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# Malta's Governance Framework: Insights from International Governance Indicators

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Policy Note

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**The views expressed in this paper are those of the author and do not necessarily reflect those of the Central Bank of Malta.** Any errors are the author's own.

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## **Abstract**

Assessments of governance quality are often inspired by indices – such as those constructed in the World Bank’s Worldwide Governance Indicators project – and other assessments made by the credit rating agencies such as Moody’s. In light of the difficulties encountered in properly measuring governance standards, these scores are designed to track and provide information about various aspects of governance. However, despite their usefulness, such assessments are often difficult to make in an accurate and objective manner, as the construction of these indices often relies on subjective views by some, sometimes lacking transparency and proper documentation. The Maltese framework has in recent years attracted considerable attention, resulting in recommendations from the European Commission and Council of Europe. In this light, this note attempts to shed light on Malta’s governance framework primarily using the underlying indicators included in the World Bank’s Worldwide Governance Indicators project and a set of environmental, social and governance scores published by Moody’s. Looking at what has driven recent changes in the Worldwide Governance Indicators, it appears that for the most part, the decline derives from changes in assessments made by a small number of international commercial and non-governmental organisations, while the results of surveys carried out among local households do not tend to show similar trends. The assessments made by Moody’s indicate that although Malta remains somewhat exposed to some environmental and social risks, the country’s credit quality is positively impacted by its strong governance framework, largely due to positive perceptions of Malta’s budget management, transparency and disclosure, and policy credibility and effectiveness.

**JEL Classification:** D02; E02; H11

**Keywords:** governance framework, Malta, World Bank; Worldwide Governance Indicators; Moody’s

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## Executive Summary

In recent years, Malta's governance framework has been the subject of much debate among both local and foreign stakeholders. In this light, this policy note makes use of two well-cited indicators of governance – the World Bank's Worldwide Governance Indicators and the environmental, social and governance scores published by Moody's – in an attempt to reply to the following three questions:

- **How are the Worldwide Governance Indicators computed?**

The Worldwide Governance indicators comprise six elements of a country's governance framework, namely *Voice and Accountability*, *Political Stability and Absence of Violence/Terrorism*, *Government Effectiveness*, *Regulatory Quality*, *Rule of Law* and *Control of Corruption*. A country's performance in each governance indicator is assessed through data gathered by public sector organisations, non-governmental organisations, commercial business information providers and surveys of households and firms. These largely capture the subjective views of households, firms, analysts at multilateral organisations and other respondents with knowledge and experience of the country to be rated. A country's performance in each indicator is based on information derived from a number of these data sources. Through an unobserved components model, each of the six indicators is scored between (approximately) -2.5 and +2.5, with higher values representing better standards of governance. On the basis of these values, countries are also classified on a percentile rank. Although these indicators provide a snapshot of the governance quality in a country, limitations associated with this methodology point towards a need to exercise caution when interpreting these indicators as the true measure of governance. Chiefly among these limitations is the reliance on subjective assessments, which in some cases are not very transparent and not well-documented. Hence, while they do provide an indication of the quality of governance in a country, these indicators should be supplemented by other country-specific information when analysing a country's governance framework.

- **How does Malta fare in the Worldwide Governance Indicators?**

Among the six indicators, *political stability and absence of violence/terrorism* is currently Malta's best element of governance, with the country also ranking very highly compared to other countries. This is largely driven by the relative absence of violent conflicts, terrorist acts and other forms of violence which could lead to civil unrest. On the other hand, assessments of Malta's *voice and accountability* and *government effectiveness* have become less favourable in recent years. The decline in the former's score is largely driven by the increasingly negative perceptions of the country's press freedom while perceptions of weaker institutional effectiveness, excessive bureaucracy/red tape and, to a lesser extent, lower esteem of the country's infrastructure are primarily behind the drop in the latter's score. Perceptions of Malta's *regulatory quality* also suffered in 2019, largely as a result of poorer assessments

of Malta's investment profile by one of the sources consulted. The *rule of law* indicator has declined in recent years although Malta's weakest score remains the assessment of its *control of corruption*. Looking at what has driven recent changes, it appears that for the most part, the decline in many indicators derives from changes in assessments made by a small number of commercial and non-governmental organisations (NGOs). By contrast, the results of more comprehensive and broader surveys carried out among local households do not tend to show similar trends, indicating a disconnect between the public and these organisations.

- **What are Moody's assessments of Malta's environmental, social and governance standards?**

The credit rating agency Moody's issues a set of environmental, social and governance scores and consider these assessments in determining a country's credit quality. Using country information from public sources and expert judgement, Moody's assesses the extent to which countries are exposed to environmental, social and governance risks and how such exposure in turn affects that country's credit quality. Overall, in Moody's judgement, Malta's environmental, social and governance risks are deemed to have a moderately negative impact on Malta's credit quality. However, this overall score is largely driven by assessments of moderately negative exposure to environmental and social risks. On the other hand, according to Moody's, Malta benefits from having a strong governance framework. The latter's positive assessment is largely due to positive perceptions of Malta's budget management, transparency and disclosure, and policy credibility and effectiveness. Malta's quality of institutions are judged to pose a neutral-to-low risk for the country but seem to have had no impact on perceptions of Malta's overall governance standards.

## 1 How are the Worldwide Governance Indicators computed?

Forming part of the World Bank's research, the Worldwide Governance Indicators project has reported on the governance performance of a large number of countries since 1996. First initiated by Kaufmann, Kraay and Zoido in 1999, these indicators are often cited by news media<sup>2</sup> and are widely used in research as indicators of a country's governance standards<sup>3</sup>. Under the methodology used in the computation of the Worldwide Governance Indicators, governance quality depends on a country's performance in six elements of its governance framework, namely (1) *voice and accountability*, (2) *political stability and absence of violence/terrorism*, (3) *government effectiveness*, (4) *regulatory quality*, (5) *rule of law*, and (6) *control of corruption*.

A country's performance in each governance indicator is assessed from data gathered from a number of sources. These sources – which in the last edition of this project in 2019 totalled 33 – comprise of public sector organisations, non-governmental organisations, commercial business information providers, and surveys of households and firms. These capture the opinions of households, firms, analysts at multilateral organisations and other respondents with knowledge and experience of the country to be rated. As a result, the scores of each indicator, and consequently judgements of a country's governance framework, are largely reliant on respondents' subjective assessments and perceptions.

The process to calculate aggregate country scores in each of the six indicators commences by the classification of relevant data gathered from the different sources under the respective governance indicator. As an example, a country's *voice and accountability* may be proxied by (among others) a non-governmental organisation's assessment of press freedom and a household survey capturing respondents' views about the honesty of elections. This leads to a situation where a country's performance in each of the six governance indicators is based on information derived from consulting numerous data sources. It is to be noted, however, that not all countries' scores are based on the same set of data sources, as some data providers do not cover all countries<sup>4</sup>.

After assigning the data derived from a particular source to the respective governance indicator, the data provided by each source are rescaled to values between 0 and 1 using the max-min rescaling, with higher values corresponding to better outcomes. This is done in order to standardise data which could be collected on different scales by different sources. In the event that more than one question from a source is used in the determination of the aggregate score for a particular indicator, the rescaled 0-1 scores for each question are averaged out. It is important to point out that although all on the same 0-1

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<sup>2</sup> See for example BBC (2018).

<sup>3</sup> See for example Han et al, (2014); Shchegolev and Hayat, (2018).

