Demystifying ‘Good Governance’: an overview of World Bank Governance Reforms and Conditions

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Introduction

The World Bank first picked up the issue of governance in the late-1980s when it started to advocate civil service reforms but ‘governance’ didn’t come into Bank parlance until 1989. Decentralisation and legal and judicial reforms were added to the agenda in the early 1990s. By the mid 1990s the politically sensitive issue of corruption was being squarely faced and the role of the state was being re-questioned in the light of economic transformation in the former Soviet Union. The issue of public sector governance gained greater priority in the late 1990s after the financial crises in East Asia and Russia. And in recent years the shift towards the provision of budget support, which demands efficient and accountable systems of public financial management, has given further emphasis to it. Thus within a few years governance has become a cornerstone of the Bank’s thinking on how to achieve sustainable poverty reduction and economic growth.

The Bank’s work on aid effectiveness in the late 1990s was the vital intellectual link the Bank needed to bring its work on institutions centre stage. The Bank argued that the development community’s failure to make a greater impact on tackling poverty and achieving higher growth was not due to inappropriate policies but to weak institutions. The conclusion was that good policies are vital but are unsustainable in a poor governance environment which limits accountability, sets perverse rules of the game, and is incapable of sustaining reform. Thus poor governance and weak institutions have led to misguided resource allocation, excessive government intervention, arbitrariness and corruption, which have deterred private sector investment and slowed growth and poverty-reduction efforts.

However, where ‘poor’ governance has a negative impact on the poor, ‘good’ governance can have a positive impact by improving delivery of services, making decision-making more transparent, and by increasing citizen participation. Thus the transformation of weak public institutions and distorted governance mechanisms into effective and accountable public institutions and transparent government decision-making processes has come to be seen by many within the Bank as being at the “heart” of the economic development challenge.

This is witnessed in the growing number of governance reforms included in Bank projects and programmes, particularly in programmes supported by Poverty Reduction Support Credits (PRSCs) and other policy reform loans. Whilst efforts have been made to streamline conditionality in other areas governance conditionality appears to be expanding[1]. The question is should NGOs be worried about such a trend and is the Bank’s governance agenda acceptable?

This briefing aims to clarify a few basic questions about the Bank’s governance conditionality, these are:

- How does the Bank define governance?
- What is the Bank’s governance agenda?
- How much of the Bank’s governance agenda is being pursued via conditionality?
- How extensively is governance conditionality being applied?

[1] Wood, A., 2005, *The World Bank’s Poverty Reduction Support Credit: Continuity or Change?* Debt and Development Coalition, Dublin: http://www.debtireland.org/resources/index.htm ; Grindle, M. S., 2004, Good Enough Governance: Poverty Reduction and Reform in Developing Countries, *Governance: An International Journal of Policy, Administration and Institutions*, Vol. 17, No. 4, pp525-548.

The report examines the extent of governance conditionality in 20 PRSC programmes in 10 countries: Ethiopia, Ghana, Mozambique, Rwanda, Sierra Leone, Tanzania, Uganda, Vietnam, Honduras and Nicaragua.[2] In each country, the analysis considers the most recent PRSC (or similar) programme agreed with the Bank and the forthcoming (provisional) PRSC programme. Implementation of these programmes was started between December 2003 and August 2005.

Part 1 of the report discusses how the Bank understands 'governance' and provides a brief outline of the various elements of the Bank's public sector governance agenda. Part 2 looks at how this agenda is translated into conditionality and the extent to which governance conditionality is applied in PRSC programmes. Part 3 concludes by providing some thoughts on the appropriateness of the Bank's governance agenda and of the use of conditionality as a means to improve governance.

Part 1: The Bank's Governance Agenda

1.1 Defining Governance

'Governance' is a relatively new concept in international development. Definitions vary widely among development actors.[3] The Institute on Governance defines it as "the process whereby societies or organizations make important decisions, determine whom they involve and how they render account."[4] The Bank defines governance as "the manner in which power is exercised in the management of a country's economic and social resources for development"[5] And the World Bank Institute defines governance as "the traditions and institutions by which authority in a country is exercised for the common good."[6]

Whilst the Bank recognises that governance is about power and decision-making, it does not regard governance as a synonym for 'democracy' and therefore it is not necessarily concerned with the issue of legitimacy. Instead, governance is about how decisions are made, how they are executed, who is accountable for decisions taken and how they are held to account. Thus, for the Bank, governance is more aligned to the concepts of 'effectiveness' and 'efficiency'.[7]

Governance has a technical aspect – how should governance systems operate – and political dimension – who should be involved in governance processes. Whilst for many governance might most readily bring to mind political aspects such as political parties, parliament, electoral processes, human rights, justice and free media, the Bank - reflecting its Articles of Agreement which state that it should be a non-political institution – focuses on technocratic aspects of governance. It aims to focus on 'economic' governance issues, such as good public accounting procedures and recognition and enforcement of property rights.

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[2] All PRSC programmes are for 1 year, except for the programmes in Mozambique and Nicaragua, which were for 6 months.
[3] See Grindle, M. S., 2005, *Good Enough Governance Revisited*, A Report for DFID with reference to the Governance Target Strategy Paper, 2001, Harvard University.
[4] Plumptre, T. What is Governance? www.iog.ca/page.asp?pageID=3&htmlarea=home
[5] World Bank, 1992, *Governance and Development*, quoted in Santiso, C., 2002, Good Governance and Aid Effectiveness: The World Bank and Conditionality, *Georgetown Public Policy Review*, Vol.7, Number 1, Fall 2001, pp.1-23.
[6] www.worldbank.org/wbi/governance/about.html
[7] Santiso, C., 2002.

Neither is governance a synonym for ‘government’. The Bank is concerned with governance issues in both the public and private sectors, although much greater attention is given to public sector governance. Accordingly, this paper limits itself to looking at public sector governance, which concerns the act of governing and the role of the government and how efficiently it executes its duties.

The Bank distinguishes between ‘good governance’ and ‘poor governance’, which suggests that there is a particular governance formula that will achieve sustainable poverty reduction and growth: "good governance is epitomized by predictable, open and enlightened policy-making, a bureaucracy imbued with a professional ethos acting in furtherance of the public good, the rule of law, transparent processes, and a strong civil society participating in public affairs. Poor governance (on the other hand) is characterized by arbitrary policy making, unaccountable bureaucracies, unenforced or unjust legal systems, the abuse of executive power, a civil society unengaged in public life, and widespread corruption."[8]

Thus ‘Good Governance’ implies that decisions are taken and power is wielded in a manner that is free of abuse and corruption, and with due regard for the rule of law, it is participatory, transparent, responsive, consensus-oriented, equitable and inclusive, effective and efficient, and accountable.

1.2 The Bank’s Governance Agenda

The Bank’s public sector governance reform agenda concerns institutional reform. Institutions are the ‘rules of the game’, these include organisational rules and procedures, formal laws, and informal norms. Public institutions shape the way public functions are carried out. Institutions matter because policies must be supported by an appropriate institutional environment, thus, the institutional environment is a significant factor in determining what policies can be successfully implemented. Either policies must be tailored to the institutional environment or, if more demanding policy reforms are desired, then government institutions must be strengthened to facilitate their implementation.

Whilst public sector governance is often identified explicitly as a specific reform area in Bank programmes and projects, it is in fact a cross-cutting issue and reforms of this sort are found in many sector reform projects and programmes, particularly those sectors dealing with the provision of public services, such as education, water and health (see Table 1).

Given the Bank’s focus on the economic dimensions of governance, the Bank’s Public Sector Governance Group covers the themes of:[9]

- Anti Corruption;
- Civil Service Reform;
- Decentralisation;
- Legal and Judicial Reform;
- Public Financial Management;
- Tax Policy and Administration.

[8] World Bank, 1994, Governance – The World Bank’s Experience, Development in Practice, piv.

[9] Those areas of governance which the Bank identifies as being beyond its expertise and remit include: police reform; criminal justice systems (including prosecutorial and prison reform); general parliamentary processes; and political governance (including election processes or the structure and financing of political parties).

Through reforms in these areas the Bank expects to achieve:[10]

- More efficient use of public resources for development;
- Increased public resources and reduced market distortions;
- More effective government action;
- More accountable, efficient and effective government;
- Improved accountability;
- Greater confidence and security in the private sector and greater economic activity.

Table 1: World Bank Projects with Governance Components by Sector

Frequency aspects of governance are included in sectoral projects (2000-2005)	Anti-Corruption and Accountability	Civil Service Reform	Decentralisation	PFM, Tax and Administration	Legal and Judicial	Tax and Admin	Total
Policy reform programmes	20	57	23	104	33	32	269
Education	4	20	24	5	4	0	57
Water	0	9	23	2	5	0	39
Health	3	8	18	1	14	0	44
Trade and transport	8	16	10	6	1	2	43
Other infrastructure	1	6	8	6	17	0	38
Rural/ Agriculture	0	3	13	0	2	0	18
Land/Real Estate	3	7	2	0	20	0	32
Environment/ Disaster	1	8	13	0	11	0	33
Economic Mangt and Recovery	2	12	1	27	7	10	59
Judicial	0	2	1	0	13	0	16
Finance	2	3	2	5	17	2	31
Livelihoods/ Private sector	2	6	0	2	19	4	33
Governance/ public sector cap	15	42	23	67	29	15	191
Social investment Funds/ protection	1	5	3	1	3	2	15
E-development	1	2	1	1	1	0	6
Pensions/tax and admin/customs/fiscal sustainability	1	15	1	21	8	19	65
Other	1	6	9	10	8	4	38
Total	65	227	175	258	212	90	1027

[10] Taken from table 3, World Bank, 2000.

1.2a Anti Corruption[11]

Corruption is defined by the Bank as "the abuse of public office for private gain."[12] Although the Bank acknowledges that there is corruption in the private sector it focuses on the public sector "since the Bank lends primarily to governments and supports government policies, programs, and projects."[13] The bank has identified corruption as "the single greatest obstacle to economic and social development." Corruption undermines development by "distorting the rule of law and weakening the institutional foundation on which economic growth depends."[14] According to the Bank, the poor suffer most from corruption as a result of economic decline and poor public services and because they are least able to pay the costs associated with fraud, corruption and the misappropriation of economic privileges.

The Bank's formula for combating corruption is based on:

- **Increasing political accountability:** involving promotion of political competition, regulation of party funding, transparency, and rules and legal instruments (such as rules governing asset declaration, conflicts of interest, party financing);
- **Strengthening civil society participation:** encouraging freedom of information, public hearings of draft laws, and a role for media/NGOs;
- **Creating a competitive private sector:** through economic policy reform (such as deregulation of prices and other means of economic liberalisation), competitive restructuring of monopolies, reducing barriers to entry, adequate regulation, transparency in corporate governance, and business associations to represent collective interests;[15]
- **Institutional restraints on power:** such as an independent and effective judiciary, legislative oversight (parliamentary strengthening), anti-corruption legislation, independent prosecution enforcement, and audit organisations;
- **Improving public sector management:** establishing a merit-based civil service with monetised, adequate pay, transparency and accountability in budget management (coverage, treasury, procurement audit), transparency and accountability in tax and customs, policy reforms in sectoral service delivery (health, education, energy) and decentralisation with accountability.[16]

Not all these aspects of an anti-corruption agenda are actively supported by the Bank through its projects and programmes (see section 2 and Appendix 1). For example, reforms to strengthen parliamentary oversight and the promotion of political competition are not analytically and financially supported by the Bank, whereas rules governing asset declaration are. The selectivity shown by the Bank would seem to reflect the Bank's intention to steer clear of the more overtly political aspects of governance.

