

# Framing Governance Reforms in Real-World Conditions

29 May 2018

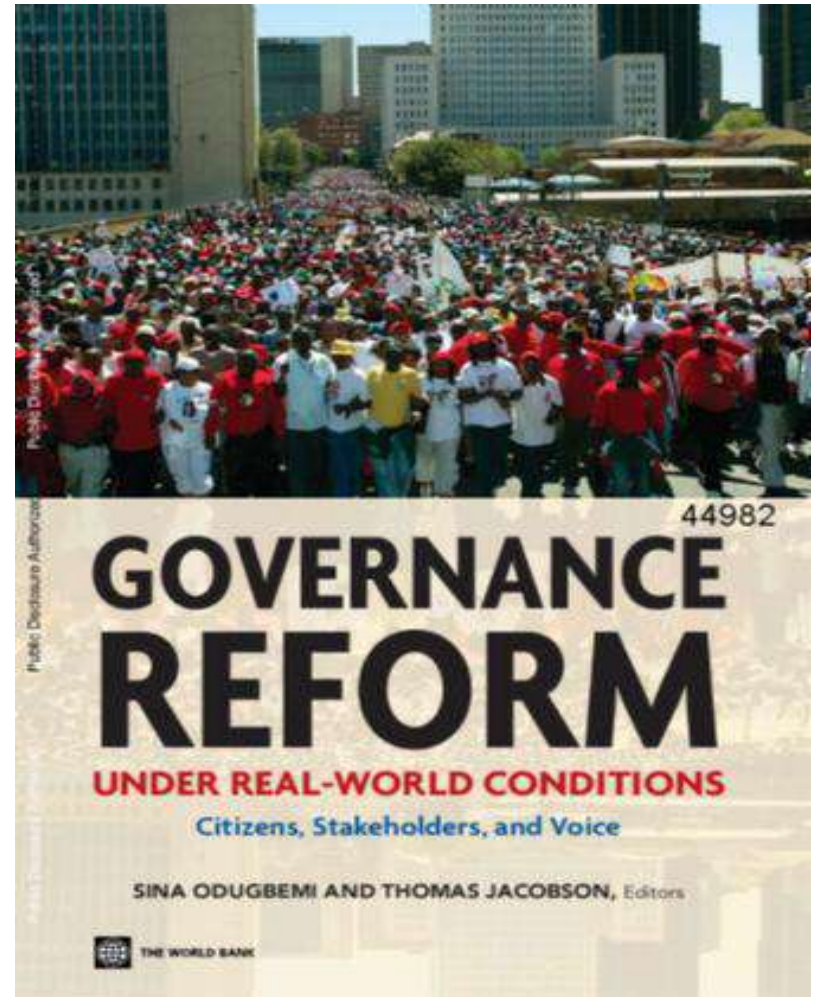
Asia-Pacific Finance and Development Institute, Shanghai

## Content

1. Broad context
2. Building blocks:
  - (a) Tame vs wicked problems
  - (b) Information asymmetry
  - (c) Bounded rationality
  - (d) Transaction costs
  - (e) Credible commitment
3. Broad lessons from experiences in governance reforms

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The Beehive, Wellington

**“Good governance requires three things:**

- (a) state capability (the extent to which leaders and government are able to get things done);
- (b) responsiveness (whether public policies and institutions respond to the needs of citizens and uphold their rights; and
- (c) accountability (the ability of citizens, civil society, and the private sector to scrutinize public institutions and governments and to hold them to account).”

**Odugbemi and Jacobson, 2008, p. 16.**



A social audit in progress in Afghanistan (source: Aga Khan Development Network, “Social Audits in Afghanistan”, [http://www.akdn.org/photos\\_show.asp?Sid=143](http://www.akdn.org/photos_show.asp?Sid=143))



# Global trends that impact new norms in governance

## A. Primacy of SDGs



“... build effective, accountable and inclusive institutions at all levels”

Target 17.1: “strengthen domestic resource mobilization... through domestic capacity for tax and other revenue collection”