<sup>4</sup> A brief description of the sources which collect data for Malta and which are considered in the Worldwide Governance Indicators project is provided in the Appendix.

scale, the rescaled data are not necessarily comparable across sources since different sources ask different questions.

This non-comparability across sources is addressed by the use of an *unobserved components model*<sup>5</sup>, which in turn is also used to calculate a weighted average of the data from each source for each country. The intuition behind the use of an *unobserved components model* is that the data derived from each source are an imperfect indication of the true, though unobserved, quality of governance. In fact, this model assumes that the data derived from each source are a linear function of the unobserved level of governance and an error term. The *unobserved components model* is also used to calculate a weighted average of the data from each source, with correlated sources receiving a greater weighting. Subsequently, this model generates scores for each of the six indicators of governance on a standard normal distribution, with mean zero, standard deviation of one, and ranging between (approximately) -2.50, representing a poor governance level, and +2.50, representing the best possible governance level. On the basis of these estimates, countries are also classified on a percentile rank. Given the difficulty encountered in accurately measuring governance levels, standard errors (which are also translated into 90% confidence intervals for percentile rank) are provided together with each indicator's score.

On the basis of this methodology, Figure 1 shows the best and worst performers in each governance indicator in 2019.<sup>6</sup> As expected, the highest levels of governance are observed in well-developed countries. In particular, high scores are predominantly observed in countries such as New Zealand, Singapore, and the northern European countries Finland, Norway and Sweden. On the other hand, less-developed countries are judged to have the poorest governance frameworks in the world. Among others, these include some African countries and recently war-torn countries such as the Syrian Arab Republic, Yemen Republic and Afghanistan.

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<sup>5</sup> A more detailed and mathematical description of the use of the *unobserved components model* can be found in the WGI methodology paper. This can be accessed at: <http://info.worldbank.org/governance/wgi/pdf/wgi.pdf>

<sup>6</sup> The classification is based only on the estimate and rank of the respective country. No consideration is given to standard errors and confidence intervals. Due to instances when confidence intervals overlap, this classification should only be interpreted as an indication of the 'true' classification of countries.



**Figure 1: Best and Worst Performers by Governance Indicator in 2019**



Source: Worldwide Governance Indicators

It is to be noted that while the Worldwide Governance Indicators project provides a snapshot of governance standards in a particular country, sole reliance on these indicators as a measure of a country's quality of governance has some limitations.

Among the primary limitations of these indicators, a country's performance in each governance indicator is largely reliant on subjective assessments which may not always reflect the actual situation in a country. Furthermore, although the 0-1 rescaled scores derived from the different data sources are made publicly and freely available in the Worldwide Governance Indicators database, key information about the background to the scores is often lacking. In many cases, a more detailed analysis is only available commercially and no information about the underlying sources behind the scores is made freely available, other than them being described as "experts" or as having "knowledge and experience in the country to be rated". Particularly in the case of data providers which collect data via surveys, the reliability and accuracy of the data they provide is largely dependent on the number of respondents, which in some cases is rather low.<sup>7</sup>

Other potential limitations relate to the Worldwide Governance Indicators project's high reliance on organisations' views. In supplying information about a country's governance quality, some sources do not even provide any justification for changes in scores between one year and the next. Furthermore, over-time changes in a country's governance scores provided by a particular data source may not necessarily reflect true changes in the country's governance quality but may be due to other methodological changes, such as changes to the criteria on which countries are assessed. In other instances, a country's aggregate rating in one particular indicator may change because some data sources are dropped and/or new ones are introduced or because of changes in the weighting procedure applied to the individual sources. In addition, this project does not incorporate an exhaustive list of sources which gather information about a country's standards of governance.<sup>8</sup>

As has just been documented, although the Worldwide Governance Indicators are widely used as a measure of governance quality in a country, they are not without limitations. As a result, and as is also pointed out by the producers of these indicators, policies aimed at strengthening a country's governance framework should not be exclusively based on these aggregated governance indicators but should be implemented after careful consideration of other country-specific information and circumstances (Kaufmann, Kraay and Mastruzzi, 2010).

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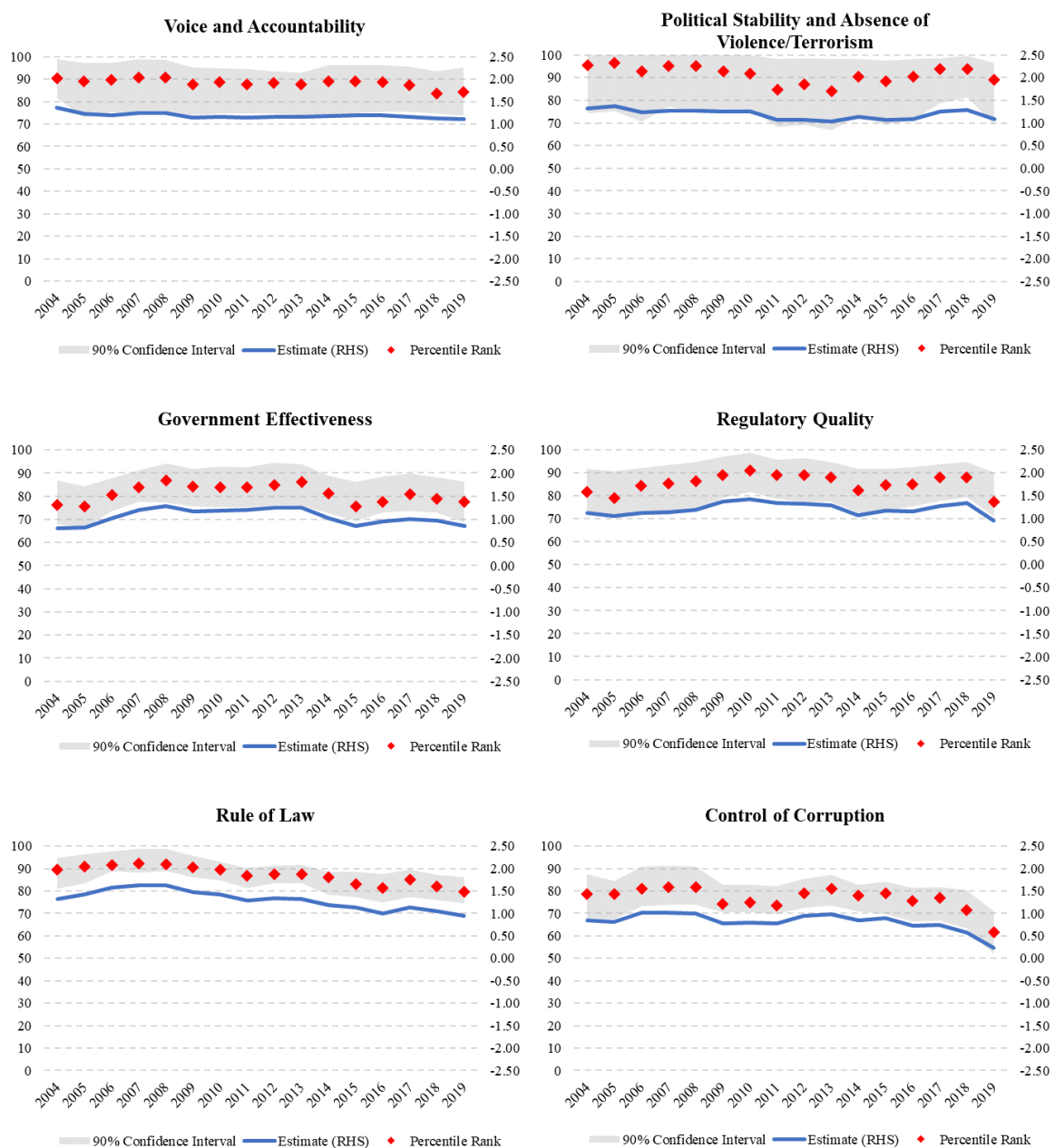
<sup>7</sup> As an example, the number of business executives in Malta who take part in the World Economic Forum Global Competitiveness Survey is generally quite low. With the exception of 2016, when 74 businesses took part, the number of respondents has ranged between 42 and 58 in the period 2011-2018. 65 respondents participated in the 2019 edition of the survey. There is also limited information on the relative size of these firms.

