

Executive Summary

This report summarizes the governance work undertaken by the World Bank in the last two years. It provides an overview of governance activities in lending, economic and sector work (ESW), and in research and dialogue. Progress across regions is reported under the four major components of governance identified in the 1992 governance report: (i) public sector management; (ii) accountability; (iii) legal framework for development; and (iv) transparency and information. In addition, other issues that are related to Bank activities—such as more participatory approaches to policy, program, and project design and implementation; military expenditures; and human rights—are raised. Internal procedures and organizational issues relevant to the Bank's governance work are also discussed.

Although the magnitude of the World Bank's work on governance cannot be directly measured because of the diffuseness of the topic (box 1), the report concludes that the volume of governance-related lending, ESW, and research by the Bank is substantial and growing (box 2). Consistent with the Bank's Articles of Agreement, this work has concentrated on the economic and social dimensions of governance, using a variety of approaches, both traditional and innovative. The intensity of governance work varies from country to country according to country circumstances and needs. In the past two years the most comprehensive governance work has been carried out in Latin America and the Caribbean and in Africa. However, in all regions, World Bank staff have given prominence to assisting borrowers in strengthening governance in their countries. Worldwide, countries are seeking to improve the performance of their governments.

BOX 1 DEFINITIONS OF GOVERNANCE

Governance was a rarely used term in development circles until employed in the World Bank's 1989 report, "Sub-Saharan Africa: From Crisis to Sustainable Growth." Later, *Governance and Development* provided a specific definition relevant to the Bank's purposes:^a "the manner in which power is exercised in the management of a country's economic and social resources for development." The World Bank has identified three distinct aspects of governance: (i) the form of political regime; (ii) the process by which authority is exercised in the management of a country's economic and social resources for development; and (iii) the capacity of governments to design, formulate, and implement policies and discharge functions. The first aspect is deemed outside the Bank's mandate; thus the Bank's focus has been on the second and third aspects.

The term usually describes conditions in a country as a whole. However, it may be applied in a more specific sense, such as *corporate governance*—the framework of laws, regulatory institutions, and reporting requirements that condition the way the corporate sector is governed.

The African Development Bank has introduced the notions of *macro*-, *meso*-, and *microgovernance* to conditions at various levels of government, suggesting that authoritarian regimes

committed to development might exhibit good governance at the middle and lower levels.^b

Other multilateral lending institutions use the term in the same way as the World Bank, although the Inter-American Development Bank gives special emphasis to the modernization of public administration. Some bilateral donors (for example, the United Kingdom's ODA) prefer the terms *good governance* or *good government*. These terms emphasize governance's normative aspects and facilitate its use as a guide to aid allocation using criteria drawn from the political as well as economic dimensions of governance. The OECD's Development Assistance Committee uses the World Bank's definition of governance and links it with participatory development, human rights, and democratization. It sees an overall agenda emerging in the aid policies of its member states, with the following links: legitimacy of government (degree of democratization); accountability of political and official elements of government (media freedom, transparent decisionmaking, accountability mechanisms), competence of governments to formulate policies and deliver services; and respect for human rights and rule of law (individual and group rights and security, framework for economic and social activity, and participation).

a. World Bank 1992b, p. 52.

b. African Development Bank 1993.

**BOX 2 MEASURING GOVERNANCE
IN WORLD BANK OPERATIONS**

Precisely how much governance work is being carried out in the World Bank is difficult to estimate numerically. This is because governance is a broad term that straddles the functional classifications the Bank uses to classify its lending operations. One dimension, public sector management, can be partly measured. Others, such as accountability and transparency, defy quantification. In short, there are governance components in all projects. In an attempt to quantify these components, this report aggregated data covering 455 projects across three regions during the 1991 to 1993 fiscal period. This provided examples of projects in which governance was a major component. These data manifest the extent to which governance topics pervade World Bank lending operations.

