



world in transition

| Bertelsmann Stiftung

□ Imprint

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## Bertelsmann Transformation Index 2006

Political Management  
in International Comparison

*The BTI 2006 illustrates the correlation between progress in development and sound political management. Those countries in which political leadership has proven itself reliable have made progress in the transformation towards a socially responsible market economy and democracy under the rule of law.*

Successful reformers proved capable of good management by

- | formulating long-term strategies,
- | establishing a consensus by integrating civil society and opposition groups,
- | making efficient use of available resources and
- | cooperating with regional partners and international actors.

## Support Good Reform Management!

The targeted, partnership-oriented support of self-reliant and strategically minded reformers must be put first. Focused primarily on issues of need, development policy and aid pays too little attention to global trends in democratization. If peace, respect for human rights and stability are to be ensured, good governance must find more robust support.

### The BTI Management Index Top 10

- Mauritius
- Chile
- Botswana
- Slovenia
- Taiwan
- Slovakia
- Estonia
- South Korea
- Lithuania
- Czech Republic

The Bertelsmann Transformation Index (BTI) shows an important development: Democracy is on the march! The transformation process in Eastern Europe underscores the powerful pull of the EU model towards a market-based democracy. We Europeans have followed the surge of democracy in the Ukraine with great interest. These changes may prove to facilitate dynamic transformation in the region. Authoritarian regimes in several former states of the Soviet Union are increasingly subject to a growing legitimacy crisis. African countries such as Mauritius, Botswana, South Africa and Ghana are disproving the “lost continent” thesis with their good political management. In addition to these success stories, South Korea, Taiwan and Chile stand out as examples of successfully consolidated market-based democracies. Sixty-two percent of the world’s population now enjoys a democratic form of government.

However, the BTI 2006 also calls for caution. Several “defective democracies” have proven durable in entrenching their status and forgoing progress in transformation. Russia is the most prominent example, with its blatant deficiencies in the rule of law and the faltering legitimacy and viability of its democratic institutions. Countries that refuse transformation – from North Korea to several Arab states to Zimbabwe and Cuba – continue to resist the dynamic of liberalization. Finally, state failure remains an acute problem in Africa.

The Bertelsmann Transformation Index (BTI) is the instrument needed to map out these contradictory and complex processes of change. The Status Index allows to compare the steps achieved on the path toward democracy and a market economy in 119 transformation countries. Our concept of democracy encompasses more than elections and institutions. Our definition considers the rule of law, representativeness and the acceptance of political institutions as core elements of a market-based democracy. Similarly, our catalogue of criteria for economic transformation shows a greater degree of complexity than other indices. We consider a country’s economic growth and regime together with its social networks, equality of opportunity and sustainability.

The BTI’s Management Index is the world’s only index on the quality of political leadership based on self-collected data. Detailed reports from more than 250 experts provide the foundation for our analysis and evaluation of political decision makers’ performance in steering reform. The BTI’s good governance ranking facilitates a clear, goal-oriented approach in external support and development policy. As the BTI repeatedly shows, comprehensive change must be supported by praising far-sighted reformers and bolstering their independent and self-reliant efforts. Incentive systems that support good governance also help ensure sustainability in development processes and democratization.

Published every two years, the BTI will continue to provide its service to politicians, experts and scholars. Our continued efforts find support from several sectors including the German government, organizations such as the United Nations and the World Bank, and from individuals around the globe. Frequently used in university seminars, the BTI is also employed in government offices as an expert source, and journalists everywhere rely on our information. The BTI’s popularity is at once a stimulus for further thought and a responsibility we take seriously. I hope that the BTI will continue to contribute to the development of strategies for peaceful and sustainable transformation toward market-based democracies.



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The BTI is the global ranking of quality in democracy, a market economy and political leadership in developing and transformation countries. Increasingly, international organizations, media and governments use this instrument of measurement to access information on the status of democracy, the market

economy, and the quality of reform policies throughout the world. The growth in user experience and suggestions have been applied to refine the BTI's methodology, to improve the precision of specific steps in our process, and to revise aspects of certain criteria.

## The Bertelsmann Transformation Index (BTI): Politics Matter!



In essence, the approach taken by the BTI 2006 is the same as that of the BTI 2003. The *Status Index* ranks the development and transformation status of 119 states in terms of their level of democracy and market economy. Most importantly, the BTI's *Management Index* evaluates and compares key actors' political steering abilities according to a uniform standard.

The BTI is directed at the normative goal of a market-based democracy. As a comprehensive benchmark of politics and economic performance, the BTI differs from other indices that examine only economic performance, or the degree of political liberty achieved or specific issues such as corruption and social inequalities. The BTI emphasizes the same values that underlie the European Union's integration process: a representative democracy under the rule of law combined with a socially responsible and sustainable market economy.

The record shows several different paths of transformation can be taken to achieve democracy and a market economy. In many cases, democratic and economic reforms have mutually supported each other. Other examples indicate that there is no

prescribed sequence for pursuing market economic and democratic reforms. Clearly, both routes can lead to success. The BTI does not propose a specific optimal sequence of reform steps to be taken. However, the expansion of individual and societal freedom of action in each phase of transformation points a state in the right direction. Furthermore, the guarantees of the rule of law provide a framework in which this expansion is possible.

The focus on the steering and management of development and transformation processes is the BTI's key innovation. The Index reviews and evaluates actors' reform policies. The Bertelsmann Transformation Index provides valuable information highlighting the central factors crucial to success or failure on the way to a market-based democracy. Governments and actors must be determined in their pursuit of goals, must use their resources prudently and effectively, and must demonstrate the capacity to govern and build consensus while cooperating productively with external supporters. Their astute management of transformation is key if they are to propel their country further along the road toward a market-based democracy.



