

*Bertelsmann Stiftung (ed.)*

# Transformation Index BTI 2018

Governance in International Comparison

# Executive Summary

The quality of democracy, market-economic systems and governance in developing and transformation countries has fallen to its lowest level in 15 years. The Transformation Index of the Bertelsmann Stiftung (BTI) identifies three developments that account for this trend. First, several governments no longer effectively counter growing domestic tensions. Second, in recent years, many elites have failed to respond to global challenges with economic policies that ensure stability and social inclusion. Third, governments in a number of relatively advanced transformation countries are hollowing out the rule of law and political freedoms.

Findings for the BTI 2018 depict a world of increasing political instability and a rapid decline in the acceptance of democratic institutions. In more and more countries, government leaders are deliberately undermining the checks and balances designed to hold the executive accountable – thereby securing not only their power, but also a system of patronage and the capacity to divert state resources for their own personal gain. At the same time, protests against social inequality, mismanagement and corruption are growing.

For many years now, we have witnessed a growing conflict intensity in many societies. This is in part due to the lack of compelling responses among governments to growing social exclusion and fading economic opportunities, which has devastated public confidence in established political systems. Populist movements and their anti-establishment slogans have flourished under these conditions. However, in many countries, protests against clientelist and erratic leadership are generally mobilized along existing ethnic, religious or social

cleavages. Elites in these countries then instrumentalize these cleavages to foster polarization and the consolidation of their power. In such a context, increasingly few on all sides demonstrate a willingness or ability to engage in dialogue.

More and more countries are poorly governed

Among all governance indicators, the global average for conflict management has recorded the most significant decline in the last 12 years. In 57 states, current governments are less willing or able to defuse social conflicts. During the survey period (February 2015 to January 2017), this has been true for Burundi and Turkey in particular.

Most governments in Arab countries – in particular Bahrain, Libya, Syria and Yemen – are deliberately aiming to exploit social conflicts. However, scores for conflict management have been falling for years in South and East Africa, as well. Indeed, the region, second only to North Africa and the Middle East, is plagued by the most conflicts in the world. Overall, there is a notable lack of effort among leaders to de-escalate conflicts in the region, not only in the chronically unstable Horn of Africa, but also in Kenya, Lesotho, Mozambique, Uganda and Zambia.

A growing inability or unwillingness to defuse conflicts generally runs parallel to an erosion of the consensus on goals among leaders, a diminishing capacity for civil society to participate in policymaking processes, and a growing influence of anti-democratic veto actors. We see this in East-Central and Southeast Europe, where a climate of polari-

zation and heated populist rhetoric has corroded – more so than anywhere else in the world – the consensus on goals. Deficient domestic consensus-building generally goes hand in hand with a lack of cooperation with international organizations and other states. In the last 12 years, almost one-half of all countries surveyed by the BTI have lost credibility in terms of their willingness to act as reliable partners. In an era demanding greater international cooperation in addressing global challenges, influential states – such as Mexico, Russia or Turkey – are losing their ability to play a key role as reliable, peace-oriented agents of positive change.

Global average scores for the efficient use of available resources and anti-corruption policy remain the lowest among all governance indicators (on a scale from 1 to 10, 4.71 and 4.27, respectively). A total of 91 out of 129 governments have proven either wholly unable or only partially able to make efficient use of their administrative and financial resources. And 103 states either lack the will or capacity to fight corruption effectively. Democratically governed countries perform much better on both indicators than do autocracies, particularly in terms of battling corruption.

Poor economic governance in autocracies

Overall, democracies perform better in terms of governance as well as in terms of their long-term steering capability and ability to make efficient use of available resources. Both of these qualities play a key role in ensuring macroeconomic stability and social

inclusion. To be sure, the continuing decline in commodity prices accounts in part for the growing instability, weakening performance and increasing inequality seen in many economies around the world in recent years. But bad economic policies and the lack of economic reforms, particularly in autocracies, are equally to blame.

The global average for the level of socio-economic development, generally the weakest of all factors in economic transformation, fell to a new low in this year's BTI (4.26). Within the last ten years, the share of BTI countries achieving a moderate to good level of social inclusion has fallen from one-third to one-fourth. This includes 26 of 71 democracies, but only nine of the 58 autocracies surveyed by the BTI. On global average, democratically governed countries have invested significantly more in social safety nets, while authoritarian regimes have done little in this regard.

