



Institutional and Governance Reviews—a new type of economic and sector work

A new tool is helping the World Bank and its borrowers address weaknesses in government performance.

In 1999 the Bank began conducting Institutional and Governance Reviews (IGRs), adding to its tools for economic and sector work. IGRs trace the institutional roots of weak government performance and offer practical recommendations for improving government operations and development strategies. The 13 IGR products generated so far have varied considerably—reflecting differences in the performance problems addressed, the stage of the dialogue between the Bank and the country being assessed, and the resources available to the Bank's country teams (box 1).

A recent assessment of the Bank's experience with Poverty Reduction Strategy Papers recommends that countries undertake IGRs early in the process of producing those papers. In addition, the Bank's Task Force on Low-income Countries Under Stress recommends that IGRs be conducted to build knowledge and capacity in such countries.

IGRs have several distinctive features. They assess performance failures empirically, using surveys and quantitative measures whenever possible. They encourage the development of standardized tools and other modular approaches that help maintain quality at reasonable cost. And most important, they analyze the feasibility of reform recommendations by considering political realities and potential constraints.

IGRs are designed to inform the Bank's Country Assistance Strategies and help set operational priorities. The reviews do so by contributing to better project designs, identifying institutional weaknesses that undermine government performance, and providing a rigorous basis for prioritizing reforms based on their institutional and political feasibility. Ideally, IGRs should be conducted prior to the development of Country Assistance Strategies and major lending operations—particularly multisector loans, which demand effective governance. IGRs should open the door to a sequenced, prioritized program that is country-owned, tailored to capacity constraints, and attuned to current and prospective political realities.

Reforms are prioritized based on their institutional and political feasibility

BOX 1 INSTITUTIONAL AND GOVERNANCE REVIEWS INVOLVE A RANGE OF PRODUCTS

- IGRs generally address major governance issues that cut across many sectors. In Armenia, Bangladesh, Bolivia, and Peru—which have widespread political patronage and complex coalition politics—the reviews have generated debates on incentives for reform.
- A *social sector IGR* in Argentina laid the groundwork for health and education reforms.
- A *subnational IGR* in Nigeria is developing strategies for targeting external assistance at individual states to support promising reforms.
- *Regional IGRs*, like the one conducted for the Organization of Eastern Caribbean States and being considered for Southeast Europe, review the scope for political, economic, and functional cooperation at the regional and subregional levels.
- *Governance and Poverty Scoping Notes* are being tested in Africa, where the Bank is active in many countries but country budgets are often small.

Government performance failures vary

Russian author Leo Tolstoy once said that “Happy families are all alike; every unhappy family is unhappy in its own way.” Government performance problems—and their causes—are similarly unique, varying across countries and over time. Government performance involves more than just delivering services. It also involves making policies and ensuring accountability in administrative actions and in the use of public funds.

In some countries bloated civil services create fiscal pressures that impair government’s ability to provide basic services. In others low pay for public officials leads to widespread petty corruption and rent seeking. In some sectors political patronage is widespread and public respect is low, yet services are delivered adequately. In many cases the main problem is that scarce resources are allocated with little consideration of local needs.

A sharp focus helps contain costs and strengthen analysis

Combinations of these performance failures are found in many developing countries. By using empirical tools to assess governance and performance, IGRs highlight how governments differ in their core functioning. Surveys of households, businesses, and public officials indicate the extent to which critical services fail to reach poor people, quantify levels of volatile and unpredictable policymaking, and measure perceived corruption and poor accountability. This diagnostic analysis is supported by sociological studies, focus group discussions involving representatives of interest groups, and in-depth interviews with key observers. Early IGRs have provided useful guidance on the costs and benefits of different diagnostic approaches (box 2).

Reliable results can be achieved at modest cost

Completed IGRs highlight the importance of focusing on specific issues—both to contain costs and to strengthen analysis in economic and sector work. Such work is expensive. In fiscal 2000 economic and sector work accounted for \$80 million of the Bank’s administrative budget, compared with \$143 million for lending-related activities and \$190 million for supervision. Because the range of IGR products balance analytical needs with financial considerations, their costs vary considerably. Comprehensive IGRs cost about as much as Public Expenditure Reviews (around \$200,000), while scoping notes cost less than \$50,000.

Experience with IGRs suggests that high returns can come from focusing on relatively narrow chains of causation—looking beyond immediate performance problems and their proximate causes in administrative dysfunction to the underlying incentives that shape the behavior of bureaucrats and political actors. As Burkina Faso’s experience shows, IGRs do not have to consider the full range of policymaking, expenditure management, accountability, and service delivery. Instead, they can powerfully confine their focus to just one or two of these issues.

