

**EXPLAINING THE VARIATION IN ECONOMIC PERFORMANCE OF  
DEVELOPING COUNTRY DEMOCRATIZERS**

by

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The expansion of democracy over the past several decades has reshaped the global governance landscape. Two-thirds of the world's states are now on a democratic path – a reversal from the ratio seen as recently as the late 1980s. And the number of countries joining the trend continues to edge upward each year. This sea-change in how leaders are selected and govern has profound implications for global norms of justice, human rights, and popular participation in setting and resolving the pressing priorities of the 21<sup>st</sup> century.

Democracy's advance also has tangible implications for global living standards. Seventy-five percent of countries currently undertaking democratic transitions are in the developing world. Accordingly, the manner in which participatory political systems affect economic opportunity and poverty alleviation will have far-reaching effects on the quality of life for many of the world's poor. Encouragingly, democracies' developmental track record is quite strong relative to other regime types. Industrialized democracies, of course, enjoy the world's highest living standards and have demonstrated unequalled capacity for inter-generational asset creation. However, even citizens in developing country democracies have life expectancies that are nine years longer, infant mortality rates that are 20% lower, secondary school attainment levels that are 40% higher, fertility rates that are 30% lower, and cereal yields 25% greater, on average, than those in autocracies at comparable income levels (Halperin et. al, 2004). It bears keeping in mind that these relative distinctions have emerged even during a period of unprecedented improvements in global infant and child mortality rates, life expectancies, access to clean water, and education enrollments. During this era of rapid democratic expansion, furthermore, the frequency and magnitude of civil conflicts has declined by 60 percent (Marshall and Gurr, 2005).

Economic and social progress in democracies is also much more stable – a highly relevant fact for the millions of people in developing countries whose means are already stretched to the margin. Developing country democracies are 70% less likely to experience sharp contractions in annual economic output than developing country autocracies. (Of those that have, two-thirds were transitioning from communist economies in the 1990s). Democratic stability is mirrored in the humanitarian arena. None of the world's 50 worst refugee crises of the past 25 years (as measured by numbers of refugees) originated in a democracy. Nor, as Nobel laureate, Amartya Sen, has observed, has there been a famine in a democracy in the modern era.

Yet, the advance in democracy has been disappointing for some. While economic growth in most developing country democratizers has been at or above the median for their income cohorts, roughly 15% have had negative growth over the past five years. This includes countries like Kenya, Madagascar, Niger, and Paraguay. Average annual per capita growth rates among democratizers since 1990 range from a high of 12% in Armenia to -1.6% in Paraguay. While most democratizers, including Macedonia, Bangladesh, Albania, Nicaragua, and Mozambique have overseen at least a 25% reduction in infant mortality during this time, some dozen democratizers have slid backward on this vital indicator. Similarly, cereal yields, a central component of what are often largely rural economies, have not made significant improvements in some ten democratizers since 1990. This, even though most democratizers have seen cereal yields expand by 15%, on average, over this period. In short, the development performance of contemporary democratizers has varied widely.

In addition to disappointing citizens, the poor development performance of this minority of democratizers also obscures the overall positive story that democratic advances have made to improved levels of well-being. Critics cite these experiences and the handful of even more exceptional cases of autocracies enjoying rapid growth and conclude that democracy offers no distinctive benefit to social and economic development. Worse still, it reinforces the long-established notion that poor countries are unable to democratize successfully – and the conclusion that the democratization process should be deferred until some later, ambiguously-defined period when a country has attained a higher level of development.

Democratizers that have lagged in their development have also been more vulnerable to democratic backsliding. Eighty percent of all autocratic reversals since 1990 have occurred in democratizers that were enduring stagnant development. The weak developmental performance of certain democratizers, therefore, presents a risk not only to continued advances in social well-being but to the survival of individual democracies – and the trajectory of global governance norms. In short, the contemporary democratization experience is closely intertwined with development progress.

What accounts for these differences in democratizers' development performance? Understanding the answers to this question will provide essential guidance to both the advance of democracy – as well as improved social and economic well-being.

## **DEMOCRATIZERS' VARIED DEVELOPMENT EXPERIENCES**

This paper defines democratizers as countries that have made and sustained an advance in their democratic political institutions since the mid 1970s (roughly comprising what is known as the “third wave” of democratization) (Huntington 1990). This is operationalized using independent, measures of democracy, Polity IV's democracy index and Freedom House's annual survey of political rights and civil liberties.<sup>1</sup> Based on this categorization, there are 81 contemporary democratizers (see table 1).

These countries comprise every region of the world, reflecting the global nature of the democratic shift. Africa remains the locus of the contemporary democratization movement, representing 36 percent of all democratizers, followed by Latin America (21%) (see table 2). The broad geographic composition is mirrored by levels of per capita income represented, ranging from as low as \$100 for Burundi up to \$16,170 for Taiwan. Most are concentrated in the lower end of that spectrum, however. Half of all democratizers fall under the World Bank-delineated threshold for concessional lending of \$1,025 per capita gross national income (GNI). These would be typified by countries like Benin, Moldova, or Kenya. Seventy-five percent are considered low (below \$875 per capita GNI) or lower-middle income (between \$875 and \$3,465

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<sup>1</sup> The Polity IV governance index issues annual democracy scores for every country with a population over 500,000 based on the establishment of institutions for the selection of their political leaders, opportunities for popular participation in the political process, and checks on the chief executive (Gurr et. al. 1990; Marshall and Jaggers 2000). Trichotomizing the 0-10 point measure, we can categorize autocracies as countries scoring between 0-2 and democracies as those in the 8-10 point range. Democratizers are countries that, starting from below the democracy threshold, made and sustained a 2-point gain. Freedom House conducts an annual survey of political rights and civil liberties, which are based on independent analysts' assessments of 25 questions for all countries in the world. This generates a 2-14 composite score. Countries are categorized as democratizers if they have made and sustained a 3 point gain on this scale.

per capita GNI). Notably, the region with the largest concentration of democratizers (Sub-Saharan Africa) also has the lowest median per capita income level - \$309.

