Looking For The Perfect Ten

An objective way to rate governance would have many political and economic benefits

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Some years ago, in my capacity as an Asian Development Bank (ADB) official, i had called on Buddhadeb Bhattacharjee to discuss some ADB assistance for West Bengal. While he was chief minister of West Bengal, Chandrababu Naidu was then the much-lauded chief minister of Andhra Pradesh. Bhattacharjee said to me with great self-confidence, "I have told Mr Naidu that i will compete with him." Bhattacharjee was just beginning to be recognised as a proactive, pro-reform chief minister who could turn around the economic fortunes of his state, and Naidu was already recognised as a great moderniser, pro-reform and pro-growth. The context in which the former made the remark was the growth performance of their respective states.

Since then, we have had the late Y S R Reddy's thumping victory in Andhra, the disasters in Nandigram and Singur, and the rise of Mamata Banerjee. The regimes of both Bhattacharjee and Naidu are now history. However, the anecdote yields two important takeaways. First, the chief minister believed that he had the power to deliver high growth in his state through his governance, i.e., that the quality of governance in a state is a key determinant of the state's growth performance. Second, at least some chief ministers believe that they can compete on the basis of their performance, or that good governance can also be good politics, a maxim that has since been followed by several chief ministers.

There is a fairly wide consensus in the development community, both globally and in India, that governance is indeed a key determinant of development. However, governance is generally held to include not just the performance of the executive arm of the state, but also the judiciary and the legislature. Also, development is seen as including not just growth but also social and other aspects of development. Indeed, the World Bank, ADB, African Development Bank and other multilateral development banks have been allocating their concessional assistance to countries on the basis of their performance, where a major component of performance is

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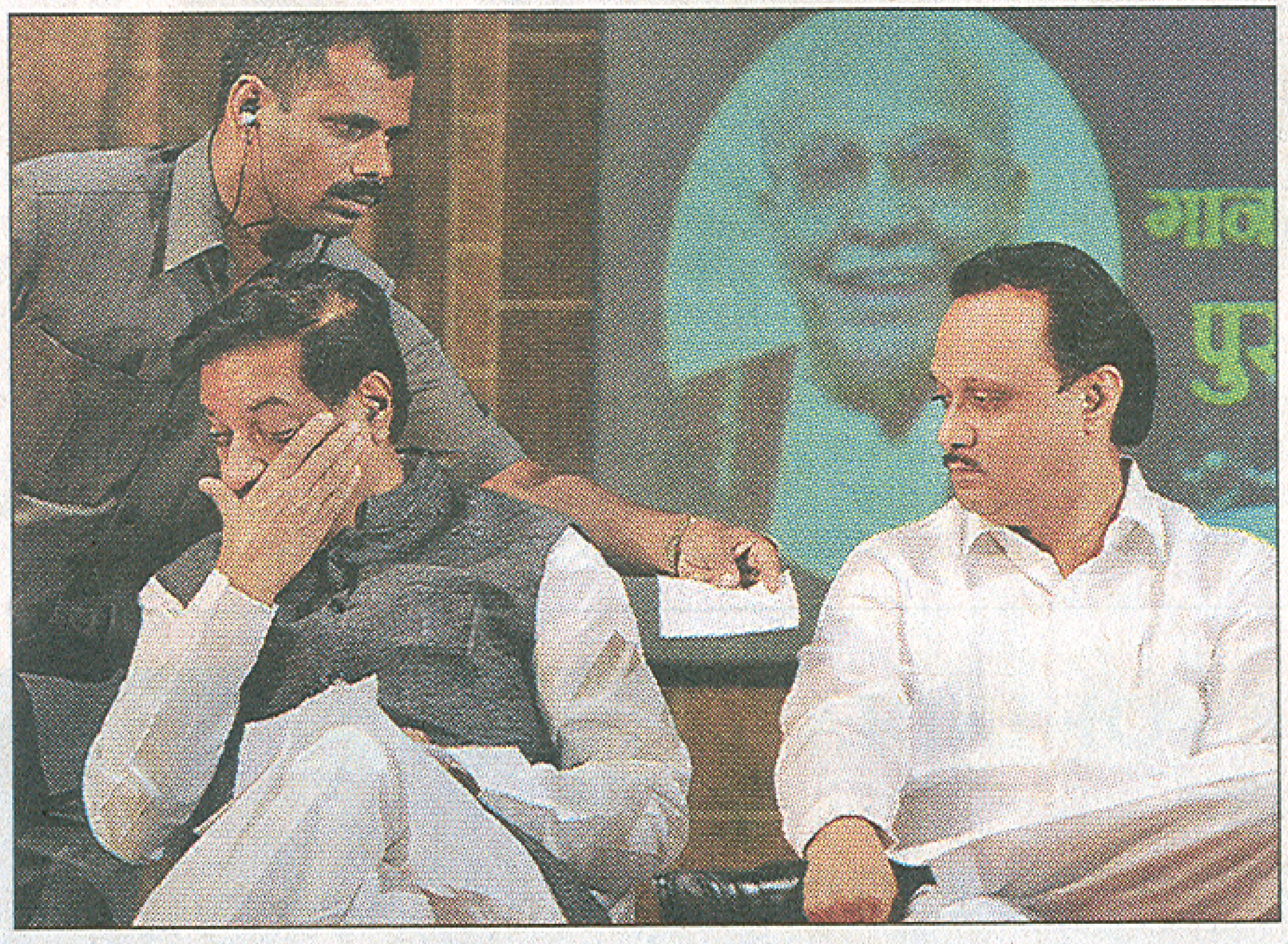
the quality of governance. The underlying assumption is that good governance will lead to good development outcomes.

