

# The road to improvement: governance and social outcomes

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For the past couple of years we have been examining the evidence for improvement in the quality of public financial management (PFM) and its impact on socio-economic outcomes. Frankly the evidence for improvement in PFM quality based on Public Expenditure and Financial Accountability (PEFA) scores has been quite disappointing. We did produce a study report on PEFA performance over a five year period and prepared [a short blog](#) for the International Monetary Fund (IMF) but further work found no good evidence for linkage between PFM and outcomes.

This being the case, we wondered if a broader view of governance would indicate a more positive relationship to socio-economic outcomes. It did. That is the subject of [our recent study](#), published by PFMConnect and covered in this blog.

The study uses the [World Bank Governance Indicators](#) and a set of key socio-economic outcome indicators derived from [World Health Organization](#) (WHO) and [United Nations Development Programme](#) (UNDP) data sets. Data from 2004 and 2021 were compared for the 176 countries for which all necessary data was available. For health, data from 2005 and 2021 were compared.

The World Bank Governance Indicators have six aspects: voice and accountability; political stability and absence of violence/terrorism; government effectiveness; regulatory quality; rule of law; and control of corruption. All elements of the governance indicators correlate well internally across the data sets for 2004 and 2021 — meaning that a country that performs well on one of the indicators is likely to perform well on others.

The five key socio-economic outcome indicators chosen for this exercise cover a wide spectrum of personal and community development activities: health; human development (as measured by the Human Development Index or HDI); life expectancy; expected years of schooling; and gross national income (GNI) per capita. The health indicator data are compiled by WHO and others by UNDP.

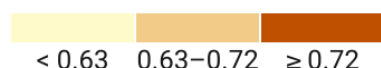
This exercise demonstrated that, like the governance indicators, each of the socio-

economic indicators correlate well internally for 2004 and 2021. GNI per capita was rated “unsatisfactory” against expected years of schooling for 2004 although improving to “satisfactory” in 2021 — meaning that the performance of these two indicators was not, in our view, adequately aligned for 2004 (in other words, expected years of schooling were fewer than one would hope given GNI per capita in 2004) though it improved to a minimum standard in 2021.

We next examined the relationships between the governance and socio-economic outcome indicators. The results for 2021 are set out in Table 1. The full analysis, including results for 2004, is [available for download](#).

## Table 1: Correlations between WBGIs & outcome indicators using Pearson coefficients based on 2021 data

A value below 0.632 was regarded as unsatisfactory; 0.632 - 0.72 as satisfactory and above 0.72 as good. Higher values represent improved fit between indicators.



WBGIs	Health*	HDI	Life expectancy	Exp years schooling	GNIpc
Voice & accountability	0.509	0.583	0.529	0.587	0.496
Political stability	0.546	0.631	0.568	0.569	0.561
Government effectiveness	0.738	0.828	0.771	0.730	0.825
Regulatory quality	0.716	0.811	0.733	0.735	0.826
Rule of law	0.653	0.770	0.717	0.695	0.789
Control of corruption	0.632	0.725	0.677	0.670	0.771

Source: PFM Connect study • Created with Datawrapper

The study also looked at gender-based schooling relative to gender-based GNI per capita (although only 163 of the 176 countries used in the full study had the necessary data for this exercise) and demonstrated that female schooling correlates well with female income generation. The relationship is less clear for males,

particularly in the 2004 data set. This could indicate that there are more diverse routes for males into economic activity, making education a slightly more important route to increased earning power for women.

The analysis demonstrates that four of the governance indicators (government effectiveness, regulatory quality, rule of law, control of corruption – termed here the “key” indicators) correlate well with all the socio-economic outcome indicators included in our study for both the 2004 and 2021 data sets. Government effectiveness is distinguished by its correlations being rated “good” across all five socio-economic outcome indicators for both years. Voice and accountability and political stability exhibit unsatisfactory correlations across the two data sets.

What do our findings suggest?

First, the governance indicators and the socio-economic outcome indicators each have a marked internal consistency of performance. From this it can be inferred that well-organised administrations are likely to be well-organised at a general level rather than within specific domains of activity. The finding is more remarkable in relation to socio-economic outcome indicators given that the governance indicators could be regarded as mainly dependent on similar skill sets — this seems less likely in the case of the socio-economic outcome indicators.

Second, the degree of compatibility between the four “key” governance indicators and the socio-economic outcome indicators used in our study suggests that the key governance indicators tend to influence the quality-of-service outcomes notwithstanding direct service input. Governance correlations rated satisfactory or good, therefore, seem to produce a discernible improvement in the quality of services, with unsatisfactory governance correlations having the opposite effect.

Third, our findings suggest that national leaders should seek to improve the quality of governance and thereby improve service outcomes. The World Justice Project [Rule of Law Index](#) provides an accessible level of analysis for key governance characteristics enabling consideration of their potential impact on service improvement. The Rule of Law Index is not unique, but it is impressive, and provides a useful analytical framework for governments.

Finally, the correspondence between female expected years of schooling and female GNI per capita provides a powerful argument for the value of female education on economic grounds alone. This reinforces findings presented in a recent [IMF blog](#) stressing the importance of female participation in the labour market to improve the economic output of emerging and developing economies.

Perhaps we shall return to examining the relationship between PFM performance

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and socio-economic outcomes at some future date. For the moment, the results of this study lead us to the possibility of undertaking further research into the broader governance field and its relationship to socio-economic outcomes.

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