**Table 1. Contemporary Democratizers by Income Category**

Low-Income	Lower-Middle Income	Middle and Upper Income
Bangladesh	Albania	Argentina
Burundi	Algeria	Botswana
Benin	Armenia	Brazil
Burkina Faso	Bolivia	Chile
Cambodia	Bulgaria	Croatia
Comoros	Cape Verde	Czech Republic
Democratic Rep. Of Congo	Dominican Republic	Estonia
Djibouti	Ecuador	Grenada
Ethiopia	El Salvador	Hungary
Georgia	Fiji	Latvia
Ghana	Guatemala	Lebanon
Guinea-Bissau	Guyana	Lithuania
India	Honduras	Mexico
Indonesia	Jordan	Panama
Kenya	Macedonia	Poland
Kyrgyzstan	Paraguay	Seychelles
Lesotho	Peru	Slovakia
Madagascar	Philippines	Slovenia
Malawi	Romania	South Korea
Mali	Russia	Taiwan
Moldova	Namibia	Uruguay
Mongolia	Serbia & Montenegro	
Mozambique	South Africa	
Nicaragua	Thailand	
Niger	Turkey	
Nigeria		
Sao Tome & Principe		
Sierra Leone		
Senegal		
Solomon Islands		
Tanzania		
Uganda		
Ukraine		
Zambia		

**Table 2. Regional Distribution of Contemporary Democratizers**

<b>Region</b>	<b>Number</b>	<b>Percentage of Total</b>	<b>Median per capita Income</b>
Sub-Saharan Africa	29	36	\$309
Latin America	17	21	\$2,131
Central Europe	11	14	\$4,235
East Asia	10	12	\$914
FSU	9	11	\$884
Middle East	3	3	\$1,916
South Asia	2	3	\$453

One of the characteristics of democracies' development is that it tends to be far more stable from year to year than developing countries with closed political systems. In this way, gains are aggregated and sustained over time relative to the more up and down nature of autocratic growth (Quinn and Woolley, 2001; Rodrik and Wacziarg 2005; Halperin et. al 2004). When examining the relative performance of democratizers, therefore, it makes sense to consider patterns of sustained growth and development. Accordingly, this analysis assesses five, ten, and 15 year measures of progress in per capita incomes, infant mortality rates, cereal yields, etc. to measure relative performance

Since 1995, per capita incomes of low-income democratizers expanded by 6.6% over an average five year time period.<sup>2</sup> This would be roughly comparable to the expansions realized by Nigeria, Ethiopia, and Lesotho. The span of democratizer performance was substantial, however. Ukraine, Georgia, and Mozambique all realized aggregate gains of some 30% or more over the most recent five year period. Conversely, incomes in Kenya contracted by -5.30, followed closely by Burundi and the Comoros Islands (see table 3). Ten democratizers were in the top quartile of growth performance for all low-income countries. Four were in the bottom quartile – all from Africa. While the breadth of democratizer growth performance is striking, to put this in perspective, the range in outcomes of low-income autocracies was far larger – spanning from 115% for Turkmenistan and its oil-driven growth to -15% for Cote d'Ivoire. Seven low-income autocracies had five year growth experiences worse than that of Kenya.

Similar patterns are observed for lower-middle income (LMI) democratizers (see table 4). Five year growth rates ranged from 61% in Armenia to -8.1% in Paraguay. Notably, Paraguay performed nearly seven percentage points worse than the next lowest LMI democratizer, Honduras, reflecting the relatively smaller tail at the bottom end of this category of democratizers' growth rates. Eight democratizers were in the top quartile for the LMI group; three were in the bottom quartile. Notably most of the top performers were in Central Europe. Most of the lagging performances were in Latin America.

<sup>2</sup> All social and economic indicators cited are drawn from the World Bank's *World Development Indicators 2006*.

**Table 3. Top and Bottom 5-Year Growth Rates for Low-Income Democratizers (1999-2004)**

Country	Per Capita Income	5-Year Growth (%)
Ukraine	\$812	38.2
Georgia	\$729	33.2
Mozambique	\$255	28.1
Comoros	\$364	-4.53
Burundi	\$100	-4.98
Kenya	\$340	-5.30

**Table 4. Top and Bottom 5-Year Growth Rates for LMI Democratizers (1999-2004)**

Armenia	\$884	61
Russia	\$2,138	41.6
Albania	\$1,392	38.1
Bulgaria	\$1,835	29.6
Serbia and Montenegro	\$1,200	27.5
Ecuador	\$1,368	-0.53
Honduras	\$927	-1.54
Paraguay	\$1,407	-8.07

A review of democratizer progress on infant mortality rates (IMR)<sup>3</sup> reveals an equally diverse range of performances. Given the slower rates of change in infant mortality levels, 15 year progress benchmarks are considered.<sup>4</sup> Among low-income democratizers, Bangladesh, Indonesia, and Nicaragua all saw infant mortality rates improve by more than 40% over the past 15 years (see table 5). Some 12 low-income democratizers realized infant mortality rate progress of better than 20%. However, there were also notable cases of backsliding. Georgia, Kenya, and Moldova have all seen a worsening in infant mortality rates of more than 25%. Georgia has seen a doubling of infant mortality rates from 18 to 41 since its independence. Notably, this bottom quartile is disproportionately represented with democratizers from the former Soviet Union. It is also noteworthy that only Kenya shows up in the bottom quartile of both the growth and infant mortality categories. Several of those in the bottom of the infant mortality listings, including Moldova, Georgia, and (lower-middle income) Armenia were in the top quartile of the growth rankings.

The infant mortality track record for LMI democratizers has considerably less variance and a stronger positive tilt than the low-income category. Nineteen LMI democratizers have overseen improvements in their infant mortality rates of 20% or more over the past 15 years. Macedonia, Serbia, and Peru have realized gains of over 50%. Armenia is the only democratizer in this income category that has seen a deterioration in its infant mortality rates over this time. It is one of only three LMI democratizers that fall below the 25% quartile of performance on this indicator. Continuing the trend observed in the low-income sample, several democratizers that were in the bottom quartile of the growth rankings have demonstrated noteworthy progress on

<sup>3</sup> Defined as infant deaths per 1,000 live births.

<sup>4</sup> For newly independent countries, such as in the former Soviet Union, comparisons are made from year of independence.

the infant mortality front. Latin American democratizers – Ecuador, Honduras, Bolivia, and Paraguay – frequently criticized for not delivering growth, have realized infant mortality reductions of between 20-47% since 1990. Conversely, the LMI democratizers with the slowest infant mortality progress – Armenia, South Africa, Bulgaria, and Russia – consistently show up strongly on the economic growth front.

