Politics matters for development

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Entering the new millennium, Latin America finds itself in a dramatically different position politically than a little over two decades before. Though not without fault or immune from threat, except in the case of Cuba, democracy is the form of government practiced throughout the region. Neglecting this remaining enclave of authoritarianism, in every country the rules of the political game emanate mainly from democratic constitutions and public officials are elected through competitive elections. Considering the limited reach of democracy in the mid-1970s and the region’s turbulent political history, this is a remarkable development.

In the mid-1970s only in Costa Rica, Colombia, and Venezuela were leaders selected through open and competitive electoral processes. But, beginning in 1978 with the political transitions in the Dominican Republic and Ecuador, a democratic trend – later baptized the “Third Wave” by Samuel Huntington - swept through the region. The democratization trend was given renewed energy and global breadth as a result of the surprising and relatively peaceful collapse of communist regimes in Eastern Europe in 1989 and 1990.

Benefiting from the lost prestige for alternative forms of government and a friendlier global and regional context, the new democracies survived despite the multiple obstacles that they confronted. For instance, few of the democratizing countries had extensive prior experience in competitive politics. Many had to face the conflictive matter of the wide-scale human rights offenses committed by the previous regime and/or settle violent internal conflicts. Nearly all of the new democracies had to cope with severe economic traumas stemming from large levels of public indebtedness and the sudden cutoff of foreign capital flows to the region. Despite these inhospitable circumstances, the region’s embrace of democracy held fast - surviving through instances of slippage in respect for democratic norms and of rebelliousness by the military.

The ascendance of democracy has brought invaluable benefits in terms of the protection of human rights, the scope of individual political freedoms, and the breadth of opportunities for citizen involvement in public decision-making. Whatever flaws can be found in the region’s democracies, it is a tremendous advance that public officials and the government as a whole are viewed as serving at the pleasure of citizens and are expected to be accountable to them.

Rebuffing a widely held myth of authoritarian government superiority in stabilizing and reforming economies, the region’s democracies succeeded in implementing socially disruptive and unpopular economic transformations. Fiscal prudence and monetary discipline put the brakes on decades of high inflation. More far-reaching reforms opened protected economies to foreign trade and investment, lifted price controls and state subsidies, transferred the state’s responsibilities as producer of goods and services to the private sector, modernized social security systems, and liberalized labor markets (in some countries). The adoption of these profound economic reforms enabled the countries to emerge out of the stranglehold of debt and to return, at least temporarily, to the path of positive economic growth.

Despite these significant accomplishments, there remains cause for disappointment in respect to

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1 The views and opinions expressed in this paper are those of the author and do not necessarily reflect the position of the organization to which he is affiliated.
both the results and processes of democratic governance in the region. The “neo-liberal” recipe of fiscal responsibility and market liberalization brought an average growth rate of 3% a year in the 1990s. But, when the increase in the region’s population is factored in, this growth rate equates to an annual average of 1.1% per person. Though this represented an improvement upon the slightly negative GDP per capita growth rate of the 1980s, it was lower than the 2.5% and 3.5% figures for the 1960s and 1970s respectively. In addition, the economies remained vulnerable to upward and downward gyrations stemming from the contagious nature of financial crises in emerging markets. As the new millennium begins pockets of economic turmoil once again threaten the economic outlook of the broader region and the average rate of economic growth has sagged to near zero.

The relatively slow pace of economic expansion has not been sufficient to significantly reduce the high level of poverty in the region. The World Bank estimates that the percentage of the poor (those living on less than $2 per day) barely changed from 38% in 1989 to 36% in 1998. Similarly, the percentage of those defined as extremely poor (less than $1 per day) fell only slightly from 18% in 1989 to 16% in 1998. Without higher levels of economic growth little hope can be offered the estimated 180 million poor citizens of Latin America and the Caribbean. At the same time, there were no signs of a reduction in the acute levels of inequality in the distribution of income and economic assets present in many countries of the region.

