Abstract

Good policies, sound investments, and sustainable progress on poverty reduction all require good governance and effective public sector institutions. Solid improvements in governance will be required if many low-income countries are to attain the Millennium Development Goals, and better and more accountable public sector performance is needed to make services work for poor people. This paper explores how low-income countries are approaching governance and public sector reforms in their Poverty Reduction Strategy Papers (PRSPs), expected to become the basis for all concessional development assistance and debt relief from the World Bank and IMF. Based on the early experience of PRSPs, it suggests lessons for countries, donors, and the PRSP approach. In coping with serious policy, capacity, and institutional constraints, an important challenge to be addressed by most PRSPs is to come up with realistic priorities for governance and public sector reforms and a minimalist but self-reinforcing agenda that is suited to the starting point for each country.

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WALK BEFORE YOU RUN: 
GOVERNANCE AND PUBLIC SECTOR REFORMS IN PRSPS C. EARLY 2002

In September 1999, the World Bank Group and the IMF proposed that countries prepare their own poverty reduction strategies as the basis of all Bank and IMF concessional lending and for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

These Poverty Reduction Strategy Papers (PRSPs) are expected to be prepared through a participatory process involving civil society and development partners and to be driven by greater country ownership. They are intended to describe a country's macroeconomic, structural and social policies to promote growth and reduce poverty, to discuss how such policies are to be implemented, and how outcomes and performance are to be measured. A PRSP is also expected to become the common basis across donors for assessing external financing requirements.

This synopsis paper explores the very early lessons from the PRSP approach on how countries are approaching governance and public sector reforms in their PRSPs. It seeks to provide a framework for understanding the potential and problems in the PRSP process for improving government performance, but does not go into the details of specific areas of governance or the strengths and weaknesses of individual PRSPs.

Good governance and effective public sector institutions are critical for reducing poverty, because good policies and investments do not survive in poor governance environments. The World Bank’s focus on governance and institutional reform in recent years has been driven by its Public Sector Strategy. The principles underlying the PRSP approach—be country driven, promote national ownership, base choices about the mix of public actions on comprehensive diagnoses, maintain a long-term perspective, be results and partnership oriented, and select and track outcome indicators—resonate fully with the four strategic elements of the Public Sector Strategy. Just as the Strategy emphasizes that there is no one size that fits all in reforming dysfunctional institutions and building

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3 See World Bank (2002) and World Bank (2003). The strategic changes proposed therein include: an emphasis on “voice” and partnerships as drivers for public sector reform; on rules, restraints, and competition as incentives for such reforms; on the notion of “good-fit” analytical work rather than one-size-fits-all “best practice”; on programmatic lending instruments based on timely fiduciary work; and on improving Bank staff skills to undertake better institutional, governance, and capacity-building work.
well-functioning and accountable governments, so also the PRSP approach envisages that each PRSP will be different, informed by institutional needs, implementation capacity, and the participatory consultations underlying each PRSP.  

**GOVERNANCE AND PUBLIC SECTOR PERFORMANCE IN PRSPS: EARLY LESSONS**

Ten full PRSPs had been completed by January 2001, in addition to some 40 interim PRSPs (to be subsequently finalized as full PRSPs). Progress in preparing and implementing PRSPs has varied widely. Countries have achieved much and much remains undone that is difficult and challenging and will take time. Possibly the biggest early strides have been made in fostering country ownership, embedding participation into the PRSP process, and building donor interest in using the PRSPs as a framework for assistance, thereby confirming the role of PRSPs as instruments for implementing the Comprehensive Development Framework for donor assistance. This is already a big first achievement, and the many areas that remain to be addressed as countries move towards full PRSPs should not detract in any way from the gains that have been made.

The treatment of governance and public sector reforms in the first crop of PRSPs points to several overall lessons for the Bank’s Public Sector Strategy and the framework for future support for governance reforms in the PRSP process.

*Prioritizing difficult governance and public sector reforms.* First, governance issues feature prominently in a large number of PRSPs (both full and interim), mirroring the emphasis that civil society consultations and donors have placed on good governance. Budget reforms, decentralization, civil service reform, and judicial reform are prominent in several PRSPs, though there is a clear tendency to stovepipe governance concerns as stand-alone issues rather than as related ingredients required for good human

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4 The PRSP Source Book ([http://www.worldbank.org/poverty/strategies/sourcons.htm#intro](http://www.worldbank.org/poverty/strategies/sourcons.htm#intro)) connects a range of governance issues to poverty reduction, including public expenditure management; government architecture for accountability and transparency; intergovernmental relations; the civil service; the legal system; and public service delivery.


