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Presentation of the Institutional Profiles Database 2009 (IPD 2009)

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DGTPE

DIRECTION GÉNÉRALE DU TRÉSOR
ET DE LA POLITIQUE ÉCONOMIQUE

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ABSTRACT

This document presents the Institutional Profiles Database (IPD) 2009. IPD offers researchers a quantitative evaluation of the institutional characteristics of 123 countries covering 99% of global GDP and 96% of the world population. The database is oriented towards the analysis of the relationship between institutions and long-term economic growth. The IPD 2009 is the third edition (earlier versions appeared in 2001 and 2006), and a fourth edition is planned for 2012.

IPD covers a broad spectrum of institutional characteristics, going well beyond the measurement of governance indicators. The nine major institutional functions assessed by IPD are: 1. Political institutions; 2. Safety, Law and Order, Control of violence; 3. Functioning of public administrations; 4. Free operation of markets; 5. Coordination of actors, Strategic vision, Innovation; 6. Security of transactions and contracts; 7. Market regulations, Social dialogue; 8. Openness to the outside world and 9. Social cohesion and mobility.

The complete database is freely available at:

http://www.cepii.fr/ProfilsInstitutionnelsDatabase.htm

http://ipd.afd.fr

http://www.maastrichtuniversity.nl/governance

The database is presented in three versions: a full version that contains 367 variables; and two aggregated versions, one containing 133 variables and the other 93 variables. Both of the condensed versions are aggregated based on the methodology presented in this document. Other aggregation methods can also be used.

Keywords: database, development, governance, growth, indicators, informal, institutions.

JEL: A0, K0, O1, O4, O57, P0.

RÉSUMÉ

Ce document présente la base de données « Institutional Profiles Database 2009 » (IPD 2009). IPD 2009 offre aux chercheurs une évaluation quantitative des caractéristiques institutionnelles de 123 pays couvrant au total 99 % du PIB et 96 % de la population de la planète. La base est orientée vers l'analyse du lien entre institutions et croissance de long terme. Après les publications de 2001 et de 2006, IPD 2009 constitue la troisième édition de cette base de données. La prochaine édition d'IPD est prévue pour 2012.

Le champ institutionnel d'IPD dépasse largement celui de la gouvernance. Il est découpé en neuf fonctions institutionnelles majeures : 1. Institutions politiques, 2. Sécurité, ordre public, contrôle de la violence, 3. Fonctionnement des administrations publiques, 4. Liberté de fonctionnement des marchés, 5. Coordination des acteurs, vision stratégique et innovation, 6. Sécurité des transactions et des contrats, 7. Régulations des marchés, dialogue social, 8. Ouverture sur l'extérieur, 9. Cohésion et mobilité sociales.

La base de données complète est disponible gratuitement sur :

http://www.cepii.fr/ProfilsInstitutionnelsDatabase.htm

http://ipd.afd.fr

http://www.maastrichtuniversity.nl/governance

IPD est présentée dans trois versions : la base complète (367 variables), et deux versions réduites, l'une de 133 variables, l'autre de 93 variables, toutes deux agrégées sur la base d'hypothèses explicitées dans ce document. D'autres méthodes d'agrégation sont possibles.

Mots clés : Base de données, Croissance, Développement, Gouvernance, Indicateurs, Informel, Institutions.

JEL: A0, K0, O1, O4, O57, P0.

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Introduction

The Institutional Profiles Database (IPD) 2009 covers 123 countries and contains in total 367 indicators for a wide range of institutional characteristics. These are broken down into nine institutional functions: 1. Political institutions; 2. Safety, Law and order, Control of violence; 3. Functioning of public administrations; 4. Free operation of markets; 5. Coordination of actors, Strategic vision, Innovation; 6. Security of transactions and contracts; 7. Market regulations, Social dialogue; 8. Openness to the outside world and 9. Social cohesion and mobility.

Countries included in IPD 2009 represent 96% of the world population and 99% of the world Gross Domestic Product. IPD 2009 includes 24 developed countries, 30 Sub-Saharan African countries, 16 Middle East and North African countries, 18 Latin American and Caribbean countries, 17 Central Asian and European countries, and 18 developing countries in Asia (see Annex 1 for the list of countries included in IPD). The first Institutional Profiles Database was carried out in 2001 and covered 51 countries. The second survey was carried out in 2006 and extended the geographic coverage to 85 countries.

The Institutional Profiles Database was built by researchers based at the French Ministry for the Economy, Industry and Employment (MINEIE) and Agence Française de Développement (AFD). The database is based on a survey conducted by the MINEIE and the AFD agencies in the countries covered.

The purpose of the IPD project is to contribute to the measurement and analysis of the role that institutions play in development. The IPD project aims to stimulate further research in the area of institutions, growth and development. The Institutional Profiles project is organized as part of a multi-year AFD research program on "Institutions, Governance and Long Term Growth", which aims at deepening research on the role of institutions in development processes. The University of Maastricht / Maastricht Graduate School of Governance (MGSoG) is the main partner in this research program. Researchers at the MGSoG contributed to the revision of the IPD questionnaire, the testing of the questionnaire and the explorative analyses of the results.

Since 2008, the World Bank Institute has been using a part of the IPD (from the IPD 2006 version) in producing the Worldwide Governance Indicators (WGI) (Kaufmann, Kraay and Mastruzzi, 2009). The average weight of IPD in the WGI is 7.2%, out of 33 different sources.

This document presents an overview of IPD 2009. It is divided into three chapters. Chapter 1 introduces the reader to the context of measuring institutions. Chapter 2 presents the analytical framework of the IPD. Finally, Chapter 3 presents the methodology used to prepare the database.

