding Ukraine whose military spending is a byproduct of Russia's invasion, all the other IMF's borrowers exemplify a large share of military expenses in GDP and government spending. These countries boast the worst rankings in the Global Peace Index[10], a composite index measuring the peacefulness of 163 countries made up of 23 quantitative and qualitative indicators, across three domains: Societal Safety and Security, Ongoing Domestic and International Conflict, and Militarization.

Table 1 summarizes the relationships between IMF lending, military spending, corruption ranking, and the Governance Barometer. In promoting debt reduction, the IMF keeps calling for tighter fiscal measures without any emphasis on sustainable development objectives: "Countries aiming to reduce debt should seize the opportunity to tax and spend more efficiently. The focus should be on strengthening fiscal balances in a growth-friendly manner by broadening the tax base, removing inefficient tax exemptions, and ensuring that money is well spent.[11] One can still argue that better governance would lead to improving expense management, less military spending, and less domestic and external financing requirements, hence lower dependence on endless rounds of IMF financing.

	Military spending		IMF $b.	% Share of	Ranking	Ranking	Governance
	% GDP	% Govt spending	Total Lending	IMF Lending	Peace Index	Corruption CPI	Barometer
Jordan	4,90%	14,50%	1,43	1,2%	72	59	29
Morocco	3,64%	11,10%	0,94	0,8%	85	99	30
Colombia	3,40%	8,30%	0,94	0,8%	140	92	39
Pakistan	2,80%	14,50%	6,80	5,8%	144	151	78
Ecuador	2,30%	6,10%	6,23	5,3%	129	121	58
Senegal	1,50%	5,50%	1,00	0,9%	69	45	40
Sri Lanka	1,60%	7%	1,45	1,2%	97	121	44
Angola	1,33%	5,53%	2,75	2,4%	76	121	97
DR Congo	1,30%	7%	1,76	1,5%	160	163	121
Zambia	1,30%	5%	0,99	0,8%	64	92	77
Tanzania	1,20%	6%	1,00	0,9%	73	82	56
Bangladesh	1,10%	8%	2,92	2,5%	123	151	66
Cameroun	1,10%	5,60%	1,18	1,0%	137	140	103
Egypt	1%	4,20%	7,50	6,4%	107	130	69
Kenya	1%	4,20%	3,02	2,6%	127	121	54
Ivory Coast	0,90%	4%	2,56	2,2%	94	69	53
Ethiopia	0,80%	7,50%	1,41	1,2%	138	99	95
Argentina	0,50%	1,30%	40,26	34,4%	46	99	38
Ghana	0,50%	2%	2,45	2,1%	61	80	32
			117,00	100%	163	180	130
Ukraine	34%	58%	10,00	8,5%	162	105	61
				82,6%			

Source 1: https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS?locations=JO

Source 2: SIPRI

Source 3: https://worldpopulationreview.com/country-rankings/military-spending-by-country

Source 4: TI CPI, UNDP HDI, CIFE Governance Barometer

IV.   Governance assessment as a measure of socio-political stability

Private investors and financial institutions remain concerned by the quality of local institutions where they will invest capital as well as human resources and technology. They need to be reassured by a minimum of transparency and regulatory quality. In 2024, the 25 countries that boast the best FDI attractiveness scores are also those that show economic openness, low

corruption and transparency[12]. Regarding developing countries, the empirical results confirm that institutional quality has a positive impact on foreign direct investment (FDI)[13], except for mining and hydrocarbon-producing countries where bad governance does not seem an obstacle[14]. In the specific case of Africa, political stability, curb of corruption and ease of doing business are considered by most investors as the key variables to boost the continent's attractiveness[15]. As Şebnem Kalemli-Özcan observed in the case of Turkey: "Economic strength is not self-sustaining, it needs strong institutions and democratic integrity."[16]

With mounting global economic and geopolitical turbulences, measuring and anticipating the evolution of governance and institutional stability have never been more challenging. Our recent research shows that governance can provide risk managers with a reliable warning signal of socio-economic and political turmoil. Good governance is key to a country's attractiveness and debt servicing capacity. Academic research confirms that institutional strength is a key ingredient of socio-economic growth[17]. Sociopolitical instability impedes sustainable and inclusive development. Higher degrees of political instability are associated with lower growth rates of GDP per capita. Regarding the channels of transmission, political turmoil adversely affects growth by lowering the rates of productivity and, to a smaller degree, physical and human capital accumulation[18]. Inversely, income per capita, institutional stability and democracy are correlated because economic and socio-political institutions transform growth into comprehensive development.

