GOVERNANCE

PRELIMINARY METHODOLOGICAL NOTE

Country-Level Institutional Assessment and Review

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Disclaimer

The CLIAR Methodological Note aims to provide a structured, focused, and flexible diagnostic combined with a problem-driven approach to assess the quality of a county's institutional capital, informing policy dialogue and Bank engagement. The CLIAR proposed 2 stages, 4-step approach combining quantitative and qualitative analysis has been endorsed by the Governance Global Practice as technically sound and flexible enough to be used across countries of different income levels. However, the relative balance given in the Methodological Note to the two stages has been identified as an area of improvement. Consequently, the team is currently working to further elaborate the analytical framework at stage 2 (including efforts to better integrate a political economy perspective into the analysis), thereby providing more balance to the institutional benchmarking at stage 1. Following these revisions, a new version of the CLIAR Methodological Note is expected to be produced by July 2022. The present version should therefore be considered as 'preliminary' and is being published to support the consultations with country teams across regions and help management to identify the most suitable candidates to pilot the CLIAR framework in FY22/FY23.

The CLIAR team
Washington, DC
April 5, 2022

Abbreviations

CTF	Closeness to frontier
CLIAR	Country Level Institutional Assessment and Review
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IGRs	Institutional Governance Reviews
OECD	Organisation for Economic Co-operation and Development
SCD	Systematic Country Diagnostic
SDGs	Sustainable Development Goals (of the United Nations)
SOCSA	Significant, outcome compatible, complied with, stable, and adaptive/agile
SOE	State-owned enterprise
WDR	World Development Report

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The task team remains responsible for any errors or omissions.

Washington, DC
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Introduction:

Rationale, Objectives, and Scope

What is the development problem the CLIAR is trying to solve?

Institutions matter for development. The role of institutions has become one of the most popular research areas in development economics over the past 30 years. Since a seminal work by North, Wallis, and Weingast (2009), *Violence and Social Orders*, a broad consensus exists that poor-quality institutions are the underlying cause of economic problems and explain the divergence in growth trajectories (see Acemoglu and Robinson 2010 and World Bank 2017 for a review of the literature). Poor people around the world are unable to access decent health care, education, or other essential services because the public sector in their countries is unresponsive or because they cannot or do not want to pay bribes. Weak institutions that lack transparency and accountability divert resources from fueling economic growth and creating opportunities for poor people to enriching corrupt and predatory elites. In contrast, countries capable of improving governance and establishing effective institutions use their human and financial resources more efficiently and inclusively. Such countries attract higher levels of foreign and domestic investment and, on average and over time, grow more rapidly.

A growing body of empirical research has tested important theoretical arguments on the role of a country's institutions for growth, helping to produce a few high-order generalizations. The classic theoretical argument goes back to Adam Smith and was prominent in the work of many 19th century scholars such as John Stuart Mill. The focus was mainly on economic institutions, with an emphasis on the enforcement of property rights on a broad cross-section of society for creating incentives to invest, innovate, and take part in economic activity. It was argued that some institutional safeguards that ensure a degree of equality of opportunity are critical to ensure adequate returns on investment. More recently, empirical studies highlighted specific institutional features associated with strong long-term national economic performance, including rational legal bureaucracies (Evans and Rauch 1999), judicial independence (Feld and Voigt 2003), protection of property rights (Knack and Keefer 1995), and governments' credibility in attracting investment (Brunetti et al. 1997). These studies provide growing theoretical support and empirical evidence for the primacy of institutions as a fundamental factor behind the differences in income per capita across countries.

Despite the general recognition that "institutions matter" for development, the nature of the relationship is still debated and contested among scholars, notably around the methodological challenges in establishing the ultimate direction of causality (Acemoglu, Johnson, and Robinson 2005; Cavalcanti and Novo 2005; Easterly 2008). For example, the experience of several countries (including Cambodia, China and Vietnam, among others) shows that growth was initially stimulated by a small number of institutional and policy changes, despite an otherwise unfavorable governance environment (Rodrik 2007). If anything, history highlights that growth acceleration can and did happen under a variety of institutional trajectories. Studying the patterns of rapid growth in East Asia, Chang (2002) makes a similar point, suggesting that while secure property rights and contract enforcement are core characteristics needed for sustained growth, others (a professional civil service, an independent central bank, accountability of elected officials) emerged over time in conjunction with or as a result of economic growth. What often made the difference was the ability of institutions to adapt to the changing economic context (Fukuyama, 2014), empowering local actors to find innovative solutions for evolving problems

(Ang, 2016). All together, these academic contributions suggest that more nuanced and context-specific institutional reforms may be more effective to promote change and unlock development than traditional "best practice" approaches (Levy, 2014). The present Country-Level Institutional Assessment and Review (CLIAR) follows this approach and seeks to contribute to the ongoing efforts to understand the country-specific contextual factors in which institutional reforms are to be introduced.

Moving toward a new growth model based on greater economic diversification and productivity requires strengthening a country's institutions. Institutional development supports structural changes that generate growth in quality jobs through economic diversification and higher productivity. This is particularly relevant for countries that are struggling to adjust to new sources of growth after reaching middle-income levels, which often fall into the "middle-income trap" (Melguizo et al. 2017). The historical experience of upper-middle-income countries that succeeded in converging to high-income status seems to suggest that a wide range of deep institutional reforms such as strengthening checks-and-balances, promoting greater independence and competition in media markets, and building effective public integrity and anticorruption institutions create a level playing field among firms and enable contract enforcement and more efficient resource allocation, thereby contributing to long-term productivity gains and growth (World Bank, 2017).

The Bank recognizes institutional strengthening as essential for the progress of its member countries across income categories. The framework of the Growth Commission Report (2008): Strategies for Sustained Growth and Inclusive Development, and the past decade or more of World Development Reports have reinforced the notion of institutions as pivotal to development — inter alia: Conflict, Security and Development (2011); Gender Equality and Development (2012); Jobs (2013); Risk and Opportunity (2014); Digital Dividends (2016); Governance and the Law (2017); The Changing Nature of Work (2019); and Trading for Development (2020). This Bank work has endeavored to move past the notion that institutional development is an abstract notion (Gill and Kharas, 2007, p.38) by identifying concrete actions.

There are still no overarching analytical tools or frameworks readily available for conducting an in-depth review of national institutions that can influence the policy dialogue and design of country engagements. The Country Policy and Institutional Assessment provides a useful structure that generates harmonized results on 16 institutional and policy dimensions across countries, including five dimensions on public sector management and institutions (CPIA cluster D). Yet the CPIA design and process (including the confidentiality of the results for IBRD countries) limits its use for engagement purposes, and it tends to have a descriptive rather than analytic focus, reflecting the tight timeframes, its purpose and the limited resources dedicated to the exercise.[1] The recent construction of an SCD database has revealed that Bank teams have identified institutions at the country level as the major knowledge gap in SCD work. Developing a clear operational guidance that defines the objectives, analytical scope, and methodological approach of CLIARs to be used in the country engagement process is therefore a clear priority.[2]

Establishing key institutions is one of the main elements of the "graduation" policy of the International Bank for Reconstruction and Development (IBRD).[3] And assessing progress in institutional strengthening is an important element in determining the Bank's program in a country with a gross national income per capita above a threshold set by the graduation policy. This was reaffirmed by the IBRD Capital Increase of 2018, which resulted in new guidance on strengthening the institutions underpinning the country engagement process (World Bank 2018). Similarly, the Bank renewed its emphasis on supporting institutional strengthening through its commitments to the Sustainable Development Goals (SDGs) 16 and 17, the IDA 19's[4] Special Governance and Institutions theme, the recently launched World Bank Group Strategy for Fragility, Conflict, and Violence, and the recent cross-cutting theme of IDA 20.

1. The CPIA is used as an important factor in determining the allocation of resources in IDA. The formula is outlined in the IDA 19 Replenishment Report (p.114). The report is available here: https://documents1.worldbank.org/curated/en/459531582153485508/pdf/Additions-to-IDA-Resources-Nineteenth-Replenishment-Ten-Years-to-2030-Growth-People-Resilience.pdf
2. The Guidance Notes for Country Engagement Products were updated subsequent to the IBRD Capital Increase agreement (2018) and explain how institutional assessments should underpin SCDs and Country Partnership Frameworks, by providing analysis of the institutional factors behind suboptimal development outcomes (World Bank 2018). They do not, however, provide detailed guidance on the analytical approach to conducting such assessments.
3. The key elements of the IBRD graduation policy are: (1) the extent of access to external capital markets on reasonable terms; and (2) the progress in establishing key institutions for economic and social development.
4. The 19th replenishment of the International Development Association. The IDA receives funding from donor countries through a replenishment process every three years.

These corporate commitments are premised on the value to development of sustained institutional deepening. Stronger institutions will allow countries to avert certain risks and make less likely the growth volatility that appears as a hallmark of income traps. Successful implementation of these corporate commitments requires guidance on how to assess the quality of institutions in a country and track progress over time. While the Bank has developed several diagnostic approaches in this area, there has been a proliferation of parallel—and often fragmented—efforts focused on specific functional areas, such as the Public Expenditure and Financial Accountability framework to assess the quality of public financial management functions or the Digital Governance Readiness Assessment to review institutional progress on GovTech[5] solutions, to illustrate just two examples.

How does the CLIAR propose to address identified problems? A four-step approach

The CLIAR is based on a four-step approach across two stages (Figure 1). The first stage is a systematic screening of a country's institutional strength and weaknesses through a benchmarking exercise across a set of 9 institutional clusters. Stage 1 can be considered a standalone exercise for such uses as the production of 'governance at a glance' type briefings or for informing CPIA ratings. For the purposes of this paper, however, the main purpose of Stage 1 is to feed into Stage 2 of the institutional assessment review. The second stage has three steps. The first step is the elaboration of an "institutional heatmap" that relates the emerging institutional challenges (as captured thought the benchmarking) to the development outcomes in which the country underperforms according to the country's SCD or other similar diagnostic documents (Stage 2, Step 1). The second step involves a problem-driven approach to identify the structure of institutional capital in place (through the application of a set of typologies) and a qualitative but structured analysis of the root causes that may explain the institutional challenges, and how they may be affecting development outcomes (Stage 2, Step 2). The final step (involves the summary of findings and key recommendations to strengthen the country's institutional capital (Stage 2, Step 3). Through this "analytical interplay" with the SCD, the CLIAR helps identify key institutional gaps that are instrumental to addressing country-specific development challenges. In this way, the CLIAR provides a critical contribution to policy dialogue and to the definition of the World Bank country program through the Country Partnership Framework.

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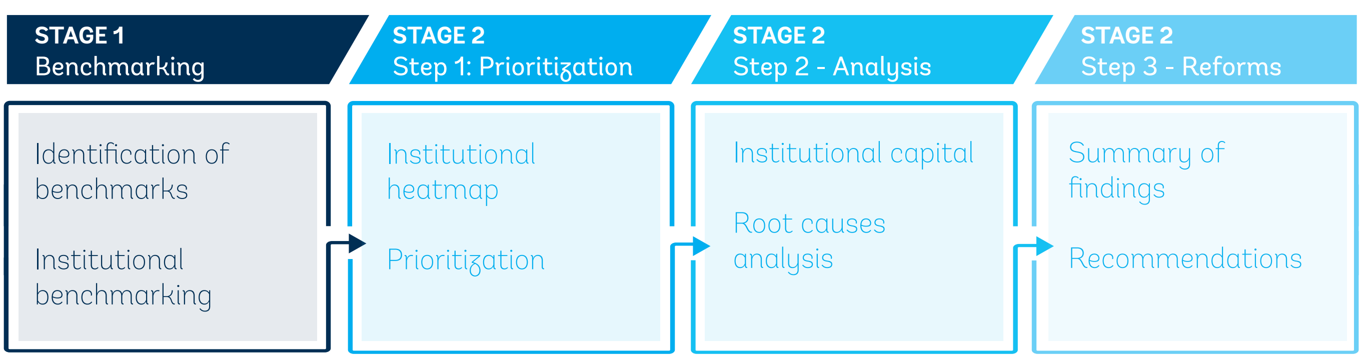
Figure 1. The CLIAR Analytical Approach: A Visual Framework



Source: Authors' compilation.
Note: CLIAR = country level institutional assessment and review

5. The World Bank defines GovTech as the use of technology to support government operations, service delivery and transparency. GovTech is a process of whole-of-government public sector modernization that places the citizen at the center of reform.

What are the objectives of the CLIAR?

The objective of the CLIAR is to provide a structured, rigorous, focused, and flexible diagnostic tool combined with a problem-driven approach. The CLIAR would help teams make meaningful comparisons across different institutional strengths and weaknesses, enabling them to measure the overall effectiveness of government institutions in a structured and consistent manner. The findings emerging from the CLIAR can assist teams in identifying institutional challenges that need to be addressed to achieve sustained, inclusive growth and inform the programming of Bank resources. The CLIAR aims to make the Bank's institutional diagnostic work and policy dialogue at the country level more coherent and integrated, building on a solid empirical base. The CLIAR also helps to identify promising entry points and priorities for institutional reforms and distill key messages for policy dialogue.

The CLIAR is designed as both an analytical and filtering device. As an *analytical device*, it helps task teams undertake a comprehensive yet time- and cost-efficient benchmarking exercise of the country's institutional profile to identify and map empirically its main institutional strengths and weaknesses, building on a framework that minimizes the risk of the CLIAR's findings being contested and/or perceived as arbitrary and overly subjective. As a *filtering device*, the CLIAR can help teams select a subsample of institutional themes and areas that require in-depth analysis, in the context of the country-specific development challenges identified through the SCD.

What are the key features of the CLIAR?

