

Public Sector Governance and Development Performance - An international comparison with special focus on Vietnam -

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ABSTRACT

Development theory has increasingly focused on public sector governance and pertinent institutions as key determinants of successful development. This paper discusses the concepts of public sector governance and alternative development indicators. Both theory and empirical evidence investigated suggest a significant interrelationship between a country's quality of public sector governance, the institutions shaping it, and development performance, however measured. Quantitative measures of these concepts are then used to depict Vietnam's comparative performance in the pertinent areas. The main result of this comparison is that Vietnam's development performance – whether measured by the level of GDP pc or the Human Development Index – ranks in the second lowest quintile among the 178 national economies for which comparable data exist. This weak performance is then related to the country's public sector governance ranking, which is similarly unimpressive. It is argued that Vietnam's lagging performance regarding relevant aspects of governance holds back the country's broader development. The paper then discusses opportunities for and obstacles to improving public sector governance: Readily available information on governance principles and corresponding institutional structures prevailing in the “best practice” countries (e.g. Norway, New Zealand, Denmark etc.), and these countries' willingness to share their expertise, offer the opportunity for other countries to improve their own performance by adapting top performers' practices and experience to their own local conditions. The key to such knowledge transfer is the political will to implement it, and the major obstacles to doing so are the resistance from entrenched interest groups, combined with the inertia of some pertinent “cultural” characteristics.

Key words: governance, development, business climate, Vietnam.

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Introduction

To be judged of high quality, a public administration has to be effective (i.e. to achieve its goals), and efficient (to do so at minimum cost). This conventional definition of optimality (or excellence) implies that the quality (or otherwise) of a given public sector governance structure (hereafter referred to as “Governance”) cannot be judged without prior knowledge of the administration’s objective(s). And any such evaluation will be complicated by the fact that typically a given public administrations pursues various objectives simultaneously, some of them complementary, but others competing with each other. Thus a thorough appraisal not only requires knowledge of which objectives the administration pursues, but also the relative importance it attaches to each of them.

Such idiosyncratic evaluation of individual countries’ governance would make meaningful international comparison very difficult if not impossible, given that national administrations usually differ in their ultimate objectives and the priorities attached to various goals pursued simultaneously. Such differences can usually be traced to historically developed cultural idiosyncrasies, differences in policy priorities, or both, since these two possible explanations are usually closely interconnected.

Fortunately, however, there is a core of government objectives which is common to virtually all public administrations. Key among these objectives is successful economic development, which includes both the efficient use of a country’s existing productive resources and the build-up of its productive capacity over time. Following this thought, this paper addresses the following issues:

- definition and measurement of the key concepts “public sector governance” and “development performance”;
- the relationship between the quality of public sector governance and development performance;
- key characteristics of good public sector governance;
- opportunities to improving public sector governance and thus – indirectly – development performance

These topics will be dealt with in the following fashion: first the concept of “public sector governance” (hereafter called “Governance”) is analyzed, leading to a working definition of the concept for this paper. Likewise alternative concepts of “development performance” are discussed, presenting the working definition(s) used in this study. Second, the empirically observed relationship between the chosen measures of Governance and development performance is analyzed and interpreted. Third, Vietnam’s indicators of Governance and development are compared with those of other countries to highlight the country’s relative performance. Forth, possible avenues for Vietnam to improve on both Governance and development performance are explored. Results of the analysis are summarised in the concluding section of the paper.

Choice of proxy measures: “Governance” and “Development”

One of the problems in analyzing the concept of Governance and relating it to development performance is the difficulty of measuring either of these concepts with precision. Both concepts are multidimensional: While “development” often focuses on economic performance as measured by the level and growth of income (or GDP) per capita, the broader notion of development includes other components of wellbeing, which are often proxied by variables such as health standards, education levels, public safety, environmental quality, and other relevant components of the quality of life. A broader (than GDP pc) definition of “Development” - which is gradually gaining wider recognition - is the one introduced by 1998 Nobel laureate Amartya Sen(1999) who defines Development as extending the range of individual choice, not only concerning economic goods and services via income growth, but also including growing political freedom and self-determination.

A widely used proxy measure of the concept of development performance is the “Human Development Index” (HDI), developed by the UNDP, and inspired by the theoretical work of Sen, whose theoretical work influenced the development of this indicator. In contrast to the simple measure of GDP per capita as a gauge of the level of development, the HDI includes life expectancy, literacy rates and school attendance, together with income per capita (at purchasing power parity) in an aggregate measure of human development. Both the HDI as well as GDP pc will be used in this paper as measures of development performance.²

Myriad aspects of Governance have been analyzed extensively by different branches of the social sciences, and practitioners have worked hard to generate an operative version of the concept, based on this research. One of the most widely used measures of the concept is the “Worldwide

² A detailed description of the Human Development Index can be found in Todaro and Smith (2006), and on the UNDP website: <http://hdr.undp.org/en/humandev>.

Governance Indicator” (WGI) developed and updated annually by social scientists at the Worldbank.³ This measure contains six components, judged by its authors as essential ingredients of public sector governance quality. And while these component measures are based on both public and private opinion surveys, Worldbank researchers have mapped the underlying qualitative evaluations into quantitative measures.⁴ The six component indicators are defined in the Text Box and listed in Table 1. This table also includes an alternative set of Governance components adopted by the “Good Governance for Development in the Arab Countries” (GfD) project, implemented jointly by the United Nations Development Program and the OECD, in collaboration with various governments of Arab states and Arab international organizations.⁵

Table 1: Alternative governance indicators and their components

Indicator components and their proximate correspondance(1)	
Worldbank governance indicator(2)	OECD/UNDP governance sub-issues(3)
1. Voice and accountability	1. Civil service and integrity
2. Political stability and absence of violence	2. E-government and administrative simplification
3. Government effectiveness	3. Governance of public finances
	4. Public service delivery Public-private partnership
4. Regulatory quality	Regulatory reform
5. Rule of law	5. Role of judiciary and law enforcement
6. Control of corruption	6. Citizens and civil society

(1) Correspondence between subcomponents of the alternative governance concepts is indicated by identical color coding.

(2) Kaufmann et al (2008)

(3) Source: <http://www.arabgov-initiative.org/english/>

The concept of “Governance” elaborated by the Worldbank and adopted in this paper is broader than that of “public administration” in a narrow sense. It includes not only “government effectiveness”, “control of corruption”, and “quality of regulation”, but also the institutional underpinning which legitimizes the public administration: “voice and accountability”, “political stability”, and “rule of law”. We consider this choice legitimate, since it has important implications for the public support of - and compliance with - a given public administration, and thus its sustainability. It also increases the possibilities for participation of the wider public in the public management and decision making process, which facilitates the better use of a country’s human capital, the latter arguably being the most relevant resource for successful development.

³ For an extensive documentation of the WGI see the Worldbank website:

<http://web.worldbank.org/WBSITE/EXTERNAL/WBI/EXTWBIGOVANTCOR/0,,menuPK:1740542~pagePK:64168427~piPK:64168435~theSitePK:1740530,00.html> and references provided therein.

