

Corruption and Economic Performance

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The former president of the World Bank, Paul Wolfowitz, was criticized for, among other things, making corruption his signature issue. Resistance within the bank to this emphasis was one of the reasons he was forced out.¹

Did he have a point? Clearly, a construct can be developed in which corruption is beneficial. Some economies are so highly taxed and so controlled that an underground economy, which is by definition corrupt, can make the difference between a sustenance existence and abject poverty.

However, the case of greater interest that applying to the vast majority of economies, those that are not dominated by underground economies, yet display a degree of corruption. Does such corruption hamper or, as in the case of the underground economy, support economic growth.

Identifying Corruption

We have undertaken to address this issue by the direct route: measuring the degree of corruption in a variety of economies and then measuring over time the performance of these economies.

In order to measure the degree of corruption, it is necessary to define it. Fortunately, this job has already been accomplished. In 1998 and 1999, a rather disparate collection of financial authorities² came together and established the Financial Stability Forum. As part of their task, the FSF issues a Compendium of Standards. These standards address 12 “standard areas.”

¹ It is reported that the new World Bank chief, Robert Zoelick, will continue this emphasis. *The International Herald Tribune*, June 25, 2007. (<http://www.iht.com/articles/2007/06/25/business/wbank.php>)

²The FSF characterizes its members as “senior representatives of national financial authorities (e.g. central banks, supervisory authorities and treasury departments), international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank” http://www.fsforum.org/about/who_we_are.html.

The Financial Standards Forum does not define a unifying theme about the standards, merely characterizing them as “minimum requirements for good practice.” However, there is such a theme. All of the standards address issues of corruption, either stamping it out directly (e.g., “9 Special Recommendations against Terrorist Financing”), minimizing it through government supervision (e.g., “Objectives and Principles of Securities Regulation”), or developing data to reveal its existence (e.g., “International Standards on Auditing”)

The key to this analysis is to appreciate that a country that fully implemented all standards would have minimal corruption because it would identify it when it occurred and, once recognized, would be committed to eliminating it. Conversely, a country that failed to implement the standards would not identify corruption and would have no commitment to eliminating it.

Measuring Corruption

Being able to recognize corruption is a start, of course. However, for analytical purposes, it is equally necessary to measure the degree of corruption in each country and to quantitatively express this measurement. Fortunately, this has already been done by eStandards Forum. Beginning in 2003, this organization used a precise process to assign numeric ratings to the 83 countries. (See Appendix 2 for a sample of ratings.)

The evaluation process was designed by the consulting firm, Oxford Analytica. The objective is to make the conversion from the qualitative standards expressed by the Financial Standards Forum to the single-number quantitative as precise as practical. Human judgments would be minimized so that independent evaluators using the same process would arrive at the same numeric rating.

Secondly, the process was designed to use publically available data. The use of such data helps ensure that the process is transparent. Also, public data is inherently more reliable than private data, as “the

public” can spot errors that might escape a more limited private audience. The sources should cover the majority of the principles contained within a standard and there should be reasonable proof that the sources are both authoritative and objective.

Appendix 3 delineates the numeric evaluation process. It consists of stages. The first consisted of creating Financial Stability Forum and devising the 12 areas in which standards are established. This was done, as noted, in 1998 and 1999. The second stage is the ongoing process of devising and maintaining the specific standards. This is conducted by an office located with the Bank of International Settlements in Basel. The third is identifying public data sources that contain evaluations of each country’s adherence to each standard. In all, about 120 sources have been identified. No single source addresses all standards or all countries, of course. But, taken together, the sources do address all standards for all the covered countries.

Once the data sources are identified, a staff evaluates each substandard by utilizing the relevant data source. Each standard can achieve one of five scores.

10 Points: Full Compliance: There is publicly available information indicating that the country has enacted the principles of the relevant standard, and these principles are currently being applied and followed in an effective, consistent and transparent manner.

8 Points: Compliance in Progress: There is publicly available information indicating that the country has enacted the principles of the relevant standard into legislation and that there has been significant progress made towards the full implementation of the legislation by regulators and supervisors albeit with minor shortcomings.

5 Points: Enacted: There is publicly available information indicating that the country has adopted most of the principles of the relevant standard into legislation. Legislation refers to either laws or other forms of regulations. The Enacted level does not address the actual implementation of the legislation.

3 Points: Intent Declared: The country has made a formal and authoritative declaration that it will enact the principles of the relevant standard into legislation and adhere to the standard drawn up by the relevant standard-setting body.

1 Point: No Compliance: There is publicly available information indicating that the country has not enacted the principles of the relevant standard into legislation or taken any steps to comply with the relevant standard.

