

Reference Guide to Policies and Institutions¹

1. Purpose of this Reference Guide

The first purpose of this Reference Guide is to summarize what is now accepted in the international development community as “Best Practice” for achieving economic and social development. That summary of Best Practice is presented in the first column of a matrix that follows this text. The individual statements of Best Practice are adapted from the World Bank’s “Country Policy and Institutional Assessment” (CPIA), which the Asian Development Bank (ADB) and other agencies also use, and the entire matrix is organized under the four major headings and 16 subheadings of the CPIA.

Unlike the CPIA, however, this Reference Guide does not summarize the current state of affairs in the country and does not contain any assessment of country performance, which are the two explicit purposes of the CPIA. Instead, the Reference Guide merely takes the standard by which the CPIA measures country performance and adapts that standard for presentation as an expression of international Best Practice. The CPIA and the Reference Guide both focus on the national level, but many of the same issues and recommendations also apply to individual islands and atolls and to their local governments.

The second purpose of this Reference Guide is to recognize recent progress made in changing existing policies and institutions to accord with Best Practice. A summary listing of that “Recent Progress” appears in the second column of the matrix following this text.

The third purpose is to list the major issues that remain in changing other policies and institutions to accord with Best Practice. These “Remaining Issues” are listed in the third column of the matrix. The issues only cite ways in which some policies and institutions still differ from Best Practice. They are not intended to describe the underlying social, economic, health, and environmental problems that improved policies and institutions would help overcome. Those underlying problems are taken as being understood for the purposes of the Reference Guide.

The fourth purpose is to summarize recent recommendations offered by international agencies working together with government counterparts and members of the public to address the Remaining Issues. These “Recommendations” appear in the fourth column of the matrix. They apply in detail the more general statements of Best Practice listed in column one.

¹ The source of this material is commentary and working papers prepared in the course of ADB RETA 6245, which are not final ADB documents.

Headings and Subheadings of the “Country Policy and Institutional Assessment”

- A. Economic Management
 - 1. Macroeconomic Management
 - 2. Fiscal Policy
 - 3. Debt Management
- B. Structural Policies
 - 4. Trade
 - 5. Financial Sector
 - 6. Business Regulations
- C. Policies for Social Inclusion and Equity
 - 7. Gender Equity
 - 8. Equity of Public Resource Use
 - 9. Building Human Resources
 - 10. Social Protection and Labor
 - 11. Policies and Institutions for Environmental Sustainability
- D. Public Sector Management and Institutions
 - 12. Property Rights and Rule-Based Governance
 - 13. Quality of Budgetary & Financial Management
 - 14. Efficiency of Revenue Mobilization
 - 15. Quality of Public Administration
 - 16. Transparency, Accountability, and Corruption in the Public Sector

Matrix of International Best Practice and Specific Recommendations

The four columns of the matrix presented below list: (1) international “Best Practice,” (2) “Recent Progress” made toward achieving Best Practice, (3) “Remaining Issues,” and (4) specific “Recommendations” that apply Best Practice to overcome the Remaining Issues. Individual items in all four columns are organized under the four major headings and 16 subheadings of the World Bank’s “Country Policy and Institutional Assessment.” The numbered items of “Best Practice” listed in column one are adapted directly from that Country Policy and Institutional Assessment.

A. Economic Management

1. Macroeconomic Management

Best Practice	Recent Progress	Remaining Issues	Recommendations
1. Policies and practices manage aggregate demand to maintain external and internal balance and to build adequate safeguards against external and internal shocks.			
2. Public spending and public borrowing does not crowd out private investment.			

2. Fiscal Policy

Best Practice	Recent Progress	Remaining Issues	Recommendations
1. Fiscal policy supports macroeconomic stability.			
2. Primary budget surplus is managed so as to maintain a stable and low ratio of public debt to GDP.			
3. Government adjusts public expenditure and revenue in response to economic shocks without putting at risk the quality, quantity, and equitable distribution of public goods.			
4. The amount, kind, and quality of public goods and services is enough to support medium-term growth.			

