

# Criteria and Methodology

The Bertelsmann Transformation Index examines and assesses whether and how developing and transformation countries manage social change toward democracy and a market economy. The BTI synthesizes the findings of a study of transformation processes and political management in 125 states into two sets of rankings. The first ranking, the Status Index, locates where each state stands in international comparison on the path toward constitutional democracy and market economy flanked by sociopolitical safeguards. The second ranking, the Management Index, assesses the quality of political management in global comparison.

## **Methodological changes in the BTI 2008**

This new edition of the BTI is based largely on the same criteria and measurement methods as the BTI 2006. All key changes since the last edition are itemized below:

- For the first time, we assess all developing and transformation countries with more than two million inhabitants. The number of countries studied has thus expanded by six to 125 states.
- The trends in democratic and economic development are derived by comparing current BTI scores for the status of democratic and economic development with the BTI 2006 scores. These trends were previously determined on the basis of separate questions and expert assessments.
- Transformation management is assessed with 17 instead of 18 questions. The question from the BTI 2006 on developing social capital (16.4) has been integrated into the question on associational activities (5.4).
- Formulations of the individual questions have been slightly revised to improve their discriminatory power and clarity.

The next section explains the BTI 2008's objectives and conceptual framework. The subsequent section describes in detail its measurement methods and construction of the indices and explains their rationale. The final section compares the BTI with other indices.

## Study objectives and approach

Why is the BTI organized in the form of a ranking?<sup>13</sup> Rankings and the composite indicators required to benchmark countries facilitate a focused and transparent cross-national comparison. Such a quantitative-comparative approach can help identify key drivers of development, facilitate learning from other examples and rationalize strategies of external support.

Composite indicators have therefore become increasingly important to development assistance and to the international support of democratic and economic reforms. High performance scores have become a precondition for the disbursement of development aid. Donors allocate their funds according to the quality of governance as reflected in expert assessments, business and opinion polls, and official statistics. Numerical scores indicating a country's structural conditions are also used in econometric research to explain growth and development.

Composite indicators reduce complexity in the interest of providing sharp and clear results to the general public. The indices constructed in the BTI should thus be viewed and interpreted only in the context of its detailed regional reports and country analyses. Their assessments are considerably more differentiated and cannot be replaced by the scores. The indices aggregate a large number of qualitative assessments of criteria and indicators, which can show considerable individual variation.

Only the full country reports allow one to understand the nuances and distinctions behind the qualitative assessments. Likewise, only individual case studies reveal the extent to which possible statistical correlations actually represent causation. While indices highlight the countries' relative strengths and weaknesses, only the country reports clarify precisely where these strengths and weaknesses lie.

The normative points of reference underlying these analyses and indicators are constitutional democracy and a market economy flanked by sociopolitical safeguards. In contrast to less demanding conceptions of democracy, this concept of constitutional democracy includes the rule of law and the separation of legislative, executive and judicial powers with checks and balances (Merkel et al. 2003).

Whereas narrow definitions of a market economy focus primarily on free markets and property rights, the BTI concept of market economy incorporates principles of social justice, the protection of vulnerable groups and the responsibility of individual economic actors to society as a whole—principles which then guide social policy.

However, these conceptualizations must not be misconstrued as an attempt to measure the status of democracy and the market economy strictly against existing examples, such as the German model of a social market economy or the continental European model of a democracy embedded in the civil law tradition. Indeed, the designated basic norms and functions of constitutional democracy and a market econ-

13 The following discussion is based on the BTI Manual, which explains in detail the questions, rating criteria, and construction of the indices. The manual provided the instructions and questionnaire for all of the evaluators and is included on the enclosed CD-ROM.

omy flanked by sociopolitical safeguards can be realized through a variety of functionally equivalent institutions.

Democracy and a market economy are empirically and functionally interlinked. The term “market-based democracy” used in this study expresses this link. Elements of a constitutional democracy are found most often in those countries that also exhibit features of a market economy and social policy. Conversely, economic liberties are often restricted in autocracies. This may be explained by the fact that the liberties that constitute economic citizenship and the participation rights that establish political citizenship give rise to and presuppose each other.

Likewise, the fundamental institutions of a market economy and democracy are interdependent. The societal modernization and stratification resulting from market forces has opened the door to democracy in most countries. Democratic norms of accountability help protect the viability and legitimacy of the economic system from being undermined by distributional conflicts among social and economic actors. Conversely, only production processes organized along market-based principles can provide the ample, stable resource base that modern democracies require.

Although a market economy and democracy interact closely, this does not automatically presage development. Asian countries such as China and Singapore have shown that a country can travel the path toward free-market structures while maintaining an authoritarian regime over a long period of time. Thus, this study’s approach does not presuppose a teleological process in which social change and comprehensive reforms march steadily toward the goal of market-based democracy.

Development processes do not unfold linearly, as early modernization theorists assumed. Nor do they necessarily lead to market-based democracy, as many “transitologists” apparently believed. Stagnation and relapses into authoritarianism are possible, as are detours and asynchronicities in development.

This study therefore rests on a broad understanding of development and transformation. Development entails not only economic growth, but also eradicating poverty and expanding the freedom of opportunity for as much of the population as possible. Development should be participatory and driven by a state’s own efforts (“policy ownership”). The goal is twofold: to permanently overcome initially adverse structural conditions, and to advance toward the model of market-based democracy (Nuscheler 2001).

In this study, transformation refers to comprehensive, politically managed social change from an authoritarian system toward a market-based democracy. Thus, the goal of the transformation process is defined, but not the exact path toward achieving it. To further indicate the open-ended and uncertain character of this process, this study often uses the more general terms “reforms,” “reformers,” and “reform processes.” Since “transformation” particularly connotes the aspect of political management in shaping change, it is often used in the Bertelsmann Transformation Index as the generic term that best reflects the project’s intentions.