Should a country's socio-economic environment be negatively affected by political turmoil, it's not surprising that the economic climate also suffers, so that economic agents, whether national or foreign, wish to protect themselves from instability and therefore anticipate it. The latest WTW Political Risk Survey Report[19] documents a sea change in how companies perceive political risk, given that political risk losses of all kinds soared over the last few years: "The heyday of the global rules-based order appears to be over. Geopolitics is now more volatile and less kind to globalized business". Geostrategic competition, economic nationalism, democratic backsliding, and populism increase in both developed and developing countries. Likewise, the Marsh Political Risk report[20] concludes that businesses face a world made more volatile and riskier by systemic macroeconomic and geopolitical disruptions. International governance norms are losing legitimacy, contributing to a surge in unpredictable and longer-lasting conflicts.

V.   The challenge of assessing and measuring governance
Overall, country risk analysts, policymakers, and portfolio managers have no shortage of governance indicators. They can rely on roughly forty indicators of governance and socio-economic stability, mainly in developing countries. However, though good governance is a key ingredient to feed inclusive socio-economic growth, its definition and measure remain a challenge. Does governance boil down to low corruption? Is bureaucracy quality and good infrastructure key components of governance? Is democracy a prerequisite for sustained development? Overall, governance covers all aspects of how a country is governed, including its economic policies, regulatory framework, and adherence to the rule of law. We define governance as the robustness of institutions which help transform economic growth into sustained and inclusive development[21]. We define institutions as formal and informal norms and enforcements of socio-economic and political interactions. Governance, therefore, comprises such variables as accountability, government effectiveness, transparency and regulatory quality, as well as control of corruption. Several elements are detrimental to comprehensive development. They include unabated corruption, income gaps, over-indebtedness, commodity-driven growth, limited socio-economic freedom as well as declining democratization.

Although governance and socio-political risk indices are supposed to shed light on countries' institutional environment, hence reducing opacity, they often turn out to be "black boxes". Risk indices are most often a mix of hard statistical data coupled with subjective assessment. Qualitative assessment is supposed to help mitigate any potential positive or

negative biases that may emerge from noisy content analysis data. This is the case of the World Competitiveness Ranking (IMD) based on more than 250 indicators, with a large weight of the perception input of thousands of global executives. The professional status of these observers is rarely made explicit. Do they work in the very field where they are about to assess corruption? Likewise, the Fragile State index includes "content analysis" that aims at drawing meaningful inputs from hundreds of Boolean search phrases coming from 45-50 million global media data, including articles and research reports. However, in several countries under authoritarian and repressive regimes, newspapers and research publications might not be a reliable reflection of the socio-political environment.

VI. Toward a new composite indicator backed up by a global network of seasoned analysts

To measure the level of governance, broadly defined, a new composite indicator has been built, based on a dozen specific sub-indices of institutional quality, government efficiency, and corruption (see map below, the darker, the worse). Overall, the indicator covers one hundred and thirty developing countries, and it includes roughly 6000 data points. Its added value stems from a wide range of sub-indices including business conditions, corruption, and human freedom, and from an "expert assessment" that is based on seasoned country risk analysts. They come from the country risk assessment business and from academic institutions which teach country risk management, hence leveraging their professional expertise and their geographic specialization[22].