Access to the database and referencing IPD

The database is presented in three versions: a full version that contains 367 variables; and two condensed versions, which contain 133 and 93 variables, respectively. Both the complete and the aggregated versions of IPD are freely available after registration at:

http://ipd.afd.fr

http://www.maastrichtuniversity.nl/governance

http://www.cepii.fr/ProfilsInstitutionnelsDatabase.htm

Please use the following reference when citing the IPD:

"Institutional Profiles Database (IPD)"

Database users are invited to send AFD, CEPII or MGSoG copies of research papers and research output based on the database (email address below). Research with prior scientific approval will be granted a hyperlink reference on the websites. For all comments and questions on content, variable names and translations, please send an email to any of the following addresses:

ipd@afd.fr

institutions@cepii.fr

ipd@maastrichtuniversity.nl

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Disclaimer:

The data provided and any research conducted based on these data shall in no way be deemed to reflect the official positions or incur the responsibility of MINEIE, CEPII, AFD and the Maastricht Graduate School of Governance (MGSoG). Furthermore, these bodies hereby disclaim any and all liability for the consequences of any anomalies or errors remaining in the database.

These indicators are made available for scientific research purposes, to explore the relations between Institutions and Development. They are not intended for operational uses (e.g. to allocate resources). Attempts to make use of the indicators for individual countries would be statistically and conceptually problematic: the data in the base should be analyzed as a whole in a multidimensional and multi-country approach for scientific, not operational, purposes. This point is broadly documented and confirmed by the OECD study conducted by Arndt and Oman (2006).

1. Measuring Institutions

1.1. A broad Definition of Institutions

Douglass North (1990) defined institutions as being constituted by a set of formal and informal rules that govern the behaviour of individuals and organizations. Formal rules include constitutions, laws and regulations and political systems, while informal rules refer to social norms, values and beliefs. In this context, institutions structure the incentives that affect behaviours and provide a framework for economic exchanges (North, 1990). The definition of institutions referred to above essentially encompasses a very vast field and serves as a starting point for the collection of the IPD data.

This study follows earlier studies in this respect, such as the analyses made by Kaufmann, Kraay and Zoido-Lobaton (1999 and 2002), Arndt and Oman (2006).

1.2. Difficulties in Measuring Institutions

Contemporary economics, given its social science approach, relies on measured, and hence quantifiable elements. Economists therefore find themselves in a real predicament when it comes to analyzing institutions and defining measures for institutional characteristics. Institutions are difficult to measure because:

i.   Institutions are best analyzed using a multidimensional approach, including insights from different social sciences: economics, history, law, political science, sociology, and anthropology.

ii.   Studying institutions raises issues about values and normativity (universal values *versus* culturally specific values), which requires particular caution.

iii.   To measure institutions, economists generally rely on quantitative indicators derived from qualitative assessments that involve subjectivity.

iv.   There is no absolute, defined framework to ensure coherence of the institutional field.

The Institutional Profiles project addresses the complexities involved in quantifying institutional phenomena. In order to capture institutional characteristics, institutional functions are defined as precisely as possible; their interrelations are captured and structured in an analytical framework. The Institutional Profiles questionnaire is constructed to reflect this analytical framework.

1.3. Measuring Institutions: Specific Issues

Institutional concepts and institutional characteristics are quantified in order to inspire public policy interventions. Policies aiming at "institutional change and institutional reform" are complicated to design and deploy since they profoundly modify societies' socio-economic balances. Effective reform requires the mobilization of a substantial number of actors and inevitably implies cultural confrontation. These confrontations may engage concentrated and organized interests that are advocating for change in the allocation of rents and might imply the utilization of old tools to forge new ones (for example, getting a corrupt administration to apply anti-corruption measures).

These complexities should be considered when measuring the quality of an institution, the implementation of an institutional reform, and its effects.

1.4. A Non-Normative Approach

The diversity of institutional frameworks invites researchers to take a non-normative approach. In the Institutional Profiles survey, institutional standards are not assumed *a priori* and a non-normative perspective on what constitutes "good" or "bad" institutions is taken.

This approach assumes that there is no single optimal institutional model that applies to all countries regardless of their level of development, institutional heritage and historical transformations. Recently developed models towards which developed economies are currently leaning are not to be projected

unchanged on economies whose institutional heritage and level of development are very different (North, 1994; Aoki, 2001).

Indeed, very different institutional configurations have been able to support periods of lasting rapid growth, as is illustrated by numerous examples of economic takeoffs within institutional frameworks that would be regarded today as "unorthodox" (such as the United States and Germany at the end of the 19th century; France in the 30 post-war boom years; post-war Japan, South Korea and Taiwan in the 1960s to 1980s; and China, and Vietnam today). The IPD database is constructed to allow for the diversity in institutional configurations to be detected, mapped and studied.

2. Analytical framework of the Institutional Profiles Database

2.1. Structure of the Institutional Field

The structure of the institutional field is obtained by intersecting nine institutional functions (describing the essential functions performed by institutions at a national level) and four sectors of operation (the arenas in which these functions are carried out).

Institutions are categorized according to these nine functions:

1. Political institutions: functioning of political institutions, public rights and freedom, legality and legitimacy;

2. Safety, law and order, Control of violence: safety of persons and goods, control of violence, external security;

3. Functioning of public administrations: transparency and efficiency of public action, control of corruption, independence and level of application of the justice system, governance of natural resources, autonomy of organizations;

4. Free operation of markets: privatizations and nationalizations, freedom of prices and interest rates, flexibility of the labour market;

5. Coordination of actors, Strategic vision, Innovation: the State's capability to bring about convergence of interests and expectations, authorities' strategic vision, capacity to absorb technology;

6. Security of transactions and contracts: respect for property rights, contract law, handling of commercial disputes;

7. Market regulations, Social dialogue: competition on the markets for goods and services, capital and labour, arrangements for the regulation of competition, regulation and supervision of the financial system, instruments for social dialogue;

8. Openness to the outside world: free circulation of goods and services, capital, persons and information;

9. Social cohesion and mobility: social and regional balances, equality of treatment (according to gender, ethnic origin, etc.) by tradition and through formal institutions, social mobility, solidarity (traditional, institutional).

These nine **institutional functions** are then crossed with four **sectors**: A) public institutions and civil society; B) the market for goods and services; C) the capital market; D) the labour market and social relations.