The Bertelsmann Transformation Index provides information on decisions leading to success as well as on mistakes made. In so doing, the BTI renders these successes and failures transparent and promotes strategic learning. The Index results thus facilitate the search for suitable solutions to current and future challenges.

Detailed country reports provide information on the underlying factors of assessment for each country, including development status, the framework of specific problems and management performance. The country reports are generally written by external experts for each state and then reviewed by a second expert from each respective state. The results point to successful factors and strategies in individual states. The BTI's comprehensive standardized analysis allows for a focused comparison of reform policies. Indeed, its unique body of data aids in assessing and comparing the successes and failures of developing and transformation states.

To keep track of current developments and ensure database quality, the BTI is published every two years. By maintaining a continuing evaluation of

transformation and development processes around the globe, the BTI makes it possible to analyze observed trends and determine the effects of transformation strategies.

### Further Information on the BTI 2006

- Book publication including overall results, regional analyses, a methodology chapter and a CD with all 119 country reports: Bertelsmann Foundation (Publisher) *Bertelsmann Transformation Index 2006: Towards Democracy and a Market Economy* (Bertelsmann Stiftung Publishers, March 2006)
- [www.bertelsmann-transformation-index.de](http://www.bertelsmann-transformation-index.de) (Includes all new scores and country reports, updated October 2005)
- *The Bertelsmann Transformation Atlas* (An interactive knowledge base as a supplement to the BTI web site providing visualizations of BTI 2006 results; available November 2005)



## BTI 2006 Results

Developments in the last two years show that the attractiveness of democracy and a market economy as models for social change have been reaffirmed. To be sure, compared to the pace of progress in the 1990s, today's progress is slow. All the same, the BTI 2006 data also shows that the achievements made in nearly every region have not

only been maintained, but they have served as an impulse for further transformation in some cases. The large number of positive examples such as Chile, Madagascar and El Salvador prove that willingness to reform combined with solid transformation management are the requirements for sustainable political and economic development.

*The Top Ten of the Bertelsmann Transformation Index: The Results of 2003 and 2006 in comparison*

The Bertelsmann Transformation Index (BTI) 2006 Top Ten			
Status Index 2006	Status Index 2003	Management Index 2006	Management Index 2003
1 Slovenia	Rank 2	1 Mauritius	not analyzed in 2003
2 Estonia	Rank 6	2 Chile	Rank 3
3 Czech Republic	Rank 2	3 Botswana	Rank 4
4 Taiwan	Rank 8	4 Slovenia	Rank 10
5 Hungary	Rank 1	5 Taiwan	Rank 11
6 Slovakia	Rank 2	6 Slovakia	Rank 6
7 Lithuania	Rank 2	7 Estonia	Rank 1
8 South Korea	Rank 8	8 South Korea	Rank 8
9 Poland	Rank 7	9 Lithuania	Rank 2
10 Chile	Rank 8	10 Czech Republic	Rank 12

The top-ranked group of countries for the *Status Index* has remained unchanged since the BTI 2003. They include seven of the new EU member states in which political and economic transformation has been, and continues to be, stabilized by the greater European environment. Estonia, the top performer of the Management Index 2003, was able to improve significantly within the larger European framework.

The *Management Index* shows some striking changes. Former strong performers Uruguay, Costa

Rica and Mali are no longer in the top ten due to deficiencies in their ability to steer economic policies or build consensus during the period under review (2003 - 2005). Mauritius, Taiwan and the Czech Republic have since taken their place in the upper ranks. It is worth noting that EU accession states make up one-half of the strong transformation performers. This demonstrates that the imminence of their accession alone cannot account for their high 2003 BTI scores; these countries have continued to implement good management since accession.

### □ The Shape of Change: Global Trends at a Glance

The time is ripe for far-reaching social change toward more democracy and greater market economy. Improvements in the global economic framework over the last two years are certainly one encouraging sign. Furthermore, the fight against terrorism and its roots have commanded greater international attention for problems such as poverty and underdevelopment. Development policy and the targeted support of democratization processes are increasingly acknowledged as active peace and security policies. We see this reflected not only in the European Union's new security strategy, but also in the Bush administration's "Millennium Challenge Account."

Transformation states have taken advantage of these improved conditions in different ways. In Africa, Senegal, Ghana and Madagascar were able to implement good governance and thus achieved key successes in transformation. Zimbabwe, however, illustrates the exact opposite: there, unflinching bad governance has not only driven the country into bankruptcy, but has also destabilized the surrounding region as well.

Dramatic events that unleash a domino effect of significant changes, such as those seen in 1989, are rare. For this reason, BTI 2006 data shows no major changes in the global average status of democracy and the market economy. The success of democracy and a market economy depends heavily on structural factors resistant to short-term change. Targeted political steering is needed to bring about long-term changes to these structural conditions. It is therefore all the more important to keep an eye on today's strategic decisions which will shape the course of future transformation management.

### □ Political Transformation

Eighteen countries were able to improve their level of democracy significantly. The list includes Turkey, Slovakia, Croatia and Sierra Leone. The BTI Trend Indicator shows that the status of political freedoms and civil rights, as well as the stability of democracy, visibly improved in these countries. However, clear setbacks were observed in five countries, and three states relapsed into autocratic rule.

The distribution of democracies and autocracies has remained essentially unchanged since the BTI 2003. The 48 authoritarian states - which, with the exception of Belarus, Cuba and Haiti, form a broad belt reaching from Central Africa through North Africa and the Middle East and on to Central and East Asia - have proven themselves exceptionally resistant to change.