The Global Governance Barometer is calculated using a dataset that includes various indicators related to governance, corruption, business conditions, institutional and socio-economic stability. The main categories, their respective weights, and sources are as follows:

Corruption (20%):
Control of Corruption: World Bank "World Governance Indicators" (WGI)
CPI (Corruption Perceptions Index): Transparency International
Corruption ICRG (International Country Risk Guide): PRS Group
Institutional Development (15%):
Indicators reflecting the development and robustness of institutions (sources include World Bank, OECD, and other international bodies, such as the Fund for Peace.
Government Effectiveness (15%):
Government Effectiveness: World Bank "World Governance Indicators" (WGI)
Regulatory Quality: World Bank "World Governance Indicators" (WGI)
Development Sustainability (15%):
Indicators reflecting sustainable development practices and outcomes (sources include UNDP, World Bank, and other relevant organizations)
**Business Conditions (15%):**
Ease of Doing Business: World Bank "Doing Business Report"
Business Environment: World Economic Forum "Global Competitiveness Report"
Expert Assessments (20%):
Expert evaluations on governance quality (sources include surveys and assessments from regional and international governance experts as well as SKEMA's former graduate students and CIFE's GEGPA Master alumni)

Figure 2 highlights each of the 130 countries' governance position, the darker, the worse.
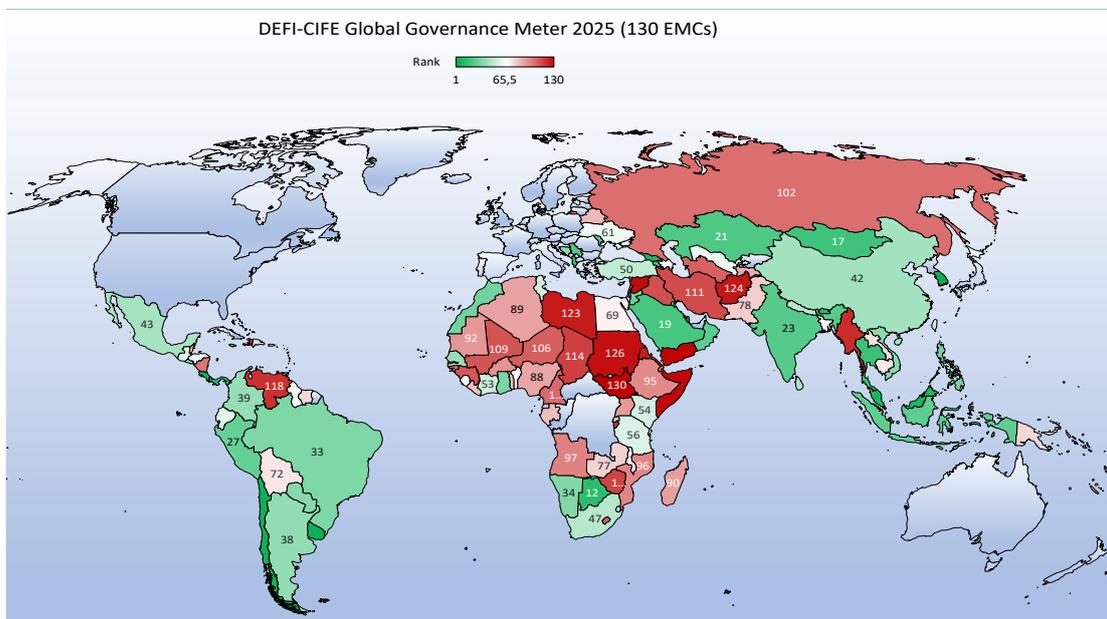
Value Added Compared to Existing Indices

While the Global Governance Barometer draws on several widely used sources, including components from the Worldwide Governance Indicators (WGI)—it distinguishes itself in three important ways.

1. First, unlike the WGI, which aggregates publicly available datasets using statistical methods, our barometer combines quantitative metrics with a structured expert assessment process conducted by seasoned country risk analysts with regional specialization. This hybrid approach introduces qualitative judgment and local context, which are often missing in algorithm-driven indices.
2. Second, the barometer assigns differentiated weights to categories such as corruption and institutional development based on their empirically observed impact on investment and risk profiles, rather than applying equal or latent-variable-based weights.
3. Third, the index is specifically designed with risk managers and cross-border investors in mind, with practical validation across capital flight, expatriate savings, GDP per capita, HDI, and fragility metrics—emphasizing usability as a forward-looking decision-support tool.