The key features of the CLIAR are as follows:

- **A structured analytical approach.** The diagnostic tool follows a three-step analytical framework that combines *quantitative* and *qualitative* techniques to help teams identify, map, and analyze country-specific institutional gaps and strengths. The tool builds on the World Bank (2017 and insights from recent research on institutional design and change, and the politics of institutional reform.

- Comprehensive screening and focused, selective, analytics. The CLIAR methodology combines quantitative and qualitative analysis to maximize analytical leverage. Specifically, it combines a broad but comprehensive quantitative institutional benchmarking exercise (stage 1 of the CLIAR) to identify the country's main institutional challenges across a broad set of clusters.

- A problem-driven, qualitative analysis that works in interplay with the SCD process. The in-depth analysis (stage 2, step 2) follows a problem-driven approach that examines the causal mechanisms that connect institutional weaknesses to the main development challenges identified through the SCD (and other country analytics). This problem-driven approach is important to address the limitations of the benchmarking exercise. While benchmarking of institutions may produce useful insights, it is limited—by definition—in its analytical depth and by the (often implicit) normative bias associated with several of the indicators used.

- **Findings and reform proposals.** The final step (stage 2, step 3) is to summarize the findings from the review and indicate what measures could be taken to address the institutional challenges. Consistent with the problem-driven approach, these proposals should reflect directly the environment in which they may be pursued.

- **Flexibility and replicability.** The framework is simple and follows clear steps, facilitating replication across countries. The CLIAR can be completed within four to six months (depending on the scope of the analysis). Given its flexible design, the CLIAR can be customized to country specificities and complemented with additional analysis and data collection, such as through customized surveys (this can affect the delivery timeline, if such surveys are not readily available). This could be useful in cases when the benchmarking exercise highlights areas where additional evidence is needed for selecting the main institutional challenges.

What the CLIAR is NOT: setting clear boundaries

The CLIAR does not propose a threshold of "minimum institutional requirements" to meet graduation criteria. Given the inductive nature of the analytical process—largely data driven, and hence limited by the quality of the evidence available—and in the absence of an overarching theory of institutional change, any recommendations related to such thresholds would be hard to justify, both conceptually and empirically. The process of institutional strengthening is, by definition, nonlinear and subject to reversal, and there is no "tipping point" beyond which institutional effectiveness can be taken for granted.

The CLIAR adopts an instrumental rather than a normative approach to institutional effectiveness, as it does not prescribe specific institutional forms as universally desirable. Building on the WDR 2017, the CLIAR focuses on how institutions function and less on the specific form they take, and helps highlight the extent to which institutions have an instrumental value in achieving country-specific development outcomes. Any "normative bias" in the CLIAR would, therefore, relate more to the development outcomes examined. This is defined normatively at the outset in terms of societal preferences regarding how prosperity is to be promoted (growth), how such prosperity is to be shared (equity), and

whether the outcomes are environmentally sustainable. The CLIAR assesses institutional performance against its capacity to deliver on these high-level outcomes and the more country-specific development challenges derived from the SCD.[6]

What are institutions? A working definition.

For the purposes of the CLIAR, we adopt a "minimalist" definition of institutions, defining them as "a set of formal rules structuring human behavior and expectations around a statutory goal." In the political science and institutional economics literature, "institutions" are generally defined as the set of rules and procedures that constrain and enable people's behavior. Most institutionalists begin with North (1990)'s definition of institutions as "the humanly devised constraints that shape human interaction …. [in a way that are] perfectly analogous to the rules of the games in a competitive team sport." Building upon Norths' definition, for the purposes of the CLIAR we are concerned with the effectiveness of a set of rules as well as with the actors whose behavior is affected by such rules. Following this approach, institutions are expected to structure human behavior "by: (1) specifying actors and their roles; (2) requiring, permitting or prohibiting certain behaviors; and (3) defining the consequences of complying or not complying with the rules" (Brinks et al 2021).

In our working definition, we separate—conceptually and analytically—formal and informal institutions, treating their relationship as an important empirical question. Formal institutions include laws, regulations, agreements, contracts, decrees, or constitutions, which are often written and enforced by public and private organizations operating under such laws (Leftwich and Sen 2010). For example, private organizations include firms operating under corporate public law. Informal institutions are the social norms, conventions, traditions, and codes of conduct that in turn shape how formal institutions function in practice; they reflect unwritten codes of social conduct, for example, land inheritance norms and moneylenders using social networks to determine creditworthiness based on the reputation of the agents involved. Formal institutions are different from informal rules, which may be created outside officially sanctioned channels, whether they are enforced or not (Helmke and Levitsky 2006, 5).

The ultimate focus of the CLIAR is on formal institutions. These are the most likely target of reform efforts and the main driver of the policy-making process in a country, yet they need to be considered in the context of the wider norms operating.[7] However, we recognize that formal institutions

6. This approach is consistent with the United Nation's SDGs, which set common targets for social and economic advancement. SDG 16 calls for promoting "peace, justice and strong institutions." Beyond its intrinsic value, SDG 16 also has important instrumental value because the attainment of the goal will aid in the attainment of all the other SDGs.
7. This choice can be, of course, revisited if the country context demands a different approach. For example, teams operating in fragile and conflict-prone countries where informal institutions are often the norm and play a relatively large role in shaping actors' behaviors might find it useful to explore and apply the typologies proposed by Helmke and Levitsky (2006).

interact in complex ways with informal institutions, which in turn affect the way formal institutions operate, and making them strong or weak (figure 2). Helmke and Levitsky (2006) have developed a conceptual typology that helps illustrate the dynamic interaction between informal and formal institutions: informal institutions may coexist with formal institutions and either reinforce them by providing a second mechanism that promotes the expected behavior ("substitutive"), or undermine them by promoting an alternative behavior ("competing"). Building upon Helmke and Levitsky's framework, the CLIAR explores such complex interactions in preparation for an in-depth qualitative analysis (Stage 2, Step 2 of the CLIAR).

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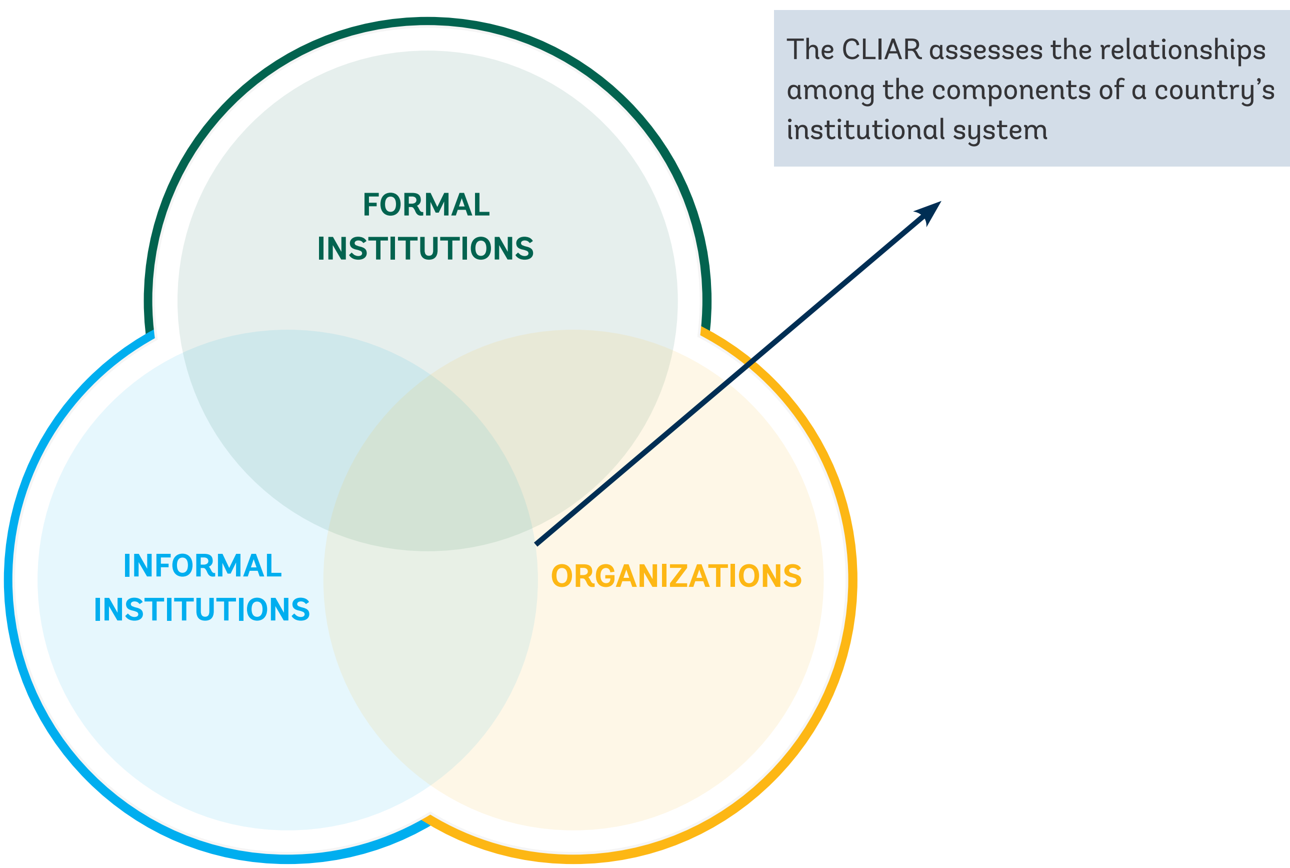
Figure 2. Formal Institutions Are Embedded in a Broader Institutional System



Source: Authors' compilation.
Note: CLIAR = institutional assessment

In our working definition, we also disentangle—conceptually and analytically—institutions" strictly defined ("formal laws and rules of the game") from "organizations" that are either the targets of those rules or the agencies that are mandated to implement the rules. Organizations that are the targets of rules include political parties, interest groups, civic associations, and economic actors, while typical examples of organizations that are "implementers" are the civil service bureaucracy, judiciary, tax administration authorities, and regulatory agencies. These organizations are guided by their own internal set of rules, internal regulations, and enforcement mechanisms (Edquist and Johnson 1997). Following this definition, "organizations" are treated in the CLIAR not only as players within an institutional system, but as actors that regulate and implement policies, that in turn affect the institutional environment (figure 3 illustrates this dynamic relationship and feedback loop).

Keeping rules and organizations conceptually distinct enables the assessing of empirical relationships between them and finding where the key gaps are located. For instance, it helps assess whether (1) addressing a "lack of rules" or "bad rules," or (2) strengthening state agencies (e.g., hiring more custom inspectors, or introducing meritocratic principles in the civil services) is the best way to strengthen compliance and effective implementation of such rules. Section 2 further articulates the relationship between formal rules and organizations. The separation of these two concepts is important in the context of institutional mapping, which aims at creating a clear picture of the setting in which stakeholders operate, and how this shapes their interests and incentives. This also helps develop a more detailed understanding of the client countries with which the Bank's programs interact and identifies potential entry points for institutional change.

For the purposes of the CLIAR, the notion of "institutional strength" or "institutional capital" is understood as a multidimensional concept that encompasses five main typologies. Building upon recent academic research on this subject (Brinks et al 2020), the CLIAR identifies institutional typologies, or attributes that a strong institution is expected to have. It should be: (1) significant, (2) outcome compatible, (3) complied with, (4) stable, and (5) adaptive/agile (SOCSA).[8] Institutions vary across these dimensions, which in turn explain the variation in their performance and ability to affect desired development outcomes. *The more the country's institutions reflect these attributes, the higher the institutional capital the country enjoys.*

Following this conceptualization, Stage 2, Step 2 of the CLIAR focuses on capturing typologies of institutional performance and the related manifestations of institutional weaknesses that—considered together—undermine the country's institutional capital. This component provides a detailed description of each typology and an intuitive diagnostic roadmap that can help teams to structure qualitative analyses and interpret the findings, highlighting cross-cutting challenges and identifying the most appropriate instrument to address the institutional problem at stake. The findings and recommendations then comprise the final step, Stage 2, Step 3.

The CLIAR Four-Step Approach: Conceptual and Methodological Underpinnings

Stage 1: Institutional benchmarking

Stage 1 of the CLIAR benchmarks the quality of a country's institutional arrangements against a set of comparator countries. This generates the (systematic) empirical evidence needed to map out a country's institutional profile. It also helps identify trends in improving institutional quality over time, elements of strengths as well as areas of weak performance in comparison to comparator countries. This section describes the key elements of the benchmarking exercise, including its risks and limitations.

8. This conceptualization differs from Streeck and Thelen (2005), who treat goal adaptation as a form of institutional change.

The benchmarking exercise clusters an array of well-established institutional indicators into nine main institutional categories, or institutional clusters. While there is no agreed theoretical framework that could guide the categorization process, the proposed clusters are designed to capture key functions that different institutions perform (see figure 3). In so doing, the categorization process faces a trade-off between aggregation and narrowness, where the categories ought to be broad enough to capture enough indicators and policy spaces but narrow enough to guide a deep qualitative analysis as well as a fruitful and engaged conversation with the country (see Appendix C for further elaboration on the data validation process for the proposed institutional clusters and aggregation rules).

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Figure 3. Mapping Institutions: Proposed Analytical Clustering

Source: Authors' compilation.
Note: SOE = state-owned enterprise

Political institutions relate to the political regime and mechanisms that regulate relationships between different parts of the government (electoral rules, political parties, and rules that delineate the functions of a government), including institutions that facilitate participation of vulnerable groups (such as ethnic representation and gender quotas). The indicators included in this category assess the extent to which certain institutional functions and mechanisms are in place, including constraints on government powers, political stability, voting rights, political competition, civil liberties and fundamental rights, and distribution of political powers across gender, social groups, and socioeconomic positions.