0 Points: Insufficient Information: There is not enough information publicly available to make an assessment as to the country's level of compliance. There may, however, be general information on the country's current practices.

The substandards for each standard are evaluated according to these criteria, and each standards ranking for each country is the average of the substandard's evaluations. For every country, the standards' rankings are added up and scaled to 100, thereby yielding a score ranging between 0 and 100.

While somewhat complex, this process does have the advantage of being rigorous and offering the promise of consistence in the sense that different evaluators ranking the same country are fairly likely to come up with scores that resemble each other.

Measuring Economic Growth

For a proxy of economic growth, we have selected the performance of each country's stock market. Even though there is ample evidence that stock market and economic performance are highly correlated, we recognize the stock market is not a perfect measure.^{3 4}

Using the stock market as a measure of economic success has major advantages, however. The level of the stock market is a concrete number, which is not subject to the definitional and measurement problems associated with cross comparisons of country Gross Domestic Products. It has the further advantage of representing the collective wisdom, "Wisdom of the Crowds," if one will, which some

³ Ross Levine, Stock Markets, A Spur to Economic Growth, *Finance and Development*, March 1996, Volume 33, No.1.

⁴ As economist Paul Samuelson observed 35 years ago that, at that time, "has predicted nine out of the last five recessions."

assert is one of the best available measurement and predictive vehicles.⁵ And, finally, stock market data is very fine grained in that it is available on a daily basis, readily available, and therefore an ideal proxy for measurement purposes.

The test we have undertaken therefore is to compare the numeric rankings drawn from the Financial Stability Forum measures with the contemporaneous stock market performance.

The Test

The rankings change over time for two reasons. First, the various countries' adherence to the standards fluctuates over time. Thus, the Eastern European countries have shown steady improvement over time, while other countries (including the United States) have been declining. The second reason for changes relates to the activities of the Financial Stability Forum in Basel. It monitors the standards, and every couple of years may revise one or more of them, leading to changes in the evaluations and thereby the rankings.

Nevertheless, our data suggest the cumulative impact of these changes is not major. This is significant because the rankings of the countries only began at the beginning of 2003. For testing purposes, we extrapolated the January 1, 2003, rankings back two years to January 1, 2001. Post hoc, it appears we were justified, since the detailed data demonstrate the earlier results do not vary substantially from the later results.

Our primary focus is on Emerging Markets, as corruption is not a substantial problem in developed countries. Nevertheless, in order to prove the concept, we focused on eight areas of the world. They are:

⁵ Surowiecki, James (2004). *The Wisdom of Crowds: Why the Many Are Smarter Than the Few and How Collective Wisdom Shapes Business, Economies, Societies and Nations* Little

Emerging Markets
AC Americans
AC Pacific
AC World
World Index Gross (developed countries)
World Ex US
EAFE (Europe, Asia, Far East)
Europe

Where “AC” stands for “All Countries”, i.e., all countries in the designated area that have a viable stock market.

All continents with a meaningful number of financial markets are measured, together with separate measures for the total developed world, the developed world excluding the United States, and the subsection of the developed world defined as Europe, Asia, and the Far East. We also included a measure of the world excluding the US in the event that the US somehow distorted the analysis. Not coincidentally, the indexing firm, MSCI, maintains indexes on each of these. The countries in each are listed in Appendix 4.

For many years, the sine qua non in the investment world has been the efficient market hypothesis. As promulgated by Nobel economist William Sharpe, it suggests that in the aggregate investors lacking special knowledge or insights cannot outperform the market⁶.

As investment guru Charlie Ellis has pointed out, in a sense this is a logical identity⁷. Most indexes are so-called capital weighted, i.e., the weight of each constituent element is equal to the ratio of the total value of that constituent to the sum of the total value of all constituents of the index. If that constitution becomes more popular to investors because of some favorable new information, the prices of the elements of that constituent will be bid up, thereby increasing the value of that constituent and thereby its weight in the index. If the index reflects the investment results of all investors and if the

⁶ *Fundamentals of Investments* (with Gordon J. Alexander and Jeffrey Bailey, Prentice-Hall, 2000)

⁷ *Winning the Loser's Game*, McGraw Hill, 2002, pp. 1ff

distribution of investment returns approximates the normal distribution, then the average investor will enjoy performance equal to the index⁸. Since, the index does not incur investment costs, but real investors do, the investors must on average underperform the index.

But there is another way of thinking about this. The “wisdom of the crowds”⁹ philosophy implies that, absent unique access to information, it is impossible for the average investor to outperform the indexes because the index already incorporates all available information. New news on a constituent of the index is immediately reflected in that constituents weight in the index. Many people think that they can be smarter than the crowd, but, just as most people can’t consistently improve on the odds at a racetrack, most investors can’t outsmart the index. It is certainly true that, over time, as the founder of the Vanguard Group, John Vogle, has pointed out, most investors in fact underperform the index over time¹⁰.