### Specific examples:

**Gender** – gender based budgeting

**Clean energy** institutional structure (within a core ministry or autonomous agency?)

**Infrastructure; Housing; Water; Sanitation; Urban** – capacity; O&M funds

**Health** – procurement of essential drugs

**Institutions** – representation in decision fora; access to information

**Expected to cause almost a quarter of a million additional deaths per year between 2030 and 2050 (WHO)**

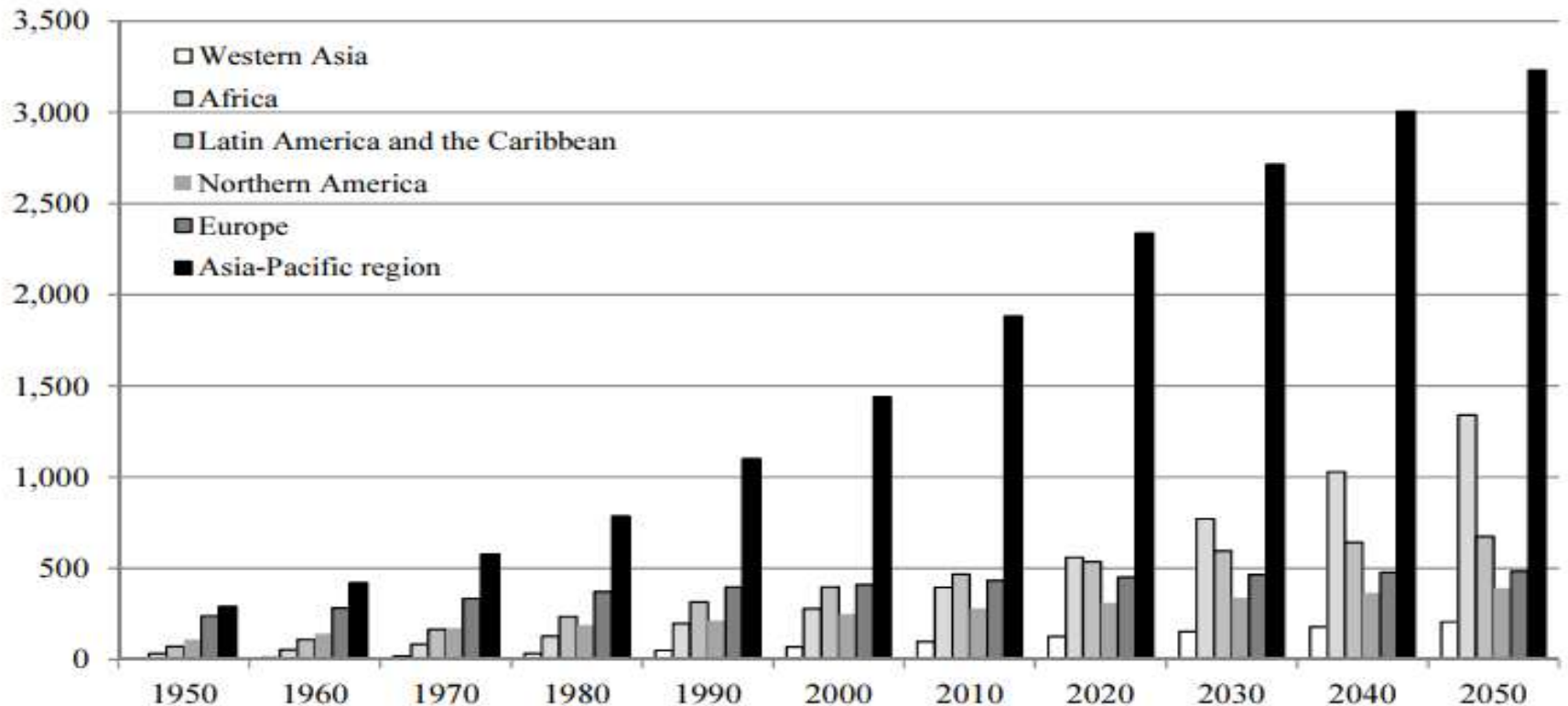
**Climate change ... may cause as many as 143m people in just three regions to be displaced by 2050 (World Bank)**

## **B. Climate Change**



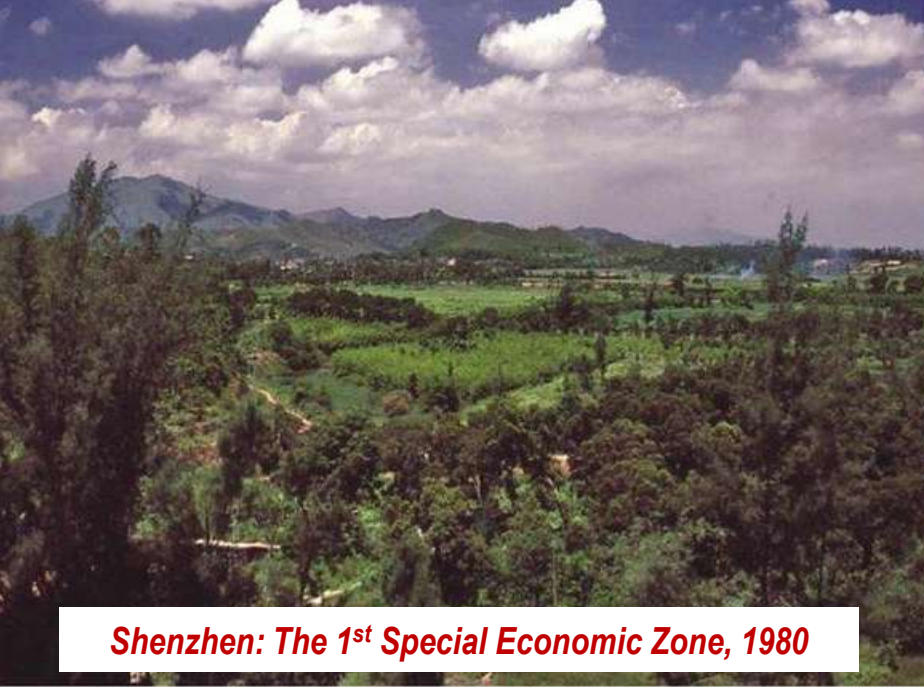
# C. Urbanization

**Urban population at midyear, 1950-2050**  
(Thousands)



[https://www.unescap.org/commission/73/document/E73\\_16E.pdf](https://www.unescap.org/commission/73/document/E73_16E.pdf)