[11] The analysis in this section is taken from: www1.worldbank.org/publicsector/anticorrupt/index.cfm
[12] World Bank, 1997, Helping Countries Combat Corruption,
[13] World Bank, 1997, Helping Countries Combat Corruption,
[14] www1.worldbank.org/publicsector/anticorrupt/index.cfm
[15] These reform issues are usually addressed as an aspect of 'private sector development'.
[16] These reforms – civil service reform, public expenditure management, taxation reforms and sectoral policy reforms - are each important elements of a broad public sector governance strategy and are not specific to strategies to address corruption.

1.2b Civil Service Reform[17]

Civil Service Reform (CSR) typically refers to interventions that affect the organisation, employment conditions, and/or performance of employees supported by the central government budget.[18] The aim is to establish a well-functioning, well motivated and well rewarded civil service, which helps achieve good governance by fostering good policymaking, effective service delivery, and accountability for resource use.

Bank-supported civil service reforms aim to:

- **Correct fiscal imbalances:** including by downsizing the civil service and/or redeploying staff, conducting civil service censuses to eliminate ghost employees;
- **Adjusting civil servants pay and grading structures:** including provision of selective pay increases, reclassifying jobs, improving payroll management, and introducing human resource management information systems, providing training on human resource management;
- **Improve accountability and service delivery:** by providing management training, information technology and office equipment, introducing appraisal systems, introducing competitive performance improvement and challenge funds, restructuring and reengineering government departments, strengthening meritocracy, and strengthening user voice.

1.2c Decentralisation[19]

Decentralisation is a process through which authority and responsibility for public functions is transferred from the central government to local governments, quasi-independent government organisations or the (profit or non-profit) private sector. For example, the provision of health services might be decentralised to local government, or the provision of water services might be decentralised to a semi-independent water board.

Decentralisation's major contribution to good governance is thought to be its positive impact on service delivery. This is achieved through broader participation of local people or their elected representatives in local planning and decision-making processes, which should inform better and more relevant decision-making, improved government sensitivity to local conditions and needs due to government's closer proximity to the people, and improved capacity to deliver services to remote and rural areas.

Decentralisation can also improve governance by helping to remove bottlenecks (often caused by central government planning and control) and red-tape that delay decision-making; allowing greater political representation of diverse political, ethnic, religious, and cultural groups in decision-making; empowering local people to hold government decision-makers and service providers to account; relieving top managers in central ministries of "routine"

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[17] Analysis in this section is based on *Recent Trends in Lending for Civil Service Reform,* PREM notes no.71, July 2002: www1.worldbank.org/prem/PREMNotes/premnote71.pdf

[18] Central government employees excluded from such reforms include health personnel, primary and secondary teachers, and military personnel, although administrative staff in these sub-sectors are generally included. Employees paid from the budgets of subnational governments are also excluded. CSR can include interventions that affect SOE employees.

[19] http://www1.worldbank.org/publicsector/decentralization/what.htm

tasks to concentrate on policy; and it may also increase political stability and national unity by allowing citizens to better control public programs at the local level.

Types of decentralisation include:

- **Political decentralisation**: involves reform of the constitutional, legal and regulatory framework, the development of pluralistic political parties, the strengthening of legislatures, creation of local political units, and the encouragement of effective public interest groups and participation;
- **Administrative decentralisation**: seeks to redistribute authority, responsibility and financial resources for providing public services among different levels of government. It involves civil service reform, information gathering and monitoring, improving local technical and managerial capacity, and addressing accountability, transparency and corruption in decentralized governance;
- **Fiscal decentralisation**: deals with the issues of intergovernmental fiscal relations, such as, expenditure assignment, revenue assignment, intergovernmental transfers, and borrowing.

As with the Bank's anti-corruption agenda, the Bank's analysis of the various aspects of decentralisation is broader than the reform agenda it ultimately supports financially and analytically. For example, the Bank is largely concerned with administrative and fiscal decentralisation and only selected aspects of political decentralisation, such as, reform of legal and regulatory frameworks. Aspects such as the development of pluralistic political parties are not addressed by the Bank.

1.2d Legal Institutions and Judicial Reform[20]

The Bank considers a sound legal framework to be a prerequisite for economic growth and social development. Common legislative reforms are in the areas of bankruptcy law, banking law, tax laws, property rights laws, anti-corruption laws (including income and asset declaration laws and laws banning money laundering), corporate governance and freedom of information. Initially, legal projects involved rewriting old laws and/or drafting new ones, but over time there has been a shift in focus towards legal institution building and reforms to institutions which create and enforce laws.[21]

Bank-supported legal and judicial reform involves:

- **Reforming laws**: including amending a country's law to improve the business environment and improve investment, harmonising law for internal consistency, or harmonising domestic law with international conventions and treaties;
- **Reforming institutions**: focusing on legislatures and other law making bodies, the judiciary and courts (for example judicial independence, judicial councils and judicial reform), accountability institutions (such as courts, ombudsmen, administrative law), and legal professions (judges and court staff, professional education, lawyers);
- **Improving access to justice**: concerns alternative dispute resolution, right to court access, public interest litigation, reforming civil justice systems, small claims tribunals,

[20] Analysis for this section is based on: http://www1.worldbank.org/publicsector/legal/index.cfm
[21] Legislative reforms are also often required in projects that are not focused on legal reform per se, such as administrative reforms, infrastructure projects, environment, water and forests, and land titling, as well as gender equity and indigenous peoples.

legal empowerment, pro-bono work, subsidized legal services and citizen education programmes.

1.2e Public Financial Management[22]

According to the Bank, "Sound PFM [Public Financial Management] supports aggregate control, prioritization, accountability and efficiency in the management of public resources and delivery of services, which are critical to the achievement of public policy objectives". Thus it is concerned with aggregate fiscal discipline, allocation of resources in accordance with strategic priorities and efficient and effective use of resources in the implementation of strategic priorities. PFM is also "fundamental to the appropriate use and effectiveness of donor assistance since aid is increasingly provided through modalities that rely on well-functioning systems for budget development, execution and control."

The Bank's approach to PFM focuses on improving institutional arrangements and management practices to create incentives for better resource allocation, resource use and financial management. It focuses on developing:

- **Adequate linkages between policy making, planning and budgeting:** including the introduction of medium term expenditure frameworks(MTEFs), setting strategic priorities and linking these to the MTEF and budget, linking objectives to outcomes, strategies and budgets;
- **Well functioning accounting and financial management systems**: which involves improving governmental capacity to allocate and use resources efficiently and effectively;
- **Institutions for fiscal discipline:** including reform of the budgetary process, adoption of explicit fiscal targets, fiscal transparency;
- **Financial Management System and Control:** which involves the introduction of financial management information systems (FMIS) to control aggregate spending and the deficit, improve prioritization of expenditure for allocative efficiency and equity, and better use of budgeted resources**;**
- **Ensuring compliance (Monitoring and Evaluation):** ensuring government compliance by facilitating parliamentary and judicial oversight, audit, development of reporting frameworks, and development of internal procedures**.**

Typical PFM reforms supported by the Bank include: improving cash-flow management; making the budget comprehensive; strengthening audit, parliamentary scrutiny and accountability; debt management; capacity development; wider public administration reform; managing revenue consequences of capital spending; building public participation in budgeting and managing expectations; applying international standards.[23]

[22] The analysis in this section is based on: http://www1.worldbank.org/publicsector/pe/StrengthenedApproach/index.htm
[23] http://www1.worldbank.org/publicsector/pe/StrengthenedApproach/2Presentation1.ppt#4

1.2f Tax Policy and Administration[24]

The principle objectives of the Bank's tax policy and administrative reforms are revenue enhancement, strengthening administrative institutions, strengthening administrative capacity and enhancing taxpayer compliance. Reforms focus on:

- **Institutional framework of tax policy**: involves identifying who has responsibility for determining what taxes are levied, voice and partnership mechanisms, the role of the judiciary and legislature in shaping tax policy and international coordination of tax policy;
- **Tax structures**: including broadening the tax base, introducing value added taxes, elimination of exemptions, rate setting, the tax mix, coordination of taxes;
- **Institutional framework of tax administration**: deals with cultural, economic, social and legal institutions which aid or hinder tax administration effectiveness and focuses on issues such as taxpayer identification and installing computer systems;
- **Tax administration**: dealing with organisation, management, functions, and resources of tax administration.

1.3 Country Performance and Institutional Assessment (CPIA)

The first step to operationalise the Bank's governance agenda is the Country Performance and Institutional Assessment (CPIA), which is carried out for each country eligible to borrow from the International Development Association (IDA) and is used by the Bank to assess the state of a country's policy and institutional environment.[25] The CPIA analysis combined with the Bank's analysis of the Annual Review of Portfolio Performance (ARPP) – also carried out for each country - gives the IDA Country Performance (ICP) rating for a country. The ICP rating determines the amount of IDA assistance a country is eligible for, with those highest ranked countries receiving more IDA resources.

Out of the 16 criteria which constitute the CPIA, 5 are concerned with governance, which demonstrates how important these issues are to the Bank.[26] A sixth governance criterion concerned with public procurement is included in the ARPP analysis. All five CPIA criteria are concerned with public sector governance (as opposed to aspects of private sector governance), these are:

- **Transparency, Accountability, and Corruption in the Public Sector –** which concerns the accountability of the executive of oversight institutions and of public employees for their performance; access of civil society to information on public affairs; and state capture by narrow vested interests;
- **Property Rights and Rule-based Governance –** which concerns the legal basis for secure property and contract rights; predictability, transparency, and impartiality of laws affecting economic activity, and their application by the judiciary; difficulty in

[24] The analysis in this section is based on: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTPUBLICFINANCE/0,,contentMDK:20261127~menuPK:1747624~pagePK:148956~piPK:216618~theSitePK:1339564,00.html

[25] IDA is the concessional lending arm of the World Bank, from which only low-income countries are able to borrow. Finance is provided as loans or as grants with long maturity periods and minimal interest rates.

[26] For a detailed description of the elements of these criteria and how they are rated see: World Bank, Country Policy and Institutional Assessments, 2004 Assessment Questionnaire: http://siteresources.worldbank.org/IDA/Resources/CPIA2004questionnaire.pdf

obtaining business licenses; and crime and violence as an impediment to economic activity;

- **Quality of Public Administration –** which considers policy coordination and responsiveness; service delivery and operational efficiency; merit and ethics; pay adequacy and management of the wage bill;
- **Efficiency of Revenue Mobilisation –** which concerns tax policies and tax administration mechanisms;
- **Quality of Budgetary and Financial Management –** which demands a comprehensive and credible budget, linked to policy priorities, which in turn are linked to a poverty reduction strategy; effective financial management systems to ensure that incurred expenditures are consistent with the approved budget, that budgeted revenues are achieved, and that aggregate fiscal control is maintained; timely and accurate fiscal reporting, including timely and audited public accounts and effective arrangements for follow up; and clear and balanced assignment of expenditures and revenues to each level of government.

Not only do governance criteria comprise a large proportion of the criteria by which country performance is judged these criteria are also given extra weight in the calculation of the ICP rating: two-thirds of the overall ICP rating for each country is based on the scores for the 6 (5 CPIA plus 1 ARPP) governance criteria.[27] This demonstrates the centrality of the governance agenda to the Bank. Thus scoring well (or not) on governance policies and institutions can considerably affect a country's access to Bank resources. The implication is that (unless governments already have good governance mechanisms and institutions) developing country governments must commit to reforming governance institutions and structures and must implement reforms if they are to receive a substantial amount of IDA assistance. Thus it is little wonder that all programmes examined in this study devoted considerable attention to governance issues (see Part 2).

In addition to its criticality in determining IDA resource allocations, the CPIA assessment is also important to the extent that it is a means to help the Bank's staff discern governance problems and thereby identify necessary reforms and needs for supporting analytical work (for an overview of the Bank's governance-related analytical work see Annex 2). The analytical work is important since it forms the basis of the Bank's dialogue with a government when the government is formulating its poverty reduction strategy (PRS).