The spectrum of authoritarian systems includes moderate autocracies with elements of political participation and the rule of law (Singapore, Malaysia and Morocco), strict modernization dictatorships (China and Vietnam), variations of neo-patrimonial autocracy in Central Asia, Africa, and the Near East, despotism such as in Turkmenistan, and tyrannical regimes such as in North Korea. Only in Bahrain were there clear improvements observed in political and civil rights, followed by slight improvements in Ethiopia, Angola, Tajikistan and Saudi Arabia.

Fifteen authoritarian states, particularly Zimbabwe, Nepal, Haiti, Iraq, Eritrea and the Democratic Republic of Congo, showed significant signs of regression. The state of affairs also deteriorated in Rwanda, Pakistan, the Central African Republic, Liberia and Uzbekistan - all countries showing a negative trend already in 2003. Among the remaining 27 authoritarian regimes, including China, Vietnam, Egypt, Iran, Libya, Sudan and Cuba, there were no appreciable signs of political liberalization.

#### Clear Improvement to Level of Democracy:

- Croatia
- Sierra Leone
- Slovakia
- Turkey

#### Deterioration of Level of Democracy:

- Bolivia
- Ecuador
- Moldova
- Peru
- Thailand

#### Relapse into Autocratic Rule:

- Côte d'Ivoire
- Cameroon
- Nepal



## □ Economic Transformation

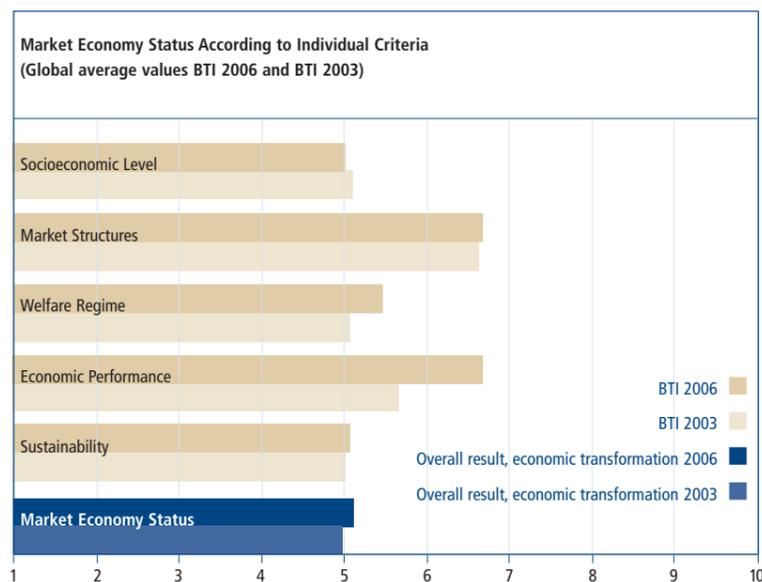
On global average, the criterion for organization of the market and competition is one of the strongest in economic development. However, weaknesses are observed in the mechanisms for social welfare. The lack of strategic decisions aimed at shaping the environmental and educational sustainability of economic systems stands out in particular. The socioeconomic level of development reflects the structural dimensions of this stagnation. This stagnation and the weak performance of social welfare regimes underscore the fact that the United Nations' Millennium Goals are increasingly harder to achieve for many countries.

Improvements in economic performance stand out as the only significant change since the 2003 BTI. On average, economic performance improved in each region. This improvement is attributed to the favorable global economic framework. Only a few countries, such as Iraq, Venezuela, Bolivia and Kyrgyzstan, proved unable to take advantage of this window of opportunity to implement urgently needed market reforms.

Only 13 countries have a developed market economy. In addition to the new EU states this includes Singapore, Taiwan, South Korea, Chile and as a newcomer, Croatia. Showing considerable signs of economic development, Brazil, Thailand and Romania have joined the group of states with a viable and functional market economy. Among those market economies that have functional flaws but nonetheless improved their status, Ghana and Vietnam are of particular interest.

There are also states showing clear regression. Without exception, these states' market economies were already characterized in the 2003 BTI as poorly functioning. Mali, Iran, North Korea and Eritrea stand out as illustrative examples within this group.

Except for the top 13 performing countries, the limited progress observed overall proves that market economy achievements are anything but consolidated. However, even in poor regions of the globe, the institutional pillars of a market economy – that is a state's economic regime – are relatively well-developed. Such successes, even when achieved as a result of external pressure, have triggered a process of institutional learning in countries like Nicaragua. However, such achievements must yield economic and social successes in the medium term if they are to prove sustainable. Otherwise, as seen currently in some parts of Latin America, states will face strong political resistance to their model of a market economy.



## □ Managing Transformation 2003 – 2005

The BTI 2006 proves that fortunate circumstances or foreign aid alone cannot account for progress in development. Political actors' ability to reform is the single most important factor in shaping progress. Good governance does not require a highly developed market-based democracy. Indeed, good governance is possible even under difficult economic and political conditions.

External supporters of transformation processes therefore need to create incentives promoting good governance above all. In addition to providing emergency aid and disaster relief, aid and development policies should focus more on those states that initiate reforms and are capable of anchoring them through astute government leadership. By doing so, external support can help facilitate positive change.

In addition to five new EU member states, Botswana, Chile, Mauritius, South Korea and Taiwan were especially successful in steering political change. Georgia, Sierra Leone, Madagascar and Niger were all able to dramatically improve their ranking in the last two years.

Those countries characterized as "partial modernizers" in the BTI 2003 have maintained their pace of development. Emphasizing market economic development above all, these countries generally refuse to embrace democratic reforms. Due to their flawed political systems, Singapore, China, Malaysia and Vietnam do not receive high Management Index scores. However, these governments are relatively successful in building or stabilizing market economies.

