Commitment to good governance, development and poverty reduction: methodological issues in the evaluation of progress at the national and local levels

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BACKGROUND

This report was prepared by Ms. Suchitra Punyaratabandhu, a member of the Committee for Development Policy, as a background paper for deliberations by the Committee at its sixth session (29 March-2 April 2004) on how to evaluate progress towards good governance in the context of the implementation of the Millennium Development Goals. The first part of the report reviews the concept of good governance as it has evolved over the past 15 years. Key defining properties of the concept of good governance are presented. The second part of the report examines current efforts to measure governance. As might be expected, different working definitions have led to the specification of different sets of indicators and indices of governance. The third part briefly reviews studies on governance that examine the relationship between good governance and other desired outcomes, such as poverty alleviation and policy performance. The report concludes by summarizing the key issues in the evaluation of good governance.

JEL Classification: H (Public Economics); O (Economic Development, Technological Change, and Growth).

Keywords: good governance, development, poverty, Millennium Development Goals.

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TABLE OF CONTENTS

The concept of good governance................................................................. 1
Measuring good governance: scales and indices ............................................ 3
  Dimension of good governance (Figure 1) ............................................. 4
  Human Rights Centre, University of Essex, United Kingdom ................. 5
  Content and assessment of the main initiatives measuring good governance (Table 1) ............... 8
  United Nations Economic Commission for Africa ..................................... 9
  Asian Development Bank – governance indicators for Viet Nam .................. 10
  Possible Governance/Public Management Outcome indicators for Viet Nam (Table 2) .............. 11
  Proposed Governance/Public Management Monitoring Framework for Viet Nam (Table 3) .......... 13
  The World Bank Revisited ................................................................... 14
  Findings .......................................................................................... 15
  Studies on governance ....................................................................... 15
  Studies commissioned or executed by donor agencies ............................... 16
  Academic research on governance .......................................................... 17
  Conclusions ..................................................................................... 19
  Notes ........................................................................................... 21

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The concept of good governance

Governance has been variously defined as “the management of society by the people”, a “the exercise of authority or control to manage a country’s affairs and resources”, b or as a complex system of interactions among structures, traditions, functions (responsibilities) and processes (practices) characterized by three key values of accountability, transparency and participation. Good governance has also been described as the striving for rule of law, transparency, responsiveness, participation, equity, effectiveness and efficiency, accountability, and strategic vision in the exercise of political, economic and administrative authority.

While it is striking how quickly governance became a popular concept in the 1990s, “there has hardly been a consensus as to its core meaning, and less and less of a common idea as to how it could be applied more concretely”. c The term does not possess a standard meaning. Nor has its meaning remained constant in the decade or so of its being accorded a central place in donor frameworks for development.

The lack of specificity in the meaning of the term “governance” becomes apparent when its evolution is examined. The concept achieved prominence in donor discourse around 1990, after the end of the cold war. Governance was conceived broadly as “the exercise of authority and control in a society in relation to the management of its resources for social and economic development”. d International donor agencies, the World Bank in particular, operating within the boundaries delineated by their statutes, adopted an essentially apolitical conception of governance. e This orientation helps to explain the focus of the international donor community on the improvement of the quality of (recipient country) public sector management, better service delivery, rule of law, and elimination of corruption, together with compliance with donor policies, for example, reduction of excessive military expenditures. f

By the mid-1990s, the notion of good governance had expanded to include transparency, accountability and participation. For example, the Ad Hoc Working Group on Participatory
Development and Good Governance, set up in 1993 by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), stated as its first key conclusion that democratization and good governance are central to the achievement of the development goals for the twenty-first century. Major elements of good governance, as identified by DAC members, included: the rule of law; strengthening public sector management and transparency/accountability by improving accounting practices, as well as budgeting and public expenditure management; and combating corruption. The framework proposed by the Ad Hoc Working Group was subsequently endorsed by the 1997 DAC High Level Meeting.

By 2000, more elements were added to the conception of good governance by the DAC. The statement issued by the 2000 DAC High Level Meeting took note that “good governance requires a broad approach to partnership extending beyond government and parliaments to include civil society and the private sector.” Moreover, in addition to the requirements of transparency and accountability, a new dimension was stipulated, namely, predictability. This last element was introduced in light of the financial crises in the latter part of the 1990s, which led to a call for improvements in corporate governance and stable financial frameworks.

In the future, new elements will likely be added to the definition of good governance. At present, at least three major features can be identified as the key defining properties of the concept of good governance.

First, good governance is predicated upon mutually supportive and cooperative relationships between government, civil society and the private sector. The nature of the relationships among these three groups of actors, and the need to strengthen viable mechanisms to facilitate interactions, are of critical importance.

