TOOLS AND PRACTICES 15

Institutional and Governance Reviews

Strengthening public institutions underpins the World Bank's work in all sectors. Most Bank activities engage public sector institutions that are, or should be, supporting policy making and service delivery, and providing oversight and accountability.[132] Institutional and Governance Reviews (IGRs) are analytical reports that focus on the functioning of key public institutions. They have three features. First, they take performance failures in policy management, service delivery, or accountability as the starting point for their analysis. Second, they use standardized toolkits, surveys, and quantitative measures of performance wherever possible.[133] Third, and most fundamentally, they analyze the feasibility of reform recommendations with a rigorous assessment of political realities and constraints to reform.

The purpose of IGRs is to inform the Country Assistance Strategy and operational priorities by identifying institutional weaknesses that are contributing to measurable performance problems, by helping to improve the design of projects, and by providing a basis for rigorously prioritizing reforms according to institutional or political feasibility. IGRs should be undertaken upstream of the CAS or major lending operations. They are prepared for the country team, providing a basis for dialogue between the Bank and counterparts.

Confronting Politics

IGRs would not have been produced in the Bank just a decade ago. Their examination of political issues and motives—reinforcing the vital point that short-term, purely technical applications will not solve problems that have deep political roots—and their use of empirical data to make comparisons between institutional arrangements and to monitor officials' behavior are signs of growing openness and candor within the Bank and among an increasing number of client countries.

Certainty about development objectives, coupled with a readiness to accept the primacy of politics, fosters a robust and comprehensive dialogue. IGRs can provide an analysis of the relevant political dynamics and show how the structure of political institutions and the behavior of political actors drive public sector performance and increase or decrease the prospects of achieving those development objectives.

A well-executed analysis of the relevant political dynamics is fundamental to an IGR. The Bolivia IGR, for example, convincingly showed how the structure of political institutions and the behavior of political actors drive the operation of that country's public administration, and hence

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[132] See World Bank 2000c.
[133] See http://www1.worldbank.org/publicsector/toolkits.htm for recent work on toolkits. Details of the public officials surveys are available at http://www1.worldbank.org/publicsector/civilservice/surveys.htm

the service-delivery performance of its public sector. It showed that the intrusion of political factors and incentives into administrative practices and outcomes has benefits and costs. Finally, it set out a pragmatic strategy and program of action.

Such analyses raise significant challenges and expose sensitivities both on the client side and on the part of the Bank. Reformers committed to good governance welcome robust analytic reports and their contribution to productive political discourse. At the same time, there are necessarily sensitivities around such politically delicate topics. The degree of explicitness in IGRs thus will vary considerably.

“Best Fit”: Emphasizing Alternatives and Tradeoffs

IGRs respond to the challenge of moving away from the “best practice” model that has proved less than successful in fostering institutional reform. In the best-practice approach, problems in formal institutional arrangements are highlighted, and advice and incentives to address the problems are provided. Governments are urged to make their civil services more meritocratic and their budget processes more performance-focused, but without any pragmatic guide to how those changes could be introduced given political realities.[134] A “best fit” approach, by contrast, asks, “What would work here?”

Recent research on the effectiveness of aid concludes that aid in the form of money has a large impact only when countries have already begun to make substantial progress in reforming their policies and institutions. In such settings, donor support should be geared less to project financing and more to economic and sector work that in the long run lays the groundwork for institutional and policy reform.[135] Successful reformers among IDA countries typically have gone through a period of intensive policy dialogue with the Bank and other stakeholders, without the formality of adjustment lending (and without a great deal of donor financing).[136] The implications of these findings for the Bank’s operational work are clear: in countries with weak institutions and poor policy performance, the Bank’s focus should be on ideas, not money.

In pursuing “best fit,” IGRs seek to provide governments with ideas about the tradeoffs between approaches, rather than to dictate which approach to follow. The Bolivia IGR, for example, set out three alternative arrangements: public action by a centralized bureaucratic hierarchy, by an insulated autonomous agency, or by decentralized and participatory local governments. Opening up the agenda in this way provides a fertile basis for exploring what sequence of actions—including the relative emphasis accorded diverse alternatives—offers the best prospects for sustainable success.