The CPIA criteria also provide a clearer picture of how the Bank defines 'good' governance, which can be gleaned from the guidance it gives its staff about how to score governments against the criteria (see Table 2). The Bank's image of good governance is important to understand because this is the goal towards which the Bank's various governance reforms are leading.

After the quality of the institutional environment has been assessed, reform measures and associated analytical work needs have been determined, and resources have been allocated, the next step is formulation and implementation of the actual reform project or programme. This is the point when the Bank's reform agenda becomes a reality. The next section assesses to what extent the Bank's broad public sector governance agenda is actually translated into action via conditionality.

[27] The ICP rating is calculated as 80% of the overall CPIA rating and 20% of the overall ARPP rating, multiplied by a 'governance factor', which gives an additional weight (1.5) to the governance criteria. This means that the ratings of the governance criteria determine 66% of the overall ICP rating.

Table 2: How to Score Well Against the CPIA Governance Criteria[28]

CPIA Criterion	What constitutes a high score
Transparency, accountability and corruption	Accountability for decisions is ensured through a strong public service ethic reinforced by audits, inspections, and adverse publicity for performance failures; the judiciary is impartial and independent of other branches of government; authorities monitor the prevalence of corruption and implement sanctions transparently; the reasons for decisions, and their results and costs, are clear and communicated to the general public; citizens can obtain government documents at nominal cost. both state-owned (if any) and private media are independent of government influence and fulfill critical oversight roles; conflict of interest and ethics rules for public servants are observed and enforced; top government officials are required to disclose income and assets, and are not immune from prosecution under the law for malfeasance.
Property rights and rules-based governance	Property rights are transparent and well protected; property registries are current and non-corrupt; contracts are routinely enforced; laws and regulations affecting businesses and individuals are uniformly applied and changes publicly announced; low-cost means are available for pursuing small claims; citizens can pursue claims against the state without fear of retaliation; business licenses are a relatively inexpensive; delays are rare and are not pretexts for bribes to operate a business; a well-functioning and accountable police force protects citizens and their property from crime and violence.
Quality of public administration	Effective coordination mechanisms ensure a high degree of policy consistency across departmental boundaries; organizational structures are along functional lines with very little duplication; business processes are regularly reviewed to ensure efficiency of decision making and implementation; hiring and promotion are based on merit and performance, and ethical standards prevail; the wage bill is sustainable and does not crowd out spending required for public services; pay and benefit levels do not deter talented people from entering the public sector; there is flexibility in paying more attractive wages in hard to fill positions (e.g. rural teachers, technical specialists).
Efficiency of revenue mobilisation	The bulk of revenues are generated by low-distortion taxes; import tariffs are low and relatively uniform, and export rebate or duty drawback are functional; a single statutory corporate tax rate comparable to the maximum personal income tax rate; tax base is broad and free of arbitrary exemptions; tax administration is effective, and entirely rule-based; administrative and compliance costs are low; a taxpayer service and information program, and an efficient and effective appeals mechanism, have been established.
Quality of budgetary and financial management	Policies and priorities focus on poverty reduction and are linked to the budget; the budget is formulated through systematic consultations with spending ministries and the legislature; the budget classification system is comprehensive; budget monitoring occurs throughout the year based on well functioning management information systems; the budget is implemented as planned, and actual expenditures deviate only slightly from planned levels; the public accounts are prepared on a timely basis and are audited and submitted to the legislature in a timely way, and appropriate action is taken on budget reports and audit findings; the assignment of revenues between different levels of government is clear and there is a good match of revenues and expenditures.

[28] Adapted from Powell, J., 2004, The World Bank Scorecard: The New Conditionality, Bretton Woods Project, London: www.brettonwoodsproject.org/article.shtml?cmd[126]=x-126-84455 and

Part 2: Governance Conditionality in PRSC Programmes

The following analysis of public sector governance conditions demanded by the Bank is based on an examination of two annual Poverty Reduction Support Credit (PRSC) programmes in each of 10 countries[29]: Ethiopia, Ghana, Mozambique, Rwanda, Sierra Leone, Tanzania, Uganda, Vietnam, Honduras and Nicaragua. In each country, the analysis examines the current programme under implementation and the proposed (ie provisional) subsequent programme.

The analysis is complicated by the lack of uniform format in the PRSC matrices. This should be welcomed to the extent that it reflects that PRSC matrices are aligned with governments' PRS matrices. However, the lack of uniformity means that the same type of reforms can fall into different areas (often identified as 'pillars') of the policy matrix from PRSC to PRSC. This is particularly the case with policies concerned with the macro-economy. For example, conditions to align budget allocations with an MTEF or to improve debt management or to improve tax policy and revenue generation might fall into the broad area of 'Public Financial Management' or they might be included as an aspect of 'Macroeconomic Stability' or 'Economic Growth and Poverty Reduction'.[30]

Also excluded from this analysis are all reforms that come within the realm of public sector governance but which concern the enhancement of the private sector (principally those in the area of 'Property Rights and Rules-Based Governance – see Table 2), as these tend to fall under areas of PRSCs that address 'Economic Growth and Poverty Reduction' or 'Private Sector Development'. Moreover, the analysis does not include those governance reforms that are considered to be aspects of sector reforms, such as reforms to the education or water sectors.

The implication is that there appears to be no coherent view of what constitutes a Public Sector Governance reform, which to a large extent reflects that it is hard to tease apart governance reforms from policy reforms, and the cross-sectoral nature of governance reforms (see Part 3). The analysis of Bank governance conditions presented here does not try to precisely define what is or is not a public sector governance condition and apply this standard to all the PRSCs examined. Instead, this analysis includes only those reforms that are explicitly identified in each country's PRSC matrix as public sector or good governance reforms. The implication is that the lack of consistency in the PRSC matrices is also reflected in this analysis.[31]

As a result of the lack of clarity and inconsistency as to what determines a public sector governance reform from a policy reform, it should be borne in mind that there is considerably

[29] The programmes for Mozambique and Nicaragua are semi-annual programmes. Only one full programme and the trigger conditions for the proceeding programme are examined for Sierra Leone which has a grant-financed Economic Recovery and Rehabilitation (ERR) programme.

[30] In the first tranche of Mozambique's PRSC2 prior actions requiring the government to allocate a specific proportion of the budget to PRS priorities, to implement an integrated financial management information system and to approve a procurement decree were all specified as 'macroeconomic and financial policies' rather than 'good governance, legality and justice' reforms.

[31] In the case of Tanzania's PRSC programmes no one single area is broadly defined as 'public sector reform' or 'good governance'. Thus this analysis has assumed that areas of the PRSC that deal with 'improving effectiveness of delivery of public services and overall incentive environment', 'improved performance of the public sector', and 'minimize resource leakage and strengthen accountability' are all aspects of 'good governance'.

more public sector governance conditionality in PRSC programmes than is reflected in this analysis. The figures presented here regarding the volume of public sector governance conditions should be regarded as the absolute minimum in each programme.

2.1 The Breadth and Depth of Governance Conditionality

The centrality of public sector governance in the Bank's lending programmes is not only visible in the volume of money linked to public sector governance reforms but also in the amount of public sector governance conditions applied to PRSC programmes (see Table 3).

Table 3: Public Sector Governance Conditionality as a Proportion of Total Conditionality in PRSCs

Country	Total No. PAs*	Total No. BMs**	No. Governance PAs	No. Governance BMs	Gov PAs as % of total PAs	Gov BMs as % of total BMs
Ethiopia PRSC1	14	14	6	8	43%	57%
Ethiopia PRSC2	10	38	4	16	40%	42%
Ghana PRSC3	19	35	11	12	58%	34%
Ghana PRSC4	8	49	4	15	50%	31%
Mozambique PRSC2 1st tranche	5	44	0	16	0%	36%
Mozambique PRSC2 2nd Tranche	6	45	2	15	33%	33%
Rwanda PRSC1	10	69	8	19	80%	28%
Rwanda PRSC2	13	79	8	23	62%	29%
Sierra Leone ERRG4	8	21	5	11	63%	52%
Sierra Leone ERRG5	10	NA	5	NA	50%	NA
Tanzania PRSC3	9	66	5	38	56%	58%
Tanzania PRSC4	11	66	7	34	64%	65%
Uganda PRSC4	8	45	4	15	50%	42%
Uganda PRSC5	11	51	6	21	55%	41%
Vietnam PRSC4	15	29	6	8	40%	28%
Vietnam PRSC5	15	41	5	11	33%	27%
Honduras PRSC1	20	50	6	12	30%	24%
Honduras PRSC2	15	65	5	19	33%	29%
Nicaragua PRSC1 1st tranche	10	27	4	8	40%	30%
Nicaragua PRSC1 2nd tranche	15	50	0	21	0%	42%
Total	232	884	101	326	44%	37%

***** PA = Prior Action; **BM = Benchmark

In the sample of 20 PRSC programmes examined, a total of 427 public sector governance conditions (that is prior action plus benchmarks) were imposed: this amounts to 38% of total conditionality in these PRSCs. Public sector governance prior actions amounted to 44% of all prior actions and public sector governance benchmarks amounted to 37% of all benchmarks. The average number of governance prior actions per PRSC programme is 5 and the average number of governance benchmarks is 16. However these averages mask significant variations between programmes. For example, Ghana's PRSC3 has 11 public sector governance prior actions whilst Mozambique's PRSC1 first tranche and Nicaragua's PRSC1 second tranche both have none. Likewise, the number of public sector governance benchmarks in Tanzania's

PRSC 3 programme is 38, compared to as few as 8 governance benchmarks in Vietnam's PRSC4 programme.

In the broad context of the debate on the usefulness of conditionality for leveraging reforms and the capacity of low-income country governments to implement long lists of reforms, this analysis demonstrates that there is a significant amount of conditionality being applied to some PRSC programmes and that there is considerable variation in the number of conditions applied from country to country and from one programme to the next.[32] Some programmes contain up to 20 prior actions and others more than 60 benchmark conditions.

This raises the question of how consistent and parsimonious the Bank's staff is able to be in its application of conditionality. It is hard to see any pattern in the application of conditionality from one country to the next. For example, it does not appear to be the case that better reformers or those with better institutional environments have less conditionality and those with worse more, since Tanzania's and Uganda's programmes have more conditionality than Sierra Leone's.

Furthermore, it raises the question of whether some of the staff have a tendency to micromanage the reform process. In some cases it would seem that micromanagement could be an issue. For example, a prior action in Sierra Leone's Fourth Economic Recovery and Rehabilitation Programme (ERRP) to advertise the position of Account General seems to be overly detailed, as does a requirement that Tanzania should carry out a trial run of the Integrated Financial Management System disaster recovery system (see Appendix 1).

2.1a Prior Actions

Just under one-quarter of all public sector governance conditionality was imposed as prior actions. In absolute terms, the largest numbers of prior actions are imposed in the areas of 'Public Financial Management (PFM), Tax and Tax Administration and E-Governance' and 'Legal and Judicial Reform, which accounted for 36% and 25% of all prior actions respectively (see Table 4a).