Second, good governance is defined as the sum, or a combination, of the following elements: participation, transparency of decision-making, accountability, the rule of law and predictability. Democratic practices, civil liberties and access to information are sometimes added to the list. Donor assistance to strengthen governance in developing countries has focused on empowerment and capacity-building with the objective of enhancing these elements.

Third, good governance is subjective in concept. The values providing the underpinning for governance are the values postulated by international donor institutions. For instance, it has been observed that “if donor-conceptualized standards of good governance were more fully elaborated and insisted upon, it would almost certainly imply an insistence that Western-derived
standards of conduct be adopted in non-Western politico-cultural contexts”. Moreover, scholars have raised the problem of inherent contradictions among the elements, and observed that not only do efforts to promote good governance often have the opposite effect, but “what in one respect (for example, economic growth) is good governance, is clearly bad governance in other respects, such as labour conditions, democratic content of government and civil liberties”. In this context, the Asian “little tigers” are cited as an example.

Good governance as conceived by the World Bank, the United Nations Development Programme (UNDP), the Organization for Security and Co-operation in Europe (OSCE), the United States Agency for International Development (USAID) and other donor agencies consists of two major dimensions: political and economic (see figure 1). The political dimension can be broken down into four key components: government legitimacy; government accountability; government competence; and rule of law (human rights). The economic dimension also has four components: public sector management; organizational accountability; rule of law (contracts, property rights); and transparency (including freedom of information). This does not encompass all aspects of the concept of governance, but provides a framework for discussion. As the following section points out, initiatives to develop measurements of governance have been selective in the choice of dimensions and concepts.

Measuring good governance: scales and indices

“Whatsoever we wish to manage in society, we must measure and monitor.” These opening remarks by Dr. Mark Orkin, Chief Executive Officer of the Human Sciences Research Council of South Africa, delivered at a conference on good governance and democracy in 2002, probably reflect the sentiments of donor institutions and recipient countries alike. The remarks make reference to the failure to achieve consensus by supranational agencies on a set of indicators for the measurement of good governance. Four main attempts were cited: the Common Country Assessments (CCAs) of the United Nations Development Assistance Framework (UNDAF); the OECD/DAC “incubator”, with technical assistance from the World Bank; the road map towards the implementation of the Millennium Declaration; and the report by the “Friends of the Chair” of the United Nations Statistical Commission on development indicators. Reviewing these efforts, Orkin concluded, “Indeed, the further the show went down the road, the worse it got.”
Figure 1.

**Dimensions of Good governance**


**Source:** T. Landman, “Map-Making and Analysis of the Main International Initiatives on Developing Indicators on Democracy and Good Governance” (Human Rights Centre, University of Essex, Colchester, United Kingdom, July 2003. p. 92).
Commitment to good governance, development and poverty reduction: methodological issues in the evaluation of progress at the national and local levels

The initial set of items had political substance, but was still qualitative; the next set of items lost the political substance in quantifying them, and concentrated on free-market conditions; the third set omitted the indicators altogether; and the last document promised to tackle the problem sometime later!\(^k\)

Two main reasons for the failure to measure good governance have been presented.\(^l\) First, disputes about governance indicators are “endemically ideological”. Decisions regarding what to measure and which indicators to use are based on public administration and political frameworks, and these are normative in character. This gives rise to a situation where the same indicator may have contradictory interpretations, depending on which ideological underpinning is utilized. Second, some regimes, although forced into compliance by trade and aid considerations, are reluctant to produce and disseminate governance indicators that reflect adversely on their progress towards good governance. This reluctance is compounded when indicators are used in cross-country comparisons and rankings.

The preceding is intended as a cautionary note to accompany the following review of current initiatives for measuring good governance. In this regard, one additional observation is warranted, namely, that good governance is by and large treated as an instrumental value. In other words, it is a means by which to achieve desired ends. This begs the question, “Good governance for what?”. The response to the question varies, depending on the nature of the “what”: such as, “governance for poverty reduction,” or “governance for economic development/efficiency”. For this reason, different sets of indicators are used to measure governance, depending on the nature of the ends in question.

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In 2003, the Human Rights Centre of the University of Essex (United Kingdom), issued a report entitled “Map-Making and Analysis of the Main International Initiatives on Developing Indicators on Democracy and Good Governance.”\(^m\) The report formed part of a project commissioned by the Statistical Office of the Commission of the European Communities (EUROSTAT). One of the project’s main objectives was the provision of a synopsis of different approaches and methodological options available for measuring democracy and good governance. The final report of the project acknowledged from the outset, however, that good governance remained an “essentially contested concept,” since there was no consensus on its
Different definitions lead to different measures of the concept. Conceptual confusion compounds the methodological problem of how to develop meaningful cross-national indicators on which there is agreement. In the absence of a clear conceptual framework, controversy surrounds the tools of measurement.