As such, the Global Governance Barometer is positioned not as a replacement but as a complementary, practitioner-oriented tool that fills analytical and operational gaps in governance measurements for emerging and developing markets.

This new indicator has been tested with five correlations which, clearly, do not necessarily reflect causal relationships, but might not be the fruit of coincidence either, hence the need for deeper research.

(1)   In most developing countries where economic growth is raw materials-driven, based on mining and hydrocarbon resources, one observes a twofold power concentration, both economic and political. Indeed, at the global level, the only countries that escaped from the rent trap (and the resource curse) are Norway, Chile and Canada, all OECD members. Figure 3 shows the relationship between the Global Governance Barometer and the share of oil and mining resources in total export revenues. The roughly 60 countries with mining and oil-based exports >30% of total revenues share a mediocre governance index. In an environment of state capture, rent-seeking and kleptocratic regimes, the larger the share of oil and mining revenues, the worse the governance. A few mining-based countries can boost GDP per capita while maintaining unabated bad governance thanks to high market prices and capital inflows, though at the

expense of sustainable and inclusive development prospects (e.g. DR Congo, Angola, Mozambique, Gabon, Cameroun, Rep. of Congo, Kazakhstan, Guinea, Mauritania, Venezuela, Liberia, and Sierra Leone).

Figure: Governance Index vs Oil & Mining Export Share
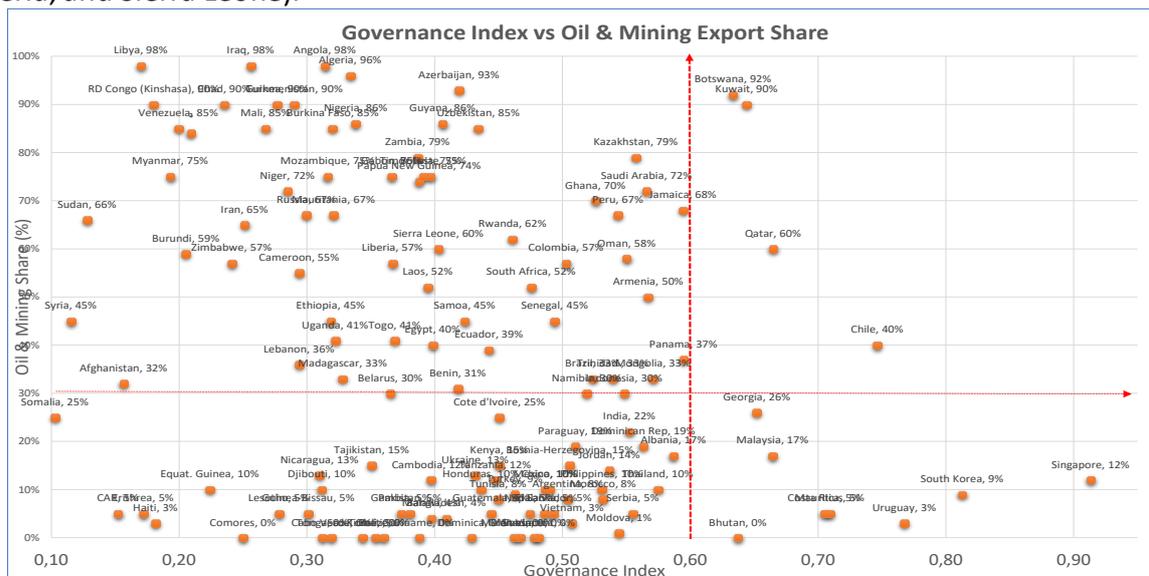
This insight could have important policy implications for international donors and creditors in developing countries, including the IFIs, the EU, and the Paris Club. Conditional lending coupled with close monitoring of the socio-economic impact of foreign loans and grants would encourage better governance practices, hence driving economic growth and improving the standard of living. Too often, international institutions are not sufficiently demanding in providing financing and debt relief to rich countries with poor people.

