



THE WORLD BANK

Working for a World  
Free of Poverty

## Backgrounder #5

### Global Monitoring Report 2006 Chapters 5, 6 & 7 - Monitoring Governance

#### Key Messages

*Governance should be monitored regularly. More investment is needed to monitor specific, actionable indicators, such as quality of public financial management, procurement practices, and checks and balances. This monitoring can help to track progress, generate greater accountability, and build demand for good governance. It can also help underpin long-term dialogue between countries and development partners, which should develop realistic goals and sequencing of governance reforms.*

*Good governance is everyone's responsibility. International Financial Institutions (IFIs) and donors should support the emerging global framework for good governance, encourage country participation, strengthen their own anticorruption controls, and provide assistance in ways that strengthen transparency and country systems.*

The Global Monitoring Report 2006 identifies and explains governance as an essential element of the mutual accountability framework, and provides a platform to include governance as an ongoing part of MDG monitoring.

Public sector governance is the way the state acquires and exercises its authority to provide and manage public goods and services, including regulatory services.

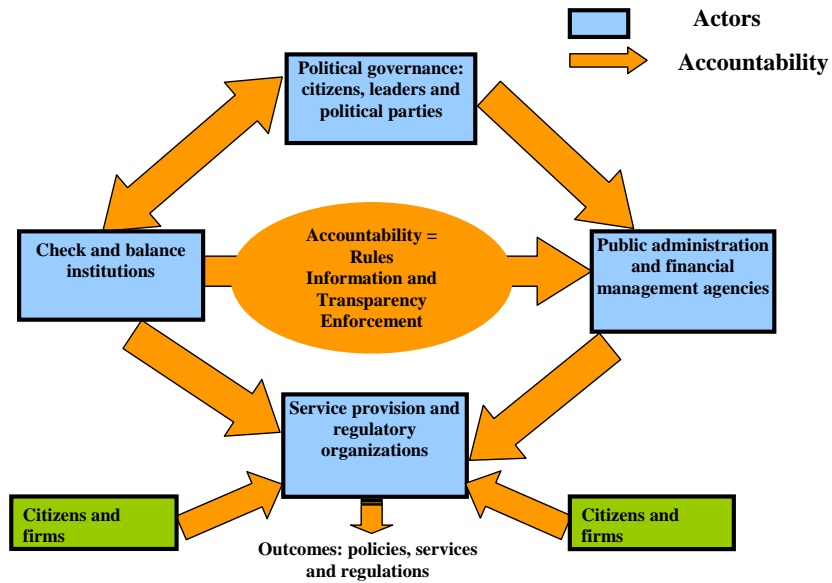
While governance is often used as a euphemism for corruption, a country's governance system comprises the full array of state institutions and the arrangements that shape the relations between the state and society.

A governance system has three parts:

- how governments make things happen
- how checks and balances institutions hold government accountable
- how citizens are engaged as an active part of the governance process.

The GMR lays out a possible framework which identifies the key actors in a national governance system and the key accountability relationships among them.

## National Governance System



- Checks-and-balances institutions help sustain effective governance. They include parliaments, independent oversight agencies (audit institutions, ombudsmen, and anticorruption commissions), the judicial system, a free press, and accountable local governments.
- Citizens and firms are central to effective accountability. Citizens select political leaders who, in turn, set the objectives of the governance system. As users of services, citizens and firms can also hold providers accountable for the efficiency and effectiveness of service provision.
- Accountability requires clear rules and expectations, transparent information to monitor performance, and incentives and enforcement mechanisms that reward success and address failure. Transparency is not sufficient, by itself, for good governance, but it is a powerful feature for improvement, with broad applicability across an array of public actions.

Governance monitoring sustains reform and keeps it honest. It assures transparency—engaging citizens as active part of the governance process. Measuring governance is difficult. Formal systems can be categorized and rated, but the gap between formal arrangements and realities on the ground is often wide. Institutional processes are difficult to observe and measure systematically. Two complementary approaches respond to these measurement challenges.

- Broad measures to monitor aggregate governance raise awareness, and focus attention on broad areas in which individual countries can strengthen national systems.
- Disaggregated, specific indicators to monitor the quality of specific governance subsystems, which are “actionable” in identifying specific weaknesses and monitoring the efforts to improve them.

Strengthening public financial management (PFM) is of critical importance in scaling up aid. It is also the area in which most progress has been made in developing and applying specific, actionable indicators. Assessments of the quality of budget and financial management systems conducted in both 2001 and 2004 for 22 HIPC countries showed that, while progress is uneven, countries determined to improve their public financial management systems can do so quite rapidly. Seven countries, including Ghana, Mali, Senegal, and Tanzania, achieved substantial improvements between 2001 and 2004. Monitoring PFM is especially important for countries receiving budget support. With political commitment and support, many countries should be able to achieve reasonably strong PFM within a five-to-10-year period. Similar approaches can be used to monitor and guide reforms in other areas, including public administration and procurement, where monitoring has been piloted in 10 countries.