⁴ The procedures followed to transform the qualitative evaluation into quantitative indicators are described in detail in Kaufmann et al. (2008).

⁵ For historical background information on the creation and the ongoing activities of the GfD project see:

http://www.oecd.org/pages/0,3417,en_34645207_34645555_1_1_1_1,00.html

Box: Definition of individual Governance components

The Worldbank defines governance broadly as the traditions, institutions, and procedures by which (public) authority in a country is exercised. This includes not only the capacity of the government to effectively formulate and implement sound policies (quality administration in a narrow sense), but also the respect of citizens and the state for the institutions that govern economic and social interactions, without which quality public administration is very hard to achieve. Last not least, it includes the process by which governments are selected, monitored and replaced to make sure that the objectives pursued by the public administration represent a majority social consensus. The six dimensions selected to measure “Governance” thus defined are (a):

1. *Voice and Accountability (VA)* – measuring perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.
2. *Political Stability and Absence of Violence (PV)* – measuring perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.
3. *Government Effectiveness (GE)* – measuring perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
4. *Regulatory Quality (RQ)* – measuring perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
5. *Rule of Law (RL)* – measuring perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.
6. *Control of Corruption (CC)* – measuring perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

(a) Quoted from Kaufmann et al. (2008)

As the contents of Table 1 reveals, there is a substantial overlap between the coverage of the Worldbank Governance concept and the coverage of the OECD/UNDP concept, which has been tailored to the preferences and specific needs of Arab countries. The only areas for which the two Governance concepts do not overlap are “Political Stability” – which is part of the Worldbank definition but not of the OECD/UNDP definition – and “Public-Private Partnership”, which is part of the OECD/UNDP definition, but not of the Worldbank definition (although one could argue that

it is covered in principle by the “Government Effectiveness” component of the Worldbank’s definition). There is also some uncertainty as to what extent the Worldbank’s definition of the Governance component “Voice and Accountability” overlaps with the OECD/UNDP coverage of their “Citizens and Civil Society” component.

For the purpose of this study we shall use the concept of public sector governance (WGI) as developed and popularized by the Worldbank as a comprehensive proxy measure of Governance, while the principle proxy-measure for comprehensive development used in this study is the “human development index (HDI)”, a composite measure comprising health standards, education levels and per capita income in purchasing power parity.⁶ These proxy measures of Governance and development respectively have the advantage of being widely – though not universally - accepted as relevant indicators of the “true” concepts to be analyzed, of being periodically measured for a large number of countries, and of being reported annually since 1996. While the Worldbank’s Governance indicator (WGI) has been criticized on a number of accounts, it is widely used and has proved very useful in analytical work and policy analysis.⁷ As mentioned above, the Governance indicator is broader than a narrow concept of “administrative quality”, which would probably focus on sub-components like “government effectiveness”, “quality of regulation”, and “control of corruption”.

Governance and development performance

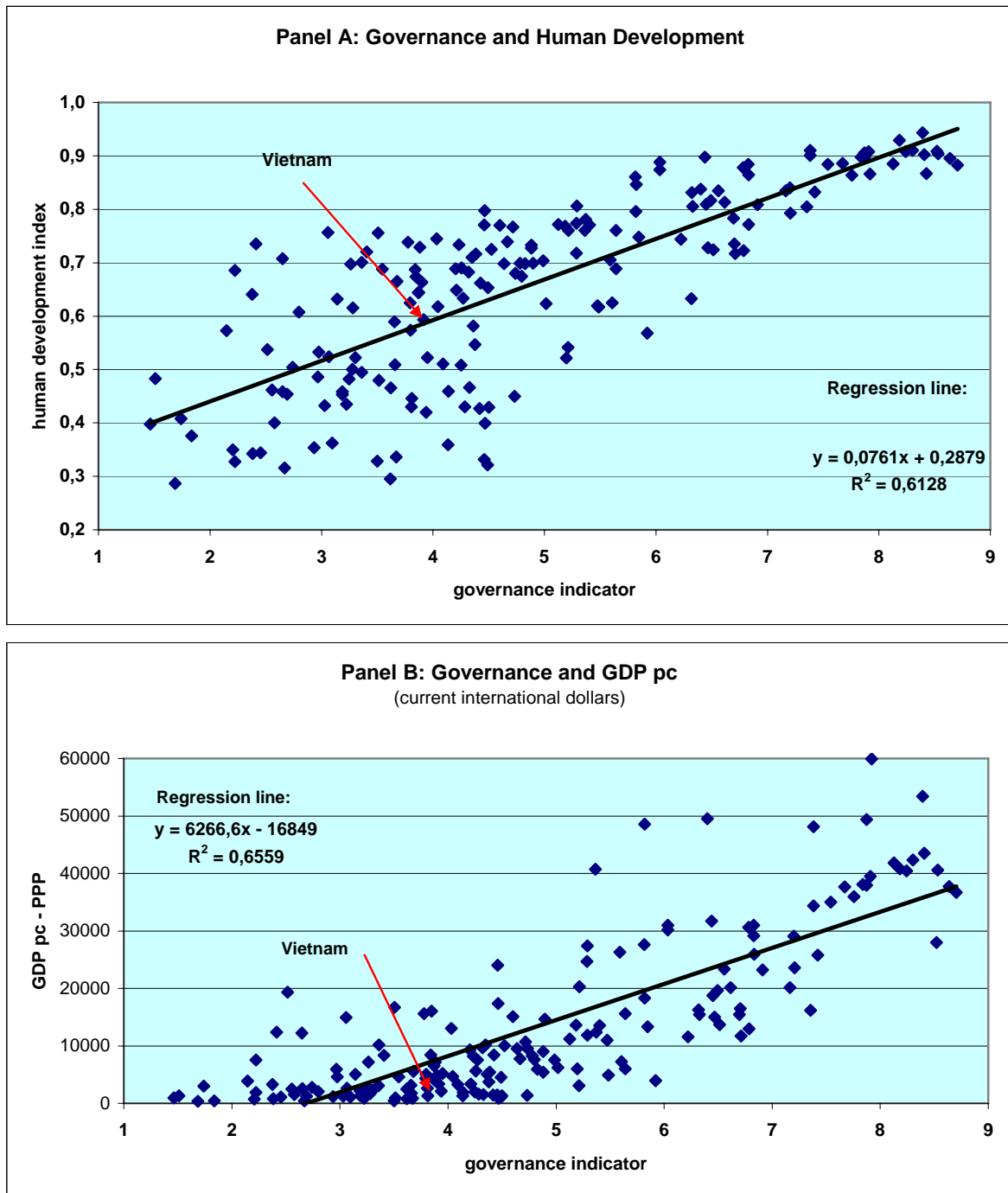
The relationship between Governance and the level of development is depicted in Figure 1. Panel A presents a plot of 178 countries’ human development index against their aggregate Governance⁸ indicators. Given the prominence accorded to GDP in international comparisons of development, panel B plots these countries’ GDP pc against their aggregate Governance indicators as well. The diagrams show a systematic statistical relationship (correlation) between the Governance and the alternative development indicators: the better (higher) a country’ governance indicator, the better its development performance (as measured by either the HDI or by GDP pc), a relationship that seems to become tighter in the upper range of the performance level. Inter-country variation in the Governance indicator “explains” over 60 percent of inter-country variation in development performance.