The global average for economic performance has also worsened significantly in the last ten years (-0.95). Within this period, macroeconomic indicators have fallen in 71 countries and increased in only 17 states. Only seven autocracies were able to coordinate and pursue with consistency policies targeting currency and price stability.

Already small in number, the list of successful modernization dictatorships has been shortened once again. This includes countries with developed market economies, such as Malaysia, Qatar, Singapore and the United Arab Emirates, as well as the developmental dictatorships working to catch up from the middle (China) or low (Rwanda) levels. However, democracies are also faltering on this front. Indeed, the level of economic transformation achieved in several democracies, such as Brazil, Hungary, Mexico, Nigeria, South Africa and Turkey, has been rolled back – in some cases considerably. It is also the case that each of these countries has been subject to severe mismanagement and an erosion in the quality of democracy.

#### Democracy under pressure

The state of political transformation has reached a new low on global average. Where-

as the setbacks recorded in the BTI 2016 were primarily attributed to growing repression in hardening autocracies, the decline recorded for this edition derives in large part from the efforts of governments in defective democracies to consolidate their power by undermining the rule of law and political participation. The extent to which governments in Bangladesh, Lebanon, Mozambique, Nicaragua and Uganda have succeeded in doing this means that we can no longer classify them as democracies. These states have crossed a threshold that the defective democracies of Honduras, Hungary, Moldova, Niger, the Philippines and Turkey are nearing, though to varying degrees. Poland, too, though much further away, is inching its way downward. Overall, the share of the world population that enjoys democratic governance has fallen from 59.3% to 56.5%. For the first time ever, more than 3 billion people in the world are subject to autocratic governance.

In a good one-fifth of all surveyed countries, the quality of democracy has declined. Less free and fair elections, constitutional amendments allowing the executive to consolidate its power, and the circumvention of checks and balances account for this trend. In addition, oppositional forces and civil society actors are increasingly excluded from participating in the political process. In terms of political transformation, scores for association and assembly rights have declined the most since 2006, followed closely by freedom of expression. This shrinking of the civic space is accompanied by a manipulation of civil society that privileges pro-government organizations and discredits critics of the government, thereby granting leaders discursive authority in a controlled political environment.

The normative transformation goals of democracy and a market-economic system have never been subject to so much controversy or threatened by internal forces as they are today. When democratic systems fail to ensure the rule of law and provide opportunities for political participation, and when market-economic systems fail to ensure fair competition and social inclusion, they will lose their capacity to attract support and increasingly take on the features of an illiberal and

clientelist system. The foundations of democracy and market economic frameworks are thereby sapped of their substance.