Efforts to focus IGRs have also led to promising experiments with toolkits—

BOX 2 DIFFERENT COUNTRIES, DIFFERENT APPROACHES

- *Bangladesh.* Bangladesh’s IGR uses a range of surveys and sociological assessments to show how local government reform can be fostered through bottom-up accountability and citizen participation. The review also raises important issues related to donor assistance—for example, it points out how past Bank efforts to assist institution building foundered because they failed to take into account the factors motivating the main stakeholders. In addition, the IGR illustrates the impressive new tools that electronic government offers for improving institutional accountability.
- *Bolivia.* Depoliticizing Bolivia’s administrative mechanisms is essential to further reform, but doing so will require the explicit participation of key political parties if the coalition government is to be preserved. The country’s IGR sets an agenda for fostering the necessary consensus, including the creation of an autonomous superintendency for the civil service.
- *Burkina Faso.* Despite major increases in resources for poverty-reducing services, Burkina Faso has seen only modest improvements in service delivery. Through careful scrutiny of the administrative system, the country’s IGR pinpoints specific mechanisms that the central bureaucracy has used to strait-jacket the functioning of front-line service providers.
- *Organization of Eastern Caribbean States.* An Institutional and Organizational Capacity Review examines the constraints facing the public sectors of six island countries at the national, subregional, and regional levels. The review assesses the performance of national institutions in terms of democracy, basic rights and freedoms, the rule of law, and public sector management, with a focus on managerial autonomy and accountability. It also examines the subregional and regional institutional environment, paying particular attention to political integration, economic integration, and functional cooperation. The impact of these countries’ small size on their institutional and organizational capacity is considered throughout the review.

Web-based guides for task managers and others that set out core institutional questions for different performance problems and provide access to comparative data. But while such guides can aid analytical work, there is no substitute for professional expertise. To that end, the Bank is preparing operational guidelines that will require all projects to include institutional analysis—to ensure that key actors have the necessary capacity, commitment, and incentives and that operations do not undermine public institutions. This simple tool will provide a baseline for deeper analysis.

Political insights are essential

To be operationally relevant, an IGR must understand the political dynamics behind government performance problems. For example, Bolivia's IGR shows 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. By identifying the costs and benefits of political intrusions into administrative practices, the IGR was able to develop a pragmatic reform strategy.

IGR examinations of political issues and use of empirical data to compare institutional arrangements and monitor officials reflect the increasing candor within the Bank and a growing number of client countries. These approaches also reinforce the vital point that short-term, purely technical responses will not solve problems with deep political roots. Still, given the sensitivities involved, some political diagnoses may need to be informal inputs to Country Assistance Strategies—to inform staff of contextual constraints—rather than self-standing products.

A focus on a well-defined set of development objectives, coupled with a readiness to accept the primacy of politics, fosters a robust and comprehensive country dialogue. Acknowledging the political issues that contribute to performance problems can be difficult: doing so exposes sensitivities for clients as well as the Bank. Reformers committed to good governance welcome thorough

analyses and their contribution to productive political discourse. Yet some topics are politically delicate. Thus the degree of explicitness in IGRs will vary considerably.

Impact of Institutional and Governance Reviews

Though IGRs are new, they have already achieved promising results. In Armenia a workshop was held to publicly discuss the IGR's findings and recommendations, leading to significant changes in external support for administrative reform. Bolivia's IGR triggered extensive debate on ways to improve public services and accountability, supported by the Bank- and other donor-funded Institutional Reform Project. The Peru IGR identified initial steps for strengthening policymaking and improving coordination in the center of the government as well as in sector ministries, and will be used in upcoming consultations for the Country Assistance Strategy.

Nigeria's State and Local Governance Study has stimulated public debate on how the Bank and other donors can build civil service capacity at the state level and use a "challenge" approach in selecting states for targeted assistance. Governance Scoping Notes were instrumental in building support for civil society advocacy into an upcoming Accountability, Transparency, and Integrity Project in Tanzania, and in focusing the governance strategy that accompanied Cameroon's participation in the Heavily Indebted Poor Countries (HIPC) initiative.

Emerging lessons

Aid money generally has the greatest impact after countries have made substantial institutional and policy reforms. Most successful reformers among countries eligible for International Development Association (IDA) concessional loans first went through intensive policy dialogues with the Bank and other stakeholders, without formal adjustment loans (or much other donor finance)—but with thorough economic and sector work that helped lay the groundwork for institutional and policy reforms. The

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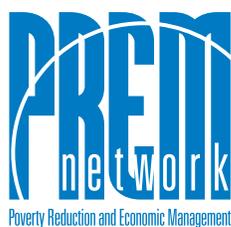
implications for the Bank's operational work are clear: in countries with weak institutions and poor policy performance, the Bank should focus on providing ideas, not money.

IGRs help the Bank move from a "best practice" toward a "good fit" approach to analysis and reform, in line with its strategy for governance and public sector reform. The best practice approach highlights shortcomings in formal institutional arrangements and provides exhortations and incentives to fix them—but without pragmatic guides to how such changes might be introduced given political realities. By contrast, the good fit approach asks, "What might work here?" In pursuing a good fit approach and effective aid, IGRs seek to provide the Bank and client governments with practical proposals and a sense of the tradeoffs between approaches, rather than requiring rigid adherence to one approach.

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See <http://www1.worldbank.org/publicsector/indicators.htm> for details on current Bank work on governance indicators, and <http://www1.worldbank.org/publicsector/toolkits.htm> for current Bank work on governance-related surveys. Stemming from work on IGRs, surveys of 7,000 public officials have been undertaken in 16 countries; see <http://www1.worldbank.org/publicsector/civilservice/surveys.htm>.

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