⁶ An Annex presents the numerical values for the aggregate Governance indicator and its six components, for the HDI, and for income (GDP) pc in purchasing power parity.

⁷ The various criticisms of the WGI are discussed in Kaufmann et al. (2007).

⁸ The aggregate Governance indicator is a simple average of the six governance component indicators defined in the Text Box. The original indicators, ranging from -2.5 to +2.5 have been linearly transformed to range from 0 to 10.

Figure 1: Governance and Development Performance Measures
(latest available data)



Source: <http://info.worldbank.org/governance/wgi/index.asp>, <http://hdr.undp.org/en/>, and <http://www.imf.org/external/index.htm>, accessed March 2012

The direction of causality underlying the high correlation between the Governance indicator and the development indicators can be interpreted in different ways: On the one hand it has been argued that this correlation provides strong evidence for the importance of good governance for

successful development.⁹ This is indeed the dominant interpretation of the evidence, originally developed in the seminal work of Nobel laureate Douglas North (1990). However, some other analysts have downplayed the importance of governance for successful development by conjecturing that the causality runs mainly in the opposite direction: good governance is expensive, and only rich countries can afford it.¹⁰ The majority of experts tend to favor the hypothesis that causality runs mainly from good governance to superior development performance. However, the second interpretation likely also contains some truth: while development seems impossible without a minimum quality of Governance (there are no failed states which produce satisfactory levels of income, health and education), high quality Governance requires levels of human capital which low income economies have great difficulty to acquire and sustain for lack of resources.

This paper acknowledges such mutual interdependence of quality of Governance and development, but is based on the belief that whatever a country's level of development, there will be ample opportunities to improve the quality of its Governance. And such improvements will in turn facilitate further development, which will then provide the resources necessary for improving the quality of Governance further, thus creating a virtuous circle. However such a virtuous circle is far from being inevitable – it requires a persistent political will and vigilance to protect it from complacency and vested interests. In addition, good Governance cannot be embodied in an immutable set of institutions and procedures, but its guardians have to be capable and willing to accept continuous adaptation, in line with the development of technology, sociological conditions, and political preferences.¹¹

In Figure 1, Vietnam's HDI (Panel A) ranking coincides with the country's development performance that could be expected on the basis of its governance indicator alone, while the GDP pc performance (Panel B) falls significantly short of the value predicted by its Governance score (cf. Vietnam's negative deviation from the regression lines in Panel B of Figure 1). The diagram also hints at the potential gains Vietnam can make by improving its Governance by comparing it with various other economies (e.g. Switzerland, Singapore, Iceland, Hong Kong), which - despite low natural resource endowments - have reached development levels among the highest in world.¹²

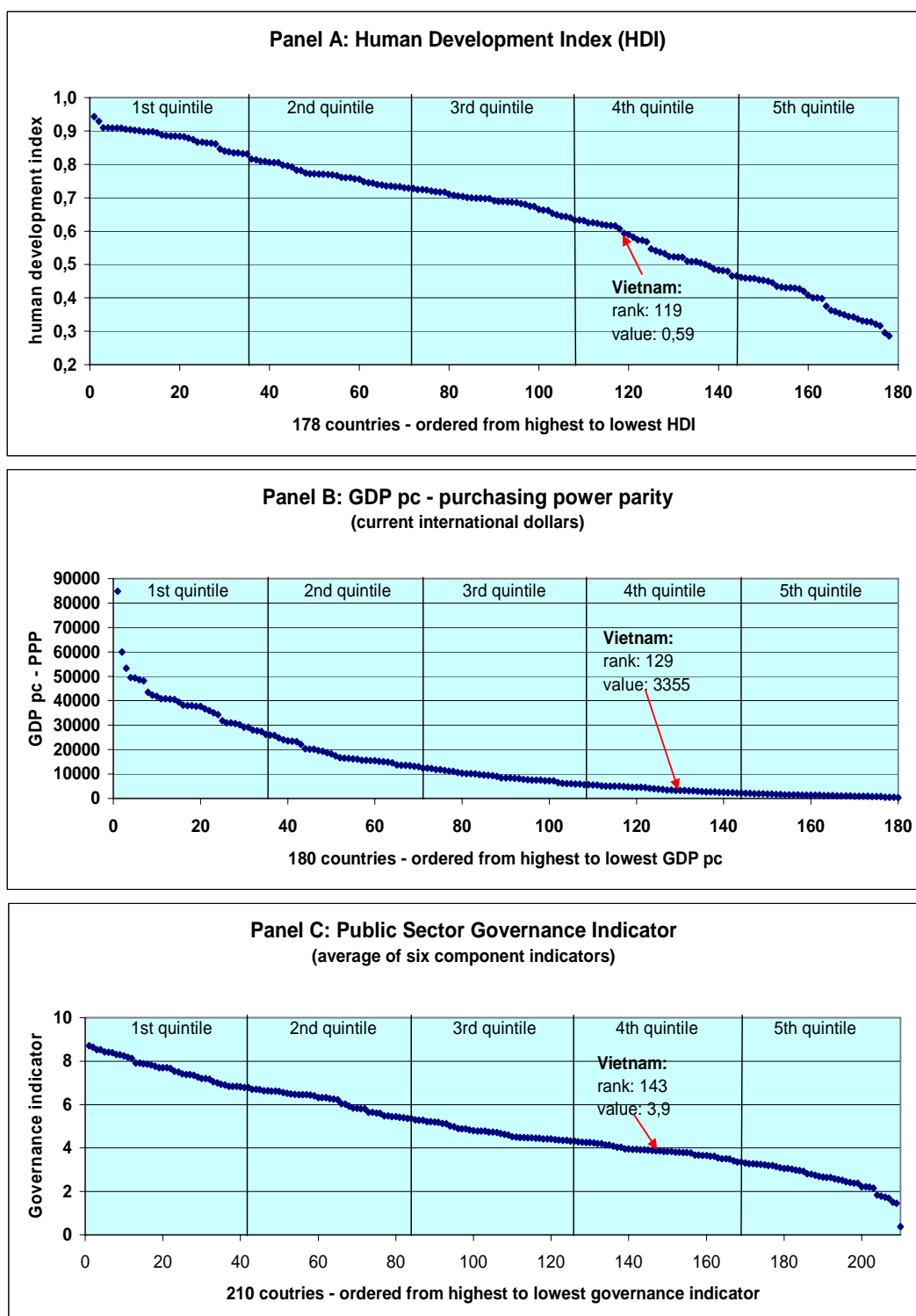
⁹ A prominent exponent of this interpretation is Easterly (2006). More recently this argument has been elaborated upon by Acemoglu and Robinson, (2012).