The report also identified different categories of data collection. Public perceptions of good governance tend to be based on surveys of 20- to 50-person target groups, such as “important persons” in government, business and industry, using non-random sampling techniques. Standards-based data, drawing upon ideal-type frameworks of good governance, are employed in the construction of indices and scales, which are then used to evaluate progress towards the achievement of the ideals. For example, Freedom House civil and political liberties scores, which are standards-based ordinal scales, have been used in studies on good governance.

A third category of data is so-called events-based data, which consist of an enumeration of specific positive and negative events that reflect the promotion of, or impediments to, good governance.

Furthermore, the report by the University of Essex reviewed different ways in which indicators to measure good governance have been categorized. UNDP, for instance, makes the distinction between objective indicators, such as economic performance, and subjective indicators, which reflect respondents’ opinions and are perceptual. Another way to categorize indicators is to adopt a systems approach, whereby indicators are identified as either input, process or output. Input indicators measure “the performance of an obligation bearer,” process indicators measure the implementation process, and outcome indicators measure the progress achieved.

The report also took note of the trade-offs between different types of indicators, noting, “There are always trade-offs between the different types of indicators. Those that achieve global coverage tend to have a higher level of abstraction and may not provide the kind of differentiation required for policy analysis or policy decision-making. Those indicators that provide highly detailed event counts are difficult to produce across a large global sample of countries”.

Five types of measures of good governance were identified:

- Civil and political liberties or political freedoms as proxy measures for the rule of law and governance. Freedom House scales are the prime example of this type of
measure. Users include the Heritage Foundation and the Wall Street Journal, who have produced annual scores for 161 countries from 1995-2003;

- Frequency of political violence as an inverse measure of good governance. Measures of this type focus on “bad” rather than “good” governance. Global data bases exist for political stability indicators: for example, military coups, political assassinations, riots and demonstrations;

- Expert assessments and opinion of good governance (generally to assess investment and business climates). The United Nations University World Governance Survey Project (WGS), a collaborative effort with UNDP, has used expert opinion surveys on good governance for 16 developing countries and countries with economies in transition. Other organizations, such as Transparency International, Political Risk Services and Business Environmental Risk Intelligence (BERI) also produce rankings of countries across a range of indicators, including, for instance, political stability, the legal system and the judiciary, and the prevalence of corruption;

- Objective measures of good governance, such as the “contract-intensive money” indicator (CIM). CIM is the ratio of non-currency money to the total money supply and is based on figures supplied by the International Monetary Fund (MF). The logic of using CIM as an indicator of good governance is that, in highly uncertain environments (that is to say, where the rule of law does not prevail), individuals will choose to hold a larger proportion of their assets in the form of cash;

- Mixed measures that combine aggregate data, scales and expert opinion, such as the so-called Kaufmann, Kraay, and Zoido-Lobaton (KKZ), combined indices of the World Bank. A factor analytic technique is used on 300 different indicators of good governance to generate six indices: voice and accountability; political instability and violence; government effectiveness; regulatory burden; the rule of law; and graft. The six indices are available for 160 countries for 1996-2002.

The report of the University of Essex provides an overview and assessment of the methodological strengths and weaknesses of each initiative (see table 1). All the initiatives, with the exception of BERI, have global coverage, are based on “good” to “reasonable” time-series
Table 1.
Content and assessment of the main initiatives measuring good governance

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Type of measure</th>
<th>Geographical Coverage</th>
<th>Temporal range</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freedom House</td>
<td>Scale-based indicators for political and civil liberties</td>
<td>Global</td>
<td>1972-present</td>
<td>Global coverage, long time-series (since 1972), widely used; updated annually.</td>
<td>Lack of transparency in coding, unknown source material mixes economic assessments with political assessments, ideological biases, aggregation problems</td>
</tr>
<tr>
<td>Fraser Institute</td>
<td>Standards-based scales</td>
<td>123 countries</td>
<td>1975-2002</td>
<td>Global coverage; good time series (1975-2002); used widely</td>
<td>Mixes objective and subjective measure</td>
</tr>
<tr>
<td>Political Risk Services</td>
<td>Expert opinion on corruption rule of law, expropriation risk, repudiation of government contracts, quality of the bureaucracy</td>
<td>140 countries</td>
<td>1982-2003, updated annually</td>
<td>Global coverage; reasonable time series (1982-2003); updated annually</td>
<td>Unrepresentative sample of opinion; scores may represent underlying economic conditions; narrow measure of good governance</td>
</tr>
<tr>
<td>Business Environmental Risk Intelligence (BERI)</td>
<td>Expert opinion; political risk index</td>
<td>50 countries</td>
<td>1972 to the present, updated three times a year</td>
<td>50 countries</td>
<td>1966 to the present; lack of transparency in coding</td>
</tr>
<tr>
<td>Transparency International</td>
<td>Corruption Perceptions Index (CPI)</td>
<td>Global</td>
<td>1995-2002, updated annually</td>
<td>Global coverage; reasonable time series; updated annually</td>
<td>Unrepresentative sample of opinion; narrow measure of good governance</td>
</tr>
<tr>
<td>World Economic Forum</td>
<td>Competitive scale</td>
<td>Global</td>
<td>1979-2002, updated annually</td>
<td>Global coverage; good time series (1979-2002); widely used</td>
<td>Mixes objective and subjective indicators (i.e. those on good governance)</td>
</tr>
<tr>
<td>Contract Intensive Money (CIM)</td>
<td>Based on IMF data</td>
<td>140 countries</td>
<td>1969-1990</td>
<td>Global coverage; objective indicators; updated annually</td>
<td>Narrow proxy measure of good governance; culturally biased</td>
</tr>
<tr>
<td>KKZ Combined indices</td>
<td>Reduction of 300 different indicators on six aspects of good governance.</td>
<td>Global</td>
<td>1996-2002</td>
<td>Global coverage; robust number of indicators that are combined</td>
<td>Short time-series (1997-1998), combines different sets of indicators, point estimates are so insecure that middle “rump” of countries cannot be ranked</td>
</tr>
</tbody>
</table>