6 A comprehensive review of PRSPs was completed early in 2002, and has yielded important insights on the challenges ahead: these are presented in two Board papers prepared for the 2002 Spring Annual Meetings of the Bank and the Fund; see IMF and IDA (2002), also available at [http://www.worldbank.org/poverty/strategies/review/index.htm](http://www.worldbank.org/poverty/strategies/review/index.htm). For a background assessment of governance issues in PRSPs prepared for the review, see Casson and Furtado (2002).
development outcomes and services that work for poor people. Infant mortality rates may depend as much (or more) on the expenditures of the ministry handling water and sanitation than the health ministry’s expenditures. Among the early PRSPs, a few have successfully integrated existing governance strategies into the PRSP (as with Uganda), and some have based the PRSP on a substantial body of analytical work on governance (e.g. Albania, see Box 1). Most PRSPs, however, provide a briefer treatment. Whether ambitious or not, many lack an analysis of the payoffs from governance reforms and their medium-term feasibility. They therefore provide only a weak framework for assigning priorities in resources and sequencing of public sector reforms that are consistent with the poverty reduction aims of PRSPs. Greater participation in the PRSP process and greater ownership are clearly not enough to yield realistic prioritization of policy commitments on governance issues that are made in the PRSPs.
Recognizing deep capacity constraints. Second, and closely related, is the confirmation of deep capacity constraints that the PRSP process is surfacing. This is true for many sectors, but is particularly true for complex governance in the core public sector. As observers have pointed out, this is revealing a sharp dilemma between the need for addressing a large agenda and the capacity to do so: poverty reduction requires governance reforms that the poorest countries are in the weakest position to undertake.\(^7\) In the early round of PRSPs, there is considerable tension between the desire for complete, even if superficial, coverage of governance issues and choosing realistic priorities for public action. More guidance is clearly needed on how governance and

\(^{7}\) Grindle (2001).
public sector reforms can be unbundled, entry points identified, and reform strategies sequenced in terms of political and technical feasibility, poverty payoffs, and sustainability. In coping with serious capacity constraints, the challenge for country analysts and donors is to help come up with a minimalist but self-reinforcing agenda for governance reforms suited to the starting point for each country.

Taken together, the first two lessons suggest that underlying this lack of realism appears to be a misguided notion that governance problems are amenable to purely technical solutions without a deep regard for the need to tackle the incentive framework that underlies individual and institutional behavior in the public sector. Years of providing purely technical assistance on budget management—a core governance problem in many developing countries involving the policy making process at the center of government, relationships between the finance ministry and other line ministries, and the role of vested interests—has not produced good results. This is clear from the recent review of public expenditure management in the HIPCs. PRSPs in particular need to recognize as clearly as possible the sources of institutional weakness, and then relate solutions to these sources as well as the capacities of the country. This is as true for budget management as it is for attempts to make basic public services work for poor people.

**Public expenditure management as an entry point.** Third, PRSPs in many instances are taking on board the need to improve public expenditure and financial management systems as a core priority, emphasizing the preparation, implementation, and reporting of the annual budget. This focus is highly welcome, both in terms of the service delivery implications for poor people and as an important entry point into more complex and politically challenging governance reforms, such as in the civil service. As already noted, the emphasis must be on recognizing incentives within the budget process. Opening up budget processes (as for example with participatory budgeting exercises in Brazil, South Africa, and India), emphasizing performance and appropriate incentives, and strengthening expenditure and financial management systems are necessary to shift

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9 See IMF (2002).
to direct, programmatic, budget support from donors, an important goal of the PRSP approach, and a requirement for the HIPC initiative.

Countries that are more advanced in this regard are among those moving rapidly to the kind of multi-year, budget-oriented, non-project lending at the heart of the PRSP approach—for example, the Poverty Reduction Support Credits in Burkina Faso, Uganda, and Vietnam (Box 2). Many PRSP countries will need long-term assistance to enhance public expenditure management capacity. Harmonizing donor practices on procurement and financial management will facilitate capacity building.