Social institutions refer to concepts such as social norms, beliefs, trust, and civic cooperation, and coincide largely with informal institutions. The literature on social institutions also studies social capital, civic engagement, and social networks.

Anticorruption, transparency, and accountability institutions capture whether the existing institutional setting is effective in holding public actors accountable, promoting integrity across the public administration, and curbing corruption. These include e-government and Open Data initiatives, citizens' access to information, and the government's efforts, as well as citizens' active participation in the fight against corruption.

Public sector institutions correspond to laws, regulations, and policies that deal with the design, implementation, and enforcement of regulations that organize and guide state and public service delivery. Government effectiveness can be compromised by limited coordination among agencies, the weak role of regulatory agencies, competing legislation, lack of monitoring activities, or poor internal management capacity. "Center of government" refers to the institution or group of institutions that supports a country's chief executive (president or prime minister) in leading the political and technical coordination of critical government actions, strategic planning, monitoring of performance, promoting innovation, and communicating on the government's decisions and achievements. These institutions are becoming increasingly relevant in a context where an increasing number of cross-cutting issues demand "whole-of-government" approaches and coherent responses.

Justice institutions vary from public- or state-devised institutions, to private institutions, which are realized through contracts. Justice institutions are important across a vast range of issues, including property rights, enforcement of legislation, the effectiveness and independence of the judicial system, and impartial enforcement of laws by courts and other actors.

Business environment and trade institutions overlap—in part—with justice institutions and refer to rules that govern the market, such as the legal system, enforcement of property rights, trade and firm regulations, regulatory governance, credit markets, business and labor market regulations, and so on. Indirectly, indicators included in this cluster (such as measures burden on custom procedures, nontariff trade barriers, and business regulations) provide an interesting proxy for the extent to which institutions are "captured" by narrow interests.

Labor market institutions describe the laws and regulations and organizations that shape the labor market and the relationships between workers and employers, including employment security for permanent and temporary workers, employees covered by collective agreements, organization of workers into unions, and the legislative mandate on minimum wages.

Financial market institutions refer to the rules governing the banking and financial sectors as well as the oversight and monitoring of these sectors by public bodies, including credit market regulations, the banking and financial market supervisory authorities, or regulation of competition. This cluster also considers the constraints faced by private actors, such as limitations to ownership of foreign bank accounts and barriers to access to credit, and the degree of state intervention, for example, through direct or indirect public ownership of banks and other financial firms.

Governance of state-owned enterprises (SOEs) captures whether the state has a predominant role in service delivery through SOEs, such as in the utility sectors. Rather than passing judgement on whether state intervention in service delivery is a desirable feature or not, it considers whether the state operates according to market rules and in equal terms relative to other private actors in the same market. The quality of these types of institutions depends on how tariffs are set, whether there are laws and regulations that limit competition, the degree of SOEs' autonomy in making market-related decisions, and whether SOEs are required to provide clear and transparent information to customers on tariffs and consumption.

The selection of indicators follows two guiding criteria: coverage and quality. The list of indicators currently included in the benchmarking analysis is presented in table 1.[9] Given the comparative dimension of the benchmarking exercise, spatial and historical coverage (in terms of country cases as well as length of the time series) is the first criterion applied for the selection of indicators, focusing on those that have global coverage (or at least regional coverage). In addition, indicators that have a longer time series (at least three to five years) are preferred as they would measure performance more precisely, smoothing over idiosyncratic shocks over time while also capturing substantive trends.[10] The second selection criterion is quality, meaning an effort was made to select indicators that measure institutional performance and functions (to the best extent possible) as per the identified categories, rather than outcomes or institutional forms per se. For instance, close attention was paid to not use indicators that are in fact composite indexes lumping together several indicators of interest, unless it is appropriate to do so. For instance, the well-known Polity IV indicator "Polity 2"[11] is used, despite being, by definition, an index variable, as the composite index is more relevant to the benchmarking analysis than its subcomponents. In contrast, other aggregate indexes, such as the World Bank's World Governance Indicators or the Economic Freedom of the World Index published by the Fraser Institute, are not included to avoid duplication and statistical noise; individual subcomponents are included in the relevant cluster, instead. Also, an effort has been made to combine international experts' assessments and perception-based data with administrative/objective indicators, whenever possible. For example, for the "business environment and trade institutions" cluster we do not consider exports or imports indicators but rather focus on institutional dimensions such as nontariff trade barriers and the burden of government regulation.

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Table 1. Measuring Institutional Performance across Indicators, by Institutional Cluster (G-BID version 2.0)

Institutional Cluster	Total Number of Indicators Included in the Database (82 indicators)
1. Political institutions	**11 indicators:** (1) Freedom in the world: political rights; (2) freedom in the world: civil liberties; (3) Institutionalized democracy – institutionalized autocracy; (4) political power distributed by socio-economic position; (5) political power distributed by social group; (6) political power distributed by gender; (7) lower chamber gender quota; (8) lower chamber female legislator; (9) order and security; (10) fundamental rights; (11) constraints on government powers.
2. Social institutions	**7 indicators:** (1) public trust in politicians; (2) civil society participation index; (3) core civil society index; (4) engaged society; (5) CSO entry and exit; (6) Freedom of academic and cultural expression; (7) Freedom of opinion and expression

9. The detailed description of each indicator, its position in the time series, and the respective source is provided in Appendix A.
10. For the purposes of the benchmarking exercise, the average of the latest five years is considered, whenever data are available.
11. The description of the indicator is provided in Table A.1

Institutional Cluster	Total Number of Indicators Included in the Database (82 indicators)
3. Anti-Corruption, Transparency, and Accountability institutions	**10 indicators:** (1) Irregular payments and bribes; (2) Complaint mechanisms; (3) Diversion of public funds; (4) Absence of corruption (Global States of Democracy); (5) GovTech Maturity Index (GTMI); (6) Publicized laws and government data; (7) Right to information; (8) Rigorous and impartial public administration; (9) Transparency of government policymaking; (10) Open government
4. Public sector performance institutions	**7 indicators:** (1) Efficient government spending; (2) Procurement; (3) Regulatory enforcement; (4) Criteria for appointment decisions in the state administration; (5) Centre of Government, influence; (6) Regulatory governance; (7) Impartial Public Administration
5. Justice institutions	**7 indicators:** (1) Corruption / Percent of firms identifying the courts system as a major constraint; (2) People can access and afford civil justice; (3) Efficiency of legal framework in challenging regs; (4) Efficiency of legal framework in settling disputes; (5) Judicial accountability; (6) Integrity of the legal system; (7) Criminal justice.
6. Business environment and trade	**14 indicators:** (1) Administrative burdens on startups; (2) Explicit barriers to trade and investment; (3) Other barriers to trade; (4) Complexity of regulatory procedures; (5) Burden of customs procedures; (6) Effectiveness of antimonopoly policy; (7) Burden of government regulation; (8) Efficiency of the clearance process; (9) Extent of market dominance; (10) Property rights; (11) Regulatory protection of incumbents; (12) Border clearance efficiency; (13) Freedom of foreigners to visit; (14) Non-tariffs trade barriers
7. Labor market	**7 indicators:** (1) labor market regulations; (2) collective bargaining coverage rate; (3) employment protection legislation index, permanent workers; (4) employment protection legislation index, temporary workers; (5) trade union density; (6) ratio of minimum to mean wages; (7) Hiring and firing practices
8. Financial	**8 indicators:** (1) Foreign Currency Regulations; (2) Capital controls; (3) Foreign Investment Restrictions; (4) Central bank independence; (5) Competition regulation; (6) Supervision efficiency-banking; (7) Supervision efficiency-financial; (8) Credit market regulations
9. SOE corporate governance	11 indicators: (1) Use of command and control regulation; (2) Direct control over business enterprises; (3) Governance of SOEs; (4) Government involvement in network sectors; (5) Price controls; (6) Scope of SOEs; (7) SOE-government transfers governance rule; (8) SOE board of directors independence; (9) SOE annual report disclosure requirement; (10) SOE financial audit requirement; (11) SOE report legislative review requirement

Note: The list of indicators corresponds to the Global Institutional Benchmarking Database (G-BID) version 2.0. G-BID is a 'live experiment' and reflects the team's ongoing efforts to add additional sources to improve measurement and mitigate the risk of bias of specific indicators.

The country-level institutional benchmarking is based on 82 indicators spanning the period between 1950 and 2020. This corresponds to the G-BID version 2.0. These indicators are largely drawn from the GovData360 database, complemented by a small set of additional data sources that capture dimensions considered important for the analysis but that have not yet been included in the GovData360 platform. The selection of indicators is intended as a "live experiment" (with newer versions of the G-BID to be released regularly). First, additional indicators can be added to refine the measurement of each institutional cluster or to add new institutional clusters (e.g., climate change governance could not be included at the present stage due to lack of global or regional indicators), whenever new or better sources are available to the team. Second, all institutional indicators will need to be updated as soon as new data points are released, a process that will benefit from using the GovData360 database as the main data source. Regarding long-term time series, Appendix A provides detailed descriptions, sources, and time coverage of the indicators used in the institutional benchmarking exercise.[12]

The benchmarking exercise adopts the "closeness to frontier" (CTF) methodology.[13] The CTF methodology allows for the assessment of a country's performance across institutional indicators by comparing it with the "global frontier," that is, the world's best performer. For each indicator, a country's performance is rescaled on a 0–1 scale using the linear transformation *(worst–y)/(worst–frontier)*, where 1 represents the best performer and 0 the worst performer.[14] The higher the score, the closer a country is to the best performer and the lower the score, the closer a country is to the worst performer, and more distant from the frontier. The best and worst performers are identified using available data from the global sample (i.e., all countries for which data are available) for the past five years. Thus, a country may set the frontier for an indicator, even though it is no longer at the frontier in the most recent year for which the indicator is available. For example, in the pilot case of the Uruguay's CLIAR, the team used indicators for the period 2014–19.[15] Next, for each institutional category, the CTF scores obtained for each indicator are aggregated through simple averaging into one aggregated CTF score. This captures the overall performance of each institutional cluster, while the performance across the indicators helps identify the most challenging areas for institutional strengthening. Appendix C shows the robustness of different estimation methods and the analytical decisions made by the authors.

Quantile distribution through traffic-light colors is then used to capture the areas where the largest institutional gaps exist, relative to the set of country comparators. Relative institutional weaknesses and strengths are defined based on the quantile to which each country belongs, relative to the comparator countries. The traffic lights indicate areas where the largest institutional gaps exist relative to comparator countries (Table 2 below), as follows: red = "weak institutional capital" (bottom 25 percent); yellow = "emerging institutional capital" (25 percent–50 percent); green = "advanced institutional capital" (top 50 percent). Appendix B shows the results of the benchmarking exercise for the case of Uruguay, used for illustrative purposes. The quantile analysis is applied to the sample of comparators only, as it is intended to capture the performance of the country of interest relative to the set of comparators, not to the average country (e.g., global sample).[16] The results of the quantile analysis depend on the set of comparator countries, which teams are required to carefully choose to adequately capture the country's status quo and its aspirational models (see Appendix C for further discussion on this point).

12. While not directly relevant to the benchmarking exercise (which considers a five-year average), longer time series might be useful and readily available if teams are interested in analyzing longer trends for specific indicators, as part of the desk review and in-depth qualitative analysis.
13. An alternative method, the "stochastic frontier analysis," was rejected as it was considered too complex for this exercise (with few benefits) compared to the CTF.
14. This methodology is slightly different from the one used in Doing Business (www.doingbusiness.org), where the frontier is set differently for each indicator. For indicators that are bounded, by definition, between a minimum and a maximum possible value (such as the "strength of legal rights index" or the "quality of land administration index," bounded between 0 and 1 by definition), the frontier is set at the highest possible value. For other indicators, the frontier is set at the 95th percentile or at the 99th percentile, depending on the dispersion in the distribution of the indicator.
15. More specifically, the CTF methodology uses the year with the best performance for each country and for each indicator within the reference time period.
16. The threshold analysis will effectively drop those indicators for which its distribution (i.e., low variance) precludes the quantile classification.

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Table 2. Traffic light coloring in the institutional benchmarking exercise

WEAK INSTITUTIONAL CAPITAL	BOTTOM 25 PERCENT
EMERGING INSTITUTIONAL CAPITAL	25 PERCENT TO 50 PERCENT
ADVANCED INSTITUTIONAL CAPITAL	TOP 50 PERCENT

Source: Authors' compilation.

The CTF and the quantile analysis capture two related but different aspects of a country's institutional performance. The CTF compares the country's performance with the best and worst performers. The quantile analysis benchmarks the country's performance with the set of comparator countries. For example, it could be that for one indicator or institutional cluster the CTF score is relatively high and close to 1 (indicating in fact "closeness to the frontier") but, at the same time, this dimension is marked as an institutional weakness (i.e., red color) because the country's performance is still worse than most comparator countries. The benchmark analysis shows both dimensions to assess the country's performance with respect to both the global frontier and the performance of all other comparator countries.

To facilitate implementation of the institutional benchmarking, the team developed an Global Benchmarking Institution Dashboard (G-BID) to support teams interested in undertaking and replicating the analysis for other countries.[17] Institutional benchmarking can be time consuming, as it requires extensive data identification, data collection, specific statistical skills, as well as coordination and exchange of information. Developed jointly by the Governance Global Practice and the Development Impact Evaluation group, the OID is a web-based tool that offers a user-friendly interface and performs the institutional benchmarking analysis with the click of a button, without requiring researchers to spend any time in coding or data management. Besides making the findings of the benchmarking analysis immediately available and accessible to interested data users, the OID ensures the default standardization of the analytical approach, thus ensuring consistency in the implementation of the CLIAR toolkit. The dashboard uses data largely extracted from the Gov360 database and is designed to allow automatic updating of data via application programming interfaces, ensuring the latest available information is used for the analysis without the need to invest in time-consuming, manual data updates.