data, and are updated annually. The Fraser Institute, Freedom House and World Economic Forum scales are widely used. The weaknesses of the initiatives are also identified.

The report concludes by emphasizing the need for conceptual clarity with regard to good governance. The components of good governance must be specified in further detail, together with the purpose of measurement. Furthermore, the report makes a number of suggestions, including for the development of a core set of indicators and merging different data sets into one global data set of measures.

**The United Nations Economic Commission for Africa**

The objective of a project on good governance being undertaken by the United Nations Economic Commission for Africa (ECA) is to monitor the progress of African states towards good governance. The project includes 28 countries in five sub-regions of Africa. As of mid-2004, the methodology and data collection instruments had been developed and the fieldwork was in progress.

The project has identified six components of good governance:

- A political system that encourages broad input from all elements of civil society;
- Impartial and credible electoral administration and an informed and active electorate;
- Strengthened public sector legislative and administrative institutions;
- Transparency, predictability and accountability in political, oversight and regulatory decisions by government and public bodies;
- Effective public sector management with stable macroeconomic policy, effective resource mobilization and efficient use of public resources;
- Adherence to the rule of law in a manner that protects personal and civil liberties and gender equity and ensures public safety and security with equal access to justice for all.

Three survey instruments are being used. The first instrument seeks opinions from an expert panel on issues pertaining to governance. The expert panel consists of at least 100 persons, including academics, lawyers, business leaders, professionals working with independent civil society organizations, and religious leaders. The second instrument measures the perception of the general adult population, represented by heads of household or the next senior member in a household. The third instrument is designed to collect factual information and data.
The three instruments yield data on 83 indicators covering political representation, institutional effectiveness and accountability, as well as economic management and corporate governance. The indicators are grouped into five clusters:

- Political representation;
- Institutional checks and balances;
- Effectiveness and accountability of the executive;
- Human rights, law enforcement and the rule of law;
- Economic management and corporate governance.

Intended project outputs include Country Reports, Sub-Regional Reports, an Africa Governance Report and additional research papers.

Asian Development Bank -
governance indicators for Viet Nam

During 2001-2002, the Government-donor-NGO Poverty Task Force of the Asian Development Bank (ADB) produced a series of papers on the Viet Nam Development Goals (VDGs). The papers address the developmental vision of Viet Nam and the Government’s efforts to meet international goals, and are intended to serve as an input for the implementation of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) of the Government. Based on the premise that good governance is essential to poverty reduction, one of the papers addresses measurement and proposes governance indicators.