¹⁰ This interpretation is implicit in the analysis and argumentation presented in Sachs (2005).

¹¹ Osborne (2000) provides a convincing argument for the need of adaptability and flexibility in creating and maintaining an optimal Governance structure.

¹² Taking the regression results in Figure 1 at face value implies a gain of about 0.075 points (over 10 percent) in the HDI and of 6.3 thousand current international \$ in GDP pc for each one point improvement in the governance indicator (the latter implying more than a doubling of Vietnam's current level of GDP pc)

**Figure 2: Vietnam' Relative Development and Governance Performance
(latest available data)**



Source: Worldbank (2012), UNDP (2012), IMF (2012)

Vietnam's relative performance.

Comparison with other countries

Panel A in Figure 2 depicts Vietnam's ranking among 178 nations with respect to the chosen proxy measure of Development - the HDI. Given its prevalence in international comparison of economic development, relative performance with respect to GDP per capita in purchasing power parity is also presented (Panel B). The last panel (C) in the diagram depicts Vietnam's ranking (among 210 countries) regarding public sector governance, where the aggregate Governance indicator represents the simple average of the values of the six governance components measured by the Worldbank¹³.

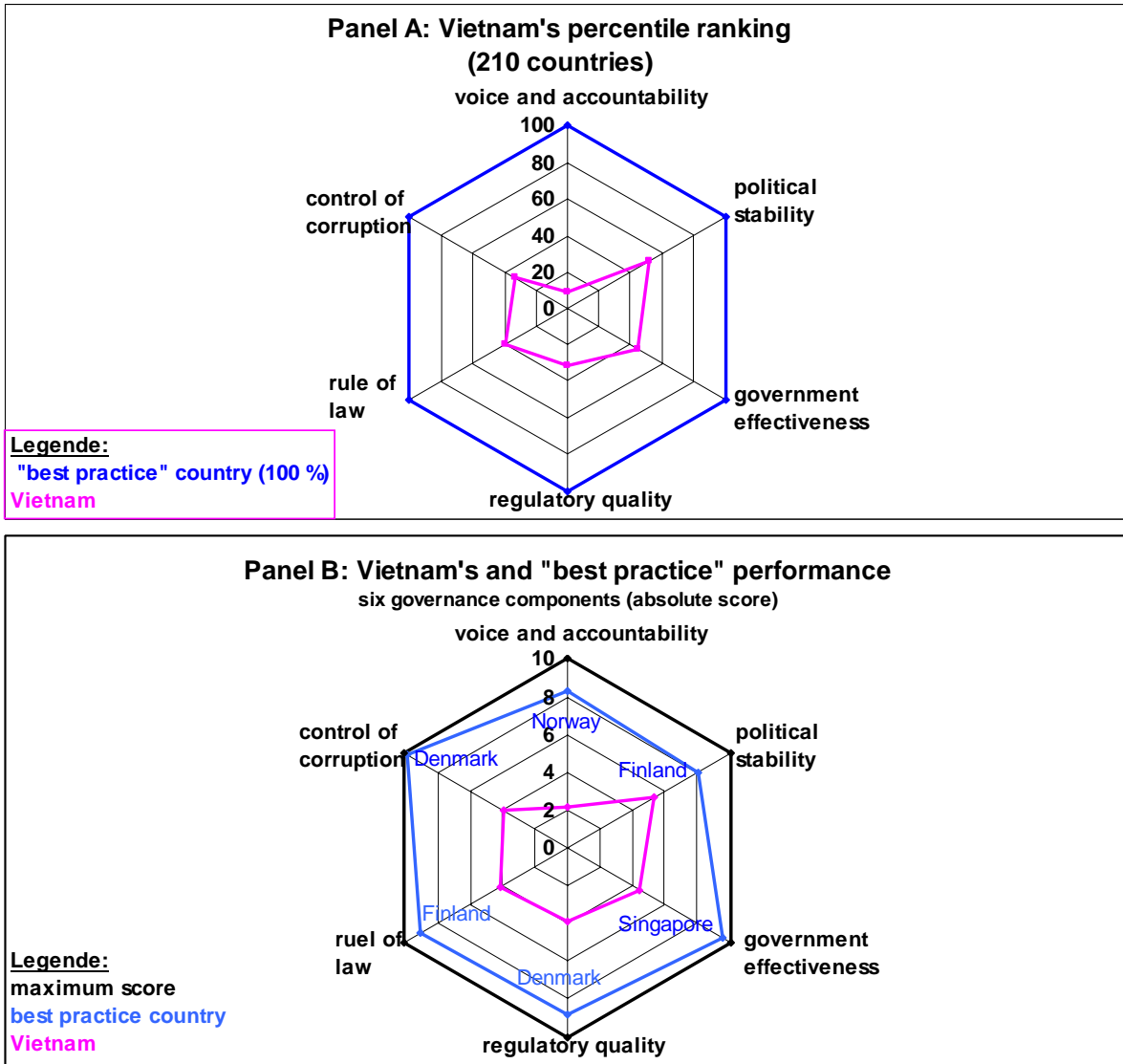
Regarding comparative performance with respect to human development (HDI= 0,593) Vietnam ranks 128th among 187 nations, a level of development comparable with that of nations like Tajikistan (HDI=0,607, rank 127) and Nicaragua (HDI=0,589, rank 129). The country's ranking with respect to per capita GDP is very similar (rank 129; 3355 \$), placing it in the group of low middle income economies according to the Worldbank classification. The country's ranking drops to 141st place among 210 countries (score: 3,84) with respect to the aggregate governance indicator¹⁴, comparable to countries like Zambia (rank 140) and China (rank 142). This implies that relative to the weak performance regarding public sector governance Vietnam has succeeded in achieving comparatively high levels of human development, as measured by the HDI, and in per capita GDP.

So far we have used a single aggregate governance indicator as a proxy measure for Governance. This overall indicator is calculated as the simple average of six component indicators, each of which attempts to measure an essential ingredient of public sector governance. These six component indicators have been defined in the Text Box above. Figure 3 depicts the relative – compared with 210 other countries – performance of Vietnam with respect to each of the six component measures of the quality of Governance. Panel A of Figure 3 shows Vietnam's percentile ranking with respect to each of the six component indicators, while panel B shows absolute scores regarding each indicator for both Vietnam and the best performing country in each category.

¹³ Rescaled to range from 0 to 10.

¹⁴ Computed as the simple average of the six component indicators.