When the surge in investment, employment and output did not materialize, it was quickly recognized that dynamic market economies could not be created solely by changes in the macroeconomic framework. Rather, satisfying the key requirements for development – such as sound public financial systems, competitive markets, legal predictability and property rights protection, effective investment in infrastructure, efficient provision of public goods, and steady advances in the skills and productivity of the workforce - depends upon broad and deep institutional reforms. Though the scope of the state’s activities was now reduced, the need for effectiveness and neutrality in the performance of its remaining functions became clearly evident. Rules governing competition and transactions in diverse markets, including those for labor, capital, goods and services, etc. had to be reformed at the same time that the regulatory agencies and courts required to enforce and adjudicate them had to be strengthened and made more independent. Tax systems needed to be overhauled and collection agencies strengthened. At the same time, the state had to ensure the efficient provision of infrastructure and high levels of quality in the delivery of education and health services.

However, by their very nature, these “institutional” or so-called “second generation” reforms are considerably more complex to implement than the “first generation” macroeconomic reforms (Naim, 1995). Raising taxes, lowering public sector wages, reducing trade tariffs, and selling state assets could be accomplished in some cases by executive decree and in others by legislative approval of a single piece of legislation. But, enhancing the management of public sector institutions, creating a more independent and effective judiciary, and establishing regulatory frameworks usually involves coordination and agreement among a wide array of public institutions and societal actors and a series of legislative and bureaucratic actions over a long period of time. In addition, the realization of the benefits of institutional reform is contingent upon simultaneous changes in diverse organizations and areas of law (Graham and Naim, 1998).

Clearly much is at stake for society in the creation and reform of regulatory frameworks, in the redesign of service delivery systems, and in the restructuring of public sector institutions. Such changes inevitably entail taking on powerful interests and privileging certain social groups or interests and disadvantaging others. If the benefits of institutional change end up being captured by relatively narrow interests then larger societal groups, such as consumers, workers, and entrepreneurs, will suffer.
Public sector administration reforms, like enhancing governmental transparency, controlling corruption, establishing a professional civil service, etc. require incumbent politicians to relinquish instruments of power and to open up their conduct and decisions to more intense public scrutiny. Majority political parties must also be forced to give up their undue influence on the judicial system and public prosecutor offices and expose themselves to the full weight of the law and an even-handed interpretation of the constitution.

Thus, in the process of creating, implementing, and sustaining sound institutions it is clear that **politics matter**. If rules are to be adopted and public sector organizations refashioned in a way that they work to the benefit of all citizens and are viewed as legitimate, then an open process of decision-making is required in which the interests and preferences of a wide range of stakeholders are considered.

As Dani Rodrik (2001) points out, “market” institutions are necessarily “embedded” in a set of non-market “political” institutions. Efficient “market” institutions would appear to require political institutions that are able to ensure both that fair and efficient rules are created and that rules are even-handedly and consistently enforced and adjudicated. The latter requires the building of efficient public agencies that are relatively free from political interference and/or capture by narrow societal interests. Suitable and efficient market institutions must be well-adapted to the particular social, economic, historic and cultural conditions and needs of a given country. Given the impossibility of universal blueprints, the creation and maintenance of institutions depends upon broad and effective citizen participation through well-developed representative institutions. In light of this reasoning, Rodrik refers to democratic political institutions as “meta-institutions” underpinning the larger universe of institutions supporting a market economy. As affirmed in the IDB’s *Report on Economic and Social Progress in Latin America* in 2000, “politics exercises its greatest impact on development through its effect on institutions. The logic is clear: if politics matter for institutions, and institutions matter for development, politics must matter for development.”

Thus, the effective practice of democracy would appear to underlie the creation of an effective public sector and the establishment of a legal framework propitious for social and economic development. The adoption of effective and fair public policies, the efficient and fair allocation of public resources, and the effective delivery of public services would appear to depend upon the existence of representative institutions which allow the preferences and interests of citizens to be taken into account. Public policies need to be adopted and implemented in a manner which fully considers the views of the diversity of civil society organizations without falling capture to any particular group or narrow set of interests. This requires that citizens and citizen organizations have opportunities to express their preferences and influence decision-making, and that representative institutions can effectively articulate and aggregate these preferences into consensual policies with broad bases of social support. Public decisions adopted in this manner not only should be efficient (responsive to the preferences and needs of society), they also are more likely to enjoy legitimacy and social compliance, and be sustainable over time.