**Table 5. Top and Bottom 15 Year IMR for Low-Income Democratizers (1989-2004)**

Country	Per Capita Income	15 Year Change in IMRs (%)
Bangladesh	\$395	52.1
Indonesia	\$781	48.3
Nicaragua	\$767	41.2
Moldova	\$369	-20.9
Kenya	\$341	-27.8
Georgia	\$729	-124

**Table 6. Top and Bottom 15 Year IMR for LMI Democratizers (1989-2004)**

Country	Per Capita Income	15 Year Change in IMRs (%)
Macedonia	\$1,740	75
Serbia and Montenegro	\$1,200	59
Peru	\$2,131	53
Ecuador	\$1,368	47
Turkey	\$2,979	43
Russia	\$2,138	10.1
Bulgaria	\$1,835	9.6
South Africa	\$3,026	3.6
Armenia	\$884	-47.1

Cereal yields are another important measure of economic progress and well-being. Most developing countries rely on their agricultural sectors for a large share of their employment, economic output, and asset creation. Accordingly, it is often a telling measure of the health of a developing country economy. As countries grow wealthier, their reliance on the agricultural sector tends to diminish as labor and capital shift to manufacturing and service sectors. Nonetheless, the *productivity* of the agricultural sector, as measured by output per area of farmland, continues to grow in vibrant economies as more production is generated by fewer farmers due to technological innovations and efficiency increases. In this way, it remains a vital indicator of economic health, even in wealthy countries.

The range in cereal productivity gains among low-income democratizers is substantial. Eight have realized yield increases of over 30%. Cambodia, Bangladesh, Mozambique, Senegal, and Bolivia have improved yields by more than 50% (see table 7). Meanwhile, three (Nigeria, Kenya, and Djibouti) have been struggling with declining cereal yields. This parallels the story for LMI democratizers with Iran, South Africa, the Philippines, and the Dominican Republic leading the way with gains of more than 40% over the past 15 years (see table 8). Three Central European democratizers (Bulgaria, Serbia, and Romania), in contrast, have faced productivity contractions

of more than 20%. Strikingly, as with infant mortality rates, Latin American democratizers vilified for their weak growth performance (Bolivia, Ecuador, Honduras, and Paraguay) all post respectable gains in cereal productivity. Bolivia and Ecuador have seen cereal yields expand by 50 and 30 percent, respectively.

**Table 7. Top and Bottom 15 Year Cereal Yields for Low-Income Democratizers (1989-'04)**

Country	Per Capita Income	15 Year Change in Yields (%)
Cambodia	\$313	59%
Bangladesh	\$395	57%
Mozambique	\$254	53%
Senegal	\$485	53%
Bolivia	\$1,017	51%
Djibouti	\$847	-3
Kenya	\$340	-11
Nigeria	\$357	-19

**Table 8. Top and Bottom 15 Year Cereal Yields for LMI Democratizers (1989-2004)**

Country	Per Capita Income	15 Year Change in Yields (%)
Iran	\$1,715	92
South Africa	\$3,026	57
Philippines	\$1,047	50
Dominican Republic	\$2,413	42
Romania	\$1,963	-22
Serbia	\$1,200	-23
Bulgaria	\$1,835	-36

The highly divergent performance of democratizers on the economic growth, infant mortality, and cereal yield measures are reflective of the broader development experience of contemporary democratizers. While democratizers, on average, consistently outperform countries not undergoing democratic reforms, the results among democratizers are quite mixed. These patterns hold for both low and lower-middle income categories, though the severity of divergence varies from development measure to measure. Regional issues also seem to play a factor in this variation. Much of the exceptional growth is observed in Central Europe, while Latin America and African democratizers populate the lower rungs of the growth measures. Conversely, the Central European democratizers are regularly found at the bottom of the infant mortality and agricultural rankings, likely reflecting the ongoing transformation of their inherited communist political and economic structures. High growth does not necessarily translate into dramatic social welfare improvements – and vice versa.

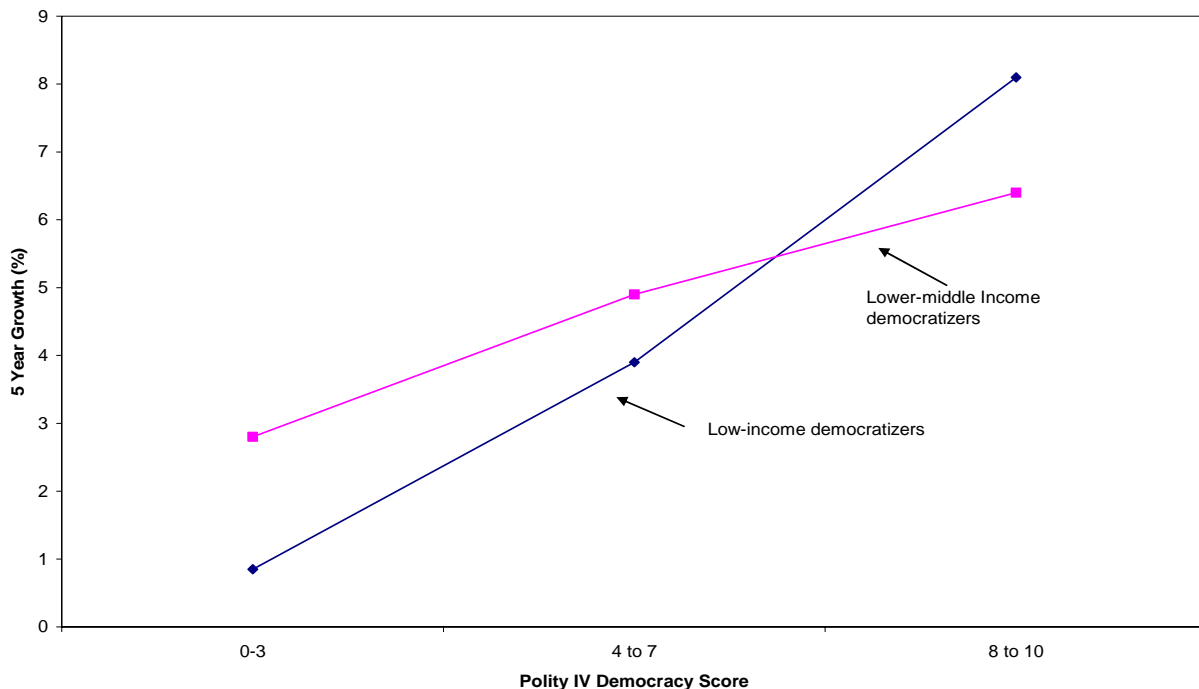


## EXPLAINING THE VARIATION

What accounts for these performance differences among democratizers? In other words, if democracy matters for development, then why aren't all democratizers thriving? Obviously, many complex political, economic, cultural, and geographic factors are at play. And no single feature explains every case. Nonetheless, several institutional qualities stand out.