The resulting institutional arena is summarised in the following table:

Table 1. : IPD's Structural Framework

	INSTITUTIONAL SECTORS			
	Institutional environment	Markets		
	-A- **Public institutions, Civil society**	**-B-** **Market for goods and services**	**-C-** **Capital market**	**-D-** **Labour market**
1- Political institutions	public rights and freedoms, legality, legitimacy			trade union freedom and pluralism
2- Safety, Law and order, Control of violence	safety of persons and goods, control of violence, external security			
3- Functioning of public administration	transparency, control of corruption, efficiency of administration, independence of the justice system, autonomy of organizations	business start-ups, governance of natural resources		
4- Free operation of markets		privatization and nationalizations, freedom of prices	privatization and nationalizations, freedom of credit and interest rates	flexibility of the formal labour market
5-Coordination of actors, Strategic vision, Innovation	government capacity for autonomous decision-making, co-ordination between public and private actors, innovation, authorities' strategic vision	businesses' technological environment	venture capital	vocational training
6- Security of transactions and contracts	security of property rights and contracts, commercial justice, bankruptcy laws	information on the quality of g & s, the situation of firms, intellectual property , land tenure	guarantee systems, disclosure requirements	observance of labour laws
7. Market regulations, Social dialogue		regulation of competition	regulation of competition, prudential rules, supervision	social dialogue
8- Openness to the outside world	circulation of persons and information	trade openness	financial openness	circulation of workers
9- Social cohesion and mobility	social equilibrium, equality of treatment, solidarity		micro-lending	market segmentation, social mobility

(Left margin label: INSTITUTIONAL FUNCTIONS)

2.2. Institutions and Economic Performance

IPD focuses on, and allows for, exploration of the relationship between institutional developments and long-term economic growth and performance. The following section explains the approach of IPD in measuring institutional characteristics; it is a *de facto* and functional approach, as well as a multi-level and multi-dimensional approach.

IPD focuses on the effectiveness, the quality and the implementation of institutional arrangements. It uses a "*de facto* approach", rather than a "*de jure* approach". The former emphasizes **the actual implementation and functioning of institutions**; the latter focuses on the existence and precise legal form of institutional arrangements. The *de facto* approach highlights the importance of enforcement of, and compliance with, rules and is a fundamental characteristic of IPD. This type of approach constitutes an essential element in the analysis of the relationship between institutions and long-term economic development since the existence of rules does not itself guarantee that they are effectively applied and followed. Thus, the relationship between institutions and economic performance is better analyzed from a "*de facto*" perspective.

IPD is structured around the paradigms of **"institutional functions"** and **"institutional arrangements"** (Rodrik, 2008). Institutional functions are the fundamental functions each society creates and operates under. They address issues such as the safety of people and goods, the political structuring of the society, justice, the security of contracts and transactions, and the protection of socially fragile people. The institutional arrangements are the idiosyncratic devices that each society invents to satisfy (more or less) these fundamental functions. The arrangements are specific to each society and depend on historical roots, culture, foreign influences and other factors. Justice and security, for example, can be assured through a considerable variety of arrangements. IPD addresses the institutional functions (using a *de facto* approach), without considering the specific arrangement (*de jure*) that assures (or does not assure) the extent to which the functions referred to above are realized.

IPD indicators address very specific aspects of the institutional fields and distinguish different levels within an institutional system. The variables assess institutional phenomena (for example, corruption or segmentation of the labour market), arrangements emanating from public policy (for example, the regulation of competition), and the outcome of these policies (for example, the quality of basic public goods, schooling and healthcare). Researchers using the database will be able to take into account these different levels within an institutional system.

IPD allows for comparisons between different institutional settings, since economic growth and performance is assumed to be influenced by particular **combinations of institutional characteristics** specific to each country. Specific individual institutional characteristics are not necessarily uniformly significant across countries in the attainment of sustainable growth (Amable, 2000).

This means that a country's institutional profile should not be analyzed by summing all the institutional characteristics that are thought to stimulate economic growth on a theoretical basis. Indicators such as openness, security of transactions and competition, for example, should not necessarily be taken into account simultaneously. The purpose of institutional configurations is to create **a multi-dimensional approach**.

When further aggregating IPD, it is highly recommended not to aggregate the indicators into a single composite indicator intended to capture overall "institutional quality" on a one-dimensional scale. The country-specific institutional compositions cannot be ranked or placed on a scale of high-to-low institutional quality. IPD is not intended to produce a one-dimensional country ranking; that is considered to be a meaningless exercise.

2.3. Enrichment of the Institutional Profiles Database: from IPD 2001 to IPD 2009

Measuring the qualities of institutions is a new field, and our understanding is at an infant stage of analysis; there is no scientific consensus on how to achieve internal consistency in measuring all aspects of institutional forms. As explained above, the purpose of the IPD project is to create quantitative tools to explore the relationship between institutions and development. IPD integrates the most relevant current theoretical contributions on the relationship between institutions and development.

IPD 2006 integrated the contributions on governance focal monopoly (Meisel, 2004) into Function 5: "Coordination of actors, Strategic vision, Innovation". This enrichment allowed for distinguishing between the institutional characteristics of "diverging" developing countries (which have lower growth rates than the developed-country average) and those of "converging" countries (which have higher growth rates than the developed-country average). The institutional gap between those two groups of countries is largely explained by IPD's Function 5, which describes the State's capability to bring about convergence of interests and anticipations, authorities' strategic vision, and the economy's capacity to absorb technology (Meisel and Ould Aoudia, 2008). These results are coherent with those of the *Growth Report* (Spence, 2008).

In IPD 2009, we extend this improvement to the political economy, taking into account work by North, Wallis and Weingast (2008) and by Khan (2008a; 2008b; 2009). In this way, IPD 2009 introduces key concepts put forward by these authors, such as "openness of social order", "control of violence" and "the use of rents". IPD also integrates contributions by Chris de Neubourg on labour markets and those of Szirmai (2009) on long-term perspectives in the institutional field. New variables were created through this enrichment process and were included in the structural framework for institutional analysis. IPD 2009 also incorporates the issue of land tenure[1].

Because IPD is subject to an ongoing enrichment process, comparisons between the different IPD versions (2001, 2006 and 2009) are complicated: **priority is given to the improvement of measurement rather than to intertemporal comparability**.