3. Debt Policy

Best Practice	Recent Progress	Remaining Issues	Recommendations
1. Amount of public debt is not difficult to support and will not be difficult even under reasonable scenarios of possible economic shocks.			
2. Terms of any new public debt do not put at risk the sustainability of repayment.			
3. Good coordination between debt management and macroeconomic policies.			
4. A dedicated debt management unit is well established, is supported by efficient systems, and has good capacity to analyze economic conditions and possible scenarios.			
5. Government produces regular, comprehensive, and accurate statistics on debt levels.			
6. Government's objectives for debt management are made public, and government produces annual strategy defining how the amount and composition of the public debt is projected to change over the medium term. The strategy is based on a thorough analysis of risk and cost, and the strategy takes into account and states clearly constraints government faces in managing its debt.			
7. Legal framework for public borrowing is clearly defined, and the different agencies responsible for contracting debt share their information.			

B. Structural Policies

4. Trade

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Tariffs			
1. Average tariff rate less than 7% and maximum tariff rate less than 15%.			

2. No discrimination on tariff rates among public or private entities within country.			
3. Little or no use of non-tariff trade barriers against imports.			
4. Tariff rates rarely change other than through negotiated trade agreements.			
B. Customs			
1. Customs has reputation for professionalism and integrity.			
2. Risk management used extensively.			
3. Very low level of physical examination of importers by customs agents.			
4. Almost all trading and recording is done electronically.			
5. Laws, regulations, and guidelines are simplified, rationalized, and published.			
6. Rapid processing of duties, taxes, and refunds.			
7. Speedy resolution of appeals against customs decisions.			

5. Financial Sector

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Banking			
1. Banking sector is highly resilient to shocks. The share of non-performing loans and the level of capital at risk are very low.			
2. Consistent adherence to Basel Core Principles, which are 25 banking principles relating to: <ul style="list-style-type: none"> • Preconditions for effective supervision. • Licensing and structure. • Prudential regulations. • Methods of ongoing supervision. • Informal requirements. • Formal powers of supervisors. • Cross-border banking. 			

3. The quality of risk management in financial institutions is good.			
4. Supervision of financial institutions is good.			
B. Financial Markets			
1. Size and reach of financial markets is very good.			
2. Strong capital markets.			
3. Low interest rate spreads.			
4. Very high ratio of private sector credit to GDP.			
5. Very efficient micro-finance.			
C. Access to Financial Markets			
1. Payment and clearance systems demonstrate best practice.			
2. Credit reporting systems demonstrate best practice.			
3. Vast majority of the population has access to banking and other formal-sector financial services.			
4. Small and medium-sized enterprises have very good access to finance.			
5. Legal and regulatory framework supports access to finance.			

6. Business Regulations

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Entry and Exit of Businesses			
1. Almost no bans on private businesses operating in areas reserved for government or special interests.			
2. Almost no requirements for investment licensing.			
3. Regulations facilitate efficient entry and exit of businesses.			
4. Good legal framework exists to address anti-competitive conduct, and that legal framework is enforced consistently.			

5. All public sector entities are free to procure from any source.			
B. Business Licensing			
1. Business licensing, permits, and inspections are streamlined to facilitate business activity.			
2. State intervention in the marketing of goods is limited to regulation and/or to legislation for the purpose of smoothing market imperfections.			
3. Corporate governance laws encourage disclosure and protect shareholder rights, and those laws are enforced effectively.			
C. Labor and Land Markets			
1. Employment law provides employers with a high degree of flexibility to reduce the time and costs incurred in the processes of hiring and firing.			
2. Other labor market institutions facilitate doing business.			
3. State intervention in the labor and land markets is limited to regulation and/or to legislation to smooth out market imperfections.			
4. Procedures to register property are simple, low cost, and fast.			

C. Policies for Social Inclusion and Equity

7. Gender Equality

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Education and Health Services			
1. Policies and laws specifically address gender equality in access to education, and the laws are enforced.			
2. No major differences between enrollment rates of females and males in primary and secondary education.			
3. Broad access to antenatal and delivery care and to family planning services.			

B. Legal Status of Women			
1. Few or no gender disparities in participation and remuneration in the labor force, business ownership, land tenure, property ownership, and inheritance.			
2. Policies and laws that specifically address gender equality in these areas are broadly enforced.			
C. Personal Rights and Safety			
1. Convention on Eliminating All forms of Discrimination Against Women (CEDAW) has been ratified without reservations and fully implemented.			
2. Family law gives men and women equal rights in requesting a divorce and in obtaining individual identity card or a passport.			
3. Very few or no cases of violence against women. Violence against women is a crime.			
4. Few gender disparities in political participation at local and national levels compared to international averages.			
5. Policies and laws that address gender equality in political participation are broadly enforced.			