***Shenzhen: The 1<sup>st</sup> Special Economic Zone, 1980***



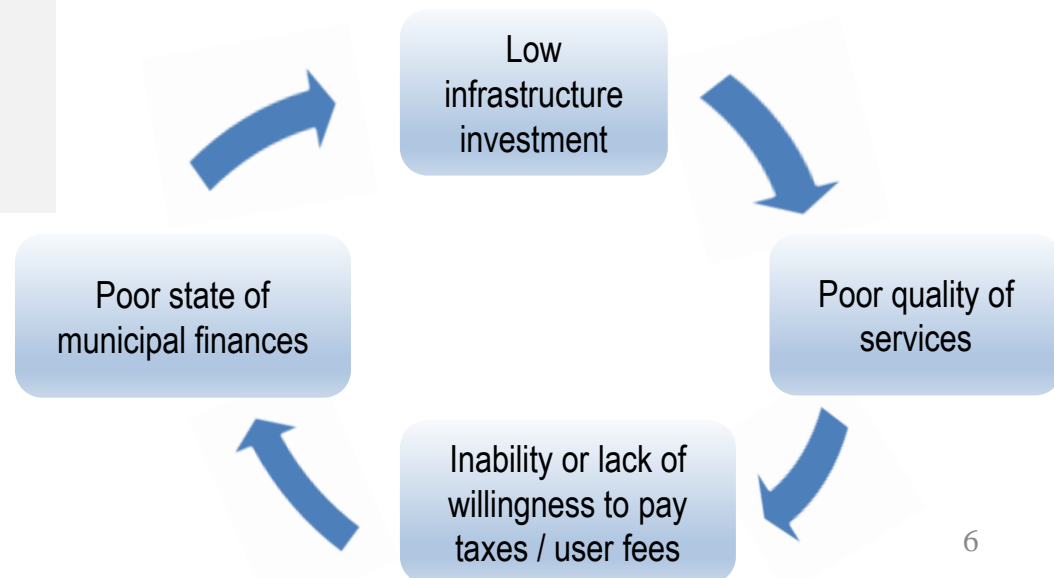
***Shenzhen, 2013***

“Of the world’s 35 megacities in 2017, 21 were located in the Asia and GlobalData estimates that close to 60% of megacities will be located in the continent by 2025 (including 11 in China and 6 in India).”

Some governance implications of urbanization:

- (a) Service delivery
- (b) Moral hazard
- (c) Quality of life (positive and negative)
- (d) Municipal financing

### **Vicious cycle of inadequate revenues**



## D. Infrastructure needs...

*Each year, Asia-Pacific needs about \$1.74tn in infrastructure investment*

“Regulatory and institutional reforms are needed to make infrastructure more attractive to private investors... Countries should implement PPP-related reforms such as enacting laws, streamlining procurement and bidding processes, introducing dispute resolution mechanisms, ...”

*Road congestion costs Asian economies 2-5% of GDP each year due to lost time and higher transport costs\*\**



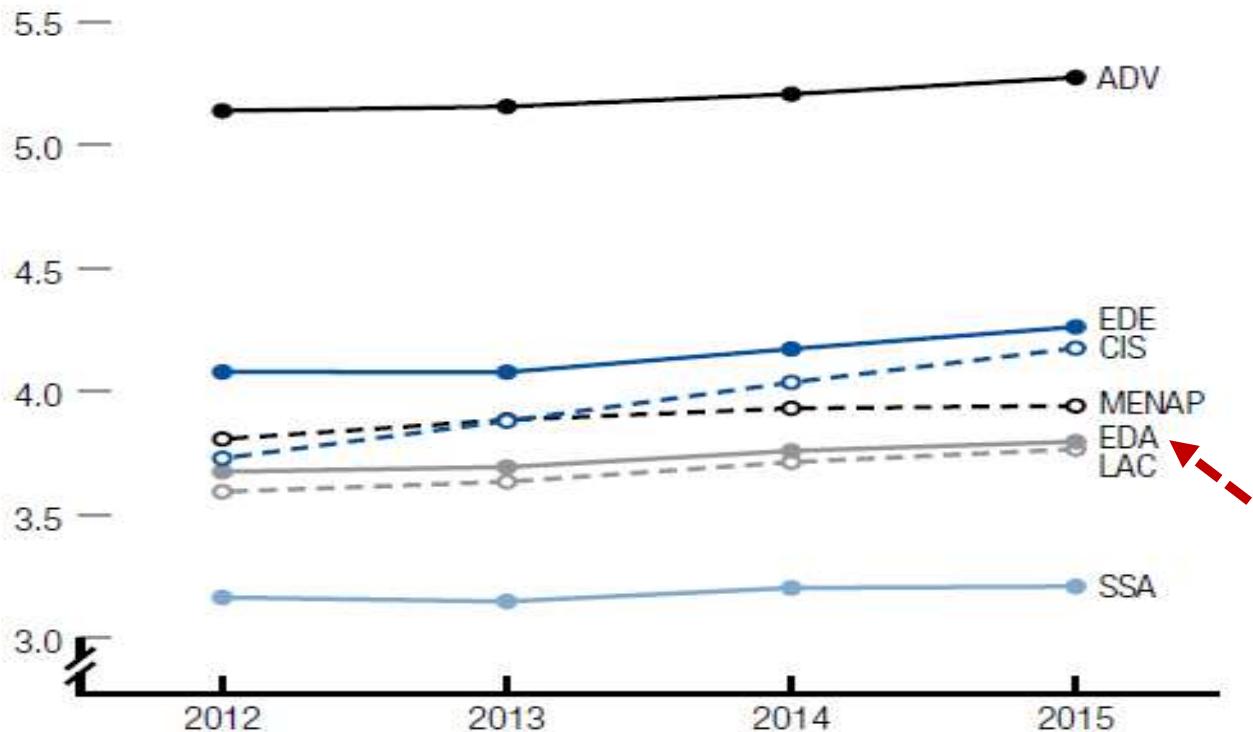
## E. Connected and networked?