Furthermore, as explained for IPD 2006 (Meisel and Ould Aoudia, 2007), assessments of institutional characteristics are subjective by definition and may depend on the evolving views of the group of respondents to the questionnaire. Time comparability is problematic. We want to warn users of institutional indicators about the difficulties associated with inter-temporal comparability (Arndt and Oman, 2006; Kaufmann, Kraay and Mastruzzi, 2009).

That is not to say that the study of ongoing institutional change is impossible, based on subsequent editions of the IPD database; however, studies of this kind should be undertaken with great care and awareness of the potential for measurement errors across time.

The next edition of IPD is planned for 2012.

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[1] IPD 2009 developed a set of indicators in collaboration with the Technical Committee "Land Tenure and Development" of AFD and the French Ministry of Foreign Affairs (Lavigne-Delville *et al.*, 2009).

3. Constructing the Institutional Profiles Database 2009

3.1.   Data Collection

This Institutional Profiles survey was launched in February 2009, and data collection took four months. The Institutional Profiles survey was sent to the economic mission offices of the French Ministry for the Economy, Industry and Employment (MINEIE) and to the agencies of Agence Française de Développement (AFD) present in the country. The original questionnaire was in French[2]. The respondents were required to complete the entire questionnaire consisting of 382 elementary items (elementary items are coded by a letter corresponding to the sector A, B, C or D and a four digit number, the first digit of which corresponds to one of the 9 functions; for example, for Function 7: B7021). Questionnaires that were not fully completed were sent back and further instructions were provided. IPD does not incorporate any external data sources.

IPD 2006 and IPD 2001 included flow variables measuring institutional/policy change and processes. IPD 2009 does not include any such flow variables; it contains only "stock" indicators focused on the present state of affairs.

3.2. Rating System

The survey results are numerical variables in the form of ordinal scales. There are two types of scales used in IPD 2009:

- Coded from 1 to 4 when the question relates to the assessment of a phenomenon (for example, the level of corruption); or

- Coded from 0 to 4 when the question relates to the existence of a particular arrangement (with 0 indicating non-existence), and the level of its application (where 1 corresponds to low quality of application and 4 to high quality of application). One example is the existence of arrangements to regulate competition and how effectively they are implemented.

In order to reduce the subjectivity of the responses, the questions have, wherever possible, been broken down into elementary items that call for relatively objective answers. For example, the question on "Transparency of public action in the economic field" is broken down into six elementary variables.

Extract from the questionnaire:

A300. Transparency of public economic action

0 = no information published. If there is information, from 1 = unreliable to 4 = totally reliable

A3000	Government budget	from 0 to 4
A3001	Extra-budgetary funds	(4 = no extra-budgetary funds)
A3002	Accounts of State-owned enterprises	from 0 to 4
A3003	Accounts of public banks	from 0 to 4
A3004	Basic economic and financial statistics (national accounts, price indices, foreign trade, currency and credit, etc)	from 0 to 4
A3005	Is IMF consultation under Article IV published?	no =0, partially =2, totally =4

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[2] The questionnaire was then translated into English. It is downloadable from the websites aforementioned.

3.3. Data Preparation

The data-checking procedure is done on the basis of all the answers given by each respondent to the 4-digit "elementary items". The following section explains the preparation process of the IPD 2009 database. The methodology chosen for IPD 2009 aims at minimizing biases in the final dataset and maximizing the explained variance in the indicators.

Qualitative Information Retrieved from the Questionnaires

The data collection retrieves two different types of information. First, IPD includes quantitative data, the responses to each question (the 4-digit elementary items). Secondly, the data collection includes qualitative data, since respondents can write comments for each question. Approximately 10% of answers include a comment. Comments provide additional information about the score given or express incomprehension of the question. When an answer is not filled in correctly, the question is reviewed with the respondent.

Based on the comments, some weak questions were identified; these questions were dropped from the IPD. Questions that were dropped are: questions that are not relevant for all countries or country groups; frequently misunderstood questions resulting in ambiguous responses; questions that produced unreliable answers; questions that are confusing or difficult in the formulation, codification, or scaling. Of a total of 382 elementary items initially present in the questionnaire, 25 were dropped, resulting in 367 elementary items.

Consistency in the IPD

"Check and Clean" also pays attention to the **logical consistency** of a respondent's answers. For example, question B400 "Privatizations/nationalizations in the non-financial sector since 2006" is followed by B402 "Implementation of the privatization programme (non-financial sector)". If the score for B400 is 0 (no privatization), it is verified that the score given by a respondent to all the items in B402 is also 0.

Data **time consistency** is verified for the questions and countries that were documented in IPD 2001 and/or IPD 2006. Most of the institutional characteristics assessed, such as gender segregation in the labour market, do not change considerably over three years. When considerable change does appear in the answers, the respondent is requested to confirm his initial answers. When necessary, the data entries are corrected. The questions that address policies, and are subject to short-term changes, are not modified.

Particular Situations and Recoding

In some particular situations, when an institutional characteristic was not applicable to a given country, the questionnaire variables required recoding: for example, items about rural areas in countries without rural territory. In these specific cases, it was decided to "neutralize" the data as much as possible.

Two countries, Hong Kong and Singapore, have no rural areas. For these countries, the rural-area phenomena indicators are given the same score as the urban-area phenomena (for example, in B606, B609, B705, and D900). Similarly, some countries have no sub-national level of governance; for such countries, the score allocated to the national level is also allocated to the question addressing the sub-national level (A107 and A108).

For some countries, it is indicated that there are no "other armed bodies (paramilitary police, official militia, others, etc.)" (A2013). For these countries, the score given to this variable is the simple mean of the answers given to the other three sub-questions under this item ("Political authority control over the legal armed forces: Over the army" (A2010); "Over the police" (A2011); and "Over the secret services" (A2012)).

For some countries, it is indicated that there are no public banks. In such cases, scores for question A3003: "Transparency of public economic action - Accounts of public banks" are the same as for the question regarding State-owned enterprises: A3002: "Transparency of public economic action - Accounts of State-owned enterprises".

Recodifications occur also for questions referring to natural resources (B3030 and B3031) or the presence of minorities within the population (B6082). A country without natural resources or without such groups is given the median score of all the non-zero answers for the other countries.