While transparency is, by itself, not sufficient for good governance, its role in national governance systems is all-encompassing. It must be present in political leadership through the publication of judicial decisions, to a free press, and all the way to the service provision front line. Transparency includes freedom of information laws backed up by statistical capacity to produce high-quality information. Progress in the statistical capacity building is slow, especially in low income countries in Africa. Extended support for the Marrakech Action Plan for Statistics, an international response to the challenge of improving capacity to monitor the MDGs, is an important component of efforts to strengthen transparency.

An active civil society is essential to translating transparent information into action. Together with government agencies, a Philippines civil society organization set up a citizen monitoring program. They found that 21 percent of textbooks were not actually delivered to their schools, which created losses of more than \$3 million that the Department of Education promised to rectify. In Tanzania, the Rural Initiatives and Relief Agency helped 10 local communities track government program expenditures for health and education, and helped ensure that funds were indeed delivered. In both cases, the civil society organizations achieved these results with grants of under \$25,000 showing that empowerment through information can improve governance at low cost. Donors and IFIs need to design their operations and programs to foster transparency and access to information on analysis and performance into the public domain.

Governance improves in different ways in different countries; no one size fits all. In some countries the strongest momentum for governance change is in improvements in the government bureaucracies that make things happen; in others it is improvements in checks and balance institutions; in yet others it is through active citizen participation in the governance process.

In the short term, none of these turnarounds (trajectories) is superior to any other, but eventually sustainable improvements in governance need to evolve in a balanced way. Development partners will need to take the different governance trajectories into account, which can be a difficult task, and to engage, on a long-term basis to strengthen the lagging elements of the governance system. It took many years for durable governance institutions to emerge in today's industrial countries.

### **Stopping corruption with checks and balances**

Corruption is an outcome of the governance system and has many forms; it can happen in any of the parts of the governance system. It can reflect the failure of any number of accountability relationships—for instance, political failure leading to state capture, bureaucratic failure, or a failure of checks and balances. Reducing it is a long-term, multifaceted, never-ending challenge.

Donors, IFIs and developing countries are broadly accountable for strengthening the checks and balances needed for development financing, through global and national systems. For developing countries, well-functioning and transparent budgetary, administrative and procurement systems, a political process responsive to the country's citizenry, and strong checks and balance systems, are essential to a functioning governance system. They also provide a straightforward basis for support.

Improving governance is not simply a matter for aid recipients. The global milieu has powerful influences on governance systems in developing countries. Global markets can be a source of corruption or a powerful disciplining device. Donors and IFIs can impose practices and reporting requirements that fragment and overwhelm already fragile country systems, or they can provide support in ways that help strengthen governance. Global mechanisms can help poor countries strengthen governance to meet the MDGs, including promoting standards and codes to provide sources of good practice for all countries. For this reason, the establishment of global checks and balances is another priority for strengthening governance.

Since the early 1990s, a framework of global checks and balances has emerged, which is centered around three types of programs:

- International law enforcement: the OECD's anti-foreign bribery convention and the anti-money laundering activities of the Financial Action Task Force complement each other; they help to tackle international corruption and they enable OECD countries to share in the prosecutorial burden. This is valuable for poor countries, which often lack the capacity and reach to pursue complex cases across international borders.
- Anti-corruption treaties: the UN Convention Against Corruption (effective December 2005), provides a global legal framework to address corruption, which complements regional anti-corruption treaties. It recognizes the recovery of looted assets as a "fundamental principle."
- International transparency initiatives: recognizing the special challenges posed by concentrated natural rents, the Extractive Industries Transparency Initiative for hydrocarbons and other minerals and the Kimberley Process Certification Scheme for raw diamonds build on broad international support for transparency.

It is not easy to monitor the progress of these international initiatives. A promising start has been made, but there is a very long way to go before global good governance becomes effective, and this will require sustained support. The Kimberley process has been relatively successful. Almost all diamond-producing countries participate, as do all major rough-diamond importing countries. But recovering looted assets is still difficult, with low rates of asset recovery. Of the estimated \$12 billion to \$20 billion looted by Presidents Mobutu, Abacha, and Marcos, only some \$1.5 billion has been recovered. Offenders frequently have to be charged with tax evasion rather than corruption. Some programs still have noticeable loopholes, such as the exclusion of transactions related to the financing of political parties. Still, it is worthwhile recalling that only a few years ago foreign bribes were considered a legitimate business expense by many OECD countries.

The legal initiatives, anticorruption conventions, and transparency initiatives described above, form—together with many supporting initiatives in the public and private sector—an embryonic network of global checks and balances. It needs to be strengthened and expanded.

For developing countries, including middle-income countries, the first order of business is to ratify and implement relevant conventions, especially the UN and African Union anticorruption conventions. Developed countries should also ratify the UN convention speedily. In addition,

they should make it a priority to raise awareness of these initiatives and conventions among their business communities. The key to making any anticorruption initiative work is effective monitoring.

IFIs and donors can assist the checks-and-balances processes by providing technical assistance and funding to support countries' participation, and by encouraging the participation of middle-income countries, which loom larger in commercial dealings with poor countries. More generally, donors can strengthen their own anti-corruption controls (including through the debarment and cross-debarment of suppliers engaging in bribery and corruption), increase transparency, and provide aid in ways that encourage good governance rather than fragment and deplete already weak country systems.