17. As of now, the G-BID is only available for World Bank staff, and can be accessed through the following link: http://w0lxpjekins05.worldbank.org:3939/gibd/

The benchmarked institutional data helps address a major data need for the Bank's work on governance and institutions, and together with the CLIAR, meets an identified knowledge gap. The data can be used for different purposes and is therefore considered a discreet Stage of the CLIAR. Whether a country is to embark on a CLIAR or not, the institutional benchmark data begins to fill a hole. Data from the recently established SCD Stocktaking Dashboards shows the following findings[18]:

a. Some 97 percent of surveyed SCDs identified public sector and institutional capability issues as an area of SCD coverage;

b. Some 92 percent identified public sector and institutional capability as a key priority for development, with 90 percent identifying the area as a key constraint; yet

c. More than half identified knowledge gaps in the area of political economy (governance, conflict and fragility, subnational and regional and land) - more than any other area of analysis or concern.

The benchmark data can also be used to strengthen the underlying analysis applied to the CPIA, and to support other purposes. The data is relevant to all or parts of the five CPIA dimensions that are the lead responsibility of the Governance practice. Following agreement with OPCS, this year's CPIA will trial the use of the benchmark data to strengthen the analysis of at least one CPIA dimension (15 – Quality of Public Administration). It can also be used for other analytical purposes, such as informing the first pillar (diagnostics and assessment) of the integrated national financing frameworks being developed at country level consistent with the Addis agenda.[19]

The risks and limitations of the benchmarking analysis

The main advantage of the benchmarking analysis is that it offers a standardized, transparent, and replicable approach to identify key institutional areas where the performance may be deficient relative to that of comparator countries. This provides a robust empirical base to guide the selection of a subset of issues related to the identified gaps that can be subject to in-depth investigation The evolution of a common set of institutional clusters for this empirical analysis can over time improve the comparability of the CLIARs across countries, building an important knowledge base for the Bank's corporate mandate for all countries, and specifically assist in reflecting on the sustainable institutional settings for those countries with a gross national income per capita above the threshold set in the IBRD's "graduation" policy.

Despite these advantages, the benchmarking analysis presents important limitations and potential risks, related to both data quality and methodological shortcomings.

- **Data coverage.** Ultimately, the quality of a benchmarking exercise is a function of the quality and availability of the indicators used for the analysis. The cross-country indicators used can have significant limitations and might fail to capture important information relative to the institutional functions under analysis. They may also not be updated regularly and/or not be available for the whole set of countries of interest. There is also a risk in focusing only on what is known from the international media and official government sources, which are often the main sources of cross-country expert assessments but do not necessarily reflect the perception and views of ordinary citizens and local actors on the ground (World Bank, 2020). Finally, important functional areas worth exploring are simply not subject to a benchmarking analysis due do the lack of international benchmarking indicators. A clear example of this is the

18. The SCD Stocktaking Dashboards – launched by the SCD Central Support team – are now available on the SCD Resource Center website. The data displayed on the dashboards is based on a systematic stocktaking of constraints, priorities, knowledge gaps, as well as prioritization and consultation approaches from 106 first-generation SCDs. The dashboards to be used to explore common themes, as well as cross-country heterogeneity across a number of core analytical components of SCDs. Data from the SCD stocktaking can be visualized both for the overall sample of countries, as well as for various country groupings, and also cross-tabulated across different categories
19. See https://developmentfinance.un.org/fsdr2019

governance of climate change, where there is a clear gap in quantitative data available both in terms of spatial and temporal coverage. While this limits the scope of the benchmarking exercise, new indicators are being constantly developed and produced, requiring a process to regularly update the selection of indicators considered for the institutional benchmarking and—possibly—revise the organization of the institutional clusters.

- **Form vs. function.** Many governance and institutional indicators have a normative bias and reflect specific institutional forms more than they capture performance relative to a given function. This bias reflects the notion that development could be accelerated through transplanting institutional forms and laws developed in high-income countries which would in turn facilitate institutional and functional convergence (Andrews et al 2017). In contrast, being able to assess institutional *functions* can help to make sense of the multiple historical trajectories of institutional change around the world and the role that institutions and governance play in policy effectiveness (World Bank 2017). For the institutional benchmarking exercise, the team prioritized, whenever possible, institutional indicators capturing functions rather than forms, but this choice was limited by the quality of data.

- **Expert assessments vs. objective measures.** Some indicators are based on expert assessments or perception surveys. While there have been efforts to complement expert assessments with alternative measurement methods, the objective measurement of some dimensions is hindered by their hidden or complex nature (such as corruption, or the quality of the legal system) and the fact that—when available—such granular data are not comparable across countries. Some dimensions of institutional performance identified in this methodological note are necessarily subjective, such as those related to trust and values captured by public opinion surveys. These are critical elements that shape social cohesion and influence the business climate in a country, with significant implications for growth, poverty, and inequality. That said, this subjective element needs to be considered when interpreting results and, where possible, such findings need to be complemented and corroborated with country-specific sources and additional qualitative analysis (Stage 2, Step 2 of the CLIAR).[20]

- **Processes vs. outcomes.** The choice of the proposed indicators for the institutional analysis seeks to distinguish institutional processes (laws, regulations, norms) from development outcomes. For example, the CLIAR is not concerned with the unemployment rate in the country but rather labor market institutions, such as employment regulations, that affect unemployment rates. While this distinction is clear in some domains, it is debatable in others. For example, corruption can be perceived as an intermediate outcome, being the product of transparency, accountability, independence of the judiciary, and cultural norms and, at the same time, having implications on the business climate, attractiveness of foreign investments, and the overall economy of a country.

- **Normative bias.** In the CTF methodology, the frontier is—by definition—the highest possible value (“monotonicity assumption” [21]). While this is not problematic for indicators like “political stability,” for other types of indicators this interpretation can raise some doubts. For example, strong labor market regulations and employment protection can pose some trade-offs between economic and social policy objectives. While it is desirable to protect workers from unfair dismissals and guarantee a respectable minimum income, strong labor market regulations can discourage firms or incentivize the informal economy. Identifying the optimal strength of labor market regulations is ultimately a normative and political choice that requires balancing these trade-offs and considering the costs and benefits for all social groups in a country-specific setting. This goes beyond the scope of this analysis, and therefore, for the sake of simplicity and transparency, we adopt the monotonicity assumption for all institutional dimensions considered in the analysis. This limitation needs be considered, however, when interpreting the results of the empirical analysis.

20. Recent efforts to assess the country’s institutional performance on climate change governance tend to follow a qualitative approach, focusing on selected institutional capabilities considered relevant to sustain climate action (e.g., World Bank 2021a). One exception is the effort put forward by the World Justice Project and the Inter-American Development Bank, which includes Environmental Governance Indicators. However, the indicators cover one year and are available for only 10 countries in Latin America (Vizeu et al. 2020).
21. The monotonicity assumption implies that, for each institutional dimension, the higher the indicator value, the higher the country’s performance.

- **Formal vs. informal institutions.** Given the challenges associated with the effort to capture empirically informal institutions and the limited availability of cross-country data in this regard, the benchmarking exercise tends to be biased toward formal institutions. An important exception is the category of social institutions, which captures important manifestations of informal institutions such as social norms, beliefs, and social capital and trust. This bias toward formal institutions is an additional limitation of the quantitative analysis, as in many countries informal institutions often play an important role in shaping actors' expectations and behavior. The qualitative analysis is intended to address—at least in part—this shortcoming and is addressed specifically.

The limitations outlined above suggest that the benchmarking exercise is—at best—an "exercise of approximation." It is not intended as an exhaustive and comprehensive analysis of the specific institutional constraints of each country and may not authoritatively identify all key institutional shortcomings. The tool should therefore be used only as an initial effort to bring well-structured evidence into the discussion of institutional challenges, as a basis for customizing it to the best extent possible to the country context. Most importantly, this is only the first step of the CLIAR, which provides an opportunity to address limitations and gaps experienced in the benchmarking with the qualitive analysis that follows.

Stage 2, Step 1: Institutional heatmap

This section presents the "institutional heatmap" that guides the identification of the institutional weaknesses regarded as the most critical causes for suboptimal development outcomes (development challenges) found in the SCD.[22] These development challenges are derived from the SCD, which may be conducted in parallel and informed by the CLIAR. Where the timing of the SCD and CLIAR products does not coincide, the latest SCD available as well as similar country diagnostics (Country Economic Memorandum, etc.) may be of use. The institutional heatmap cross-checks the priority development challenges of the SCD with the results of the benchmarking exercise, highlighting country-specific institutional challenges in those clusters in which the country is most lagging.

The institutional heatmap links the results of the benchmarking exercise with the SCD's priority development challenges, by assessing how relevant the underperforming institutional clusters are in explaining these development challenges. Accordingly, institutional clusters in the heatmap are ranked as "weak institutions" (red) or "emerging institutions" (yellow) in the benchmarking exercise. However, assessing their relevance as explanatory factors behind the SCD development challenges cannot be entirely data driven, given the limitations of the benchmarking exercise discussed above. Producing the institutional heatmap requires going beyond the findings of the benchmarking exercise, following a structured validation process.

A validation process through preference aggregation can follow to identify the most relevant determinants of the development challenges. The validation process consists of ranking all institutional challenges in terms of their potential effect on the SCD priority challenges. A scoring system can be applied to assess the "top tier" or "substantial" institutional weaknesses (directly related and highly relevant, as addressing them would be "binding" to address the SCD priority challenges), "mid-tier" or "moderate" institutional weaknesses (broadly related, but only indirectly relevant, as not addressing them would not be "binding" to achieve SCD priorities); and "low-tier" or "marginal" institutional weaknesses (only remotely related and not relevant to achieving SCD priorities). This would allow identification of the top binding constraints that warrant further analysis under step 2. Given the subjective nature of this ranking, a structured exercise is needed to assemble or poll expert views. This could be done through a survey of country team members, a structured conversation or a series of structured conversations. A collective discussion would help the team define testable propositions and plausible hypotheses

22. While the link with the SCD is true for the Uruguay pilot case, the CLIAR as a diagnostic toolkit can be applied as an input to other corporate diagnostics (such as the Country Economic Memorandum, country flagship reports, etc.).

on the causal mechanisms connecting subperforming institutional clusters to development challenges. Testing such propositions will be the focus of the in-depth qualitative analysis (Stage 2, step 2).

In some country contexts, a somewhat different and more comprehensive approach may be used to identify priorities, using 'outcomes of interest'. This approach would see the identification of country performance across 23 areas that have been identified in Bank work as being fundamental to the development process. The consideration of performance in this way would also allow the Bank to challenge its and the client's pre-existing view of prioritization or help identify such priorities where no pre-existing views were held. This approach is detailed in Box 1. An additional paper on this subject is also available upon request.

Box 1: Establishing outcomes of interest as an additional action in CLIAR

In some country contexts, it may be helpful to have an additional step prior to finalizing the prioritization of areas for the institutional analysis, by identifying the most important constraints and opportunities a country faces in advancing toward sustained growth and inclusive development. This can take the form of a data-driven diagnostic tool that supports a systematic review of the outcomes of greatest interest to achieving the twin goals. In all, this additional step would drill down on all or some of the 23 outcomes of interest derived from the Bank's work, including the Growth Commission report[23], across the following five pillars:

Pillar 1: Macroeconomic Stability

Without macroeconomic stability, domestic and foreign investors will stay away, and resources will be diverted elsewhere. It is therefore the cornerstone of any successful effort to promote economic growth and development.

Pillar 2: Future Orientation

High and sustained growth requires high rates of saving and future oriented investment.

Pillar 3: Markets

Markets are a necessary part of the economic structure to achieve and sustain growth. High-growth economies rely on a functioning market system, which provides price signals, decentralized decision making, and incentives to supply whatever is in demand.

Pillar 4: Openness

Domestic demand is no substitute for the expansive global market, which is why inward-looking growth strategies quickly falter. Open and integrated economies import technology and knowledge and exploit global demand; and

Pillar 5: Governance and Leadership

Sustained growth and inclusive development require capable, credible, committed and inclusive governments.

These pillars and the organization of these outcomes of interest are somewhat different from but are consistent with the achievement of the SDGs. Whereas the SDGs are focused on achievements that signify development, the outcomes of interest signify the pathway to development, as reflected in the Bank's relatively recent analytical work. The more detailed depiction of the outcomes of interest, the relevant indicators and possible institutional factors is available upon request.

23. The Commission on Growth and Development (2006-2008; sponsored by the World Bank) was an independent body that brought together policymakers, business leaders, and academics (including Nobel prize-winning economists; 300 academics contributed in workshops in total) to examine various aspects of economic growth and development. More specifically, it reviewed the cases of high, sustained growth in the postwar period and identified the key characteristics of successful growth and development strategies. The Growth Commission report is still one of the most complete analysis to date of the growth ingredients that, if used in the right country-specific recipe, can deliver growth and help lift populations out of poverty.

Stage 2, Step 2: Problem-driven institutional analysis

Important Disclaimer

A further elaboration of the analytical framework at stage 2 is currently under development. This is intended as a parallel effort to complement the ongoing finalization and roll-out of the institutional benchmarking database, including the global institutional benchmarking dashboard (stage 1). More specifically, the following revisions are being undertaken by the team and will be reflected in the next version of the CLIAR Methodological Note:

I. Reviewing the proposed analytical framework for the in-depth institutional review in stage 2 (SOCSA and STOP) and proposing ways to further elaborate/improve it, ensuring proper sequencing and connection with the systematization proposed in stage 1 (benchmarking).