The distinction made here between development and transformation takes into account that constitutional democracy and a market economy flanked by sociopolitical safeguards are goals but not necessarily immediate priorities in complex proc-

esses of development. Many states have embarked on dramatic, sometimes revolutionary phases in development or even comprehensive systemic change, while others currently have no intention of pursuing change.

From the perspective of this study's approach, however, the ultimate aims of development and transformation are identical. Although the concept of development encompasses transformation toward democracy, this does not mean that such a transition is necessarily an element of the development process. Nor must development always be preceded or accompanied by an authoritarian phase. Development and transformation are not necessarily sequential; they can overlap both temporally and in terms of the problems to be overcome. This broad understanding of development and transformation is a prerequisite for examining developing and transformation countries in a single study.

The Bertelsmann Transformation Index focuses on the governance performance of political elites precisely because of its central role in shaping the course of development and transformation. Fundamental to this notion of governance is an analytical perspective that defines governance as the actual performance, capacity and accountability of specific political actors (Merkel and Puhle 1999; O'Donnell and Schmitter 1986; Przeworski 1991). This perspective differs from one that interprets good or bad governance as an aspect of a political system and that tends to view governance performance as the outcome of given resources and a given constellation of factors (cf., e.g., Hyden, Court and Mease 2004).

This study takes such causal relationships into account, but it emphasizes the role of political actors as crucial. Relevant actors include the government, political elites and nongovernmental organizations insofar as they play an important role in transformation. These actors demonstrate good transformation management as defined in this study when they demonstrate effective leadership, use their resources efficiently, build a broad pro-reform consensus in society and cooperate with international partners.

These features of good management are based upon a market-based democracy as the normative point of reference. They also reflect experiences with good governance and with the successful political guidance of development and transformation processes. It is certainly possible for autocracies to exhibit effective management, and this is rewarded in the ratings. But because the BTI's notion of management rests on democratic norms, transformation management can be classified as "good" in the BTI only if it is linked to democratic goals and practices.

Envisaging a market-based democracy as the goal is not meant to establish limits on reform programs or to spell out their content in detail, as there is no scholarly consensus on the best path to democracy and a market economy. This study also does not claim to define the optimal sequence of democratic and economic reforms. For example, the introduction of a market economy must not necessarily precede democratization, or vice versa.

Statistical analyses have shown that for the handful of countries that experienced spectacular progress in economic development over the past 50 years, the nature of

their political system was irrelevant. The average growth of national income was virtually identical for autocracies and democracies (Przeworski et al. 2000: 271). However, because constitutional democracy and a market economy with sociopolitical safeguards represent the normative benchmarks of this study, the integration of both dimensions means that actors implementing both economic and democratic reforms score higher than those striving only for market reforms.

With these considerations in mind, the Bertelsmann Transformation Index was conceived as follows:

- Constitutional democracy and a market economy flanked by sociopolitical safeguards are the normative points of reference for this study. The BTI thus rates developing and transformation countries based on whether and to what extent they have achieved these goals.
- Given that democracy and market economy are the reference frameworks for the rankings, consolidated market-based democracies are not included in the study.
- The broad understanding of development and transformation underlying this study means that developing and transformation countries are analyzed together.
- The close relationship between democracy and a market economy is accounted for by examining the status of development separately for democracy and for a market economy, but then combining these two dimensions into a single ranking, the Status Index.
- To emphasize the crucial importance of political management, performance in this area is evaluated in a separate ranking, the Management Index. The separate Management Index also reflects the study's view that political actors are central to the quality of governance.
- To take into account the open-ended character of development processes and to highlight possible progress or setbacks, the direction of democratic and economic development is specified by the Trend Indicator.

Data for the rankings were analyzed according to the following three dimensions:<sup>14</sup>

- Status of development toward constitutional democracy (Transformation status: democracy);
- Status of development toward a market economy flanked by sociopolitical safeguards (Transformation status: market economy);
- Management of development and transformation processes (Transformation management).

These dimensions consist of five, seven and five individual criteria, respectively. These criteria exemplify the normative benchmarks of constitutional democracy and a mar-

14 This approach is a refinement of the methodology used for the Carl Bertelsmann Prize 2001, which measured the success of current development and transformation processes; on this, see Weidenfeld 2001.

ket economy flanked by sociopolitical safeguards, as well as the notion of good transformation management outlined above. Each criterion is subdivided into individual questions used to evaluate the extent to which that criterion has been fulfilled. The 17 criteria and 52 individual questions form the basis for assessment, as explained below.

## **Transformation status: democracy**

This dimension assesses the existence and viability of democracy, the rule of law, and nation-state structures. The analyses and rating scores of the BTI 2008 reflect the status of democratic development as of the start of 2007. They are based on five criteria: stateness, political participation, the rule of law, the stability of democratic institutions, and political and social integration.

The first criterion, stateness, includes the extension of the state monopoly on the use of force to its entire territory, agreement on who qualifies as a citizen (*demos*), the separation of the constitutional order from religious dogmas, and the existence of a functioning administrative structure. In the tradition of modernization theory, this study assumes that a stable state framework is a prerequisite for democratic development.<sup>15</sup>

To measure the degree and quality of democracy achieved, this study first asks whether the populace chooses its own rulers, whether it enjoys additional political liberties, and whether its democratically legitimated rulers actually have the effective power to govern. These minimum requirements, which are derived from Robert Dahl's concept of democracy (Dahl 1971, 1989), are supplemented by the rule of law criterion (separation of powers, civil rights; see Merkel et al. 2003) in accordance with the study's benchmarks as described above. The quality or consolidation of democracy is then evaluated in terms of institutions' effectiveness and acceptance (stability of democratic institutions criterion) as well as the representation of interests and political culture (political and social integration criterion).