Table 4a: Distribution of Prior Actions per Topic

Country	Accountability/Anti-Corruption	Civil Service Reform	Decentralisation	PFM, tax and tax admin, e-government	Legal and Judicial	M&E and public participation	Total
Ethiopia PRSC1			2	2	1	1	6
Ethiopia PRSC2	1		1	1	1		4
Ghana PRSC3		7		3		1	11
Ghana PRSC4				2	2		4
Mozambique PRSC2 part 1							0
Mozambique PRSC2 part 2	1					1	2
Rwanda PRSC1	1			2	3	2	8
Rwanda PRSC2	2			2	2	2	8
Sierra Leone			1	3	1		5

[32] For an analysis of the number of conditions imposed in PRSC programmes see Wood, 2005, The World Bank's Poverty Reduction Support Credit: Continuity or Change? Debt and Development Coalition, Dublin: http://www.debtireland.org/resources/index.htm

ERRG4							
Sierra Leone ERRG5			1	3	1		5
Tanzania PRSC3		1	1	3			5
Tanzania PRSC4	1	2		4			7
Uganda PRSC4	1	2		1			4
Uganda PRSC5	2	1		1	2		6
Vietnam PRSC4	1			2	1	2	6
Vietnam PRSC5		1		2	1	1	5
Honduras PRSC1				1	5	0	6
Honduras PRSC2		1		2	2	0	5
Nicaragua PRSC1 part 1				2	2		4
Nicaragua PRSC part 2							0
Total number	10 (10%)	15 (15%)	6 (6%)	36 (36%)	25 (25%)	9 (9%)	101 (100%)

PFM prior actions are mostly concerned with ensuring consistency between the Poverty Reduction Strategy (PRS), Medium Term Expenditure Framework (MTEF) and the budget; improving procurement; and increasing the proportion of the budget allocated to poverty reduction and recurrent expenditures (wage and non-wage). All legal prior actions relate to, and facilitate, governance reforms in other areas: none are concerned with judicial improvements (see Appendix 1). Although 'Civil Service Reform' prior actions only account for 15% of all prior actions, it is interesting to note that the majority of these are focussed on aspects of wage policy and human resource management (see Table 5a in Appendix 1).

2.1b Benchmarks

The largest number of public sector governance benchmarks - 35% of all public sector governance benchmarks – was applied in the area of 'PFM, Tax and Tax Administration and E-Governance' (see Table 4b). In total 35% of all public sector governance conditionality (prior actions and benchmarks) was applied in this area. Although this figure considerably understates the actual volume of reforms in this area since, as previously mentioned, many PFM, Tax related, and E-Governance reforms are included in PRSC programmes as 'Macroeconomic' reforms rather than 'Good Governance' reforms.[33]

'Accountability and Anti-Corruption' conditionality is also significant with 23% of benchmarks applied in this area. However, the proportion of benchmarks applied in the area of 'Legal and Judicial Reform' is low compared to the proportion of prior actions applied to

[33] For example, see Mozambique's PRSC2 matrix (pp52-63): http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/08/18/000160016_20050818090736/Rendered/PDF/32890a.pdf; Tanzania's PRSC3 matrix (pp83-86): http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/08/18/000090341_20050818111010/Rendered/PDF/33166.pdf; and Uganda's PRSC4 matrix (pp72-73): http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2004/08/16/000160016_20040816095739/Rendered/PDF/292870UG.pdf

this area, which would seem to highlight the importance of legal reforms as a foundation to support the governance reform process in general.

Table 4b: Distribution of Benchmarks per Topic

Country	Accountability/ Anti-Corruption	Civil Service Reform	Decentralisation	PFM, tax and tax admin, e-government	Legal and Judicial	M&E and public participation	Total
Ethiopia PRSC1	2	1	1	4			8
Ethiopia PRSC2	3	1	2	7	2	1	16
Ghana PRSC3	7		2	1		2	12
Ghana PRSC4	3	6	5	4	1	4	23
Mozambique PRSC2 part 1	5	1	3	4	6	1	20
Mozambique PRSC2 part 2	5	1	4	7	7	1	25
Rwanda PRSC1	3		1	5	1	9	19
Rwanda PRSC2	3		2	9		9	23
Sierra Leone ERRG4	4	1	1	4	1		11
Tanzania PRSC3	10	5	2	22	5	4	48
Tanzania PRSC4	10	5	1	19	3	3	41
Uganda PRSC4	5	5	1	6	4	4	25
Uganda PRSC5	6	3	3	10	2	4	28
Vietnam PRSC4	2	1	1	2	1	1	8
Vietnam PRSC5	1		1	5	3	1	11
Honduras PRSC1	3	1		6	2	4	16
Honduras PRSC2	4			12	3	3	22
Nicaragua PRSC1 part 1			1	4		3	8
Nicaragua PRSC part 2	2		1	10	5	3	21
Total number	78 (20%)	31 (8%)	32 (8%)	141 (37%)	46 (12%)	57 (15%)	385 (100%)

Whilst some areas of the public sector governance agenda are given greater emphasis in PRSC programmes, overall, conditions in PRSCs reflect a significant part of the Bank's public sector governance agenda (see Appendix 1). However, there are one or two gaps. For example,

- There is little attention to taxation and tax administration reforms (only the programmes for Mozambique, Rwanda and Tanzania mention taxation reforms);[34]
- Decentralisation reforms are not hugely significant and their focus is limited;
- Legal and judicial reforms are numerous but they are mostly concerned with legal reforms and not judicial reforms (only the programmes for Mozambique, Uganda and Vietnam include judicial reforms);
- The majority of civil service reforms are focussed on pay reforms and personnel management rather than operational reforms;
- There is little attention to transparency regarding government decision-making, public access to documents (other than PRSs), and facilitation of a free and independent media.

In some of these areas it is likely that the outstanding reform agenda is picked up in governance or sector projects (see Table 1). For example, decentralisation, Civil Service Reform and Legal and Judicial Reform are also addressed in health, education, water, agricultural and infrastructure projects as well as governance projects. However, the lack of attention to taxation reforms in PRSCs is not explained by a significant number of projects focussed on taxation reform. This might reflect that reforms in this area are already well advanced or that this area is the prerogative of the IMF. Neither does there appear to be any focus on transparency and the role of the media in projects to account for the lack of attention to these in PRSCs.

On the other hand, the inclusion of Monitoring and Evaluation (M&E) conditionality is additional to the Bank's governance agenda.[35] Although, M&E has not formally been incorporated into the Bank's public sector governance agenda it would seem to fit naturally within it. However, as with certain PFM and tax reforms, there is no coherent line within PRSCs as to whether M&E is indeed an aspect of public sector governance or not. The PRSC programmes in Ethiopia, Ghana, Mozambique, Rwanda, Tanzania, Uganda, Vietnam, Honduras and Nicaragua all contain conditionality relating to M&E. However, some PRSCs include it within the area of public sector reform (Ethiopia, Ghana, Rwanda, Uganda, and Nicaragua) whilst others address it as a separate reform area within the PRSC matrix (Mozambique, Tanzania, Vietnam, and Honduras).[36]

Since M&E can facilitate coherent policy making and improved PFM, particularly expenditure tracking, and is also a means of accountability, it seems intuitively correct that it should be an aspect of public sector governance.[37] At present, the Bank tends to consider M&E in relation to poverty reduction due to linkages with PRS processes and the Millennium Development Goals (MDGs).

[34] Taxation and tax administration reforms are included with PFM in tables 5 and 6 in Annex 1.
[35] In this analysis M&E has been included with Public Participation, see tables 3, 4a, 4b and Annex 1.
[36] The only programme that contains no conditionality relating to M&E or participation is Sierra Leone's. This is also the only programme which is not a PRSC. PRSC loans are directly tied into PRS implementation in which poverty goals and participation are important elements.
[37] Honduras' PRSC 1 and 2 identifies M&E as a separate element to governance and poverty reduction.

Part 3: Issues to Consider

At first sight, the Bank's public sector governance agenda looks quite benign. Few people are likely to argue that measures which could enhance decision-making or budget management and transparency are contentious. Nor are most people averse to steps being taken to prevent corruption. However, as always the devil is in the detail. If one digs a little bit under the surface, one soon reveals the Bank's neo-liberal paradigm lurking there. This raises questions about the distinction between 'good' governance and 'good' policy, and how politically neutral the Bank is and can be. There also appears to be a certain amount of tension between various aspects of the Bank's public sector governance agenda and the extent to which it facilitates poverty reduction. Moreover, it is questionable whether conditionality which is negotiated amongst a select few and in some cases imposed is a tool which can positively promote good governance.

3.1 Too Much Conditionality and Too Much Governance?[38]

It can be seen from Table 3 that a large proportion of the Bank's conditionality and therefore reform effort is governance-focussed. Two issues are of concern. The first is that there is simply too much governance conditionality which is not prioritised in terms of appropriate sequencing and impacts on poverty reduction. The implication is that the governance agenda is unmanageable given the limited capacity of many developing countries. The second is that much of the governance agenda need not necessarily have any positive impact on poverty reduction or at least is not essential for achieving it, and thus limited capacity and resources are potentially being misdirected; diverting attention and resources away from reforms that could have a considerably greater poverty impact.

With regard to the first concern, Merilee Grindle (2004) argues that the good governance agenda is 'unrealistically long' and that there is 'little guidance about what's essential and what's not, what should come first and what should follow, what can be achieved in the short term and what can only be achieved in the longer term, what is feasible and what is not."[39] Thus she calls for ""good enough governance," that is, a condition of minimally acceptable government performance and civil society engagement that does not significantly hinder economic and political development and that permits poverty reduction initiatives to go forward."[40] The implication is that the governance agenda should be refocussed and scaled back to what is realistic and manageable.

Analysis regarding the effectiveness of conditionality suggests that more conditionality does not generate better reform outcomes. Indeed, too much conditionality can obscure which reforms are most essential to take, which supports Grindle's call for a more limited governance reform agenda. However, the long list of governance conditions in PRSC programmes suggests that the Bank is not able to be parsimonious in its application of governance conditions.[41]

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[38] This section draws on Grindle, M. S., 2004, Good Enough Governance: Poverty Reduction and Reform in Developing Countries, *Governance: An International Journal of Policy, Administration, and Institutions*, Vol. 17, No. 4, Blackwell Publishing: http://www.blackwell-synergy.com/doi/abs/10.1111/j.0952-1895.2004.00256.x
[39] Grindle, M. S., 2004, p526.
[40] Grindle, M. S., 2004, p256.
[41] Wood, A., 2005, Current Topics on Conditionality, A Literature Review by Angela Wood, A CIDSE-Caritas International Background Paper, Brussels: http://www.cidse.org/docs/200510141055439629.pdf

With regard to the second concern, although some economists, including some within the Bank, would argue that good governance and good institutions are a prerequisite for development and therefore poverty reduction, an examination of history does not bear this out. In the industrialised countries, good governance appears to have been a consequence of development, thus it is possible to introduce institutional development in the wake of economic reform rather than it being a necessary pre-condition for economic development.

Moreover, not all governance reforms can be assumed to facilitate poverty reduction. They might do if other supporting governance reforms are in place but they need not if supporting reforms are absent. For example, improving the functioning of the civil service may improve efficiency of resource use and deter corruption but it need not improve the allocation of resources and services in favour of the poor. To actually improve the pro-poor allocation of services may also require greater political mobilisation of the poor themselves. Likewise, decentralisation may remove decision-making bottlenecks and accountability but it need not improve the provision and access of the poor to services, and could lead to greater inequality between regions and social groups.

Although governance reforms may have legitimate benefits, the implication is that maybe too much attention is being given to governance with little to show in terms of its impact on poverty reduction goals. Grindle argues that what is needed is more analysis to determine which types of governance reforms are particularly pertinent to poverty reduction and to prioritise these. Whilst empirical analysis is needed, interestingly, Grindle suggests that perhaps ‘political’ governance reforms maybe necessary as a prerequisite for ensuring a positive poverty reduction impact from more ‘economic’ governance reforms: “For example, the mobilization of the poor into political interest groups, unions, and non-governmental organisations (NGOs) may be a condition under which judicial reform, civil service reform, decentralization, and other kinds of changes are most likely to have a significant impact on poverty or on the poor.”[42] Moreover, maybe the focus on governance is diverting attention away from economic reforms that may have a greater impact on the poor, for example, provision of rural infrastructure, agricultural extension services, food security and sustainable livelihoods.