[134] See World Bank 2000c.
[135] World Bank 1998.
[136] See Devarajan, Dollar, and Holmgren 2001.

The Pioneers

IGRs have been undertaken in Bolivia, Bangladesh, Armenia, the Organization of Eastern Caribbean States, Peru, and Argentina, and are planned for southeast Europe (fiscal 2002). Their styles have varied according to the nature of the performance problem being addressed, the stage of the country dialogue, and the resources available to the country team. Some have been sweeping and others more incremental in their recommendations. The Bolivia and Bangladesh IGRs, which recommended broad-based reforms, are described in more detail below.

The Bolivia IGR

The Bolivia Institutional and Governance Review, issued in August 2000, aimed at understanding the country's public sector and identifying challenges and possible directions for an ambitious second-generation reform program.[137] The IGR recognized the achievements of the last 15 years in public sector reform, including the government's current Institutional Reform Project, and identified informality as the most significant obstacle facing the Bolivian bureaucracy.[138]

Bolivia Findings: Informality as the Primary Obstacle to Institutional Development

The review found informality to be a problem in several areas of public administration, including public expenditure, personnel management, and implementation of Law 1178 of Financial Management and Control (the SAFCO Law), which is one of the principal formal-legal instruments for regulating public administration in Bolivia. The underlying causes of informality were identified as stemming from political dynamics in the country, which produced a system of patronage and clientelism. In particular, the IGR cited:

- Politicians' interest in obtaining electoral support from and exerting control over the bureaucracy by distributing public jobs and other types of rents and placing "persons of confidence" in critical bureaucratic posts;
- A weak private sector that failed to generate employment opportunities for the middle class, encouraging some segments of the population to seek employment in the public sector;
- A fragmented party system that forced political parties to negotiate coalition agreements.

While Bolivia's coalition governments had passed some key reforms and were the basis for democratic stability, this macro-level governance was achieved at the cost of deteriorating public services at the micro level due to excessive politicization of the government bureaucracy and its weak institutional capacity. As additional obstacles to a properly functioning government, the review faulted deficiencies in formal rules and procedures, weakness of supporting institutions, the Ministry of Finance's focus on fiscal discipline at the expense of strategic allocations and efficiency, and delays in the implementation of the Statute of Public Officials.

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[137] This section draws on World Bank 2000a.

[138] Informality is defined as the gap between "ideal" or "desirable" behavioral patterns prescribed in a set of formal institutions (laws, rules, and organizational norms) and actual behavioral patterns that obtain without following the letter or spirit of the existing formal rules.

In *public expenditure management,* the review found the clearest indication of informality in the lack of credibility of annual budgets. Significant deviations between approved and executed budgets were the result of inadequate central control over details of resource allocation and use, combined with unrestrained, opportunistic spending behaviors by line agencies. Analysis of budget data for 1990–92 and 1994–96 showed that 15–20 percent of approved agency budgets were reallocated across agencies.

In *public personnel management,* the IGR found several areas of informality. One example was the widespread use of consultants for line functions. Because regular government employees had low salary levels, agencies had difficulty attracting qualified personnel and therefore were in the habit of hiring consultants to circumvent the government's formal wage policy. Other forms of informality included civil servants' tendency to give in to outside political pressure in fear of losing their jobs or salaries, deliberate destruction or concealment of agency-related information at times of government change, and use of nonwage budget items for salary supplements.

The review found implementation of the *Law of Financial Management and Control,* which provides the legal framework for regulating public administration, to be incomplete and uneven. The law had been created to introduce results-oriented management practices and strengthen central oversight; however, the IGR demonstrated that there was little evidence that such reforms had been implemented. The failure to implement the law more fully was primarily the result of limited commitment on the part of the Ministry of Finance and resistance from public officials. The IGR survey showed that in the nine years since promulgation of the law, public officials had not internalized its norms and values; most did not believe the law encouraged officials to focus on results or improved their agency's efficiency.