### **Status of democratic development: criteria and questions**

1. *Stateness*: There is clarity about the nation's existence as a state, with adequately established and differentiated power structures.
  - 1.1 To what extent does the state's monopoly on the use of force cover the entire territory?
  - 1.2 To what extent do all relevant groups in society agree about citizenship and accept the nation-state as legitimate?

15 The dilemma of simultaneous democratization and nation-building has been analyzed by Claus Offe (1994).

- 1.3 To what extent are the state's legitimacy and its legal order defined without interference by religious dogmas?
- 1.4 To what extent do basic administrative structures exist?
2. *Political participation*: The populace determines who rules, and it has other political freedoms.
  - 2.1 To what extent are rulers determined by general, free and fair elections?
  - 2.2 To what extent do democratically elected leaders have the effective power to govern, or to what extent are there veto powers and political enclaves?
  - 2.3 To what extent can independent political and/or civic groups associate and assemble freely?
  - 2.4 To what extent can citizens, organizations and the mass media express opinions freely?
3. *Rule of law*: State powers check and balance one another and ensure civil rights.
  - 3.1 To what extent is there a working separation of powers (checks and balances)?
  - 3.2 To what extent does an independent judiciary exist?
  - 3.3 To what extent are there legal or political penalties for officeholders who abuse their positions?
  - 3.4 To what extent are civil liberties guaranteed and protected, and to what extent can citizens seek redress for violations of these liberties?
4. *Stability of democratic institutions*: Democratic institutions are capable of performing, and they are adequately accepted.
  - 4.1 Are democratic institutions, including the administrative and judicial systems, capable of performing?
  - 4.2 To what extent are democratic institutions accepted or supported by the relevant actors?
5. *Political and social integration*: Stable patterns of representation exist for mediating between society and the state; there is a consolidated civic culture.
  - 5.1 To what extent is there a stable, moderate and socially rooted party system to articulate and aggregate societal interests?
  - 5.2 To what extent is there a network of cooperative associations or interest groups to mediate between society and the political system?
  - 5.3 How strong is the citizens' consent to democratic norms and procedures?
  - 5.4 To what extent have social self-organization and the construction of social capital advanced?

Taken together, these criteria and questions assess the status of democratic development. But they are also used in the BTI as benchmarks for deciding whether a country should be classified as a democracy or an autocracy. In line with the concept of a constitutional democracy, this decision draws not only on the question regarding free and fair elections (2.1) but also on five other questions that measure political and civil liberties (2.3, 2.4, 3.4), constitutional checks and balances (3.1), and state stability (1.1).

To be termed a democracy, a country must achieve a certain minimum score on each of these six questions. Question 2.1 requires that general elections be held and basically accepted as the procedure for filling leadership positions; this corresponds to a score of six points or better. The minimum score is three points for each of the other five questions. If a country scores less than the minimum on any of these six questions, it is termed an autocracy.

## **Transformation status: market economy**

This dimension analyzes the level of socioeconomic development, the nature of the economic and social order, and the economy's performance. The rating scores represent the status of development at the beginning of 2007 and are based on seven criteria: the level of socioeconomic development, organization of the market and competition, currency and price stability, private property, the welfare regime, economic performance, and sustainability. These criteria encompass the essential elements of a market economy incorporating principles of social justice and protection as described in the literature on welfare regimes and institutionalist economics (Esping-Anderson 1990; Eucken 1990; Schlecht, Watrin and Lambert 1993; Zinn 1992).

The first criterion, the level of socioeconomic development, reflects the fact that overcoming absolute poverty is a key precondition for market-based democracy. The basis for its assessment is the United Nations Development Program's Human Development Index, combined with indicators of social inequality and marginalization. The remaining criteria capture the economic system's institutional and performance characteristics.

### **Status of economic development: criteria and questions**

6. *Level of socioeconomic development:* In principle, the country's level of development permits adequate freedom of choice for all citizens.
  - 6.1 To what extent are significant parts of the population fundamentally excluded from society due to poverty and inequality combined (income gaps, gender, education, religion, ethnicity)?
7. *Organization of the market and competition:* There are clear rules of the game for stable, market-based competition.
  - 7.1 To what level have the fundamentals of market-based competition developed?
  - 7.2 To what extent do safeguards exist to prevent the development of economic monopolies and cartels?
  - 7.3 To what extent has foreign trade been liberalized?
  - 7.4 To what extent have a solid banking system and a capital market been established?

8. *Currency and price stability*: There are institutional or political precautions to control inflation sustainably, together with an appropriate monetary and fiscal policy.
  - 8.1 To what extent does the country pursue a consistent inflation policy and an appropriate foreign exchange policy? Is there an independent central bank?
  - 8.2 To what extent do the government's fiscal and debt policies support macroeconomic stability?
9. *Private property*: There are adequate conditions to support a functional private sector.
  - 9.1 To what extent do government authorities ensure well-defined rights of private property and regulate the acquisition of property?
  - 9.2 To what extent are private companies permitted? Are state companies undergoing a process of privatization consistent with market principles?
10. *Welfare regime*: There are viable arrangements to compensate for the social costs of the capitalist economic system.
  - 10.1 To what extent do social safety nets exist to compensate for poverty and other risks such as old age, illness, unemployment or disability?
  - 10.2 To what extent does equality of opportunity exist?
11. *Economic performance*: The economy's performance points to solid growth.
  - 11.1 How does the economy, measured in quantitative indicators, perform?
12. *Sustainability*: Economic growth is balanced, environmentally sustainable and future-oriented.
  - 12.1 To what extent are environmental concerns taken into account in both macro- and microeconomic terms?
  - 12.2 To what extent are there solid institutions for basic, secondary and tertiary education, as well as for research and development?