(2)   Bad governance tends to discourage domestic savings and investment, whereas good governance prevents capital flight and brain drain. Corruption and opacity lead to institutional weakness, including in the domestic banking system. One can observe the pull and push forces of capital flight in relation with governance[23]. The lower the governance, the larger the share of private deposits in international banks compared to central bank reserves[24]. Figure 4 shows that all countries with external deposits/reserves > 100% are poorly governed (governance score < 0.5). The worse ratios are for those countries with the worst governance indicators, namely, Angola, Belize, Benin, Burundi, Cameroun, Chad, Rep. of Congo, DR Congo, Djibouti, and Equatorial Guinea.

Figure: External Deposits/Reserves vs Governance Index
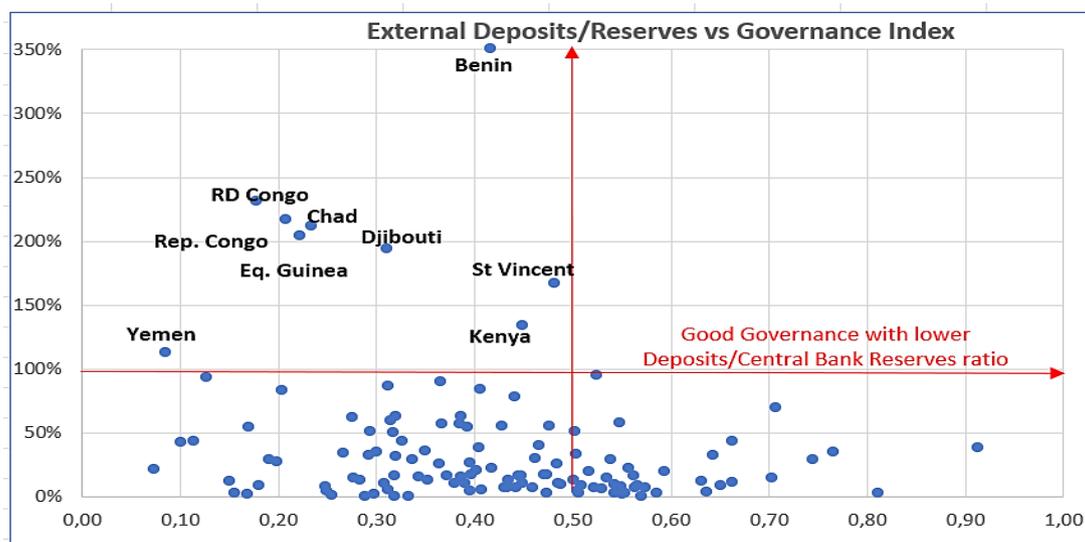
In addition, the countries with the lowest ranking of the Governance Barometer are also those which show the largest ratios of expatriate savings (i.e., private deposits in foreign banks) to bank claims. Figure 5 shows that no well-governed country (score >0,5) has deposits/claims >

200% while all countries with deposits over claims > 200% are poorly governed. These countries' external deposits are multiple of international banks' credits, in the range of 150% to 400% and higher.

Ratio Deposits/Claims vs Governance Index

   (3)   The analysis of the relationship between the governance barometer and GDP per capita PPP reveals a positive correlation. Figure 6 sheds light on the relation between bad governance and lower income per capita. As the governance score improves, the GDP per capita PPP also increases, and this relationship is best described by an exponential function. It suggests that improvements in governance are positively correlated with substantial increases in GDP per capita. Small enhancements in governance scores are correlated with disproportionately large gains in economic prosperity. Developing countries are not poor due to meager natural resources, but rather due to distorted policy choices and bad political decisions.

Governance Index vs GDP per capita (PPP)

$$y = 1442{,}6e^{4{,}6017x}$$
$$R^2 = 0{,}5264$$

   (4)   Bad governance drives economic and political power concentration, hence meager development prospects coupled with income inequality. The most corrupt countries with weak institutions and bad business environment (due to volatile regulations and opacity) are also those which show distorted income distribution, hence high GINI indices (>50%)[25], and low Human

Development Index[26]. Figure 7 shows that the lower the governance ranking, the worse the HDI index.