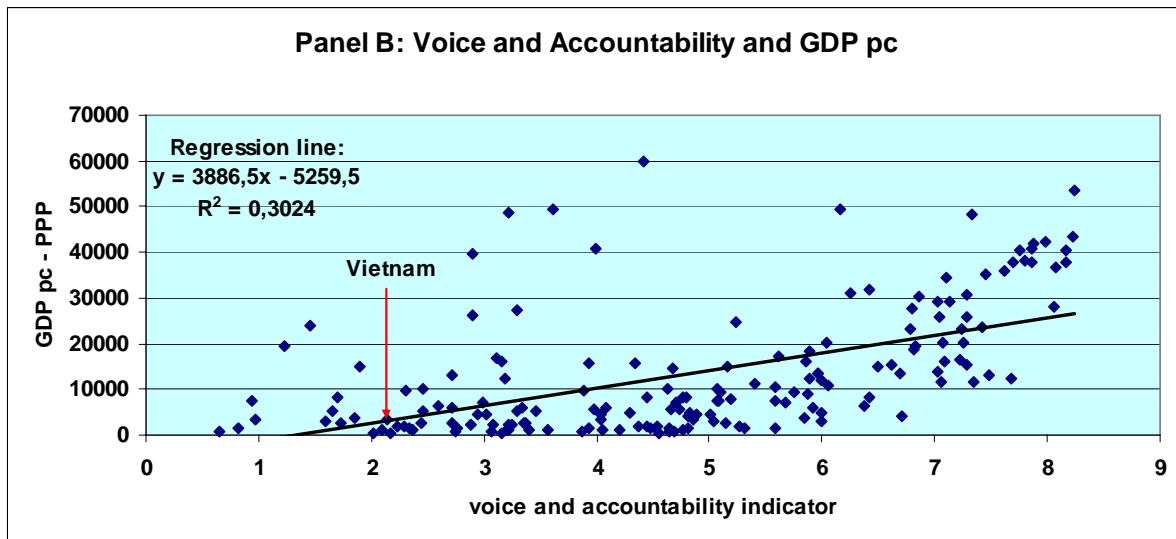
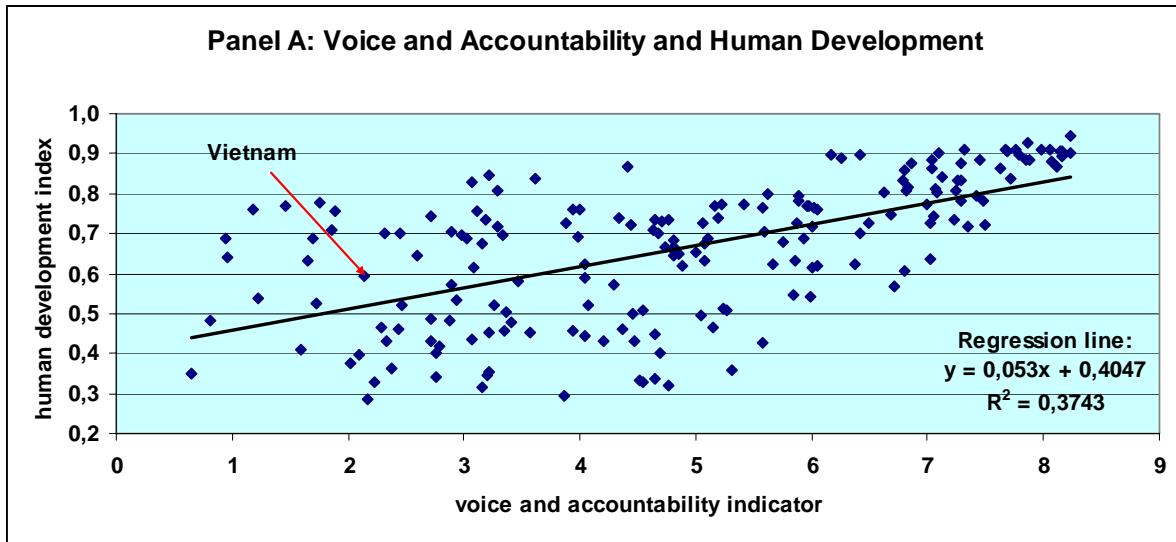
**Figure 3: Vietnam's Absolute and Relative Performance
6 Governance Indicators, 2010**



Source: <http://info.worldbank.org/governance/wgi/index.asp>, accessed March 2012

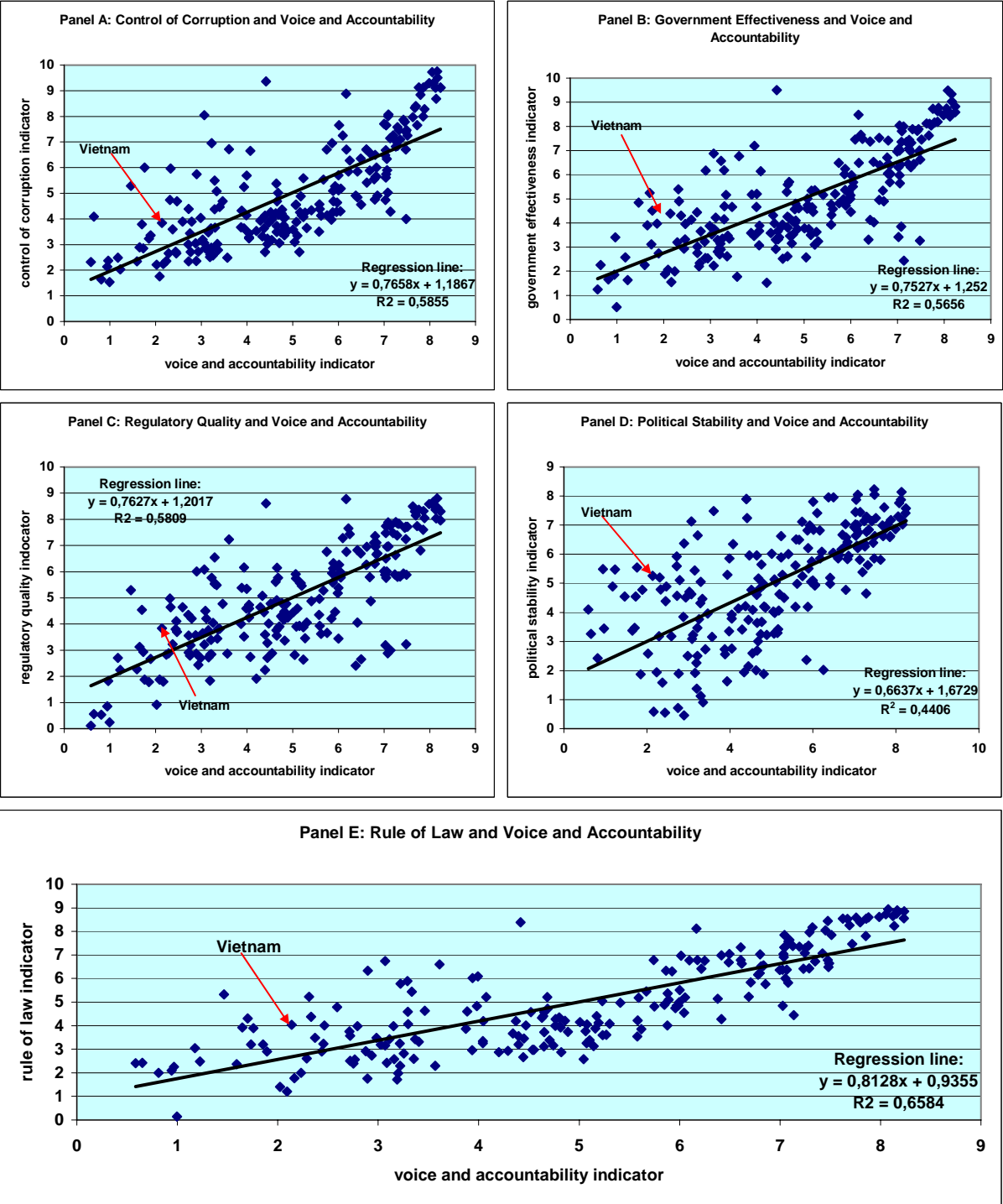
Figure 3 reveals considerable differences in Vietnam's relative performance regarding the component governance indicators: The country attains its highest percentile ranking (52 %) in the area of "Political Stability" and the lowest ranking in the area of "Voice and Accountability" (9 %). Regarding the four remaining governance components "Regulatory Quality (31 %)", "Control of Corruption"(33 %), "Rule of Law"(40 %), and "Government Effectiveness" (44 %), the country's ranking is considerably higher, placing the country's overall ranking in the middle of the second lowest country quintile – as noted in the discussion of Figure 2. above.