3.2 Good Governance is Good Neo-liberalism

There are variations from PRSC to PRSC regarding the specific content of governance conditions, and the Bank is keen to assert that there is no one-size-fits-all approach to institutional reform, no ‘best practices’, and that institutions must be appropriate to each country’s context. However, it is not hard to see the similarity between the reform agendas in each programme (see Appendix 1). Particular legislative changes, accountability mechanisms, budget processes and civil service reforms are common to each programme. Whilst the Bank might be flexible about institutional design, it has made no bones about setting out very specific aims for governance reform, which are clearly elaborated in its CPIA criteria, and to which all borrowing governments are expected to conform. The means can be varied but the goals have been set.

[42] Grindle, M. S., 2004, p535.

This should not come as a surprise given that the Bank's governance agenda has built on its neo-liberal policy agenda.[43] Kavaljit Singh (2003) argues that, "Any analysis of good governance would remain incomplete without acknowledging the prominent role of the neo-liberal economic policy package, known in popular parlance as the Washington Consensus. It is no coincidence that the concept of good governance gained currency when market-oriented structural adjustment programs pushed by the IFIs in the poor and the developing world were increasingly coming under public scrutiny and criticism. In fact, good governance agenda is deeply embedded in the neo-liberal Washington Consensus."[44]

As Singh alludes, the Bank's growing attention to institutions and good governance reflects the lack of progress made in terms of raising growth, reducing poverty and stemming rising inequality. Rather than reassess its neo-liberal policy formulation the Bank blamed the lack of progress in these key objectives on poor policy implementation and thus weak governance. The implication was that neo-liberal policies needed to be augmented with good institutions. Some within (and outside) the Bank have even gone so far as to regard institutional reform as a prerequisite for growth, development and poverty reduction.[45]

Thus, the Bank's institutional agenda has been formulated to supplement and enhance the implementation and effectiveness of its neo-liberal agenda: "However, while the governance agenda amends the dominant neo-liberal economic policy model, it does not repudiate it. Market reform thus remains a precondition for institutional reform (Williamson 1999; Naím 2000). The IFIs tend to view sustaining economic reform and anchoring the market logic as the ultimate objective of governance and institutional reform."[46] Singh (2003) concurs: "governance reforms, as promoted by these institutions, are actually oriented towards strengthening market reforms instead of genuine democratization and attainment of human rights. Consequently, promotion of good governance has become an integral part of the emergent global economic order."[47]

The linkage between the Bank's governance and neo-liberal agenda is also explicit in the Bank's aid effectiveness work, particularly "Assessing Aid: What Works, What Doesn't and Why", and in the Bank's 2002 World Development Report, entitled "Building Institutions for Markets", as demonstrated by the following quotes:[48]

"The development strategy emerging from this view is two-pronged – put in place growth-enhancing, market-oriented policies (stable macroeconomic environment, effective law and order, trade liberalization, and so on) and ensure the provision of important public services that cannot be well and equitably supplied by private markets (infrastructure services and education, for instance). Developing countries with sound policies and high-quality public

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[43] The Bank's neo-liberal policy reform agenda has focused on liberalization of trade, capital and prices; revaluing and unifying exchange rates; removing market distortions such as high taxes; privatization; reducing the size and refocusing the role of the state; fiscal discipline; and reordering government expenditure priorities.
[44] Singh, K., 2003, Aid and Good Governance, A Discussion Paper for The Reality of Aid, Public Interest Research Group, India, p10.
[45] Grindle, M. S., 2004, Good Enough Governance: Poverty Reduction and Reform in Developing Countries, *Governance: An International Journal of Policy, Administration and Institutions*, Vol. 17, No. 4, pp525-548.
[46] Santiso, C., 2002, Good Governance and Aid Effectiveness: The World Bank and Conditionality, John Hopkins University, p16: http://www.eldis.org/fulltext/conditionality.pdf
[47] Singh, K., 2003, p11.
[48] See Pritchet L. and Dollar, D., 1999, Assessing Aid, What Works, What Doesn't and Why, World Bank: http://wdsbeta.worldbank.org/external/default/WDSContentServer/IW3P/IB/2000/02/23/000094946_99030406212262/Rendered/PDF/multi_page.pdf ; and World Bank Development Report 2002, Building Institutions for Markets: http://www.worldbank.org/wdr/2001/

institutions have grown much faster than those without - 2.7 percent per capita compared with -0.5 percent per capita (box 3)."[49]

"Market-supporting institutions do much to promote growth and reduce poverty (box 1). This Report builds on past Reports, especially *World Development Report 2000/2001*, which called attention to how market activity is central in promoting growth and providing opportunity for poor people. This year's Report focuses on what institutions do to promote market development that provides benefits for all—inclusive and integrated markets—markets that provide equal opportunity, that reduce risk, and that enable investment in higher-return activities."[50]

Give the interconnectedness of the Bank's policy and governance agendas it is not surprising that the Bank has such difficulty in teasing the two apart. As mentioned in the previous section, a close examination of the Bank's PRSC matrices reveals that some of the features of 'good' public sector governance are also considered 'good' macroeconomic policy and 'good' private sector development. This particularly concerns budget management policies, taxation policies[51], and the Bank's anti-corruption agenda which supports private enterprise, privatisation and public-private partnerships.[52]

Whilst in practice it makes little difference how such policies are classified, it does underline the Bank's difficulty in making a distinction between 'good decision-making' and the Bank's formulation of 'good policy'. The question this raises is whether or not the Bank can conceptualise good governance separately from its policy agenda. For example, could the Bank conceive of good budget management that did not imply maintaining a very low budget deficit?

3.3 Is the Bank's Formulation of Good Governance Inconsistent?

There has also been heated debate about the consistency of the various elements of the Bank's governance agenda, particularly between its emphasis on efficient and effective provision of public services, a lean but well rewarded civil service and wage budget caps to limit budget

[49] Pritchet L. and Dollar, D., 1999, Assessing Aid, What Works, What Doesn't and Why, World Bank: http://wdsbeta.worldbank.org/external/default/WDSContentServer/IW3P/IB/2000/02/23/000094946_99030406212262/Rendered/PDF/multi_page.pdf

[50] World Bank Development Report 2002, Building Institutions for Markets (p4): http://www.worldbank.org/wdr/2001/

[51] The Bank's characterisation of a good taxation system, as outlined in the CPIA criteria (Table 2) places at least as much emphasis on adopting 'non-distorting', business-friendly (ie low, with minimal tax bands) taxes and tariffs as on the efficiency of the mechanisms for collecting taxes and determining who has authority for setting tax policies and rates and collecting taxes. Moreover, taxation is one of many aspects of Bank-advocated policy where there is considerable debate as to what is 'good' policy. For example, whilst the CPIA scores countries on the basis of low tariff levels, it is being argued in the World Trade Organisation that a Special Safeguard Mechanism for Less Developed Countries should include the right to raise tariff levels when import surges of low-priced food products threaten to disrupt food production and in the long-term, food security. *(ref – to recent Trocaire doc to be inserted)*

[52] The premise for the Bank's anti-corruption strategy is that the market is better at self-regulating than government thus there is less opportunity for corruption in the private sector. The implication is that state owned industries should be privatised, public services should be contracted out to private providers, markets and prices should be deregulated, the state should have a limited role focussed on policy formulation and market regulation and the civil service should be minimised. To facilitate such reforms and to provide an environment for effective self-regulation in the market private property rights should be recognised and contracts enforced by a competent and accessible legal system, and entry and exit of businesses should be swift and painless.

deficits and free-up some recurrent expenditure for operational and maintenance costs, all of which are aspects of good governance according to the Bank. Whilst a lean but well rewarded civil service and wage budget caps can be consistent the problem occurs when efficient and effective service provision is brought into the equation. On the one hand, the Bank's CPIA governance criteria reward governments who are able to pay higher wages to rural health and education professionals, whilst on the other, wage caps limit such a policy (for example in Vietnam, where a wage cap is demanded as a prior action), and more importantly limit how many teachers and health staff can be employed. Yet these key poverty reducing sectors are massively labour intensive.

In the case of Zambia, it has been suggested that wage caps are a means to encourage the government to restructure the civil service.[53] The International Financial Institutions' 'logic' suggests that given a wage spending constraint a government practicing good governance should be encouraged to redeploy staff to where they are most needed ie the priority sectors of education and health which are labour intensive and poverty reducing. However, in reality wages caps have not provided sufficient incentive to do so, as experience in Zambia has borne out. This is largely because civil service restructuring is a very political issue and more is needed to give incentive to a government to tackle such issues than a wage cap Thus the question arises as to whether such conditions are useful for motivating reform or whether they in fact result in perverse outcomes ie no civil service reform and insufficient personnel in key sectors.

3.4 Blurring the Political and Economic Boundary

On the whole the Bank, in the application of its conditionality, has stayed away from political aspects of governance. However, the distinction between the two is not always that clear and there are grey areas; one of which is the promotion of civil society participation. In the Bank's analysis civil society has a role to play in overseeing the government thereby helping to limit corruption and enforce accountability, and also in engaging with planning processes to improve decision-making. However, participation in planning and budgeting processes and monitoring clearly also has a political dimension to the extent that it demands a vibrant civil society, empowers local people and impacts on the allocation of government resources. Thus despite economic justifications, the Bank is not always able to remain politically neutral.

Although many NGOs may welcome the Bank's attention to civil society participation, even if this is mostly limited to monitoring of the government, out of the programmes considered by this paper there is one example of a civil society-related reform in Uganda's PRSC 4 and 5 programmes which seems distinctly political and appears to have little economic justification. The benchmark conditions call for the development of, and agreement on, an NGO policy "that provides a favourable environment for NGO operations". Whilst the emphasis is on a "favourable environment" it is doubtful whether the Bank should be the judge of what this is. Furthermore, the draft policy drawn up by the Ugandan government if implemented would be more restrictive of NGOs than is currently the case.[54] A number of bilateral donors have indicated to the government that the new draft policy is not acceptable and have encouraged

[53] Wood, A., 2005, *'Back to Square One', IMF Wage Freeze Leaves Zambian Teachers Out in the Cold. Again,* Global Campaign for Education: http://www.vso.org.uk/images/back_to_square_one_tcm8-4743.pdf
[54] It is not clear whether this was the Bank's intention or not, or whether the government has taken the opportunity of the Bank's conditionality to draft stricter, although perhaps clearer regulations.

the Bank not to press the government on this benchmark out of concern that a more restrictive policy than is currently in place would be adopted.

Whilst many NGOs might be in favour of the Bank promoting civil society participation the down-side is that it could give (and probably would give) the Bank more leverage to interfere in domestic political aspects such as setting rules and regulations for NGOs. Moreover, where does participation stop? If good policy-making requires civil society input shouldn't it also require parliamentary input? Thus why should the Bank stop short at promoting legislative reforms?

Although some critics are concerned that the Bank should not be encouraged to expand its role further, for others the fact that the Bank has stuck to a limited and rather arbitrary 'economic' governance agenda is controversial. Talking about governance but failing to grapple with key issues of democracy, power relations, distribution of resources and human rights is considered by some to be missing the point. They argue that governance should be and is political and that narrow technocratic reforms are not likely to be sufficient to achieve good governance if it is more broadly defined. Furthermore, why focus largely on issues of public sector governance without paying greater attention to issues of corporate governance, governance of transnational corporations and international capital.[55]

From another perspective, although it appears that the Bank has stayed more or less firmly on the side of economic governance, and it can give reasonable economic justifications for its proposed reforms, the fact that its reforms support a neo-liberal, market-oriented agenda is in itself political. This implies that it is nonsense for the Bank to argue that it is apolitical.