Democratic “governability” is an elusive term, often loosely defined in practice, that has been used to attempt to capture this broad notion of a democracy that in general terms is seen as stable, legitimate, and efficient. It has been defined narrowly by some political scientists as pertaining to the ability of the executive to work in reasonable harmony with the legislature to adopt decisions that address the country’s social and economic problems. But, the concept has also been applied more broadly to the capacity of the democratic political system to absorb and process societal demands, to adopt decisions in the broader public interest, and to manage social conflict.
In this book the term “democratic governability” will refer to: *democratic systems in which decisions necessary for generating and resolving social problems can be enacted and implemented and are sustainable because they are arrived at through institutionalized democratic procedures in which the views and interests of relevant political and social actors are fully considered.*

Thus, the Latin American region’s relatively low and volatile economic growth rate and unyielding poverty levels appear to be attributable in great part to continued “institutional” deficiencies. However, at their root, these “institutional” weaknesses reflect and are reinforced by problems of democratic governability. Without changes in the rules and conduct of democracy it is doubtful that major improvements can be made in the quality of institutions or, by extension, in the pace of economic and social progress.

In fact, signs of democratic dysfunction are readily apparent. In the news headlines pertaining to individual countries one can observe: former and acting executive officials being accused of wide-scale corruption or of bribing legislators; irregular successions of presidential power; journalists subject to harassment or worse; electoral and ongoing struggles by the state to preserve the rule of law against unofficial arbiters of law such as drug traffickers, guerrilla forces, and/or paramilitaries.

Public opinion surveys, and particularly the most recent edition of the Latinobarómetro, suggest that instead of becoming more deeply rooted and legitimized, democratic institutions are losing respect in many countries in the region. Only roughly 28% of citizens in the region report to be satisfied with the performance of democracy in the latest Latinobarómetro survey. Not only do citizens in many countries appear to have little confidence in key democratic institutions, they also give democratic governments low marks in terms of their ability to improve living standards, reduce poverty, deliver services, control crime, and lower corruption.

The disappointing performance of governments in improving living standards, reducing poverty, enhancing public services, and controlling crime and corruption is a key factor underlying the relatively low satisfaction with democratic institutions. Along with failures in the social and economic realm, the ratings of Freedom House suggest that the practice of democracy has also come up short. They show that on average political freedoms and civil liberties have tended to erode once countries have made the transition to democracy. The advent of democracy brought marked improvements in political freedoms, due process, and freedoms of association in comparison to the previous authoritarian regimes. This advance of democratic values across the region due to changes in political regime is shown in Figure 1.1. But, as Figure 1.2 indicates, once the transition to competitive politics has been made, instead of such freedoms and rights being further implanted and consolidated, their practice has tended to erode over time. In particular, Freedom House scores for “civil liberties” (measuring among other matters such institution-related factors as equality under the law, provision of due process, and property rights), have been relatively low and have exhibited a steady erosion over time. The 1999 average of the political rights and civil liberties scores across the eighteen countries would place the region outside of the Freedom House category “free” and put it in the in-between category of “partly free”.

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2 Figure 1.1 graphs the average Freedom House score for political rights and civil liberties considering in each year all of the 18 countries being examined in this study. By contrast, Figure 1.2 plots an average score for political rights and civil liberties considering in each year only the scores of countries (among these 18) which, according to criteria applied in this book, have already made the transition from authoritarianism to democracy. Thus, in this graph we are observing how political rights and civil liberties scores have tended to evolve among countries that have already held their first democratic elections.
The deficient performance of democratic institutions has impeded progress in putting in place the broader rubric of institutions that underlies the operation of a competitive and dynamic market economy. According to indicators published by researchers at the World Bank (Kaufmann, Kraay, and Lobatón, 1999a and 1999b), the eighteen Latin American countries are characterized by a level of “Corruption” which greatly exceeds that of the more advanced economies and also is greater than that prevailing in East Asia, Central and Eastern Europe, and the Middle East and North Africa. Latin America also falls behind these same regions in respect to indicators of the “Rule of Law” (Figures 1.3 and 1.4).

The advances over the past two decades in respect to democratic freedoms and market liberalization, however, are reflected in the region’s positive ratings in terms of “Voice and Accountability” and “Regulatory Burden” (Figures 1.5 and 1.6). In respect to the former, the region ranks third, behind the High Income Countries and Central and Eastern Europe. In respect to the latter the region ranks second, not too far behind the High Income Countries and well ahead of the third-ranked Central and Eastern Europe.