4.2 billion  
people in the  
world are  
online and  
connected

McKinsey, 2016

Figure 5: Regional trends

Region's average NRI score, 1–7



Sources: World Economic Forum; World Bank 2015.

Note: ADV = Advanced economies; CIS = Commonwealth of Independent States; EDA = Emerging and developing Asia; EDE = Emerging and developing Europe; LAC = Latin America and the Caribbean; MENAP = Middle East, North Africa and Pakistan; SSA = Sub-Saharan Africa.



# Use of ICT for Service Delivery

## Policies

**Expand** use of ICT as a catalyst for better service delivery

## Examples of Specific Activities

Support:

- Digitization of land records
- real-time information on effectiveness of service delivery

Figure 2: Payments Being Made to Pensioners by a Customer Service Point



Note: The kit for processing transactions includes a mobile phone, biometric scanner, and a printer.

### 3. Checking schools and toilets

Video: The Checkmyschool Initiative



A community monitoring tool on educational services in the Philippines called **CheckMySchool** uses technology to motivate government responsiveness for development results. For example, locals are using CheckMySchool to crowdsource reports on the quality of toilets in schools. This incentivized government authorities to respond to the reports: first with inspections and second with funding to improve the poor facilities.

(<http://www.adb.org/sites/default/files/publication/31238/ewp-391.pdf>, p. 4)

# ASIA 2050

## Realizing the Asian Century

Executive  
Summary

## *F. Need for focus on institutional performance*

Governments need institutions for effective management and oversight to deliver—accountability, participation, predictability, and transparency  
- ADB. 2008.

***Governance: Sound Development Management.*** Manila

ADB

Governance: Sound  
Development Management

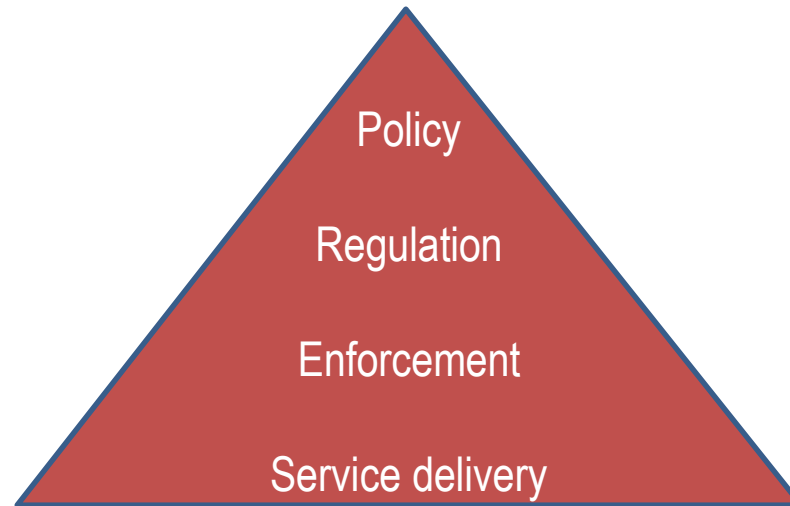
Countries with sound policies and regulations, an effective public service, and able to control corruption have grown more quickly than others  
***-Asian Development Outlook Update, 2013*** “Governance and Service Delivery”

“The greatest challenge Asia faces in its endeavors to realize the Asian Century: **transforming governance and institutions.**”



