PROBLEMS IN PUBLIC MANAGEMENT DEVELOPMENT IN ASIA

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Introduction

Is it possible to measure the quality of overall governance in a developing Asian country? Are present measures robust enough to allow the ranking of countries along a continuum from well-governed to poorly-governed? Should these rankings be used by donor agencies and private investors in making investment decisions? Despite the complexity and diversity of approaches of governance systems, there are various qualitative and quantitative tools being used in the region. In this article, the advantages and disadvantages of some of these tools will be analyzed, and some lessons will be derived showing how the prudent use of governance indicators can help development agencies and private investors.

Until a few years ago, the Asian Development Bank (ADB) had not paid enough attention to governance issues, in part because information is highly subjective and difficult to come by. Also, in comparison to economic issues, governance is more culturally-specific, with greater cross-country differences.

Another objection to taking governance issues into consideration came from Article 36 of the Bank’s Charter, which states that the Bank, “…shall not interfere in the political affairs of any member nor shall they be influenced in their decisions by the political character of the member concerned. Only economic considerations shall be relevant to their decisions…”

The term "economic considerations," however, has been widely interpreted by the Bank. Data from recent studies are showing that governance matters for economic development. For example, a survey of governance in around 165 countries found that a one standard deviation increase in any one of 6 governance indicators causes a 2 ½ fold increase in PC income, a 4 fold decrease in infant mortality, and a 15 to 25 percent increase in literacy. A one standard deviation increase would be moving from rule of law in Russia to the Czech Republic, or moving in reducing corruption from levels in Indonesia to levels in Korea. This research indicates a causal link between improved governance and improved development performance. Easterly and Levine (1997) compare development performance in Asia and Africa, and find the latter suffered because ethnic conflict encouraged policies fostering rent-seeking rather than economic performance. Van Rijckeghem and Weder (1997) use regression analysis to show that countries with poorly paid public officials tend towards higher corruption.

The link is strongest for the extremes: the worst performers have the worst governance, and the best, the best. The link is harder to prove when comparing countries closer in rank order. For example, China’s economic performance has recently been stronger than India’s; yet India has a highly developed (though out of date) legal system and many lawyers, while China’s legal system is, by comparison, rudimentary. As Dethier (1999) points out, the reason may be that there are informal substitutes for the legal protection
and enforcement of property rights which existed long before states and formal legal institutions (e.g. arbitration, reputation, merger, strong-arm tactics, and altruism), highlighting one of the problems of specifying governance indicators.

In addition, there are a host of problems with data, model specification, and statistical estimation that make any analysis of causal links between governance and development performance exceptionally difficult. Take, for example, the case of a posited link between poor civil service pay and corruption, cited above. Broader comparative research indicates that there is a high correlation between the various governance indicators in most data sets. Thus, a significant regression finding between two variables may be “caused” by one or more other factors not being measured. This article will not go further into such questions, but rather focus on the task of measuring the quality of governance for its own sake.

Based on the presumption that effective governance is needed for strong development performance, the Bank adopted a policy, Governance: Sound Development Management, in August 1995, and an anti-corruption policy in 1998. In addition, by launching a governance website in 1999, and hiring a core group of specialist staff, the Bank has moved proactively to address a broad range of governance issues.

The Bank defines governance as, "...the manner in which power is exercised in the management of a country's social and economic resources for development." ADB’s emphasis in its governance programming is on dialogue and local ownership. Every effort is made to ensure that governance programs and conditions are:

1. based on knowledge of the realities in practice rather than on blueprints and preconceptions;
2. based on genuine dialog rather than just pressure;
3. implemented forcefully but with a realistic sequence and timetable
4. designed taking into account the constraints of country capacity to carry them through;
5. flexible enough so that executing agencies can develop individual sub-projects within programs as and when progress permits;
6. funded by a higher proportion of grant-funded technical assistance to lending than would be the case for other types of programs.