In respect to “Government Effectiveness” this group of Latin American countries is perceived as clearly superior to Sub-Saharan Africa, South Asia, and the former Soviet Republics, on par with Central and Eastern Europe and the Middle East and North Africa, and inferior to East Asia and the High Income Countries (Figure 1.7). Despite the apparent durability of democratic regimes in recent years, Latin America is still perceived to be characterized on average by relatively high levels of “Political Instability and Violence” (Figure 1.8). The region is rated as more stable politically than South Asia and Sub-Saharan Africa, but with levels of political instability comparable with the former Soviet Republics and the Middle East and North Africa and considerably greater than Central and Eastern Europe, East Asia, and the High Income Countries.

If problems of democratic governance are responsible, at least in part, for the region’s institutional deficiencies, then it is critical to identify their causes and to work on overcoming them. During the 1970s and 1980s a great part of the academic discussion about the reasons for the collapse of democratic systems across the region in the previous decades centered on the importance of broad characteristics of the political regime (Linz and Stepan, 1978; Linz, 1990; Di Palma, 1990; Linz and Valenzuela, 1994). Namely, it was claimed that presidentialism, with its popularly elected head of government and fixed terms of office, contributed to governability problems that potentially could have been avoided, or at least managed better in the context of a parliamentary system. With separate bases of legitimacy and a pre-determined election calendar for the president and legislators, critics contended that presidential regimes were more vulnerable to policy stalemate between the executive and legislature and less flexible in their ability to cope with governance crises. Critics of presidentialism argued that executive-legislative gridlock aggravated social and economic problems and contributed to governance crises, while the regime’s features did not offer an institutional means around the impasse. With a nationally-based electoral mandate and extensive formal powers, a president lacking legislative support may be tempted to circumvent representative institutions and to govern by extra-constitutional means. Equally dangerous for democracy, government ineffectiveness and/or the inability to remove

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3 The index value for each dimension of government quality is an aggregate of numerous indicators available from a variety of different sources. The individual measures are based on polls of experts who rate countries (on a global or regional basis) and cross-country surveys of firms or citizens carried out by international and non-governmental organizations. The aggregate indicators for each dimension were estimated by means of a statistical procedure (unobserved components model) which expresses the available measures for each country as a linear function of the unobserved common component of governance, plus a disturbance term capturing perception errors and/or sampling variation in each indicator. (See Kaufmann et al., 1999b).
incompetent and/or unpopular presidents might encourage other actors, such as the military, to intervene to break through the logjam and seek their own solution to the crisis.

By contrast, the prevailing viewpoint was that parliamentary systems, in which the government is elected by a legislative majority and must maintain this support, provide built-in incentives for cooperation between the executive and the legislature and for the formation of inter-party governing coalitions. Parties in the governing coalition gain cabinet positions and a share of power, while parties that withdraw their support risk bringing on new elections in which they may lose seats and influence. Thus, governing coalitions tend to be more durable and inter-party bargaining and agreement is facilitated. At the same time, critics of presidentialism argued that parliamentary systems are more “flexible” in coping with situations of divided or minority government. If the government loses legislative and/or popular support new elections can be called, thus potentially producing a new balance of power in the legislature and the formation of a new government with a fresh basis of legitimacy.

Despite the prevailing scholarly pessimism about the prospects for stable presidentialist democracy in Latin America, none of the new democracies adopted a parliamentary or even semi-presidential form of government. In the few cases in which the matter was put up for public or legislative discussion, a change in the regime type was roundly rejected. At this time, changing to parliamentarism is not high on the agenda among politicians or political activists in any country.

Fortunately for the region’s democracies, however, the pessimistic scholarly assessment of presidentialism was not immune from criticism on empirical and theoretical grounds (Shugart and Carey, 1992; Sartori, 1994; Shugart and Mainwaring, 1997). The more balanced appraisal identifies several advantages of presidentialism that call into question the notion that this regime type is inevitably more prone to instability.

First, the separate election of the president and the legislature provides voters with a broader range of choices in selecting their leaders and allows them to reward or punish the government directly for its performance. By contrast, in parliamentary systems, voters cannot as easily hold the government accountable, since, especially in multi-party contexts, their vote does not directly affect the formation or transformation of governments. Rather, governments are usually formed after the elections on the basis of inter-party bargaining that often takes place behind closed doors.

Second, the greater flexibility in parliamentary systems for replacing cabinet officials and the head of government may not always be an advantage. Especially in the context of relatively weak parties or polarized and fragmented party systems, it may be difficult to sustain viable governments. Constant reshuffling of cabinets and repeated elections is likely to lead to considerable unpredictability and instability in the policy-making process that could itself threaten the survival of the regime.