Figure 4: Voice and Accountability and Development Performance
(latest available date)



Source: <http://info.worldbank.org/governance/wgi/index.asp>, <http://hdr.undp.org/en/>, and <http://www.imf.org/external/index.htm>, accessed March 2012

Figure 5: “Voice and Accountability” and other Governance Components



Source: Worldbank (2012)

Given Vietnam's low ranking with respect to the "voice and accountability" indicator, it is pertinent to ask how relevant this indicator is in influencing development performance. Figure 4 provides some evidence regarding this question. There is indeed a positive and statistically significant correlation between the "voice and accountability" indicator and both the income (GDP pc) and human development (HDI) indicators, but this correlation is weaker than that between the **aggregate** Governance indicator and the alternative development measures (cf. Figure 1 above). One possible explanation for this is that the voice and accountability indicator does influence development outcomes not only directly, but also exerts a significant positive effect on all the other Governance component indicators. In other words, free expression and participation in policy formulation by all citizens – the effects the "voice and accountability" indicator attempts to measure – improves other governance indicators with a more direct impact on development performance, like regulatory quality, rule of law, government effectiveness, etc. The actual data are consistent with this hypothesis: as Figure 5 demonstrates, there is a strong positive correlation between voice and accountability and each of the remaining Governance component indicators.

It is worth noting that for all the regression results in Figure 5 the Vietnam data point depicts a positive deviation from the regression line. This is consistent with the hypothesis that the country's weak performance regarding "voice and accountability" constitutes a binding constraint on the quality of all other Governance component indicators, thus curtailing the level of development directly and indirectly.

Change of governance indicators 1996 to 2010

Table 2 depicts the change of Vietnam's percentile ranking with regard to each of the six component indicators of governance over the period 1996 (the first year for which these indicators have been calculated) to 2010 (the most recent year for which the indicators are available) among 2010 countries. Changes in rankings for the six indicators over the reporting period were not monotonic: there were variations in annual rankings in both directions within the reporting period. And with the exception of the rankings for "Government Effectiveness" and "Regulatory Quality" rankings fell over the reporting period as a whole, significantly so in the case of "Voice and Accountability". These percentile rankings are affected not only by what happened in Vietnam, but also by what happened in the other 210 countries in the comparison set: A country's ranking can deteriorate not because its Governance gets worse, but because other countries' Governance improves faster than that of the country concerned.

Table 2: Governance indicators 1996 to 2010
percentile ranking

Color coding: maximum values during the reporting period are in **red**
green columns indicate an improvement over the reporting period

Year	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
1996	15.4	57.7	34.1	28.4	39.7	39.7
1998	10.6	53.4	42.4	24.0	39.2	39.2
2000	12.0	56.7	39.5	22.1	42.1	42.1
2002	8.2	55.3	38.0	22.1	36.4	36.4
2003	6.7	46.2	38.5	29.4	40.7	40.7
2004	9.6	49.5	38.5	30.4	42.1	42.1
2005	8.7	58.7	48.8	27.9	45.9	45.9
2006	7.7	58.7	48.3	29.9	43.1	43.1
2007	7.7	53.8	49.5	32.0	42.6	42.6
2008	7.7	50.0	48.5	30.1	41.3	41.3
2009	8.1	52.6	45.9	31.6	40.8	40.8
2010	8.5	51.4	44.0	31.1	38.9	38.9

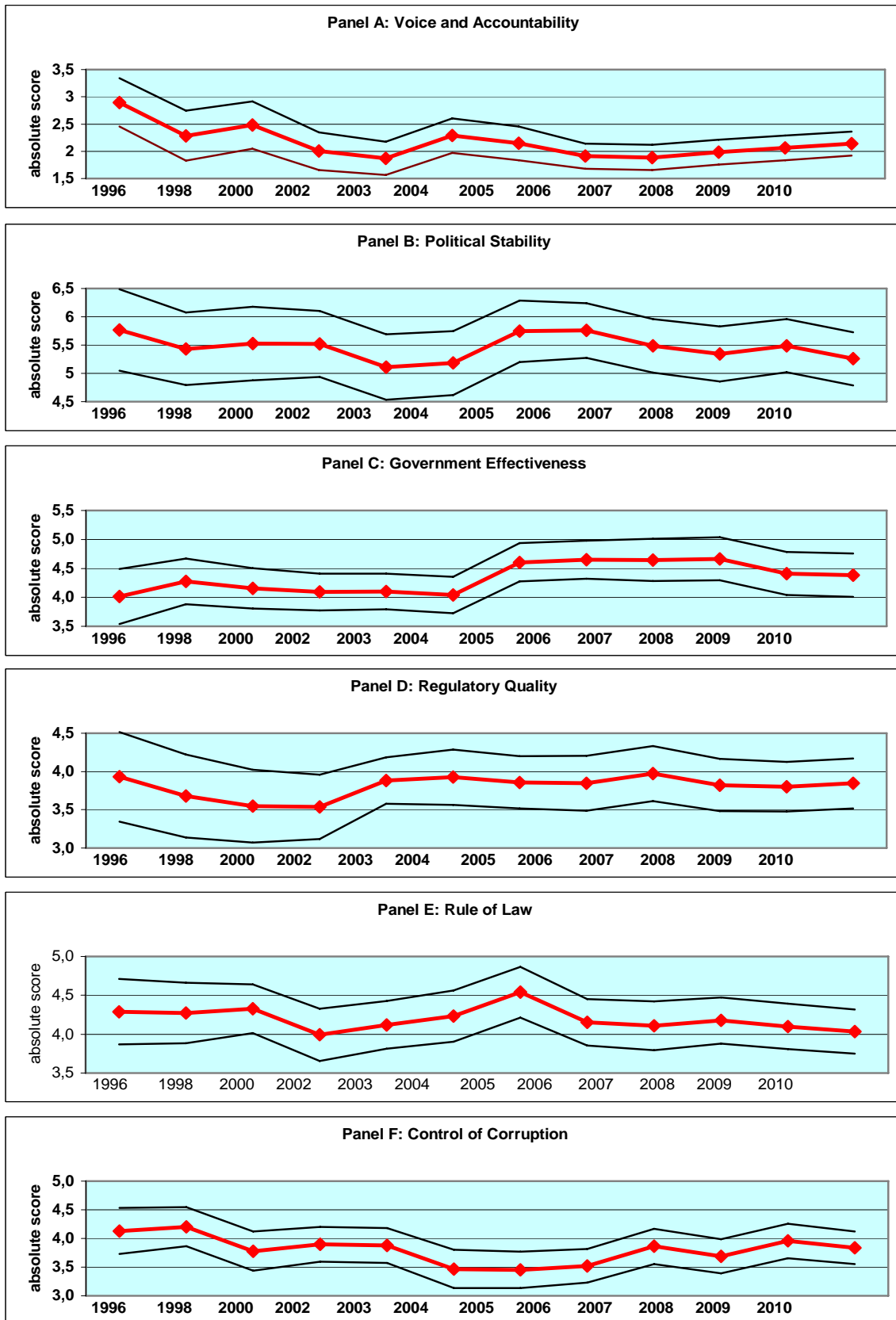
Source: <http://info.worldbank.org/governance/wgi/index.asp>; accessed January 2012