The IGR also found *micro-institutional causes* of informality in weak mechanisms for management control and regulatory enforcement. The laxness or indifference of agencies such as the Controller General of the Republic and the Ministry of Finance contributed to weak central oversight. In addition, unavailability of information on agency performance, transactions, and compliance with rules made it impossible for any central oversight body to exercise effective control over public agencies. For example, the Treasury did not have timely information on budget execution to adjust disbursement during a fiscal year, and the Controller General could not audit line agencies' accounts effectively because it had no adequate financial statements to audit.

Analysis of Participatory Reforms

The IGR analyzed Bolivia's experience with the 1994 Popular Participation Law, which empowered communities in some municipalities to oversee the actions of local municipal governments and to hold them accountable. Some of the participatory mechanisms created by the law included:

- Regular election of town councils to five-year terms in office, which provided the most basic means of citizen control through electoral accountability. The council could remove a poorly performing mayor from office after a year by a three-fifths vote of censure.

- Establishment of "vigilance committees" that could issue public statements on how co-participation funds were budgeted and invested. The committee could file a complaint or petition the national Senate if problems were found and not resolved.
- Establishment of rights and duties of territorial base organizations, including the ability to propose, request, and control the performance of public works and provision of services. These organizations were required to account for all actions undertaken on the community's behalf and elect representatives to the vigilance committee.
- Introduction of a participatory investment planning process through development of an annual operative plan.

One year after the Popular Participation Law was enacted, an Administrative Decentralization Law was passed to redefine the role of administrative departments. Deliberative and oversight functions of departments were now carried out by departmental councils, and council members were elected from each province by town councilors. Departmental councils had a legal mandate to approve departmental budgets, reports on resource expenditure, and development projects and public investments.

Shortcomings of Bolivia's participatory reforms. The review found that departmental councils were weak in practice, with little power to take initiative. There were several reasons for this weakness: the prefect presided over the council presidency; the council had no budget of its own; and members had no means of hiring technical support. Popular Participation's planning process was not working well as an accountability mechanism at the local level because it was difficult to get people to participate and planning meetings tended to produce lists of projects rather than planning strategies.

The oversight and participatory instruments created by the Popular Participation Law were sometimes co-opted by political parties and interest groups, which weakened transparency and accountability. The IGR's case studies demonstrated a conflict-ridden struggle to gain partisan control over municipal resources—in elected officials' decisions about how to distribute co-participation funds and what projects to carry out, in the oversight and participatory roles played by the vigilance committees and the territorial base organizations, and in the use of the vote of censure. Political parties were found to exert disproportionate influence in local affairs, undermining civil society's oversight mechanisms.

The IGR survey found high turnover of mayors, instability in council membership, limited roles and impact of civil committees at the local level, limited power of vigilance committees, and bypassing of vigilance committees by mayors. The survey also showed signs of politicization of intergovernmental relations, as party alliances and divisions largely determined relations between prefectures and municipalities and between mayors and prefects. Strong political party clientelism was discovered in the hiring of departmental personnel, while job stability and merit-based promotion did not exist. The IGR survey revealed weak citizen participation at the departmental level, as four of six prefectures reported they had not taken steps to promote participatory governments.

Positive outcomes of Bolivia's participatory reforms. In their localities, Bolivians pressed their demands through their territorial base organizations and vigilance committees, despite shortcomings of the system. A degree of community representation was created that had been weak or nonexistent in the past, and communities pressured mayors for equitable distribution of resources. Electoral accountability was improved as local officials were now elected throughout the country, providing opportunities for traditionally marginalized groups to participate in municipal government. Bolivian municipal governments were empowered to a greater extent than in the past, as they were developing plans, investing resources in major public works, improving public services, mobilizing resources, and responding to community pressure.