In short, the indexes are tough to beat both in theory and in practice. We therefore proposed to create new indexes weighted, not by the value of each index as with traditional capital weighting, but by their ranking according to the corruption measure. The higher a country’s ranking, the higher the weight in the index. (In order to increase the dispersion of results, we squared the rankings and then, for each index, scaled the total to 100% to derive the actual weights).

The numeric rankings did not begin until the beginning of 2003. The analysis for this effort was conducted in the months leading up to October 2003. Therefore, the resulting performance was conducted on a backtesting basis for the period January 2003 to October 2003. From that point on, however, the results have been conducted on a contemporaneous, real time basis. Additional

⁸ Since the minimum investment return is zero, and the the maximum is infinity, the distribution investment returns is necessarily positively skewed, but the normal curve is good enough for this semi-non germane discussion of the topic.

⁹ Surowiecki, James (2004). *The Wisdom of Crowds: Why the Many Are Smarter Than the Few and How Collective Wisdom Shapes Business, Economies, Societies and Nations* Little, Brown

¹⁰ John Vogle, The Mutual Fund Industry 60 Years Later, For Better or Worse?

backtesting was conducted for 2001 and 2002 using the weights computed as of the beginning of 2003.

While we will report on the results for the full six year, five month testing period, results have been computed over the post-2003 period with results that are comparable to those shown the following section.

The Results

To enhance integrity, we and our partners on this project, State Street Global Advisors, retained a performance measurement and analysis service and utilized its product, Zypher StyleAdvisor to compute the performance of this approach.

Here are the results through the end of May, 2007.

Zephyr StyleAdvisor Results (January 1, 2001 – May 31, 2007)									
Name	% Emerging Countries*	Annualized Excess Return	Alpha	Beta	Information Ratio		Sharpe Ratio		Tracking Error
					Ratio	Sign.	FSF	MSCI	
EM	100%	6.95%	7.9	0.9	1.26	99%	1.4	0.97	5.5
AC Americas	78%	14.58%	14	1.07	1.76	100%	0.99	0.16	8.3
AC Pacific	50%	10.72%	12.1	0.8	1.25	99%	1.28	0.51	8.6
AC World	49%	12.07%	10.7	1.1	2.54	100%	1.06	0.34	4.74
World (developed)	0%	8.24%	7.2	1.1	2.22	100%	0.8	0.29	3.69
World Ex -US	0%	5.19%	4.2	1.07	1.48	100%	0.78	0.49	3.52
EAFE	0%	5.44%	4.4	1.08	1.4	99%	0.78	0.48	3.88
Europe	0%	3.46%	2.6	1.07	1.34	99%	0.62	0.46	2.58

*Source: FTSE Global Index

The columns have the following meaning.

The “% Emerging Countries” refers to percentage of countries in the index that are classified by the Financial Times as “Emerging Countries”.

The “Annualized Excess Returns” is the average annual percentage that the index weighted by the degree of corruption outperforms the traditionally computed capital weighted index.

Alpha is a measure of the degree to which the outperformance is attributable to skill rather than luck. Beta is a measure of the volatility of the corruption-weighted index compared with traditional index. A beta of 1.00 would mean that the volatiles are equal. A beta greater than 1 indicates that the corruption-weighted index is more volatile than the traditional index.

The Information Ratio is computed as the annualized relative return divided by the annualized relative risk. It is usually interpreted as another measure of the degree to which outperformance is attributable to skill rather than leverage or luck. It is extremely rare for funds to have an IR greater than 1. The next column shows the significance of the IR. A significance of 100% indicates that the IR cannot be attributable to mere chance.

The Sharpe Ratio measures the return compared to the risk compared to the Treasury Bills as a benchmark. A ratio higher than the comparable ratio for the index is desirable. It is rare for investors to achieve ratios that are significantly higher.

Interpretation of Results

The data in the table paint a portrait of fabulous performance. The fact that the betas are near 1 for all eight approaches suggests that the funds are about as volatile and thereby risky as the index. Since it is theoretically possible to hedge the corruption index with the traditional index, the annual excess returns ranging from 3 percent to nearly 15 percent a year represent potentially achievable low-risk investment opportunities.

The Investment Ratios (IR) range between 1.2 and 2.6. As discussed below, this far exceeds the ratios from the vast majority of hedge funds. The significance ratios of 99% to 100% imply that the high the ratios cannot be attributable to chance, although they could be attributable to a high correlation with factors other than the measure of corruption.

The Sharpe ratios are yet another measure of the risk adjusted performance. It substantially exceeds the comparable performance from the indexes.