A central governance challenge is that while the Bank’s overarching objective is to reduce poverty in developing member countries (DMCs), many DMC governments are essentially non-democratic. Olson (2000) argues that under autocratic systems, ruling elites block reforms that would disrupt the status quo that allows them to plunder their citizens. Yet Olson acknowledges that the same elites have an "encompassing interest" in the domain they are exploiting: if it prospers, they can extract more for themselves in taxes and other way. And Dollar and Kraay (2000) show the surest way to reduce poverty is economic growth. So there is some reason for hope.

Another way of looking at the challenge is that one might expect even autocratic governments to redistribute some minimum amount in order to ensure that some of the most visible manifestations of poverty are reduced. This would reduce adverse publicity.
(e.g., bad for business and tourism), and reduce the threat of socio-political instability. However, it is not easy to persuade these governments to transfer large amounts of public resources to poor and weak segments of society that have little political leverage, or to work for pro-poor, sustainable economic growth.

**Reasons for Measuring Governance**

Over the last decade, there has been an increasing interest in measuring governance across nations by investors, donor agencies, and academics. Deleon and Resnick-Terry (1999) explain how earlier efforts by academics such as Binder *et al.* (1971) went out of favor in the 1980s as analysts focused on differences in context, and the difficulties these cause in making comparisons. However, over the last decade, measuring governance has come back into favor through a combination of advances in information and communications technology (thus facilitating cross-national data-gathering and research) and advances in public choice theory and institutional economics. The increasing impetus for performance appraisal and efficiency has led to the international search for good practices or “policy pinching”, and the inevitable comparative measurement to see if what worked in country "X" works as well in country "Y".

Donor agencies and other investors want comparative governance measurements to help in making sound investment decisions. In the past, agencies allocated official development assistance based mainly on per capita income and population. Poor countries tended to get more aid per capita than better off ones, and small countries more than larger ones - both to compensate them for increased risks, and because the cost of running an aid program in a country dictates a minimum expenditure level, leading to the highest aid allocations per capita in some of the smallest countries. Countries that benefitted from aid under these allocation formulae were often not well governed. As official development assistance declines, and is replaced by investment from private investors, pension funds, and the like, development financing is likely to be more and more attracted to countries with favorable governance indicators, thus shifting resources in many cases to a different set of countries.

International agencies also want to find out if governments are abiding by international conventions and treaties they have signed. UNDP (1991) used the Humana Index, for example, taking account of 40 different dimensions of human rights and then scored each country for compliance or non-compliance. The International Parliamentary Union (2000) ranks countries based on the percentage of women in national legislatures. There are also mechanisms for monitoring countries’ periodic reports on the Universal Declaration on Human Rights and related conventions outlining legislative, judicial, administrative and other requirements. NGOs such as Freedom House (1999) and Institute for Democracy and Electoral Assistance (1997) monitor comparative progress and setbacks in governance. The Political and Economic Risk Consultancy (1998) rates eleven Asian countries based on perceptions on the quality of media. Governments themselves also measure the governance of their neighbors to assess security risks.

**Methodological Problems with Measuring Governance**

Governance can be measured in terms of effort or in terms of results. The former is important for morale, and also fairness when international concessional fund allocations...
are made. A small step forward in a country with weak governance may be more difficult to achieve than a larger step forward in a better governed country; The former deserves some credit for its achievements, however meager in comparative terms.

Yet measures of effort need to be combined with measures of tangible progress towards objectives. There are four types of results: in terms of inputs, outputs, outcomes (including impacts), and process. When results measurement is cost effective and appropriate, one should use whatever combination of indicators that is suitable for the activity, sector, country, and time being measured. Choosing the right combination raises many methodological issues and tradeoffs. For example, there is the common problem that “what you see is not always what you get.” Laws and regulations enacted may not be enforced. Anti-corruption units may focus on eliminating political opponents. Policymakers may ventriloquize commitment to donor-supported policy changes, giving the impression of local ownership of reforms; yet their actual views may be directly opposite. Expatriate advisors may be used not to train counterparts, but to carry out policy formulation and coordination roles, thus sidelining counterparts, who are seen by insecure rulers as potential threats if they know too much. Staff given specialized training may be transferred to assignments where the training is irrelevant for the same reason, thus perpetuating problems of low government effectiveness. Thus, one needs to be careful what one measures, and what inferences are drawn.

