

DEVELOPMENT IN PRACTICE

Governance

The World Bank's Experience

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Legal
framework
Military expenditures
Technical assistance; NGOs
Accountability; Transparency
Public sector management
Anti-corruption; Participation
Civil society; Judicial reform
Financial reporting
Human rights



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Preface

Two years ago the World Bank published *Governance and Development* (World Bank 1992b), its first report expressly on the topic of governance. In that report, the Bank explored the meaning of governance and why it is important for development. Governance was defined as *the manner in which power is exercised in the management of a country's economic and social resources for development*.

The World Bank's interest in governance derives from its concern for the sustainability of the programs and projects it helps finance. If sustainable development is to occur, the 1992 governance report concluded, a predictable and transparent framework of rules and institutions for the conduct of private and public business must exist. Good governance is epitomized by predictable, open, and enlightened policymaking (that is, transparent processes); a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; and a strong civil society participating in public affairs; and all behaving under the rule of law.

In analyzing governance, the World Bank draws a clear distinction between the concept's political and economic dimensions. The Bank's mandate is the promotion of sustainable economic and social development. The Bank's Articles of Agreement explicitly prohibit the institution from interfering in a country's internal political affairs and require it to take only economic considerations into account in its decisions. Thus, the Bank's call for good governance and its concern with accountability, transparency, and the rule of law have to do exclusively with the contribution they make to social and economic development and to the Bank's fundamental objective of sustainable poverty reduction in the developing world.

The purpose of this report is to summarize the Bank's activity in the area of governance in the past two years. The record shows that the Bank's work on

governance has greatly expanded, albeit with different points of emphasis, in all regions of the developing world and in the countries that are in transition from socialism to market economies.

Following the pattern established by the 1992 report, the current report describes developments under four sub-headings of governance: (i) public sector management; (ii) accountability; (iii) legal framework for development; and (iv) transparency and information. Despite their inevitable overlap, these headings provide a template against which the Bank's governance work can be assessed.

Of the four, public sector management (PSM) is the most readily identified dimension of the Bank's governance work. The language of PSM is predominantly technical: changing the organizational structure of a sector agency to reflect new objectives and to retrain staff; making budgets work better through better integration of capital and recurrent components; sharpening civil service incentives through new pay and grading structures; or placing public enterprise managers under performance contracts. Behind the emphasis on PSM as a key dimension of governance is the growing conviction that an efficient government is a *sine qua non* for sustainable economic growth. The other three dimensions of governance underpin PSM. Collectively, all four profoundly affect the performance of the public sector by shaping the environment in which it exists. Accountability and transparency are desirable qualities in the private sector and make government agencies responsive; and the legal system supplies a framework of rules for the public and private sectors. Institutional development in both the public and private sectors occurs when the various dimensions of governance reinforce one another. Institutional decay and loss of capacity ensue when the governance conditions in a country are adverse.

One result of the World Bank's work on governance has been innovation: in the types of projects undertaken; in fresh ways of preparing projects; and in the development of new topics for economic and sector work and for research. Another result, not susceptible to measurement but nevertheless important, is the way governance concerns have influenced the regular economic and project work of the Bank. In the process, the complementarity of the public and the private sectors and the importance of public sector management have been underscored. In turn, the Bank itself has been affected by the governance agenda, and this report looks at how Bank processes are changing, how governance considerations are increasingly being taken into account, and where more could be done.

As with *Governance and Development*, this report has been adapted from a World Bank board document, discussed and endorsed by the Bank's Executive Directors on December 16, 1993. In the interest of providing greater

transparency about the Bank's own operations, the report discusses not only Bank-financed projects and Bank research but also its internal processes. This has been done deliberately to show how governance has influenced the work and decisions of Bank management and staff and to make clear those aspects of governance that the Bank may take into account in its lending decisions and those that lie outside its mandate.

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Acronyms

AGETIP	Agence d'Exécution des Travaux d'Interêt Public
BP	Best practice
CAP	Community action plan
CAS	Country Assistance Strategy
CEE	Central and Eastern Europe
CG	Consultative Group
CPPR	Country Portfolio Performance Review
CSR	Civil service reform
DAC	Development Assistance Committee of OECD
DRP	Demobilization and reintegration program
ECA	Europe and Central Asia
ESW	Economic and sector work
FSU	Former Soviet Union
GDP	Gross domestic product
GTZ	German Technical Assistance Agency
IDF	Institutional Development Fund
IDTA	Institutional development technical assistance
IFC	International Finance Corporation

IMF	International Monetary Fund
NGO	Nongovernmental organization
NIES	Newly industrialized economies
ODA	Overseas Development Administration (U.K.)
OECD	Organization for Economic Cooperation and Development
PE	Public enterprise
PER	Public expenditure review
PMTF	Portfolio Management Task Force
PSA	Private sector assessment
PSM	Public sector management
TA	Technical assistance
UNCITRAL	United Nations Commission on International Trade Law
UNDP	United Nations Development Program