The parameters for reform are taken from a joint report produced by the World Bank, ADB and UNDP. Five key areas of governance were identified for improvement: a stronger, more efficient public service that is capable of implementing policy and delivering better public services to all; better and more transparent public financial management; wider access to justice and ensuring universal application; more participative and responsive government, particularly at local levels, and a government that fights corruption and waste at all levels (see table 2).
<table>
<thead>
<tr>
<th>Outcome</th>
<th>Transparency</th>
<th>Accountability</th>
<th>Participation</th>
<th>Predictability</th>
</tr>
</thead>
<tbody>
<tr>
<td>A stronger, more efficient public service which is capable of implementing policy and delivering better services to the people at all levels</td>
<td>Extent to which information is publicly available regarding services, policies and planning arrangements at all levels</td>
<td>Degree of redress that the poor can obtain when faced with poor access to and/or low quality services from the Public Service</td>
<td>The extent to which the poor has an opportunity to participate in the policy-making and implementation process at the local level</td>
<td>Extent of access of the poor to basic government services such as health, education, infrastructure, water and power at the local level</td>
</tr>
<tr>
<td>Better and more transparent public financial management</td>
<td>Level of budget transparency regarding central, provincial and local taxation, budgeting, and spending patterns for each sector</td>
<td>The extent to which expenditure that is incurred at all levels of government is open to independent scrutiny and reporting</td>
<td>Whether the poor has the opportunity to participate in budget formulation at each level of government</td>
<td>Extent to which, at the national level, the level of expenditure that is targeted to pro-poor purposes is predictable from year to year</td>
</tr>
<tr>
<td>Wider access to justice and a level playing field</td>
<td>Extent to which decisions and verdicts of courts and tribunals are publicly available</td>
<td>Ability of the poor to access the court and tribunal system to seek redress, including against Government agencies</td>
<td>Extent to which there is a process for consultation with civil society in the process of preparation of laws, decrees and regulations</td>
<td>Extent to which the law is applied by all institutions fairly and predictably in all fields of activities, including in the resolution of administrative disputes</td>
</tr>
<tr>
<td>More participative and responsive government, particularly at local levels</td>
<td>Extent to which the means of redress are made available.</td>
<td>Extent to which local government is responsive to and follows up problems that are raised with them by the poor</td>
<td>Extent to which the Grass Roots Democracy Decree has been implemented in each commune so as to improve the opportunities for public participation</td>
<td>Extent to which services provided at the local level to the poor are delivered in accordance with client charters</td>
</tr>
<tr>
<td>A government which prevents, and fights, corruption and waste at all levels</td>
<td>Extent to which information on corruption and waste is made public</td>
<td>Extent to which there are institutional mechanisms for pursuing corruption and waste</td>
<td>Extent to which there are institutional mechanisms available to civil society to raise issues of corruption and waste</td>
<td>Extent to which laws for combating corruption are effective</td>
</tr>
</tbody>
</table>

Based on these five parameters, the Poverty Task Force proposes eight core governance indicators:

- Level of information publicly available regarding services, policies and planning arrangements at all levels;
- Extent of access of the poor to basic government services such as health, education, infrastructure, water and power at the local level;
- Level of budget transparency regarding provincial and local taxation, budgeting, and spending patterns in each sector;
- Extent to which, at the national level, the level of expenditure that is targeted to pro-poor purposes is predictable from year to year;
- Extent to which the decisions and verdicts of courts and tribunals are publicly available;
- Extent to which local government is responsive and follows up on service delivery problems that are raised with them by the poor;
- Extent to which the Grass Roots Democracy Decree has been implemented in each commune so as to improve opportunities for public participation;
- Extent to which laws combating corruption are effective.

Furthermore, the Poverty Task Force paper proposes, for each of the preceding core indicators, a number of outcome and process indicators.

There are two steps in ensuring that indicators are monitored accurately. First, the indicators must be clear and mutually comparable among different regions of Viet Nam. Second, where data gathering systems are currently insufficient, new systems must be created (as has been proposed by the World Bank). For each indicator, two data gathering methods (process indicators) are proposed:

1. One quantitative method that can be measured using existing systems;
2. One qualitative method that will require systematic client surveys of selected citizens and civil servants.

The proposed framework for measuring the eight recommended outcome indicators is set out in table 3.
Table 3.

Proposed Governance/Public Management Monitoring Framework for Viet Nam

<table>
<thead>
<tr>
<th>Outcome Indicator</th>
<th>Process Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of information available to civil society regarding services, policies and planning arrangements</td>
<td>1. Percentage of communes providing information on services, etc.</td>
</tr>
<tr>
<td>Extent of access of the poor to basic government services such as health, education, infrastructure, water and power</td>
<td>2. Clients survey of citizens regarding local awareness of services etc.</td>
</tr>
<tr>
<td>Level of budget transparency regarding central, provincial and local taxation, budgeting, and spending patterns for each sector</td>
<td>1. Percentage of poor with access to particular basic service in each province</td>
</tr>
<tr>
<td>Extent to which expenditure is pro-poor and is incurred in accordance with budget allocations and plans</td>
<td>2. Client survey of availability of particular services at provincial level.</td>
</tr>
<tr>
<td>The law is applied by all institutions fairly and predictably, including in the resolution of administrative disputes</td>
<td>1. Information published in the National Budget enables identification of expenditure/revenue by sector and province</td>
</tr>
<tr>
<td>Impact of implementation of the Grassroots Democracy Decree on involvement of civil society in local government</td>
<td>2. Percentage of budgets that are published and available at the provincial, district and commune level</td>
</tr>
<tr>
<td>Extent to which laws for combating corruption are effective</td>
<td>1. Percentage of expenditure of National Budget identified as pro-poor</td>
</tr>
<tr>
<td></td>
<td>2. Audit/review of expenditure indicates that budget was in fact spent on the poor</td>
</tr>
<tr>
<td></td>
<td>1. The increased independence of legal institutions is provided for by the law</td>
</tr>
<tr>
<td></td>
<td>2. Citizens surveys regarding perceptions of the application of the rule of law by governments</td>
</tr>
<tr>
<td></td>
<td>1. Percentage of communes that provide arrangements for local participation in local government</td>
</tr>
<tr>
<td></td>
<td>2. Citizens survey of perceptions of the level of involvement of civil society in local government</td>
</tr>
<tr>
<td></td>
<td>1. Effectiveness of mechanisms provide by laws</td>
</tr>
<tr>
<td></td>
<td>2. Results of client surveys on perceptions of effectiveness of laws</td>
</tr>
</tbody>
</table>

