

Background

In response to requests for an update on governance issues in four Greater Mekong Subregion (GMS) countries, this paper begins with a short summary of Asian Development Bank (ADB) policies on governance. It then presents a sampling of evidence from governance indicators, suggesting that some GMS countries are better performers than others. It goes on to summarize ADB's efforts during 1998–2000 to collect information on governance issues in Cambodia, Lao People's Democratic Republic (Lao PDR), Thailand, and Viet Nam, and ends with suggestions on how ADB can help its developing member countries (DMCs) to improve their governance.

ADB Approach to Effective Governance and Public Management

In 1995 ADB adopted its Governance: Sound Development Management policy, which defines governance as “the manner in which power is exercised in the management of a country's social and economic resources for development.” The policy does not opt for particular governance structures or practices, but it does specify four conditions necessary for good governance: accountability, participation, predictability, and transparency. While ADB had already been contributing to improved governance, the policy statement noted that the quality and sustainability of ADB's governance interventions needed to improve.

The policy also emphasizes that, in accordance with its charter, ADB will avoid any involvement in the political aspects of governance. However, given that reform efforts are unlikely to succeed unless the political realities that underlie governance problems are taken into account, ADB has adopted a broader view of governance than originally envisaged.

During the course of implementing the governance policy, some aspects have been strengthened (see, for example, ADB 1998a in connection with law and development and ADB 1998b in relation to nongovernment organizations [NGOs]). The policy was also expanded in two new directions: anticorruption in 1998 (ADB 1998c) and poverty reduction (ADB 1999d) in 1999.

Anticorruption

The anticorruption policy has three principal objectives: (i) to support competitive markets and public administrations that are efficient, effective, accountable, and transparent; (ii) to support promising anticorruption initiatives on a case-by-case basis; and (iii) to ensure that ADB's projects and staff adhere to the highest ethical standards.

The policy emphasizes efforts to reduce or eliminate situations that promote corruption and to deal with identified cases of corruption. To this end ADB seeks to reduce direct government intervention in the economy and promote institutional reforms, such as liberalizing licensing regimes and foreign exchange markets and reforming public

administration. ADB also assists governments that seek help with their anticorruption programs and supports regional initiatives, including conferences and training activities.

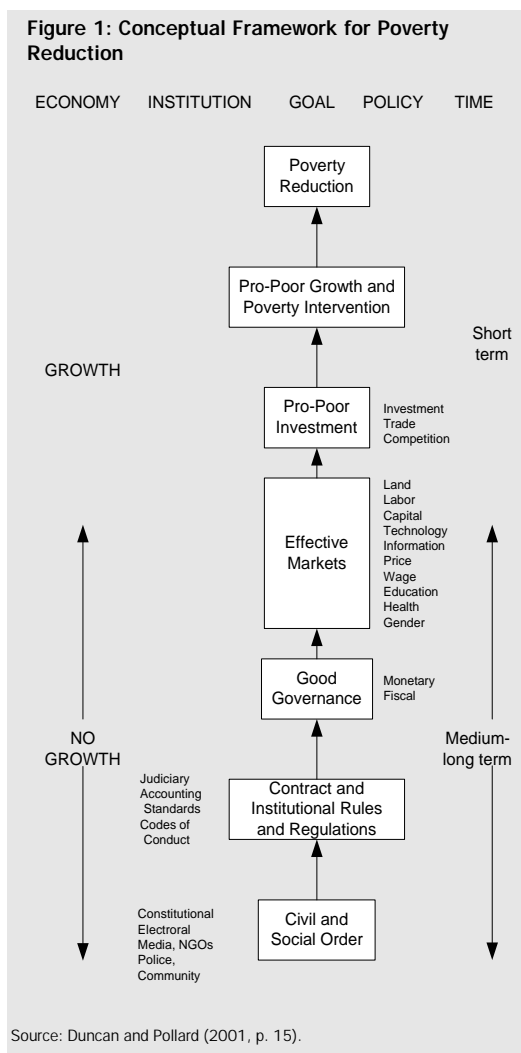
Poverty Reduction

Poverty reduction is ADB's overarching goal. Poverty reduction rests on a foundation of civil and social order, good governance, and institutional rules, leading to effective markets (Figure 1). Weaknesses such as poor governance hurt the poor through both economic and noneconomic channels. First, they weaken the effectiveness of markets, and thus hold down economic growth, which affects the poor because growth in the overall economy tends to be accompanied by equivalent growth in the incomes of the poor (Dollar and Kraay 2000). Second, growth and human development does not automatically trickle down to the poor: the structures that create poverty need to be addressed. Good governance for poverty reduction includes (i) creating accountability in the use of public funds to aid the poor, (ii) building national capacities for pro-poor policy formulation and implementation, (iii) improving private sector participation for better service delivery to the poor, and (iv) helping the poor to organize themselves.