Recommendations of the Bolivia IGR

The IGR classified institutional reforms as urgent priorities for the government. It found signs of "reform fatigue" among citizens, whose quality of life had not improved very much in 15 years of reform efforts. The review warned that unless the state began to provide better public services and alleviate poverty more effectively, the credibility of the current regime might be threatened, and it pointed to recent social protests as one indication of the fragile legitimacy of the Bolivian government.

In response to the pervasive problem of informality, the IGR provided four central recommendations:

- Depoliticize personnel management in the public sector;
- Strengthen central oversight capacity in financial and personnel management;
- Learn from the recent successful experience of the autonomous regulatory agencies (superintendencies) and replicate the success in other public sector institutions;
- Use "citizen voice" as a means of exercising social control over public administration.

Depoliticization. The IGR argued that "depoliticization" of Bolivia's administration lay at the heart of further reform. However, given the strong incentives to maintain a coalition government, a depoliticization process was likely to be successful only if it were initiated and sustained with the explicit participation of the major political parties. Government-wide civil service reform, including a credible Superintendency of Civil Service, and agency-specific reform, such as of the customs agency, were two approaches advocated by the IGR that would require broad societal support. The IGR also noted the importance of transparency in the depoliticization process and, to this end, recommended that the government establish reasonable parameters for political appointments agreeable to major political parties; provide information to Congress and the public about the number of political appointees in each agency; and commit to decreasing the scope and magnitude of political appointments over time.

Oversight mechanisms. The IGR emphasized the importance of establishing effective oversight mechanisms in the core areas of personnel and financial management and institutional mechanisms for sharing management information within the public sector. The review argued that a strong central oversight body, autonomous and insulated from short-term partisan political considerations, was essential for implementing a depoliticization strategy. The IGR also recommended reconsidering the institutional arrangement for overseeing procedural compliance in financial management. For this purpose, the review recommended either expanding the role of the Superintendency of the Civil Service or strengthening the authority of the Controller General. The IGR also discussed the need for predictability in budget allocations and results-oriented management and recommended greater coordination between the Ministry of the

Presidency and the Ministry of Finance in developing a performance-oriented management and evaluation system.

Learning from past success with autonomous regulatory agencies. The review's recommendations were based in part on an assessment of past institutional reform efforts, including the successful creation of autonomous regulatory agencies and partially successful decentralization. The IGR public officials survey showed that autonomous agencies in the country had achieved a much higher level of organizational development than the rest of the public sector. However, the review warned that "autonomization" could create other costs to efficient public administration, such as ambiguous accountability arrangements, duplication of functions, and difficulty in coordination. Therefore, the review recommended autonomous agencies in cases where political independence was important for agency success, but not in service delivery agencies.

Citizen voice for social control. The IGR recommended that participatory reforms be adapted for the national level. It advised a government strategy of engaging the private sector, civil society, and the media as supporters of the reform agenda, consulting with them on reform implementation, and providing them with information on institutional performance in the public sector to enable them to monitor progress and exert pressure for continued reform. To this end, the IGR recommended that the Ministry of Finance and the Controller General adopt a more open policy of information disclosure.

The Bangladesh IGR

The Bangladesh IGR of September 2000 analyzed the underlying causes of Bangladesh's poor governance, the consequent weak performance of its public institutions, and reasons for the government's slow response to reform proposals.[139] The review focused in particular on the available mechanisms for holding government agencies accountable to the public. Drawing on prior economic and sector work and integrated economic and social analysis, it described the vested interests and underlying incentives, both formal and informal, operating within the bureaucracy and political leadership to explain the deep-seated opposition to public sector reform. The report examined these factors at both the national and local government levels and proposed measures to improve accountability for the delivery of public services.

The report gave high priority to reforms that would promote the rule of law and enhance the security of citizens, especially the poor. It also emphasized the importance of finding ways to strengthen the voice of civil society and to build partnerships for better governance involving the press, NGOs, independent research centers, and private business. A central theme of the IGR was that successful public sector reform must benefit all stakeholders.