## Transformation management

This dimension examines the political management of development and transformation processes. It consists of five criteria: steering capability, resource efficiency, consensus-building, international cooperation and the level of difficulty. In accordance with the concept of management explained above, these criteria focus attention on leading political actors, and especially on the government and those reformers who are aiming to achieve a market-based democracy. These criteria reflect research in the social sciences on good governance, government capabilities and policy reforms (Weaver and Rockmann 1993; König et al. 2002).

This literature shows that state capacity is an essential prerequisite to successful economic reforms and modernization processes (Williamson 1994). But even if a state is capable of taking action, it can carry out reforms over the long term only when these reforms enjoy broad social support (Evans 1995; Haggard and Kaufman 1995). Political elites who integrate foreign assistance into their development strategy

have been more successful than those elites who misuse foreign support and regard it as additional source of rent income (World Bank 2002).

The steering capability criterion examines the extent to which political actors pursue market-based democracy as a strategic priority, implement their policies effectively and demonstrate a capacity for learning. The resource efficiency criterion covers—in addition to the efficient management of economic and human resources—the coordination of policies and the fight against corruption. The consensus-building criterion analyzes the extent to which political elites succeed in fostering a broad social consensus favoring reform. This criterion also encompasses efforts to deal with existing societal cleavages and the process of reconciling past injustices. The international cooperation criterion evaluates whether the political elite is prepared to cooperate productively and reliably with external supporters and neighbors.

The actor-centered notion of management that underlies these criteria is not intended to completely neglect the structural conditions of development and transformation. After all, structural conditions determine the potential scope of political action. In order to account for the influence of structural factors, a “level of difficulty” is determined along with the management criteria. The level of difficulty reflects a country’s economic and educational level, the intensity of conflicts, the existence of civil-society traditions, and the state’s institutional capacity.

A low level of economic and educational development, the presence of severe conflicts, a lack of civil-society traditions, and weak state capacity imply a high level of difficulty for transformation management. The level of economic and educational development is measured by quantitative indicators. State capacity is established on the basis of BTI scores for stateness and the rule of law.

The management dimension focuses on evaluating current political management. It is based on political activities during the period from 2005 to the start of 2007.

### **Transformation management: criteria and questions**

#### *13. Level of difficulty:*

13.1 To what extent do structural difficulties constrain the political leadership’s governance capacity?

13.2 To what extent are there traditions of civil society?

13.3 How serious are ethnic, religious and social conflicts?

*13.4 Per capita GNI PPP (2005)*

*13.5 UN Education Index as a measure of the educational level*

*13.6 Stateness and rule of law (average of BTI criteria values)*

#### *14. Steering capability:* The political leadership manages reform effectively and can achieve its policy priorities.

14.1 To what extent does the political leadership set and maintain strategic priorities?

14.2 How effective is the government in implementing reform policy?

- 14.3 How flexible and innovative is the political leadership? Does it learn from past errors?
- 15. *Resource efficiency*: The government makes optimum use of available resources.
  - 15.1 To what extent does the government make efficient use of available economic and human resources?
  - 15.2 To what extent can the government coordinate conflicting objectives into a coherent policy?
  - 15.3 To what extent can the government successfully contain corruption?
- 16. *Consensus-building*: The political leadership establishes a broad consensus on reform with other actors in society without sacrificing its reform goals.
  - 16.1 To what extent do the major political actors agree on a market economy and democracy as strategic, long-term aims?
  - 16.2 To what extent can the reformers exclude or co-opt anti-democratic veto actors?
  - 16.3 To what extent can the political leadership manage political cleavages so that they do not escalate into irreconcilable conflicts?
  - 16.4 To what extent does the political leadership enable the participation of civil society in the political process?
  - 16.5 To what extent can the political leadership bring about reconciliation between the victims and perpetrators of past injustices?
- 17. *International cooperation*: The country's political actors are willing to cooperate with outside supporters, organizations and neighboring states.
  - 17.1 To what extent does the political leadership use the support of international partners to improve its domestic reform policies?
  - 17.2 To what extent does the government act as a credible and reliable partner in its relations with the international community?
  - 17.3 To what extent is the political leadership willing to cooperate with neighboring countries in regional and international organizations?

The italicized points (13.4–13.6) are derived from quantitative indicators in existing assessments (see below).

## Assessment

The complexity and variety of analytic dimensions, criteria and questions used in the Bertelsmann Transformation Index require that it be based on qualitative analyses and subjective expert assessments. These methods also offer the advantage that ostensibly objective facts can be interpreted in context and weighted accordingly (Kaufmann et al. 2003: 271–272). This section explains in more detail the methods used in collecting and coding data.

## Selection of countries

The purpose of this study is to compare and evaluate development and transformation processes. It is not intended to provide a general comparison of states with respect to the quality of democracy and market economy found in each. Accordingly, consolidated democracies are not included in this study. Whether a particular state should be classified as a market-based democracy can be a controversial question, for even democracies regarded as consolidated have experienced authoritarian tendencies.

Consequently, this study initially relies on institutional, formal criteria. It first excludes those countries with donor status according to the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Secondly, the selection of countries is limited to sovereign states because this study cannot account for the particular problems of dependent territories.

Thirdly, not all of the remaining states could be included in the study due to limited project resources. Thus, small countries with a population of less than two million were excluded. However, a strict application of these three specifications would exclude a number of countries undergoing especially interesting processes of development and transformation. The following five exceptions were therefore included in the ranking: Bahrain, Botswana, Estonia, Mauritius and Montenegro. The resulting list includes a total of 125 countries in the study.