We constructed the indicator "Subsidy on commodities" (A908f) from B4041 (Direct commodity price subsidies) and B4042 (Oil: deviation between pump prices and world prices)[3]. This indicator is a useful public policy marker for conducting cross-country analyses, for example.

3.4. Comparison of the Institutional Profiles Database 2009 with External Indicators

IPD 2009 was compared to some external indicators using a calibration analysis aimed at evaluating the proximity of the IPD dataset with that of external indicators. The purpose of the calibration exercise was to identify outliers, *i.e.* variables/countries that differ significantly between the IPD and comparable indicators coming from other datasets. These external indicators come from five sources: the World Bank Institute; Transparency International; Reporters Without Borders; Freedom House; and the Heritage Foundation.[4]

Since IPD is broader in scope than most other institutional datasets, some important fields of IPD may not be covered by the calibration exercise, for lack of comparable external indicators.

This section presents the methodology and the results of calibration.

Calibration Methodology

First, the external dataset is rescaled to a scale of 0 to 4 in order to ease comparison with the IPD dataset. The external indicators are compared with one or more variables from IPD 2009 that are likely to explain as much of the external variable as possible. Next, a linear regression is run utilizing the external variable as the dependent variable and the IPD variable(s) as the predictor variable(s). The predictor variables must yield a p-value that is less than 0.1 in order to be retained in the model. The adjusted R^2 of each regression analysis is documented. The higher the R^2, the higher is the proportion of the variance in the external source that the selected IPD 2009 variable(s) explain(s).

The outliers are identified using a 95% confidence interval for the residuals. Finally, countries that have one or more outliers are identified. The analysis of the outliers consists of the following three steps: (1) IPD 2009 is screened for relevant comments by the respondents that can explain the outliers; (2) when possible, the data are compared with data from IPD 2006 and from IPD 2001 in order to identify changes that provide information about the outliers; and (3) external sources are screened for explanations of the outliers.

Results and Conclusion of Calibration

The results of the residual analysis are presented in Annex 2. Coefficients are significant, and all p-values lie below 0.01 except for the variable A800 (0.055)[5]. The IPD 2009 indicators explain most of the variance of the indicators in the external datasets. The average adjusted R^2 of all regressions is 0.72.

The calibration analysis confirms strong coherence between the data. This result has also been found in the calibrations conducted on IPD 2006 and IPD 2001. In the calibration analysis, minor outliers were found for several countries. They are mostly due to differences in indicators definitions across sources.

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[3] The aggregated variable A908f is arbitrarily constructed as follows: 1 x B4041 (reversed) + 1/3 x B4042 (reversed) and then put in the range 0-4.

[4] - World Bank Institute. WGI. Retrieved July 2009 from: http://wbi.worldbank.org/wbi/

- Transparency International. Retrieved July 2009 from: http://www.transparency.org/

- Freedom House. Retrieved July 2009 from: http://www.freedomhouse.org/template.cfm?page=1

- Reporters Without Borders. Retrieved July 2009 from: http://www.rsf.org/

- Heritage Foundation. Retrieved July 2009 from: http://www.heritage.org/

[5] The Reporters Without Borders indicator is based on two criteria: freedom of the press; and access to the Internet. In order to provide the best proxy for this indicator, the IPD variable A800 regarding Internet access was retained in the regression model despite its relatively high p-value.

Finally, the aim of the calibration is not to align some indicators of IPD 2009 with other external indicators, but to detect any major inconsistencies, at the global level. Furthermore, we have to take into consideration that the six governance indicators from the World Bank include some of the IPD 2006 indicators, in addition to other external indicators. For this reason (avoiding circularity), and since no strong contradictions were found, it was decided to keep IPD 2009 unmodified.

3.5. Aggregation

IPD is available with the complete information of the 367 elementary items on their original ordinal scale (1-2-3-4 or 0-1-2-3-4). Research can be done on these discrete variables.

However, it is often more attractive to work on a condensed version of the database, consisting of aggregated indicators. The main aim of aggregation is to concentrate the information contained in the database in order to derive a comprehensive picture of the data. Aggregation involves accepting loss of information, presumably including a great deal of noise, in order to gain understanding. The optimum level of aggregation and the method adopted to aggregate[6] depend on the purpose of the analysis.

In addition to the complete IPD, two "ready to use" aggregated datasets are provided, featuring a more concentrated overview of the information contained in the database (including, respectively, 133 and 93 aggregated indicators). The following section explains the method of aggregation used to construct the two aggregated versions of IPD.

The first step of aggregation aims to compress the data of the Institutional Profiles survey into a reduced set of indicators by following the original structure of the survey: the questions (in 4-digit code) are initially grouped under a common heading depending on their thematic proximity, resulting in a smaller number of indicators (in 3-digit code). The data are thus aggregated from these 367 "4-digit" elementary items into 133 (3-digit) indicators. A second aggregation is performed to further reduce the number of variables, resulting in 93 (2-digit) indicators.

Step 1: Aggregation to 133 indicators, from 4-digit to 3-digit variables

In the IPD questionnaire results, the 367 4-digit variables reflect the responses given in the Institutional Profiles survey. These are assembled in sub-groups on the basis of their common thematic content. These sub-groups form the first level of aggregation. For example, the sub-group A300 (3-digit) "Transparency of public economic action" is formed by the aggregation of these six elementary items (4-digits): A3000, A3001, A3002, A3003, A3004 and A3005 (see table in section 3.2.). Ordinary (Pearson) correlations, as well as Polychoric correlations (taking into account the ordinal nature of the data), are calculated for each of these sub-groups to verify that the 4-digit variables are positively correlated and are fit to be aggregated. If the correlation is not positive, the items are not aggregated but remain as separate variables.

Next, the variables are aggregated by taking the weighted mean of the variable scores per country.[7] The weights are the standard deviations of the scores across countries. This means that a 4-digit item with an identical score for all the countries (indicating it does not discriminate between countries) has a zero weight in the aggregated indicator. The better a variable discriminates between countries, the higher its weight in the aggregated index. Thus, this methodology uses the dispersion of the items, so as to give more weight to those items that better differentiate between countries. The 3-digit aggregated database consists of 133 indicators, the so-called 3-digit variables.