Bangladesh Findings: Sociopolitical Obstacles to Improved Governance

Overall, the IGR found that reform initiatives had frequently failed in Bangladesh because they had promoted technical solutions when the main obstacles to improving public sector

[139] This section draws on World Bank 2000d.

management were sociopolitical. The review noted three obstacles to public sector reform in particular:

- Pervasive clientelism in public service;
- Organized interest groups, some illegitimate, determining political decisions;
- Major discrepancies between the private agendas of principal public actors and their formal public agendas.

According to the IGR, clientelism in Bangladesh's public service operated within clearly defined hierarchies, and the government's "rules of business" for conduct in public service were increasingly disregarded. The well-organized interest groups that determined political decisions included the military, the bureaucracy, private business, trade unions, religious groups, NGOs, and donors. However, the activities of some of these interest groups were illicit and included bribery, extortion, harassment, and the use of musclemen. The political, business, trade union, and bureaucratic power structures had been partially captured by an underworld that used strong-arm tactics to enforce its power. In the districts, the powerful often gained support from the police and members of the judiciary for their own benefit, to the disadvantage of the poor. Poor people meanwhile were dependent on patron-client relationships for their survival.

Corruption and fraud on the part of public officials were widespread, while economic losses from inefficiencies in the public sector were huge. The IGR estimated that the revenue loss from corruption and inefficiency in the customs and income tax departments exceeded 5 percent of GDP. Over 40 percent of commercial banks' loan portfolios were overdue, and much of this money would likely never be recovered. Investors were discouraged by the country's poor governance. In addition, the physical insecurity of poor people and women of all classes, as well as the rapid deterioration of the natural environment, adversely affected the quality of life in Bangladesh. Political dissension had led to a number of large strikes and to street violence.

Recommendations of the Bangladesh IGR

The Bangladesh IGR made several recommendations to improve governance in the country's public sector:

- Strengthen systems of accountability by reinforcing the role of Parliament, reforming the judiciary, tightening public financial accountability, promoting transparency, and strengthening civil society;
- Increase decentralization;
- Reinvigorate administrative reform by focusing on incentives, performance, merit postings and promotions, a credible oversight system, and delegation of authority over personnel and financial matters;
- Take advantage of the potential of e-government;
- Mobilize support for reform.

Strengthening systems of accountability. The IGR's recommendations for strengthening public accountability are described in more detail below.

To reinforce the role of the Parliament, the IGR advised several steps. It recommended that parliamentary committees undertake investigative work when appropriate. As one example, the IGR suggested that the committee overseeing the health ministry gather data on the operation of health facilities around the country, produce a written report, and commit to engaging with civil society and the media. The review also suggested that the government respond to outstanding queries in recent reports of the Public Accounts Committee and the Public Undertakings Committee. It recommended that the Parliament debate these reports and allow the press to witness and report on such deliberations. The IGR also supported creating a greater separation between policy makers and the bureaucracy, so that bureaucrats could be required to come before parliamentary committees to justify their actions.

To improve the judicial system in Bangladesh, the IGR recommended computerizing court records and case management, upgrading facilities, supporting initiatives to improve management of physical and human resources, and improving the training of justices, including preparing them to deal with technical cases (as in environmental or commercial law). The review further called for streamlining court procedures and providing adequate resources to ensure more prompt and effective enforcement of the law.

To tighten public financial accountability, the IGR called for a phased, medium-term program of 5–10 years. It identified several top priority measures: providing top-notch policy advice to the minister of finance; establishing a resource management unit to monitor the implementation of the budget and improve the quality of budget data; providing urgent practical training to the economics, budgeting, and planning staff; and computerizing and rationalizing the payroll and pensions system.

To promote transparency, the IGR focused on protecting the independence of the press, building its capacity, and allowing independent radio and television. The review recommended that public agencies issue regular reports on their activities, submit them to Parliament, and make them available to the public. It advised that such reports describe clearly defined annual work programs and budgets with performance targets and objectives that could be monitored. Accounts and audits would be published within six to nine months of the end of each fiscal year.

Resources

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