## Qualitative assessment

Based on the criteria and questions explained above, an expert on each country prepares a standardized report approximately 6,500 words in length.<sup>16</sup> The country reports not only analyze the questions, but also include background information on the country, key statistics, and an overview of the country's history of transformation and its prospects for the future. In order to ensure the validity, reliability, objectivity and comparability of the country reports, the assessments are organized as follows:

- The 125 developing and transformation countries are divided into seven regional groups: South and East Africa (18 countries); West and Central Africa (18); Asia and Oceania (21); the Middle East and North Africa (18); Latin America and the Caribbean (21); the Commonwealth of Independent States and Mongolia (13); and East-Central and Southeast Europe (16). A regional coordinator—a political scientist with comparative and regional expertise—is assigned to each region to supervise the preparation of the country analyses.
- The research is advised by the BTI Board, a committee of well-respected scholars and experienced practitioners in the area of development and transformation. In coordination with the BTI Board, the regional coordinators choose country experts

16 These expert assessments are provided on the CD-ROM included with this volume.

Figure 1: Assessment criteria, questions and levels as exemplified by the separation of powers

3	<p><b>Criterion: Rule of Law</b> State powers check and balance one another and ensure civil rights.</p>
3.1	<p><b>Separation of powers</b></p> <p>To what extent is there a working separation of powers (checks and balances)?</p> <p>This question refers to the basic configuration and operation of the separation of powers (institutional differentiation, division of labor according to functions and, most significantly, checks and balances). However, it does not refer to the tendency toward convergence and a fusion of powers that can be observed in parliamentary systems. It does include the subjection of state power to the law.</p> <p>There are no constraints on the basic functions involved in the separation of powers, especially mutual checks and balances. 10 <input type="checkbox"/> 9 <input type="checkbox"/></p> <p>The separation of powers is restricted partially and temporarily (e.g., to ensure governability). Fundamentally, though, a restoration of balance is sought, especially by the other branches. 8 <input type="checkbox"/> 7 <input type="checkbox"/> 6 <input type="checkbox"/></p> <p>One branch, generally the executive, has an ongoing and either informally or formally confirmed monopoly on power, which may include the colonization of other powers even though they are institutionally differentiated. 5 <input type="checkbox"/> 4 <input type="checkbox"/> 3 <input type="checkbox"/></p> <p>The separation of powers is nonexistent or exists only on paper. 2 <input type="checkbox"/> 1 <input type="checkbox"/></p>

whose scholarly qualifications and knowledge of the country ensure that their reports are as objective as possible and of high analytical quality. As a rule, each country is assessed by a domestic and an international expert.

- The country experts examine the criteria and indicators with the help of a coding manual. This manual explains all of the criteria and questions, and it formulates a four-level verbal assessment scale tailored to each question (see example, Figure 1).<sup>17</sup> These response options also serve as suggested formulations that authors could pick up and adapt to the country’s situation. This flexible method is intended to strike a balance between standardization and sensitivity to context.
- The country analyses are uniformly structured. In addition to the responses to the questions, each analysis includes a summary, a short history of transformation, a strategic outlook and two standardized tables. Each country expert also receives a model country analysis that illustrates how to examine the questions and serves to orient his or her own assessment.

17 The BTI manual is provided on the CD-ROM included with this volume.

- A second expert independently reviews and comments on each country report to reduce subjective perceptions and enhance the assessments’ objectivity. Comments from this anonymous reviewer and other readers help in revising the analyses.
- The regional coordinators are on hand at each step of the process and function as contact persons for the authors and reviewers while reconciling differing opinions between the two. They ensure that the reports are complete, internally consistent, and comparable with one another. They compare the analyses in detail, develop a common interpretation of the questions and coordinate the individual assessments. The regional coordinators thus provide quality control. In addition, they analyze the findings for their region in a comprehensive regional report.

These procedures are intended first and foremost to guarantee the validity of the findings by ensuring that each report analyzes equivalent subject matter for each of the questions. Secondly, these measures aim to improve the objectivity of the analyses. Thirdly, they ought to enhance the reliability of the assessments by ensuring their comparability. Finally, each report should be a clear and concise analysis of the country that can be read independently of the others.

## **Numerical assessment**

The authors of the country studies and the reviewers each independently assign scores to 49 questions in the BTI manual. Three further quantitative questions used to measure the level of difficulty are collected centrally. The basis for this is a ten-point rating scale, which ranges from one (worst score) to 10 (best score) and which is divided into four rating levels that are described in the manual.

The countries are thus assessed on whether and to what extent they match these given rating levels and fulfill the BTI criteria. These initial assessments relate observations to absolute benchmarks.

On the basis of the expert ratings and reports, the regional coordinators and the BTI Board assign scores that are comparable within and across regions for each of the 49 evaluation questions and for each of the 125 countries. First, the scores are calibrated within each region. Secondly, scores are calibrated among the different regions. This two-step calibration transforms the ratings into rankings that reflect not just the absolute benchmarks but also comparison with other countries.

Both the intra- and interregional calibration processes are organized in the form of discussions between the regional coordinators and the BTI Board. In these discussions, participants challenge and defend each country’s ranking on each indicator—in comparison to similarly ranked countries, and also in relation to similar countries with different scores. During the calibration process of this edition of the BTI, about 50 percent of the first country experts’ scores were changed, and in most of these cases (63 percent) they were adjusted downward. However, in only about six percent

of all cases have the final scores deviated by more than two points from the first expert's suggestions.

## Creating the index

The aggregation of the individual scores is based on the initial assumption that the ordinal point scale approximates an interval scale. The questions within a criterion were designed to have roughly equivalent conceptual significance; the same was done for the criteria within a dimension. The scores could thus be aggregated for each criterion and for each dimension with a simple three-step process of calculating their arithmetic means.