# To understand institutions, we start with understanding what governments do

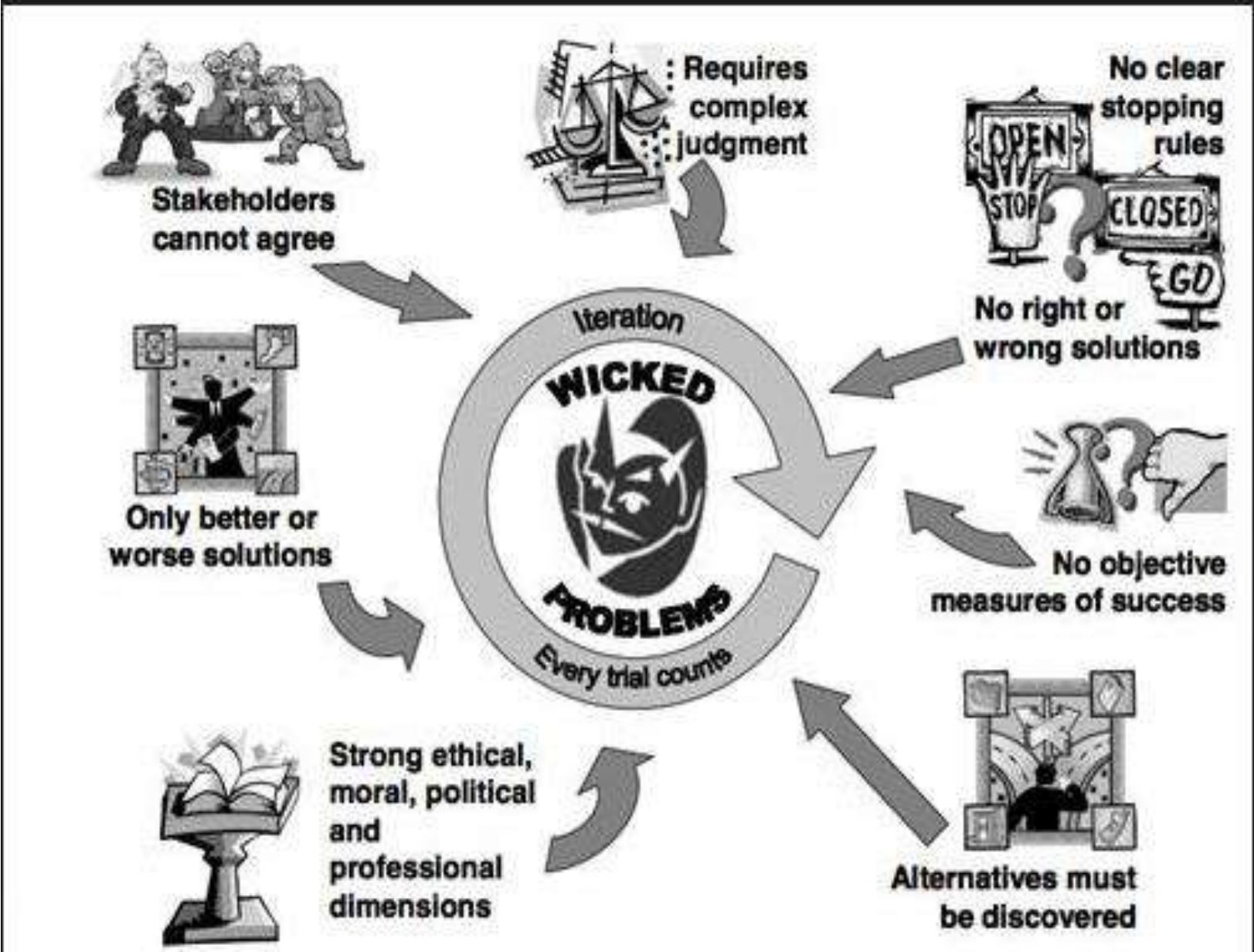
## Four core functions of government



- o Proper markets don't often – and across the board – exist in a developing country
- o This leads to inefficient production, distribution, sub-optimal consumption, and generally ineffective and inefficient service delivery
- o Hence, the role of the state: **correct the bias**

***But governments always face 'wicked problems'***

Rittel,  
Horst.  
"Dilemmas  
in a  
General  
Theory of  
Planning."  
Policy  
Sciences,  
1973: 155-  
169.





# Core Concept 1: Information Asymmetry

Imperfect Information Paradigm: incorporates information (or the lack of it) into standard economic analysis to explain the rise of certain institutional settings and lack of efficiency

Inefficient institutions result from imperfect and costly information

1. Lack of information across time  
(*we know more at time  $T-1$  than at  $T+1$* )
2. Asymmetry across space  
(*eg., between core and periphery; organizations, etc.*)
3. Asymmetry when static in perception and interpretation  
(*differential in making sense of available information*)



***Therefore, all players are at best boundedly rational...***

# Concept of bounded rationality

Assertion: “government business is inherently a risky business” → ill-structured problems, ‘wicked issues’, multiple stakeholders