First, there is a wide range in the **quality of democratic institutions** these democratizers have created. Democratizers that establish and apply strong democratic processes tend to do much better in their economic and social development than democratizers that retain weak democratic institutions. To be precise, democratizers that create stronger checks and balances on the chief executive, institutions for popular participation in the political process, and a fair and competitive system for selecting their leaders tend to have superior development outcomes. Methodologically, democratizers that reach the upper tier on the Polity IV governance index (i.e. above a 7 on the 0-10 measure) have tended to grow more than eight times as rapidly as democratizers in the lower half of the rankings (i.e. below five). Since 1991, low-income democratizers in this upper tier have averaged 5 year per capita income expansions of 8.1%. This compares to 0.34% for democratizers below the mid-point of the democracy measure (see figure 1). Similar divergences are seen for infant mortality rates and cereal yields. Democratizers in the upper tier of the institutional measure of democracy averaged 15 year infant mortality rate advances of 30.6%. Those below the mid-point on the 0-10 scale achieved gains of only 14.3%, on average. For cereal yields, upper tier democratizers saw 15 year productivity gains of 12.6%, while yields in democratizers with relatively weaker democratic institutions were flat.

Figure 1. Median 5 Year Growth for Democratizers (1991-2004)

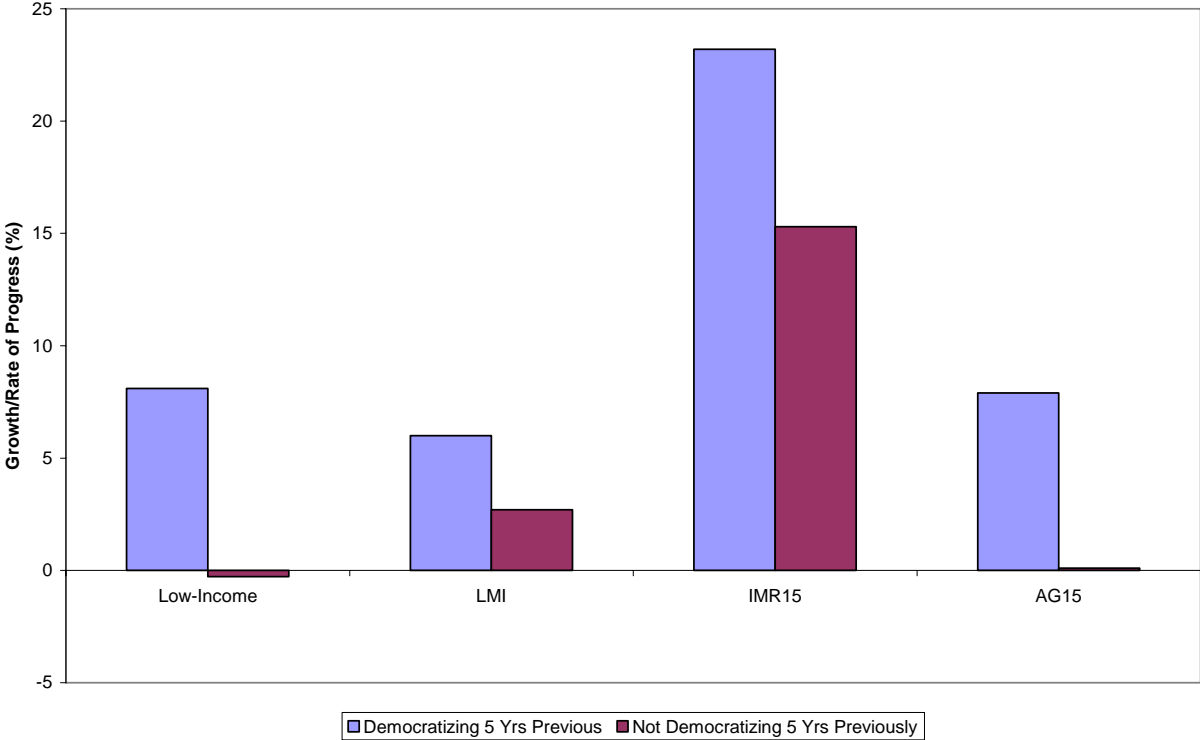


This pattern underscores an important reality: it is not just the act of democratizing but the *quality* of institutions that are created that matters. While affirming the value of democracy for

social and economic development, this reality is sobering since it shows that the mere act of moving towards democracy is insufficient to generate substantial development dividends. Rather, most of the development pay-off from democratization occurs once these institutions have attained relatively strong mechanisms for checking the power of the executive branch, guaranteeing fair and open political competition, and protecting citizens’ rights to participate in the political process.

The recognition that much of democracy’s development dividend generally occurs once solid accountable democratic institutions are established raises an important temporal dimension to this relationship deserving attention. **Building accountable, democratic institutions takes time.** Democratizers that have had time to become firmly established on the democratic path tend to generate stronger institutions – and to realize more effective development. For example, low-income democratizers that have been at it for less than five years, have five-year growth averages of -0.28%. Democratizers that have been on the democratic path for 5 or more years, in contrast, saw economic expansions of 8.1%, on average (see figure 2). Interestingly, links between economic growth and duration on the democratic path flatten after five years. So, democratization periods of more than five years are not necessarily tied to commensurately higher levels of economic expansion. Rather the key insight seems to be that **the first five years of democratization are particularly critical** for establishing democratic practices, reorganizing priorities, and reversing downward momentum from autocratic policies. (Importantly, the first five years are also the period of greatest vulnerability to democratic backsliding. More than half of all backtracking and autocratic reversals take place in this first five year period).