8. Equity of Public Resource Use

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Public Expenditures			
1. Public expenditures are fully aligned with poverty reduction priorities. Strong poverty diagnosis is in place that clearly identifies poor and vulnerable groups and groups lacking services. Strategy adopted with well-defined interventions to assist needy groups. Good progress achieved in aligning expenditures with the strategy.			
2. Public spending is tracked by program, category, and region, and major programs are analyzed to determine benefits.			
3. Results of analyses are used to adjust the next rounds of spending.			
B. Public Revenue			

1. Weight of taxation and other methods of raising public revenue falls lighter on the poor than on other segments of society.			
2. Methods of raising public revenue are aligned with national poverty reduction priorities.			

9. Building Human Resources

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Basic Health and Nutrition			
1. Health or social insurance policies exist and have wide coverage.			
2. Universal access to appropriate preventive and curative health services. Services are client-focused and of good quality.			
3. National health strategy is consistent with best practice.			
4. Health regulation is effective.			
5. Policies, resources, and practices facilitate prevention and treatment of all forms of malnutrition.			
6. Public health resources are used efficiently and effectively.			
B. Epidemic Diseases			
1. Strong government policies and client-focused programs for the prevention, treatment, care, and support of HIV/AIDS, tuberculosis, malaria, and other epidemic diseases for all who need them.			
2. National authority tracks prevalence of diseases.			
3. Public health programs are of high quality, and services are provided in a timely manner.			
4. Public health interventions focus on the poor.			
5. Public health resources are used effectively and efficiently.			
C. Education			
1. National education strategy, policies, and standards, and both public and private resources, support a basic education system of high quality that is available to all.			

2. National education strategy, policies, and standards, and both public and private resources, provide equitable access to good quality continuing education services and post-basic education and training that is adequate to support economic development and life-long learning.			
3. Government provides effective oversight of public, private, and NGO education institutions.			
4. Performance of schools and learning outcomes of individual students are systematically tracked, and feedback is provided to schools and parents.			
5. Education policies and practices are guided by the evaluation of performance data.			
6. Safe and equitable access is assured at all levels of education.			
7. Education resources are used efficiently.			

10. Social Protection and Labor

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Social Protection			
1. Programs provide income support to poor and vulnerable groups.			
2. Income support programs are cost-effective, well-targeted, and include monitoring and evaluation procedures.			
3. Income support programs are part of a balanced strategy with other measures to increase incomes of poor and vulnerable groups and to increase their access to public services and to social insurance.			
B. Labor			
1. Government has ratified international conventions on, or passed legislation that conforms to, core labor standards and is implementing these through its policies and programs.			
2. Government policy encourages civil society and local government actions to reduce child labor, including appropriate incentives for children to remain in school.			
C. Labor Market			

1. Labor market regulations and policies promote broad access to employment in the formal sector.			
2. Labor market regulations and policies balance social protection and job creation objectives in accord with economic circumstances and country values.			
D. Partnership with Communities			
1. Government policies and programs encourage and support communities' own development initiatives.			
2. Communities carry out their own systematic planning.			
3. Communities control a significant portion of total public resources for implementing community-level policies and programs.			
4. Communities receive capacity building and other institutional strengthening programs to ensure their integration into local government processes.			
E. Pensions and Savings			
1. Pension and savings programs provide income security to most vulnerable and potentially vulnerable groups.			
2. The programs are financially affordable, adequate, sustainable, and robust.			
3. The programs are diversified and well-supervised.			
4. The programs include an appropriate combination of mandatory or voluntary, public or private, funded or pay-as-you go, and contributory and non-contributory plans.			
5. The programs are arranged so they distort labor markets as little as possible.			

11. Policies and Institutions for Environmental Sustainability

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Policies and Regulations			
1. Pollution and natural resource regulations and policies are comprehensive, and implementation is effective.			
2. No subsidies provide incentives to harm the environment.			

3. Information is widely available to the public, and the public is consulted on most environmental issues.			
4. Environmental Assessment processes are effective, and the findings affect developments. Decisions and mitigation procedures adhere to public priorities.			
5. Environmental concerns are integrated into sector policies, and government agencies cooperate to reduce pollution and to manage natural resources effectively.			