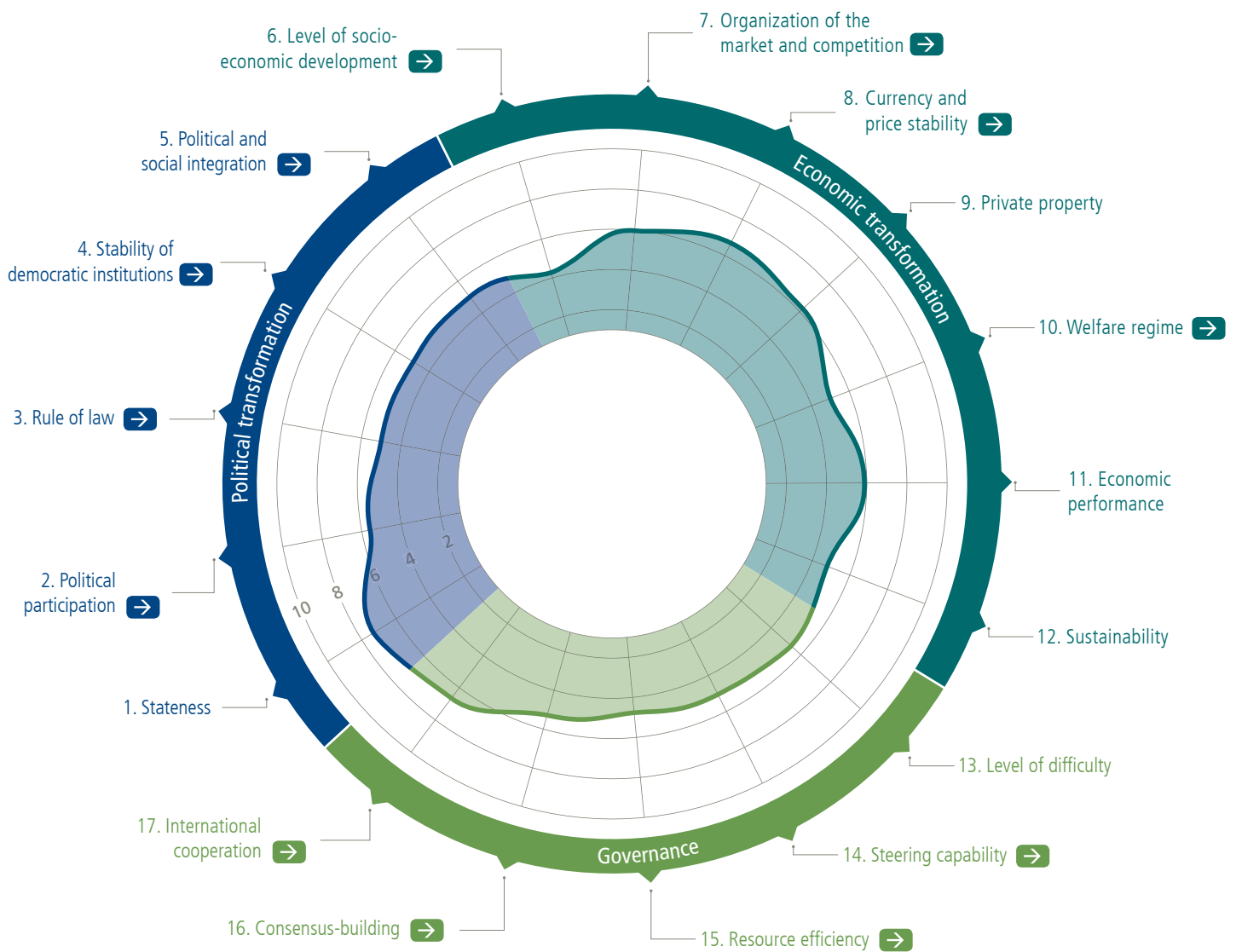
Despite the global economic turmoil and rise in populism in recent years, one-fifth of all BTI countries surveyed proved able to protect and, in some cases, deepen their institutional foundations. Botswana, Chile, Estonia and Taiwan stand out in this regard. Each of these countries has numbered among the top performers in each BTI dimension since 2006. They illustrate how good governance in developing and transformation countries can foster resilience when confronted with instability and crisis.

Political transformation		
1	Uruguay	9.95
2	Estonia	9.75
3	Taiwan	9.55
4	Lithuania	9.45
5	Czech Republic	9.40
6	Slovenia	9.25
7	Chile	9.20
8	Costa Rica	9.05
9	Latvia	8.75
10	Slovakia	8.60

Economic transformation		
1	Czech Republic	9.64
2	Estonia	9.29
3	Taiwan	9.29
4	Slovenia	9.11
5	Lithuania	9.04
6	Singapore	8.89
7	South Korea	8.64
8	Latvia	8.61
9	Poland	8.61
10	Slovakia	8.57

Governance		
1	Estonia	7.44
2	Uruguay	7.36
3	Chile	7.33
4	Taiwan	7.33
5	Lithuania	7.18
6	Botswana	7.09
7	Czech Republic	7.03
8	Latvia	7.00
9	Costa Rica	6.85
10	Slovenia	6.78

# The BTI 2018 at a Glance



**2. Political participation:** Free and fair elections; Effective power to govern; Association / assembly rights; Freedom of expression

**Free and fair elections** → are increasingly less common. Elections in nearly one-fourth of all countries are less free and fair than they were two years ago. Incumbents frequently manipulate the political system to their advantage long in advance of the next election.

**4. Stability of democratic institutions:** Performance of democratic institutions; Commitment to democratic institutions

**Commitment to democratic institutions** → is waning in many regions, particularly in East-Central Europe, South and East Africa, and Central America. Liberal democracy's opponents are proving themselves increasingly efficient mobilizers.