Figure 2. Median 5 Year Growth Subject to Length of Democratic Transition (1991-2004)

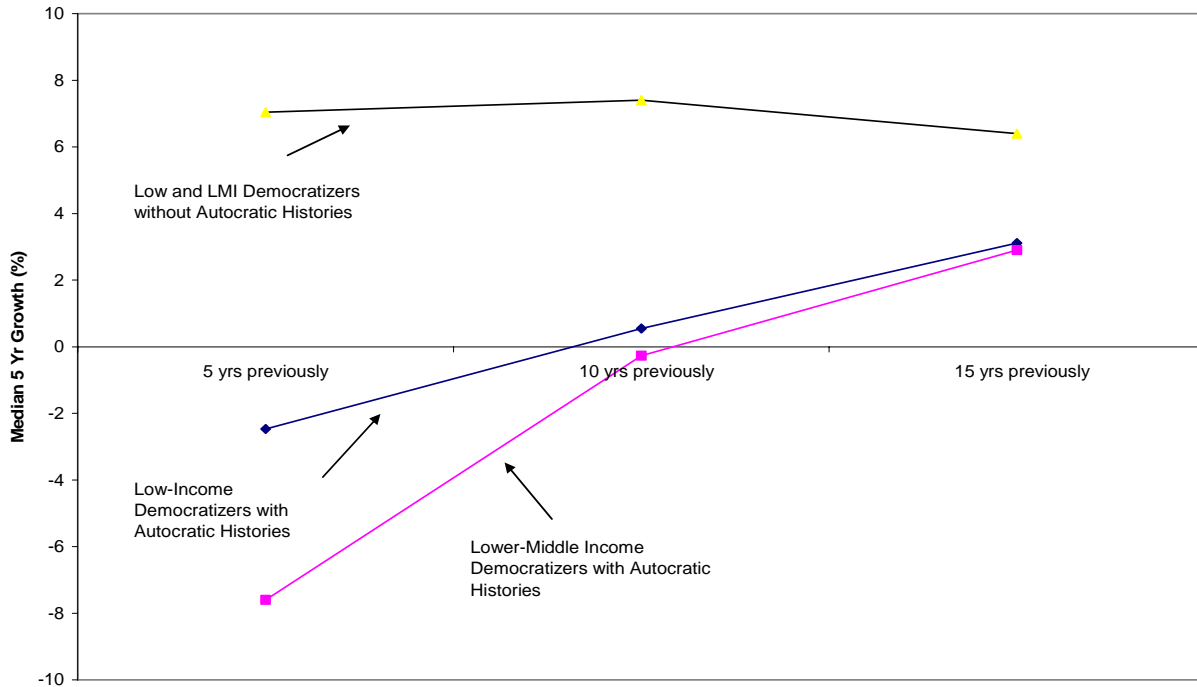


A somewhat similar pattern was observed for gains in cereal yields. Clear median differences in 15 year rates of progress for cereal yields are observed between democratizers that have been undergoing political liberalization for more vs. less than five years (7.9% vs. 0). However, only modest additional gains are realized for democratizers that have been at it for 15 years (10.9%). At the same time, continued time on the democratic path *does* have a substantial bearing on infant mortality rates. Democratizers that started their transition less than five years previously averaged 15 year infant mortality rate gains of 15.3%. Those at it for more than five years averaged improvements of 23.2%. If the transition has been sustained for more than 10 years the rate of improvements is 31.3%. And after 15 years it is 36.1%. In other words, persistence on the democratic path does translate into improved levels of well-being for an indicator that relies heavily on institutional reforms to the public health system, access to information, and citizen trust of public health authorities.

Another important corollary of the temporal dimension of democratic institution-building is that democracies that begin their transitions from deeper democratic deficits are bound to face greater development challenges. In other words, institution-building efforts will likely be much **more difficult in countries with strong autocratic pasts**. Achieving a high standard of democratic institutions will also likely take longer. Development performance is directly affected since democratic transitions often begin when economic conditions are in a tailspin. The first few years of a transition bears the costs of this downward momentum – showing up as poor democratic performance. Reforms may then take hold and depending on the caliber of democratic institutions established, a ‘V’ or ‘U’-shaped recovery ensues. However, if the autocratic legacy from which this process begins is well-entrenched and a transitioning society has had limited exposure to democratic values and principles, then the developmental dividends of democracy are also likely to be delayed.

The persistent challenges generated by an autocratic legacy are reflected in the development experiences of contemporary democratizers. Looking at the period since 1990, low-income democratizers that had been autocratically governed five years previously averaged five year growth rates of -2.47 percent (see figure 3). In contrast, democratizers that were non-autocratic five years previously averaged growth expansions of 7.78 percent. This pattern holds when looking back 10 and 15 years. Low-income democratizers that were autocracies 10 years previously averaged growth of 0.55 percent. A 15 year autocratic legacy translated into a 3.11 percent five year average economic expansion. In contrast, low-income democratizers that were non-autocratic 10 and 15 years previously, averaged expansions of 8.13 and 6.67 percent, respectively. The divergence is even more severe for lower-middle income democratizers (see figure 3). Similar trends are seen for infant mortality and cereal yields. Democratizers that are coming off of an autocratic past within five years averaged infant mortality rate gains of 18% for the previous 15 years. If non-autocratic five years previously, this improvement averaged 25%. At ten years, the differences are 19.1% vs. 32.4%, rates that are comparable to the 15 year legacies. For cereal yields, democratizers with an autocratic past within the past five years averaged 15 year gains of just 2.3% - versus 12.1% if the democratizer had a non-autocratic recent past. The differences for cereal yields flatten out when considering autocratic histories 10 and 15 years out.