Another issue is who does the measuring, and on what authority. A central goal of measuring governance in developing Asia is to encourage countries to improve through a combination of external and internal incentives. External incentives include increased aid allocations and investment, and improved standings in international organizations. Yet many of the measurements used are designed and implemented by external evaluators, and are thus subject to the criticism that they are not sensitive to local contexts, and not locally owned. The Development Assistance Committee of OECD (1998, 1999) is developing methodologies for measuring governance jointly with partner countries in an effort to support country-based processes and improve local ownership.

Examples of Measuring Governance in Practice

Qualitative Reporting

Qualitative reporting can give richness and depth of analysis. It is particularly suitable for measuring outcome and process variables, and may be based on international standards. Such reporting typically analyzes each case separately, may include comparative, quantitative indicators as part of the analysis, and may also rank cases based on the quality of the governance aspects examined. Here are some examples:

Governance issues studies

International donor agencies carry out these studies to better understand how governance affects their assistance, and to get pointers on how the assistance can better help improve governance in each developing member country (DMC). Since the ADB governance policy was approved, governance issues have been analyzed in separate sections of Country Assistance Plans and Country Operational Strategy Studies. In addition, the Bank is selectively carrying out separate governance issues studies in
developing member countries, which then become the basis for detailed governance strategies for the countries. Studies for Thailand and Cambodia are completed. Other studies are underway in China, Lao PDR, Nepal, Pakistan (a governance issues study team was working in Pakistan during the October 1999 coup), Bangladesh and Vietnam. In addition, the ADB (1999) has completed a major, comparative review of public sector reform in 6 Pacific island countries. The World Bank is carrying out comparable “National Institutional Reviews” in selected countries.

These studies pay particular attention to the extent of transparency in budget preparation, level and trend of non-productive government expenditures and spending on social sector programs, degree of participation in development processes (at national, sector, and project levels), success in fighting corruption, prevalence of legal and bureaucratic factors promoting official secrecy and inhibiting public access to information, and the need to ensure that complex, large, and unusual patterns of financial transactions are monitored and reported. Based on this analysis, the Bank works with developing member countries to formulate strategies and programs to address the key governance issues identified, together with relevant performance indicators.

By tailoring work to each country’s specific conditions, they avoid some of the methodological problems discussed earlier. For example, some of them, such as the Cambodia study, have been highly participatory, thus building local ownership for future reforms. They avoid mistaking form for content by going beyond quantitative ratings, and allowing for analysis of distinctive features of country context. They provide a reality check for interpreting standard indicators of overall governance across countries. The disadvantage of these studies is that they can be selective, may be biased by the self-interests of informants, and do not have built in systems for resolving conflicting informant views.

Reporting on fiscal transparency

The “Code of Good Practices on Fiscal Transparency” was adopted by the Board of the IMF. (1998) The Code includes, “Requirements for a minimum standard of fiscal transparency.” This minimum standard is far below the standard found in developed countries, but judged to be the minimum necessary for effective functioning of a government. There are four broad requirements covered: clarity of roles and responsibilities, public availability of information, open budget preparation, execution and reporting, and independent assurances of integrity. This minimum standard has provided a useful basis for both self-diagnosis by countries themselves, and reporting by international donors. For example, it was used as the basis for country reports by 10 Pacific Island Countries facilitated by the IMF and UNDP in 1998, and as the basis for part of the ADB Governance Issues Study for Lao PDR in 1999.

As with some of the Governance Issues Studies, country self-diagnoses can build ownership for ensuing reforms. Based on a standardized questionnaire, they also provide data in a format whereby countries can be compared to each other. Although this reporting looks only at limited aspects of governance, it focuses attention on a reform agenda that can have many positive linkages to other aspects of governance.
Innovation awards program

This provides an explicitly competitive opportunity for reporting on governance. The theme of the CAPAM (the Commonwealth Association of Public Administration and Management) International Innovations Awards Program in 1998, was "Service To The Public." CAPAM received 121 submissions to the Program from 24 countries worldwide. The Awards Program was co-sponsored by CAPAM, KPMG, and Binariang, a telecommunications company in Malaysia.