Political realism in designing and implementing reforms. Fourth, the process for preparing and assessing PRSPs may be failing to gauge their political realism in implementation. In some instances, well-reasoned and analytically strong PRSPs may not be paying enough attention to the political sustainability of reforms, or indeed, to the political incentives at the heart of how public services work for poor people. In a broader context, it is clear that factors such as election cycles will affect the political sustainability of PRSPs, most obvious when governments change. This also points to the fact that parliaments have generally not been deeply involved in the formulation of this first crop of PRSPs, either in upstream participation and consultation or in their oversight role, missing an important opportunity to generate political consensus across party lines.
The role of information. Fifth, there is relatively little emphasis yet in PRSPs on enhancing transparency mechanisms through public disclosure policies, public access to information, or sunshine laws. Such actions, if oriented to increasing useable and actionable information, can have a powerful impact in creating incentives for greater accountability and compliance with existing laws and regulations within the civil service and the political establishment. Information disclosure laws can create demand for greater watchdog capacity within civil society, and therefore for assistance to enhance the monitoring capacity of the media or nongovernmental agencies. Implementing such policies requires both the availability of information in standardized forms as well as the political commitment to ensure sustainability and non-partisan implementation of transparency and sunshine laws.

Measuring performance on governance reforms. Finally, the PRSP emphasis on measuring progress based on development outcomes (or intermediate outputs) has not yet been translated in the governance area into widely used governance indicators. What
is used to measure progress on good governance in the first PRSPs is by and large weaker than the indicators used for other policy reform areas. This is a reflection of the difficulties in arriving at robust governance indicators, the political sensitivity of many indicators, their vulnerability to partisan misuse, the overall lack of monitoring and evaluation capacities both within government and outside, and the inherent need to tailor governance indicators to the specific situation of each country and to each service or program.

**Implications for Bank and Donor Assistance on Governance**

These findings from the treatment of governance and public sector reforms in the first crop of PRSPS suggest several implications for the direction of Bank technical support for PRSP countries and some priorities for Bank staff at the forefront of the country and PRSP dialogue in specific country settings.

*First*, there is a large need for assistance in *unbundling* medium and long-term governance reforms, prioritizing them in terms of technical, institutional and political difficulty and poverty payoffs, and selecting a *minimalist* governance agenda that fits the starting point for each PRSP and country. Without such prioritization, institutions and key change leaders within the country are likely to be overwhelmed as they attempt too much too soon. The situation can be further complicated if the interests of multiple donors are not coordinated, since project and program administration requires precisely those leadership and management skills within the bureaucracy that are in the shortest supply.

The use of tools such as the Bank’s Institutional and Governance Reviews can be useful in establishing the starting point for individual countries in this regard and the likely interaction of proposed reforms with the political, bureaucratic, and social realities of the country, interactions that can either spell success or failure for complex reforms. The early involvement of parliaments, both in their oversight and in their representational functions, can help in assessing priorities. This also points to the importance of the research agenda linking good governance to service delivery and poverty alleviation, particularly the provision of public services in settings that vary greatly in terms of both domestic capacities, the political and bureaucratic willingness to undertake governance
reforms, and the underlying political incentives that drive basic service delivery in education, health, and infrastructure.

Second, the welcome attention that public expenditure management (PEM) is receiving in PRSPs, in part because of the emphasis on improving PEM in the HIPC initiative, suggests that we should focus on similar key entry points for public sector reforms in the country dialogue and the assessment of PRSPs.

Decentralization and service delivery are other such entry points, including community-driven initiatives that can bring to bear better definition, transparency, and monitoring of public programs (good examples include the Kecamatan Development Program in Indonesia). Decentralization, in particular, deserves greater attention and a clear strategy within PRSPs. PRSPs overall tend to take for granted the transparency and service delivery gains from decentralization, whereas worldwide experience suggests that decentralization is not a sufficient condition for such gains. E-government represents another such entry point, both for improving the transparency of core government functions such as procurement and for improving public service delivery (as in Andhra Pradesh in India). In PEM itself, as countries grapple with the challenge of improving budget formulation, implementation and reporting, it will be increasingly important to move line ministries and the civil service into a more performance-oriented approach to their operations.

Third, there is greater need to invest in monitoring and evaluation systems, aimed at building both government and non-government capacities for governance monitoring and at sustaining them. Particular attention is needed on governance indicators that link inputs or intermediate outputs to poverty impacts and to politically acceptable and more widely useable governance indicators. Considerable new work is underway at the Bank and OECD in this regard (see Box 3). Factors that are important in fostering civil society capacity for governance monitoring include questions of whether there is ownership of the effort, how the effort is to be managed, how the credibility of non-governmental efforts can be sustained, and how the security of those involved, particularly if some element of whistle-blowing is involved, can be assured.

Related to monitoring and evaluation, but at even a more fundamental level, much greater attention is needed in the PRSP process to impact assessments that try to sort out
in a robust way what interventions works and why in terms of poverty reduction, and if possible, to understand the governance and political dimensions of such success or failure.