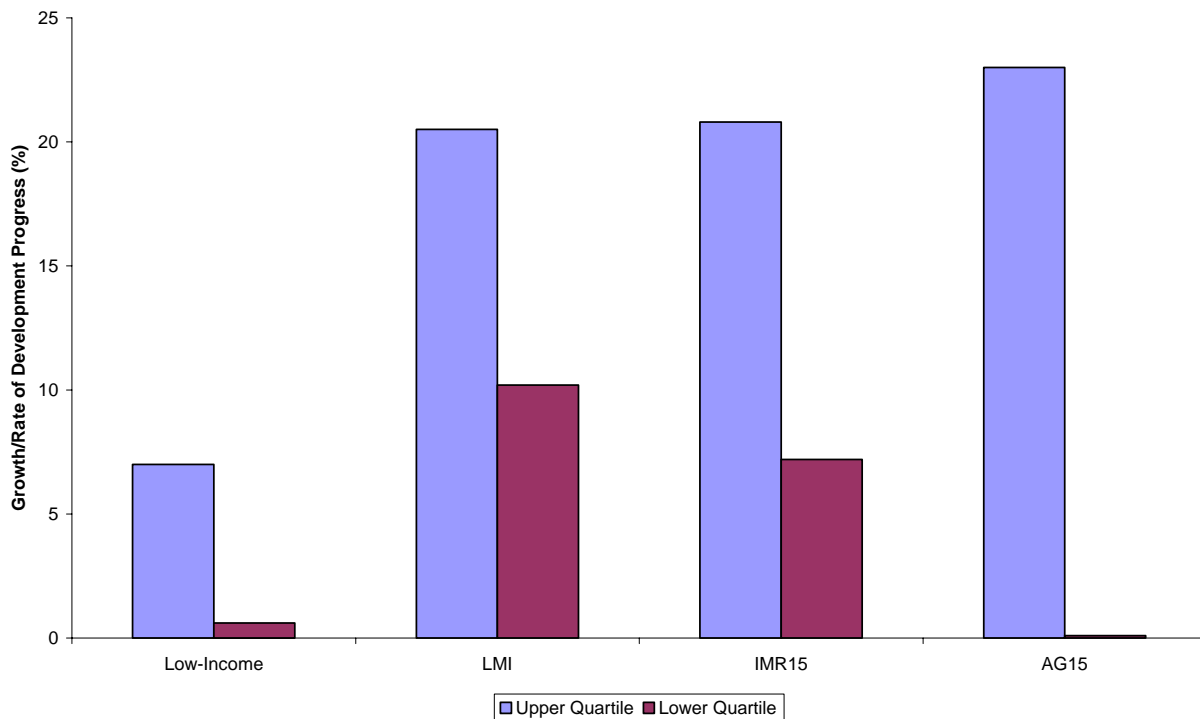
**Figure 3. Democratizer Growth Relative to Autocratic History (1991-2004)**



In short, the debilitations of autocratic pasts endure long after the previous regime has passed from the scene. Democratic transitions often do not turnabout on a dime. Rather, they are much more like huge ocean liners that take time to redirect their momentum in a new direction. Tangible vestiges of an autocratic past affect the economic expansion of new democratizers for decades.

Second, is the **importance of a free press**. Democratizers with a more independent media have tended to grow and develop more rapidly. Among low-income democratizers, those that score in the top 25 percent of press freedom protections, according to Freedom House’s annual assessment of press freedom, have experienced five year growth expansions more than twice as fast as democratizers as a whole since 1990 (7.8 vs. 3.1 percent). Democratizers in the bottom quartile of press freedom, in contrast, have barely grown at all, averaging a five year growth rate of just 0.61% (see figure 4). Among lower-middle income democratizers, the rates are 21.5% versus 10.2%. A free press also makes a noticeable difference for infant mortality rates and especially for cereal yields. Democratizers in the top quartile of press freedoms averaged 15 year infant mortality rate gains of 20.8%. Those in the bottom quartile saw improvements of only 7.2%, on average. For cereal yields, the association is dramatic. Democratizers with more open media saw 15 year productivity advances of 23%. Those in the bottom quartile of press freedom showed no advance in yields over 15 years, on average. Recalling the sharp divergences in growth versus development performances for several Central European democratizers, it is notable that Armenia and Moldova both score in the bottom quartile of press freedoms.

**Figure 4. Median Growth and Development Progress of Democratizers at Upper and Lower Quartiles of Press Freedom (1991-2004)**



There are many reasons why democratizers with more open media enjoy superior development. The greater access to information fosters more informed policy debate and analysis before decisions are taken. Leaders are compelled to respond to information, opinions, and proposals they might otherwise prefer to ignore. This process also facilitates the adoption of ideas and technologies used effectively elsewhere, greatly accelerating rates of productivity. At the least, such a process helps weed out the most egregious aspects of a policy before it is implemented – avoiding some of the disasters that insulated decision-making processes produce. The process of debate also serves an educational purpose. Citizens gain a better appreciation for the trade-offs involved and will tend to be more supportive of a policy once it has been adopted. During implementation, a policy’s effects are closely scrutinized by opposition parties, the media, think tanks, and independent observers. Should the policy prove ineffectual, citizens will hear of it – and leaders will be obliged to take corrective measures. In times of crisis, such as an impending famine, the ability of the press to report on a deteriorating situation serves as an indispensable early warning system. The resulting pressure on the government to take urgent action helps mitigate against catastrophe. In societies that lack this feedback mechanism, crises can develop without citizens outside of the affected area even knowing about it.

Democracies’ openness also has direct benefits for economic efficiency. Markets in which buyers have access to independent sources of information generate greater confidence and competitive prices. Markets in which objective analysis is constrained are distrusted and investment withheld. The greater transparency of open societies, furthermore, is an indispensable factor in curbing corruption.

**Corruption** is a third significant distinguishing feature of democratizers' development. Corruption is estimated to cost the global economy some five percent of output a year – a loss of more than \$1.5 trillion according to the World Bank. It is also a major threat to democratization. The judgment by citizens in some young democratizers that their leaders are no less rapacious than their autocratic predecessors is a major cause of democratic disillusionment – eroding the popular support on which self-governance relies. Over the past decade, low-income democratizers that have scored above the median on Transparency International's corruption perceptions index (i.e. relatively more transparent) have experienced more than twice the level of economic expansion as those that have scored below the median. The average five year expansion rate for the former is 11.02 percent versus 4.5 for the latter. The proportionate differences are even stronger when using the World Bank Institute's (WBI) composite measure of corruption (graft) – 7.5 vs. 2.3 percent (Kaufmann et. al, 2006). Corruption also apparently matters greatly in the social welfare outcomes of democratizers. Low-income democratizers with better than median transparency scores averaged 15 year infant mortality gains of 23.8%. Those with below median transparency ratings saw infant mortality rates improve by only 12.2%, on average. For cereal yields, relatively more transparent democratizers averaged 15 year gains of 23.9%. Relatively less transparent democratizers saw cereal yields stagnate – showing no improvements, on average, over 15 years. Reprising the growth-development anomalies from the previous section, it is instructive that Georgia and Armenia, strong underperformers on the social development measures, score in the bottom quartile of the WBI graft measure.