In summary, the corruption-adjusted indexes substantially outperform the traditional indexes. Since the traditional indexes outperform most investors, the adjusted indexes necessarily outperform all but a very few investors.

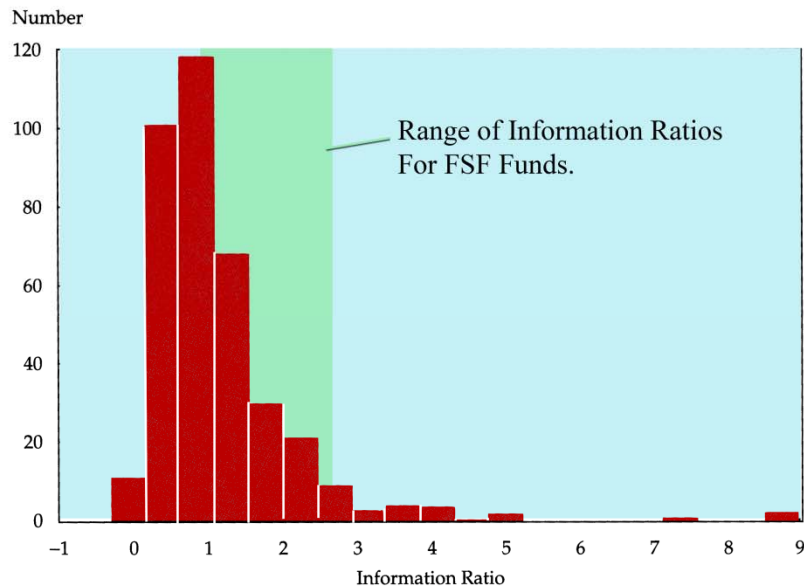
Information Ratios, Performance and Hedge Funds.

As noted, the Information Ratios range between 1.2 and 2.6.

The IR's for 2,500 hedge funds were reported in the Spring 2006 issue of the Financial Analysts Journal.

The following chart is drawn from that issue. We have superimposed upon the chart the approximate range of IR's of the FSF indices.

Distribution of IRs for 375 Hedge Funds, Data for January 1994–December 2003



Source: Data are from the Center for International Securities and Derivatives Markets database, which tracks approximately 2,500 alternative investment vehicles. The CISDM database was formerly owned by Zurich Capital Markets and is currently owned by the University of Massachusetts' Isenberg Center for International Securities and Derivatives Markets.

All of the FSF IR's exceed the median IR of hedge funds, which is less than one. Importantly, as reported in the table, the significance of the FSF IR's are close to or at the 100% for each index viewed separately, and at the 100% level when viewed collectively. As far as we know, few if any hedge funds claim that their IR's are statistically significant, and it is a near-certainty that none claim significance at the 100% level.

One the left of the following table is the performance of the corruption indexes. On the right is a report of the performance of a sample of hedge funds in 2006. They likely represent the better performing funds, because funds displaying inferior performance probably won't regularly report their performance. The clear conclusion is that this simple approach outperformed the hedge funds, at least in that one year. These results may be of little analytical import, but given that these funds are run by very highly paid investment specialists, while the corruption index is simple and inexpensive, the fact that the corruption approach way outperformed these leading hedge funds is, at a minimum, very interesting.

2006 Corruption Indices Performance		2006 Top Hedge Funds		
<i>Index</i>	<i>Adjusted Performance*</i>		<i>Fund</i>	<i>Reported Performance</i>
AC Americas	31.44%	JP Morgan	Highbridge Capital Fund	25%
EM	32.79%	Goldman Sachs	Global Alpha Fund	-6%
AC Pacific	30.55%	Bridgewater Associates	Pure Alpha Strategy	3%
AC World	31.64%	D. E. Shaw Group	Macro Strategies	18%
World	33.39%		Equity and Equity Linked Strategies	17%
World Ex US	34.35%		Futures and Currency Related Strategies	7%
EAFE	35.26%	Renaissance Technologies	Renaissance Equity Institutional Fund	21%
Europe	37.80%		Medallion	44%
	Average 33.40%	Och-Ziff Capital Management	Och-Ziff Master	16%
			Och-Ziff Europe	22%
			Och-Ziff Asia	15%
		Man Investments	Man AHL Diversified	6%
			Man AHL Alpha	7%
			Athena Guaranteed Futures	6%
		ESL Investments	ESL Investments	25%

*Zypher performance-minus 60 basis points for costs and fees

Sources: Corruption: Zypher Style Advisor

Hedge Funds: Institutional Investor Alpha Magazine via NY Times.

Average 15.07%

In summary, there is reason to believe that the corruption approach may yield better returns than many, if not most, hedge funds.