Thus, as these more agnostic observers pointed out, what may be as important to the governability and stability of democratic systems are the particular institutional variations within each regime type and the broader social and political contexts in which they operate (Mainwaring and Shugart, 1997). Notwithstanding the separate election of the president from the legislature, presidential systems are not cut out of the same mold. For one, they vary significantly in terms of the powers granted to the chief executive in respect to law-making and the appointment and dismissal of cabinet officials. They also vary in the powers given congress to oversee and sanction officials in the executive branch. Such factors, along with other institutional and contextual factors have an important influence on how the inherent tension in the relationship between the executive and legislative branches is
resolved. To what extent does the legislature participate actively in the policy-making process and assume its responsibility in overseeing the execution of government programs? To what extent are the executive and legislature able to cooperate to adopt legislation to address pressing social problems?

In addition, while public officials are elected in all cases, the nature of election procedures, such as those determining the share of votes required for winning the presidency and the allocation of legislative seats, differ importantly across presidential systems. Election rules have far-reaching effects, ranging from their impact on the number of political parties represented in the congress to the disposition of legislative politicians to concern themselves with paying attention to the policy preferences of their constituents.

Though not directly linked to the constitutional or legal make-up of the system, the structure of the political party system is another element whose varied forms can profoundly affect the dynamics of presidential democracy. The number of parties represented in the legislature, the stability of inter-party competition, and the depth of parties’ roots in society can affect among other important matters, the quality of political representation and the possibilities for harmonious relations between the executive and the legislature. At the same time, the internal organization and financing of political parties has an important effect on the fairness of democratic representation, the scope of accountability afforded by elections, and the integrity of the democratic process.

Included in the Madisonian constitutional design is a judicial branch whose responsibility is to interpret the constitution and to check and balance the authority of the executive and the legislature. But, while most presidential systems have followed this design by putting in place Supreme Courts and/or Constitutional courts, the nature of the judiciary’s role varies greatly. In addition to the impact of legal tradition and financing, the rules governing the nomination, selection, tenure, and dismissal of judges exerts a considerable influence on the degree to which the judiciary can assert itself as an independent branch and interpret and enforce the law and the constitution in a non-partisan manner.

Thus, particular institutional arrangements can help account for why some presidential systems operate smoothly while others are constantly in a state of crisis. The relationship between political institutions and democratic regime stability and performance is, by itself, a difficult matter to study given the complex interrelationship among the various types of political institutions. However, it must be recognized that political institutions are not the only, or necessarily the most important, set of factors affecting the performance of democratic systems. A host of non-institutional factors, such as the level of social and economic development, the intensity of ethnic, religious, and socio-economic divisions, the proclivity of citizens toward association and cooperation, and international political and economic pressures shape the operation of all democratic systems regardless of their particular constitutional structure.

The quality of political leadership is also important. Regardless of the structure of incentives coming from formal institutions, individual politicians still have room to influence the performance of the political system. The same formal institutional structure may produce crisis and regime breakdown in one historical context and stability and effective governance in another. But, to a great extent these contextual factors are inherited, given quantities that cannot easily be changed in a short span of time. Unselfish, forward-looking leadership is generally accidental and usually in short supply. By contrast, despite being embedded to some extent in this larger context, political institutions can be changed relatively swiftly. Thus, to improve the governability of democracy this is at least one crucial place to start.
The relevance of the formal political institutions of democratic governance has clearly been recognized by political actors and citizen groups in Latin America. Alongside the profound reforms of economic systems, the last two decades have also witnessed a ferment of constitutional reform and other modifications in democratic rules. The majority of countries have reformed or replaced the constitutions that they brought into the study period. Nearly all of the countries have reformed laws governing elections and political parties. In some cases the main objective may have been the achievement of partisan advantage. But, in others clearly a broad political majority sought to work toward the building of a more governable and stable democratic system.

Considering the level of attention paid to analyzing the countries’ records in implementing economic reforms, it is noteworthy the lack of attention paid to the political reforms of the period. What have been the main trends of this reform in respect to the important institutional dimensions of democratic systems? What will be the likely impact of these changes on the governability and stability of presidential democracy?