Winners and summary descriptions from CAPAM (1998) included:

1. **Education Guarantee Scheme, Rajiv Gandhi Shiksha Mission, State of Madhya Pradesh (India)**-- In one year over 16,089 schools were built, or 40 new schools per day. Nearly 500,000 children were served.

2. **Ontario Delivers - Improving the Delivery of Quality Public Service in Ontario (Canada)**-- Electronic service delivery was adopted, including a "One-Window" approach, leading to faster service and greater ease of transactions.

3. **New Pension Delivery Systems (South Africa)**-- The Department of Social Welfare, Free State has cut down time to process applications from three months to as little as two weeks, and serves citizens 7 days a week. Results also include less fraud, less need for long travel to pay points, and better security at pay points.

A subsequent competition is being carried out over the period 1999-2000. This type of reporting is highly participatory, helps to raise the stature of governance reformers, and is a good means of sharing ideas that may be picked up in other countries. The disadvantage is that successful innovations say nothing about the overall governance environment, and are often dependent on exceptional individuals and contextual factors that can’t be easily replicated.

**Quantitative Reporting**

In addition to qualitative reporting, quantitative indicators can give numerical precision (although often not as precise as they seem on the surface). In some cases, these tools can allow cross-country comparisons. Kauffman et. al. (1999) combines many performance indicators into six broad clusters, allowing statistical analysis of the relation between governance and economic performance across a range of countries.

Dethier (1999) points out that most governance variables are proxies, whether qualitative (e.g. perception of corruption) or quantitative, e.g., percentage of total procurement subject to open, competitive bidding. In the case of the former, subjective values are typically ranked on an ordinal scale. The use of proxies runs a high risk of measurement errors and biased estimates. There is also a common problem that some explanatory variables used in studies are poor proxies for describing actual legal and political processes. A good proxy indicator should be relevant, and permit regular observation and "reasonably objective" interpretation to determine the change in its value or status.
Each aspect of governance can be measured in different ways, for different purposes. In the case of corruption, for instance, one can measure the public or experts’ perception of corruption, or experiences of corruption, e.g., frequency of bribery in procurement contracts, amount of bribes as a percentage of contract value, frequency of bribery in permit applications, percentage of public sector jobs bought, percentage of public servants income as bribes. Alternatively, one may use costs of public services, costs of construction, assets of leaders, etc. as more indirect (but "harder") proxies of corruption, poor governance and wastage. A good measurement of corruption can present hard data and generate public debate on the issue of corruption. But corruption is only a symptom of underlying weaknesses in governance. Thus complementary diagnostic (either qualitative or quantitative surveys on governance can potentially identify the underlying causes of corruption. For example, whether a public institution bases its hiring and promotion decisions on meritocracy or favoritism and whether there are auditing and oversight mechanisms in budget allocation may explain the extent of corruption in the institution. Dethier (1999) points out that diagnostic surveys can also depoliticize the discussion of corruption by shifting public attention from people to institutions.

Here are some examples of uses of quantitative indicators:

Democracy and governance program indicators

Developed by the Center for Democracy and Governance (1998), US Agency for International Development to measure country and program performance, they are organized under four governance objectives: strengthened rule of law and respect for human rights, more genuine and competitive political processes, increased development of a politically active civil society, and more transparent and accountable governance institutions. Indicators are organized under program “objective” and “intermediate results” being measured. Among the hundreds of indicators listed, one example is: “Judicial salary and benefits as a % of what a comparable professional makes in private practice.” This comes under the first objective, and the intermediate result: “Effective and fair legal institutions.” A suggested guideline is that compensation should ideally be 80-90% of that in private practice. Compensation significantly less than that is a warning flag for rule of law. As with all the indicators, there is an estimate of the cost of obtaining the needed data: in this case, “low” (less then $500).

This approach stresses the need for cost-effective indicators and tradeoffs. For example, to determine the intermediate result: “improved application of the law in commercial cases”, one could conduct an expert review of sample cases to see if the law had been appropriately applied. A lower-cost proxy indicator would measure “percentage change in the number of commercial cases filed.” The use of this proxy would assume that citizens are more willing to file cases if they think the law will be predictably and fairly applied.

