

I. Introduction

The 1997 financial crisis in Asia exposed structural weaknesses in the banking and corporate sectors of affected countries owing largely to poor governance, lack of transparency, and weak supervision and regulation.¹

The Asian Development Bank (ADB) has been taking initiatives to assist Developing Member Countries (DMCs) to overcome these structural problems. The focus on improved governance includes enhancing the effectiveness of public administration and development management at the sector level and in national institutions in the DMCs. Where appropriate, institutional development of the local and provincial agencies and the private sector is also covered. A sound regulatory financial framework and its enforcement, capable institutions, skilled human resources, and effective monitoring and supervision are important prerequisites to an efficient financial structure.

Regional Technical Assistance (RETA) No. 5877 – *Strengthening Financial Management and Governance in Selected DMCs* – was approved by ADB for the purpose of carrying out initial studies to identify gaps and weaknesses in financial management and governance and to recommend courses of action to overcome these problems. Objectives were to:

- (i) assess the capability and capacity within each country to provide efficient and effective accounting and auditing support to meet international standards and best practices and address the issue of training and capacity enhancement
- (ii) determine the existing accounting and auditing standards of each country
- (iii) assess the degree of deviation from International Accounting and Auditing Standards (IAAS) while identifying weaknesses and possible corrective options
- (iv) discuss the fieldwork findings and introduce the concepts of the international standards through workshops
- (v) develop reference materials for potential users of IAAS, and
- (vi) determine the level and type of assistance needed by each country in order to provide acceptable accounting and auditing support to the private and public sectors.

¹ Zhuang, Juzhong, David Edwards, David Webb and Ma. Virginita Capulong. 2000. *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand*. Asian Development Bank: Manila.

Seven countries agreed to participate in the study: Cambodia, Mongolia, Pakistan, Papua New Guinea, People's Republic of China, Uzbekistan, and Viet Nam. The RETA studies were coordinated with the World Bank's activities in this area, including their Country Financial Accountability Assessment (CFAA) initiatives. In the case of Viet Nam, the ADB study was conducted jointly with the World Bank.

The first part of the study examined the current accounting and auditing structure and systems adopted in each country. It also (i) analyzed the political, institutional, and regulatory and legal framework on accounting and auditing practice and the level of enforcement of existing laws, rules, and regulations, together with educational and training arrangements, (ii) identified gaps and weaknesses in accounting and auditing support available and deviations from international standards, and (iii) identified alternative options to remedy the identified weaknesses, with the objective of eventually doing away with these.

The second part of the study disseminated the findings of the country research through in-country workshops. Each workshop provided a cross-section of views on the research findings and established ways to move forward to improve financial management and governance in the country. The study results and recommendations were further discussed and debated at an international conference at ADB headquarters in Manila on 16-18 October 2000.

This report examines selected financial management and governance issues and summarizes the results of the seven country studies. It was finalized following the October conference. In addition to this introduction, the report has the following chapters:

- **Chapter II** describes the relevance of financial management and governance arrangements to development outcomes. It also identifies symptoms associated with good and bad arrangements.
- **Chapter III** provides contextual background information on the seven countries that participated in the study.
- **Chapter IV** identifies and examines selected financial management and governance issues.
- **Chapter V** describes the situation in each country, identifies weaknesses, and presents recommendations to address these weaknesses.
- **Chapter VI** presents the action plans for each country. It also examines identified regional issues.