Conclusion and Caveats

This analysis strongly suggests that, not only is corruption as measured herein a determinant of strong stock markets and thereby strong economic performance, but that it is the dominant determinant.

There are of course significant caveats to be weighed in evaluating this conclusion.

As observed previously, it may be that the extent of corruption is highly correlated with one or more other factors that are the true determinants of economic prosperity. As long as such a correlation exists, there is no way this technique can discriminate between corruption and any other relevant factors.

The six year, five month measurement period may have been exceptional so that, somehow, countries with superior corruption indexes happened to perform well, while those with inferior indexes happened to perform poorly.

Both of these alternate explanations could be true, however, both are unlikely. It could be, for example, that the number of high-quality roads are highly correlated with low levels of corruption and that it's the roads, not the corruption that induces superior economic performance. It seems far more reasonable, however, to assume the opposite, that low corruption induces the construction of high-quality roads. As always, one must determine on one's own whether such alternatives strain credibility.

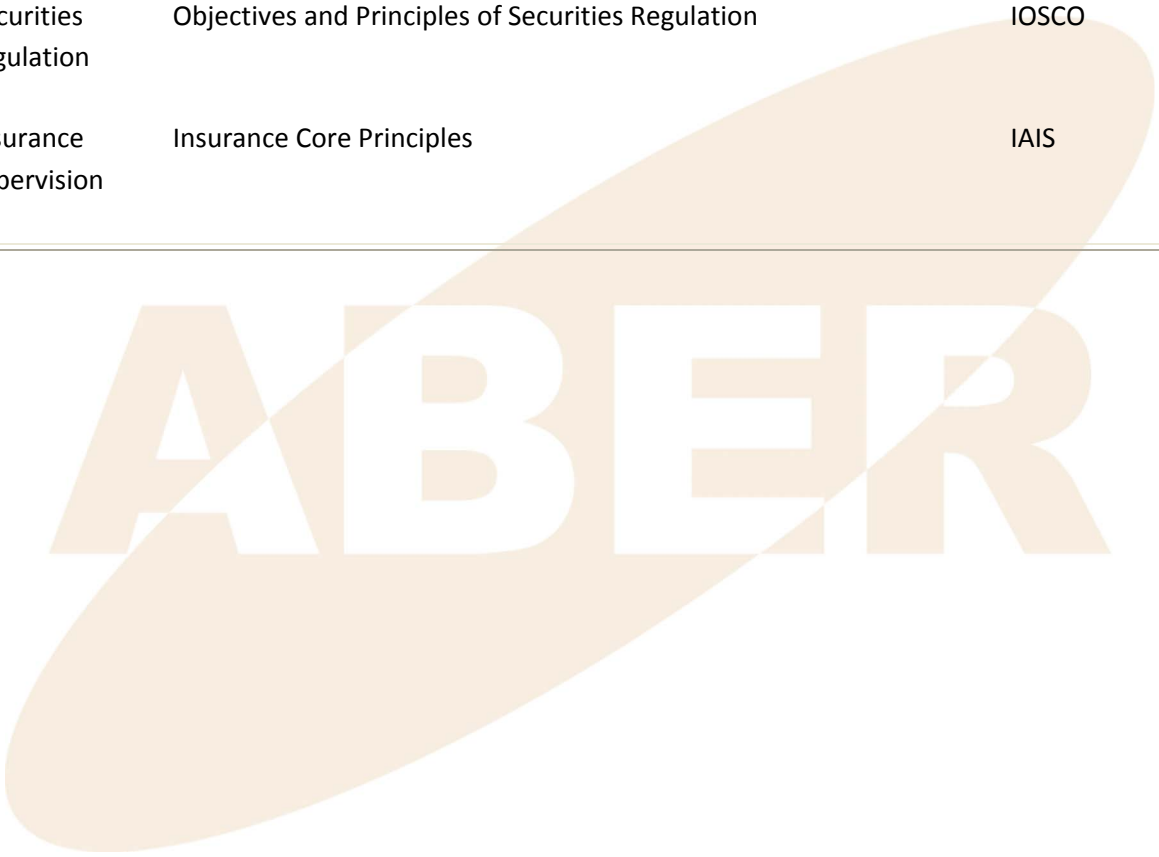
Accordingly, it appears that Paul Wolfowitz was correct, and to the extent the World Bank bureaucracy hesitated to implement his focus on corruption, it was wrong.