<sup>8</sup> As an example, the Corruption Perceptions Index published by Transparency International is not considered when calculating Malta's score in the *control of corruption* indicator.

## 2 How does Malta fare in the Worldwide Governance Indicators?

Since its accession to the European Union (EU) in 2004, Malta has consistently placed above the 80th percentile in global ranking (before confidence intervals are considered) in *voice and accountability* and *political stability and absence of violence/terrorism*. *Regulatory quality* has also been perceived to be strong but Malta's score in this indicator dropped sharply in 2019. Although still at a relatively high level, *government effectiveness* has declined since 2013, settling below but close to the 80th percentile in 2019. Perceptions of the country's *rule of law* and *control of corruption* have worsened in the recent past, with the latter standing out as the weakest score in Malta's governance framework.

**Figure 2: Malta's performance in the Worldwide Governance Indicators**



Source: Worldwide Governance Indicators

In what follows, Malta’s performance in each indicator is analysed in some detail. The representative sources that are currently behind Malta’s scores are outlined by order of weighting, starting with the source which carried the greatest weighting in the latest publication of the indicators in 2019.

## 2.1 Voice and Accountability

As defined by the World Bank, this indicator captures “*perceptions of the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media*”. The rescaled scores derived from each source for Malta since 2004 are provided in the table below.

**Table 1: Voice and Accountability - Rescaled Scores (0-1)<sup>9</sup>**

Source	Year															
	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19
Freedom House	0.94	0.94	0.94	0.93	0.93	0.93	0.93	0.93	0.93	0.92	0.92	0.92	0.92	0.92	0.92	0.90
Economist Intelligence Unit	..	..	0.79	0.79	0.79	0.79	0.79	0.79	0.79	0.79	0.79	0.79	0.79	0.78	0.79	0.77
Political Risk Services International Country Risk Guide	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Institutional Profiles Database	..	..	..	..	..	0.90	0.90	0.90	0.92	0.92	0.92	0.92	0.93	0.93	0.93	0.93
Reporters Without Borders Press Freedom Index	..	..	..	..	..	0.98	0.96	0.81	0.77	0.76	0.76	0.76	0.75	0.73	0.70	0.70
Gallup World Poll	..	..	..	..	..	0.47	0.43	0.54	0.53	0.69	0.69	0.67	0.61	0.60	0.71	0.71
World Economic Forum Global Competitiveness Survey	0.54	0.54	0.60	0.63	0.65	0.61	0.62	0.56	0.61	0.60	0.54	0.60	0.57	0.55	0.49	..
Cingranelli Richards Human Rights Database & Political Terror Scale	1.00	1.00	0.88	1.00	1.00	0.75	0.75	0.75	0.75	0.75	..	..	..	..	..	..
IHS Markit World Economic Service	0.85	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	..	..	..	..	..	..

Source: Worldwide Governance Indicators

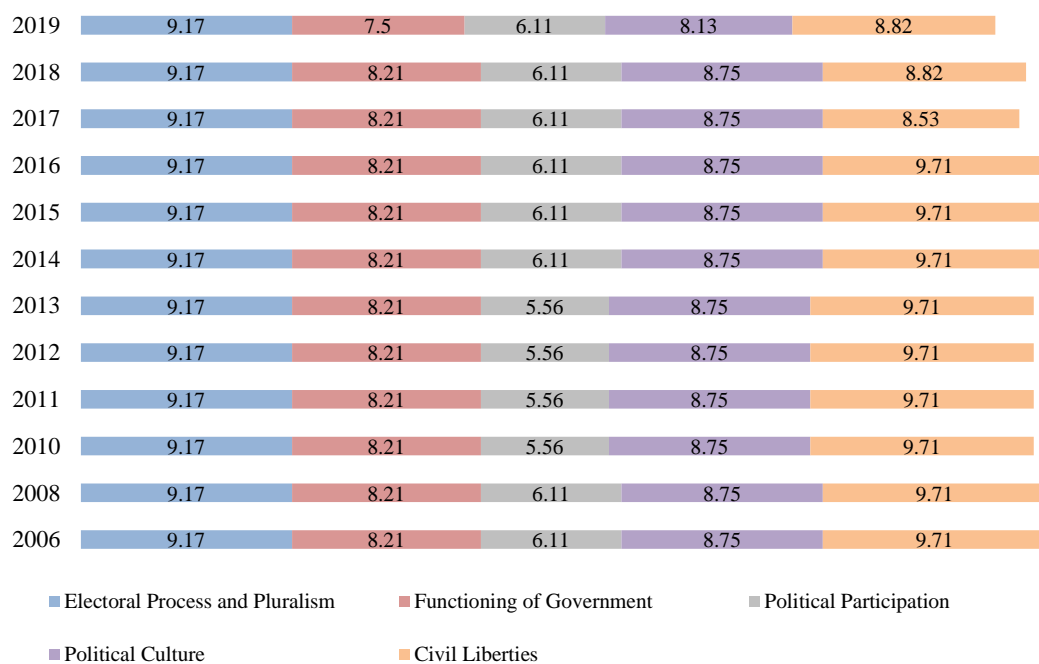
**Freedom House:** This NGO’s current assessment of a country’s political rights and civil liberties are used as indicators of voice and accountability. Among political rights, while no faults were found in Malta’s ‘electoral process’, the NGO highlights faults in ‘political pluralism and participation’ and the ‘functioning of government’. In the former, this organisation notes persisting obstacles to the existence of alternative political parties – primarily due to “progovernment bias in the state media”, the magnitude of donations received by the two largest political parties and shortcomings in the 2015 Financing of Political Parties Act – together with the influences exerted on political parties by means of donations. The NGO notes that the functioning of government could be improved through more openness and transparency in government operations, along with the implementation of stronger and more effective safeguards against official corruption. Among civil liberties, this NGO did not view the media as totally free and independent in 2019, while it also highlighted “growing concerns that individuals are subject to retribution, including damaged career prospects, for criticism of the ruling party or other powerful actors”. Forms of discrimination, namely the persistent gender pay gap, the country’s widespread ban

<sup>9</sup> Higher rescaled scores correspond to better governance quality.

on abortion and the potentially difficult conditions experienced by migrant workers are also mentioned as shortfalls in civil liberties. Despite these areas for improvement, Malta remains classified as a “free” country with a score of 90 out of 100 in 2019.

**Economist Intelligence Unit:** The Democracy Index is one of the indicators used to measure voice and accountability in a country. Each country is awarded a rating between 0 (low) and 10 (high) for each of the five indicators that make up this index. With an aggregate score of 7.95 in the 2019 edition of the index, Malta was relegated from a “full democracy” to a “flawed democracy”. As explained by the organisation itself, this is largely the result of developments in 2019 which highlighted “significant weaknesses in the rule of law and inadequate checks and balances on the government’s power”. Among the other criteria, the score for ‘political participation’ remains rather low, most likely driven by the low representation of women in Parliament. Besides the Democracy index, the EIU’s assessment of accountability of public officials, freedom of association, risk of human rights abuse and any vested interests in public/private decision-making are also considered but the respective scores are only available on a commercial basis.

