Improving Governance for Development: New Frontiers in Reform & Remaining Challenges

Sanjay Pradhan, Vice President World Bank Institute
Outline

- Governance Systems: Supply & Demand – Entry Points & Trajectories
- Understanding & Designing the “What” of Reforms
- Managing Political Economy – the “How” of Reforms
- World Bank Institute: Strategic Partnerships for Capacity Building
Governance Quality is Strongly Correlated with Growth in the Long-run

Governance Systems: Supply and Demand

- **Supply-side**: Capacities and organizational arrangements in state institutions – leadership, skills, human resource & financial management systems – to deliver public goods and services

- **Demand-side**: Capacities of non-state institutions & accountability arrangements – elections, political parties, parliaments, judicial systems, private sector, media, civil society organizations, local communities – that enable citizens and firms to hold state institutions to account
Elements of Governance System

**Actors, Capacity & Accountability**

- **Political Institutions**
  - Political competition, broad-based political parties
  - Transparency & regulation of party financing

- **Local Governments & Communities**
  - Decentralization with downward accountability
  - Community Driven Development (CDD)
  - Oversight by parent-teacher associations & user groups

- **Executive**
  - Transparent budgeting & procurement
  - Civil service meritocracy & adequate pay
  - User participation & accountability in service delivery agencies

- **Private Sector**
  - Contracting out
  - Extractive Industry
  - Transparency Initiative
  - Collective business associations

- **Formal Oversight Institutions**
  - Independent judiciary
  - Legislative oversight
  - Independent oversight (SAI)
  - Global initiatives: UN, OECD Convention, anti-money laundering

- **Civil Society & Media**
  - Right to information
  - Freedom of press
  - Civil society watchdogs

- **State Capture**
  - Patronage & nepotism
  - Administrative corruption

- **Outcomes: Services, Investment climate, Corruption**
A Country Approach

Countries differ in their trajectories & entry points

- Trajectories are driven by political forces
- Key issue: How to sequence reforms?

In some countries, this will mean moving from reforms of bureaucracy to support checks and balances

Source: Global Monitoring Report, 2006
Different Entry Points & Development Strategies

Trajectories depend on country-specific realities

- State-building for economic growth (e.g., South Korea, Taiwan), before democracy & social mobilization. But no clear pattern:
  - Many authoritarian states have stayed corrupt & predatory
  - Others pursued early development policies, but did not sustain (e.g., Indonesia Suharto, Uganda Museveni, Ethiopia Zenawi)

- For some countries, increasing the quality of democracy can be an entry point to rule of law and down the road, to improving economic performance (e.g., Brazil, Colombia, Peru)

- Social mobilization as an entry point in “blocked cases” (e.g., Ukraine’s Orange Revolution) to increase accountability
  - But can be destabilizing where institutions are weak

- Just enough governance for incremental growth accelerations (e.g., Bangladesh) – stronger institutional reform at higher income levels
Unpacking Entry Points & the “What” of Reform: Diagnostics
The Foundation: Three layers of problem-driven analysis

**Vulnerabilities & concerns**

- What is the evidence of poor outcomes?
  - Growth diagnostics, poverty assessments, CAS completion reports, project evaluations, etc.

**Institutional arrangements & capacities**

- What institutional arrangements & capabilities contribute to poor outcomes?
  - Mapping of institutions, Public Expenditure Tracking Surveys (PETS), corruption assessments/governance diagnostic surveys

**Political economy**

- Why are things this way, and how to bring about change?
  - Analysis of stakeholders (using various tools), incentives, rents/rent-distribution, etc.
Cutting-edge diagnostics help identify key problems & entry points

Control of corruption, 2004: World map

Colors are from Dark Red - the worst bottom 10th percentile rank to Dark Green - the best above 90th percentile. Source: Governance Matters IV: Governance Indicators for 1996–2004, D. Kaufmann A. Kraay, and M. Mastruzzi (2005)

Public expenditure tracking (Uganda)


Purchasing of public positions

Source: Kaufmann, Pradhan, Ryterman (1998)