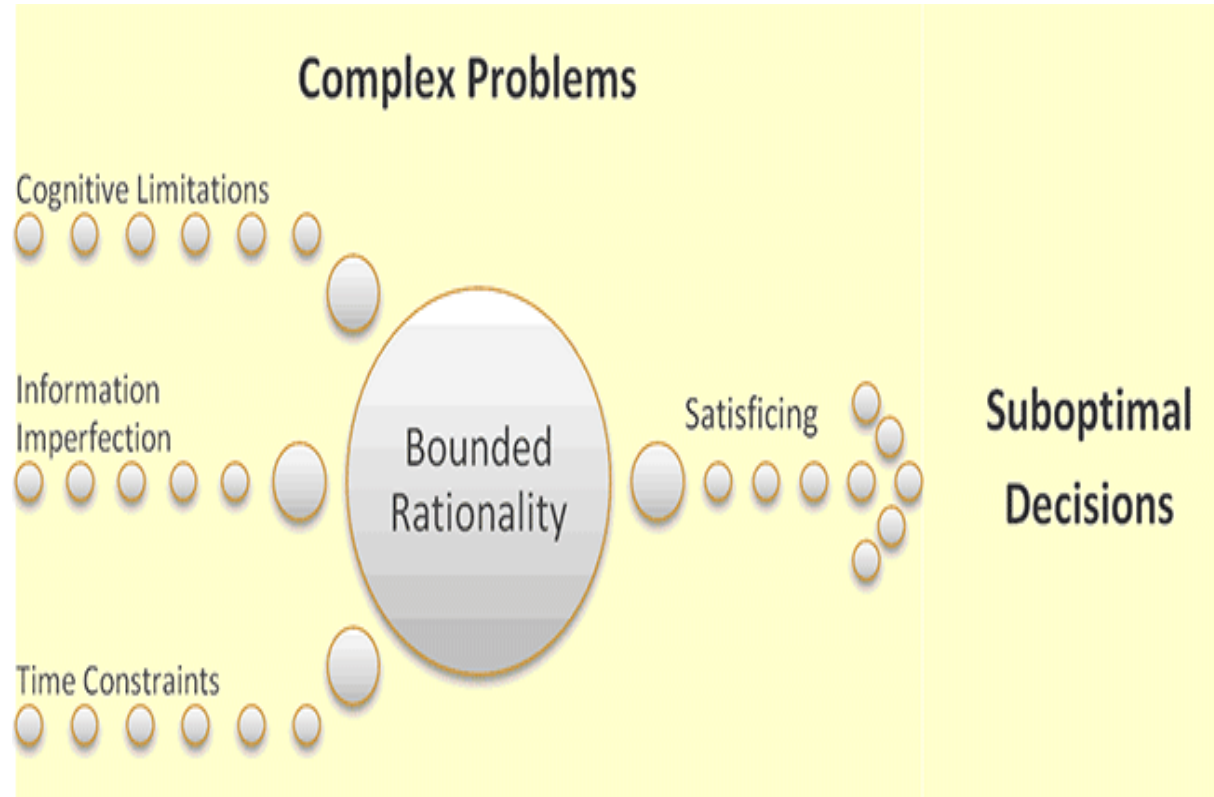
No incentives not to be *risk averse*



**bounded rationality** =

Incrementalism, at best;  
**Disjointed incrementalism**,  
usually

***Muddling Through***





# Core Concept 2: Transaction costs (TCs)

Differential access to, and ability to interpret, information (as well as voting for association) leads to transaction costs

**Variable in impact**  
***(Some businesses/firms more able to meet and internalize)***

**Search and  
information costs**

**Bargaining costs**

**Policing and  
enforcing costs**

***North (1990):***

***“The inability of societies to develop effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the third world”***

# Core Concept 3: Credible Commitment (CC)

- Assumption of a repetitive game
- Expectation: of *quid pro quo* in commitment to transaction
- Policy reversals—or more aptly, the threat (or perception) of such reversals—lead to a failure to commit credibly
- Corollary of CC: credible threat

$$CC \downarrow = TCs \uparrow$$

**(1) Beware tendency to take a short-term  
view of reforms:**

*Mindsets and institutions take a long  
time to change*

**So, what have we learned about governance  
reform work from our experiences in the region?**

**“The three  
completed  
programs in  
Assam,  
Mizoram, and  
West Bengal  
were generally  
effective ...  
ADB should  
consider  
providing  
longer-term  
follow-on  
support to  
help cement  
reform gains  
and  
institutional  
development.”**





## (2) Beware difference between 'what ought to be' and 'what can be': *Good Enough Governance over Good Governance*

Note earlier concepts of bounded rationality and 'muddling through'

*"... good governance is deeply problematic as a guide to development"*  
– Merilee Grindle, KSG



Merilee Grindle: Good Enough Governance: A Cautionary Tale



*"Idealistic vision is a corruption-free Bangladesh. If Denmark can be number 4 (in the corruption-perception index) why can Bangladesh not be number 3? It is possible, but not probable. The realistic vision is to minimize corruption to ensure good governance. It is possible."* Lt. Gen Hasan Mashud Chowdhury  
(former ACC chairman, Bangladesh)