II. Clarifying how the proposed analytical framework including the proposed interplay between the institutional typologies (SOCSA) and their underlying drivers (STOP) - is intended to complement (rather than compete with) other sector-specific approaches (including, but not limited to: Finhealth, Infragov; GovEnable) available for more in-depth analysis.

III. Developing guidance on how to support the institutional analysis and to integrate a political economy perspective into the in-depth institutional analysis, clarifying how the proposed analytical framework complements and builds upon earlier efforts to integrate PEA into Bank diagnostics (including, but not limited to: WDR2017; Levy 2014; Fritz; Levy & Ort 2014: Levy et al 2009).

IV. Further elaborating on the operational implications of the CLIAR diagnostics, proposing ways to characterize different country contexts/institutional settings that might emerge from the application of the analytical framework, and might require different approaches to support institutional reform and institutional change.

V. Illustrating concepts with country examples, small vignettes, and boxes using real cases.

Step 2 is designed to "deepen" the diagnostic by unpacking the causal mechanisms connecting institutional performance to development outcomes. Drawing on the benchmarking that brings out the country's main institutional weaknesses and selecting those that are deemed to be most relevant for the country context, this step applies a straightforward conceptual framework that can guide teams as they unpack the root causes the most relevant institutional weaknesses and analyze how they impact the development challenges identified by the SCD. The framework adopts a diagnostic roadmap that can help teams to follow a coherent structure for the in-depth institutional analysis and drive the interpretation of the findings. The diagnostic adopts the following guiding approach:

a. **Target the development challenge through a problem-driven approach—*What is the development challenge at stake?*** The analysis is "problem driven" because it starts from a specific development challenge and analyzes how specific institutional weaknesses contribute to the observed development outcomes in which a country underperforms. Hence, the first principle refers to targeting and illustrating the development challenge. For Example, in the case of the Uruguay SCD Update, the team identified for development challenges: creating the conditions for a more competitive and integrated economy; transforming the education system to promote better learning outcomes; improving performance in the delivery of basic services; and promoting inclusive and climate resilient green growth. For each challenge, the SCD Updated analyzes the underlying institutional constraints, building on CLIAR.[24]

b. **Define the characteristics of the institutional capital through applying an analytical filter (SOCSA).** Building upon recent academic research on this subject (Brinks et al.2020), identifying typologies of institutional capital can help teams to structure the interpretation of the findings, highlight cross-cutting challenges, and identify the most appropriate instrument to address the institutional problem at stake. These typologies capture attributes that a strong and effective institution is expected to have, including: "Significant, Outcome compatible, Complied with, Stable, and Adaptive/agile" (SOCSA). *The more the country's*

24. For further details on the problem-driven approach applied to the pilot case of Uruguay, see *"Uruguay Country Level Institutional Assessment and Review – Synthesis Report"*. The report is under finalization. Draft available upon request.

institutions reflect these attributes, the higher the institutional capital of the country. The next subsection provides a detailed description of each typology.

c. **Diagnose the root cause of the institutional delivery problem (STOP).** Having sorted by the SOCSA typologies, it is necessary to drill down on the drivers or root causes underpinning the observed institutional weaknesses. Although there can be some adaptation at the country level, the consideration of root causes should cut across the following factors: "Social and informal; Technological; Organizational and Political" (STOP). A more detailed description follows below.

Institutional Capital Typologies

The strength of an institution – otherwise understood here as 'institutional capital' - can be conceptualized as a dynamic process that evolves over time. Following Brinks et al. (2020), we expect institutions to shape the behavior of actors and produce an institutional outcome (IO) that differs from what the pre-institutional outcome (PO) would have been in the event the institution did not exist or (if existing) in the event the institution was replaced and/or disappeared. A "strong" (or effective) institution is one that makes the distance between IO and PO greater than zero. From this conceptualization it follows that the strength of an institution can be understood as a dynamic process that evolves over time, moving from the left-hand side to the right-hand side of the spectrum. The opposite sides of the spectrum are, therefore, defined by a "strong institution" (where IO – PO is >0 and maximized) and a "weak institution" (where IO – PO approximates zero). The direction of this evolutionary process is not certain, meaning the process of institution building is not linear and can be subject to reversals. This conceptualization helps to give a sense of how different institutions are evolving dynamically, capturing in historical terms whether the overall "strength" is weakening or improving, while also stressing that there is no teleological end-goal guaranteed. Categorizing institutions dynamically in this manner enables the researcher to embed the analysis in an evolving picture where the performance of a given institution is assessed over a period of time.

Assessing institutional performance is challenging, both conceptually and empirically. Noble and clear objectives are insufficient for government to perform adequately. Researchers and policy makers are often confronted with the daunting reality of institutions that fail to generate their expected outcomes. Required is a clear understanding of the nature and effects of policy instruments and of the potential and limitations of both private arrangements and central organization and control (Barker 1996). As Huntington (1968) argued in his seminal work, a major problem in much of the developing world is that institutions of all types have consistently failed to take root. Constitutional checks-and-balances institutions systematically fail to constrain the power of presidents (O'Donnell 1994), and nominally independent judiciaries and central banks often lack the means and functional autonomy to do so in practice (Remmer 2008). Across many countries, labor and environmental regulations are enforced unevenly, if at all (Brinks et al. 2020). Such institutional weaknesses have far-reaching implications that hamper economic performance and eventually undermine the perceived legitimacy of institutions themselves, in turn weakening citizens' trust and the social contract. The challenge for analysts is to capture the specific manifestation of institutional weaknesses while focusing on general patterns that occur across institutions, for example, elements that are critical in shaping both the institutional performance and institutional capital of the country. Doing so requires a conceptual framework.

Stage 2, step 2 of the CLIAR introduces five typologies to map and assess the quality of institutional capital. The proposed typologies are mutually reinforcing and not mutually exclusive, meaning that a given institution can present more than one typological feature. The more a given institution reflects these attributes, the higher the institutional capital a given country enjoys. The analysis is expected to assess which features are the most relevant to explain the institutional outcome of interest. The typologies include the following.

24. For further details on the problem-driven approach applied to the pilot case of Uruguay, see *"Uruguay Country Level Institutional Assessment and Review – Synthesis Report"*. The report is under finalization. Draft available upon request.

- **Significant:** A significant institution prescribes meaningful constraints and permissions on actors' behaviors. On the opposite side of the spectrum, an insignificant institution does not prescribe or incentivize a meaningful change in actors' behaviors even when fully enforced and complied with. As Brinks et al (2020) put it: "Under conditions of insignificance, everyone complies and the institution is stable, but behavior would be unlikely to change if the institution were taken away." In some cases, institutions are insignificant "by design," meaning that they are designed in such a way that they will never function to alter an actor's behavior, even if they are formally complied with. Several examples can illustrate this typology of "insignificant" institutions. In Peru, under President Fujimori, the 1993 Constitution created a constitutional tribunal (*Tribunal Constitucional*, TC) whose formal mandate was to check the constitutionality of laws passed by the parliament. However, a subsequent law passed by

the parliament specified that a qualified majority (six out of seven judges) was needed to reject a law. This made it very unlikely that the TC would rule against a decision of the legislative majority. With or without the institution (TC), and without violating the formal rules of such institutions, the behavior of the executive was essentially the same, with no real institutional check on power by the TC.

Another example is the case of "prior consultation" laws that had been approved in many Latin American countries over the 1990s and early 2000s under external and domestic pressures to implement indigenous and environmental rights under the International Labour Organization's Convention 169, which calls for mechanisms to consult local indigenous communities prior to the initiation of a natural resource extraction project. While in principle the laws complied with international standards, in practice, prior consultation laws in Mexico, Peru, and elsewhere did not have any provision enabling "consulted" indigenous communities to stop these projects. According to Torres Wong, for example, "all 66 prior consultation procedures conducted in Bolivia, Mexico and Peru over hydrocarbon and mining projects resulted in indigenous approval," to the point that prior consultation laws did not change the course of government actions and/or alter the behavior of the extractive industries, even when they were fully complied with (Torres Wong 2018).

In fact, by "institutionalizing" the process of consultations into proforma events, a potentially transformative institution can become a conservative one, as it reinforces patterns of domination protecting the government and firms from less institutionalized forms of process. In some cases, such "insignificant" institutions are introduced to respond to internal and/or domestic pressures for institutional reforms, in such a way that the institutional form might be present but the specific function that the institution is expected to perform is absent.

This relates to the concept of "normative isomorphism," by which economic development could be accelerated through transplantation of best practices, which would in turn facilitate institutional and functional convergence (Andrews et. al 2017). This process generates incentives for many developing countries to mimic the institutional forms of donor governments to gain legitimacy in donors' eyes and increase financial support for reforms, "even when they do not demonstrably improve performance" (Andrews, Pritchett, and Woolcock 2012, 2017). For example, anticorruption agencies were established in many developing countries after the adoption and ratification of the UN Convention Against Corruption in 2003. Despite high expectations, evidence suggests that many such agencies failed to fight effectively against corruption (Doig 2009; Hussmann 2007). In these cases, the changes in the *de jure* laws left the de facto behavior of relevant actors unchanged, making the institution insignificant.

- ***Outcome(s) compatible:*** An institution is outcome compatible when its own design features (including, for instance, its own complexity, autonomy, and coherence, among other elements) are conducive to perform its intended functions and promote the specific outcome of interest. When this is not the case and the institution is outcome incompatible, we observe a case of institutional failure. Institutional reforms need to balance competing and evolving objectives and, intentionally or not, may end up being counterproductive to the desired outcome(s). For example, Indonesia's law restricting the export of unprocessed minerals was said to encourage domestic downstream value-added activities, but for that to hold would require that several assumptions be proven correct (World Bank 2014).

- **Complied with:** An important element of institutional strength is the ability to promote actors' compliance with the prescribed behavior. It is useful to distinguish among three main sources of noncompliance, which point at different problems:

  - **Insufficient state capacity or societal cooperation to enforce.** This occurs when government officials seek compliance with institutions but lack sufficient state capacity or societal cooperation to enforce this systematically. Some states simply lack the fiscal and administrative capacity to enforce certain institutional norms, particularly ones that seek large-scale behavior change and require extensive monitoring. Compliance

also depends on the degree of societal cooperation. Societal resistance can be greater where rules contradict dominant social norms or are opposed by powerful societal actors (as in the case of security/crime-control institutions, and/or tax enforcement agencies). While the implementation of such rules may require greater enforcement efforts/capacities, efforts to influence societal attitudes toward collective action to resolve problems can also be beneficial. Tax morale, for instance, can be influenced if people feel that the resources collected are being put to good use and are being fairly allocated (see, for instance, Prichard et al. 2019). Willingness to conserve water may rely on a combination of price, sanction, and targeted communication toward a behavioral change (a nudge).[25]

- **Insufficient incentives to comply (nonpunitive enforcement):** Though rules are enforced, and sanctions applied, the sanctions are too weak to incentivize actors to change their behavior. For example, some fines are lower than the compliance costs and hence do not deter opportunistic behavior. Costs of noncompliance need to reach the point where they shift incentives. Note that this has disparate impacts, for example, large companies can afford not to comply while smaller ones cannot.[26]

- **Selective enforcement:** State officials may not enforce institutional reform systematically. At times state actors initiate new laws or regulations (e.g., some environmental laws or utility regulations) without any intention of enforcing them consistently or at all. However, nonenforcement or selective enforcement, for example, across territory or societal groups, does not necessarily mean that political will is missing. It is driven by political incentives and the influence of powerful actors.[27] Decision-makers may have the right objectives and policy design, yet they may still be unable to implement the right reforms because doing so would challenge the existing balance of power in society. Selective enforcement may also be facilitated by institutional design. Laws and regulations sometimes create ambiguities that allow local governments vast discretion in implementation and enforcement.

- **Stable:** A strong institution is "stable" in the sense that the actors are able to develop stable expectations around it and behave accordingly. Unstable institutions, on the contrary, change at an unusually high rate and in contradictory directions, losing their credibility and preventing actors from developing stable expectations around them. For example, if key rules and procedures are replaced wholesale after every change in government,

25. For instance, Singapore's campaign is "to make every drop count." In India, Prime Minister Modi launched a campaign in mid-2019; "I urge all Indians to join hands and save every drop of water," he said in his first monthly radio broadcast after being reelected in May (Pasricha 2019).
26. Intuitively, this is analogous to the well-studied behavior of large firms raising rivals' costs (e.g., Salop and Scheffman 1983).
27. For decades in Latin America, anticorruption laws tended to snare either government rivals or officials who were no longer in power, rather than those currently in office (or their associates) (Brinks et al 2019).

then the newly adopted reforms become less credible, and it is harder for them to become entrenched or settle into a stable equilibrium. This in turn undermines an institution's tendency to endure and become resilient.

- **Adaptive**: An institution's stability and persistence need to be differentiated from the need to be agile. Following the seminal contribution by Huntington (1968), an important definitional element of a strong institution includes its capacity to *adapt* to changes in the external environment under which it operates—including the underlying distribution of power among political and economic actors, as well as changes in societal preference and technological capabilities. For an institution to remain an effective contributor to development over time, it must be able to adapt to changing conditions and societal preferences, that is, institutions should effectively respond to citizens' changing needs.[28] For example, if inflation is eating away the minimum wage, it threatens the institutional goal of protecting workers from an unduly low pay and therefore generates pressures to initiate reforms. In this case, if regulations on minimum wage are not going to be adjusted, the institution may lose its positive effect. New Zealand's ground-breaking *Public Finance Act* (1989), for instance, has been substantively amended more than 10 times in its 30-year life, but the essential characteristics remain, showing how it is possible to be agile while also providing a stable platform for action (Brumby 2021).