D. Public Sector Management and Institutions

12. Property Rights and Rule-Based Governance

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Property Rights			
1. All property rights are transparent and well protected.			
2. Property registries are current and free of corruption.			
3. Contracts are enforced.			
B. Claims			
1. Laws and regulations affecting claims by businesses and individuals are uniformly applied.			
2. Changes in the laws are publicly announced.			
3. Low-cost means are available for pursuing small claims.			
4. Citizens can pursue claims against the state without fear of retaliation.			
C. Licenses			
1. Obtaining the necessary licenses is a small share of the cost of doing business even for people without connections.			
2. Delays in obtaining licenses are rare and are not pretexts for bribes.			

3. Policies and laws that address gender equality in business are enforced.			
D. Police			
1. Police force functions well to protect citizens and their property from crime and violence.			
2. Police force is accountable to the public and free of corruption.			

13. Quality of Budgetary and Financial Management

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Budget Formulation			
1. Budget adheres to policies and priorities to reduce poverty.			
2. The executive formulates the budget through systematic consultations with spending ministries and the legislature.			
B. Budget Implementation			
1. Budget classification system is comprehensive.			
2. Budget monitoring throughout the year based on well functioning management information systems.			
3. Budget is implemented as planned, and actual expenditures deviate only slightly from planned levels (e.g., by less than 10% on most broad categories).			
C. Public Accounts			
1. Public accounts are prepared on a timely basis.			
2. Accounts are audited and submitted to the legislature in a timely manner.			
3. Legislature reviews budget reports and audit findings and takes appropriate action.			
D. Assignment of Revenues			
1. Assignment of revenues between different levels of government is clear.			
2. Revenues and expenditures match well at each level of government.			

14. Efficiency of Revenue Mobilization

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Revenue Base			
1. Bulk of revenues is generated by low-distortion taxes such as sales tax, Value Added Tax (VAT), and property tax.			
2. Import tariffs are low and relatively uniform.			
3. Export rebate or duty drawback systems are functional.			
4. There is a single statutory corporate tax rate comparable to the maximum personal income tax rate.			
5. Major taxes are drawn from a broad base and are free of arbitrary exemptions.			
B. Tax Administration			
1. Tax administration is effective and entirely rule-based.			
2. Administrative and compliance costs are low for businesses and other taxpayers.			
3. Government provides a taxpayer service and information program.			
4. Tax administration includes an efficient and effective appeals mechanism.			

15. Quality of Public Administration

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Policy Consistency			
1. Effective coordination mechanisms ensure a high degree of consistency among the policies of different departments and ministries.			
B. Structure and Function			
1. Government is structured along functional lines with very little duplication.			

2. Government business processes are reviewed and corrected regularly to ensure efficiency of decision making and of implementation.			
C. Personnel Management			
1. Hiring and promotion are based on merit and performance.			
2. Ethical standards prevail so that civil service operations are transparent, accountable, and free of corruption and conflict of interest.			
D. Civil Service Wage Bill			
1. The civil service wage bill is sustainable and does not crowd out spending required for public services, debt repayments, and other government commitments.			
2. Pay and benefit levels do not deter talented people from entering the public sector.			
3. There is flexibility (that is not abused) in paying more attractive wages in positions that are hard to fill with qualified personnel (e.g., rural teachers or technical specialists).			

16. Transparency, Accountability, and Corruption in the Public Sector

Best Practice	Recent Progress	Remaining Issues	Recommendations
A. Transparency			
1. The reasons for government decisions, and their results and costs, are clear and are communicated to the general public.			
2. Citizens can readily obtain government documents at nominal cost.			
3. Both private media and state-owned media (if any) are independent of government influence and fulfill critical oversight roles.			
B. Accountability			
1. Accountability for decisions is ensured through a strong public service ethic reinforced by audits, inspections, and adverse publicity for performance failures.			

2. The judiciary is impartial and independent of other branches of government.			
3. Authorities monitor for the occurrence of corruption and implement sanctions transparently.			
C. Transparency & Accountability for Public Servants			
1. Rules for ethical behavior, including the avoidance of conflict of interest, are observed and enforced.			
2. Top government officials are required to disclose their assets, income, and the sources of their income.			
3. Top officials and other public servants can be and are prosecuted for violating the law.			