Appendix 1

12 Key Standards for Sound Financial Systems

Area	Standard	Issuing Body
<i>Macroeconomic Policy and Data Transparency</i>		
Monetary and financial policy transparency	Code of Good Practices on Transparency in Monetary and Financial Policies	IMF
Fiscal policy transparency	Code of Good Practices on Fiscal Transparency	IMF
Data dissemination	Special Data Dissemination Standard/ General Data Dissemination System ¹	IMF
<i>Institutional and Market Infrastructure</i>		
Insolvency	²	World Bank
Corporate governance	Principles of Corporate Governance	OECD
Accounting	International Accounting Standards (IAS) ³	IASB ⁴
Auditing	International Standards on Auditing (ISA)	IFAC ⁴
Payment and settlement	Core Principles for Systemically Important Payment Systems Recommendations for Securities Settlement Systems	CPSS CPSS/IOSCO

Market integrity	The Forty Recommendations of the Financial Action Task Force/ 9 Special Recommendations Against Terrorist Financing	FATF
<i>Financial Regulation and Supervision</i>		
Banking supervision	Core Principles for Effective Banking Supervision	BCBS
Securities regulation	Objectives and Principles of Securities Regulation	IOSCO
Insurance supervision	Insurance Core Principles	IAIS



Appendix 2

eStandards Rankings as of June 22, 2007

1	United Kingdom	77.5	25	Greece	58.33
2	Australia	72.5	25	Luxembourg	58.33
2	France	72.5	28	Kazakhstan	57.5
2	Netherlands	72.5	28	South Africa	57.5
5	United States	70	30	Denmark	56.67
6	Ireland	68.33	30	Latvia	56.67
7	Austria	67.5	32	Singapore	55.83
7	Italy	67.5	33	Bulgaria	52.5
9	Belgium	65	33	Chile	52.5
9	Canada	65	33	Switzerland	52.5
9	Germany	65	36	Lithuania	51.67
12	Norway	64.17	37	Romania	50.83
13	Poland	63.33	38	Croatia	50
14	Hungary	62.5	38	Japan	50
15	Hong Kong SAR	61.67	40	Israel	48.33
15	Slovenia	61.67	41	Russia	47.5
15	Spain	61.67	42	South Korea	45.83
18	Sweden	60.83	43	Malaysia	45
19	Czech Republic	60	43	Mexico	45
19	New Zealand	60	45	Thailand	42.5
19	Philippines	60	46	Indonesia	40.83
19	Slovakia	60	47	Colombia	40
23	Finland	59.17	48	Brazil	39.17
23	Portugal	59.17	49	Turkey	38.33
25	Estonia	58.33	49	Ukraine	38.33

51	Argentina	37.5	67	Lebanon	22.5
52	India	36.67	68	Nigeria	19.17
52	Pakistan	36.67	69	Taiwan	17.5
52	Peru	36.67	70	Dominican Republic	16.67
55	Saudi Arabia	33.33	71	Cameroon	14.17
55	Sri Lanka	33.33	72	Bangladesh	13.33
57	Egypt	30	73	Iran	12.5
57	Jordan	30	74	Guatemala	11.67
59	Ecuador	29.17	75	Algeria	10.83
59	Tunisia	29.17	75	Kenya	10.83
61	Morocco	27.5	77	Tanzania	10
61	United Arab Emirates	27.5	78	Vietnam	8.33
63	Honduras	24.17	79	Venezuela	7.5
63	Uruguay	24.17	80	Bolivia	6.67
65	China	23.33	81	Syria	5
65	Ghana	23.33			