In a parallel exercise, the World Bank's Latin America and Caribbean Region recently reviewed its lending program according to the program's impact on governance, using a definition that emphasized public sector management (PSM) improvement. The review concluded that some 90 percent of the World Bank's current or pending operations in the region are expected to have an impact on governance, half of them a major one.

The volume of PSM work can be partially quantified because it is one of the functional categories used to analyze the lending program in the Bank. In fiscal 1993, total lending classified as PSM was US\$609 million. However, this figure does not include the many projects where PSM is not the primary purpose of the loan but a subsidiary activity, for example, in a sector project. Nor does the amount include technical assistance.

Category	Proportion of lending operations with governance content (percent)
Legal framework	6
Participation	30
State-owned enterprises reform	33
Economic management	49
Capacity building	68
Decentralization	68

Public sector management

A substantial part of the governance work in which the World Bank currently engages includes traditional public sector management (PSM) categories such as civil service reform, public financial management, and public enterprise

reform. Experience in all regions confirms that PSM is a key issue of development effectiveness. Renewed emphasis on PSM has been influenced by changing perceptions of the role of the state. The new model requires a smaller state equipped with a professional, accountable bureaucracy that can provide an "enabling environment" for private sector-led growth, to discharge effectively core functions such as economic management, and to pursue sustained poverty reduction. With respect to civil service reform, work has focused not only on retrenchment and cost containment but also on performance improvement and human resource management.

In public financial management, there is a trend toward integrated financial management reforms rather than isolated improvements to budgeting and public investment programs. The World Bank provides extensive advice to governments on the allocation of budgetary expenditures, within and among sectors, through *public expenditure reviews* (PERs), increasingly carried out on a joint basis. Public enterprise reform has been a key feature in virtually all countries undergoing structural adjustment reforms as governments have sought to downsize and seek better performance from inefficient parastatal sectors through divestiture, privatization, and management reform. In so-called transition countries—that is, those making the transformation from socialized to free-market economies—privatization has been a central thrust of the Bank's overall assistance. Reflecting the complexity of the task, the vested interests at stake, and the uneven commitment of governments to the task, the success with which public enterprise sectors have been reformed varies greatly among countries and regions.

Accountability

The World Bank has also made an effort in the last two years to help its borrowers, in a variety of ways, to improve the accountability of their public sectors. Decentralization of government as a means to improve accountability has been a major focus of lending and ESW. Financial accountability has been strengthened through lending operations focused on improving accounting and auditing practices and promoting compliance with financial management standards. *Financial accountability assessments*, a new form of ESW, are beginning to be undertaken. Microlevel accountability has been promoted by encouraging beneficiary participation in projects and, in some cases, competition in service delivery.

Transparency and information

Support for greater transparency and information has been closely linked to the Bank's work on accountability. Improvements in financial management

and introduction of transparent budgeting systems have been a feature of a number of lending operations. *Country procurement assessment reviews* by Bank staff and the policy dialogue between Bank staff and governments have been used to raise the issue of public procurement systems with borrowing governments, and in many countries the Bank is assisting reform. Training programs (provided by the Bank's Economic Development Institute) for developing-country journalists have attempted to raise public awareness and improve public debate on economic reform.

Legal framework

Support for the legal framework for development has taken the form of Bank advice on new laws to establish a framework for economic activity in transition countries. For example, laws on property rights, companies (bankruptcy laws), banking, competition, foreign investment, and the establishment of regulatory bodies. In addition, the Bank has been providing assistance to a growing number of countries for legal training and judicial infrastructure. Several research programs on a variety of legal issues have supported the Bank's assistance in this area.

Policy dialogue

Governance issues have featured prominently in the Bank's policy dialogue with many countries. In its role as chairman of the Consultative Group (CG) meetings between donor agencies and governments, the Bank has at times communicated to borrowing countries the views of donors on issues relevant to the political dimensions of governance that fall outside the Bank's mandate. In such circumstances the role of the chairman of a meeting of aid donors and recipients is to facilitate a constructive exchange on matters that may affect aid commitments and thus the financing of a government's aid program. In other settings, high-level meetings between Bank senior management and government policy makers, Bank mission work with country counterparts, the day-to-day communication between the Bank's resident mission staff and government officials, and special workshops have all been vehicles for an expanding dialogue on governance issues.