HDI vs Gov Index (excluding HDI from Gov Index)

y = 1,0488x + 0,0487
R² = 0,4433
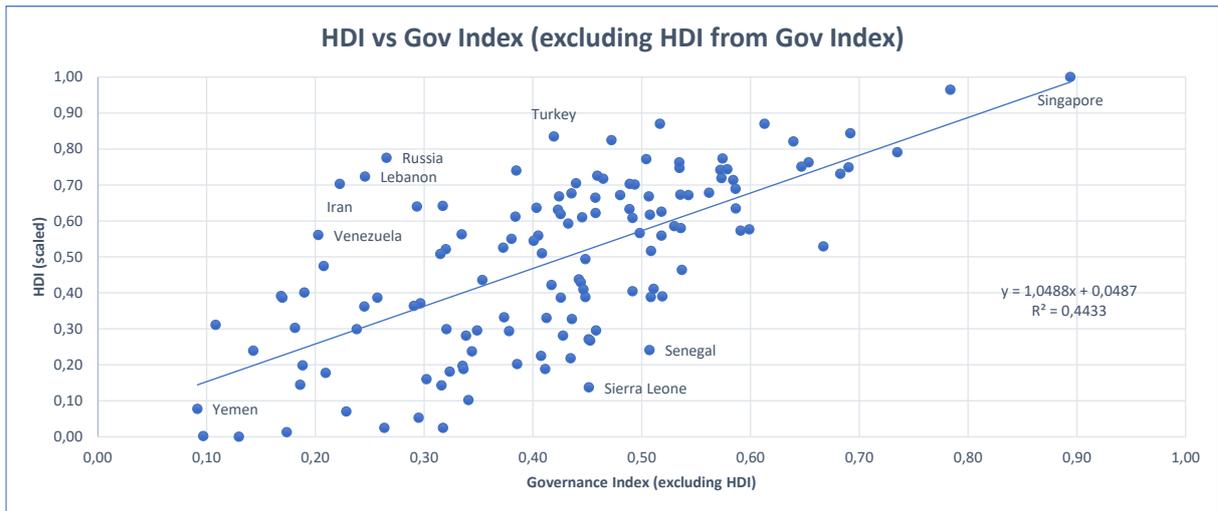
(5)   Lastly, Figure 8 illustrates a robust relationship between the Governance Barometer and the Fragile States Index. The latter is an annual ranking of countries based on the different pressures that impact their levels of economic, social and institutional fragility. Overall, scores are apportioned for every country based on twelve key political, social and economic indicators and over 100 sub-indicators to capture the level of tensions between identity groups, defined by language, religion, race, ethnicity, nationality, class, caste, clan or area of origin[27]. Rising tensions can undermine resilience, hence deteriorating into conflict through competition over resources, predatory or fractured leadership, corruption, or socio-economic frustration and civil violence. The weaker the governance, the larger the state fragility, due to a range of variables including corruption, wealth gap, power concentration, and regulatory opacity.

Fragile State Index (FSI) vs Gov Index (excluding FSI from Gov Index)

