

Core Element 3 – Effective Governance

“The protection and promotion of the universal human values of the rule of law, human rights and democracy are ends in themselves. They are also essential in a world of justice, opportunity and stability. No security agenda or drive for development will be successful unless they are based on the sure foundation of respect for human dignity.”

- Kofi Annan, *In Larger Freedom*, p. 47

Effective governance requires the trust of the people. Good governance procedures ensure that the opinions of all rather than just the opinions of the elite and powerful are represented in the governing of a country, a company or an organization. Institutions that help achieve the proper balance between representing the views of those who hold power and the citizens they serve are critical not only to political stability, but to the functioning of property markets. Achieving broad-based representation as well as transparency in decision-making through good governance is essential to the credibility of governments, regulatory bodies and the policymaking process.

For property markets to attract direct foreign investment, governments must be representative, free of corruption and allow the flourishing of private enterprise. An efficient and well trained civil service that can implement policies and regulations fairly must be in place. Markets where deals are only made between connected insiders, where unofficial payments must be made or connections used to obtain permits, get licenses or access to resources deter large institutional investors such as multinational banks, insurance companies and pension funds. These investors will skip over such opaque countries and place their money where they can transparently price their risk.

Core Element Goal

A popularly elected government free of corruption and functioning efficiently and transparently enough to guarantee economic freedom to individuals and support equitable property markets

Lead Indicator 3.1 – Democratic Representation

| | |
|----------------|--|
| Core Question: | Does the country have free and open elections for the leadership and can citizens engage in free enterprise? |
|----------------|--|

Sub-Indicator 3.1.1 – Voice & Accountability

Rights, power and representation require that voices be heard and leadership be held accountable. Citizens must not only be able to participate in the democratic process, but have confidence in and trust that process.

Citizens must be informed by a free media and free to take collective action in the form of civil society organizations. The Scorecard uses two indexes that aggregate numerous sources for this sub-indicator.

3.1.1.1 Are citizens able to elect their government and do they enjoy freedom of expression, association and a free media?

- Step 1 Visit the World Bank’s *Governance Matters*, World Bank <http://info.worldbank.org/governance/wgi/index.aspx#reports>
- Step 2 Click the “Table View” tab mid-page.
- Step 3 Under the “Years” drop down choose the three most recent years.
- Step 4 Select your country.
- Step 5 Record the score for “Voice & Accountability,” note the trend from previous years.
- Step 6 Determine a yes/no answer and Score for this question:

| | | |
|-----|-------------|----------|
| Yes | Very Strong | 75 – 100 |
| | Strong | 50 – 74 |
| No | Weak | 25 – 49 |
| | Very Weak | 0 – 24 |

3.1.1.2 Are citizens free to form political and civic organizations free of state interference and surveillance? (Civil Liberties)

- Step 1 Download *The Economist* Intelligence Unit Democracy Index http://www.eiu.com/public/topical_report.aspx?campaignid=Democracy0814
(Note: This report required free registration. This is the link for the 2013 Index, use the most recent available.)
- Step 2 Scroll down and find your country. Record the overall “Rank” and score for “V - Civil Liberties”
- Step 3 Determine a yes/no answer and Score for this question based on the overall rank:

| | | |
|-----|-------------|---------------------------------------|
| Yes | Very Strong | 1 ST – 41 ST |
| | Strong | 42 ND – 84 TH |
| No | Weak | 85 TH – 126 TH |
| | Very Weak | 127 TH – 167 TH |

Determine the Sub-Indicator Score based on the scores from the two indexes.

Sub-Indicator 3.1.2 – Public Information

Citizens need access to information. The power associated with leadership can lead to public resources being used for personal gain. Asset disclosure requirements for government officials and conflict of interest regulations are tools citizens can use to ensure that public resources are directed toward the public good. To participate fully in the legislative and regulatory process, citizens also need unfettered access to legislation and implementing regulations throughout the process. The Scorecard uses the *Global Integrity Report* for this indicator. The *Global Integrity Report* assesses the strengths and weaknesses of nation-level anti-corruption systems.

- Step 1 Visit the Global Integrity Website:
https://www.globalintegrity.org/global_year/2011/
(Note: The Global Integrity methodology is undergoing revision. 2011 is the most recent year available.)
- Step 2 Select your country. If your country isn't shown on the map, click on a previous year.
- Step 3 Record the "Overall Rating" for your country.