**6. Level of socioeconomic development:** Socioeconomic barriers

**Socioeconomic barriers** → continue to grow. Once again, this indicator has the lowest average score among all BTI indicators (4.26). In the last ten years, the share of BTI countries not burdened by massive social exclusion (≥ 5 points) has declined from roughly one-third to one-fourth of all countries surveyed.

**8. Currency and price stability:** Anti-inflation / forex policy; Macrostability

**Macrostability** → has been losing traction since 2008, showing a clear decline in average score. Whereas 56 states in the BTI 2008 featured governments that targeted debt reduction and fiscal consolidation effectively (8–10 points), this is now true of only 30 countries, seven of which are autocracies.

**14. Steering capability:** Prioritization; Implementation; Policy learning

**Prioritization** → has worsened during the review period in 30 countries, reaching the lowest score for this indicator since the BTI 2008. The largest score declines were registered in East-Central and Southeast Europe and in South and East Africa.

**16. Consensus-building:** Consensus on goals; Anti-democratic actors; Cleavage / conflict management; Civil society participation; Reconciliation

**Conflict management** → has recorded the largest decline among all governance indicators since the BTI 2006. Today, governments in nearly one-half of all BTI countries are less able or willing to defuse social conflicts. Only Latin America and Post-Soviet Eurasia show regional averages that have not fallen.

**3. Rule of law:** Separation of powers; Independent judiciary; Prosecution of office abuse; Civil rights

**Civil rights** → are embedded in comprehensive protections in just four countries, but are losing ground in many others. Overall, the assault on basic civil rights continues, most notably in the Middle East. West Africa stands out as a positive exception.

**5. Political and social integration:** Party system; Interest groups; Approval of democracy; Social capital

**Party systems** → have never been particularly stable, representative or socially embedded in most developing and transformation states. Due in large part to further declines in some Latin American countries, this indicator now records the lowest average score among all political indicators (4.66).

**7. Organization of the market and competition:** Market-based competition; Anti-monopoly policy; Liberalization of foreign trade; Banking system

**Market-based competition** → is poorly developed in most countries. Regulations that foster fair and reliable competition have been poorly established in more than one-half of all BTI countries, and have been weakened further during the period under review in 25 countries, 13 of which are in Africa.

**10. Welfare regime:** Social safety nets; Equal opportunity

**Social safety nets** → have been expanded substantially in recent years in some countries, such as El Salvador, Mongolia, Rwanda and Turkey. On global average, democratically governed countries show a significant increase in social safety net investment, while most authoritarian regimes show little or no change in this regard.

**15. Resource efficiency:** Efficient use of assets; Policy coordination; Anti-corruption policy

**Efficient use of assets** → remains the second-weakest (following anti-corruption policy) of all governance indicators. Governments in 91 countries either fail or prove only somewhat capable of using the available human, financial and organizational resources efficiently. Only 7 autocracies receive 6 or more points for this indicator.

**17. International cooperation:** Effective use of support; Credibility; Regional cooperation

**Credibility** → among many states in international cooperation has softened. Some 59 states have scaled back their commitment to multilateral initiatives and are considered to be less reliable partners than they were 12 years ago. Countries recording the largest decline for this indicator include Hungary (–4), Mexico, Russia and Turkey (–3 for each), and Brazil and Kenya (–2 for each).

Political transformation	
Global Ø	5.56 (e.g., Turkey)
Top-ranking country	Uruguay
Positive trend	Burkina Faso, Sri Lanka
Negative trend	Mozambique, Turkey, Uganda, Yemen
Regime distribution	→ 71 democracies → 58 autocracies

Economic transformation	
Global Ø	5.53 (e.g., Ecuador)
Top-ranking country	Czech Republic
Positive trend	Argentina, Ukraine
Negative trend	Namibia, Venezuela, Yemen
State of development	→ 26 developed/functioning market economies → 53 market economies with functional flaws → 50 poorly functioning/rudimentary market economies

Governance	
Global Ø	4.80 (e.g., China)
Top-ranking country	Estonia
Positive trend	Argentina, Sri Lanka
Negative trend	Brazil, Poland, Turkey, Yemen
Quality of governance	→ 43 countries with very good/good governance → 39 countries with moderate governance → 47 countries with weak/failed governance