Although measuring good governance in Viet Nam is still in its early stages, the Government has made official statements regarding its vision of what must be achieved. The vision is for “a country that has efficient Government institutions at all levels, is governed by the rule of law, and ensures a fair, equitable society for all Vietnamese citizens, whilst ensuring national security and being compatible with the needs of a more market-oriented economy, as well as uplifting the standard of living, particularly of the poor”.

The World Bank Revisited

The World Bank was the first major donor institution to adopt the concept of good governance as a condition for lending to developing countries. Since the late 1970s, the World Bank has taken the lead in pioneering efforts to develop indicators to measure the quality of development policy. Policy quality is measured by an index called the Country Policy and Institutional Assessment (CPIA). The index is based on staff assessments of policy quality. These assessments are assigned numerical scores, although the assessments are qualitative and judgemental in character. The CPIA is a confidential document, that is to say, it is only accessible by Bank staff. The information that is made available to the public are the International Development Association (IDA)-eligible country standings in the form of quintiles (“top fifth”, “lowest fifth” and so forth).

The CPIA Index consists of four clusters of indicators, totalling 20 items: economic management (four items); structural policies (six items); policies for social inclusion/equity (five items); and public sector management and institutions (five items). The last cluster of indicators is synonymous with concepts of good governance in that it comprises the following:

a. Property rights and rule-based governance;
b. Quality of budgetary and financial management;
c. Efficiency of revenue mobilization;
d. Quality of public administration;
e. Transparency, accountability and corruption in the public sector.

New items may be added to the CPIA index, and old ones removed, from time to time, but the total number always remains 20 items.
The CPIA is used to calculate a “Country Performance Rating” (CPR), which is then employed in the World Bank’s formula for allocating IDA funds. The complicated formula, which is difficult-to-interpret, involves, in its final stage, the use of a “governance factor” in computing the CPR. The governance factor is calculated from the five indicators listed above, together with an additional indicator called “management and sustainability of the development programme” and a “procurement practices criterion.”

A weakness of the CPIA methodology is that the index is based on assessments by World Bank staff rather than by impartial external professionals. The World Bank is in a donor relationship with the countries being assessed, and it must be assumed that the staff conducting the CPIA evaluation are well informed about the relationship between the World Bank and the Government. A concern is that the assessments can be judgemental and lacking validity (that is to say, the scores do not measure what they are supposed to measure).

**Findings**

The foreign indicators reflect different dimensions of governance. Although there is a broad, diffuse understanding of the concept, a great deal of variation exists in the specification of measures. Scales and indices to measure governance are used for a variety of purposes: for cross-national comparisons and rankings, and also for tracking the development record of a country. In the former case, the question is how to develop indicators that are universally valid and can be reliably measured worldwide. In the latter case, indicators are generally custom-tailored to the country. One concern with some of the indices is the validity of measurement. Reliability is another, particularly when numerical scores are assigned to indicators that are based on subjective appraisals.

**Studies on governance**

A key question is whether good governance results in poverty reduction, improved economic performance and other desired results. However, the connection between governance and poverty reduction is tenuous. On the one hand, there is some empirical evidence to suggest that weak governance reinforces poverty. On the other hand, the link between governance and poverty reduction is sometimes accorded *a priori* status and assumed to be true. Further
research on the relationship between governance and poverty reduction is needed if the question is to be answered decisively. In the absence of conclusive evidence, it is plausible to suggest that the link sometimes exists, but that, at other times, there is no link. Some examples of the latter case are certain Asian economies, not known for their good governance, where per capita GDP has continued to grow considerably. In other words, good governance may sometimes be correlated with, but is not a necessary condition for, poverty reduction.