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[6] Many different aggregation methods can be adopted (OECD, 2005).

[7] Other aggregation methods would be possible, for instance using principal component analysis on variables within each of IPD's nine institutional functions.

Particular Cases in Aggregation

Researchers interested in performing other types of aggregation starting from the 4-digit database should take care to exclude from the aggregation process some variables that are, by nature, impossible to aggregate. This is, for instance, the case with the sub-questions under A801: "The country's political relations with the leading global or regional players".

The responses to some questions are problematical to aggregate by their weighted average; they are better aggregated by multiplication in order to better accommodate the nature of the questions. The indicator B701 "Competition in distribution (household consumption)" has three sub-questions consisting of: B7010 "Share of supermarkets in the retail trade (household consumption)"; B7011 "Share of distribution delivered by large national firms"; B7012 "Share of distribution delivered by large foreign firms". The responses to these sub-questions are aggregated by multiplication. Results are rescaled to a range of 0 - 4. Multiplicative aggregation is also used for C900 "Micro-lending". This indicator has 3 elementary items: C9000 "Informal micro-lending"; C9001 "Institutional micro-lending (supported by NGOs, banks, etc.)"; C9002 "Quality of micro-lending guarantees (informal or institutional)". Results are rescaled to the range 0 - 4.

Step 2: Aggregation to 93 indicators, from 3-digit to 2-digit variables

The dataset with 133 indicators is still very large for the purpose of running statistical analyses, such as classification and discriminant analysis, given the number of observations (123 countries). For this reason, a dataset with the results of a second round of aggregation is produced. The indicators from the 3-digit database are again aggregated by taking the weighted mean of the variable scores for each country, using the standard deviation of the indicators across countries as weights (the same method of aggregation as used in Step 1). The set of 3-digit variables to be aggregated is selected, within the same functional category, on the basis of their content and on the basis of positive correlations.

The following table summarizes the results of the different steps used to reduce the database.

Table 2. : Three levels of information

The three IP datasets	Number of variables
Elementary 4-digit items	367
3-digit variables	133
2-digit variables	93

Annex 3 contains an overview of the IPD database as presented by the two reduced datasets: the 133 "3-digit" variables and the 93 "2-digit" variables. The aggregated variables presented in the overview are expressions that summarize the content of each 3-digit variable as found in the IPD 4-digit dataset. The exact wording is not reproduced; instead, the focus is on explaining the direction of the indicator while remaining "neutral".

Conclusion

The Institutional Profiles Database provides a tool for understanding and measuring the relationship between the different dimensions of institutions and long-term economic growth.

The IPD database provides both detailed information about institutional characteristics (IPD full version), and condensed information, especially when aggregated variables are to be studied. We encourage researchers to use either the aggregated versions of the IPD provided or to explore alternative methods of aggregation.

Secondly, given the wide diversity in the institutional characteristics of developing and transition countries, IPD allows researchers to explore which institutional factors are associated with economic development and economic growth, and which factors may be negatively associated with economic growth.

IPD explores the diversity in formal and informal institutions and the different combinations that are responsible for growth. Researchers should consider that countries have differences in values and norms, and that these differences may manifest themselves at the institutional level.

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Annex I. Countries in the Institutional Profile Database 2009

IPD 2009: 123 countries

1	**AGO**	Angola	42	**GRC**	Greece	83	**NPL**	Nepal
2	**ARE**	United Arab Emirates	43	**GTM**	Guatemala	84	**NZL**	New Zealand
3	**ARG**	Argentina	44	**HKG**	Hong Kong	85	**OMN**	Oman
4	**AUS**	Australia	45	**HND**	Honduras	86	**PAK**	Pakistan
5	**AUT**	Austria	46	**HTI**	Haiti	87	**PAN**	Panama
6	**AZE**	Azerbaijan	47	**HUN**	Hungary	88	**PER**	Peru
7	**BEL**	Belgium	48	**IDN**	Indonesia	89	**PHL**	Philippines
8	**BEN**	Benin	49	**IND**	India	90	**POL**	Poland
9	**BFA**	Burkina-Faso	50	**IRL**	Ireland	91	**PRT**	Portugal
10	**BGD**	Bangladesh	51	**IRN**	Iran	92	**PRY**	Paraguay
11	**BGR**	Bulgaria	52	**ISR**	Israel	93	**QAT**	Qatar
12	**BHR**	Bahrain	53	**ITA**	Italy	94	**ROM**	Romania
13	**BOL**	Bolivia	54	**JOR**	Jordan	95	**RUS**	Russia
14	**BRA**	Brazil	55	**JPN**	Japan	96	**SAU**	Saudi Arabia
15	**BWA**	Botswana	56	**KAZ**	Kazakhstan	97	**SDN**	Sudan
16	**CAF**	Central African Rep.	57	**KEN**	Kenya	98	**SEN**	Senegal
17	**CAN**	Canada	58	**KHM**	Cambodia	99	**SGP**	Singapore
18	**CHE**	Switzerland	59	**KOR**	South Korea	100	**SVK**	Slovakia
19	**CHL**	Chile	60	**KWT**	Kuwait	101	**SVN**	Slovenia
20	**CHN**	China	61	**LAO**	Laos	102	**SWE**	Sweden
21	**CIV**	Côte d`Ivoire	62	**LBN**	Lebanon	103	**SYR**	Syria
22	**CMR**	Cameroon	63	**LBY**	Libya	104	**TAI**	Taiwan
23	**COG**	Congo	64	**LKA**	Sri Lanka	105	**TCD**	Chad
24	**COL**	Colombia	65	**LTU**	Lituania	106	**TGO**	Togo
25	**CUB**	Cuba	66	**LVA**	Latvia	107	**THA**	Thailand
26	**CYP**	Cyprus	67	**MAR**	Morocco	108	**TUN**	Tunisia
27	**CZE**	Czech Republic	68	**MDG**	Madagascar	109	**TUR**	Turkey
28	**DEU**	Germany	69	**MEX**	Mexico	110	**TZA**	Tanzania
29	**DNK**	Denmark	70	**MLI**	Mali	111	**UGA**	Uganda
30	**DOM**	Dominican Republic	71	**MLT**	Malta	112	**UKR**	Ukraine
31	**DZA**	Algeria	72	**MNG**	Mongolia	113	**URY**	Uruguay
32	**ECU**	Ecuador	73	**MOZ**	Mozambique	114	**USA**	United States
33	**EGY**	Egypt	74	**MRT**	Mauritania	115	**UZB**	Uzbekistan
34	**ESP**	Spain	75	**MUS**	Mauritius	116	**VEN**	Venezuela
35	**EST**	Estonia	76	**MYS**	Malaysia	117	**VNM**	Vietnam
36	**ETH**	Ethiopia	77	**NAM**	Namibia	118	**YEM**	Yemen
37	**FIN**	Finland	78	**NER**	Niger	119	**YUG**	Serbia
38	**FRA**	France	79	**NGA**	Nigeria	120	**ZAF**	South Africa
39	**GAB**	Gabon	80	**NIC**	Nicaragua	121	**ZAR**	Congo, Democ. Rep.
40	**GBR**	Great Britain	81	**NLD**	Netherlands	122	**ZMB**	Zambia
41	**GHA**	Ghana	82	**NOR**	Norway	123	**ZWE**	Zimbabwe

