

Institutional and Governance Reviews - an Evolving Type of Economic and Sector Work

Institutional and Governance Reviews (IGRs) are a new type of analytical report that traces the institutional roots of poor government performance and provides practical alternatives for operational design and country strategy. Thirteen ESW activities that fit within the broad family of IGR products have been undertaken since 1999. These include the Argentina Social Sector Institutional Review (FY01), Armenia IGR (FY99-00), Bangladesh IGR (FY01), Bolivia IGR (FY01), Burkina Faso IGR (FY01), Cameroon Governance and Poverty Scoping Work (FY01), Chad Governance and Poverty Scoping Work (FY01), Eastern Caribbean IGR (FY01), Indonesia IGR (draft FY00, not completed),

Nigeria – State and Local Governance Study (FY01), Peru IGR (FY01), Tanzania Governance and Poverty Scoping Note (FY01), and Zambia – Governance and Poverty Scoping Note (FY01). Their style has 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. The recently concluded assessment of the Poverty Reduction Strategy Paper experience recommends that countries undertake an IGR early in the PRSP process.¹

IGRs have several distinctive features. They take an empirical view of what constitutes performance failures, using surveys and quantitative measures of performance wherever possible. They encourage the development of standardized toolkits and other modular approaches that help maintain quality at reasonable cost. Most fundamentally, they analyze the feasibility of reform recommendations by considering political realities and constraints to reform.

The purpose of IGRs is to inform the Bank's Country Assistance Strategy (CAS) and operational priorities by identifying institutional weaknesses that are contributing to government performance problems, by contributing to the improved design of projects,

The family of IGR products

- *IGRs* generally address major governance issues that cut across many sectors. IGRs in Armenia, Bangladesh, Bolivia and Peru have opened up debate on incentives for reform in situations of extensive political patronage and complex coalition politics.
- A *social sector IGR* in Argentina has prepared the ground for reforms in health and education.
- A *subnational IGR* undertaken at state level in Nigeria, is setting out strategies for targeting external assistance at subnational level to support promising reformers.
- *Regional IGRs*, such as that undertaken for the Organization of Eastern Caribbean States (OECS) and under consideration for South East Europe, are reviewing the scope for political, economic and functional cooperation at regional and subregional levels.
- *Governance and Poverty Scoping Notes* are being piloted in the Africa region where the Bank is active in a large number of countries and where country budgets can be comparatively small.

¹ Review of the Poverty Reduction Strategy Paper Approach: Main Findings and Issues for Discussion, SecM2002-0085, February 20, 2002. The Bank's Task Force on Low-income Countries Under Stress has also recommended IGRs for knowledge and capacity building in such countries.

and by providing a rigorous basis for prioritizing reforms according to their institutional or political feasibility. IGRs should ideally be undertaken upstream of the CAS or major lending operations, particularly multisector program loans for which improved governance is often the key to success. Good IGRs should open the door to a sequenced, prioritized program that is tailored to current and prospective political realities, capacity constraints, and is country-owned.

Government performance failures are not generic

As Tolstoy once famously remarked, “Happy families are all alike; every unhappy family is unhappy in its own way”. Government performance failures are equally distinctive. Performance in government is not just a question of service delivery. Government also has responsibility for policy-making and for providing accountability for administrative actions and oversight of the use of public funds.² The mix of performance problems – and their causes – varies across countries and over time. In some countries, fiscal pressures stemming from an inflated workforce are reducing the ability of the government to provide basic services. In others, pay has ceased providing any effective motivation for public officials, and petty corruption and rent-seeking are rife. Patronage and low public respect are problems that can coexist with more or less adequate service provision in some sectors. In many settings the primary problem is one of unresponsiveness to local needs in the allocation of scarce resources.

Of course, combinations of these government performance failures are found in many developing countries, but a set of basic governance measures highlights the degree to which governments differ in their core functioning.³

Bangladesh

The Bangladesh IGR uses a range of surveys and sociological approaches to identify how local government reform can be fostered through bottom up accountability and citizen participation. The report flags how the Bank's past efforts to assist institution building floundered because of a failure to take account of the factors motivating the behavior of the main stakeholders. It illustrates the impressive array of new tools offered by e-government for improving institutional accountability.

IGRs are using a range of empirical tools to quantify performance failures. Surveys of households, businesses and public officials provide concrete evidence of the degree to which critical services are failing to reach the poor, of volatile and unpredictable policy-making, and of perceived corruption and poor accountability.⁴ Other approaches, including sociological studies, focus group discussions with selected representatives of interest groups, and in-depth one-on-one interviews with key witnesses, can be

² See World Bank (2000). *Reforming Public Institutions and Strengthening Governance: A World Bank Strategy*. Washington DC, World Bank.

³ See <http://www1.worldbank.org/publicsector/indicators.htm> for current work on governance indicators.