This approach also stresses that indicators be operational: “number of public defenders per 100,000 population,” or “percent change in number of cases handled by public defenders,” rather than “availability of legal services.” Indicators should show the size of the problem when possible: “percent of human rights violations reported investigated/prosecuted” rather than “number of human rights violations reported investigated/prosecuted.” Indicators should measure incremental changes where possible, not just the attainment of thresholds: “percent of civil society organizations showing improvement on an index,” rather than “percent of civil society organizations...
that have a written strategic plan.” Indicators should also measure the intended result as directly as possible: “percent of citizens understanding basic human rights” rather than “numbers reached by civic education.”

USAID developed these indicators to monitor progress in achieving planned results. They were initially tested in four countries with different governance systems, data availability, and data collection expertise. There was no explicit intention to use the indicators to compare governance progress in these or other countries, but rather an effort to come up with a set of indicators robust enough to be suitable for a range of country contexts.

Performance allocation rating

The World Bank International Development Association system is based on a country policy and institutional assessment (CPIA) (80%) and a portfolio performance review (20%). The former is based on ratings on a scale of 1 – 6 of 20 criteria under 4 clusters: economic management, structural policies, policies for reducing inequalities, and public sector management/institutions. Countries whose performance is rated “unsatisfactory” on the governance criteria – criteria from the CPIA and the procurement criterion of the portfolio performance component, are put on a governance watch list. Countries receiving “highly unsatisfactory” ratings on governance criteria have their overall rating cut by a third, called the “governance discount”. A country’s allocation of concessional financing is then calculated through a formula taking into account per capita GNP and the performance rating. The governance criteria of the CPIA are: property rights and rule-based governance, quality of budgetary and financial management, efficiency of resource mobilization, efficiency of public expenditure, and transparency and accountability, and corruption in the public sector.9

Despite the methodological problems indicated earlier in making cross-country comparisons based on governance indicators, the ADB is currently designing a system to measure overall governance in developing member countries. Unlike the World Bank, the ADB governance ratings are not planned to be used currently as part of a formula for determining overall lending allocations, but rather as a guide for policy dialog and program planning. The ADB objective is to stimulate discussion with countries on how governance indicators are moving and why. The approach will be to work in partnership with countries to solve mutually-acknowledged problems.

Moody's (2000) country risk guidelines

These are used as the basis for "sovereign ratings" of a country's creditworthiness, taking into account answers to, *inter alia*, the following questions:

1. *Is there a substantial risk of political regime change which could lead to a general repudiation of debts--or a risk of civil war/anarchy or foreign invasion?*

2. *Does the country have a well-established system of contract law, which allows for successful suits for collection of unpaid debts, seizure of collateral, technical breakdowns?*

3. *Does the country have a deep financial system which is effective in making payments and avoiding technical breakdowns?*

4. *Is the regulatory/legal environment malleable, corrupt, unpredictable, etc.?*
5. Is there a tendency towards hyperinflation? (Moody's, 2000)

The resulting analysis leads to investment ratings for short- and long-term debt. Some examples of current sovereign rankings in the region for long-term debt include both Investment-Grade (Singapore-Aaa, People's Republic of China – A3, Hong Kong A3, Rep. of Korea-Baa2, Malaysia-Baa3,) and Speculative-Grade (Fiji-Ba1, Philippines-Ba1, Thailand- Ba1, India-Ba2, Papua New Guinea-B1, Indonesia-B3, Pakistan Caa1).

Similar to other ratings systems such as PRS Group (2000), S&P (2000), and Simon (1992), this one measures aspects of governance of particular interest to certain types of investors. There is no attempt to build country ownership in the system: indeed the independence of the system from country manipulation is a prime attraction to clients. Instead, countries are encouraged to improve on the indicators being measured, so that they can reduce interest charges and attract more investors.