Demonstrating poor political management, the political elites in Venezuela and Nepal have triggered further regression. Their ability to regain footing on the path toward transformation is undermined by these developments. Political management has sharply deteriorated in Russia, where deficits have grown particularly in the effective use of resources and consensus-building.

The tail end of the Management Index is occupied by states such as Somalia or the Democratic Republic of Congo, in which transformation has been choked by either civil war or state failure, or states such as Belarus, Cuba, North Korea, Zimbabwe and Turkmenistan, in which the political elites willfully ignore the goals of democracy and a market economy.

The BTI Management Index places political actors, as well as their demonstrated ability and will to provide good leadership in government, firmly under the eye of scrutiny. By shifting the focus of attention onto leadership, the BTI Management Index differs from several other surveys that emphasize a country's status or its existing institutions alone. Our scope of analysis is widened to include reform potential and development opportunities that emerge primarily as a result of the efforts and the quality of political leadership. Especially encouraging in this respect are the developments observed in key regional states that function as models for other neighboring states. Through their relatively good transformation management, South Africa, Brazil, India, Mexico and Nigeria could prove capable of pulling others toward transformation.

These cases in particular provide a concrete starting point for pro-active and sustainable external support that aims not to cure symptoms, but focuses rather on the self-reliance and steering performance of competent partners. Current conditions are conducive to such support. It is therefore all the more urgent that good governance be purposefully strengthened before the window of opportunity closes once again.

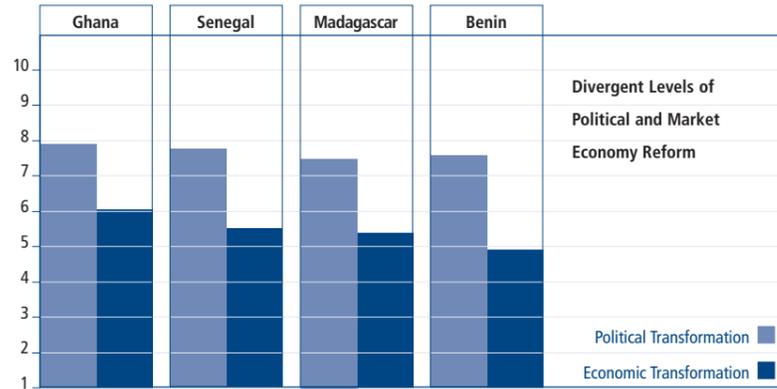
### Greatest Changes in the Management Index, as compared to the BTI 2003

- Georgia  
Rank 35 → + 60
- Sierra Leone  
Rank 37 → + 47
- Madagascar  
Rank 25 → + 35
- Niger  
Rank 28 → + 27
- Russia  
Rank 87 → - 56
- Ecuador  
Rank 89 → - 41
- Serbia and Montenegro  
Rank 48 → - 34
- Thailand  
Rank 53 → - 28
- Vietnam  
Rank 75 → - 27
- Cambodia  
Rank 94 → - 27

## World in Transition

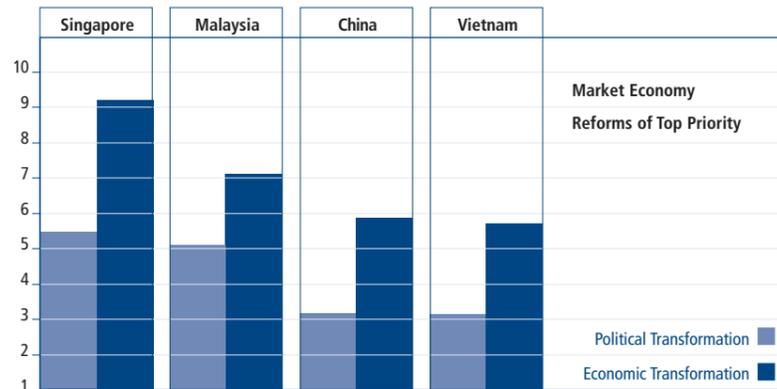
### Africa Reform Despite Obstacles

Despite profoundly weak socioeconomic development in some areas, one-half of the African states were able to either maintain or improve their level of democracy. However, in several countries of the region, above-average transformation management is often not enough to free these states from poverty and dependence. External support will continue to be needed in most countries of the region, especially in the Democratic Republic of Congo, Liberia and Somalia, where weak stateness and violent conflicts constitute most serious transformation hindrances.



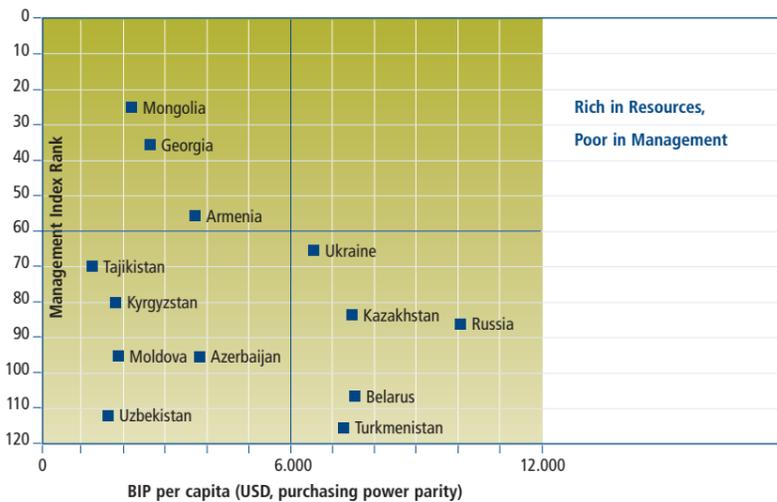
### Asia and Oceania Democracy of Secondary Concern

Even though a few states in Asia and Oceania were able to expand and stabilize democracy following socioeconomic modernization, market economic success in the region is generally not accompanied by democratic reforms. Countries showing strong economic success, such as China and Singapore, lack achievements in the transformation toward democracy under the rule of law.