**Box 3: Indicators of Governance and Institutional Performance**

Broad indicators of the quality of governance, such as Transparency International’s Corruption Perceptions Index or assessments of investor risk provided by the International Country Risk Guide and other sources, have been invaluable in drawing attention to problems of corruption and in helping researchers assess the crucial role of good governance for development. The Bank has developed this type of indicator still further by combining a number of the existing data bases into a set of governance indicators that provide more disaggregated measures of governance along a variety of dimensions for a number of countries (http://www.worldbank.org/whb/governance/govdata2001.htm). These broad indicators provide valuable cross-country information. They can be used in various analytic contexts to measure corruption and rule of law and to help determine the ways and the extent to which they matter for development.

The Bank is also working to complement these broad indicators with more specific indicators of institutional performance that feed directly into the design of reform options. In addition to their operational relevance, such indicators tend to be less controversial than direct indicators of corruption and rule of law. This work, termed “second generation governance indicators”, is funded in part by DFID and is being undertaken in collaboration with the OECD Development Assistance Committee (DAC), which hosts an open discussion forum and interactive website with the goal of building consensus on an appropriate set of indicators. Potential indicators are assessed with respect to how well they meet four criteria: (1) do they measure specific aspects of governance? (2) Are they replicable and generated through a transparent process? (3) Are they available for most developing counties, and are the data updated periodically? (4) Are they reasonably accurate and meaningful? Indicators that meet these criteria reasonably well are then analyzed to determine their relationship to pro-poor outcomes reflected in the Millennium Development Goals (http://www1.oecd.org/dac/indicators/).


*Fourth*, countries should be encouraged to consider public disclosure and other transparency enhancing mechanisms that can help create a favorable environment for both initiating and sustaining improvements in governance. Such actions can be supported through Bank assistance, and public disclosure policies can enhance the effectiveness of various survey instruments that seek to assess the efficacy of public institutions or services (Box 4).
Finally, the tendency of PRSPs to stovepipe governance concerns and limit them to core public sector areas (such as public administration, civil service, judicial systems, and budgeting and taxation) suggests that much remains undone in mainstreaming these concerns in other sectors such as education, health, and infrastructure. In these sectors, governance issues and political economy concerns are often key to poor performance, failing service delivery, particularly for poor people, and a poor contribution to growth (see Box 5 for an example of problems in the energy sector in Uttar Pradesh state in India).
Because PRSPs can and should take a medium to longer-term view of development, it is important that they bring to the fore governance issues in sectors such as health and education and suggest ways of integrating core public sector reforms with other reforms in such key sectors. A number of tools such as tracer studies can shed light on both sector performance and its deeper, institutional causes. It is important to remember that greater realism and better strategies to deal with public expenditure management, decentralization, anticorruption, the political context for reforms, and supreme audit institutions are ultimately not just about reforming government but should be aimed at the provision of effective services and the welfare of poor people.

Box 5: Governance Challenges in the Power Sector in Uttar Pradesh, India

It is estimated that 41 percent of the power purchased by UP Power Corporation Ltd. (UPPCL) is lost in the transmission and distribution system, due both to technical problems and to theft, pilferage, and faulty metering. Of the remainder, about 80 percent of what is billed is collected. Thus, less than one-half of the power provided is paid for. UPPCL estimates foregone revenue to be on the order of $250 million.

Losses occur through a variety of mechanisms. At the lowest level, meter-readers, linesmen and billing clerks do not read meters and bill or collect efficiently, presumably benefiting from side payments and political protection. These officials have often been in their positions for 15 to 20 years and therefore have long-established links with local political interests. The nexus with organized crime makes the problem particularly difficult to address: local mafia groups, with the protection and complicity of local politicians, reportedly provide illegal supplies of electricity to urban dwellers that represent important votes for being elected into public office. In some areas, utility staff cannot enter the streets, let alone the premises of consumers. Non-payments also result from high-level collusion between large industrialists and traders and politicians. There are several tiers of overseers and supervisors in the bureaucratic chain, but they do not have adequate managerial autonomy and are often themselves compromised.

High-level political commitment to address these problems is often lacking. The requirements of coalition politics make it difficult to censure or prosecute politicians suspected of receiving illicit benefits. Board Appointments have been heavily politicized, at times favoring candidates rumored to be corrupt. The fact that the government is one of the largest defaulters on electricity payments (for electricity consumed by its various departments, office premises, and official residences, reveals further lack of commitment.

References

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