A fourth distinguishing feature of democratizers that have excelled in their development is their relatively **stronger private sectors**. Democracy's recognition that there are limits to public authority and that there are divisions between public and private space, is a defining feature of this system of governance. Democratizers that embrace this principle and refrain from excessive government control or politicization of the private commercial sphere, have tended to benefit from the entrepreneurship, investment, and higher levels of productivity a dynamic private sector can bring. An illustration of this is levels of credit (as a share of GNI) available to the private sector. Low-income democratizers that are in the top 25 percent in their levels of private sector credit have averaged five year income expansions of 8.07% since 1991 (see table 9). In contrast, democratizers in the bottom quartile of private sector access to credit have averaged a 5.59% *contraction* in their economies during this same period. Similarly, democratizers in the top quartile of private sector access to credit averaged 15 year infant mortality gains of 33% and advances of 23.2% in cereal yields. Democratizers in the bottom quartile of this measure of private sector health averaged infant mortality rates half as fast, 16.8%, and cereal yields that were static.

**Table 9. Median 5 Year Democratizer Growth Rates (%) for Top and Bottom Quartiles of Private Sector Credit Availability (1991-2004)**

Category	Low-Income	Lower-Middle	15 Year Infant Mortality Gains	15 Year Cereal Yield Gains
Top Quartile	8.07	3.28	33	23.2
Bottom Quartile	-5.59	-8.12	16.8	0

Fifth, **debt service levels** also provide insight into democratizers' varied rate of development. Low-income democratizers with relatively higher debt service requirements (as a share of GNI), tend to grow more slowly. The median level of debt service for democratizers since the mid 1990s is 3.5 percent of GNI. Low-income democratizers that had debt service rates above this level averaged 5 year growth rates that were half that of democratizers with debt service at or below this median (6.0 versus 2.93 percent) – a pattern replicated for lower-middle income democratizers. Debt service levels were also linked to slower improvements in cereal productivity. Democratizers with lower than median levels of debt service realized 15 year productivity gains of 10.7% versus 2.5% for democratizers that had above median levels of debt service. The effects of higher debt service rates were also enduring. Since 1990, democratizers with debt service levels higher than the median five years previously, realized economic expansion four and half times slower than democratizers with below median debt service requirements (1.99% vs. 8.85%). In practical terms, democratizers that are saddled with high levels of debt due to the policies of a previous unaccountable (often autocratic) government must endure the effects of this “inheritance” for years to come. This constrains new democratizers' development as limited government revenues are used to pay off the debt at a time when the window for significant reform and development progress may be greatest. Weak development, in turn, makes these lagging democratizers more susceptible to backsliding.

These differentiating features show that democracies' development success extends beyond the mere act of holding elections. Indeed, elections, by themselves, are not strongly associated with superior development performance. Rather, it is the checks and balances inherent in robust democracies – and the incentives for development that these institutions accentuate – that explains the highly divergent development outcomes. Mechanisms of shared power moderate democratic decision-making, reducing volatility. The greater transparency generated by having multiple poles of power is indispensable for curbing corruption. Separating political authority from economic opportunity frees up capital for productive investment, fosters entrepreneurship, and improves the likelihood that public spending and hiring are based on merit rather than patronage. Coupled with periodic elections, these features provide clear incentives for democratic leaders to be responsive to the interests of the general public – a phenomenon clearly evident in the pressure for urgent action democratic governments feel in times of economic or humanitarian crisis.

## **POLICY RECOMMENDATIONS**

The overarching theme emerging from this analysis is that strength of accountable, democratic institutions explains a great deal of the varied development performance of democratizers over the past several decades. Initiatives aimed at enhancing the democracy-development linkage, therefore, should logically focus on strengthening the quality of these accountability structures. This is critical in the first five years of a democratic transition when autocratic reversals are most common. However, momentum for reform must also be sustained if the development pay-off from democratization is to be fully realized. Several policy implications emerge:

**Make Democracy an Explicit Criterion for Development Assistance.** CD members can improve the development prospects for democratizers (as well as their aid effectiveness) by ensuring that their policies (and funding) reward democratic reforms. Low and lower-middle

income democratizers with relatively stronger democratic institutions should receive higher levels of aid. This would mean, for example, that democratizers that are ranked as “free” in Freedom House’s annual survey of political freedom should be eligible for relatively greater levels of assistance. Currently, even non-humanitarian development assistance is just as likely to go to autocracies as democracies (Halperin et. al, 2004). The emergence of the United States’ Millennium Challenge Account is a model in this regard that should be replicated by other bilateral and multilateral development initiatives. Similarly, to heighten the incentives for reform, funding for the MCA should be expanded to meet its intended target of \$5 billion a year, while the democratic governance indicators used in establishing eligibility should be tightened to ensure that only countries with stronger institutional qualities qualify. Indeed, the MCA has already generated a flurry of reform-oriented activity for countries judged to be on the cusp of qualifying for MCA compacts. Stronger democratic institutions and robust development will simultaneously reduce the likelihood of democratic backsliding.

CD support should extend beyond development assistance to increased investment opportunities and market access. Democratizers that adopt robust democratic institutions, especially a free press and global standards of transparency should be touted as reliable targets of foreign investment by CD governments, international financial institutions, and investment rating agencies. In this way, the CD can help inform the market about democratizers making genuine reforms as a way of distinguishing them from what are often highly generalized impressions of emerging markets. Middle and high-income CD members should simultaneously increase funding for their investment facilitation agencies. These initiatives would specifically seek out private investment and export opportunities in emerging markets with strong democratic institutions that could be leveraged with public investment. Democratizers that have gone further down the institutional reform path would also be eligible for preferential market access under trade facilities aimed at enhancing low-income countries’ exports.

**Help New Democratizers Stay on Course in the First Five Years of Transition.** This analysis has highlighted the importance of democratic persistence to superior development outcomes. Democratizers that stayed on a democratic path for more than five years tended to have much stronger developmental performances. Established CD members, accordingly, should pursue policies that specifically target helping new democratizers stay on course during the first five years of their democratic transition when they are particularly vulnerable to backtracking. Among the possibilities are to:

- **Create Democracy Response Accounts.** The first months and years following a democratic breakthrough are critical for changing the political rules of the game that have historically favored a privileged few. However, it typically takes donors several years to adjust to the new circumstances. As a result, the democratic standards set in the early stages of a transition may not be as stretching as they could be. Accordingly, CD members should create contingency democracy response accounts (along the lines of disaster assistance funds) that give them the legal and financial authority to quickly support democratic breakthroughs with priority development and institutional strengthening initiatives. This will have immediate direct benefits while clearly signaling to political leaders and citizens alike that there will be a tangible democracy dividend for adopting pluralistic, transparent, and accountable political structures.