Studies on the relationship between governance and other variables, such as poverty reduction and participation, fall into two categories: studies commissioned by donor agencies and studies undertaken by academics. The latter category tends to employ a more sophisticated, and generally more rigorous, methodology than the former. It is, however, beyond the scope of this paper to conduct a full review of such studies. A few examples are provided for illustrative purposes.

**Studies commissioned or executed by donor agencies**

Case studies generally take the form of technical papers employing qualitative analysis. For example, the OECD Development Centre has a research programme on Good Governance and Poverty Alleviation. A series of papers has been produced by the Centre, linking governance to poverty alleviation in a number of LDCs. Each paper typically has the following sections: an overview on the status of poverty; the role of the Government in poverty alleviation; the role of donors; the role of non-governmental organizations (NGOs); governance and policy; and empirical evidence on governance and poverty alleviation. The empirical evidence is often ad hoc and far from robust. The conclusions drawn from the data tend to rely extensively on the interpretations of the authors and, on occasion, appear to be based on preconceived assumptions. To the extent that authors have been selected on the basis of their expertise, these types of reports are authoritative, as well as relevant, as their analyses may have implications for external assistance.

Donor agencies also undertake evaluation studies, designed to examine the effectiveness of their work in the area of governance. For example, the United Nations Human Settlements Programme (UN-HABITAT) Community Development Programme, in conjunction with the Institute of Social Studies in the Hague, Netherlands, has conducted a three-year evaluation of
the effectiveness of its work. The study documents the work of the Community Development Programme in Bolivia, Costa Rica, Ecuador, Ghana, Sri Lanka, Uganda and Zambia from 1986 to 1996. The evaluation focuses on concepts and practical approaches the Programme uses to reduce poverty. Three concepts are examined: participation; community management; and government enablement of community action. Data were collected from household surveys, as well as from a large sample of community leaders and government officials. The immediate output of the research is 21 global and country-specific reports.

Amongst the 17 research findings generated by the evaluation, several are of interest in the context of governance and participation:

- Government enablement is not yet a properly formulated concept;
- Reducing poverty requires integrating economic, social and physical development at the local level;
- Community organizations are more effective when their efforts are supported systematically by governments;
- Governments improve their planning and economize on the use of public resources when they draw upon, rather than disregard, community initiative;
- Community management skills enable people to participate democratically in their own organizations;
- Participation is not enough: people need the capacity in order to be able to participate effectively.

*Academic research on governance*

Research on hypothesized causal linkages between good governance and other desired outcomes is typically reported in (but not confined exclusively to) academic journals rather than in donor institution publications. The research methodologies employed are usually rigorous and meet academic standards.

Some of the papers published by donor institutions make reference to academic research. For example, the report of the Poverty Task Force states that “empirical research in a number of countries establishes that where there is weak governance this reinforces poverty”. Research
findings by a number of scholars are cited in support. For instance, measures of trust and civic cooperation are linked to economic growth. Others have reported that there is a relationship between trust and the efficiency of the judiciary, corruption, bureaucratic quality, tax compliance and civic participation.

Of methodological interest are attempts to validate instruments for measuring governance. To illustrate, one analysis of governance in East Asia and Latin America mentioned three objectives: to assess the extent to which available data can capture the institutional characteristics of governance; to assess the extent to which governance is related to development performance; and, to determine the degree of correlation among the measures of institutional characteristics of governance. Five institutional characteristics of governance were identified: (i) an accountable executive; (ii) an efficient and professional public bureaucracy; (iii) rule of law; (iv) transparent and participatory policy-making; and (v) a strong civil society. Data were obtained on a sample of 21 Latin American countries and eight Southeast and East Asian countries. Socialist and transition economies, such as China, Cuba, Lao People’s Democratic Republic and Viet Nam, were excluded from the sample.

Indicators to measure each of the institutional characteristics were taken from multiple sources. Accountability of the executive is measured by a composite of two indicators, “executive constraints” and “regulation of executive recruitment” from Gurr’s Polity III. Quality of the bureaucracy is measured by a composite of two indicators: The first, “bureaucratic quality,” is taken from the International Country Risk Guide (ICRG). The second, “bureaucratic efficiency,” is taken from BERI. Rule of law is an ICRG indicator called “rule of law tradition.” A strong civil society is measured by a composite of four indicators, two of which - “civil liberties” and “political rights” - are taken from Freedom House, and the other two - the “competitiveness of political participation” and the “regulation of political participation” - from Gurr’s Polity III. The authors acknowledge that the indicators for civil society at best “indirectly depict some of the necessary conditions under which a strong civil society might emerge.” Two observations should be made. First, the limitations of the indicators (for example, mixing objective with less reliable subjective indicators) have already been discussed in this paper. Secondly, despite all efforts, the authors of the study were unable to obtain even indirect
measures of transparency of the decision-making process. This institutional characteristic was therefore dropped from the analysis.