Percent of public officials believed to have purchased their positions

Public info campaign (1999)

Source: Anticorruption in Transition 3 (World Bank, 2007)

Variations in Reductions of Bribe Frequency

Bribe Frequency, 2002-2005: Europe & Central Asia

Source: Kaufmann, Pradhan, Ryterman (1998)
Public Sector Management

✓ Public Finance Management
✓ Administrative Reforms
✓ Procurement
Progress in Performance-based Budgeting

- Shifting focus from input control to accountability for results in OECD & middle-income countries:
  - UK Public Service Agreements with Treasury
  - Strategic results-oriented resource allocation in Chile, Brazil
  - Korea formula-based plans with 10% cut for ineffective programs
  - Accrual accounting & performance audits

- In low-income countries:
  - PEFA indicators to benchmark & track PFM performance
  - Integrated Financial Management Systems (e.g., Guatemala)
Prospects & Challenges in Administrative & Civil Service Reforms

- Considerable scope for transforming government with information technology (e-procurement, one-stop shops)
- Ambitious administrative reforms work only in few cases with strong political commitment (Latvia EU, Tanzania)
- Modest administrative reforms to generate results:
  - Results agreements for agencies (Chile; Brazil)
  - Peru SUNAT: Enclave with higher pay
  - Albania: Pay reform & meritocracy for top 1300 staff, with independent appeals
- Yet, many failures in clientelistic bureaucracies without rule-based compliance (Bolivia, Ecuador, Peru, Mongolia)
The Challenge of Public Procurement

Similar Bid Documents from “Competitive” Firms

MODERN PLASTICS
No 384/7, 11th Main, 4th Block, Nandini Layout, Bangalore - 560 098. Ph: 3591460

To:
THE PROJECT CO-ORDINATOR (T.B.)
R.N.T.C.P.
Bangalore Mahanagar Palike
Bangalore

Date: 8.03.2002

Dear Sir/Madam,

SUB: QUOTATION FOR DISPOSABLE PLASTIC CUPS

With reference to the above subject we are glad to give our competitive price for supply of Disposable Cup.

Details as follows:

<table>
<thead>
<tr>
<th>Size</th>
<th>100 ml</th>
<th>200 ml</th>
<th>250 ml</th>
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<tr>
<td>Rate per Cup</td>
<td>0.50</td>
<td>0.90</td>
<td>0.68</td>
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</table>

Kindly approve the above said quotation as soon as possible.

Thanking you,

Yours faithfully,

S. M. Pradhan

Proprietor

Decentralized Procurement

The World Bank

JAYALAKSHMI PLASTICS
No. P-47, Maippappu Garden, Dayanand Nagar, Bangalore - 560 021. Ph: 3127120

To:
THE PROJECT CO-ORDINATOR (T.B.)
R.N.T.C.P.
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Sanjay Pradhan
Diagnosing Bid Rigging Schemes

Red Flags

- “Complementary bidding"
- Round robin
- Divide the pie
- Coercion
- Low balling /
- “Change orders”

- Bidders have same address or bid price
- Wide gap between winner & all others
- Winning bidder subcontracts to losers
- Qualified bidders do not bid
- Lowest bidder later submits substantial change orders
Procurement Reforms: Increasing Competition & Transparency

E-Procurement: Chile

- All supplier companies register, indicating areas of business (e.g., IT, construction, furniture)
- Public agencies submit tenders through internet
- Automatic e-mail to all companies in selected area
- Online information on name, position of official in-charge
- Online information on results: who participated, proposals made, scores received, who won bid, historical record of agency’s purchases & contracts

Engaging CSOs: Philippines

- Legal foundation a mess with over 100 laws and regulations
- New omnibus law needed for clarity and predictability in the process
- New law in 2003 with determined efforts of reform minded public officials allied with strong and unified advocacy efforts of CSOs to offset entrenched vested interests
- For credible enforcement: requirement that all bids and awards committees must have at least one observer from a certified CSO
- Challenge: How to replicate amidst formidable obstacles?
Targeting Reforms in “Corruption Value-Chain”
Addressing Corruption in Sectors: Essential Drugs