3.1.2.1 Are there regulations governing conflicts of interest in the executive and legislative branches of government?

- Step 5 Record the scores for "Conflicts of Interest Safeguards & Checks and Balances" for the Legislative and Executive Branches

3.1.2.2 Can citizens access legislative processes and documents?

- Step 6 Record the score for "Public Requests for Government Information"

Note: the Scorecard uses Global Integrity's answers and scores directly rather than making a separate determination. Moderate = Strong

Sub-Indicator 3.1.3 – Market Intervention

Economic freedom is the fundamental right of every citizen to control their own labor and property. Economically free societies allow individuals choice in how to work, produce, consume, and invest. In economically free societies, governments allow labor, capital and goods to move freely and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself. The *Index of Economic Freedom* ranks countries from repressive government control (0) to the freest economies (100).

- Step 1 Visit the *Index of Economic Freedom* Website www.heritage.org/index/

Step 2 Enter your country in the “Find Your Country” search box and press  search.

Step 4 Record the “World Rank” for your country.

3.1.3.1 To what extent does the government intervene in the private sector including state owned industries?

Step 5 Click on “Limited Government” record the Government Spending score, read the summary and record the percentage of government spending related to Gross Domestic Product (GDP).

3.1.3.2 To what extent does the government control prices?

Step 6 Record the score for “Monetary Freedom” and read the summary for Regulatory Efficiency.

Step 7 Determine the Sub-Indicator Score based on the “World Rank:”

Very Strong 1ST – 41ST countries

Strong 42ND – 83RD countries

Weak 84TH – 125TH countries

Very Weak 126TH – 165TH countries

Trend either ↑ or ↓ compared to previous year.

Determine the Lead Indicator Score for Democratic Representation

Step 1 Review the Sub-Indicator scores.

Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 3.2 – Lack of Corruption

| | |
|----------------|--|
| Core Question: | Is the public sector transparent and free of corruption? |
|----------------|--|

Corruption is the abuse of entrusted power for private gain. It hurts everyone whose life, livelihood or happiness depends on the integrity of people in a position of authority. Corruption is both a cause of poverty, and a barrier to overcoming it. Human rights are denied where corruption is rife, because a fair trial comes with a hefty price tag where courts are corrupted. Corruption distorts national and international trade. Those with less power are particularly disadvantaged in corrupt systems, which typically reinforce discrimination against women and minorities. The Scorecard uses the work of Transparency International as the source for this indicator.

Sub-Indicator 3.2.1 – Transparency

What is the perceived level of corruption in the country?

- Step 1 Visit Transparency International's *Corruption Perceptions Index*
<http://cpi.transparency.org/cpi2013/results/>
(Note: this link is for the 2013 index, use the most recent available.)
- Step 2 Scroll down and find your country.
- Step 3 Record the score.
- Step 4 Determine the Sub-Indicator Score:
- | | |
|-------------|----------------|
| Very Strong | Score 75 - 100 |
| Strong | Score 50 – 74 |
| Weak | Score 26 – 49 |
| Very Weak | Score 0 – 25 |
- Trend either ↑ or ↓ compared to previous year using the Year dropdown.

Sub-Indicator 3.2.2 – Integrity Mechanisms

A National Integrity System is a framework where the principle institutions that contribute to integrity, transparency and accountability in a society can address corruption in a systematic way. Does a National Integrity System exist?

- Step 1 Visit Transparency International's National Integrity Systems (NIS) Assessment Webpage: <http://www.transparency.org/whatwedo/nis>
- Step 2 Review the elements that make up a National integrity System.
- Step 3 Click on "NIS Assessments"
- Step 4 Find your country on the dropdown.
- Step 5 If your country is not in the dropdown, Click "More NIS Assessments" on the right.
- Step 6 Determine the Sub-Indicator Score:
- | | |
|-----|--|
| Yes | Very Strong – a NIS Assessment has been conducted and most NIS pillars are in place and effective |
| | Strong – a NIS Assessment has been conducted and many NIS pillars are in place and cooperation is increasing |

Weak – a NIS Assessment has been conducted and NIS pillars are either not in place or are ineffective

No A NIS Assessment has not been conducted

Sub-Indicator 3.2.3 – Extralegal Payments

How often do companies report that officials/and or companies expect additional payments to “expedite” services or gain business?

Extralegal or unofficial payments distort economies and divert resources and services from their equitable use. In developing economies, civil service salaries are usually very low and thus officials often depend on additional payments outside listed fees not only to provide services, but to take care of their families.

In the developed world, these payments often take the form of kick-backs. While ethical brokers and agents have an established and contracted referral fee system, other parties to a real estate transaction such as officials in charge of approvals, attorneys, valuers, lenders, mortgage brokers, and others should not be receiving money or extravagant gifts outside their listed fees for services.