Given that the Bank can't actually avoid being political, this raises the questions of whether or not the Bank should actually engage with a more political governance agenda, and whether it has the capacity or will to tackle governance issues that span borders. Currently the former issues are being addressed by bilateral donors and other multilateral institutions such as the United Nations Development Programme, and the G8 whose previous attention to issues of global economic governance has been supplanted by the currently more pressing anti-terrorist agenda. However, given the tight tie-in between its governance agenda and its neo-liberal ideals it cannot be assumed that the Bank would be able to promote deeper political reforms free of its own normative judgements

3.5 Bank Ownership or Government Ownership?

The Bank's conditions concerning the allocation of budget resources are biased towards the Bank's priorities. Admittedly for many NGOs the bias of linking government budgets to priority poverty reduction sectors will be regarded positively, particularly given the failure of many southern governments to address the needs of millions of poverty-stricken citizens. For example, several programmes include conditions that demand that budgets are consistent with the PRS, that a larger proportion of the budget is allocated to pro-poor sectors, or that a larger proportion of recurrent expenditure is allocated to non-wage expenditures.

Whilst it clearly is efficient to link budget allocations to national strategies and the priorities identified in them, by specifying that budgets should be linked to poverty-reduction priorities

[55] Singh, K., 2003, Aid and Good Governance, A Discussion Paper for The Reality of Aid, Public Interest Research Group, India.

the Bank is effectively making a political statement. A neutral condition would be that budgets should be linked to national priorities without emphasising what these should be. What these conditions reflect is that the donors who provide budget support want to have some sort of assurance that a certain proportion of their money will be channelled into those areas they want to support. Thus these conditions are about ensuring 'donor-ship'. By implication, the Bank is less concerned whether other aspects of a government's development strategy are budget-consistent. The broad question is, given the political implications, should donors have the right to put conditions on how a government allocates its budget resources?

3.6 Is Conditionality An Effective Way to Encourage Good Governance?

Despite the raging debate about the effectiveness of conditionality as a means to induce reform, the inclusion of governance conditionality in Bank programmes has been on the increase.[56] This would seem to be inconsistent with recent analysis which suggests that whilst conditionality can be effective for propelling governments to undertake easily administered stroke-of-the-pen reforms, or for 'tipping the balance' in favour of reformers when support for reform is roughly evenly split, it is far less effective for persuading governments to undertake much more complicated, long-term and potentially political governance reforms.[57]

If the governance agenda is really vital it would seem more appropriate to pursue governance reforms using a different approach. For example, Tony Killick's work on the failure of conditionality and on partnership frameworks in countries such as Rwanda, Mozambique and Tanzania strongly suggests that a partnership that offers mutual benefits is a better way of influencing governments.[58]

Beyond arguments about the efficacy of conditionality for inducing reform, it seems totally contradictory that the Bank should negotiate governance reforms with a government without requiring participation of civil society and debate amongst parliamentarians about the proposed conditions. By agreeing reform plans in secret with governments the Bank would seem to be undermining good governance rather than promoting it: "there are several instances where externally enforced economic and political reforms through the instrumentality of conditional aid have seriously undermined the domestic democratic processes in the borrowing countries."[59]

Specifying governance reforms as prior actions would seem to particularly undermine good governance. A significant proportion of governance prior actions are legal reforms which provide a legal basis for other governance reforms, such as, legislation to support decentralisation, anti-corruption, budget accountability and civil service reform. Whilst on the surface such reforms appear innocuous they not only facilitate a particular reform but they 'lock it in' too, since once legislation has been changed it is difficult to reverse.

The problem is that because prior actions must be implemented in order for a government to access the associated Bank finance it means that it is very difficult for a parliament to

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[56] Kapur, D., and R. Webb, 2000, *Governance-Related Conditionalities of the International Financial Institutions*, UNCTAD, G-24 Discussion Paper Series 6, UNCTAD, New York and Geneva.
[57] Santiso, C., 2002.
[58] Statement at Trócaire seminar on Governance, Accountability and Aid Effectiveness, Dublin, December 5th 2005.
[59] Singh, K., 2003, p14.

meaningfully debate them. This is because if the legislative changes are not adopted on time or are fundamentally redrafted the chances are that access to Bank resources will be delayed until the proposed legislative changes are fully accepted. Thus for a country desperately in need of foreign financial assistance the incentive is to pass the required reforms as quickly as possible without due consideration.

3.7 Could Governance Conditionality Undermine Aid Predictability?

Aid predictability has become worse with the shift to budget support. This maybe a temporary phenomenon as both donors and recipients adjust to the new rules of the game. However, it may be that governance reforms are having on impact on aid predictability too. Not only do governance conditions form a large proportion of prior actions attached to the Bank's PRSC loans which must first be implemented in order to trigger the next instalment of aid, the Bank's PRSC conditions are also typically adopted by bilateral donors providing pooled budget support as a basis to judge compliance and signal release of their resources too.

Given the tricky nature of governance reforms it can be expected that there could be quite some delay in implementing them, especially those that require legal reform, which may lead to delays in the release of aid. For example, Azeem and Adamtey report that "The MDBS [Multi-Donor Budget Support] is intended to ensure flexibility in the use of donor funds but the issue of meeting triggers set imposes some stringency in the overall receipt of donor funds. This is because when some of the triggers are not met it affects the inflow of funds for budget implementation."[60] Delays in aid disbursements are likely to upset budget calculations which could, perversely, undermine governance.

3.8 Conclusion

The Bank's governance agenda has several laudable aspects that most people would find difficulty in disagreeing with. For example reforms to improve the process of moving from policy making to budget setting to budget execution, reforms to improve accountability and transparency, and reforms that encourage widespread participation. However, beyond this limited set of generally acceptable reforms are a range of governance reforms that are clearly designed to facilitate the Bank's neo-liberal agenda. Thus in some areas, such as legal and judicial reforms, civil service reforms and some aspects of PFM, it is very hard to tease apart the Bank's governance reforms from its economic policy reforms.

The implication is that the Bank is being far from neutral with regard to the political nature of its reforms, and NGOs who are concerned about the Bank's neo-liberal agenda should be equally concerned about aspects of its governance agenda. Moreover, the Bank is being disingenuous by pushing governance reforms through such a non-transparent, non-participatory and non-accountable mechanism as a PRSC programme with conditionality attached. Secretive programmes such as these have done great harm in undermining governance in many developing countries.

Aid increases, debt relief and current influential actors in development circles will mean that governance issues will continue to be high on the agenda. NGOs need to be clear about how to engage with the World Bank on this issue, always keeping in mind the key issue of how governance and what kind of governance is really going to contribute to poverty reduction.

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[60] Azeem, V., and N. Adamtey, 2005, Budget Ceilings and Health: The Ghana Case Study (draft paper), p24, report prepared for the Wemos Foundation, Amsterdam.

Appendix 1: An Overview of World Bank Governance Conditions

Table 5a: PRSC Governance Prior Actions

Country	PRSC	Anti-Corruption Accountability	Civil Service Reform	Decentralisation	PFM, tax and administration, and E-governance	Legal and Judicial	M&E and Civil Society Inclusion***	No. of conditions
Ethiopia	1			Issuance of circular on decentralisation of procurement (1)[61]; restructuring and performance improvement for Addis Ababa and 16 towns (1)	Improving public financial planning and budgeting in relation to MTEF (1); improve PFM (1)	Legal framework for financial decentralisation (1)	Issuance by CSA of guidelines and service standards to ensure timely release of and access to raw statistical data (1)	6
Ethiopia	2*	reduction in audit backlog for federal accounts (1)		Cabinet approval of fiscal decentralisation strategy (1)	Revise financial calendar and issue directive on strategic planning consistent with MTEF (1)	Procurement proclamation passed by parliament (1)		4
Ghana	3		Finalise and implement HR framework (1); develop & implement communication strategy (1); restructure civil service(1); regulatory framework for SAs and continue restructuring of SAs (1); Deepen payroll management and control (3)		Develop guidelines and procedures for improved collation of annual financial accounts (1); increase share of budgeted non-salary poverty expenditures as a share of domestic financed expenditures (1); operationalise procurement institutions (1)		Budget informed by PRS Annual Progress Report (1)	11
Ghana	4*				Include HIPC funds in budget formulation (1) Operationalise computerised financial and accounting system (1)	Ensure provisions of Public Procurement Act are fully implemented (1); initiate consolidation of all anti-corruption legislation (1)		4

Mozambique	2: 1st tranche							0
Mozambique	2: 2nd tranche*	Increase anti-corruption unit budget (1)				Revision of organic law of judicial courts including commercial sections and of Notary Code (1)		2
Rwanda	1	Budget execution report submitted to auditor general (1)			Maintain adequate macro framework (1); PRS/MTEF consistent budget and METFs for health and Edct. (1)	Organic budget law (1); Procurement law (1); ombudsman law (1)	Final 2003 PRS report (APR) available (1); draft questionnaires of citizen report cards available (1)	8
Rwanda	2*	Publication of action plan for ombudsman office (1); budget execution report submitted to auditor general (1)			Maintain adequate macro framework (1); draft 2006 budget law consistent with MTEF and PRS including MTEFs for edc, health, water and energy submitted (1);	Organic budget law (1); Procurement law (1)	Produce, publish and disseminate the 2004 PRS report (1); publish baseline of citizen report card survey (1)	8
Sierra Leone	4**			Committee members of Local Gov Finance Committees appointed (1)	Advertise position of Accountant General (1); MTEF adopted (1); Procurement bodies formed (1)	Enactment of an acceptable Government Budgeting and Accountability Act (1)		5
Sierra Leone	5*			Adopt regulations for local gov transfers and publish these and details of transfers made (1)	Procurement plans approved (1); Procurement bodies staffed (1); Accountant General appointed (1)	Adoption of implementation plan for revision of regulations in conformance with new Budget and Accountability Act (1)		5
Tanzania	3		Pay increase consistent with budget and pay reform strategy (1)	Procurement authority established and procurement decentralized (1)	PRS consistent budget with priority sector budget codes (1); PRS consistent budget execution (1); implementation of PFMRP (1)			5
Tanzania	4*	NAO staff trained and computerised (1)	Pay increase consistent with budget and pay reform strategy (1); process agreed for allowance reform (1)		PRS consistent budget with priority sector budget codes (1); PRS consistent budget execution (1); procurement structures established and staffed (2)			7

Uganda	4	IGG verifies asset declarations and investigates complaints (1)	salary rises in line with pay strategy (1); draft strategy to control size of civil service (1)		Improved public procurement (1)			
Uganda	5*	Implementation of National Anti-Corruption plan (1); IGG verifies asset declaration and takes action (1)	Updated, medium term pay reform strategy agreed (1)		Expenditures within budget allocations (1)	Revised Audit Bill drafted (1); Revised Local Gov Bill tabled in parliament (1)		
Vietnam	4	Establish plan to increase effectiveness of State Inspectorate (1)			Regulations for financial disclosure of all state budget entities including SOEs issued (1); assess fiscal risks associated with SOEs, SCBs, DAF (1)	Law on State Audit enacted giving independence to State Audit of Vietnam (1)	Criteria for poverty monitoring improved (1); Socio-Ec Dev Plan (SEDP) prepared according to PRSP principles (1)	6
Vietnam	5*		Cap salaries, monitor service delivery and introduce user feedback (1)		All ministries prepare forward looking budgets in line with SEDP (1); issue action plans for transparency and simplification of administrative procedures (1)	Issue Anti-Corruption Law (1)	Issue SEDP based on broad consultation, with poverty focus and appropriate monitoring tools (1)	5
Honduras	1				Redefine poverty reduction expenditures to improve linkages between poverty spending and PRS targets (1);	Law to mandate use of IFMS (1) Law to restore central gov's control of civil service wages (1); Legislation presented for CSR reforms including merit-based recruitment; limit on political appointees; creates a supervisory authority for human resource management (3)		
Honduras	2*		Head of new CS		Multi-annual budget with fiscal	CSR legislation		

			supervisory authority appointed (1)		and poverty reducing targets (1); Computerised procurement system (1)	passed and corresponding regulations issued and new law implemented (2)		
Nicaragua	1 1st tranche				MTEF based on calculation of recurrent costs (1); single treasury account introduced (1)	National Assembly passes Civil Service Law (1); presidential decree to introduce single registry of public investments (1)		4
Nicaragua	1 2nd tranche*							0
Total No. Conditions		8 (7%)	15 (13%)	6 (5%)	43 (%)	26 (24%)	12 (%)	112 (100%)

* Conditions are indicative triggers. These (or possibly a sub-set of them or additional conditions) are likely to be the prior actions for release of this forthcoming PRSC tranche. This programme is not yet being implemented thus all prior actions identified are provisional and may be subject to change once the programme is formally agreed.
** Economic Recovery and Rehabilitation Grant
*** Civil society participation is identified as an element of the Bank's strategy to minimise corruption. However, since conditions pertaining to civil society participation tend to be concerned with participatory planning processes such as those related to the development of PRSs and with civil society participation in monitoring activities, conditions related to participation have been included as an aspect of M&E.