**Figure 3: Malta’s performance in the EIU’s Democracy Index**



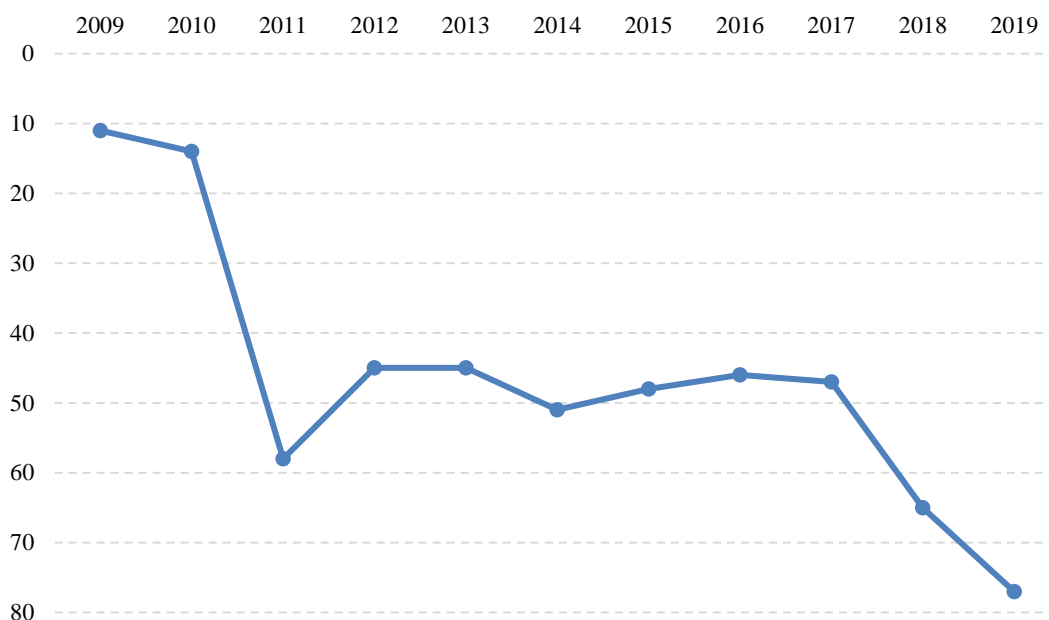
Source: Economist Intelligence Unit

**Political Risk Services International Country Risk Guide:** Two measures provided by this source, namely the threat of military involvement in politics, and democratic accountability, are taken into consideration in the formation of an assessment of voice and accountability in a country. The consistently perfect scores attributed to Malta by this source indicate that the country is seen as low-risk, with no threat of military involvement in politics and high democratic accountability.

**Institutional Profiles Database:** Questions cover a wide range of issues in a country, from the transparency of the State’s economic policy to the respect to a wide range of freedoms, such as freedom of elections, freedom of assembly and freedom of movement of nationals around the world. Overall, Malta performs highly in all categories incorporated by this data source.

**Reporters without Borders:** The Press Freedom Index deals with issues related to pluralism, media independence, media environment and self-censorship, legislative framework, transparency, and the quality of media infrastructure in the country. Malta’s ranking has suffered in recent years although in some instances, no reasons were forthcoming from the NGO.<sup>10</sup> The organisation cites the fallout from the assassination of Maltese journalist Daphne Caruana Galizia in October 2017 as the primary reason for the rapid decline in ranking in 2018 and 2019.

**Figure 4: Malta’s ranking in the Press Freedom Index**



**Source:** Reporters without Borders

**Gallup World Poll:** The question “do you have confidence in honesty of elections?” asked in this household survey is classified as an indicator of a country’s voice and accountability but carries very minimal weighting in the aggregate score for each country. The level of confidence in Maltese elections observed in 2018 and 2019 represents improvements over the preceding years and is the highest since 2009.

<sup>10</sup> There is no justification regarding Malta’s decline in ranking between 2010 and 2011 and the Institute of Maltese journalists was not consulted prior to this change in ranking. This lack of transparency by the NGO has attracted criticism by media reports.

<https://www.maltatoday.com.mt/news/national/16758/press-freedom-index-demotes-malta-without-explaining-why-20120313#.Xia8rv5Kjcs>

<https://www.worldpoliticsreview.com/articles/1350/the-reporters-without-borders-press-freedom-index-independent-assessment-or-eu-propaganda-part-ii>

## 2.2 Political Stability and Absence of Violence/Terrorism

This indicator captures “*perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism*”. The rescaled scores from each source are provided in the table below.

**Table 2: Political Stability and Absence of Violence/Terrorism - Rescaled Scores (0-1)**

Source	Year															
	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19
IHS Markit World Economic Service	0.86	1.00	1.00	1.00	1.00	1.00	1.00	0.94	0.94	0.94	0.96	0.92	0.92	0.96	0.96	0.92
iJET Country Security Risk Ratings	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Economist Intelligence Unit Cingranelli Richards	..	..	0.80	0.80	0.80	0.75	0.75	0.70	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.80
Human Rights Database & Political Terror Scale	0.97	0.97	0.97	0.97	0.84	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Political Risk Services International Country Risk Guide	0.92	0.86	0.84	0.86	0.88	0.88	0.88	0.83	0.80	0.81	0.80	0.80	0.82	0.83	0.84	0.80
Institutional Profiles Database	..	..	..	..	..	1.00	1.00	1.00	0.92	0.92	0.92	0.92	0.83	0.83	0.83	0.83
World Economic Forum Global Competitiveness Survey	0.86	0.91	0.77	0.89	0.95	0.88	0.93	0.75	0.85	0.73	0.79	0.78	0.70	0.81	0.85	..

Source: Worldwide Governance Indicators

**IHS Markit World Economic Service:** Political stability in a country as assessed in the Worldwide Governance Indicators project takes into consideration the risk of protests/riots, terrorism, interstate wars and civil wars in the country as determined by staff at the IHS Markit. Although scores for each criterion are only available commercially, Malta has, on average, consistently obtained a high aggregate rating in the past years.

**iJET Country Security Risk Ratings:** The Country/City Security Assessment Ratings issued by *iJET* rate countries on six indicators: the prevalence of crime, civil unrest, level of terrorism, kidnapping incidents, the capability of security services and the level of geopolitical stability in the country. Under this rating system, where each country is scored between 1 and 5, Malta is currently considered to have a low threat (score of 2), with low crime rates, non-violent civil unrest incidents and no threat by international terrorism.

**Economist Intelligence Unit:** The mechanism in place for the orderly transfer of power between successive governments, together with the risks of armed conflict, violent demonstrations, social unrest and international disputes are the indicators taken from this organisation as a measure of a country’s political environment. No disaggregation of scores is publicly available but aggregately, Malta performs well in these criteria.

**Cingranelli Richards Human Rights Database & Political Terror Scale:** Assessments of political stability are also made on the basis of the Political Terror Scale (PTS). Prior to 2014, this was supplemented by the frequency of political killings, disappearances and tortures but these parameters were discontinued from 2014 onwards. The PTS, which measures solely state violence, is

constructed annually primarily using annual reports on human rights practices published by Amnesty International and the U.S. State department. Malta performs well on this scale, although incidents involving refugees and migrants at sea are sometimes highlighted by Amnesty International.