**Notions of country context and 'country systems' are important**

### (3) Beware difference between best practice and best fit

## Government Management

Brief  
to the  
Incoming  
Government  
1987

VOLUME I

THE TREASURY

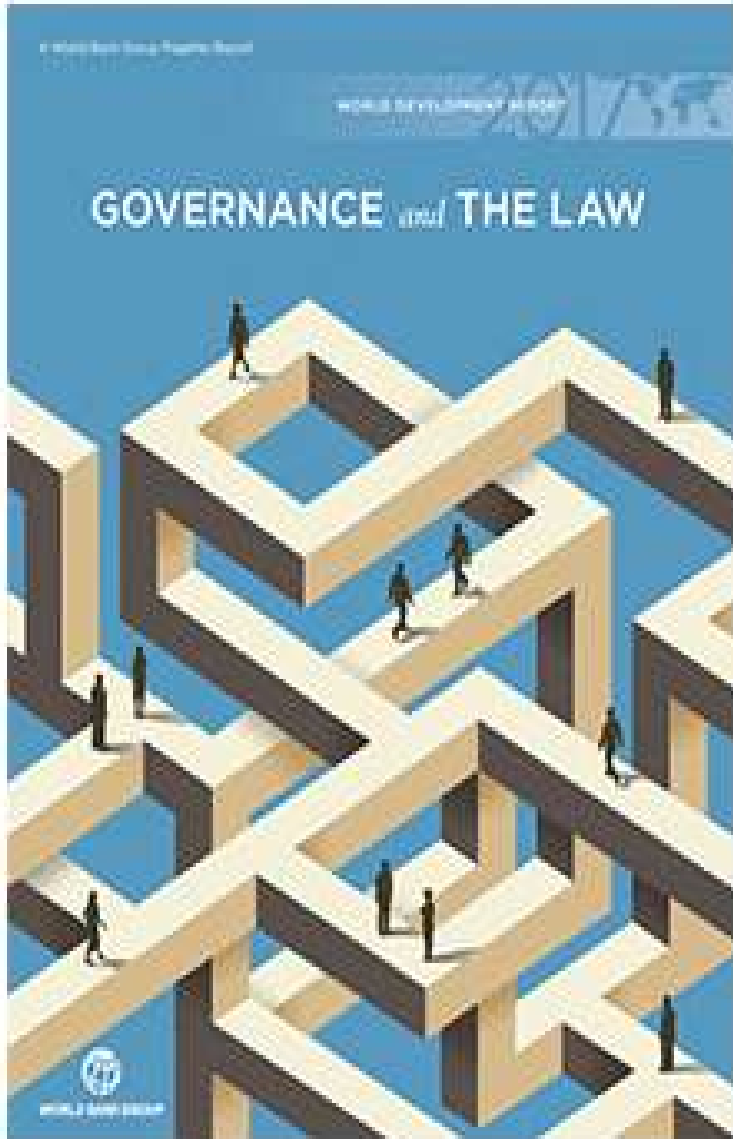
“... developing countries, which are dominated by informal markets, are risky candidates for applying the New Zealand model... basic reforms to strengthen rule-based government and pave the way for robust markets should be undertaken first.”

Allen Schick. 1998. “Why Most Developing Countries Should Not Try New Zealand's Reforms”. **World Bank Research Observer** Volume 13, Issue 1, Pages: 123 – 131.





## (4) Beware non-adherence to the Rule of Law



## Vote rigging fiesta at Dhaka College

Presiding officer looks helpless as BCL men enter all the six polling booths of Dhaka College polling centre and stuff ballot boxes at their will.



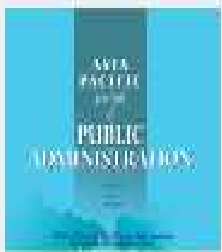


(5) Beware the urge to see reforms as being simple...

*"I will learn governance as I did cooking and milking cows"*



*"Don't worry, I'll train her in two days"*



Journal  
**Asian Journal of Public Administration** >  
Volume 20, 1998 - Issue 2

... but also beware NOT seeing the obvious!