Vulnerabilities in …

Production of sub-standard drugs
Lengthy procedures with weak legal framework
Under-inclusion or over-inclusion
“Tailor fit” drug specifications
Warehouse theft
Biased prescriptions (info asymmetry between doctor/pharmacist & patient)

… some ways to combat these vulnerable points …

Random inspections
Monitoring based on transparent & uniform standards (WHO prequal list)
Media coverage of drug selection committee meetings
Competition & Transparency
Tracking systems/third party monitoring
User surveys

Demand-side Reforms
Civil Society Monitoring for Improved Service Provision: Bangalore, India

Source: Public Affairs Center, India
## Engaging Media in Combating Corruption

Owner: Regional Director in the Bureau of Internal Revenue forced to resign; currently facing corruption charges; other officials suspended, also facing charges

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<th>CAR MODEL</th>
<th>BENEFICIAL OWNER</th>
<th>REGISTERED OWNER</th>
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<tr>
<td>Nissan Patrol</td>
<td>Edwin Abella BIR Reg’l Director, Quezon City</td>
<td>Sulpicio S. Bulanon Jr. 1817 Jordan Plains Subd., Quezon City (listed address of Abella in his SALs) 24 Xavierville, Loyola Heights, Quezon City</td>
</tr>
<tr>
<td>Suzuki Grand Vitara</td>
<td>Ditto</td>
<td>Team Abella (son of Abella) 24 Xavierville, Loyola Heights, Quezon City</td>
</tr>
<tr>
<td>Nissan Cefiro</td>
<td>Ditto</td>
<td>Elizabeth S. Buendia 152 Road 8, Quezon City Limtra Dev. Corp. Zone 4, Dasmarinas, Cavite</td>
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<tr>
<td>BMW</td>
<td>Lucien E. Sayuno BIR Reg’l Director, Makati City Ditto</td>
<td>Marie Rachel D. Meneses c/o Metrocor and Holdings, G&amp;F, Makati City</td>
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<tr>
<td>BMW</td>
<td>Ditto</td>
<td>Daniel Anthony P. Duncano 2618 JP Rizal, New Capital Estate, Quezon City</td>
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<tr>
<td>Honda Accord</td>
<td>Danilo A. Duncano BIR Reg’l Director, Quezon City</td>
<td>Alberto P. Pangcog (husband) B2 L23 Lagro Subd., Quezon City</td>
</tr>
<tr>
<td>Mitsubishi L200</td>
<td>Corazon P. Pangcog AsstReg’l Director, Valenzuela City Ditto</td>
<td>Alberto P. Pangcog 9 Ricardo St., Carmel 1 Subd., Quezon City</td>
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The Right to Information

Mexico: 2003

- Promoted aggressively by Fox administration: inject accountability within the bureaucracy
- Established the IFA, a federal agency mandated to facilitate & monitor implementation
- Incentives and behavior within the bureaucracy gradually changing

India: 2005

- Grass roots movement: ten years of advocacy and public education before law was passed
- Suo moto provisions: duty to publish information proactively on beneficiary lists, status of projects
- Constitutionally independent Information Commission
Role of the Private Sector
**Business Ethics & State Capture**

- **Business Ethics**: Was a crisis of integrity & ethics at the root of sub-prime financial crisis? Dishonest assessment of creditworthiness, abetted by deregulation & political incentives?

- **State Capture**: In countries with weak institutions, small elites purchase parliamentary votes, presidential decrees, civil court decrees for their own benefit (e.g., oligarchs in former Soviet Union)

![Proportion of firms affected by capture of ...](chart)

- Parliamentary Votes
- Presidential Admin. Decrees
- Civil Court Decrees

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<th>Country</th>
<th>Hungary</th>
<th>Estonia</th>
<th>Russia</th>
<th>Ukraine</th>
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<td>Parliamentary Votes</td>
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How to Support Responsible Private Sector?