y = 1,1157x - 0,0467
R² = 0,71
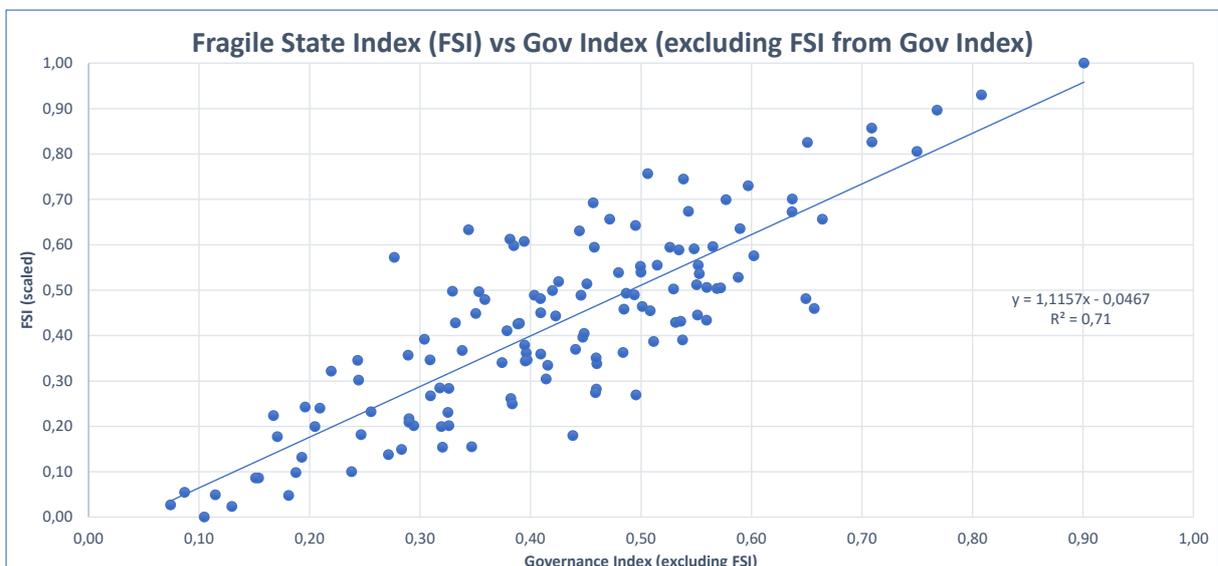
VII.   Concluding Remarks:

In times of economic turbulence and socio-political turmoil, financial institutions strive to anticipate, measure and compare countries' growth prospects, including the quality of institutional environment and debt servicing capacities. However, traditional risk signals are at best disappointing, at worst biased and generate additional risks (e.g., VIX, bond yields, CDS, rating agencies, IMF's debt reduction eligibility criteria, and country risk indices). Academic research shows that governance can provide risk managers with a reliable warning signal of socio-economic and political turmoil. Good governance is key not only to a country's investment attractiveness but also to its debt-servicing capacity and willingness to meet debt obligations. To measure the level of governance, a new composite indicator has been built, to

cover one hundred and thirty developing countries. This barometer shows that bad governance discourages domestic savings and investment. Good governance is correlated with lower expatriate savings in foreign banks: the worst performers in this regard are all poorly governed. It also shows that the better the governance the better the GDP per capita and the higher the human development score. The better the governance indicator, the less the fragility of the socio-economic fabrics of the country. This global barometer of governance could be a useful risk warning tool for financial and cross-border investment strategies though it cannot be expected to flag an immediately impending crisis.