**Political Risk Services International Country Risk Guide:** Assessments are made about the level of government stability and the risk of internal conflicts, external conflicts and ethnic tensions in a country. Government stability is determined by government unity, legislative strength and popular support. A country’s risk of internal conflict is assessed by the risk of a civil war/coup, terrorism/political violence and civil disorder whereas the level of foreign pressures and risk of war/cross-border conflict determine the threat of external conflict. The risk of ethnic tensions is assessed by the level of tension that exists in a country due to different races, nationalities and languages. Although the respective scores for each criterion are only available commercially, Malta scores highly in aggregate terms.

**Institutional Profiles Database:** The IPD questionnaire covers the intensity of internal conflicts (ethnic, religious or regional), social conflicts and violent activities. In the 2016 issue – the results of which were carried over up to 2019 – Malta received perfect scores for its lack of violent activities but lost one point out of four for the intensity of internal conflicts and social conflicts. No justification of these scores was made publicly available.

### 2.3 Government Effectiveness

The level of government effectiveness is determined by the “*perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies*”. The rescaled scores from each source are provided in the table below.

**Table 3: Government Effectiveness - Rescaled Scores (0-1)**

Source	Year																
	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	
Economist Intelligence Unit	..	..	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.63	0.63	0.50	0.50	0.50	
IHS Markit World Economic Service	0.76	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.72	0.72	0.72	0.83	0.83	0.72
Political Risk Services International Country Risk Guide	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Institutional Profiles Database	..	..	..	..	..	1.00	1.00	1.00	0.96	0.96	0.96	0.96	1.00	1.00	1.00	1.00	
World Economic Forum Global Competitiveness Survey	0.51	0.52	0.57	0.61	0.68	0.63	0.66	0.68	0.72	0.74	0.66	0.61	0.64	0.64	0.62	0.66	
Gallup World Poll	..	..	..	..	..	0.50	0.52	0.48	0.52	0.53	0.53	0.50	0.65	0.65	0.66	0.64	

Source: Worldwide Governance Indicators



**Economist Intelligence Unit:** In measuring a country's government effectiveness, this project makes use of two indicators reported by the Economist Intelligence Unit: the level of institutional effectiveness and the prevalence of excessive bureaucracy/red tape. Scores for each criterion are only available commercially, but aggregate scores show that Malta's performance in this regard has declined in recent years.

**IHS Markit World Economic Service:** In their annual assessments, staff at IHS Markit presently look at the adequacy of a country's infrastructure, such as transport infrastructure, the risk that the State fails in its responsibilities, such as to ensure law and order, and the risk of policy instability. These criteria mark a change from the years prior 2014, when the quality of bureaucracy and the likelihood of continuity in economic policies were taken as measures of a country's government effectiveness. Malta's score in each indicator is not publicly available but it is evident that perceptions of the Maltese government's effectiveness took a negative turn when the change took place in 2014.

**Political Risk Services International Country Risk Guide:** The Worldwide Governance Indicators project considers the assessment of a country's bureaucratic quality made by staff at the Political Risk Services. This is a measure of a country's strength in resisting drastic changes in governmental policies. Countries in which bureaucracy is strong enough to withstand political pressures are judged to have good bureaucratic quality. Since 2004, Malta has consistently been awarded a score of 3 out of a maximum of 4 in this regard.

**Institutional Profiles Database:** The IPD questionnaire includes questions about the geographic coverage of six types of public services, namely public schools, basic healthcare services, maintenance and solid waste disposal, drinking water and sanitation, electricity grid and transport infrastructure. The 2012 edition of the questionnaire – whose results were carried forward up to 2015 – found limitations in the coverage of maintenance and solid waste disposal. However, with the exception of this edition of the questionnaire, Malta has always received perfect scores in recent past.

**World Economic Forum Global Competitiveness Survey:** Up to 2018, the WGI project used to consult two measures derived from the Global Competitiveness survey – the quality of overall infrastructure and quality of primary education – in the assessment of a country's government effectiveness. In 2019, the quality of overall infrastructure was replaced by a country's quality of road, port, railroad, and air transport infrastructure, as reported by business executives taking part in the Global Competitiveness survey. Road infrastructure in Malta is deemed to be relatively poor, with the country ranking 106<sup>th</sup> out of 141 countries in 2019. Perceptions of the country's air transport and seaport efficiency are more favourable, and the country ranks 22<sup>nd</sup> and 27<sup>th</sup>, in the two measures, respectively.

**Gallup World Poll:** This representative household survey gauges the respondents’ thoughts about the quality of the education system, roads and highways and the public transportation system. These are considered in the Worldwide Governance Indicators as measures of government effectiveness, although with limited weighting. Disaggregated scores are not freely available but since 2009, the overall level of satisfaction improved considerably.

## 2.4 Regulatory Quality

This indicator captures “*perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development*”. The rescaled scores from each source are provided in the table below.

**Table 4: Regulatory Quality – Rescaled Scores (0-1)**

Source	Year															
	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13'	'14	'15	'16	'17	'18	'19
Economist Intelligence Unit	..	..	0.85	0.85	0.90	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.85	0.85	0.85	0.85
IHS Markit World Economic Service	0.80	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.67	0.67	0.67	0.75	0.75	0.75
Political Risk Services International Country Risk Guide	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.77	0.73	0.73	0.73	0.86	0.86	0.86	0.86	0.68
Heritage Foundation Index of Economic Freedom	0.70	0.60	0.60	0.60	0.55	0.65	0.68	0.68	0.73	0.70	0.70	0.73	0.73	0.73	0.73	0.73
World Economic Forum Global Competitiveness Survey	0.55	0.53	0.54	0.55	0.56	0.58	0.58	0.57	0.59	0.61	0.53	0.56	0.59	0.61	0.64	0.58
Institutional Profiles Database	..	..	..	..	..	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.72	0.72	0.72

**Source:** Worldwide Governance Indicators

**Economist Intelligence Unit:** The unit’s analysts assess a country’s unfair competitive practices, price controls, discriminatory tariffs, excessive protections and discriminatory taxes. Disaggregated scores are only available commercially but overall, Malta has performed consistently well in the recent years.

**IHS Markit World Economic Service:** Up to 2013, this organisation’s analysis of the efficiency in the country’s tax collection system and the quality of business legislation were taken as measures of regulatory quality. Starting in 2014, the focus shifted towards the burden of the regulatory environment on businesses and the risks of inconsistency in fines imposed for non-compliance with tax laws. This change resulted in a decline in Malta’s score, although the situation improved slightly in the last three years of analysis.

**Political Risk Services International Country Risk Guide:** As part of their analysis of political risk, staff at Political Risk Services assesses a country’s investment profile. This is shaped by an assessment of three factors which may impact investment in a country, namely the risks of contract viability/expropriation, profits repatriation and payment delays. Following a number of years in which

Malta performed relatively well, performance declined in 2019, although no explanation is publicly available since a full dataset is only available commercially.

**Heritage Foundation Index of Economic Freedom:** This NGO's assessment of a country's investment freedom and financial freedom are factored in the aggregate score of regulatory quality in a country. Both indices of freedom are represented by a 0-100 index, with restrictions being reflected in declines from the maximum score of 100. Investment freedom is determined by any restrictions on the flow of investment capital within and outside a country. The index of financial freedom is constructed by considering a number of factors, namely the extent of government regulation of financial services, the level of state intervention in banks and other financial firms, the influence of Government on the allocation of credit, the extent of financial and capital market development and openness to foreign competition. Malta is deemed to have "total" investment freedom (score of 85 since 2015) but "moderate financial freedom with significant government interference" (score of 60 since 2008).<sup>11</sup> No justification behind the assessment of Malta's financial freedom is provided by the Heritage Foundation. Moreover, in Malta's country profile, the same NGO highlights that despite being small, Malta's financial market is "sound and has become more open to competition", while "over 90 percent of adult Maltese have access to an account with a formal banking institution".