Annex II.

Results of Calibration

Comparison of IPD 2009 with the World Wide Governance Indicators (WGI): Results table 1/2

Source	World Bank									
Indicator	Voice and Accountability		Indicator	Voice and Accountability	Indicator			Voice and Accountability		Indicator
Constant	-1.52		-1.51	-0.48	-0.92			-0.92		-0.92
IPD 2009	A105	A100	A200	A303	A300	B300	B404	A200	A303	A302
Coefficient	0.72	0.57	1.28	0.88	0.66	0.23	0.26	0.73	0.65	1.04
P-value	-0.00	-0.00	0.00	0.00	0.00	0.00	-0.00	0.00	0.00	0.00
Adjusted R²	0.87		0.75	0.59	0.72			0.68		0.81
Countries with one or more outlier(s)	CMR, HTI, NNG, NAM, QAT, SDN, ZAR		BDG, BWA, ETH, GTM, LBN, NAM, SYR	ARE, BHR, CHE, CUB, HTI, QAT, SGP	COG, JPN, NPL, SAU, SGP, URY			CUB, HTI, QAT		IRN, KEN, NAM, ROM, SDN

Source: World Bank Institute, World Wide Governance Indicators (WGI), 2008

Comparison of IPD 2009 with External Indicators: Results table 2/2

Source	Transparency International	Freedom House		Reporters Without Borders		Heritage Foundation
Indicator	Corruption Perception Index	Political rights		Freedom of press		Business freedom
Constant	-0.93	6.15		3.57		0.61
IPD 2009	A302	A100	A103	A103	A800	B300
Coefficient	1.05	-0.81*	-0.78*	-0.56*	-0.25*	0.62
P-value	0.00	0.00	0.00	0.00	0.06	0.00
Adjusted R²	0.78	0.80		0.58		0.61
Countries with one or more outlier(s)	DOM, IRN, KEN, MOZ, SDN	BFA, CMR, HTI, IDN, KHM, MLI, MNG, NAM, TCD, TUN		CHM, ISR, LKA, PAK, PHL, QAT, VNM		CUB, HKG, LBY, ZWE

* The coefficients are negative because the datasets are scaled in the opposite direction. The coefficients must be interpreted as Freedom House and Reporters Without Borders coherent with IPD 2009.

Source: Transparency International, Freedom House, Reporters Without Borders, Heritage Foundation.

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Annex 3: Overview of IPD 2009, 2-digit and 3-digit variables

A. Public Institutions and Civil Society		B. Goods and Services Markets		C. Capital Markets		D. Labour Markets and Labour Relations	
1- Political Institutions							
Democracy, Legality and Freedom	**a10**					**Freedom of association and trade union pluralism**	**d10**
Legality of political institutions	A100					Freedom of association	D100
Participation in political decisions	A101					Trade union pluralism and autonomy	D101
Balance of power	A102						
Public freedom	A103						
Freedom of the media	A104						
Political stability and Legitimacy	**a11**						
Political stability	A105						
Political legitimacy (de facto)	A106						
Decentralization	**a12**						
Decentralization: devolution of power	A107						
Decentralization: autonomy of action	A108						
2 - Security, Law and Order							
Domestic public security and Control of violence	**a20**						
Domestic public security	A200						
Political authority control over armed forces	A201						
Control of State violence by NGOs	**a21**						
Control of State violence by NGOs	A202						
External security	**a22**						
External security	A203						
3 - Functioning of Public Administrations							
Governance of public administration and the justice system	**a30**	**Ease of starting a business**	**b30**				
Transparency of public actions in economic field	A300	Ease of starting a business	B300				
Transparency of economic policy	A301	**Importance of the Economic zones**	**b31**				
Control of corruption	A302	Importance of the Economic zones	B301				
Effectiveness of the fiscal system	A303	**Consideration of public interest in government-business relations**	**b32**				
Transparency in public procurement contracts	A304	Consideration of public interest in government-business relations	B302				
Effectiveness of justice system	A305	**Governance of natural resources**	**b33**				
Effectiveness of urban governance	A306	Governance of natural resources	B303				
Autonomy of public policies	**a31**						
Autonomy of public policies with respect to major economic actors	A307						
Donors' influence	**a32**						
Donors influence on public policies	A308						
Autonomy in operation and creation of organizations	**a33**						
Operating autonomy of organizations	A309						
Autonomy in the creation of organizations	A310						
Government capacity to reform	**a34**						
Government capacity for political reform	A311						
Government capacity for reform outside political area	A312						
Fiscal exemptions	**a35**						
Fiscal exemptions	A313						