⁴ See <http://www1.worldbank.org/publicsector/toolkits.htm> for recent work across the Bank on surveys. Stemming from the work on IGRs, surveys of public officials have now been undertaken in 16 countries involving 7,000 staff. Further details of public officials surveys are available at: <http://www1.worldbank.org/publicsector/civilservice/surveys.htm>

triangulated to ensure the robustness of the diagnostic analysis. The early IGRs are providing useful experience on the costs and benefits of different diagnostic approaches.

A focused modular approach can help achieve quality at modest cost

The IGRs completed so far highlight the importance of focus – both for reasons of cost and because good focus generally leads to better analytic work (typically referred to as Economic and Sector Work - ESW). Such work is expensive. The Bank spent about \$80 million on ESW in FY00, compared to \$143 million for lending and \$190 million for supervision. IGRs provide a family of products that can assist in balancing quality analytical work with cost considerations, and so costs of IGRs have varied significantly. Comprehensive IGRs are comparable with Public Expenditure Reviews (around \$200,000) while the scoping notes have cost less than \$50,000.

Given the interconnections among the different facets of public administration, the temptation is great in IGRs to expand analysis “horizontally” and address a broad menu of public management issues. But the experience with IGRs so far suggests that high returns can come from focusing on the “vertical” chains of causation – looking beyond immediate performance problems and their proximate causes in administrative dysfunction, to the underlying incentives that shape the actual behavior of bureaucratic and political actors. As the Burkina Faso IGR illustrates, individual IGRs do not necessarily have to consider the full range of policymaking, expenditure management, accountability and service delivery performance challenges, and can very powerfully confine their focus to just one or two of these.

Burkina Faso

Despite major increases in resources for poverty reducing services in Burkina Faso, there have been only modest improvements in service provision at the front-line. Through very careful scrutiny of the administrative system, the Burkina IGR pinpointed very specific mechanisms through which the central bureaucracy straitjacketed the functioning of front-line providers.

The efforts to focus the work of IGRs have also led to some promising experimentation with toolkits - web-based guides to task managers and others that set out the core institutional questions that might be addressed for different kinds of performance problems, and provide ready access to comparative data. The IGRs have shown both the potential of such guides to analytic work, but also emphasize that there is no alternative to professional expertise.⁵

⁵ These institutional toolkits also are beginning to have a direct relevance for the preparation of operations. A Bank OP is in preparation that will require that all projects include some institutional analysis to ensure that key actors have the necessary capacity, commitment and incentives to implement and sustain a planned operation, and that the operation will have no detrimental impact on public institutions. This simple tool for institutional analysis will provide a baseline for other deeper work. Piloting has confirmed that the costs are modest.

Political and sociological insights are critical to operational design

The Organization of Eastern Caribbean States: Institutional and Organization Capacity Review

examines the constraints faced by the public sector of six island countries at the national, sub-regional and regional levels. It reviews the performance of national institutions relating to democracy; fundamental rights and freedoms; the rule of law; and public sector management, with a particular focus on managerial autonomy and accountability. It also examines the sub-regional and regional institutional environment, focusing on: political integration; economic integration; and functional cooperation. The impact of the small size of these countries on their institutional and organizational capacity is considered throughout the study.

In moving from diagnosis to practical proposals, experience to date confirms that an understanding of the political dynamics behind the specific performance problem is critical to the operational relevance of an IGR. Political analyses can provide insights into the reasons for persistently poor government performance. The Bolivia IGR, for example, convincingly showed how the structure of political institutions and the behavior of political actors drive the country's public administration and hence the service delivery performance of its public sector. It showed the benefits and the costs of the intrusion of political factors and incentives into administrative practice and set out a pragmatic reform strategy and program of action. The Bangladesh IGR raises fundamental questions about the way in which donors have attempted to assist Bangladesh's development to date.

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 among institutional arrangements and to monitor officials behavior are signs of increased openness and candor within the Bank and in an increasing number of client countries. Even so, given the sensitivities involved, sometimes (as was the case for the Africa region's Governance Scoping notes) political diagnostics may need to be done as informal inputs into Country Assistance Strategies, with the principal goal of informing staff of key contextual constraints, rather than as self-standing products in their own right.

A focus on a well-defined subset of development objectives, coupled with a readiness to accept the primacy of politics, fosters a robust and comprehensive dialogue. To be sure, surfacing the political realities that underpin performance problems can be difficult: it exposes sensitivities both on the client side and for the Bank. Reformers committed to good governance welcome robust analytic reports and their contribution to productive political discourse. At the same time, there are

Bolivia

"De-politicization" of Bolivia's administrative mechanisms lies at the heart of further reform, but if the government coalition is to be preserved, this requires the explicit participation of key political parties. The IGR sets out an agenda for fostering the necessary consensus to address the need for managed de-politicization of the public administration including the creation of an autonomous Superintendencia for the Civil Service.

necessarily sensitivities around such politically delicate topics. The degree of explicitness in IGRs will thus vary considerably.

IGR Recommendations

It is early days to assess the operational impact of IGRs, but there are some promising signs.