Development performance, the dependent variable, was represented by three indicators: real per capita GDP, infant mortality rate and adult literacy rate. Separate regressions were run on each of the three development performance indicators. Most of the four indicators of the institutional characteristics of governance appear to be statistically significant, and have the correct sign, in the three regressions. There are some anomalies (for example, some indicators have the “wrong sign”, and the “accountable executive” indicator is not statistically significant in some of the equations).

Furthermore, the authors of the study point to the lack of existing data in measuring certain aspects of governance (“transparency in decision-making”, for example), and provide a methodology for undertaking future research on the linkage between governance and development performance, while relying on the use of existing data sets.

**Conclusions**

The preceding review of the current status of measuring governance, together with examples of research to assess the effect of good governance on its desired outcomes, such as poverty reduction and other areas of development performance, reveals a proliferation of measurement instruments. The different indices of governance attempt to capture different aspects of governance, which illustrates that governance is not so much an elusive concept as it is multidimensional. Furthermore, the concept itself has been evolving over the years. Predictability and participation, for example, have been added over time. As long as the concept is evolving, stability of the meaning and concept of good governance cannot be expected.

Further work remains to be done in the measurement of good governance, particularly in developing new instruments for this purpose, in fine-tuning existing indicators, and in addressing the consistency and reliability of the various instruments. Further attention should also be given to the definition of good governance, a concept that is often perceived as being formulated by donor institutions and developed countries. One approach to addressing the definition is to separate its various components or dimensions. For each component or dimension, outcome indicators should be kept separate from process indicators. Still, a key problem remains on how to reach agreement on a standard meaning for each dimension. How should transparency and
accountability be defined? Is a standard definition even possible? Moreover, even if agreement were reached, indicators for any given dimension are still likely to vary depending on the substantive context. Transparency indicators for public policies, for example, are different from transparency indicators for financial management.

The current instruments for measuring good governance purport to measure the same underlying concept (“governance”). This raises the question whether it is appropriate to treat these instruments as equivalent or substitutable for one another, in the way that certain language testing scores are regarded as substitutable for measuring language ability. One approach would be to relate the different indices: a high correlation, for instance, would be interpreted as high equivalence.

Good governance is often regarded as an instrumental good: it is advantageous because it is hypothesized to result in beneficial outcomes, such as poverty reduction and development performance. Although there is some empirical evidence to support the hypothesis, further corroboration is needed. For instance, in the light of the superior economic performance of some countries that are not ranked very highly with respect to good governance, it is possible that good governance may not turn out to be a necessary condition for poverty reduction.

Further analysis should not only focus on how to measure, but also on how to enhance good governance. If the determinants of good governance can be identified, and appropriate frameworks for enhancing good governance developed, assistance should be channelled towards strengthening governance institutions and mechanisms rather than penalizing poor governance by withholding development cooperation.

Lastly, the Committee for Development Policy conducts a triennial review to determine which countries should be added to, and graduated from, the list of LDCs and continues its work on the methodology to be used for the identification of LDCs. In the future, the Committee may wish to examine the relationship between good governance and LDC status.
Commitment to good governance, development and poverty reduction: methodological issues in the evaluation of progress at the national and local levels

Notes:


d H. Schneider, loc. cit.


There are two distinct streams of discourse on good governance: donor agency and academic. Academic discourse has dealt mainly with the way in which power and authority relations are structured in different contexts, whereas donor-directed and policy-oriented discourse on governance has focused more on state structures designed to ensure accountability, due processes of law and related safeguards. Academic discourse is directed towards better understanding of institutional linkages between the State and civil society; donor-driven discourse is oriented towards enhancing policy effectiveness. This report addresses good governance from the donor perspective.


k M. Orkin, loc. cit., p. 2.

l M. Orkin, op. cit.

m T. Landman and J. Häusermann, “Map-Making and Analysis of the Main International Initiatives on Developing Indicators on Democracy and Good Governance”, (University of Essex, Human Rights Centre, Colchester, United Kingdom, July 2003).


o T. Landman and J. Häusermann, loc.cit, p. 6.


u K. R. Hope, Sr., loc. cit, p.9-10.


For example, “In the absence of any serviceable analytical link between governance and development, we have taken the a priori position in this paper that the persistence of poverty …in most…countries originates in problems of governance rather than an inadequacy of resources”. See Rehman Sobhan, loc cit., p. 13.

G. Lüdeking, and C. Williams, “Poverty, Participation and Government Enablement”; a summary of 17 research findings, UNCHS (Habitat)/ Institute of Social Studies Evaluation Research, June 1999.


Robert Gurr’s Polity III is available from the Inter-University Consortium for Political and Social Research (ICPSR) at the University of Michigan.

Campos and Nugent, loc. cit., p. 443.