4 - Free Operation of Markets

		Privatizations	b40	Privatizations in the financial sector	c40	Flexibility in the labour market	d40
		Privatizations since 2006	B400	Privatizations in the financial sector since 2006	C400	Flexibility in the formal labour market	D400
		Nationalizations	b41	Nationalizations in the financial sector	c41	Retraining and reskilling measures	d41
		Nationalizations since 2006	B401	Nationalizations in the financial sector since 2006	C401	Retraining and reskilling measures	D401
		Governance of privatizations	b42	Freedom in the allocation of loans	c42		
		Governance of privatizations since 2006	B402	Freedom in the allocation of loans	C402		
		Performance of public organizations	b43				
		Performance of public organizations	B403				
		Freedom of prices	b44				
		Freedom of prices	B404				
		Single exchange rate	b45				
		Single exchange rate	B405				

5 - Coordination of Stakeholders and Strategic visions

Capacity of the State to coordinate stakeholders	a50	Technological environment	b50	Competence of bank executives	c50	Adaptive education system	d50
Dialogue structures for public and private actors	A500	Business technological environment	B500	Competence of bank executives	C500	Adult vocational training	D500
Coordination between ministries	A501	Public aid for R&D	b51	Importance of venture capital	c51	Relationship between education system and labour market	D501
Strategic capacities	a51	Public aid for R&D	B501	Importance of venture capital	C501		
Government's strategic vision	A502	Density of sub-contracting relations	b52	Sovereign wealth fund policy	c52		
Government strategies	A503	Density of sub-contracting relations	B502	Sovereign wealth fund policy	C502		
Ruling classes' priorities for development	A504						
Government's arbitration capacity	a52						
Government's arbitration capacity	A505						
Institutional capacity	a53						
Institutional capacities to define public policy	A506						
Government political capacity	a54						
Political capacity to define public policy	A507						
Change, Innovation	a55						
Society's responsivenes to change and innovation	A508						
Cooperative behaviour in society	a56						
Cooperative behaviour in society	A509						
Outlook of young people	a57						
Outlook of young people	A510						

6 - Security of Transactions and Contracts

Security of transactions and contracts	a60	Information on G&S markets	b60	Financial information	c60	Respect for workers' rights	d60
Security of property rights	A600	information on firm's situtation	B600	Information on the situation of the banks	C600	Workers' rights	D600
Security of contracts between private actors	A601	Information on the quality of goods and services	B601	Creditor guarantees	C601	Labour inspectorate	D601
Effectiveness of commercial courts	A602	Intellectual property protection	B602	Information on the issuing of shares	C602	Weak employment contrat rigidity	d61
Bankruptcy law	A603	Effectiveness of devices on intellectual property	B603			Weak employment contrat rigidity	D602
Government respect for contracts	a61	Rural land tenure: traditional property	b61				
Government respect for contracts	A604	Rural land tenure: traditional property rights	B604				
Frequency of bankruptcy	a62	Rural land tenure: public property	b62				
Frequency of bankruptcy	A605	Rural land tenure: importance of public property	B605				
Enforcement of bankruptcy law	a63	Diversity of land tenure rights systems	b63				
Enforcement of bankruptcy law	A606	Diversity of land tenure rights systems	B606				
		Government recognition of diversity of land tenure rights systems	b64				
		Government recognition of diversity of land tenure rights systems	B607				
		Land tenure: security of ownership	b65				
		Public land tenure policies	B608				
		Security of land tenure rights	B609				
		Land tenure: demand for land	b66				
		Land tenure: demand for land	B610				
		Land tenure and large investors	b67				
		Land tenure and large investors	B611				

7 - Market regulation, Social Dialogue

	d70	**Competition on G&S markets**	b70	**Competition within the banking system**	c70	**Wage bargaining at the individual level**	d70
		Competition: ease of market entry	B700	Level of competition within the banking system	C700	Wage bargaining at the individual level	D700
	d71	Competition in distribution	B701	**Regulation of competition in banking**	c71	**Strikes**	d71
		Competition: regulation	B702	Regulation of competition in banking	C701	Strikes	D701
		Shareholders: weight of the government	b71	**Monitoring and auditing in banking**	c72	**Management of labour**	d72
		Shareholders: weight of the government	B703	Prudential rules	C702	Relationships between employee representation and employers	D702
		Information on shareholders	b72	Banking and financial monitoring and audit	C703	Mangement of labour relations	D703
		Information on shareholders	B704	Internal monitoring and auditing	C704		
		Land tenure: development policies	b73	**Reform of financial regulations**	c73		
		Land tenure: development policies	B705	Reform in financial regulation system	C705		

8 - Openess to the Outside World

Free movement of people and information	a80	**Openness to business**	b80	**Financial openness**	c80	**Openness to employment of non-nationals**	d80
Free movement of people and information	A800	Openness to trade	B800	Financial openness	C800	Openness to employment of non-nationals	D800
Political proximity with big countries		Openness to capital	B801				
with the USA	A8010	**Joint Ventures**	b81				
with an European country or the UE	A8011	Joint Ventures	B802				
with Japan	A8012	**Non-national access to land**	b82				
with China	A8013	Non-national access to land	B803				
Emulation with neighboring countries	a82						
Emulation with neighboring countries	A802						

9 - Social Cohesion

National sense of identity	a90	**Micro lending**	c90	**Quality of the supply of public goods**	d90
National sense of identity	A900	Micro lending	C900	Quality of public education and health care	D900
National cohesion	a91			**Weak segmentation of the labour market**	d91
National cohesion	A901			Weak segmentation of the labour market	D901
Strenghening of middle classes	a92			**Low incidence of child labour**	d92
Strengthening of the middle classes	A902			low incidence of child labour	D902
Social inclusion	a93			**Social mobility**	d93
Weak social segregation (social inclusion)	A903			Social mobility: recruitment and promotion	D903
Egality of treatment by the government	A904			Social origin of senior management and officials	D904
Geographic coverage of public services	A905			**Social mobility: young higher education graduates**	d94
Institutional solidarity	A906			Social mobility: young higher education graduates	D905
Traditional solidarity	a94			**Distribution of income**	d95
Traditional solidarity	A907			Distribution of income	D906
Subsidies on commodities	a95f				
Subsidies on commodities	A908f				