To enable such performance-based allocation of resources, the quality of governance has to be measured. This is a daunting task for something as complex and intangible as governance. Nevertheless, this has been done for almost 20 years now based on an elaborate system of measurement called the World Governance Indicators or WGI. The WGI system measures six different dimensions of governance: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. To measure governance quality on these dimensions, data is compiled and processed on 310 different variables for 212 countries drawn from 33 different agencies.



Not a good report card, chief minister?

Such an elaborate data system is neither feasible nor, perhaps, desirable for individual states within India. Many of these indicators would not even be available for individual Indian states. However, some ongoing experiments indicate that it may be possible to rate the quality of governance in Indian states on the basis of a relatively simple and transparent framework based on a dozen or so performance indicators, some of which may in turn combine some sub-indicators.

To be credible, any such rating of state government performance must be undertaken by a technically competent, independent, non-profit agency. The rating agency must, first of all, be technically competent because users of the rates must have confidence that the rates are technically sound and robust. It must be independent because otherwise there can be doubts – for instance, that a central government agency has biased the results in favour of state governments run by the party ruling at the Centre. Finally, it must be non-profit because a 'for profit' rating agency would raise many questions of bias and 'conflict of interest', similar to those that have been raised recently about 'for profit' global credit rating agencies.

Why do we need such governance ratings for state governments? At present, much of the assessment of quality of governance in different states is largely piecemeal and anecdotal. Corruption is very high in state X, or the law and order situation is terrible in state Y, health services are very good and so on. Objective assessments are missing because, even though data is available on different aspects of governance at the state level, these have not been compiled to give us an objective, comprehensive assessment of governance. If a reliable rating of the quality of governance in different states were to become available, this would have some immediate and extremely useful applications.

To cite only a few examples, potential investors could use these rates in their risk assessment while deciding in which state or states they will locate their projects. Future finance commissions could factor in such performance rates for deciding the horizontal allocation of central government financial transfers. This would provide a strong incentive for states to compete with one another on quality of governance in order to have a larger share of central transfers.

Finally, and perhaps most importantly, the availability of such independent performance assessments would promote political competition based on performance as opposed to political mobilisation based on identity politics or electorate bribing.

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