**World Economic Forum Global Competitiveness Survey:** As measures of regulatory quality, this firm survey looked at three criteria in 2019. These are: burden of government regulation, such as permits and regulations, prevalence of non-tariff barriers and the extent of market dominance. Out of 141 countries in 2019, Malta ranked 41<sup>st</sup>, 10<sup>th</sup> and 32<sup>nd</sup> in these criteria, respectively. Up to 2018, these indicators were combined with four others, namely the extent and effect of taxation both to work and to invest, the intensity of local competition and the effectiveness of antitrust policy. Of these, the surveyed businesses used to find the high level of competition in local markets to be the most positive.

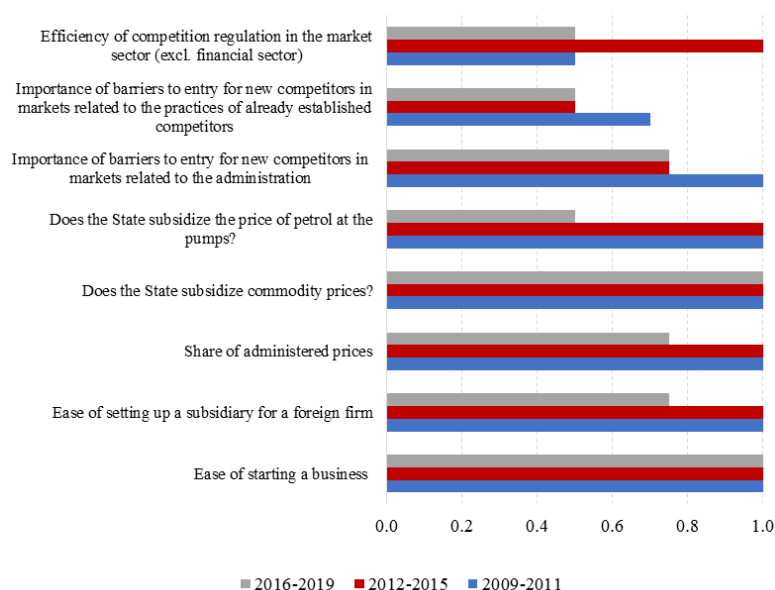
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<sup>11</sup> A country classified as such by this NGO is deemed to have a central bank (1) which is not fully independent, (2) its supervision and regulation of financial institutions are somewhat burdensome, and (3) whose ability to enforce contracts and prevent fraud is insufficient. Furthermore, financial institutions are controlled by government and their ability to offer financial services is subject to some restrictions.

## Institutional Profiles Database:

When compared to the previous IPD issue of 2012, Malta's score declined significantly in the last issue of this expert assessment in 2016. The relevant issues covered in the IPD questionnaire, together with the rescaled scores are presented in figure 5. While a database containing each country's score for a particular criterion is publicly available, no justification of any changes in scores from one edition of the questionnaire to another is publicly available.

**Figure 5: Malta's performance in the *regulatory quality measures* derived from the Institutional Profiles Database**



Source: Institutional Profiles Database

## 2.5 Rule of Law

Assessments of rule of law are based on “*perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.*” The rescaled scores from each source are provided in the table below.

**Table 5: Rule of Law – Rescaled Scores (0-1)**

Source	Year																
	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	
Economist Intelligence Unit	..	..	0.94	0.94	0.94	0.94	0.94	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.81	0.78	
IHS Markit World Economic Service	0.83	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.67	0.67	0.67	0.83	0.83	0.78	
Institutional Profiles Database	..	..	..	..	..	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.71	0.71	0.71	0.71	
World Economic Forum Global Competitiveness Survey	0.66	0.66	0.69	0.72	0.72	0.69	0.72	0.69	0.69	0.65	0.63	0.67	0.63	0.65	0.63	0.61	
Political Risk Services International Country Risk Guide	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.75	0.75	
US State Department Trafficking in Persons Report	..	0.67	0.67	0.67	0.67	0.33	0.33	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	
Gallup World Poll	..	..	..	..	..	0.65	0.65	0.67	0.66	0.64	0.64	0.74	0.76	0.76	0.78	0.75	
Heritage Foundation Index of Economic Freedom	0.90	0.90	0.90	0.90	0.90	0.80	0.70	0.70	0.75	0.75	0.75	0.70	..	..	..	..	
Cingranelli Richards Human Rights Database	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	..	..	..	..	..	..	

Source: Worldwide Governance Indicators

**Economist Intelligence Unit:** The EIU's analysts assess the extent to which organised crime and violent crime are a problem for government and businesses, the fairness and speediness of the judicial process, the time required to enforce contracts through the courts, the risk of expropriation of foreign assets and the protection level of intellectual property rights and private property rights. Overall, Malta has received high scores by this organisation in the past years, although a small dip in 2019 was recorded without any freely-available justification.

**IHS Markit World Economic Service:** IHS Markit's staff assess the risk of expropriation, the risk of alterations in state contracts without due process and the risk of non-enforcement of contractual agreements between private-sector entities. These criteria represent a change from the years prior 2014. In fact, up to 2013, countries were judged on two other criteria: the level of judicial independence and the threat of crime to businesses. Malta's scores declined with the change in the assessment criteria but recovered somewhat in 2017.

**Institutional Profiles Database:** The aggregate score attributed to Malta by this source declined considerably in the 2016 issue. In this edition of the questionnaire, Malta fared particularly poorly due to perceptions of poor timeliness of judicial decisions, violent activities by criminal organisations (including drug/arms trafficking and prostitution) and termination of contracts by the State with foreign stakeholders without paying the proper compensation.

**World Economic Forum Global Competitiveness Survey:** The Global Competitiveness survey asks firms' executives a number of questions which are then used in the formulation of an aggregate score for a country's rule of law. In 2019, these questions captured businesses' perceptions about the cost of organised crime, the reliability of police services, the level of judicial independence, the efficiency of legal framework for challenging regulations and the protection of property rights and intellectual property. Responses indicate that Maltese businesses are not exposed to large costs associated with organised crime and violence. On the other hand, businesses have a rather dim view of the efficiency of the legal framework to challenge regulations.

**Political Risk Services International Country Risk Guide (ICRG):** As one of the political risk components, the ICRG includes measures of the law and order in a country, as determined by staff at the Political Risk Services. These are measured by the strength and impartiality of the legal system and the extent to which citizens in a country abide by those laws, respectively. Each of the two subcomponents is scored out of three, for a total of six points. Overall, Malta performs well in these two criteria although no background to the drop in the 2018 and 2019 scores is made freely available.

**US State Department Trafficking in People Report:** The Trafficking in Persons Report considers two types of trafficking: sex trafficking and labour trafficking. Each country is scored on a

four-point scale, depending on the government’s efforts to tackle “severe trafficking in people”. In this regard, Malta is perceived as a country which, while not currently meeting the minimum standards for the elimination of trafficking fully, it is making significant efforts to do so. As a result, Malta is currently placed in Tier 2. These efforts – as outlined in the 2019 report – include the prosecution of more traffickers, the hiring of a social worker dedicated to trafficking victims, removing residency and work permit fees for foreign victims of trafficking and identifying and referring a child victim to care. In the same report, the identification of fewer victims, the failure to get trafficking convictions and the lack of coordination among ministries were all cited as reasons for Malta’s failure to meet the minimum standards.