### CIS and Mongolia Democratic Surges vs. Increasing Autocracy

This region is characterized by increasingly divergent political and economic development. Further democratization in Georgia and the Ukraine stands in contrast to the entrenchment of authoritarian dominance in Central Asia as well as to autocratic tendencies particularly in Russia. The region's resource-rich countries have political actors whose management performance lags behind the countries' own economic potential.



## Regional Overview

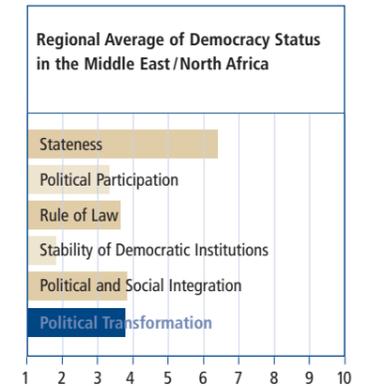
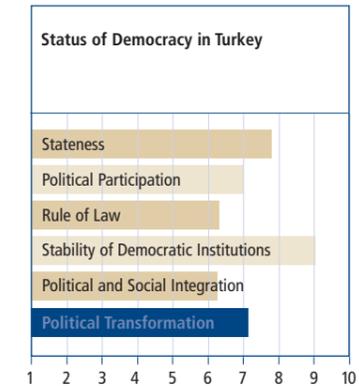
### Latin America and the Caribbean Stabilization vs. Neo-Populism

Two decades after the defeat of military dictatorships in Latin America, the levels of transformation reached by politically and economically stable Cono Sur countries and the defective democracies of the Andean region have grown further apart. As populism grows in the Andean region, it increasingly challenges the model of a market-based democracy. The average-to-poor management performance of political decision makers in the region is endangering achieved reform progress.



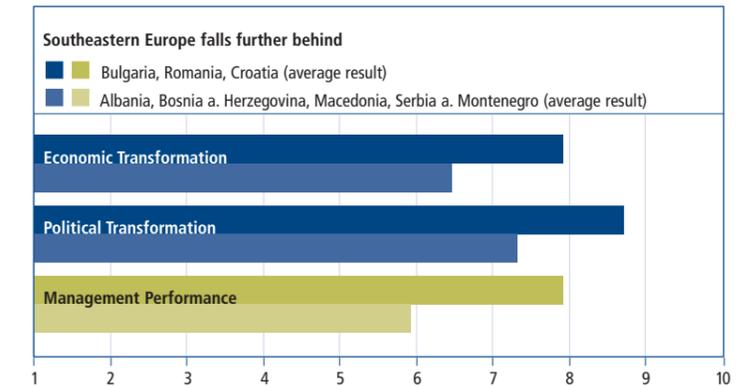
### Middle East and North Africa Persistent Authoritarianism

Turkey's democratic and market economy progress stands out in the Middle East and North Africa, which continues to be characterized by authoritarian systems of government led by presidents or monarchs. While political elites in the region have promised liberalization in recent years, this trend is kept from threatening the stability of existing power structures.



### East Central and Southeastern Europe The Gravitational Pull of Europe

EU accession candidates Bulgaria, Romania and Croatia made clear progress in recent years toward a consolidated democracy and a socially responsible market economy. Their prospects of joining eight other EU states of East Central Europe are good. They stand out in the region against Southeastern European states where poor management threatens to further erode their political and economic status.



**The Status Index**

*The Status Index provides information on the development status achieved by 119 states on their way to democracy and a market economy. Status Index scores result from the combined scores given for the status of transformation in democracy and a market economy.*

**Status Index – Democracy**

The five criteria for the status of democracy under the rule of law (evaluated through 18 questions) are based upon a concept of democracy that looks far beyond holding free elections and emphasizes the ability of a democratic system to function. This concept of democracy is reflected in the criteria of rule of law and stability of democratic institutions. It is also manifest in the scores given evaluating the strength of civil society and political participation.



## Criteria Status Index Democracy

Criteria	<input type="checkbox"/> <b>Stateness</b>	<input type="checkbox"/> <b>Political Participation</b>	<input type="checkbox"/> <b>Rule of Law</b>		<input type="checkbox"/> <b>Stability of Democratic Institutions</b>	<input type="checkbox"/> <b>Political and Social Integration</b>	<input type="checkbox"/> <b>Trend in democratic development 2001 – 2005</b>
<b>Objectives</b>	There is clarity about the nation's existence as a state, with adequately differentiated power structures.	The population determines who governs, and has other political freedoms.	State powers ensure civil liberties and maintain a system of checks and balances.		Democratic institutions are capable of performing, and they are adequately accepted.	Stable patterns of representation exist for mediating between society and the state; there is a consolidated civic culture.	
<b>Questions</b>	<ol style="list-style-type: none"> <li>To what extent does the state's monopoly on the use of force cover the entire territory?</li> <li>Is there fundamental agreement about which people qualify as citizens of the state?</li> <li>Are the state's legitimacy and its legal order defined without interference by religious dogmas ('separation of church and state')?</li> <li>Do functioning administrative structures exist?</li> </ol>	<ol style="list-style-type: none"> <li>To what extent are political leaders determined by general, free and fair elections?</li> <li>Do democratically elected political leaders have the effective power to govern, or are there veto powers and political enclaves?</li> <li>To what extent can independent political and/or civic groups associate and assemble freely?</li> <li>To what extent can citizens, organizations and the mass media express opinions freely?</li> </ol>	<ol style="list-style-type: none"> <li>Does the separation of powers (checks and balances) work?</li> <li>Does an independent judiciary exist?</li> <li>Are there legal or political penalties for officeholders who abuse their position?</li> <li>To what extent are civil liberties guaranteed and to what extent can citizens seek redress for violations of these liberties?</li> </ol>		<ol style="list-style-type: none"> <li>Are democratic institutions, including the administrative and judicial systems, capable of performing?</li> <li>To what extent are democratic institutions accepted or supported by relevant actors?</li> </ol>	<ol style="list-style-type: none"> <li>To what extent is there a stable, moderate and socially rooted party system to articulate and aggregate societal interests?</li> <li>To what extent is there a network of cooperative associations or interest groups to mediate between society and the political system?</li> <li>How strong is the citizens' support for democratic norms and procedures?</li> <li>To what extent have social self-organization and the construction of social capital advanced?</li> </ol>	<ol style="list-style-type: none"> <li>Have stateness, political participation and the rule of law changed significantly?</li> <li>Have institutional stability as well as political and social integration improved appreciably, thus further stabilizing the overall democratic framework and leading to its consolidation?</li> </ol>