- Step 1 Consult with local real estate attorneys, brokers, developers and/or valuers and ask about the prevalence of kick-backs among market participants.
- Step 2 Visit Enterprise Surveys www.enterprisesurveys.org
- Step 3 Select your country from the “economy” drop down.
- Step 4 Scroll down record the Bribery Depth %. Note the comparison to other countries in the region and all countries.
- Step 3 Determine the Sub-Indicator Score:
- | | |
|-------------|--|
| Very Strong | Few instances of extralegal payments reported (less than 10%) |
| Strong | Occasional instances of extralegal payments reported (10 – 30%) |
| Weak | Extralegal payments expected by a significant percentage of market participants (31 – 50%) |
| Very Weak | Extralegal payments expected by the majority of market participants (more than 50%) |

Determine the Lead Indicator Score for Lack of Corruption

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 3.3 – Efficient Administration

Core Question: Are quality services and qualified civil servants available to the public through the efficient use of public money?

Democratic representation, free markets and the control of corruption are dependent on an educated and efficient civil service. The civil service needs to be protected from political pressures and civil servants need to have high levels of training in policy development and implementation. Excessive bureaucracy and red tape for property transactions are not only an inefficient use of resources, but they can drive transactions underground, distort markets and reduce tax revenues. The more resources spent on inefficient government operations and subsidized programs, the less available for private enterprise.

Sub-Indicator 3.3.1 – Size of Government

What is the size of government relative to GDP?

- Step 1 Refer to the information gathered from the “Government Spending” section of the *Index of Economic Freedom* in question 3.1.3.1 – percentage of government spending related to GDP.
- Step 2 Determine the Sub-Indicator Score:
 - Very Strong Less than 25%
 - Strong 25 – 30%
 - Weak 31 – 40%
 - Very Weak More than 40%

Sub-Indicator 3.3.2 – Civil Service

What is the quality of the civil service?

- Step 1 Visit the Global Integrity Website:
https://www.globalintegrity.org/global_year/2011/
(Note: The Global Integrity methodology is undergoing revision. 2011 is the most recent year available.)

Step 2 Select your country. If your country isn't shown on the map, click on a previous year.

Step 3 Record the score for "Public Administration and Professionalism"

Note: the Scorecard uses Global Integrity's answers and scores directly rather than making a separate determination. Moderate = Strong

Sub-Indicator 3.3.3 – Government Effectiveness

What is the overall effectiveness of the government?

Step 1 Visit the World Bank's *Governance Matters*, World Bank
<http://info.worldbank.org/governance/wgi/index.aspx#reports>

Step 2 Click the "Table View" tab mid-page.

Step 3 Under the "Years" drop down choose the three most recent years.

Step 4 Select your country.

Step 5 Record the score for "Government Effectiveness," note the trend from previous years.

Step 6 Determine the Sub-Indicator Score:

Very Strong 75 – 100

Strong 50 – 74

Weak 25 – 49

Very Weak 0 – 24

Trend either ↑ or ↓ compared to previous year.

Determine the Lead Indicator Score for Government Effectiveness

Step 1 Review the Sub-Indicator scores.

Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Determine the Core Element Score for Effective Governance

Step 1 Review the Lead Indicator scores.

Step 2 Determine the Core Element Score based on the aggregate of the Lead Indicator scores.

🔄 Core Element Linkages

Effective Governance ↔ Appropriate Regulation

The devil is in the details. While governments may have transparent and democratic elections, open and progressive laws and an efficient civil service, without implementing regulations and appropriate supervision, markets can still spiral out of control. This linkage is represented in the Scorecard by placement and color. The Core Elements Effective Governance and Appropriate Regulation are located across from each other and have similar colors.

Particularly important for property markets is a fair tax regime based on accurate market values, the licensing and disciplining of property market professionals and the prudent regulation of capital markets.

Please review the information for Appropriate Regulation on page 66.

Field Assessment

The multiple Internet sources used for the Effective Governance Core Element represent extensive and well researched indexes that deal with the broad view of how governments work. They can be used to provide additional details about democratic processes and corruption. What they do not provide, however, is information about how this general environment directly affects property markets. Many critical details about dealing with the government can only be gathered by first-hand experience and talking with people who have successfully navigated national, state and local bureaucracies.

- Step 1 Partner with an outside expert with property market experience – preferably someone with transactional experience in a formal market outside your region.
- Step 2 Together with the expert, visit local property owners and managers, brokers, developers and/or valuers and ask them to tell you about recent experiences dealing with government officials. Be sure to include information about how local and state regulation/implementation may differ or conflict.
- Step 3 Determine the answers to the following question and/or additional questions you tailor to the specific characteristics of your market:

Field Question 7 What is the actual experience of practitioners in dealing with the government?

Core Element Map for Effective Governance

Legend – colors indicate the strength of institutions that support property markets.

- Very Strong
- Strong
- Weak
- Very Weak
- Unknown