Annex I

Table 1: Four country categories of Governance

		FOUR MAIN GOVERNANCE CATEGORIES					April 2025	
Reliable transparency & governance-enhancing frameworks		Regulatory opacity and stubborn corruption		Weak governance standards & socio-political tensions		Deeply-rooted corrupion and authoritarian regimes		
Singapore	1	Paraguay	35	Guyana	67	Djibouti	99
South Korea	2	Vietnam	36	Sierra Leone	68	Nicaragua	100
Uruguay	3	Bosnia-Herzegovina	37	Egypt	69	Guinea-Bissau	101
Chile	4	Argentina	38	Malawi	70	Russia	102
Mauritius	5	Colombia	39	Cambodia	71	Cameroon	103
Costa Rica	6	Senegal	40	Bolivia	72	Lebanon	104
Qatar	7	El Salvador	41	Laos	73	Turkmenistan	105
Malaysia	8	China	42	Timor Leste	74	Niger	106
Georgia	9	Mexico	43	Suriname	75	Lesotho	107
Kuwait	10	Sri Lanka	44	Papua New Guinea	76	Guinea	108
Bhutan	11	St Vincent	45	Zambia	77	Mali	109
Botswana	12	Vanuatu	46	Pakistan	78	Iraq	110
Panama	13	South Africa	47	Gambia	79	Iran	111
Jamaica	14	Nepal	48	Togo	80	Comores	112
Albania	15	Grenada	49	Liberia	81	Zimbabwe	113
Thailand	16	Turkey	50	Gabon	82	Chad	114
Mongolia	17	Maldives	51	Belarus	83	Equat. Guinea	115
Armenia	18	Rwanda	52	Belize	84	Rep. Congo (Brazzaville)	116
Saudi Arabia	19	Cote d'Ivoire	53	Kiribati	85	Burundi	117
Dominican Rep	20	Kenya	54	Tajikistan	86	Venezuela	118
Kazakhstan	21	Tunisia	55	Sao Tomé	87	Myanmar	119
Serbia	22	Tanzania	56	Nigeria	88	Haiti	120
India	23	Guatemala	57	Algeria	89	RD Congo (Kinshasa)	121
Oman	24	Ecuador	58	Madagascar	90	Erithrea	122
Indonesia	25	Honduras	59	Uganda	91	Libya	123
Moldova	26	Uzbekistan	60	Mauritania	92	Afghanistan	124
Peru	27	Ukraine	61	Burkina Faso	93	CAR	125
Trinidad	28	Dominica	62	Cabo Verde	94	Sudan	126
Jordan	29	Samoa	63	Ethiopia	95	Syria	127
Morocco	30	Azerbaijan	64	Mozambique	96	Somalia	128
Philippines	31	Benin	65	Angola	97	Yemen	129
Ghana	32	Bangladesh	66	Tonga	98	South Sudan	130
Brazil	33						
Namibia	34						

Annex II
Data Standardization using Min-Max Scaling

To ensure comparability across different indicators, the raw data for each variable was standardized using min-max scaling. This method scales each variable to a range of 0 to 1, where the minimum value of the variable becomes 0 (indicating the worst performance) and the maximum value becomes 1 (indicating the best performance). The formula for min-max scaling is:

Standardized Score = ((Value-Min Value))/((Max Value-Min Value))

For most indicators, a higher value represents better performance. For these indicators, the minimum value corresponds to the worst performance (scaled to 0) and the maximum value corresponds to the best performance (scaled to 1).

However, for some indicators, higher values represent worse performance (e.g., higher corruption scores indicate worse corruption). To maintain coherence in the index where 0 always represents the worst and 1 represents the best, the scores for these indicators were inverted by subtracting each standardized value from 1. Inverted Score=1-Standardized Score

The indicators for which we used the inverted score are:

Control of Corruption (World Bank "World Governance Indicators" (WGI))
Corruption ICRG (International Country Risk Guide) (PRS Group)

Min-max scaling was applied to all the indicators across the categories to ensure consistency.

Composite Index Calculation

The standardized scores for each indicator were combined to form a composite index. Each category's scores were weighted according to their assigned importance and then aggregated to form the final index. The steps for calculating the composite index are as follows:

Aggregation of Standardized Scores: The standardized scores for each indicator within a category were aggregated.

Weighting of Categories: The aggregated scores for each category were then weighted according to their respective importance

Justification for Weighting

Corruption (20%): Corruption is given a higher weight because it fundamentally undermines governance and development. It creates opacity and is an obstacle for a level playing field in the domestic socio-economic system. High levels of corruption can distort markets, deter investment, and erode the effectiveness of public institutions. Corruption is directly linked to lower economic performance, reduced public trust, and increased inequality. By giving corruption a higher weight, the index acknowledges the pervasive and detrimental impact that corruption has on overall governance quality.

Expert Assessments (20%): Expert assessments are given a higher weight to incorporate qualitative insights and professional judgments that may not be captured by quantitative data alone. Experts can provide nuanced evaluations of governance quality, taking into account contextual factors and recent developments that standardized indicators may miss. This ensures that the index is comprehensive and reflects on-the-ground realities and expert insights, adding depth and reliability to the final governance assessment.

Overall, the resulting index provides a comprehensive measure of governance quality, reflecting both quantitative data and qualitative assessments. It thus represents a balanced measure of governance quality, based on a robust methodology of data standardization using min-max scaling, aggregation, and expert assessment integration, with appropriate weighting for each indicator category.

Annex III

Data Sources:

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