□ **Status Index – Market Economy**

The seven criteria used to establish the Market Economy Status (evaluated with 14 questions) measure the degree of economic liberalization in a nation's economy and its macroeconomic performance, albeit not in isolation. The social compatibility and sustainability of economic development receive special emphasis.



## Criteria Status Index Market Economy

Criteria	□ Level of Socioeconomic Development	□ Organization of the Market and Competition	□ Currency and Price Stability	□ Private Property	□ Welfare Regime	□ Economic Performance	□ Sustainability	□ Trend in economic development 2001 – 2005
<b>Objectives</b>	In principle, the country's level of development permits adequate freedom of choice for all citizens.	There are clear rules of the game for stable market-based competition.	There are institutional or political precautions to control inflation sustainably, and there is an appropriate foreign-exchange policy.	An adequate framework exists to support a functional private sector.	There are viable arrangements to provide adjustments and compensate for the social effects of a capitalist economic system.	The economy's performance points to solid growth.	Economic growth is balanced, environmentally sustainable and future-oriented.	
<b>Questions</b>	<ol style="list-style-type: none"> <li>Are significant parts of the population fundamentally excluded from society due to poverty, gender, education, religion or ethnicity?</li> </ol>	<ol style="list-style-type: none"> <li>To what level have the fundamentals of market-based competition developed?</li> <li>Are there effective measures to combat monopolies and cartels?</li> <li>To what extent has the liberalization of foreign trade evolved?</li> <li>Have the foundations been laid for a banking system and a capital market?</li> </ol>	<ol style="list-style-type: none"> <li>Does the country pursue a consistent inflation policy and an appropriate foreign exchange policy? Is there an independent central bank?</li> <li>Do government authorities set signals to preserve macroeconomic stability, especially in fiscal and debt policy?</li> </ol>	<ol style="list-style-type: none"> <li>Do government authorities ensure well-defined rights of private property, and do they regulate the acquisition of property?</li> <li>Are private companies permitted, and are state companies undergoing a process of privatization consistent with market principles?</li> </ol>	<ol style="list-style-type: none"> <li>Do social safety nets exist to compensate for poverty and other risks such as old age, illness, unemployment or disability?</li> <li>To what extent does equality of opportunity exist?</li> </ol>	<ol style="list-style-type: none"> <li>How does the economy perform, as measured in established quantitative indicators?</li> </ol>	<ol style="list-style-type: none"> <li>To what extent are environmental issues taken into account in terms of macro- and micro-economics?</li> <li>To what extent are there solid institutions for basic and advanced education, as well as for research and development? Is there a modern infrastructure?</li> </ol>	<ol style="list-style-type: none"> <li>Has the country's level of socioeconomic development changed appreciably?</li> <li>Has the institutional framework for market-based action improved or deteriorated overall?</li> <li>Have there been quantitative and/or qualitative leaps in economic development?</li> </ol>

**The Management Index**

The Management Index shows the extent to which political decision makers have been consistent and determined in pursuing democracy and a market economy over the last two years. There are four criteria based on 15 questions that evaluate policy management, which expand the scope of analysis to assess social reforms in terms of their

actors and realization. Based on six further questions, the level of difficulty incorporates the fact that the quality of transformation management is influenced by each state's unique structural conditions. The more adverse a state's structural conditions and the more limited its available resources, the higher good governance is ranked in the Management Index.