**Gallup World Poll:** This nationally representative survey asks household members about their level of confidence in the country’s police force and the judicial system. Moreover, respondents are also asked whether they have ever been assaulted (or mugged) and whether they have ever fallen victims of stolen money property. In the past few years, Malta’s performance in the criteria covered by the Gallup World Poll survey improved considerably.

## 2.6 Control of Corruption

Control of corruption in a country is determined by “*perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.*” The rescaled scores from each source are provided in the table below.

**Table 6: Control of Corruption - Rescaled Scores (0-1)**

Source	Year															
	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19
Political Risk Services International Country Risk Guide	0.50	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.50	0.50
Economist Intelligence Unit	..	..	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.50
IHS Markit World Economic Service	0.73	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.67	0.67	0.67	0.67	0.67	0.50
Institutional Profiles Database	..	..	..	..	..	0.44	0.44	0.44	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.50
World Economic Forum Global Competitiveness Survey	0.69	0.66	0.69	0.65	0.65	0.60	0.61	0.58	0.52	0.52	0.50	0.57	0.56	0.57	0.55	0.54
Gallup World Poll	..	..	..	..	..	0.39	0.36	0.39	0.43	0.60	0.60	0.49	0.40	0.40	0.54	0.47

Source: Worldwide Governance Indicators

**Political Risk Services International Country Risk Guide:** Corruption as assessed by this organisation’s staff may take the form of financial corruption (involving bribes or special payments) and corruption in the form of excessive patronage, nepotism, favour-for-favours and close ties between politics and business. In 2018 and 2019, Malta achieved a score of three out of a maximum of six. While this represents a small decline over previous years, no specific reasons were made freely available for this change in score.

**Economist Intelligence Unit:** The Economist Intelligence Unit analyses the pervasiveness of corruption among public officials. Following a number of years during which Malta's rescaled score remained at a relatively high level, the country's score declined in 2019, indicating a perception of higher prevalence of corruption among public officials.

**IHS Markit World Economic Service:** Staff at this organisation look at the risk that individuals or companies in a country will face bribery or other corrupt practices in the course of carrying out their operations. The change in Malta's score between 2013 and 2014 coincided with a change in the criteria used to judge Malta's control of corruption. Up to 2013, staff members used to assess the intrusiveness of the country's bureaucracy and the likelihood of finding corrupt officials. The decline in score derived from this source during 2019 indicates worsened perceptions of bribery or other corrupt practices in Malta during the year.

**Institutional Profiles Database:** This source provides data on the level of petty corruption between citizens and administrations and the level of corruption between administrations and local/foreign firms. In the 2016 edition, Malta was perceived as a country having an average level of corruption in all three instances.

**World Economic Forum Global Competitiveness Survey:** As indications of the level of corruption in a country, this firm survey explores businesses' perceptions regarding the frequency with which public funds are illegally diverted and the frequency with which firms are involved in bribes or undocumented extra payments. Firms are also asked about their level of trust in the country's politicians. Responses show that, over time, public trust in politicians declined and diversions of public funds were perceived to be more frequent. Following a dip in 2014, more positive perceptions regarding the frequency with which irregular payments and bribes took place were recorded from the 2015-2016 edition of this firm survey.

**Gallup World Poll:** Household members are asked whether they believe that corruption is widespread throughout the country's government. Following an improvement in 2018, Malta's score declined again in 2019 to a relatively low level.

In summary it appears that for the most part, the decline in many indicators derives from changes in assessments made by a small number of commercial and non-governmental organisations. By contrast, the results of more comprehensive surveys carried out among local households do not generally show similar trends.

### 3 What are Moody's assessments of Malta's environmental, social and governance standards?

Although the understanding of the concept of governance has evolved rapidly over time, it has also gained different meanings in the process (Fukuyama, 2016; Schmitter, 2019). This makes it particularly difficult to narrowly define the concept, with Jessop (1998) describing the term 'governance' as "*a ubiquitous 'buzzword' that can mean anything or nothing*".

*"... no consistent understanding of the meaning of the word governance today, which indicates a degree of disarray in the field that purports to study it"*

- Fukuyama (2016)

The broad meaning of the concept is also evident from the number of indices and criteria that are used to shed light on governance standards in the country. The Worldwide Governance Indicators are just one set of standards that shed light on a country's quality of governance, using a wide spectrum of measures gathered from numerous sources. These measures range from democratic accountability to regularity quality, to the rule of law and prevalence of corruption in a country.

Another set of scores – reflecting assessments of sovereigns' environmental, social and governance standards (ESG) – are issued by the credit rating agency, Moody's, who assess how these standards affect a country's credit quality. In this exercise, Moody's first awards issuer profile scores (IPS) to the respective sovereigns. These scores, largely dependent on country information from public sources and expert judgement, reflect Moody's assessment of the extent to which countries are exposed to environmental, social and governance risks.

The IPS of a sovereign's environmental risk is based on assessments of the country's physical climate, water management, waste and pollution, carbon transition and natural capital, along with consideration of any measures designed to mitigate such risks. Assessments of social risks are based on consideration of risks associated with demographics (such as an ageing population), labour and income inequalities, access to quality education, housing, health and safety concerns, and access to basic services. Moody's assessment of a sovereign's governance risk is based on four aspects, namely institutional structure, policy credibility and effectiveness, transparency and disclosure, and budget management.

Based on these respective assessments, countries are then awarded a *credit impact score (CIS)*, reflecting both a sovereign's ESG risks and its financial and institutional ability to mitigate such risks. A sovereign's CIS represents the impact of ESG factors on credit quality. Both IPS and CIS are scored on a five-point scale, as shown in Figure 6 below.



**Figure 6: IPS and CIS scoring scale**



Source: Moody's

Overall, Malta's environmental, social and governance risks are deemed to have a *moderately negative* (CIS score of 3) impact on Malta's credit quality. While there are less-developed sovereigns with poorer overall scores, Malta's score is broadly in line with what is observed among the other EU member states. In fact, 15 of the 27 EU member states are awarded a CIS score of 2, suggesting that their environmental, social and governance risks pose a *neutral-to-low* risk on their respective credit quality. Only 6 member states, namely Austria, Denmark, Germany, Ireland, Luxembourg and Sweden, enjoy a CIS score of 1, suggesting that assessments of their credit quality are positively affected by environmental, social and governance factors in their respective countries, while another 6 member states – including Malta – are awarded a CIS score of 3. No EU member states are assessed to have their environmental, social and governance standards exert a *highly negative* or *very highly negative* impact on their credit quality.

Malta's CIS score is largely driven by assessments of *moderately negative* exposure to environmental and social risks (IPS score of 3). On the other hand, Malta is deemed to have a *positive* governance IPS (IPS score of 1), suggesting that the country actually benefits from having a strong governance framework. However, overall, while having robust governance standards in the country helps mitigate the country's susceptibility to ESG risks, the overall impact of ESG factors on credit quality for Malta seems to be mostly affected by the *moderately negative* exposure to environmental and social risks.

Moody's assessments of Malta's exposure to environmental, social and governance risks are discussed in more detail below.