Reliability analyses with the BTI 2008 scores corroborate the construct validity of the Status and Management Indices as well as their constituent dimensions and criteria. A principal component analysis was performed to explore the dimensionality of criteria and dimensions. For each criterion and dimension, the analyses extracted only single components with eigenvalues above one, and the extracted components explained between 67 and 98 percent of the variance in the data set, indicating unidimensionality of the composite measures. The reliability indicator Cronbach's alpha was greater than 0.824 for all composite measures—well over 0.7, which is generally considered the threshold for aggregability.

## Status Index

The Status Index is created by adding the arithmetic means for the dimensions "Transformation status: democracy" and "Transformation status: market economy." The two dimensions are weighted equally. The overall score for the dimension "Transformation status: democracy" is the arithmetic mean of the five equally weighted criteria scores. The criteria scores, in turn, are the means of the scores for the individual questions, each of which is equally weighted, too. The dimension "Transformation status: market economy" is calculated analogously. The five democracy criteria each are weighted as one-fifth, and the seven market criteria as one-seventh, before they are added into the dimension score. Similarly, the individual questions are weighted unequally in the index and dimensions, since the number of questions per criterion varies.

Combining the scores for market economy and democracy may be criticized because each dimension measures different phenomena that may offset one another when added together. However, the Bertelsmann Transformation Index proceeds from the assumption that a close empirical and functional interrelationship exists between constitutional democracy and a market economy flanked by sociopolitical safeguards (see "study objectives and approach"). This interrelationship justifies combining the two dimensions into a single index, as does the strong empirical correlation that can be observed between the individual scores for democracy and market economy.

## Management Index

The Management Index rates the transformation management of political elites under given structural conditions. It is intuitively clear that actors' performance should receive higher scores when achieved under adverse circumstances. Management performance is therefore weighted by a "level of difficulty" score that captures these conditions. The level of difficulty score represents the mean of six equally weighted components, which are expressed in questions 13.1 through 13.6. Four of these components are based on the assessments of BTI experts. The other two are based on per capita gross national income and the UN Education Index—quantitative indicators that reflect a state's level of economic development and education.

The two quantitative indicators are converted to a ten-point scale (see Table 1). While this rescaling ignores the detailed information on intervals that is contained in the original scales, it allows a more robust classification of states that matches the differentiation in the scales for the qualitative assessment questions. In addition, it simplifies estimating scores for the 11 countries for which the sources provide only partial data or none at all. In these cases, scores are imputed on the basis of older data, similar indicators (per capita gross domestic product), and scores for similar countries.

Table 1: Quantitative components of the level of difficulty: scaling

	10	9	8	7	6	5	4	3	2	1
Per capita GNI	≤ 1,000	≤ 2,500	≤ 4,000	≤ 5,500	≤ 7,000	≤ 8,500	≤ 10,000	≤ 11,500	≤ 13,000	> 13,000
Number of countries	16	2	4	7	13	8	15	9	35	16
UN Education Index	≤ 0.50	≤ 0.55	≤ 0.60	≤ 0.65	≤ 0.70	≤ 0.75	≤ 0.80	≤ 0.85	≤ 0.90	> 0.90
Number of countries	26	27	8	9	9	8	6	0	11	21

Sources: Per capita GNI in purchasing power parity (U.S. dollars): World Bank, World Development Report 2007 (data for 2005); UN Education Index: UNDP, Human Development Report 2006.

It can be assumed that the level of difficulty influences every aspect of management performance. Consequently, the score for the level of difficulty (on the 1 to 10 scale) is converted into a difficulty factor by which the other management scores are multiplied. Sensitivity tests using factors that varied in their degree of differentiation resulted in a difficulty factor that ranges between 1 and 1.25, with equally sized intervals between the steps of the scale.

To calculate the Management Index, the management criteria scores (MC) are first averaged and then multiplied by the difficulty factor (LD). This product is then converted to a scale from 1 to 10 (see formula).

$$\text{Management Index} = \frac{1}{4} \cdot \sum MC \cdot \left[ 1 + (LD - 1) \cdot \frac{0.25}{9} \right] \cdot \frac{10}{12.5}$$

Mean of management criteria	Level of difficulty converted to a scale of 1 to 1.25	Conversion to a 10-point scale
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In theory, the Status Index and the Management Index can yield scores between 1.00 and 10.00. In the rankings for 2007, the highest score achieved for the Status Index is 9.56 and the lowest is 1.36. The Management Index varies between 1.04 and 7.52. Extremely high management scores are rare because only a few countries with high levels of difficulty also have elites capable of excellent management performance. The index scores make it possible to rank each country precisely against all the countries analyzed.

The ranking of a state in both indices is based on its index score, which is calculated to two decimal places. This means that arithmetical differences in the index scores are ignored if they are less than 0.01 (or appear so due to rounding). If two or more countries' scores are tied, they share the same rank and are listed alphabetically in the tables. Since these ranks are still counted individually, the country with the next lowest index score is placed two or more ranks lower than the countries with identical scores. The rankings are divided into categories that represent different levels in the development of market-based democracy and in transformation management.

In addition to the index scores, each country's scores are provided for the individual criteria. This detailed breakdown makes it possible to reconstruct how the aggregated index scores were derived and to see where each country's strengths and weaknesses lie.

## Autocracies, failed states, development trends

A state is defined in the BTI as an autocracy when it fulfills one of the six following minimum conditions:

1. Free elections are not held or not accepted as the process for electing rulers (Question 2.1 < 6).
2. There is no state monopoly on the use of force; instead, anarchy, civil war or rival clans prevail (Question 1.1 < 3).
3. There is no freedom of association or assembly; civic organizations do not exist or are suppressed (Question 2.3 < 3).
4. Freedom of expression is nonexistent for citizens or the media (Question 2.4 < 3).
5. Constitutional checks and balances on the executive, legislative or judicial branches exist only on paper or not at all (Question 3.1 < 3).
6. Civil rights are systematically violated (Question 3.4 < 3).