Acronyms used: ¼ly– quarterly; APRM – Africa Peer Review Mechanism; ASDP – Agricultural Sector Development Plan; ASLMs – Agricultural Sector Line Ministries; BIS – Budget Information System; CFAA – Country Financial Accountability Assessment; CPAR – Country Procurement Assessment Report; CSO – Civil Society Organisation; CSR – Civil Service Reform; DAF – Development Assistance Fund; DSA – Debt Sustainability Analysis; EPZ - Export Processing Zone; FISE – Emergency Social Investment Fund; GGCU – Good Governance Coordination Unit; HPPG – Harmonised Participatory Planning Guide; IFMS – Integrated Financial Management System; IGG - Inspectorate General of Government; IMS – Information Management System; INIFOM – Municipal Development Institute; LAFM -Local Authorities' Financial Memorandum; M&E – Monitoring and Evaluation; MDA – Ministries, Departments, Agencies; MOF – Ministry of Finance; MPs – Members of Parliament; MTEF – Medium Term Expenditure Framework; NACSAP – National Anti-Corruption Strategy and Action Plan; NAO – National Audit Office; NDP – National Development Programme; NIMES – National Integrated Monitoring and Evaluation Strategy; NTB – National Tender Board; OAG – Office of the Auditor General; PEAP – Poverty Eradication Action Plan; PER – Public Expenditure Review; PETS – Public Expenditure Tracking Survey; PFM – Public Financial Management; PFMRP – Public Financial Management Reform Programme; PMS – Poverty Monitoring System; PRSP – Poverty Reduction Strategy; SDS - Service Delivery Survey; SIERP – Integrated Indicator System for the Poverty Reduction Strategy; SOCB – State Owned Commercial Bank; SOE – State Owned Enterprise; SWAp – Sector Wide Approach; TA – Technical Assistance; TAS – Tanzania Assistance Strategy TRA - Tax Revenue Authority; TSC – Tribunal Superior de Cuentas (Supreme Audit Office)
NB: Acronyms not listed are not known.

Table 5b: PRSC Governance Benchmark Conditions

Country	PRSC	Anti-Corruption Accountability	Civil Service Reform	Decentralisation	PFM, tax and administration, and e-governance	Legal and Judicial	M&E and Civil Society Inclusion***	No. of conditions
Ethiopia	1	Reduce audits backlog for federal accounts (1); reduce regional accounts backlog (1)	Human resource management (1);	Local gov capacity building (1)	Reduce regional accounts backlog (1); ICT development authority established (1); rollout of budget information systems software (1); IFMS study revised (1)			7
Ethiopia	2*	Reduce regional accounts backlog (1); standardise internal audit reports (1); amend time limit for submission of accounts to auditor (1)	Remuneration policy for federal and regional levels adopted (1)	Intergovernmental fiscal transition (2)	Improve accounting procedures (2); Info tech and systems (3); Procurement unit transformed into Regulatory Directorate (1); Performance Service Improvement Programme implemented at federal level (1)	Legal framework for decentralization (2)	Satisfactory implementation of M&E plan (1)	16
Ghana	3	Auditor general submits accounts (1); implement activities to reduce fraud and corruption (1); carry out study and implement recommendations on legal and institutional mandates of anti-corruption agencies (1); review anti-corruption legislation (1); APRM initiative results disseminate		Implement decentralisation action plan (1); operationalise Local Gov Service Act (1)	Expand computerised financial and accounting system (1)		Implement M&E plans for PRS (1); improve M&E capacity by increasing resources for M&E and implementation of participatory M&E activities eg expenditure tracking surveys and Citizen Report Cards (1)	12

		d (1); establish and staff new and existing audit bodies (2);						
Ghana	4*	Begin implementation of Anti-corruption action plan (1); Internal Audit Agency and Units operational in key ministries (1); Auditor General submits accounts (1)	Continue implementation of public sector reform strategy including plan for appointment of Civil Service Leadership, re-launch service improvement charters, restructuring selected management agencies, reform of subvented agencies (1); deepen payroll management and control (1)	Continue implementation of decententralisation action plan (1)	Revise and update PFM framework (1); expand register to cover all loan and grant agreements (1); improvement in weighted average of budget deviation index for poverty related expenditures (1); public procurement agencies established (1)	Submit Freedom of Information bill to parliament (1)	strengthen M&E capacity (1); M&E technical committee established and action plans approved (1); district based M&E system and common M&E tool established (1); improved access to info on M&E (eg on websites) (1)	14
Mozambique	2: 1st tranche	Review functions of internal and external audit bodies (1); develop and implement Anti-corruption strategy (1); judicial corruption survey and plan (2); increase budget for anti-corruption (1)	Wage policy agreed and implemented (1)	Introduce district planning (1); prepare strategy and policy for decentralisation (1); restructuring plan and implementation in selected ministries (1)		Legal framework for decentralization (1); anti corruption law (1); improve effectiveness and efficiency of judicial system (including legislation) (4)	Adapt 'Balanco de PE as primary instrument for monitoring PRS (1)	16
Mozambique	2: 2nd tranche*	Anti-corrup strategy implemented (1); judicial corruption survey carried out and recommendations implemented (1),	Wage policy approved and implementation begun (1)	Prepare strategy and policy for decentralisation (1); establish criteria for financial transfers to districts (2); restructuring plans agreed in accordance		efficiency of judicial system (3); revision of Civil Process Code (1); Revision of Notary code (1); Revision of Penal Code (1); Revision of Prison legislation (1)		26

		increase budget for anti corruption units (1)		with MTEF and implementation begun (1)				
Rwanda	1	Internal audit mechanism (1); external audit of accounts (1); procurement staff declare assets to ombudsman (1)		Decentralised accounting (1)	Budget prep (1); PER timetable developed (1); 2003 accounts produced (1) TA for PFM reforms (1); Approve design of BIS (1)	Income tax and customs laws (1)	Needs assessment completed and used to draft M&E plan (1); PRS impact evaluation proposal developed (1); training in monitoring poverty program outputs (1); carry out PETS for 3 sectors and finalise PSIA in tea sector (1); production of annual report and joint sector reviews for education and health (1); household survey (1); development indicators made available (1); community monitoring (2)	19
Rwanda	2*	Audit manuals produced and recruitment of auditors begins (1); certification of accounts by Auditor General (1); publication of accounts (1)		10% of districts publish financial report (1); local gov finance unit created (1)	District tax rev report (1); budget prep (1); PER for water and health (1); expenditure accounting procedures (1); training plan for accountants (1); 2004 accounts produced (1); improve capacity and transparency of procurement (2); Regulations and bidding guides available (1)		M&E plan & guidelines reviewed and published (1); PRS impact evaluation proposal adopted (1); publication of monitoring report on implementation of output-oriented MTEF (1); carry out PSIA on agricultural inputs (1); production of annual report and joint sector reviews for education, health and	23

							energy (1); finalise household survey (1); surveys and indicators published (1); community M&E (2)	
Sierra Leone	4**	Anti-corruption strategy adopted (1); Auditor General department staffed (1); establish internal audit departments in 9 ministries/agencies (1); PETS report on procurement and distribution of agri inputs published (1)	Employment levels and wage expenditures detailed (1)	5 councils pass conditions for disbursement under Local Gov Dev Grant Operation Mannual (1)	Improved budget cycle (1); 4 ministries complete strategic budget plans (1); MOF capacity for ¼ly reports and poverty expenditure tracking (1); IFMS installed in MOF (1)	Draft legislation strengthening mandate of Establishment Secretary's Office (Human Resource Management office) to provide guidance on human resource policy (1)		11
Tanzania	3	Internal Audit (5); ¼ly meetings with donors and govt (1); publication of revised NACSAP and corruption report (1); strengthen GGCU (1); complaints procedure (1); draft anti-corruption action plans available and funding provided (1)	Mechanism for accelerated salary enhancement for all MDAs (1); new payroll procedures implemented (2); qualified staff hired (2)	Publication of govt transfers and receipt (1); LAFM amended (1)	PRS/PER consistent budgets (2); preparation of MTEF manual (1); new grant system (1); full reporting of aid received (1); SDSs results incorporated in budgets (2); implementation of PFMRP including CPAR (2); PSMWG established (1); publish results of tender board (1); external resource flows included in budget (1); issue TAS implementation report (1); incorporate debt and revenue info into IFMS (2); IFMS disaster recovery plan implemented	harmonization of Public and Gov Service Acts (1); review legislation on revenue retention by public service providers (1); consultation on anti-corruption law (1)		52

					(1); develop computerisation strategy (1); new software installed and training (1)			
Tanzania	4*	Publication of central gov transfers (1); review of SDSs agreed and recommendations implemented and made public (1); Ministerial Ethics Committee to deal with corruption established (1); evidence civil servants are sanctioned for financial mismanagement (1); audit report submitted to parliament (1); Procurement Regulatory Authority fully staffed (1); GGCU monitors against corruption (1); review of National Anti-Corruption strategy and action plan (1); gov takes action on anti-corruption evaluation report (1); gov leading regular dialogue with donors on anti-corruption issues (1)	Pay enhancement initiatives (2); pilot changes to payroll system (1); qualified staff employed (2);	Local authorities' financial memorandum amended (1)	Improved budget guidelines (1); prep of MTEF manual (1); improved grant systems (1); SDSs results incorporated in plans and budgets of all MDAs(2), MOF and NAO incorporate PFMRP into their strategic plans (1); revised MOF structure submitted to President's Office (1); Procurement Capacity Development strategy prepared (1); inclusion of Local Government Authorities' Action Plans in budget (1); improved integration of aid projections into budget (1); TAS implementation report issued (1); Revenue information captured in IFMS via link to TRA (1); trial run of IFMS disaster recovery system (1), NAO audit techniques compatible with computerisation strategy (1); EPICOR-based IFMS introduced and operates in 30 more councils (1)	Bill to parliament to repeal and enact Anti-Corruption legislation (1); regulations based on amended Public service Act adopted (1)	performance monitoring system rolled out to all MDAs (1)	43