## Criteria Management Index

Criteria	<input type="checkbox"/> Steering Capability	<input type="checkbox"/> Resource Efficiency	<input type="checkbox"/> Consensus-Building	<input type="checkbox"/> International Cooperation	<input type="checkbox"/> Level of Difficulty
<b>Objectives</b>	The government is politically astute in managing reforms and can realize its policy priorities in the face of resistance.	The government makes optimum use of available resources.	The government establishes a broad consensus on reform with other actors in society, without sacrificing its reform goals.	The country's political actors are willing to cooperate with outside supporters and organizations as well as with neighboring countries.	Assesses the structural conditions that influence the scope of political action.
<b>Questions</b>	<ol style="list-style-type: none"> <li>Does the political leadership set and maintain strategic priorities?</li> <li>Does the government implement its reform policy effectively?</li> <li>Does the political leadership act flexibly? Are political leaders capable of learning? Can political leaders replace failing measures with innovative policy?</li> </ol>	<ol style="list-style-type: none"> <li>Does the government make efficient use of available economic and human resources?</li> <li>Can the government coordinate conflicting objectives into a coherent policy?</li> <li>Can the government curb corruption successfully?</li> </ol>	<ol style="list-style-type: none"> <li>Do the major political actors agree on a market economy and democracy as a strategic, long-term aim?</li> <li>Can reformers exclude or co-opt anti-democratic veto powers?</li> <li>Can the government manage political cleavages so that they do not escalate into irreconcilable conflicts?</li> <li>Does the government encourage the development of social capital among its citizens and social groups?</li> <li>Does the government involve civil-society actors in the political process?</li> <li>Can the political leadership bring about reconciliation between the victims and perpetrators of past injustices?</li> </ol>	<ol style="list-style-type: none"> <li>Does the political leadership use the support of international partners to improve its domestic reform policies?</li> <li>Does the government act as a credible and reliable partner in its relations with the international community?</li> <li>Are political actors willing to cooperate with neighboring states, bilaterally and in regional and international organizations?</li> </ol>	<ol style="list-style-type: none"> <li>Are there severe structural difficulties that constrain the political leadership's governance capacity?</li> <li>Are there traditions of civil society?</li> <li>How serious are ethnic, religious and social conflicts?</li> <li>Per capita GNI PPP (2003)</li> <li>UN Education Index as a measure of a country's education level</li> <li>Stateness and Rule of Law (Average of BTI Criteria Scores)</li> </ol>

## Frequently Asked Questions

### What is the BTI?

The Bertelsmann Transformation Index (BTI) examines the political management of change on the way to a market-based democracy. To this end, the index provides two rankings and two trend indicators, which present the results of the comparative analysis and rating of 119 countries in a consolidated and concise form. The Status Index shows the state of development that a country had achieved on the way to democracy and a market economy by the beginning of 2005. The Management Index classifies the quality of transformation management in the countries examined between 2003 and 2005. The trend indicators provide information on the direction of development in terms of democracy and a market economy in each of the countries examined from 2001 to 2005.

### Which countries are examined in the BTI?

The study embraces 119 developing and transformation countries worldwide. The countries selected for assessment were independent states with populations exceeding three million, which had not yet become fully consolidated democracies with market economies at the beginning of the period of the study. The assessment also included some states which – despite not meeting the population criterion – were still of interest to the BTI on account of their specific transformation features.

### Why does the BTI exclude established market-based democracies of the OECD?

The BTI measures the development of a country on the way to a market-based democracy. This means that the questions asked in the list of criteria are intended to clarify to what extent democracy and a market economy have been institutionalized and consolidated. This focus makes it reasonable to exclude established democracies and market economies from the ranking, as the BTI criteria would not permit a profound distinction to be made between these countries. However, the BTI at the same time provides a unique basis for evaluating the capability for initiating and managing reforms. In numerous

positive reactions to the BTI, regret was also expressed that such an instrument of measurement was not available for established democracies with market economies, particularly at the present time when there are laments about delays in reforms in many places. We intend to remedy this shortcoming by carrying out a complementary study, which will analyse those countries not included in the BTI.

### Does the BTI assume that all countries will develop into market-based democracies?

Democracy under the rule of law and a socially responsible market economy are the normative benchmarks underlying the analyses and rankings of the BTI. In this normative sense, the BTI locates where a country stands on its particular path toward a market-based democracy. This does not, however, imply that all countries will necessarily become market-based democracies. Development toward a market economy may be accompanied by authoritarian political rule over long periods of time, as Asian countries such as China or Singapore demonstrate. Modernization is not a linear process, and a change of systems does not necessarily lead to democracy. Descents into authoritarian rule and phases of stagnation are just as possible as circuitous routes and asynchronicity in the development process.

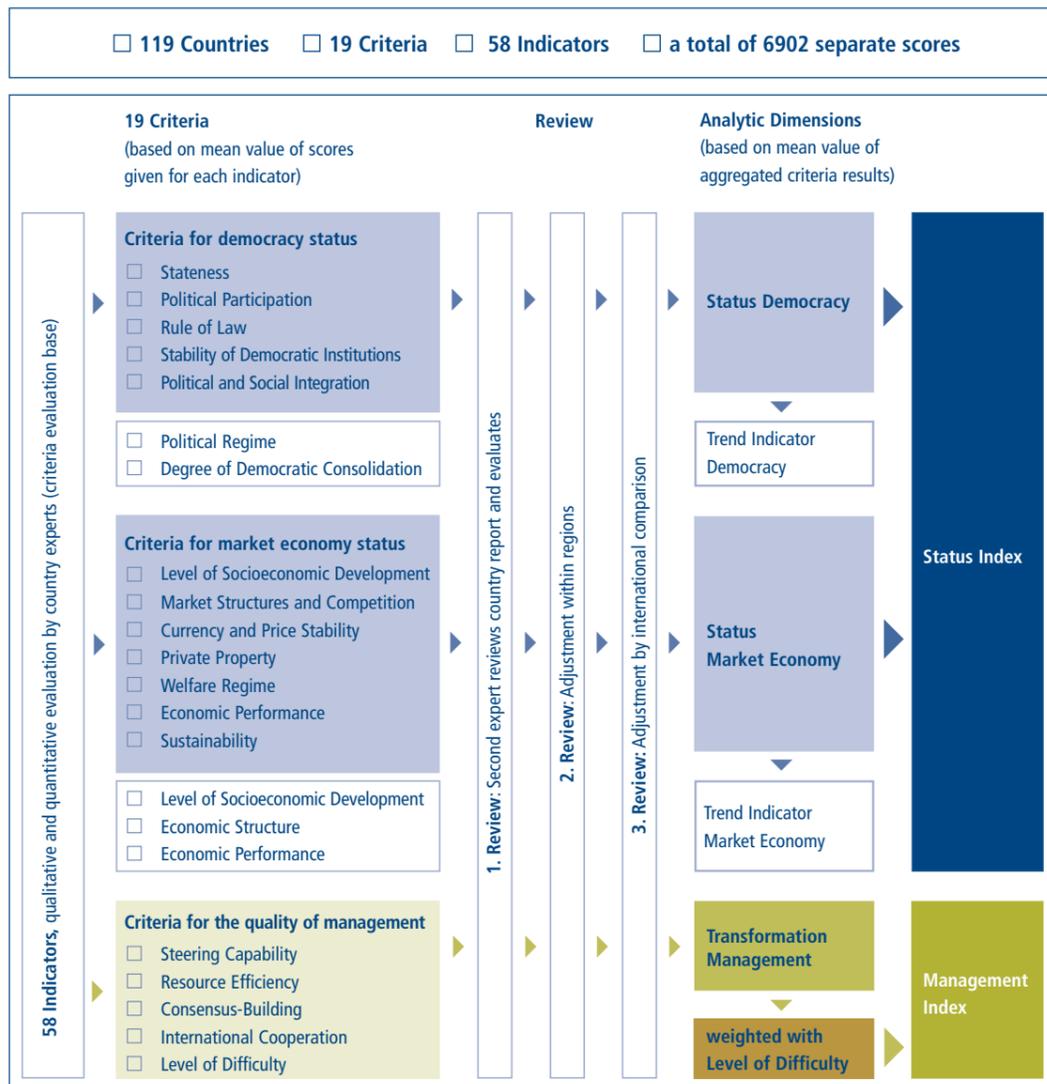
### Does the BTI imply a certain model of democracy and a market economy?