In all, 50 states are identified as autocracies. Nearly all of them fail to fulfill the minimum criterion of free elections. Forty percent of them also fall short on at least one other criterion. Three states (Afghanistan, Iraq and the Central African Republic) fulfill the minimum condition of free elections, but they are classified as autocracies since they have no state monopoly on the use of force. A state is classified as a “failed state” when the arithmetic mean of scores given for monopoly on the use of force (1.1) and basic administration (1.4) is less than three. This applies to Afghanistan, the DR Congo, Iraq and the Central African Republic as well as to Chad, Côte d’Ivoire and Somalia.

In order to compare autocracies meaningfully with states in the process of democratization, some of the BTI questions specify the highest score an autocracy can receive. Nearly all autocracies receive two points at best on questions 2.2, 4.1 and 4.2 in the democracy dimension, and five points at best on the management questions 14.1, 14.2 and 14.3.<sup>18</sup> These ceilings are intended to prevent autocracies from receiving misleadingly high scores and thus compensating for their democratic deficits. Thus, an autocracy like Singapore with a highly developed market economy cannot achieve better than a midlevel ranking on the Status Index.

The particular problems of authoritarian and post-authoritarian systems are further manifested in the questions on consent to democratic norms (5.3) and reconciliation (16.5). In 54 states (including all of the 50 autocracies), the citizens’ consent to democracy cannot be reliably measured either because opinion polls are not conducted or because the results of published surveys are of questionable validity.

Therefore, the question of consent to democracy cannot be evaluated for these states and cannot be included in the average. The question on reconciliation (16.5) is not assessed for the 25 states where the authoritarian system is not linked to experiences of grave injustice or where people have already come to terms with such experiences. The consensus-building criterion is then scored on the basis of the remaining four questions.

In addition to showing a state’s index score and rank, the Status Index also shows the trends in its democratic and economic development. These trends are calculated by subtracting a country’s aggregated scores for democracy and market economy in the BTI 2006 from its corresponding scores in the BTI 2008. An increase (or decrease) of 0.5 to 1.0 points is indicated with a diagonal arrow pointing upward (or downward). Dramatic changes of more than 1.0 point are highlighted with a vertical arrow. Smaller changes are not highlighted in the ranking.

18 Only some of the failed states (Afghanistan, Democratic Republic of Congo, Iraq, Central African Republic) and some of the Asian autocracies (Bhutan, China, Nepal, Thailand) achieved higher scores on these questions.

## Comparing the Bertelsmann Transformation Index to other indices

The Bertelsmann Transformation Index analyzes the management of social change on the way toward a market-based democracy. One ranking, the Status Index, locates where a country stands on the way to democracy and a market economy in comparison to all the other countries studied. A second ranking, the Management Index, classifies the quality of transformation management in global perspective. The Trend Indicator shows the direction of democratic and economic change in each of the countries analyzed. The BTI ranking differs from other indices in terms of its approach, goals and methods:

### *1. The BTI is based on qualitative assessments by experts.*

By contrast, indices such as the United Nations' Human Development Index (HDI) are calculated from quantitative indicators ([www.undp.org](http://www.undp.org)). For the HDI, these are a population's average life expectancy at birth, literacy rate, school enrollment and per capita gross domestic product. Another example, Tatu Vanhanen's Index of Democracy, focuses on electoral participation and the strongest party's percentage of the vote as indicators of democratization (Vanhanen 1997).

Objective indicators such as these are more reliable because they can be more readily verified. Yet, the resulting index is completely dependent on the quantifiability of the subject matter, on the selected indicators, and on the chosen method of aggregation. Missing or unreliable data can distort the measured results and thus the validity of the index. By contrast, a qualitative assessment makes it possible to interpret and weight the objective indicators in their proper context.

### *2. The BTI draws a distinction between management performance and the status of development toward a market-based democracy.*

Assessments are based on 17 criteria and 52 questions that are tailored to the normative benchmark of constitutional democracy and a market economy flanked by socio-political safeguards. This distinguishes the BTI from the indices of the U.S.-based organization Freedom House ([www.freedomhouse.org](http://www.freedomhouse.org)).

In its well-known annual study, "Freedom in the World," Freedom House evaluates political freedoms and civil liberties in 193 countries and 15 territories. Like the BTI, this survey is based on assessments by country experts, who in this case assign scores in response to 27 questions. The questions on political freedoms concern the holding of free and fair elections, the existence of political pluralism and participation, and the democratic functioning of government.

To evaluate the status of civil liberties, Freedom House poses questions on the freedom of expression, religion and assembly, on the rule of law, and on personal liberty. A seven-point scale is used to rate the status of political and civil liberties. Each country or territory is also designated generally as "free," "partly free," or "not free," depending on the overall rating of political freedoms and civil liberties. In addition, Freedom House indicates the trend of development in each country and designates a country that fulfills certain minimum democratic standards as an "electoral

democracy.” While this rating comprises nearly all of the countries and territories in the world, its focus is narrower than that of the BTI.

Another study published by Freedom House, “Nations in Transit,” examines the democratization process, similar to the BTI. However, it covers only 27 East European states. “Nations in Transit” also relies on qualitative expert assessments, which use 49 questions to evaluate in detail the status of democracy (elections, civil society, independent media, governance, constitutional and legal framework, corruption). Unlike the BTI, however, neither of the Freedom House studies distinguishes between features of the system and the management performance of elites.

The findings for the BTI criteria and dimensions correlate strongly with the Freedom House assessments. This further supports the validity of the BTI findings.

