

## IRIS-3 File of International Country Risk Guide (ICRG) Data

The data files provided here contain annual values for indicators of the quality of governance, 1982-1997, constructed by Stephen Knack and the IRIS Center, University of Maryland, from monthly ICRG data provided by The PRS Group. Questions regarding this data set not answered in this documentation should be addressed to Stephen Knack at [sknack@worldbank.org](mailto:sknack@worldbank.org).

The original ICRG publications contain many additional indicators of political and financial risk not included in this data set. Interested parties should contact The PRS Group at [custserv@prsgroup.com](mailto:custserv@prsgroup.com) for further information.

The IRIS-3 file improves on its IRIS-2 predecessor in several ways:

- 1) The widely-used World Bank country codes have been added to facilitate merging with standard cross-country data sets (such as the World Development Indicators).
- 2) The data set has been updated to include 1996 and 1997, as well as the 1982-95 data contained in IRIS-2.
- 3) Annual values are means calculated from all 12 monthly values for each variable. Annual values in IRIS-2 were calculated using only data for April and October.
- 4) The variable “ethnic tensions” has been added, to reflect increasing interest in the study of ethnic conflict around the world. (See Keefer and Knack [1998, referenced below] for an illustration.)

Two versions of the data set are provided. One file is in Excel 97 format, and contains column headings identifying variable names. The second file is a fixed-format ASCII file, with variables located in the positions as indicated below:

Country name (alphanumeric):	columns 1-18
World Bank country codes (alphanumeric):	columns 21-23
Year:	columns 26-29
Corruption in government	columns 32-34
Rule of law (law and order tradition):	columns 37-39
Bureaucratic quality	columns 42-44
Ethnic tensions	columns 47-49
Repudiation of contracts by government	columns 52-54
Risk of expropriation	columns 57-59

Corruption, rule of law, bureaucratic quality, and ethnic tensions all range in value from 0-6, with higher values indicating “better” ratings, e.g. less corruption, fewer ethnic tensions, etc.

Repudiation of contracts and expropriation are scales ranging from 0-10, with higher values indicating “better” ratings, i.e. less risk.

Knack and Keefer (1995, referenced below) constructed a 50-point “property rights index” from 5 of these variables, by converting corruption, rule of law and bureaucratic quality to 10-point scales (multiplying them by 5/3) and summing them with contract repudiation and expropriation risk.

Knack (1999, referenced below) used an 18-point index of the “quality of governance” creating by taking the simple average of corruption, rule of law, and bureaucratic quality.

#### References:

Knack, Stephen (1999). “Aid Dependence and the Quality of Governance.” IRIS Center Working Paper, University of Maryland.

Knack, Stephen and Keefer, Philip (1995). "Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures." *Economics and Politics*, vol. 7 (no. 3), pp. 207-227.

Keefer, Philip and Knack Stephen (1998). “Polarization, Politics, and Property Rights: Links Between Inequality and Growth.” Unpublished manuscript, The World Bank.

Excerpts from variable descriptions, International Country Risk Guide:

#### Corruption in Government

Lower scores indicate "high government officials are likely to demand special payments" and that "illegal payments are generally expected throughout lower levels of government" in the form of "bribes connected with import and export licenses, exchange controls, tax assessment, police protection, or loans."

#### Rule of Law (named “Law and Order Tradition” in ICRG)

This variable "reflects the degree to which the citizens of a country are willing to accept the established institutions to make and implement laws and adjudicate disputes." Higher scores indicate: "sound political institutions, a strong court system, and provisions for an orderly succession of power." Lower scores indicate: "a tradition of depending on physical force or illegal means to settle claims." Upon changes in government new leaders "may be less likely to accept the obligations of the previous regime."

## Quality of the Bureaucracy

High scores indicate "an established mechanism for recruitment and training," "autonomy from political pressure," and "strength and expertise to govern without drastic changes in policy or interruptions in government services" when governments change.

## Ethnic Tensions

This variable "measures the degree of tension within a country attributable to racial, nationality, or language divisions. Lower ratings are given to countries where racial and nationality tensions are high because opposing groups are intolerant and unwilling to compromise. Higher ratings are given to countries where tensions are minimal, even though such differences may still exist."

## Risk of Repudiation of Contracts by Government

"This indicator addresses the possibility that foreign businesses, contractors, and consultants face the risk of a modification in a contract taking the form of a repudiation, postponement, or scaling down" due to "an income drop, budget cutbacks, indigenization pressure, a change in government, or a change in government economic and social priorities." Lower scores signify "a greater likelihood that a country will modify or repudiate a contract with a foreign business."

## Risk of Expropriation of Private Investment

This variable evaluates the risk "outright confiscation and forced nationalization" of property. Lower ratings "are given to countries where expropriation of private foreign investment is a likely event."