Root causes underpinning the quality of institutional capital

Having mapped the characteristics of institutional performance to the SOCSA taxonomy to depict institutional capital, it is necessary to explain the root causes that account for the observed characteristics. The CLIAR draws from the foundations of comparative institutional analysis, institutional and behavioral economics to apply the STOP approach, as applied to development, as follows:

- **Social and informal:** Many benchmarks and much analysis tend to deal with formal institutions, yet much behavior and interaction tends to be driven by societal norms and informal or culturally acceptable modes of behavior (World Bank, 2015). Punctuality, for instance, may be seen to represent a cultural norm and/or be seen as a form of equilibrium in which each person determines their preference with reference to their perceptions of others' preferences and their perceptions of others' perceptions of their preferences (Basu and Weibull, 2002).

- **Technological:** Technology shapes institutions, and institutions shape technology (the analog foundations, World Bank 2016). Compulsory wearing of seat belts is not an institution that may be required prior to the advent of fast-moving vehicles that share a carriage way. Efficient movement, access and use of information, which certainly have technological aspects, underpin the functioning of markets and the regulatory environment in which they operate.

- **Organizational:** Organizations are shaped by and, in turn, shape institutions. Organizational structure and capability are perennial issues in economic development. (World Bank, 2013).

- **Political economy:** Institutions perform their roles in complex environments in which individuals and groups, with unequal bargaining power, interact as they pursue conflicting interests. Considering how the distribution of power in a given sector/policy area enables or constrains institutions to perform their intended functions is therefore an important element of the diagnostic (World Bank, 2017). Different country attitudes and adoption of reform-oriented institutions to deal with climate change show vividly how politics can shape institutional choice and performance.

28. Responsive institutions require, among others, effective systems to monitor and evaluate, and feedback mechanisms for citizens to articulate their demands, as well as the innovative capacity to adapt.

There have been important contributions to the ongoing discussion in the social sciences on institutions, institutional change, and growth. Several disciplines are involved in this research tradition, including political science, sociology, history, and behavioral economics. STOP approach is consistent with the evolution of earlier work on institutions (World Bank, 2002) and political economy, and draws upon the foundational work that is captured in WDRs 2015, 2016 and 2017, on behavioral economics, digital dividends and governance and the law respectively. The problem driven political economy analysis, for example, highlights three facets, being structural (associated with such aspects as endowments, geography, and demographics), institutions (formal and informal), and stakeholder interests (Fritz et al, 2014: 5). The CLIAR's approach is designed to meet at least one of the challenges specified in the PEA: "to join up the dots between the political economy environment and the development constraints" (ibid: 24).

The value-added of the CLIAR is to focus explicitly on the institutional typologies and their drivers, following an adaptive design that can be adjusted as the diagnostic is rolled-out. While the field of comparative institutional analysis is vast and growing,[29] the challenge is to distil this emerging thought in a practical way to assist in meeting development objectives. Table 3 shows how SOCSA and STOP may interact to help explain the quality of institutional capital. The examples provided in the table are for illustration purposes only. In keeping with the thrust of WDR2015, the CLIAR approach should be seen as embracing adaptive design, allowing for adjustment as it is applied in different countries through time. While being comfortable with Tim Marshall's assertion that geography remains crucial to our understanding of the world today and our future (Marshall 2019: xiv), CLIAR focuses on how institutional architecture and practice interact with relevant structural and non-structural factors such as geography, endowments and other aspects of the country context.[30]

29. Recent examples include S. Voigt, Institutional Economics, 2019. D. Acemoglu and J. Robinson, *The Narrow Corridor*, 2020. E. Alston et al, *Institutional and Organizational Analysis*, 2018, and W. Ascher, *Understanding the policy making process in developing countries*, 2017. Mahoney, James and Kathleen Thelen. 2010. Explaining Institutional Change: Ambiguity, Agency and Power. Cambridge: Cambridge University Press. Levy, Brian. 2014. Working with the Grain - *Integrating Governance and Growth in Development Strategies.* Oxford: Oxford University Press.
30. The SCD stocktaking database identifies the following as country context features: conflict, fragile, and weak governance; politically stable; natural disasters; natural resource dependent; rich natural resources; small states; macroeconomic vulnerabilities; economic transition/reforms; outward-oriented economy; favorable geographic conditions; unfavorable geographic conditions; favorable external economic conditions; unfavorable external economic/political conditions; crime and violence; out migration; in migration; geographic concentration / agglomeration (population, economic activities); fast-growing population; aging population; government-driven growth; and macroeconomic resilience.

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Table 3: Understanding Institutional Capital: Typologies and their Root Causes

ROOT CAUSES OF INSTITUTIONAL CAPITAL

INSTITUTIONAL CAPITAL TYPOLOGIES

	Social & informal	Technological	Organizational	Political economy
Significant/ Insignificant	Anti-corruption commissions take action, but corruption continues	Contract tracing; folks comply but data too great for technology to make meaningful	Performance auditing is mandated but the auditor-general does not have that capability	Debt limits get redrafted by next cohort of politicians, thereby being an ineffective constraint
Outcome compatible/ incompatible	Excessively heavy checks and balances stymie government action, and make populist leaders more electable, who then wind back checks and balances	Protection of traditional ways, and lack of appropriable rents from technological innovation and imitation dampen technological development	Monopoly statutory corporations with widespread and conflicting objectives are unlikely to deliver efficient production and distribution	Political consensus not formed for facilitation measures to make good on downstream activities from export ban
Complied with/ not complied with	High levels of cash payments to domestic helpers to avoid taxation	Illicit financial flows that go undetected as cash is not tracked	Insufficient resources to pursue tax compliance	Non-prosecution of financial cheating by elites
Stable/ unstable	Social needs for mobility apply pressure for social distancing rules or civil disobedience	Regulators confused by technology induces instability - use of e-cigarettes has induced international and intertemporal regulatory instability	Continued changes to focus and personnel in ministries of planning undermined essential nature of stable plans (Argentina)	Shifting coalitions induce ‘continuing resolutions’ rather than pass a budget with induced uncertainty over resource levels
Adaptive/not adaptive	Patronage driven bureaucracies not adapting to apply new technologies (World Bank, 2016)	Technological advances that mean income is earned with no obvious physical presence has outpaced countries’ abilities to tax profitability	Fixed period plans in periods of extreme uncertainty	Political cycles not aligned with digital technology adoption (Philippines FMIS)

Armed with this diagnostic roadmap, teams can undertake an in-depth analysis of the selected institutions in a structured and focused manner. This analytical framework gives a better understanding of the types of institutional strengths and weaknesses that are observed (through SOCSA), the root causes or determinants of institutional weaknesses (through STOP). The proposed approach helps in identifying cross-cutting elements across different policy areas as well as sector specific institutional problems and articulates how these institutional weaknesses can affect the specific development outcomes considered in the CLIAR.

Stage 2, Step 3: Summary of findings and recommendations

The final step involves bringing together the findings with recommendations of reform options to address the most relevant entry points for institutional and policy reforms. The team may want to identify the relevant interventions or changes in institutions and policies that can best contribute to solving the functional problem(s) and tackling the observed development challenge(s). It is useful to consider different levels of institutional reforms: "macrolevel" institutional reforms, which relate to "rules about rules" and refer to specific laws (including constitutional laws) and/or sector-specific regulations that need to be changed; "mesolevel" institutional reform, which refer to organizational governance (such as the independence of the judiciary and central bank) as well as organizational structures that need to be changed; and "microlevel" institutional reforms that refer to capacity-building initiatives that aim to fill implementation gaps by providing the needed technical solutions and/or human resources and skills. The three levels may map to the STOP root causes, and the SOCSA typologies. In other words, to give effect to a concern with compliance for example, reforms may focus on organizational governance and technology. Identifying the level of institutional reform can also be a useful operational exercise to guide the teams in the selection of the most adequate World Bank instrument (DPF, IPF, ASAs, and so forth) to tackle the proposed recommendations.

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Appendix A: List of Indicators Used in the Institutional Benchmarking Exercise

Table A.1 provides the full list of indicators included in the institutional benchmarking exercise, organized by institutional cluster, with a brief description of what is measured, and the reference to the source. All indicators are adjusted to ensure that higher values represent better performance. The list represents the Global Benchmarking Institutions Dashboard (G-BID) version 2.0; it is not intended to be comprehensive and can be expanded and updated as soon as new data become available (i.e., newer versions of G-BID).

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Table A.1 Global Benchmarking Institutions Dashboard (G-BID, version 2.0) Indicators, by Cluster

Indicator	Description	Source
	1. Pollitical Institutions	
Institutionalized democracy - institutionalized autocracy	The Autocracy indicator and the Democracy indicator range between 0 and 10. Autocracy is defined operationally in terms of the presence of a distinctive set of political characteristics: restriction or suppression of competitive political participation; chief executives chosen in a regularized process of selection within the political elite; few institutional constraints on the executive. The Democracy indicator is derived from codings of the competitiveness of political participation (PARCOMP), the openness and competitiveness of executive recruitment (XROPEN and XRCOMP), and constraints on the chief executive (XCONST).	Polity IV, V-Dem
Constraints on Government Powers	Government powers are effectively limited by the legislature; Government powers are effectively limited by the judiciary; Government powers are effectively limited by independent auditing and review; Government officials are sanctioned for misconduct; Government powers are subject to non-governmental checks; Transition of power is subject to the law.	World Justice Project, Rule of Law
Order and Security	Crime is effectively controlled; Civil conflict is effectively limited; People do not resort to violence to redress personal grievances.	World Justice Project, Rule of Law
Fundamental Rights	Equal treatment & absence of discrimination; The right to life & security of the person is effectively guaranteed; Due process of the law and rights of the accused; Freedom of opinion & expression is effectively guaranteed; Freedom of belief & religion is effectively guaranteed; Freedom from arbitrary interference with privacy is effectively guaranteed; Freedom of assembly & association is effectively guaranteed; Fundamental labor rights are effectively guaranteed.	World Justice Project, Rule of Law

Indicator	Description	Source
Lower chamber female legislator	Share of female representatives in the lower (or unicameral) chamber of the legislature.	V-Dem, Variety of Democracy database
Political power distributed by gender	0 represents countries where men have a near-monopoly on political power and 4 represents countries where men and women have roughly equal political power.	V-Dem, Variety of Democracy database
Political power distributed by socio-economic position	0 represent countries where wealthy people enjoy a virtual monopoly on political power and average and poorer people have almost no influence and 4 represents countries where wealthy people have no more political power than those whose economic status is average or poor and political power is more or less equally distributed across economic groups.	V-Dem, Variety of Democracy database
Political power distributed by social group	Social group is differentiated within a country by caste, ethnicity, language, race, region, religion, or some combination thereof. (It does not include identities grounded in sexual orientation or socioeconomic status.). 0 represents countries where political power is monopolized by one social group comprising a minority of the population, and 4 represents countries where all social groups have roughly equal political power or there are no strong ethnic, caste, linguistic, racial, religious, or regional differences to speak of.	V-Dem, Variety of Democracy database
Freedom in the world: civil liberties	Civil liberties allow for the freedoms of expression and belief, associational and organizational rights, rule of law, and personal autonomy without interference from the state. Countries are graded between 1 (most free) and 7 (least free).	Freedom House, V-Dem
Freedom in the world: political rights	Political rights include the right to vote freely for distinct alternatives in legitimate elections, compete for public office, join political parties and organizations, and elect representatives who have a decisive impact on public policies and are accountable to the electorate. Countries are graded between 1 (most free) and 7 (least free).	Freedom House, V-Dem
Lower chamber gender quota	0 represents countries with no national level gender quota and 4 represents countries where there are reserved seats in the legislature for women.	V-Dem, Variety of Democracy database
2. Social Institutions		
Freedom of opinion and expression is effectively guaranteed	Measures whether an independent media, civil society organizations, political parties, and individuals are free to report and comment on government policies without fear of retaliation. Coded from 0 to 1, with higher scores indicating more freedom.	World Justice Project - Rule of Law

Indicator	Description	Source
Public trust in politicians	In your country, how do you rate the ethical standards of politicians? [1 = extremely low; 7 = extremely high].	World Economic Forum (WEF), Global Competitiveness Index
Freedom of academic and cultural expression	A measure on whether "there is academic freedom and freedom of cultural expression related to political issues." Coded Responses: from 0: Not respected by public authorities, to 4: Fully respected by public authorities. Scale: Ordinal, converted to interval by the measurement model.	V-Dem, Variety of Democracy database
CSO entry and exit	"To what extent does the government achieve control over entry and exit by civil society organizations (CSOs) into public life?" Responses: from 0: Monopolistic control, to 4: Unconstrained. Scale: Ordinal, converted to interval by the measurement model.	V-Dem, Variety of Democracy database
Engaged Society	Wide and independent public deliberations when important policy changes are being considered. 0 represents countries where public deliberation is never, or almost never allowed; 5 represents countries where a large numbers of non-elite groups as well as ordinary people tend to discuss major policies among themselves, in the media, in associations or neighborhoods, or in the streets, and grass-roots deliberation is common and unconstrained.	V-Dem, Variety of Democracy database
Civil society participation index	Major CSOs are routinely consulted by policymakers (v2cscnsult); Extent of the involvement of people in CSOs (v2csprtcpt); Women prevented from participating in CSOs (v2csgender); Legislative candidate nomination within party organization highly decentralized or made through party primaries (v2pscnslnl).	V-Dem, Variety of Democracy database
Core civil society index	Government's control over entry and exit by CSOs into public life (v2cseeorgs); government attempts to repress CSOs (v2csreprss); Extent of the involvement of people in CSOs (v2csprtcpt).	V-Dem, Variety of Democracy database
3. Anti-Corruption, Transparency and Accountability institutions		
Irregular payments and bribes	In your country, how common is it for firms to make undocumented extra payments or bribes connected with (a) imports and exports; (b) public utilities; (c) annual tax payments; (d) awarding of public contracts and licenses; (e) obtaining favorable judicial decisions? [1 = very common; 7 = never occurs].	WEF, Global Competitiveness Index
Complaint mechanisms	Measures whether people are able to bring specific complaints to the government about the provision of public services or the performance of government officers in carrying out their legal duties in practice, and how government officials respond to such complaints. Coded from 0 to 1, with higher scores indicating stronger mechanisms.	World Justice Project - Rule of Law