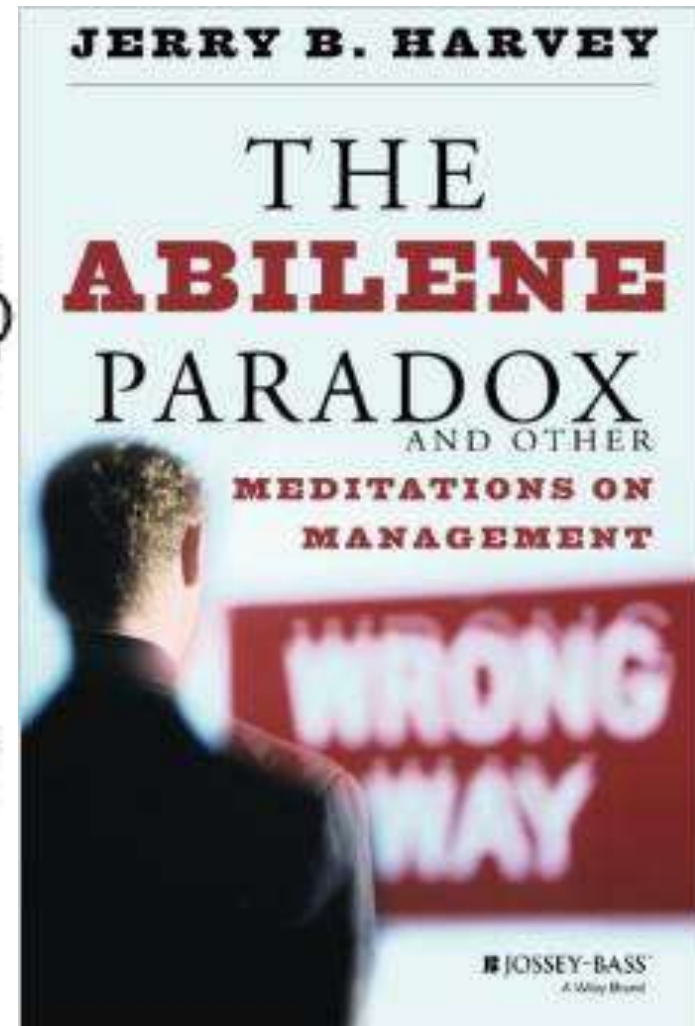
Original Articles

# On Governing and Milking Cows: Replicating Good Governance Practices from East Asia

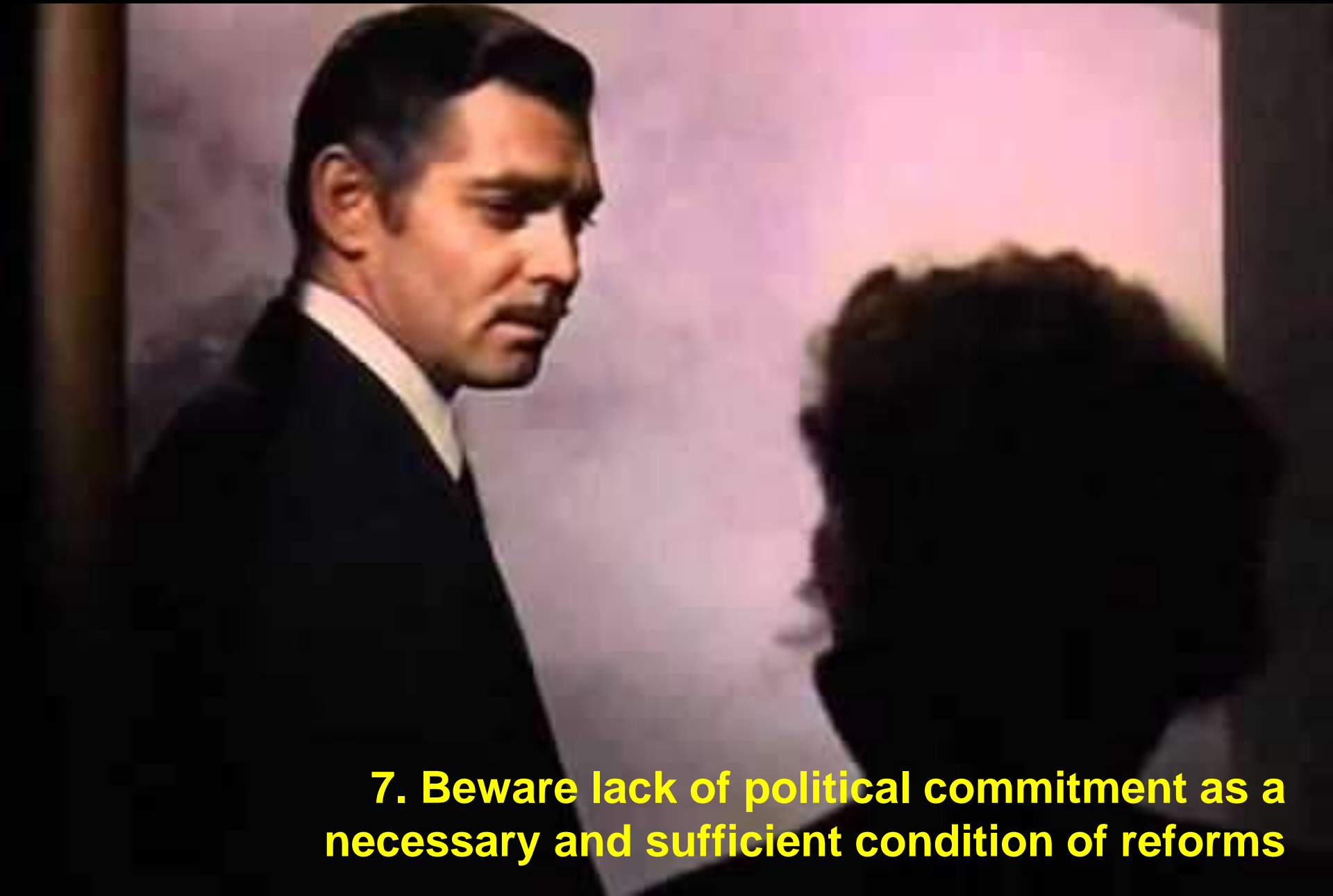
Gambhir Bhatta & Joaquin L Gonzalez III  
Pages 123-150 | Published online: 25 Feb 2014  
Download citation <http://dx.doi.org/10.1080/02598272.1998.10800351>



## 6. Beware stated preferences from revealed ones...



*“Frankly, my dear, I don’t give a damn...”*



**7. Beware lack of political commitment as a necessary and sufficient condition of reforms**



# Questions?

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