- **Eliminate Odious Debt for New Democracies.** To help reduce the strain of transition and boost development among new democratizers, especially the first five years when most backsliding occurs, CD members, with the support of the Highly Indebted Poor Country (HIPC) initiative when possible, should commit to eliminating all “odious debt” to new democratizers within 18 months of a new democratic leadership taking office.<sup>5</sup> New democratizers typically inherit debt service burdens that are 20% larger, as a percent of GDP, than the average developing country (Halperin et. al, 2004). Immediately suspending, then eliminating all odious debt (pending demonstration of fiscal accountability), would give the new democratic government vital flexibility to demonstrate responsiveness to public priorities. Debt restructuring currently takes years to negotiate. The new government is thus unable to access badly needed capital at the early stages of a reform process when the windows of opportunity are often widest.

**Sustained Support for Democratization.** A strategy aimed at building strong democratic institutions should recognize that this is a medium- to long-term process. This reality runs counter to the two to five year project timeframes typically employed. Indeed, some research has shown that donor funding to new democratizers *decreases* after the first competitive election (Pei and Lyon, 2002). That is, the first election is seen as the benchmark of success, when in fact, this threshold is often crossed relatively early in the process of building democratic checks and balances. Accordingly, and in-line with the goal of maintaining incentives for sustained reform, CD members should establish a graduated scale of development and investment assistance that increases funding for democratizers that continue making progress on their democratic reforms 10 and 15 years into their transitions. Explicit “milestone bonuses” when these thresholds are passed may be an effective and attention-fixing mechanism to encourage continued progress. Such an initiative would require changing expectations about the appropriate time to phase-out of development assistance. Since most democratizers are in the low- and lower-middle income categories, the appropriate period for international support, *providing progress continues to be made*, may be significantly longer than is currently generally accepted. Target thresholds of \$4,000 per capita income or 15 years of sustained democracy – above which democratic backsliding is very rare – may be more in order. Conversely, democratizers that have stopped making incremental progress would see a diminution of support.

**Strengthen Independent Media.** Independent media is increasingly recognized as indispensable for development, not just democratization (World Bank, 2002). While there are other important checks and balances in a society – an independent legislature, judiciary, or active civil society – all are dependent on access to objective information made possible by a free press. Even in an age of globalized communications, if journalists are prevented from investigating and reporting on transgressions, then these stories never make it into public consciousness – and pressure for corrective action does not coalesce. Building a strong, professional, and financially independent media sector, therefore, should be a priority of efforts to enhance development in democratizers. Possible initiatives include:

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<sup>5</sup> Odious debt is debt that has been accumulated by a previous autocratic government for private rather than development purposes (Kremer and Jayachandran, 2002). “Odious Debt,” Brookings Policy Brief #103.

- **Venture Capital for Media Start-Ups.** Capital should be available to support the establishment of private media enterprises in new democratizers to facilitate improved access to and dissemination of independent information. Currently, funding constraints hamstring media start-ups in restrictive environments (Palmer, 2003). Due to their independence, authenticity with the public, and prospects for sustainability, private media enterprises are potentially highly effective means by which to increase openness in constrained societies.
- **Support National and Regional Journalists Associations.** Strengthening journalist associations would accelerate the adoption of professional standards and reforms, facilitate the exchange of information across borders and create a stronger deterrent against the mistreatment of journalists.
- **Increase costs for the Harassment of Journalists.** Journalists are the eyes and ears of the domestic and global community – and an indispensable component of informed decision-making, an effective early warning system to emerging crises, and public sector transparency. Yet, attacks on journalists are on the upswing. For the most part, these are linked to investigations of public corruption. Given the vital role they play in augmenting development effectiveness, most forms of development funding should become contingent on states meeting median international standards for media openness. Moreover, the abduction, torture, or murder of a journalist should be deemed an international crime, subject to international jurisdiction. Establishing this norm would help reduce the impunity some leaders or organizations feel when acting against journalists.

**Strengthen Independence of Anti-Corruption Institutions.** Corruption is a major drag on the development performance of democratizers. Moreover, corruption in democratizers can quickly erode popular support for democratic reforms. While there has been an increased focus on anti-corruption initiatives over the past decade, in many democratizing societies, anti-corruption agencies have been used as tools for targeting political rivals. With an aim of both reducing corruption in democratizers and ensuring the anti-corruption tools that are established are viewed as authentic in the eyes of the majority of citizens, the CD should consider:

- Instituting standards for annual disclosure of financial interests and business interests of all senior government officials.
- Formalizing civil society oversight of national budgeting processes and public procurement decisions.
- Establishing norms of full disclosure of all aid monies. Detailed information on the type, amount, intended recipients, and targeted local jurisdictions would facilitate citizen watchdog groups tracking these resources.
- Ensuring anti-corruption agencies are structured so that they can initiate and prosecute any corruption investigation without political interference. Earmarked budgets and independent hiring authority would further ensure these entities have the capacity to fulfill their mandates.
- Strengthen the oversight of anti-corruption agencies based on best practice experience. This may include creating a rotating panel of federal judges and formalizing a role for civil society groups as the principal oversight body. It could also entail requiring anti-corruption agencies to obtain approval from an independent technical board prior to launching an investigation against any public official.

## CONCLUSION

Democracies do a much better job of creating the accountability institutions that augment and sustain development. These institutions create incentives for public officials to pursue the public interest. However, the democracy-development linkage is not automatic. Democratizers with weak accountability structures do not generate the same pace or caliber of development. Since many democratizers begin their transitions from an autocratically-generated institutional deficit, building democratic systems will be a slow and challenging effort. CD members need to recognize this institutional challenge and sharpen their strategies for assisting countries undergoing democratic transitions achieve meaningful political and economic reforms early on in the transition process. Subsequently, and recognizing the medium to long-term nature of democratic institution building, the CD should also adopt strategies for deepening incentives that will sustain democratic reform five to fifteen years into the transition process.

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