Uganda	4	Service Delivery Standards established (1); OAG restructuring and capacity (2), plan for audit of local gov (1); selected inquiry reports published within 6 months (1)	Assess prevalence of non-salary compensation of civil servants' and implications for expenditure policy and pay reform (1); pay-roll systems improved (2); participatory review of next phase of CSR programme (1); cap building strategy for gov (1)		Improved financial accountability (1)	Instructions for Public Finance and Accountability Act revised (1); Justice, Law and Order sector review implemented (1); amended Prevention of Corruption Act presented to parliament (1); principles of access to gov info tabled to Cabinet (1)	NIMES formulated (1); CSO monitoring of gov (1); implement and monitor performance of HPPG (1); NGO policy (1)	
Uganda	5*	OAG structure and decentralisation of internal audit approved (1); Line Ministry audit committees appointed (1); OAG audits local gov (1); OAG implements and updates guides (1); IGG investigates 50% of complaints (1); White paper published on findings of inquiry commissions (1)	Salary adjustments consistent with pay strategy and MTEF (1); Plan for regulating the growth in social sector establishments sent for approval (1); action plan for health workers' payroll implemented (1);	Strategy and plan for payroll and human resource decentralisation presented (1); Gov capacity building strategy implemented (1)	Affordable PEAP funding in MTEF agreed (1); financial accounting and reporting (2); improved financial accountability (1); CPAR recommendations implemented (1); Full pilot of IFMS (1)	Whistleblower Protection and Qui Tam Bill presented to parliament (1); Access to Gov Info Bill tabled to parliament (1);	Review implementation of HPPG (1); discuss with CSOs effective linkage between CSO monitoring and policy processes (1)	
Vietnam	4	Publish results of pilot diagnosis of corruption (1); publish tenders, list of bidders, and awards for large projects (1)	Align civil servant pay to market rates of pay (1)	Decentralise public investment decisions to lower gov levels (1)	Improve provincial planning (1); PER for better integration of capital and recurrent budgets (1);	Establish prevalence of treaties, including WTO, over national legislation (1)	Facilitate community participation and supervision in local investment projects (1)	8
Vietnam	5*	Make public a diagnosis		Reformulate budget	Improve evaluation of	Require stakeholders'	Assess socio-economic	11

		of corruption and its modalities (1)		allocation to provinces taking into account poverty rates (1)	socio-ec returns to public investment projects (1); adopt international accounting standards (2); Unify management of foreign debt and calculate all guarantees (1); improve govt exdpt procedures (1)	consultation and condition effectiveness of legal docs on publication (1); approve strategy for improvement of legal system (1); issue procurement ordinance (1)	impacts of WTO accession and identify counter measures (1);	
Honduras	1	TSC implements 50% or more of staffing plan (1); TSC presents Annual Report to Congress (1); internal audit regulations for gov agencies (1)	New mandates and re-structuring of Mins of Health, Edct, and Agri (1)		Improve recording of budget and financial info (1); new guidelines for Mesas Sectoriales (1); expenditure controls (2) improved procurement (1); link IFMS and public investment system (1)	Law to Establish the State Procurement Office (1); consultant hired to review draft laws on Disclosure of Public Information and to develop single advanced draft for review by president (1)		
Honduras	2*	TSC fully implemented staffing plan (1); TSC reports and audit (3)			Programmatic budget for at least 2 sectors reflects PRS goals (1); SWAps in at least 2 sectors (1); ¼ly budget execution reports and cash flow statements (1); expenditure controls (2); improved procurement (5): complete development of IFMS (1); plan IFMS expansion to municipalities (1)	Regulations issued and IFMS law implemented (1); regulations to TSC law implemented (1); Law on Disclosure of Public Info submitted to Congress (1)		
Nicaragua	1 1st tranche			Responsibilities of INIFOM and FISE clarified vis a vis support to municipalities and their decentralisation (1)	Donor coordination (1); MOU on agreed actions to implement CFAA recommendations (1); municipal budgeting (1); Govt contracting info		Proposal for M&E system for monitoring PRSP/PRSC/ MDG/NDP targets (1); PSIA of tax and education reforms (1); MOF established	10

					available on internet (1)		system to monitor poverty reduction expenditure (1)	
Nicaragua	1 2nd tranche	Internal controls and audit strengthened in 10 gov institutions (1); Office of Public Ethics role clarified (1)		Decentralisation benchmarks achieved (1)	Civil Service Law policy reflected in budget (1); all public investment included in official registry (1); donor coordination monitored (1); budget and MTEF submitted to parliament (1); implement plan to improve PFM (1); all public funds identified in budget (1); improve cash flow (1); improve financial statements (1); standardise procurement (1); IFMS strengthened and strategy prepared for extension (1)	National Assembly approves Fiscal Responsibility Law (1); Financial Administration Law submitted to National Assembly (1); CPAR recommendations incorporated into Law 323 (1); National Assembly passes law on Access to Information satisfactory to IDA (1); new regulations to Municipal Law approved establishing a methodology for participatory municipal investment planning (1)	M&E system for PRSP/PRSC/NDP/MDG implemented (1); all PSIA findings incorporated into PRSP actions via PRSP progress report (1); PRSP progress report includes analysis of public expenditure, particularly for poverty reduction (1)	22
Total No. Conditions		78 (20%)	31 (8%)	32 (8%)	141 (37%)	46 (12%)	57 (15%)	385 (100%)

* These PRSCs are forthcoming and thus are not being implemented yet. Thus all conditionality is provisional and subject to change once the finalised programme is agreed.
** Economic Recovery and Rehabilitation Grant (no programme for ERRG5)
*** Civil society participation is identified as an element of the Bank's strategy to minimise corruption. However, since conditions pertaining to civil society participation tend to be concerned with participatory planning processes such as those related to the development of PRSs and with civil society participation in monitoring activities, conditions related to participation have been included as an aspect of M&E.

Acronyms used: ¼ly– quarterly; APRM – Africa Peer Review Mechanism; ASDP – Agricultural Sector Development Plan; ASLMs – Agricultural Sector Line Ministries; BIS – Budget Information System; CFAA – Country Financial Accountability Assessment; CPAR – Country Procurement Assessment Report; CSO – Civil Society Organisation; CSR – Civil Service Reform; DAF – Development Assistance Fund; DSA – Debt Sustainability Analysis; EPZ - Export Processing Zone; FISE – Emergency Social Investment Fund; GGCU – Good Governance Coordination Unit; HPPG – Harmonised Participatory Planning Guide; IFMS – Integrated Financial Management System; IGG - Inspectorate General of Government; IMS – Information Management System; INIFOM – Municipal Development Institute; LAFM -Local Authorities' Financial Memorandum; M&E – Monitoring and Evaluation; MDA – Ministries, Departments, Agencies; MOF – Ministry of Finance; MPs – Members of Parliament; MTEF – Medium Term Expenditure Framework; NACSAP – National Anti-Corruption Strategy and Action Plan; NAO – National Audit Office; NDP – National Development Programme; NIMES – National Integrated Monitoring and Evaluation Strategy; NTB – National Tender Board; OAG – Office of the Auditor General; PEAP – Poverty Eradication Action Plan; PER – Public Expenditure Review; PETS – Public Expenditure Tracking Survey; PFM – Public Financial Management; PFMRP – Public Financial Management Reform Programme; PMS – Poverty Monitoring System; PRSP – Poverty Reduction Strategy; SIERP – Integrated Indicator System for the Poverty Reduction Strategy; SOCB – State Owned Commercial Bank; SOE – State Owned Enterprise; SWAp – Sector Wide Approach; TA – Technical Assistance; TAS – Tanzania Assistance Strategy TRA - Tax Revenue Authority; TSC – Tribunal Superior de Cuentas (Supreme Audit Office)
NB: Acronyms not listed are not known.

Annex 2: Governance Related Analytical and Advisory Activities [62]

In addition to lending, the Bank also carries out or funds a large number of Analytic and Advisory Activities (AAA)[63] to identify problems in public sector governance and propose solutions. Apart from Public Expenditure Reviews (PERs) the other analytical studies have only recently been introduced (ie within the last 5 years).

Public Expenditure Reviews (PERs)
These vary from country to country, but typically focus on budget structure and composition. They may also include other more general public sector issues. Recent PERs are also including analysis of budget management and incentives in the public service. Budget tracking surveys are a new element of PERs.

Institutional and Governance Reviews (IGRs)
IGRs are a family of analytic instruments - including in-depth studies of accountability and service delivery institutions, anticorruption diagnostic surveys, surveys of public officials - designed to bring a greater focus on and understanding of governance arrangements in the public sector and their link to public sector performance. Pilot IGRs have focussed on reform of policy making institutions, institutional reform to improve service delivery, and reforms to enhance accountability and reduce corruption of government officials.

Country Procurement Assessment Reviews (CPARs)
Diagnose the status of the existing procurement system in a country and facilitate a dialogue with the government on needed reforms. The CPAR establishs the need for and guides the development of an action plan to improve a country's system for procuring goods, works and services.

Country Financial Accountability Assessments (CFAAs)
The CFAA provides a diagnosis of a country's private and public financial management systems. It is used to assess and manage the fiduciary risks ie that public funds will be used other than for agreed purposes, and to support the design and implementation of financial management capacity-building programs.

Governance component of Social and Structural Reviews (SSRs)
Social and Structural Reviews (SSRs) assess major medium-term structural issues and review medium-term development prospects (notably growth and poverty reduction) of Bank client countries and the extent to which their policies and institutional environment enhance or diminish these prospects. One part of each SSR is an analysis of public sector performance.

Country Assistance Strategy (CAS)
These pieces of analytical work feed into the development of the Country Assistance Strategy (CAS). Every CAS should diagnose the state of governance and lay out in broad terms the condition of financial management and other accountability institutions in the country concerns. Where corruption is a serious problem, the CAS should include a monitorable programme to address governance and corruption concerns with clear benchmarks and performance indicators.

[62] This section is based on information taken from: http://www1.worldbank.org/publicsector/keyinstruments.htm
[63] Formerly known as Economic and Sector Work (ESW).

Annex 3: Selected World Bank Resources on Governance

Documents

Reforming Public Institutions and Strengthening Governance: A World Bank Strategy, 2000, Public Sector Board: http://www1.worldbank.org/publicsector/Reforming.pdf

Reforming Public Institutions and Strengthening Governance: A World Bank Strategy Implementation Update, Part 1 Overall Update, 2002:
http://www1.worldbank.org/publicsector/StrategyUpdate1.pdf

Recent Trends in Lending for Civil Service Reform, PREM Note 71, July 2002:
http://www1.worldbank.org/prem/PREMNotes/premnote71.pdf

Initiatives in Legal and Judicial Reform: http://www4.worldbank.org/legal/leglr/

Bank/Fund Collaboration on Public Expenditure Issues:
http://www1.worldbank.org/publicsector/pe/BankFundPERCollaboration.pdf

Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries: http://www1.worldbank.org/publicsector/pe/newhipc.pdf

Tracking Poverty-Related Spending in HIPCs: Strengthening Systems of Public Expenditure Management: http://www1.worldbank.org/publicsector/tracking.pdf

PREM Notes on Governance & Public Sector Reform:
http://www1.worldbank.org/prem/notesps.cfm

Supporting Better Country Public Financial Management Systems: Towards a Strengthened Approach to Supporting PFM Reform, Public Expenditure Working Group
Current Consultative Draft (October30, 2004):
http://www1.worldbank.org/publicsector/pe/StrengthenedApproach/1Consultatitve.pdf

Helping Countries Combat Corruption, 1997:
http://www1.worldbank.org/publicsector/anticorrupt/corruptn/coridx.htm

Kaufmann, D., A. Kraay, and P. Zoido-Lobaton, 1999, Governance Matters, Policy Research Working Paper 2196, October:
http://www.worldbank.org/wbi/governance/pubs/govmatters.html

Kaufmann, D., A. Kraay, and M. Mastruzzi, 2005, Governance Matters IV: Governance Indicators for 1996-2004:
http://www.worldbank.org/wbi/governance/pdf/GovMatters_IV_main.pdf

Websites

Administrative and civil service reform:
http://www1.worldbank.org/publicsector/civilservice/

Public Sector Governance: http://www1.worldbank.org/publicsector/index.cfm

Legal Institutions of the Market Economy:
http://www1.worldbank.org/publicsector/legal/index.cfm

Tax Policy and Administration: http://www1.worldbank.org/publicsector/pe/tax/

Institutional Analysis and Assessment (tool kits for assessing governance):
http://wbln0018.worldbank.org/prem/ps/iaamarketplace.nsf

Public Finance: http://www1.worldbank.org/publicsector/pe/index.cfm