Appendix 3
The Evaluation Process



Design of Standards

Creates and monitors standards from its offices in Basel

12 Standards

These standards change from time

Sample of 120 Data Sources ISBN : 978-0-9742114-9-4

Financial Stability Forum

<p>Australia</p> <p>Reserve Bank of Australia</p> <p>Canada</p> <p>Department of Finance Bank of Canada Office of the Superintendent of Financial Institutions</p> <p>France</p> <p>Ministry of the Economy Autorité des Marchés Financiers (AMF) Banque de France</p> <p>Germany</p> <p>Ministry of Finance Bundesanstalt für Finanzdienstleistungsaufsicht Deutsche Bundesbank</p> <p>Hong Kong SAR</p> <p>Hong Kong Monetary Authority</p> <p>Italy</p> <p>Ministry of the Economy and Finance Banca d'Italia CONSOB</p> <p>Japan</p> <p>Ministry of Finance Financial Services Agency Bank of Japan</p> <p>Netherlands</p> <p>De Nederlandsche Bank</p> <p>Singapore</p> <p>October 13-14, 2007 Rome, Italy Monetary Authority of Singapore</p>	<p>United Kingdom</p> <p>Bank of England Financial Services Authority H M Treasury</p> <p>United States</p> <p>Department of the Treasury Securities & Exchange Commission Board of Governors of the Federal Reserve System</p> <p>International Financial Institutions (6)</p> <p>International Monetary Fund (IMF) (2) World Bank (2) Bank for International Settlements (BIS) Organisation for Economic Cooperation and Development (OECD)</p> <p>International Standard Setting, Regulatory and Supervisory Groupings (7)</p> <p>Basel Committee on Banking Supervision (BCBS) (2) International Accounting Standards Board (IASB) International Association of Insurance Supervisors (IAIS)(2) International Organisation of Securities Commissions (IOSCO) (2)</p> <p>Committees of Central Bank Experts (2)</p> <p>Committee on Payment and Settlement System (CPSS) Committee on the Global Financial System (CGFS)</p> <p>European Central Bank</p>
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Area	Standard	Issuing Body	Latest Update
Macroeconomic Policy and Data Transparency			
Monetary and financial policy transparency	Code of Good Practices on Transparency in Monetary and Financial Policies	IMF	Aug-00
Fiscal policy transparency	Code of Good Practices in Fiscal Transparency	IMF	Mar-01
Data dissemination	Special Data Dissemination Standard	IMF	Mar-96
	General Data Dissemination System	IMF	Summary of the SDDS Nov-03
Institutional and Market Infrastructure			
Insolvency	Principles and Guidelines for Effective Insolvency and Creditor Rights Systems	World Bank	Apr-01
Corporate governance	Principles of Corporate Governance	OECD	Apr-04
Accounting	International Accounting Standards (IAS)	IASB	Apr-04
Auditing	International Standards on Auditing (ISA)	IFAC	Apr-03
			The handbook
Payment and settlement	Core Principles for Systemically Important Payment Systems	CPSS	Jan-01
	Recommendations for Securities Settlement Systems	CPSS/ IOSCO	Nov-01
Market integrity	The Revised Forty Recommendations Against Money Laundering	FATF	Jun-03
	9 Special Recommendations Against Terrorist Financing	FATF	Jun-02
Financial Regulation and Supervision			
Banking supervision	Core Principles for Effective Banking Supervision	BCBS	Oct-99
Securities regulation	Objectives and Principles of Securities Regulation	IOSCO	May-03
			Methodology for assessing implementation
Insurance Supervision	Insurance Core Principles	IAS	Oct-03

Reports on the Observance of Standards and Codes (ROSCs)

Oxford Analytica, Calpers Reports

World Bank Country Financial Accountability Assessments

OECD/ Worldbank Project: Results of Survey on Budget Practices and Procedures for 60 countries

How Transparent are Central Banks? Research Paper, January 2005

ROSC - Corporate Governance, IMF and the WB

The Corporate Library

European Corporate Governance Institute

International Chamber of Commerce (IIC)

Red Latinoamericana de Institutos de Gobierno corporativo y formacion de directores

OECD White Papers

Multiple corporate governance sources

EBRD Corporate Government Sector Assessment report 2003

Asian Corporate Governance Association, Library-Codes and Rules

Comparative Study Of Corporate Governance Codes in EU, 2002

Corporate Governance in Morocco, Egypt, Lebanon and Jordan

CG in MENA countries, June 2004

Comparisons of Guidelines and Codes of Best Practice

Weil various comparative Reports on Corp Gov Codes

Corporate Governance: A survey of OECD countries 2004

Corporate Governance in Europe", KPMG Survey 2001/02

Corporate Governance links

PWC Corporate Governance Page

Institute for International Finance, Equity Advisory Group - CG assess-

Center for International Private Enterprise (Links to CG site across different regions)

Institute of International Bankers, Global Survey covering 40 countries

IOSCO

IOSCO Members (with links to the Authorities)

ROSC – Securities Regulation

FSSA

Country Commercial Guides

Global Survey of Regulatory and Market Developments in Banking, Securities and Insurance

EU Commission web site on securities regulation

Securities Regulatory Authorities in EU

Overview of Securities Regulation for a number of countries

Implementation Example: Chile

Sample of 120 Sources

Reports on the Observance of Standards and Codes (ROSCs)
Oxford Analytica, Calpers Reports
World Bank Country Financial Accountability Assessments
OECD/ Worldbank Project: Results of Survey on Procedures for 60 countries
How Transparent are Central Banks? Research Paper
ROSC - Corporate Governance, IMF and the WB
The Corporate Library
European Corporate Governance Institute
International Chamber of Commerce (IIC)
Red Latinoamericana de Institutos de Gobierno corporativo y formacion de directores
OECD White Papers
Multiple corporate governance sources
EBRD Corporate Government Sector Assessment report 2003
Asian Corporate Governance Association, Library-Codes and Rules
Comparative Study Of Corporate Governance Codes in EU, 2002
Corporate Governance in Morocco, Egypt, Lebanon and Jordan
CG in MENA countries, June 2004
Comparisons of Guidelines and Codes of Best Practice
Weil various comparative Reports on Corp Gov Codes
Corporate Governance: A survey of OECD countries 2004
Corporate Governance in Europe", KPMG Survey 2001/02
Corporate Governance links
PWC Corporate Governance Page
Institute for International Finance, Equity Advisory Group - CG assessments
Center for International Private Enterprise (Links to CG site across different regions)
Institute of International Bankers, Global Survey covering 40 countries plus EU
IOSCO
IOSCO Members (with links to the Authorities)
ROSC – Securities Regulation
FSSA
Country Commercial Guides
Global Survey of Regulatory and Market Developments in Banking, Securities and Insurance
EU Commission web site on securities regulation
Securities Regulatory Authorities in EU
Overview of Securities Regulation for a number of countries