Indicator	Description	Source
Diversion of public funds	In your country, how common is diversion of public funds to companies, individuals, or groups due to corruption? [1 = very commonly occurs; 7 = never occurs]	WEF, Global Competitiveness Index
Absence of corruption	Government officials in the executive branch do not use public office for private gain; Government officials in the judicial branch do not use public office for private gain; Government officials in the police & the military do not use public office for private gain; Government officials in the legislative branch do not use public office for private gain.	World Justice Project, Rule of Law
GovTech Maturity Index (GTMI)	The GTMI is a composite index based on key indicators around in four categories: the Core Government Systems Index (CGSI); the Public Service Delivery Index (PSDI); the Citizen Engagement Index (CEI); and the GovTech Enablers Index (GTEI), based on 15 indicators. It ranges from 0 to 1, with higher scores indicating higher GovTech Maturity.	World Bank
Open Data Barometer Index	It measures how governments are publishing and using open data for accountability, innovation and social impact (readiness and impact).	Open Data Barometer and World Wide Web Foundation
Right to information	Measures whether requests for information held by a government agency are granted, whether these requests are granted within a reasonable time period, if the information provided is pertinent and complete, and if requests for information are granted at a reasonable cost and without having to pay a bribe. It also measures whether people are aware of their right to information, and whether relevant records are accessible to the public upon request. Coded from 0 to 1, with higher scores indicating stronger rights.	World Justice Project - Rule of Law
Favoritism in decisions of government officials	In your country, to what extent do government officials show favoritism to well-connected firms and individuals when deciding upon policies and contracts? [1 = show favoritism to a great extent; 7 = do not show favoritism at all]	WEF, Global Competitiveness Index
Transparency of government policymaking	In your country, how easy is it for businesses to obtain information about changes in government policies and regulations affecting their activities? [1 = extremely difficult; 7 = extremely easy]	WEF, Global Competitiveness Index
Open government	Publicized laws & government data; Right to information; Civic participation; Complaint mechanisms.	World Justice Project, Rule of Law

Indicator	Description	Source
4. Public sector performance institutions		
Efficient government spending	In your country, how efficient is the government in spending public revenue? [1 = extremely inefficient; 7 = extremely efficient]	WEF, Global Competitiveness Index
Public Procurement Score	It evaluates the legal and regulatory environments for public procurement, considering: Needs assessment, call for tender, and bid preparation; Bid submission; Bid opening, evaluation and award; Content and management of procurement contract; Performance guarantee; Payment of suppliers.	World Bank, Benchmarking Public Procurement
Regulatory Governance score	It captures how policymakers interact with stakeholders when shaping regulations affecting business communities. It considers: publication of forward regulatory plans; consultation on proposed regulations; report back on the results of that consultation process; conduct regulatory impact assessment; laws are made publicly accessible.	World Bank, Global Indicators of Regulatory Governance database
Steering Capability	BTI says that this concept measures whether "The government manages reforms effectively and can achieve its policy priorities." It averages scores on questions on the government's steering capability on (i) prioritization, (ii) implementation, and (iii) policy learning (1-10), with higher scores indicating higher capability.	Bertelsmann Transformation Index (BTI)
Impartial Public Administration	It measures the extent to which public officials generally abide by the law and treat like cases alike, or conversely, the extent to which public administration is characterized by arbitrariness and biases (i.e., nepotism, cronyism, or discrimination). The question covers the public officials that handle the cases of ordinary people. If no functioning public administration exists, the lowest score (0) applies.	V-Dem, Variety of Democracy database
Level of influence of the center of government	Indicators on whether the center of government has full or shared responsibility over a series of functions: Preparation of Cabinet meetings; Policy coordination; Relations with parliament; Communication of government messages; Government programme; Monitoring of government policy; Policy formulation; Strategic planning; Designing and implementing reform; Risk anticipation and foresight; Human resources strategy; Relations with sub-levels of government; International coordination; Policy analysis; Regulatory policy.	OECD Survey on Centre of Government
Regulatory Enforcement score	Government regulations are effectively enforced; Government regulations are applied & enforced without improper influence; Administrative proceedings are conducted without unreasonable delay; Due process is respected in administrative proceedings; The government does not expropriate without lawful process & adequate compensation.	World Justice Project, Rule of Law

Indicator	Description	Source
5. Justice institutions		
Firms: Courts as major constraint	Share of firms identifying the court system as a major constraint.	Enterprise survey
Civil Justice	People can access & afford civil justice; Civil justice is free of discrimination; Civil justice is free of corruption; Civil justice is free of improper government influence; Civil justice is not subject to unreasonable delay; Civil justice is effectively enforced; Alternative dispute resolution mechanisms are accessible, impartial, and effective.	World Justice Project, Rule of Law
Efficiency of legal framework in challenging regulations	In your country, how easy is it for private businesses to challenge government actions and/or regulations through the legal system?	World Economic Forum, Global Competitiveness Index
Efficiency of legal framework in settling disputes	In your country, how efficient are the legal and judicial systems for companies in settling disputes?	World Economic Forum, Global Competitiveness Index
Judicial accountability	0 represents countries where judges found responsible for serious misconduct, are never removed from their posts or otherwise disciplined; 4 represents countries where judges found responsible for serious misconduct, are always removed from their posts or otherwise disciplined.	V-Dem, Variety of Democracy database
Economic Freedom of the World (EFW) index: integrity of the legal system	It assesses the strength and impartiality of the legal system, and the popular observance of the law (based on the International Country Risk Guide Political Risk Component I for Law and Order).	Fraser Institute
Criminal Justice	Criminal investigation system is effective; Criminal adjudication system is timely and effective; Correctional system is effective in reducing criminal behavior; Criminal justice system is impartial; Criminal justice system is free of corruption; Criminal justice system is free of improper government influence; Due process of the law & rights of the accused.	World Justice Project, Rule of Law

Indicator	Description	Source
6. Business environment and trade institutions		
Administrative burdens on startups	Simple average of three components: (i) Administrative burdens on creating a public limited company, (ii) Administrative burdens on creating an individual enterprise, (iii) Entry barriers in professional services, freight transport services and retail distribution.	Product Market Regulation (PMR) Indicators
Explicit barriers to trade and investment	Simple average of two components: (i) Restrictiveness of a country's FDI rules in 22 sectors in terms of foreign equity limitations, screening or approval mechanisms, restrictions on the employment of foreigners as key personnel and operational restrictions (e.g. restrictions on branching and on capital repatriation or on land ownership), (ii) Simple cross-product average of effectively applied tariffs.	Product Market Regulation (PMR) Indicators
Other barriers to trade and investment	Simple average of two components: (i) Discrimination of foreign firms with respect to taxes and subsidies, public procurement, entry regulation and appeal and procedure, (ii) Recognition of foreign regulations, use of international standards and international transparency of domestic regulation.	Product Market Regulation (PMR) Indicators
Complexity of regulatory procedures	Simple average of two components: (i) Use of a one-stop-shops and the silence is consent rule for issuing licenses and accepting notifications, (ii) The government's communication strategy and efforts to reduce and simplify the administrative burden of interacting with the government.	Product Market Regulation (PMR) Indicators
Burden of customs procedures	It measures business executives' perceptions of their country's efficiency of customs procedures. The rating ranges from 1 to 7, with a higher score indicating greater efficiency.	World Economic Forum's Executive Opinion Survey
Effectiveness of antimonopoly policy	In your country, how effective are anti-monopoly policies at ensuring fair competition?	WEF, Global Competitiveness Index
Burden of government regulation	In your country, how burdensome is it for companies to comply with public administration's requirements (e.g. permits, regulations, reporting)?	WEF, Global Competitiveness Index
Efficiency of the clearance process by border control agencies, including customs	Efficiency of customs clearance processes (i.e. speed, simplicity and predictability of formalities) by border control agencies, including customs	WB International LPI
Extent of market dominance	In your country, how do you characterize corporate activity? [1 = dominated by a few business groups; 7 = spread among many firms].	WEF, Global Competitiveness Index

Indicator	Description	Source
Property rights	In your country, to what extent are property rights, including financial assets, protected? [1 = not at all; 7 = to a great extent]	WEF, Global Competitiveness Index
Regulatory protection of incumbents	Simple average of three components: (i) Pervasiveness of barriers to entry in 30 business sectors as a share of sectors in which there are explicit legal limitations on the number of competitors, (ii) Scope of exemptions from competition law for public enterprises, (iii) Entry barriers in 8 network sectors (gas, electricity, water, rail transport, air transport, road freight transport, postal services and telecommunication) and degree of vertical separation in 3 network sectors (gas, electricity and rail transport).	Product Market Regulation (PMR) Indicators
Efficiency and transparency of boarder administration	Efficiency and transparency of border administration. It captures efficiency, transparency and costs associated with importing and exporting goods. It includes an assessment of the range, quality and comprehensiveness of key services offered by customs and related agencies, and the average time, costs and number of documents required to, respectively, import and export goods. It also assesses the time predictability of border procedures, as well as the transparency of the process and the prevalence of corruption.	World Economic Forum (WEF), Enabling Trade Index
Freedom of foreigners to visit	Freedom of foreigners to visit (Robert Lawson and Jayme Lemke (2012))	Fraser Institute, Lawson and Lemke (2012)
Non-tariffs trade barriers	In your country, to what extent do non-tariff barriers (e.g., health and product standards, technical and labeling requirements, etc.) limit the ability of imported goods to compete in the domestic market? [1 = strongly limit; 7 = do not limit at all]	World Economic Forum, Global Competitiveness Report
7. Labor market institutions		
Labor market regulations	Hiring regulations and minimum wage, Hiring and firing regulations, Centralized collective bargaining, Hours Regulations, Mandated cost of worker dismissal, Conscription.	Fraser Institute
Collective bargaining coverage rate	Number of employees whose pay and/or conditions of employment are determined by one or more collective agreement(s) as a percentage of the total number of employees. Collective bargaining coverage includes, to the extent possible, workers covered by collective agreements in virtue of their extension.	ILO
Employment Protection Legislation Index, permanent workers	Composite indicator of Employment protection legislation governing regular contracts, individual dismissals.	ILO

Indicator	Description	Source
Employment Protection Legislation Index, temporary workers	Composite indicator of Employment protection legislation governing regular contracts, individual dismissals.	ILO
Ratio of minimum to mean wages	Ratio of minimum to mean wages.	ILO
Trade union density	Number of union members who are employees as a percentage of the total number of employees. For the purpose of this indicator in particular, trade union membership excludes union members who are not in paid employment (self-employed, unemployed, retired, etc.).	ILO
Hiring and firing practices	In your country, to what extent do regulations allow flexible hiring and firing of workers? [1 = not at all;7 = to a great extent]	World Economic Forum (WEF), Executive Opinion Survey
8. Financial market institutions		
EFW index: Freedom to own foreign currency bank accounts	0 represents countries where foreign currency bank accounts are restricted both domestically and abroad; 10 represents countries where foreign currency bank accounts are permissible without any restrictions both domestically and abroad.	Fraser Institute
Capital controls	The zero-to-10 rating is the percentage of capital controls not levied as a share of the total number of capital controls listed, multiplied by 10. Source: International Monetary Fund, Annual Report on Exchange Arrangements and Exchange Restrictions. Higher values indicate higher capital mobility (i.e., fewer controls).	Fraser Institute, IMF
Foreign Investment Restrictions	Foreign ownership/investment restrictions (WEF, GCR)	Fraser Institute
Central Bank Independence	Index of de jure Central Bank Independence. Values range from 0 (minimum score) to 1 (maximum score). Method based in Cukierman, Webb, and Neyapty (1992).	Garriga (2016)
Financial sector: competition regulation	Perception data collected through questionnaires. Answers range from 0 (minimum score) to 4 (maximum score).	Institutional Profiles Database

Indicator	Description	Source
Efficiency of the banking supervisory authority	Perception data collected through questionnaires. Answers range from 0 (minimum score) to 4 (maximum score).	Institutional Profiles Database
Efficiency of the financial market supervisory authority	Perception data collected through questionnaires. Answers range from 0 (minimum score) to 4 (maximum score).	Institutional Profiles Database
EFW index: Credit market regulations	Ownership of banks, Private sector credit, Interest rate controls/negative real interest rates.	Fraser Institute
9. SOE Corporate Governance		
Use of command & control regulation	It measures the degree of autonomy of SOEs for taking market-related decisions, such as opening hours for retail distribution, if taxis are allowed to offer ride-sharing to customers, if air companies are free to choose which routes to serve, etc. It also measures whether SOEs (for utilities) are required to provide clear and transparent information to customers on tariffs and consumption. Higher values mean worse performance.	Product Market Regulation (PMR) Indicators
Direct control over business enterprises	It measures the existence of special voting rights by the government in privately owned firms and constraints to the sale of government stakes in publicly controlled firms.	Product Market Regulation (PMR) Indicators
Governance of state-owned enterprises	It measures the degree of political interference and the degree of insulation from market discipline. Higher values mean worse performance.	Product Market Regulation (PMR) Indicators
Government involvement in network sectors	It measures the size of the government's stake in the largest firm in key network sectors.	Product Market Regulation (PMR) Indicators
Price control	It measures whether tariffs are regulated and whether there are laws and regulations that limit competition. Higher values mean worse performance.	Product Market Regulation (PMR) Indicators
Scope of state-owned enterprises	It measures whether the government controls at least one firm in a number of business sectors, with a higher weight given to the key network sectors on which the PMR exercise focuses.	Product Market Regulation (PMR) Indicators