Indicators of Governance in the GMS

Since its adoption of the governance policy, ADB has become increasingly interested in measuring governance in its DMCs. Despite the complexity and diversity of governance systems, a variety of qualitative and quantitative tools to do this have been developed (Wescott 2000). The first lesson ADB has learned is that measuring governance performance in a single country over time is conceptually more straightforward than measuring performance across countries (for example, see ADB 1999a,b,c,e, 2000a,b,c; Kato and others 2000).

The objectives of ADB's governance assessments are to understand the governance challenges in each DMC and assess the effectiveness of past assistance from ADB and other donors, so as to formulate a



role for ADB in addressing future governance challenges. The assessments provide the analytical underpinning for an ADB governance strategy that will then be reflected in country strategies and programs. The assessments also give ADB staff working in each country an idea of the "big picture," and help ongoing debate on the effectiveness of ADB assistance, and how resources might best be directed to pro-poor results.

The governance assessments are being done collaboratively with the World Bank, the United Nations Development Programme (UNDP), and other donors to avoid duplicating efforts and creating confusion in the countries by providing

isolated diagnoses.¹ Both ADB and the World Bank have recently adopted performance allocation systems for dividing scarce concessional lending resources, the Asian Development Fund (ADF) in the case of the ADB. This work is going ahead despite the difficulties of making comparisons between countries based on governance. Of the four GMS countries discussed here, three are ADF borrowers: Cambodia, Lao PDR, and Viet Nam. As of 2002, ADF allocations to these countries will take their performance on a number of governance indicators into account.

Measuring governance involves many challenges. Indicators can be a useful guideline in measuring a country's progress over time. Using indicators to compare countries to each other is more difficult, except by grouping clusters of countries together. For example, one relevant cluster could be derived from Moody's (2000) country risk guidelines. These are used as the basis for determining a country's creditworthiness taking into account answers to such questions as the following:

1. Is there a substantial risk of political regime change that 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 that 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?

Thailand receives a "speculative grade" rating and the other three countries considered here are not rated.

For commercial or other reasons Moody's may not have rated some countries that may have governance regimes equal to or better than its speculative graded countries. The respective rankings in the Transparency International Corruption Index may reveal such countries. For example, on a scale of 1 to 10, with 10 being the top score, Malaysia scores 4.8, Thailand scores 3.2, and Viet Nam scores 2.5

¹ The World Bank is planning governance assessments in the region. For an example from another region see World Bank (2000d).

(Transparency International 1999, 2000). Based on these rankings, Viet Nam could be added to the group of speculative grade countries. Other GMS countries are not ranked.

One limitation of these approaches to clustering is that they focus on governance from the perspective of investors. A different approach could look at overall development results and attribute good performance to such characteristics as good governance (see Dethier 1999; Dollar and Kraay 2000; see Kaufmann, Kraay, and Zoido-Lobaton 1999 for a rationale). Table 1 presents UNDP's human development rankings.

In addition to these aggregated governance indicators, one can look at particular aspects of governance. A recent study combines many governance performance indicators into six broad clusters and

Table 1. Human Development Rankings for GMS Countries, 1998
(rankings range from 1 to 174, with 1 being the best)

Country	Ranking
Thailand	76
Viet Nam	108
Myanmar	125
Cambodia	136
Lao PDR	140

Source: UNDP (2000).

ranks up to 165 countries in each cluster (see "The Composite Indicator Dataset Research Project" in Kaufmann, Kraay, and Zoido-Lobaton 1999). Of the GMS countries, Thailand ranks as first or second in all six; however, interesting differences are apparent in individual clusters.

A recent World Health Organization (WHO 2000) study is useful because it measures not only achievement, but also effort (note, however, that scores should be interpreted with caution because of data limitations). The study looks at a country's total health performance (see Table 2 for results for the GMS countries).

All these different rankings indicate that GMS countries have serious governance challenges. None are ranked investment grade by Moody's, none score more than one third of possible points on the

Transparency International index, and most are in the bottom half of countries based on the human development index and the health performance index. Nevertheless, some perform better than others. This point is explored further in four summaries of governance assessments carried out during 1998–2000.

Table 2: Health System Attainment and Performance for GMS Countries, 1997
(rankings range from 1 to 191, with 1 being the best)

Country	Attainment ranking	Performance ranking
Thailand	57	47
Viet Nam	140	160
Lao PDR	154	165
Cambodia	166	174
Myanmar	175	190

Source: WHO (2000).