Participatory approaches

A major effort is under way within the Bank to explore and mainstream participatory approaches to the design and implementation of Bank-financed projects and the preparation of economic reports on countries. Case studies of best practice are being analyzed, workshops organized, and a handbook pre-

pared. This is likely to have a significant impact on the way projects are prepared, and it has the potential to greatly improve country ownership of the projects the Bank finances and, thus, relevance and sustainability.

Military expenditures

The World Bank has confronted the issue of military expenditures in several countries where such spending is crowding out budget allocations for social and other development-oriented programs. In some countries, the Bank has responded to the government's request to develop options for bringing military expenditures more into balance with other spending priorities. To assist in the conversion of defense industries, the Bank has supported macroeconomic and sector policy reforms for providing an environment in which the restructuring of market-based enterprise may take place. To help countries in the aftermath of civil war, for example, the Bank has studied the comparative experience of other countries in demobilizing and reintegrating their economies.

Human rights

The Bank's contribution to human rights is embodied in its strategy on poverty reduction through economywide and sectoral policies that encourage rural development and urban employment and through the provision of basic services to the poor. These efforts are augmented by targeted transfer programs and social safety nets. The share of Bank lending to human resources development is strongly rising, and a greater proportion of resources is being allocated to primary services or targeted to the poor and other marginalized groups. Accompanying this has been a sharp increase in country-specific analytical work through *country poverty assessments* and other ESW.

Internal procedures

Improvements in the World Bank's internal procedures following the recommendations of the Task Force on Portfolio Management ("Wapenhans Report," World Bank 1992a) will raise the profile of governance issues. For instance, the *country assistance strategy* (CAS) papers will bring relevant governance issues to the Bank's Executive Board in the context of country strategy discussions; country portfolio performance reviews will highlight systemic problems of project implementation; and the new system of operational policies and procedures will provide best-practice advice to Bank staff on many topics where governance is a factor.

Institutions

The past two years of work on governance underscore the importance of institutions in the development process. In the coming years, the Bank's ESW and research efforts should focus on how to assist countries in building strong institutions and should explore further the relationship between institutional development, PSM, and the other dimensions of governance. There is a need for more determined efforts to foster local ownership of reform programs and to direct support to the institutions of civil society. Within the framework of the World Bank Articles of Agreement there is likely to be continued scope for substantial governance work in future years.

GOVERNANCE CAPACITY AND STRUCTURAL ADJUSTMENT

A research program is currently under way in the Private Sector Development Department of the World Bank to investigate the relationship between governance capacity and successful economic reform in developing countries. Governance, in this instance, is assessed in terms of the capacity of the state to avoid *capture* by prominent economic interests and to formulate and implement policy independently in the public interest.

Structural adjustment imposes high costs on diverse segments of society. Experience has shown that states are chronically weak in withstanding pressure from prominent economic interests. The research program explores the conditions under which developing country governments can deploy enough governance capacity to overcome political resistance, de-

sign and implement appropriate adjustment policies, and sustain the course of economic reform.

Based on the analytical framework of the conceptual paper that has been prepared,^a ten case studies (Bolivia, Brazil, Egypt, Ghana, Malaysia, Mexico, Pakistan, Tanzania, Turkey, and Zambia) will be carried out.^b The aim is to analyze and contrast the experiences of successful, or attempted, reform in these countries in relation to their governance capacity and to study ways in which governments have tried to increase this capacity. The findings of the research program will serve to educate World Bank staff as well as inform future policy decisions.

a. Frischtak 1993.

b. All the case studies, except one, will be written by local researchers. Work has begun on seven of the ten studies. The final versions of the papers will be presented in a conference in the Bank in June 1994.