Looking at absolute values for the indicators to gauge change over time in Vietnam, irrespective of developments in other countries, reveals a mixed picture (cf. Figure 6).¹⁵ There is no clear trend in any of the indicators. Except for the “government effectiveness” indicator all are lower in 2010 than they were in 1996, and all reached their highest value at some year either at the start or within the reporting period. Except for the deterioration in the Voice and Accountability indicator none of the changes between the beginning and the end of the reporting period are significant, as judged by the estimated error margins of the measures.¹⁶

¹⁵ The absolute values for the WGI component indicators are calibrated for each year so as to make the world average score equal to 5 (zero before the linear transformation of the original Worldbank data)

¹⁶ The error margins depicted in Figure 6 are equivalent to one standard deviation on either side of the estimated score. Calculation of standard deviations is explained in Kaufmann et al. (2008).

Figure 6: Change of Governance Indicators over time, 1996 – 2008



Source: <http://info.worldbank.org/governance/wgi/index.asp>, accessed March 2012

Opportunities for improving Vietnam's performance

As mentioned above, good Governance requires considerable resources in the form of human capital and knowledge transfer, based on other countries' experience. And given the long gestation period of human capital, acquiring it will take considerable time. Since improvement in several of the Governance indicators also requires changes in attitudes not only of the country's leadership, but also of the population in general, improving the quality of Governance and public administration will require both considerable resources and time. The large gap between current Vietnam performance and that of the top country performers ("best practice countries") with respect to each of the six component Governance indicators (Figure 3) implies a great potential for improvement: Institutional arrangements and operational procedures by the top performing countries are comprehensively analysed and documented, available for any national administration to imitate and adapt them to local conditions and requirements, requiring "only" the political will to do so. And a larger number of international experts, both in the public and private sector, are available to provide pertinent advisory services.

Of course no two countries are identical, and what "works" for one country may not be an optimal solution for all or any one other countries. Indeed, the top performers regarding each Governance component differ in significant respects concerning their Governance design and implementation, having adapted their countries' institutions to local idiosyncrasies and preferences. But this diversity also provides a rich inventory of promising reform models which countries that are serious about reform can choose from. And for each governance sub-component discussed above there are one or more core principles, which can be found among all top performers, and which are consistent with a variety of institutional designs and policy implementations (Table 3). Any country eager to match the performance of the leading nations can review their experience and pick suitable elements (of both institutional design and policy implementation) to apply them at home, in pursuit of matching the core principles underlying superior performance. As mentioned, this will require considerable investment in human capital, with the judicious use of outside expertise able to provide efficient short-cuts.

Table 3: Governance: common characteristics of top performing countries

Governance component	Five highest ranking countries in 2010	common characteristics
1. Voice and accountability	NORWAY DENMARK SWITZERLAND SWEDEN NETHERLANDS	- institutional mechanisms for citizens to express their political and economic preferences; - mass media free to express competing political and economic views; - freedom of association
2. Political stability	LUXEMBOURG FINLAND SWITZERLAND ICELAND NORWAY	- Institutional mechanisms for the contestability of political power; - transparency of - and accountability for - political decision making; - absence of politically motivated violence - conflict resolution through independent courts - constitutional protection of basic and minority rights
3. Government effectiveness	SINGAPORE DENMARK FINLAND SWEDEN SWITZERLAND	- a civil service based on meritocracy; - accountability of civil servants - competitive civil service salaries
4. Regulatory quality	SINGAPORE HONG KONG DENMARK NEW ZEALAND AUSTRALIA	- regulations based on economic principles (aiming to correct for market imperfections), and not dominated by sectoral interest; - transparency and simplicity of regulation
5. Rule of law	FINLAND SWEDEN NEW ZEALAND NORWAY DENMARK	- independence of the judiciary system from political influence; - state monopoly of coercive force; effective contract enforcement; - clear definition and protection of property rights; - equal treatment of individuals, irrespective of race, gender, religion, or political affiliation - conflict resolution through independent courts
6. Control of corruption	DENMARK NEW ZEALAND SINGAPORE SWEDEN FINLAND	- comprehensive and transparent accounting principles; - preventing "government capture" by sectoral interests; - transparency of government finances - competitive civil service salaries - enforcement of transparent and effective sanctions for active and passive corruption

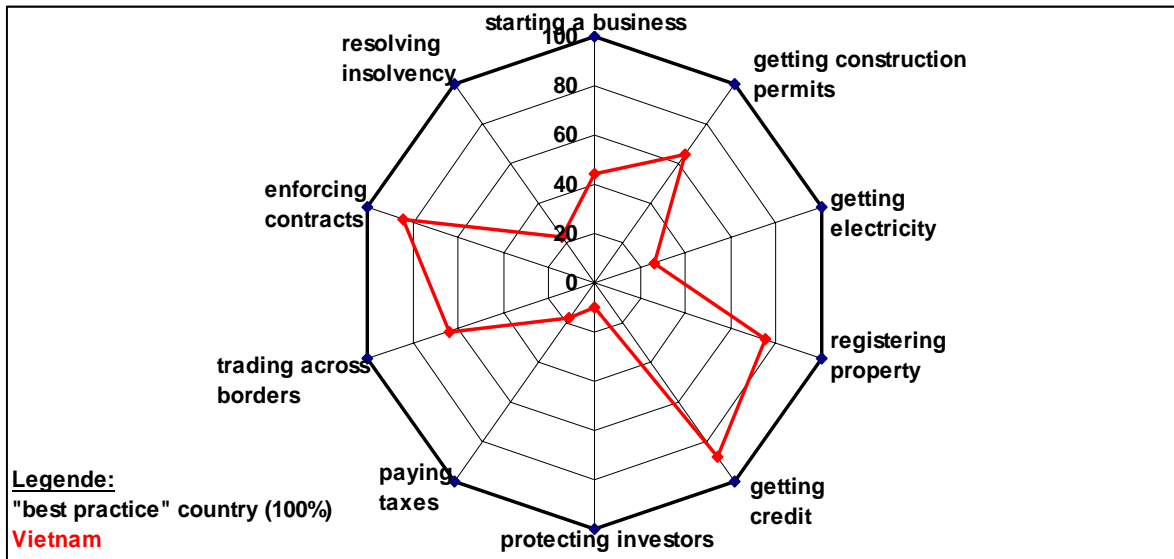
(1) Ranking from: <http://info.worldbank.org/governance/wgi/index.asp>; accessed February 2012.