3. *The BTI is based on assessments by two experts for each country, as well as by the regional coordinators and the experts on the BTI Board.*

Other studies, by contrast, rely on surveys of each country’s citizens or local experts. For instance, the World Governance Assessment prepared by the Overseas Development Institute in Great Britain evaluates politics and governance in 22 countries on the basis of interviews conducted with 35 or more well-informed persons (top-level civil servants, parliamentarians, business people, scholars, journalists, etc.) in each country (Hyden, Court and Mease 2004; [www.odi.org.uk/wga\\_governance](http://www.odi.org.uk/wga_governance)).

While such studies tap particularly extensive knowledge of a country’s specific situation, their findings are not very comparable between countries and regions. In the BTI, the country experts’ assessments are subjected to an in-depth review process aimed at guaranteeing comparability between countries and regions.

4. *The BTI’s ranking assesses the political leadership’s management on the basis of expert assessments that are conducted expressly for this study and that refer directly to the study’s criteria.*

This is in direct contrast to the World Bank Institute’s survey of governance indicators, which are based on a secondary analysis of separate data on issues such as the rule of law, government effectiveness and political stability (Kaufmann, Kraay and Mastruzzi 2007).

The authors of the most recently published edition of the governance indicators, Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, draw on 310 data series on governance from 33 different sources (commercial risk assessment agencies, household and business surveys, nongovernmental organizations and official data banks). They group this data into six dimensions of governance: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. This database permits these dimensions to be assessed for 212 countries and territories. BTI scores for individual criteria and questions are used in calculating four of the six aggregated indicators.

The World Bank survey calculates a mean value and a margin of error (confidence interval) for the governance quality of each country and for every dimension. This

allows countries to be compared on a standardized scale. In 2006, between eight and 13 different sources were available, on average, for each country and dimension. The percentage of countries evaluated on the basis of a single source was reduced to six from nine percent.

The advantage of the World Bank study is that its large number of data sources and individual observations allow statistical methods to be applied that reduce the likelihood of measurement error. The representativeness of each data source is assessed, and those sources judged to be more precise are weighted more heavily.

Critics have pointed out, however, that individual studies that are biased in the same direction will be weighted more heavily due to their correlation. This undercuts the precision of the governance estimates (Arndt and Oman 2006). An even more serious problem is the loss of conceptual precision associated with reducing research questions from diverse sources—which diverge in their formulation and meaning—to their numerical information content, and then recombining them into a new indicator construct (Knack 2006).

In contrast to the governance indicators, the BTI's individual questions are derived from a coherent notion of democracy, market economy and management. Its numerical scores are based on qualitative, written assessments that not only render the scores transparent but also have been subjected to rigorous discursive quality control.

*5. The subject matter of the Bertelsmann Transformation Index is more comprehensive and complex than the processes, phenomena and characteristics surveyed in most other rankings and ratings.*

Other indices concentrate primarily on specific issues of particular importance to those surveys' authors or initiators. The following studies are especially well known or overlap to some degree with the subject matter of the BTI:

- The Polity Project classifies countries as democracies or autocracies and analyzes regime transition processes. The project covers all sovereign states with a population greater than 500,000. It has documented fundamental characteristics of regimes for every year since 1800. The project's coding is performed by research groups at the University of Maryland and the University of Colorado ([www.cidcm.umd.edu/polity](http://www.cidcm.umd.edu/polity)).
- The European Bank for Reconstruction and Development annually evaluates the status of economic reform in the 27 transformation countries of Central and Eastern Europe (European Bank for Reconstruction and Development 1994, et seq.). The bank assesses reform of the corporate and finance sector, the liberalization of markets and trade, and infrastructural reform on a scale of 1 to 4+.
- In its annual Country Policy and Institutional Assessment, the World Bank evaluates economic, structural and social policies, and public institutions in the 80 especially poor countries that are borrowers from its suborganization, IDA. For this report, the bank's economists rate the institutions and policies of the countries within their field of expertise in comparison with countries that serve as global and intraregional benchmarks (International Development Association 2003).

- The international nongovernmental organization Transparency International provides a Corruption Perceptions Index. Like the aforementioned governance indicators, it is based on secondary analysis of published empirical studies on the perception of corruption. Its 2007 index used data from 14 sources originating from 12 independent institutions and covered 180 countries and territories ([www.transparency.org/policy-research/surveys\\_indices/cpi/2007](http://www.transparency.org/policy-research/surveys_indices/cpi/2007)).
- The World Economic Forum in Davos (WEF) and the Institute for Management Development in Lausanne (IMD) have developed indices of economic competitiveness ([www.weforum.org](http://www.weforum.org); [www.imd.ch](http://www.imd.ch)). These indices rely on data drawn from business opinion surveys and on statistical data.
- The Heritage Foundation and the Wall Street Journal have jointly published an annual Index of Economic Freedom since 1995. It analyzes the scope of economic freedom in 161 countries in terms of foreign investment, taxes, tariffs, capital markets, monetary policy, private property rights, and informal economies ([www.heritage.org](http://www.heritage.org)).
- Private firms such as the Economist Intelligence Unit and Political Risk Services offer foreign investors and multinational companies risk analyses examining economic factors and the political situation of a specific country ([www.eiu.com](http://www.eiu.com); [www.prsgroup.com](http://www.prsgroup.com)).

This list of indices is not intended to be exhaustive, mainly because the number of indices has grown steadily in recent years (for an overview, see Sudders and Nahem 2005). The BTI addresses many of the aspects measured by the surveys listed above. However, the BTI evaluates them with regard to both market-based democracy and good transformation management. The BTI allows for an overall comparative ranking; at the same time, its extensive country reports provide a detailed picture of each country's situation.

These distinctive features make the Bertelsmann Transformation Index unique. They also guarantee that the BTI can complement and enrich existing composite indicators.