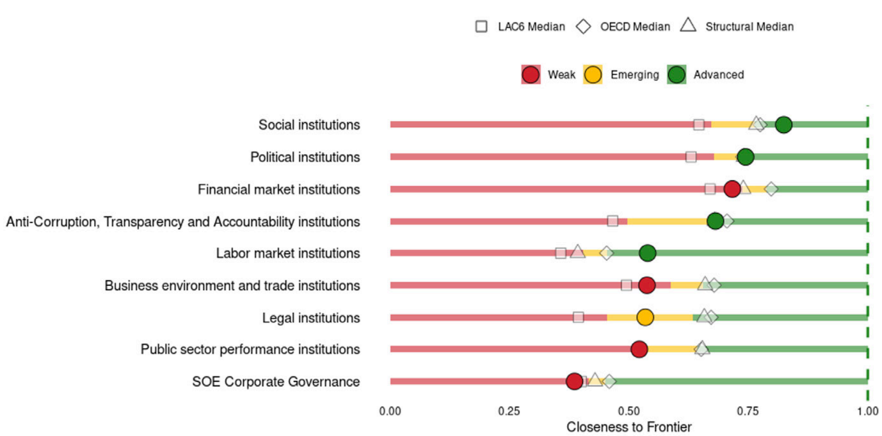
Indicator	Description	Source
SOE-government transfers governance rule	Are there rules governing fiscal transfers between the government and the SOE? 100 - Yes, the law specifies the rules governing fiscal transfers between the government and the SOE. 50 - Yes, a publicly documented policyspecifies the rules governing fiscal transfers between the government and the SOE. 0 - No, there are no rules governing fiscal transfers between the government and the SOE.	Resource Governance Index, Natural Resource Governance Institute (NRGI)
SOE annual report disclosure requirement	Is the SOE required to publicly disclose annual reports containing information on its finances and operations? From 0 to 100, where higher scores indicate stronger requirements.	Resource Governance Index, Natural Resource Governance Institute (NRGI)
SOE financial audit requirement	Do rules require a periodic audit of the SOE's financial statements by an external body? From 0 to 100, where higher scores indicate stronger rules.	Resource Governance Index, Natural Resource Governance Institute (NRGI)
SOE report legislative review requirement	Is the SOE required to submit annual reports to the legislature on its commercial, non-commercial (i.e. regulatory) and non-operational activities (i.e. activities not related to resource extraction)? From 0 to 100, where higher scores indicate stronger requirements.	Resource Governance Index, Natural Resource Governance Institute (NRGI)

Appendix B: Visualizing results from institutional benchmarking and heatmap: an example from the pilot case of Uruguay[31]

In the case of Uruguay, the benchmarking analysis used the set of comparator countries for Uruguay defined in the Uruguay SCD Update: (a) **regional comparators**, covering the six largest Latin American economies (Argentina, Brazil, Chile, Colombia, Mexico, and Peru); (b) **structural comparators**, which are high income countries chosen with additional criteria based on the characteristics of the Uruguayan economy (Australia, Chile, Greece, New Zealand and Spain); and (c) **aspirational comparators** (OECD economies).

The institutional benchmarking exercise highlights that Uruguay exhibits strong institutional capital on political, social and labor market institutions relative to the set of comparator countries, (Figure B.1). However, institutional capital remains weak across three institutional clusters relative to comparators: (a) public sector management institutions, encompassing inefficient policy-making and implementing structures, rigid human resource management policies in public administration, inadequate procurement regulations, and poor coordination across agencies and levels of government; (b) the architecture of market institutions in business and trade reduces productivity and undermines business opportunities, with excessive use of paper documents, weak legal protections for minority investors, burdensome customs and border management procedures, a fragmented competition framework and restrictions implied by Mercosur membership; (c) the corporate governance of SOEs, with a lack of clarity on state ownership function and mixed objectives of SOEs; the weak power and independence of regulators, including on price settings, and the poor performance management systems; (d) weak financial institutions: the central bank is not sufficiently independent; the insolvency framework is weak; and credit market regulations are ineffective. In these institutional categories, Uruguay performs at the bottom 25th percentile relative to comparator countries. Recent reforms across these functional areas have started to produce tangible results, but important gaps remain. Other institutional functions, including accountability institutions and justice institutions, represent emerging institutional capital, but the benchmarking results suggest that performance is mixed and that there are small institutional gaps.

Figure B.1: Benchmarking institutional capital in Uruguay: overview of findings, by institutional cluster



Source: ' World Bank 2021b.
Note: The large circles show Uruguay's performance. The traffic lights coloring indicate areas where the largest institutional gaps exist in Uruguay relative to comparator countries, as follows: red = weak institutional capital (bottom 25 percent); yellow = emerging institutional capital (25 percent–50 percent); green = advanced institutional capital (top 50 percent). See World Bank 2021b for the indicators included in each institutional cluster.

31. For further details on the institutional benchmarking analysis for the case of Uruguay, see World Bank 2021b.

Moving beyond cluster-level performance, the benchmarking analysis focused on the specific indicators that accounted for the observed results, looking at the benchmarking results within each cluster. The analysis is developed in the Uruguay CLIAR report. Figures B2 and B3 below show the results for benchmarking analysis within cluster, looking at anti-Corruption, transparency and accountability institutions and business environment and trade institutions, respectively. The selected clusters are shown for illustrative purposes only.

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Figure B.2: Anti-Corruption, Transparency and Accountability Institutions

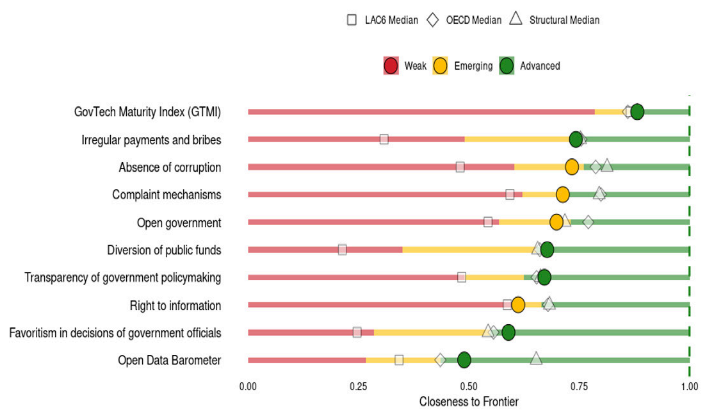

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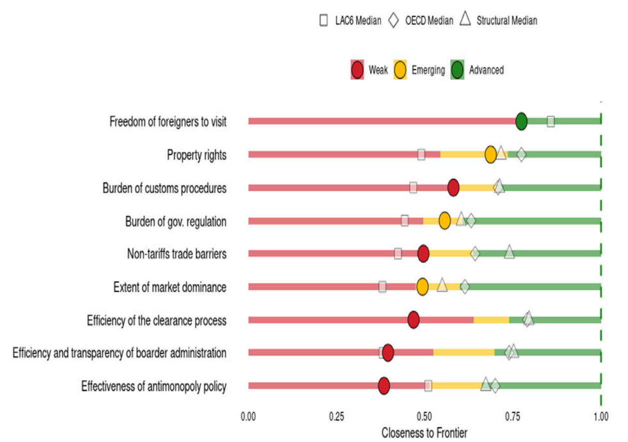
Figure B.3: Business Environment and Trade Institutions



Source: ' World Bank 2021b.

Building on the benchmarking exercise, the Uruguay CLIAR developed the institutional heatmap to help identify and select the institutional binding constraints that require more attention. The heatmap (Table B.1) assesses the relevance of underperforming institutions in constraining efforts to tackle the four development challenges. The first column lists the clusters that are ranked as having "weak institutional capital", as identified in the benchmarking exercise. These are as follows: (a) corporate governance of SOEs, (b) public sector management, (c) the business environment and trade, and (d) financial institutions. For each of these, the cell reflects the specific functional areas (captured by proxy indicators) that appear to drive the suboptimal performance. The subsequent columns reflect the collective judgment on how binding the institutional constraint is for a particular development challenge, assessed on a three-point scale (marginal, moderate, and substantial).

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Table B.1 Institutional heatmap: an example from Uruguay CLIAR

Institutional clusters that show weak institutional capital relative to comparators	**DEVELOPMENT CHALLENGES IDENTIFIED BY THE URUGUAY SCD**			
	1	**2**	**3**	**4**
	Creating the conditions for a more competitive economy	Transforming the education system for better learning outcomes	Improving performance in the delivery of basic services (water/sanitation and power)	Promoting inclusive and climate resilient green growth
SOE and public utility governance • Price controls • Command and control regulations • Government involvement in network sectors • Corporate governance of SOEs Direct control over enterprises	Substantial	Marginal	Substantial	Moderate
Public sector management institutions • Center of government influence • Efficient government spending	Substantial	Substantial	Substantial	Substantial
Business environment and trade institutions • Complex regulatory procedures • Explicit barriers to trade • Nontariff trade barriers • Efficient and transparent border administration • Protection of incumbents • Burden of custom procedures	Substantial	Marginal	Substantial	Moderate
Financial institutions • Central bank independence • Credit market regulations	Substantial	Marginal	Marginal	Moderate

Source: ’ World Bank 2021b.
Note: The table shows institutional areas in need of development. The cells are shaded to indicate the importance of the impact of solving the SCD development challenges (from marginal to substantial). The assessment reflects the collective judgment of the Uruguay Country Team.

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Appendix C: Aggregation Rule, Choice of Institutional Clusters & Robustness Checks

Aggregation Rule & Choice of Institutional Clusters

While there is no unique and undisputed classification of institutional clusters, the aggregation rule in the framework is informed by theoretical arguments and a review of the literature combined with the team's own assessments and validated by the data. In this section, we briefly describe the data validation processes. Results are estimated using G-BID version 2.0, and are available upon request. We briefly discuss two types of validation exercises, focusing on internal consistency (whether a given indicator can be classified within a given cluster) and on the number of clusters itself.

Overall, the choice of indicators within institutional clusters shows high internal consistency. To analyze the internal consistency (or scale reliability) within each institutional group, the team relied on Cronbach's alpha analyses (Cronbach 1951). Results strongly support the aggregation rules proposed by the team. Nonetheless, in a small number of cases —exhibit values lower than ideal. This is driven by data availability or a product of potential violations to the monotonicity assumption (such as labor market institutions, as some variables show negative interitem correlations). This emphasizes the importance of treating G-BID as a live experiment and keep adding new data sources as well the benefits complementing the benchmarking exercise with qualitative approaches and country-specific data.

The choice of the optimal number of clusters is guided by theory, experience, and validated by machine learning analyses --a well-known clustering method in the unsupervised learning procedures literature, the k-means cluster algorithm. With unsupervised learning methods (in this case, k-means cluster algorithm) there will always be a trade-off with the theoretical knowledge and team experience; here, the k-means cluster algorithm is used to guide and validate the choice on the optimal number of clusters from a set of unknown solutions, and its results are used and weighted against other factors outside of the data, including theoretical knowledge, aggregation versus narrowness trade-off, and topics for client engagement. The results indicate that 9 clusters represent the breaking point at which more clusters do not necessarily improve classification. Moreover, it provides a balance between narrow classification, but still a level of aggregation that facilitates substantive engagement with clients.

Robustness Checks

Our baseline analyses are robust to different estimation methods and analytical decisions. This highlights the strength of the benchmarking tool, as its results are not sensitive to potential deviations from our baseline specification. Results were estimated using G-BID version 2.0 and are available upon request. Two core robustness checks are briefly discussed below.

Robustness to Estimation Methods

The robustness checks show that the substantive results from the baseline benchmarking are not affected when alternative estimation methods are implemented. Baseline results rely on averaging indicators between 2014 and 2019; they also identify the best and worst performers based on available data from the global sample (not the comparator sample of countries for the case at hand). Concerns may arise regarding these analytical decisions made by the team. For example, even five-year averages (a relatively short time frame in the lifespan of countries) may severely punish (spare) countries that have been on a clear positive (negative) trend. Similarly, if the best and worst performers in the global sample are systematically different than the best and worst performers in the selected sample, and such differences are partially driven by the main country of analysis, the analysis could yield biased results. The results of our robustness checks reject these concerns.

Results are also robust to: (i) using the last available data point (instead of averaging over the five-year period), and (ii) restricting the estimation of best and worst performers to the relevant sample at hand (instead of the global one).

Robustness to Different Thresholds and Comparator Countries

The selection of comparator countries and quantile thresholds are important analytical features of the benchmarking analysis. While the selection of comparator countries is driven by an informed decision from the team, the quantile thresholds can be seen as a statistical element. By construction, both the selection of comparator countries and quantile threshold could alter the results. In practice, however, it is the selection of comparator countries that substantively changes results (as it substantively should).

The selection of comparator countries is a decision guided by theory, experience, and the context surrounding the country of interest, as well as the objective of the benchmarking exercise; empirically, it is a consequential decision. For example, comparing the Uruguay baseline results with the results using only Latin America and the Caribbean countries as the comparator group is quite telling, as many “weak” and “emerging” clusters in the baseline results become “advanced” when the comparator group is only Latin America and the Caribbean.

With respect to the quantile thresholds, the overall results are robust to other natural thresholds. The baseline categorization uses “weak institution” (bottom 25 percent, Red); “emerging institution” (25–50 percent, Yellow), and “advanced institution” (top 50 percent, Green). Given this rule, it is not surprising that results are robust to terciles—i.e., classifying the bottom 33 percent as weak, the 33–67 percent as emerging, and the top 67 percent as advanced.

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