Each country is addressed by only a few of the 120 sources

The bold are the sources with info on Chile.

This is a source that has no information on Chile.

And this are the 2 standards to which all 3 sources apply.

This is one of the eight standards for which the sources are not shown in this example.

There are 12 standards, each of which has a maximum value of 10. That means that a country that received a perfect score would have 120 points. We want the maximum to be 100, so we take 5/6th of the total to scale it to the desired max of 100.

Evaluation of 12 Standards

Macroeconomic Fundamentals
Data Dissemination: <i>Full Compliance</i>
Monetary Transparency: Full Compliance
Fiscal Transparency: Compliance in Progress
Institutional and Market Infrastructure
Insolvency Framework: <i>Enacted</i>
Accounting: <i>Intent Declared</i>
Corporate Governance: Compliance in Progress
Auditing: <i>Intent Declared</i>
Money Laundering: <i>Enacted</i>
Payment System: <i>Insufficient Information</i>
Financial Regulation and Supervision
Banking Supervision: Compliance in Progress
Effective Securities Supervision: <i>Enacted</i>
Insurance Supervision Core Principles: <i>Enacted</i>

Scale

Full Compliance
10 points
Compliance in Progress:
8 points
Intent Declared:
3 points
No Compliance:
1 point
Insufficient Information:
0 points

Points Awarded

10
10
8
6
3
8
3
6
0
8
6
6

Computation of Ranking

Total
74

Final Ranking
Total*5/6
61.7

Appendix 4

Constituent Countries

<i>AC Americas</i>	Philippines	Hong Kong
	Singapore Free	Hungary
Argentina	Taiwan	India
Brazil	Thailand	Indonesia
Canada		Ireland
Chile	<i>AC World</i>	Israel
Colombia		Italy
Mexico	Argentina	Japan
Peru	Australia	Jordan
USA	Austria	Korea
Venezuela	Belgium	Malaysia
	Brazil	Mexico
	Canada	Morocco
<i>AC Pacific</i>	Chile	Netherlands
	China	New Zealand
Australia	Colombia	Norway
China	Czech Republic	Pakistan
Hong Kong	Denmark	Peru
Indonesia	Egypt	Philippines
Japan	Finland	Poland
Korea	France	Portugal
Malaysia	Germany	Russia
New Zealand	Greece	Singapore Free

South Africa

Spain

Sweden

Switzerland

Taiwan

Thailand

Turkey

United Kingdom

USA

Venezuela

EAFE

Australia

Austria

Belgium

Denmark

Finland

France

Germany

Greece

Hong Kong

Ireland

Italy

Japan

Netherlands

New Zealand

Norway

October 13-14, 2007
Rome, Italy

Portugal

Singapore

Spain

Sweden

Switzerland

United Kingdom

Emerging Markets

Argentina

Brazil

Chile

China

Colombia

Czech Republic

Egypt

Hungary

India

Indonesia

Israel

Jordan

Korea

Malaysia

Mexico

Morocco

Pakistan

Peru

Philippines

Poland

Russia

South Africa

Taiwan

Thailand

Turkey

Venezuela

Europe

Austria

Belgium

Denmark

Finland

France

Germany

Greece

Ireland

Italy

Netherlands

Norway

Portugal

Spain

Sweden

Switzerland

United Kingdom

	New Zealand	Finland
	Norway	France
<i>The World Index</i>	Portugal	Germany
	Singapore Free	Greece
Australia	Spain	Hong Kong
Austria	Sweden	Ireland
Belgium	Switzerland	Italy
Canada	United Kingdom	Japan
Denmark	USA	Netherlands
Finland		New Zealand
France		Norway
Germany	<i>World ex USA</i>	Portugal
Greece		Singapore
Hong Kong	Australia	Spain
Ireland	Austria	Sweden
Italy	Belgium	Switzerland
Japan	Canada	United Kingdom
Netherlands	Denmark	

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