#### Malta's exposure to environmental risks

According to Moody's assessments, Malta suffers *moderately negative* risks associated with its physical climate and water management. On the other hand, the country's susceptibility to risks associated with carbon transition, depletion of natural capital, and waste and pollution is deemed to be *neutral-to-low*. Based on these assessments, Malta is deemed to have a *moderately negative* exposure to environmental risks in the country.

#### Malta's exposure to social risks

Turning to social risks, Malta is judged to have *highly negative* risks associated with its demographics. While no specific reasons are available for these scores, this is possibly due to Malta's ageing

population, persistence of gender inequalities and rapid immigration, all of which – according to Moody’s – can lead to social risks. The country is deemed to suffer from *moderately negative* risks associated with labour and income inequalities, while risks related to education, housing, health and safety, and access to basic services in Malta are deemed to be *neutral-to-low*. Overall, Malta’s exposure to social risks is assessed to be *moderately negative*.

#### Malta’s exposure to governance risks

Malta is judged to have very strong governance standards (governance IPS score of 1). This compares favourably with the scores awarded to other EU member states. In fact, 21 other member states are also deemed to have a governance IPS score of 1. Malta’s score is largely due to *positive* perceptions of Malta’s budget management, transparency and disclosure, and policy credibility and effectiveness. Malta’s quality of institutions are judged to pose a *neutral-to-low risk* but seem to have had no impact on perceptions of Malta’s overall governance standards.

### **Concluding Remarks**

While there exists considerable evidence in economic literature that the formulation and implementation of a high-quality governance framework carries substantial economic advantages, difficulties persist in uniformly defining and measuring governance standards in a country. Different sources of information do not necessarily base their assessments on similar and comparable criteria. The ambiguity in the meaning of the term ‘governance’ is compounded by the difficulties encountered in its measurement. Since quantitative data which could shed light on governance quality is often absent, assessments are generally made on the basis of qualitative data, gathered either through surveys or expert assessments. This makes the determination of the quality of governance in a country largely dependent on subjective assessments, which are – in some cases – not freely available to the public and/or lacking in transparency. In addition, different individuals and groups may have different perceptions of a country’s governance standards. In particular, these differences in perceptions are laid bare when analysing assessments of Malta’s governance from the Worldwide Governance Indicators project, where it is clear that findings from household and firm surveys do not necessarily tend to show similar trends. As a result of their limitations, indices such as those analysed in this work should not be used in isolation but should be supplemented by other country-specific information in the designation of policies aimed at improving governance standards.

Having said that, emphasis is being placed on the need for countries to have robust standards of governance. International institutions such as the International Monetary Fund (1997) and the European Commission (2014) have long realised the need for countries to adopt good governance standards and continuously monitor countries’ governance frameworks. In the EU, the European Commission regularly monitors governance standards in different countries and makes country-specific

recommendations accordingly – which recommendations often complement others made by other institutions such as the Council of Europe. Rating agencies are also increasingly using these measures when assigning credit ratings to sovereign debt. Thus, the practice of high governance standards is essential for countries to optimise their economic performance and opportunities and further presses the need for policy makers to enact policies that strengthen the country's governance framework.

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## Appendix

### Commercial Business Information Providers

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**Economist Intelligence Unit:** Many of the assessments made by the Economist Intelligence Unit are based on a large network of more than 500 correspondents. Their assessments are then reviewed for consistency by panels of regional experts. In addition to these experts' assessments, the Democracy Index published by this organisation is also based on public opinion surveys – mainly the World Values survey, and others (Economist Intelligence Unit, 2020).

**iJET Country Security Risk Ratings:** Expert assessments are made by staff at the commercial security risk consulting company, iJET. The Security Risk rating of each country is formed after ratings are given to six security parameters. These are: crime, security services, civil unrest, terrorism, kidnapping and geopolitical stability. Each country is then assigned as one of the following: *minimum threat*, *low threat*, *moderate threat*, *high threat* or *very high threat*.

**Political Risk Services International Country Risk Guide:** The International Country Risk Guide contains a Political Risk Index. This index – made up of a total of twelve components – contains all measures provided by this source which are factored in the Worldwide Governance Indicators. Judgements about each component are formed through expert assessments by this commercial business information provider.

**IHS Markit World Economic Service:** As a commercial business information provider, staff members at this organisation – formerly known as Global Insight – make annual assessments of a country's business environment. Many of the criteria currently used in the Worldwide Governance Indicators project are different to those used prior to 2014. A full dataset containing a disaggregation of scores as awarded by this source is only made available on a commercial basis.

### Surveys of Firms or Households

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**World Economic Forum Global Competitiveness Survey:** As part of the Global Competitiveness Survey, the Executive Opinion Survey is a firm survey designed to capture perceptions about the business environment in a country by firms and businesses operating in that country. For many of the issues taken into consideration in the Worldwide Governance Indicators (and hence covered in this note), business executives are asked to assign a rating between 1 (worst outcome) and 7 (best

performance). The sample frame is designed in such a way to reflect each sector's share of GDP and ensure (1) the representation of both large- and small-sized companies and (2) that the surveyed businesses have a sufficiently wide geographical coverage. The number of respondents from Malta who take part in this survey varies but is generally quite low. With the exception of 2016, when 74 businesses took part in the survey, the number of respondents ranged between 42 and 58 in the period 2011 – 2018. In 2019, 65 respondents participated in the survey. A country's performance in a particular criterion for a particular year is calculated as a weighted average of (1) the score awarded by businesses in that year, and (2) the score awarded by businesses in the preceding year.

**Gallup World Poll:** This annual, nationally representative household survey captures the perceptions of around 1,000 Maltese respondents who take part in telephone interviews. Gallup undertakes quality control measures on its selection of samples and the sample's margin of error is calculated at the 95% confidence level.

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#### Non-governmental organisation Data Providers

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**Freedom House:** As a non-governmental organisation, Freedom House currently assesses Malta's governance through the *Freedom in the World* report. Until 2017, a Press Freedom Index calculated on the basis of the *Freedom of the Press* report was also constructed and consulted. These reports are based on assessments by staff at Freedom House and other consultants, including local contacts, news articles and other NGOs, among others.

**Heritage Foundation Index of Economic Freedom:** After consulting a number of sources for the relevant data, an *Index of Economic Freedom* covering twelve freedoms is constructed by staff at Heritage Foundation. All twelve components, which include the indices for *investment freedom* and *financial freedom* are scored on a 0 – 100 scale.

**Reporters without Borders:** The non-governmental organisation *Reporters without Borders* constructs the Press Freedom Index. This index is made up of (1) quantitative data about abuses on journalists, and (2) qualitative data derived from a questionnaire answered by respondents selected by the organisation, often comprising lawyers, sociologists and media professionals.

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#### Public Sector Data Providers

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**Cingranelli Richards Human Rights Database & Political Terror Scale:** The Political Terror Scale, used as a measure of *political stability and absence of violence*, captures state-sponsored political terror such as imprisonments, torture and rule of law violations. Data for Malta is based on annual reports on human rights practices as published by Amnesty International and the U.S. State department.



**Institutional Profiles Database:** A questionnaire is answered by the country/regional Economic Services at the French Ministry for the Economy and Finance's (MEF) and the network of country offices at the French Development Agency, using their own knowledge and the input of country experts. Data are not collected on a yearly basis, with the latest dataset going back to 2016 and following other editions of 2001, 2006, 2009 and 2012.

**US State Department Trafficking in People Report:** The Trafficking in Persons Report is issued by the U.S. Department of State following consultations with U.S. embassies, global governments, NGOs, international organisations, media and other sources.