The chapters that follow will attempt to partially fill this void by examining the history of democratic institutional evolution over the past twenty years. A pivotal area of institutional variation in presidential democracy is taken up in each chapter. First, the theoretical links between different possible institutional arrangements and democratic system performance are discussed. Then a review is undertaken of the reforms that took place in the region as well as a picture of the particular arrangements existing in each country at the present time. In conclusion, reform trends are identified and an assessment is made of their likely impact upon democratic governability in the region.

BIBLIOGRAPHY


**BIOGRAPHY**

Mark Payne is a political scientist in the State, Governance and Civil Society Division of the Sustainable Development Department at the Inter-American Development Bank. He has co-authored several articles and chapters related to the comparative study of democratic political institutions and their impact on government performance and economic development, including: “Political Institutions, Accountability and Government Performance” in *Development Beyond Economics*, 2000 published by the IDB; “Are You Being Served? Political Accountability and the Quality of Government” IDB Research Department Working Paper Series no. 438; and “Instituciones y desarrollo en America Latina” in *America Latina y España. Un futuro compartido*, Barcelona: Colección Textos de Bronce, 2000

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FIGURES

Figure 1.1. Average Freedom House Score for Political Rights and Civil Liberties (Computed considering in each year all 18 countries in the study)

Note: The Freedom House scores have been inverted so that a score of 1 signifies the lowest and 7 the highest level of political freedoms. Using this scale, Freedom House would designate a country receiving an average score of 5.5 or better as “free”, of between 2.5 and 5.0 as “partly free”, and 2.5 or below as “not free”.

Figure 1.2. Average Freedom House Score for Political Rights and Civil Liberties (Computed considering only countries already “democratic”)

Note: The Freedom House scores have been inverted so that a score of 1 signifies the lowest and 7 the highest level of political freedoms. Using this scale, Freedom House would designate a country receiving an average score of 5.5 or better as “free”, of between 2.5 and 5.0 as “partly free”, and 2.5 or below as “not free”.
Figure 1.3. Corruption

Source: Kaufmann, Kraay, and Lobatón, 1999
Note: “HIC” = High Income Countries; “EA” = East Asia; “CEE” = Central and Eastern Europe; “LAC18” = the eighteen Latin American countries in this study; “SA” = South Asia; “SSA” = Sub-Saharan Africa; “CIS” = former Soviet Republics.

Figure 1.4. Rule of Law

Source: Kaufmann, Kraay, and Lobatón, 1999
Note: “HIC” = High Income Countries; “EA” = East Asia; “CEE” = Central and Eastern Europe; “LAC18” = the eighteen Latin American countries in this study; “SA” = South Asia; “SSA” = Sub-Saharan Africa; “CIS” = former Soviet Republics.
Figure 1.5. Voice and Accountability

![Voice and Accountability Diagram]

Source: Kaufmann, Kraay, and Lobatón, 1999
Note: “HIC” = High Income Countries; “EA” = East Asia; “CEE” = Central and Eastern Europe; “LAC18” = the eighteen Latin American countries in this study; “SA” = South Asia; “SSA” = Sub-Saharan Africa; “CIS” = former Soviet Republics.

Figure 1.6. Regulatory Burden

![Regulatory Burden Diagram]

Source: Kaufmann, Kraay, and Lobatón, 1999
Note: “HIC” = High Income Countries; “EA” = East Asia; “CEE” = Central and Eastern Europe; “LAC18” = the eighteen Latin American countries in this study; “SA” = South Asia; “SSA” = Sub-Saharan Africa; “CIS” = former Soviet Republics.
**Figure 1.7. Government Effectiveness**

![Graph showing government effectiveness across different regions.](image)

Source: Kaufmann, Kraay, and Lobatón, 1999
Note: “HIC” = High Income Countries; “EA” = East Asia; “CEE” = Central and Eastern Europe; “LAC18” = the eighteen Latin American countries in this study; “SA” = South Asia; “SSA” = Sub-Saharan Africa; “CIS” = former Soviet Republics.

**Figure 1.8. Political Instability and Violence**

![Graph showing political instability and violence across different regions.](image)

Source: Kaufmann, Kraay, and Lobatón, 1999
Note: “HIC” = High Income Countries; “EA” = East Asia; “CEE” = Central and Eastern Europe; “LAC18” = the eighteen Latin American countries in this study; “SA” = South Asia; “SSA” = Sub-Saharan Africa; “CIS” = former Soviet Republics.