Source: Author's compilation

A concrete example from the area of business environment and the policies shaping it may illustrate this point: the International Finance Corporation (IFC - a branch of the Worldbank) undertakes annual surveys ranking some 183 countries according to their success (or failure) in facilitating private business activity. The survey covers ten areas of pertinent legislation, ranging from business creation to various aspects of business operation to exit (business closure) regulation, and within each of the ten areas several relevant policies are evaluated. Vietnam's overall percentile ranking among the 183 countries for which data are available is depicted in Figure 7 regarding ten aspects of business environment – “best practice” country ranking corresponds to 100 %. With an overall ranking of 98 (or 44% - among 183 countries) in the “ease of doing business” league Vietnam's performance is better than its overall percentile rankings with regard to governance (33 %) and development performance, regardless of how the latter is measured (by HDI or GDP pc).

Figure 7: Ease of doing business

Vietnam's percentile ranking



Source: Worldbank/IFC; accessible at <http://www.doingbusiness.org/EconomyRankings/> (accessed January 2012)

A striking feature of the data presented in Figure 7 is Vietnam's uneven performance among different aspects of business regulation: high rankings (above 70 %) regarding contract enforcement, property registration, and credit availability coincide with low rankings (below 30 %) in the areas of reliable electricity supply, investor protection, tax administration, and dealing with insolvencies.

A more detailed subset of the results of this "Ease of Doing Business Survey" published in 2012 is presented in Table 4. The table depicts Vietnam's international ranking overall and in each of the ten sub-categories. It also contains a juxtaposition of the country's performance regarding individual regulations within each category with those of the leading ("best practice") country in each category.

Table 4: Conditions of doing business
Comparison of Vietnam with "best practice" countries - 2010

Ranking categories and components		"Best Practice" country					
		Vietnam	New Zealand	Hong Kong (China)	Iceland	Saudi Arabia	Singapore
Ease of Doing Business Rank (overall)		98	3	2	9	13	1
Starting a Business	Rank	103	1				
	Procedures (number)	9	1				
	Time (days)	44	1				
	Cost (% of income per capita)	10,6	0.4				
	Min. capital (% of income pc)	0	0.0				
Dealing with Construction Permits	Rank	67		1			
	Procedures (number)	10		6			
	Time (days)	200		67			
	Cost (% of income per capita)	109		17,8			
Getting Electricity	Rank	135			1		
	Procedures (number)	5			3		
	Time (days)	142			22		
	cost (% of income pc)	1343,0			13,6		
Registering Property	Rank	47				1	
	Procedures (number)	4				2	
	Time (days)	57				2	
	Cost (% of property value)	0,6				0.0	
Trading Across Borders	Rank	68					1
	Documents for export (number)	6					4
	Time for export (days)	22					5
	Cost to export (US\$ per container)	580					456
	Documents for import (number)	8					4
	Time for import (days)	21					4
	Cost to import (US\$ per container)	670					439

Source: International Finance Corporation, at <http://www.doingbusiness.org/EconomyRankings/>

Table 4: Conditions of doing business (continued)

Ranking categories and components		Vietnam	"Best practice" country				
			United Kingdom	New Zealand	Maldives	Luxembourg	Japan
Ease of Doing Business (overall rank)		98	7	2	79	50	20
Getting Credit	Rank	24	1				
	Legal Rights Index (0-10)	8	10				
	Credit Information Index(0-6)	5	6				
	Registry coverage(% of adults)						
	public	29,8	0				
	private	0	100				
Protecting Investors	Rank	166		1			
	Disclosure Index (1-10)	6		10			
	Director Liability Index (1-10)	1		9			
	Shareholder Suits Index (1-10)	2		10			
	Investor Protection Index(0-10)	3		9.7			
Paying taxes	Rank	151			1		
	Payments/year (number)	32			3		
	Time (hours/year)	941			0		
	Total tax rate(% of profit)	40,1			9,3		
Enforcing Contracts	Rank	30				1	
	Procedures (number)	34				26	
	Time (days)	295				321	
	Cost (% of claim)	28,5				9.7	
Resolving insolvency	Rank	142					1
	Time (years)	5					0.6
	Cost (% of estate)	15					4
	Recovery rate (cents on the dollar)	16,5					92.7

Source: International Finance Corporation, at <http://www.doingbusiness.org/EconomyRankings/>

Table 4 reveals that in virtually all areas of business regulation Vietnam lags considerably behind the “best practice” economies. For example for “Starting a Business” Vietnam ranks 103th, and the time required, the number of procedures, and relative costs of starting a business exceeds such requirements in the best performing country (New Zealand) by orders of magnitude. Similar examples can be easily gleaned from Table 4, with particularly poor rankings in the areas of protecting investors (rank 166/183), paying taxes (rank 151/183), and resolving insolvencies (rank 142/183). Systematically screening these comparison tables allows identifying individual aspects of business regulation and pertinent legislation where the country’s performance falls short

of best practices, and studying conditions in best practice countries can thus provide useful clues on how to improve the country's performance.

Summary and conclusions

The Worldbank's public sector governance indicators and the UNDP's human development index are widely used proxy-measures of the quality of public sector governance and the level of development. Quantitative measures of these two indicators show a strong positive statistical relationship between them. This is consistent with a large body of theory positing that improving public sector governance will have an important positive effect on development, although some of the causality may run in the opposite direction as well, creating opportunities for a virtuous governance-development circle. International comparison of Governance and development indicators show that Vietnam's ranking places the country in the middle of the second lowest quintile with respect to both these indicators. The country's ranking is higher with respect to the quality of the business environment ("Ease of Doing Business"), where it places at the upper end of the middle (3rd) quintile. Overall this implies the existence of a considerable development potential through improving the country's governance performance by scrutinizing and adapting institutions and procedures of "best practice" countries (e.g. Finland, New Zealand, Singapore, etc) to local Vietnamese conditions. The relevant information is readily available and can be constructively exploited if the political motivation to do so exists, and is strong enough to overcome the resistance of vested interests opposing such change.

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