- Following the completion of the **Armenia IGR**, a workshop was held in Yerevan to discuss publicly the findings and recommendations. More than 100 key public officials from all branches and levels of the state, representatives of civil society (including political parties, the Diaspora and NGOs) and donor partners participated. The workshop has been followed by a series of small-group consultations involving high-level policy makers from the executive and legislature, the Bank team and donor partners. These have led to significant changes to external support for administrative reform.
- The **Bangladesh IGR** proposes that a viable public sector reform strategy must be framed in a way that nurtures 'agents of change' wherever they can be identified within public bureaucracies and in the wider civil society. And it sets out in some detail how this may be done with an in-depth analysis of key mechanisms of accountability -- the justice system, public finance management institutions, parliament, the media and the voice of civil society expressed via CSOs and NGOs, and professional groups and entrepreneurs who must compete in global markets.
- The **Bolivia IGR** sets out three options for improving service delivery and accountability in the public sector: reforming the centralized bureaucratic hierarchy; creating an insulated autonomous agency; and furthering decentralization to participatory local governments. Opening up the agenda in this way provides a fertile basis for exploring what sequence of actions - including what relative emphasis among the diverse alternatives - offers the best prospects for sustainable success. The country has been aggressively pursuing variants of the autonomous agency strategy over the past three years, applying it to reforming the semi-autonomous agencies in charge of customs administration, tax administration, and national roads administration. These reforms are supported by the Bank/donor-funded Institutional Reform Project.
- The administrative constraints identified in the **Burkina Faso IGR** subsequently were reformed by the Burkinabe, in the context of a Poverty Reduction Support Credit, increasing frontline flexibility with no loss of transparency in the use of resources.
- The **Peru IGR** identifies the incremental reforms that seem to offer the most promise in the short term. It identifies the “loopholes” of poor governance created by weak fiscal transparency and unregulated use of decree authority, and sets out concrete actions that can be undertaken including consultations and pre-publication of new policy and regulation, and further simplification of administrative procedures coupled with strengthening of the Ombudsman’s and Controller’s Offices to help citizens and the congress oversee the government. It also flags some initial steps in the longer-term reform agenda including some practical steps for strengthening policy-making and coordination capacity both at the center of the government and in sector

ministries. The IGR is expected to be used as an input in the upcoming CAS consultation process.

- The **Organization of Eastern Caribbean States IGR** identified the main capacity gaps in public sector organizations in the OECS. It identified an excessive concentration of power and authority within the executive, leading to reduced motivation for civil servants. It provides suggestions for improving results-focus in public service delivery, without any loss in accountability for financial propriety and personal conduct.
- The **Nigeria State and Local Governance Study** identified some steps that can be taken by the Bank and other donors to build civil service capacity at the state level and to use a "challenge" approach to selecting states for targeted assistance.
- The informal **Governance Scoping Notes** were instrumental in building support for civil society advocacy into an upcoming **Tanzania Accountability, Transparency and Integrity Project**, and in focusing the governance strategy that accompanied Cameroon's participation in the HIPC program.

Emerging lessons for IGRs

Recent research on the effectiveness of aid concludes that aid in the form of money generally has its greatest impact once countries have made substantial progress with reforms of policies and institutions. Successful reformers among countries eligible for International Development Assistance (IDA) concessional funding typically went 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 finance)⁶ – but with intensive ESW which helped lay the groundwork for institutional and policy reform.⁷

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 principal focus should be on ideas, not money.

IGRs help us move from a 'best practice' model towards a 'good fit' model of analysis and reform, in line with the Bank's strategy for governance and public sector reform.⁸ In the 'best practice' approach, shortfalls in formal institutional arrangements are highlighted, with exhortations and incentives to close them. Governments are urged for example to make their civil services more meritocratic, their

Lessons for Institutional and Governance Reviews

- Focus on a narrow set of government performance problems and pursue these determinedly through to their political, institutional roots.
- Use empirical tools to quantify performance failures.
- As far as possible use standard modules to prepare key questions and comparative data, and draw from existing analytic work
- Provide a political analysis of the reasons for persistently poor government performance.
- Provide the Bank and governments with practical proposals for the tradeoffs between approaches, rather than a predetermined certainty about one.

⁶ See Shantayanan Devarajan, David Dollar, and Torgny Holmgren (1999), *Aid and Reform in Africa Case Studies*, Washington, D.C.: World Bank.

⁷ Dollar, D. and L. Pritchett (1998). *Assessing aid - what works, what doesn't, and why*. Washington DC, World Bank.

⁸ See World Bank (2000).

budgets processes more performance-focused, but without any pragmatic guide to how that change might be introduced given the political realities. A 'good fit' approach, by contrast, asks 'what might work here?'

In pursuing 'good fit' and aid effectiveness, IGRs seek to provide the Bank and governments with practical proposals and a sense of the tradeoffs between approaches, rather than a rigid adherence to one approach.

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