Transparency International (TI) corruption and bribe payers perception indices

This international NGO released its fifth annual Corruption Perceptions Index (CPI) in 1999, ranking 99 countries based on a compilation of 17 surveys from 10 independent organisations. TI (1999) also released for the first time a Bribe Payers Perceptions Index (BPI). This ranks 19 leading exporting countries in terms of the degree to which their corporations are perceived to be paying bribes abroad. The BPI shows that companies from many leading exporting nations are widely seen as using bribes to win business. The BPI reveals that on a scale of 0 – 10, where 10 represents a corrupt-free exporting country, the best score among the countries rated was 8.3, while the worst score, representing a great propensity to use bribes, was 3.1. China (including Hong Kong) was seen as having the greatest willingness to pay bribes abroad, followed by South Korea, Taiwan, Italy and Malaysia. Sweden, Australia and Canada achieved the most favorable results.

These indices are valuable for generating publicity, leading to pressure from citizens on businesses and governments to reduce corruption. However, as in most quantitative governance indices, the degree of numerical precision should not be overstated. The comparative data surveys on which the indices are built draw from the experience and perceptions of those most directly confronted with the realities of corruption, e.g. business people, country experts, chambers of commerce etc. As such, they may reflect biases stemming from different country contexts. For example, Nigeria may be ranked more corrupt than China because the former has a much more open press than the latter, with extensive reporting on alleged corruption reinforcing the impression of its scale. While the actual level of corruption in China could be similar, the perception might be that it was lower because it is not as openly reported on or discussed.

One could try to measure corruption in other ways: say by comparing the number of prosecutions or court cases. Yet such cross-country data might again not reflect actual levels of corruption, but rather the quality of prosecutors, courts or the media in exposing corruption.

Lessons from Work in Progress on Measuring Governance

There is increasing interest in measuring governance in developing Asia among development agencies, private investors, citizens, and governments. Despite the
complexity and diversity of approaches of governance systems, there are various qualitative and quantitative tools being used in the region, developed thanks to advances in theory and in information and communications technologies making comparative work of this type more feasible and intellectually coherent. The examples discussed here have been selected to highlight some lessons for work in progress. References to other work are included, but given the fast-moving nature of the field, this list is bound to be incomplete.

The first lesson from this work in progress is that the measurement of governance performance over time in a single country is conceptually more straightforward than measuring performance across countries. The USAID indicators discussed have been designed for the former purpose, and would seem to provide a useful toolkit for a wide range of different country contexts. The ADB and World Bank Governance Issues Studies are another example, adding qualitative richness to the task of measuring governance in Asian countries. By focusing on individual countries, they avoid problems of how to make meaningful comparisons between countries in widely different situations.

A second lesson is that cross-country comparisons that group countries into broad clusters are more meaningful than comparisons which rank-order countries. Moody’s “investment grade” rating is an example of a broad cluster grouping. The IMF minimum standard on fiscal transparency can also be useful in separating countries that meet the standard from those that do not.

The most useful indicators are clear, relevant, economic, adequate, and monitorable. Such indicators can be helpful for development agencies and private investors if used cautiously.

NOTES

1 Views expressed are personal perspectives of the author and may not reflect those of the institution with which he is affiliated.

2 The indicators measure the process by which governments are selected, monitored and replaced, the capacity of the government to effectively formulate and carry out effective policies, and the respect of citizens and the state for laws, regulations and other institutions that govern the economic and social interactions among them. Cf. Kaufmann et al. (1999).

3 See <http://www.adb.org/Work/Governance/>. The “links” page lists many other websites covering governance issues.

4 This issue has been explored extensively by the Money Matters Institute, at <www.worldpaper.org>

A major research effort within the US government (National Research Council, White House, et al) in the mid-90s tried to establish indicators that would predict the risk of state failure. However, the results were never released because of fears of diplomatic problems (and possibly self-fulfilling prophecies) with the high-risk countries.

The section draws from, *inter alia*, Schiavo-Campo and Sundaram, forthcoming.


Other tools in use by the World Bank include, *inter alia*, Program Expenditure Reform Credits (looking to minimize risks in program lending), Country Financial Accountability Assessment (comparing local accounting and audit standards to international practice), and Country Procurement Assessment Report (sub-set of CFAA). See <http://wbln0018.worldbank.org/prem/ps/iaamarketplace.nsf>

REFERENCES


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