The BTI assessments do not assume a concrete institutional structure or a particular model of Western democracy. We analyze whether and to what extent the political and economic institutions and actors in a given country fulfill certain functions or norms for democracy, a market economy and successful transformation management. These benchmarks are spelled out in the 19 criteria of our assessment, and can be achieved in comparable ways through various institutional arrangements.

### How are the final ratings determined?

Qualitative assessments by experts provide the basis for the BTI. In designing the BTI study, we have endeavored to optimize the validity and reliability of all ratings on which our index is based. Relying on 58 separate questions, experts on the country in question have, for each of the 119 countries, examined in detail to what extent the total of 19 criteria have been met. Not only did they award a point score, but they also formulated and explained – in reports on the various countries – the analyses on which their numerical ratings were based. Each of the 58 scores

for the 119 countries was reviewed several times. A second assessor, generally from the country concerned, reviewed the criteria independently of the author of the analysis of the country. Following that, two regional experts discussed the individual scores and, in each case, agreed on a rating that took account of the differences between the countries within one region of the world. Finally, the BTI Board, which consists of renowned scientists and development practitioners, reviewed the regionally adjusted scores, coordinated them within a global comparison and reached a consensus on the final ratings.



## Frequently Asked Questions

### □ How is the Status Index calculated?

The rating is based on a system of points ranging from one (worst score) to ten (best score). When the questions and criteria were designed, it was ensured that roughly the same importance was accorded to each question within a criterion and to each criterion within the dimension of the study concerned. On this basis, it was possible to obtain the aggregate score through a two-step calculation of the respective averages. The ratings for the individual dimensions in the assessment thus consist of the average score for the five political or seven economic criteria, which, in turn, are based on the average scores given in response to the individual questions.

### □ How is the Management Index calculated?

The Management Index consists of two components: four criteria enabling differentiated ratings of the political management performance to be made, and the level of difficulty evaluation, which measures the structural constraints on transformation management. The level of difficulty evaluation permits management performance under adverse conditions (e.g. poverty, war, the non-existence of a civil society or inadequate state capacity) to be rated higher than equivalent performance under favorable conditions. The Management Index is derived by first calculating the average of the management criteria scores and then by multiplying this figure by a factor calculated from the level of difficulty.

### □ Does the BTI favor efficiently managed authoritarian governments?

Since the Status Index has a combined score for democracy and a market economy and the Management Index contains politically neutral criteria, such as effectiveness, it can be assumed that efficiently ruled autocracies (China, Singapore) will do better in the rating than democracies with weak market economies and management performance. Some of the BTI questions set maximum scores for autocracies, so that the latter can be compared mean-

ingfully with states undergoing a process of democratization. These maximum scores are intended to prevent autocracies from being able to compensate for their low scores in regard to democracy by achieving high scores for state capacity, a market economy and effectiveness. By combining the scores for a market economy and democracy, the BTI rewards states that carry out reforms toward democracy and a market economy simultaneously. While the middle ranking of an autocracy like Singapore acknowledges the country's highly developed market economy, such a country is unable to attain a top position in the BTI without effecting democratic change.

### □ What changes have been made in the BTI's methods compared with the 2003 BTI?

The BTI methodology has been slightly modified due to experience gathered in compiling the 2003 BTI and to other suggestions. The adjustments have been aimed at improving the BTI, its precision and its differentiation, without altering the objectives of the study or putting the comparability of the data at risk. With this aim in mind, the number of criteria and questions has been slightly reduced. The score forming the basis of the two indices is now derived from the 58 separate questions – not from the criteria as in 2003. To differentiate more precisely between the various countries, the results for the Status Index are also shown on a 10-point scale in the 2006 BTI – as opposed to a 5-point scale as in the 2003 BTI. The trend indicators for democracy and a market economy are shown separately in order to more clearly illustrate successes and setbacks in development. The level of difficulty in the Management Index was calculated with the aid of quantitative data.

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