- Create sound business environments, benchmarked internationally *(Doing Business Indicators)*

- Showcase examples & evidence that ‘avoiding corruption is good for business’ *(Enron & Satyam vs. Celtel’s Mohammed Ibrahim)*

- Support initiatives to promote business ethics and voluntary codes of conduct *(ICC Code of Conduct, TI’s Business Principles, WEF PACI, UN Global Compact)* – with capacity building *(Drucker Institute, APEX)*

- Create external verification mechanisms *(Collaborative governance standards – e.g., EITI, ISEAL, FSC)*

- Build coalitions of businesses and others *(Indonesia Business Link, Global Integrity Alliance)*

- Enforce global/regional laws & regulations *(OECD Convention, UNCAC)*
Global Initiatives: Addressing Transnational Issues
CORRUPTION - Not just a developing country problem

Percentage of firms that pay public procurement kickbacks by country of origin of foreign direct investment

Source: “Are Foreign Investors and Multinationals Engaging in Corrupt Practices in Transition Economies?” by Kaufmann, Hellman, Jones, in Transition, May-June 2000. Note: Survey Question was “How often nowadays do firms like yours need to make extra, unofficial payments to public officials to gain government contracts?” Firms responding “sometimes” or “more frequently” were classified as paying kickbacks. These figures are subject to significant margins of error and thus should be regarded as approximate.
Instruments to Combat Transnational Corruption

- US Foreign Corrupt Practices Act 1977
- OECD Convention on Combating Bribery of Foreign Public Officials 1999
- World Bank debars corrupt firms – over 330 firms and individuals were blacklisted since 1999
- US Sarbanes-Oxley Act 2002: corporate governance and reporting
- UN Convention Against Corruption 2005
  - Most comprehensive anticorruption instrument because it covers every country in the world that signs
  - Covers not only public but also private to private corruption
  - Key provision on asset recovery, supported by WB-UNODC’s Stolen Asset Recovery Initiative (StAR)
The Stolen Asset Recovery (StAR) Initiative

The Problem

✓ Cross-border proceeds from criminal activity, corruption & tax evasion estimated to be $1-1.6 trillion per year—half from developing & transition countries

✓ Bribes received by public officials from developing & transition countries is estimated at $20-40 billion

✓ TI’s estimates of stolen assets include:

- Mohamed Suharto
  (President of Indonesia 1967-1998) $14-35 billion

- Ferdinand Marcos
  (President of the Philippines 1972-1986) $5-10 billion

- Sani Abacha
  (President of Nigeria 1993-1998) $2-5 billion

- Mobuto Sese Seko
  (President of Zaire 1965-1997) $5 billion

A Global Effort

StAR is a joint initiative with the Bank & UNODC, launched in September 2007. Partnerships are being developed at the global and country levels to:

✓ Persuade all jurisdictions to ratify & implement the UNCAC

✓ Help developing countries recover the existing stock of stolen assets

✓ Help countries undertake the necessary institutional reforms that would help deter future asset theft

✓ Advocate with financial centers to lower barriers to recovery

✓ Build knowledge and share information & experience

✓ On a voluntary basis, offer expertise to monitor the use of recovered assets for development (e.g., Nigeria)

Managing Political Economy: The “How” of Reforms
Making Reforms Happen
Managing & Overcoming Political Obstacles

Sequencing reforms given existing reform space

- **Zambia** telecoms: focus on domestic pricing impacting urban than international impacting influential Zamtel
- **India** power: reform sequencing
- **Ethiopia** PBS to mitigate reputational risk: support subnational service delivery with participation

Seeking to expand reform space pro-actively

- **Mongolia** Mining: TA with local think tank for public debate
- **Philippines** public procurement reform – pro-active coalition building to combat entrenched corruption networks
- **Paraguay & Bangladesh** roads: external monitoring by stakeholders

Making Reforms Happen
Managing & Overcoming Political Obstacles
Entrenched Corruption Networks: The Case on Montesinos in Peru

Source: “Robust Web of Corruption: Peru’s Intelligence Chief Vladimiro Montesinos,” Kennedy School of Government Case Program, Case C14-04-1722.0, based on research by Professor Luis Moreno Ocampo; Peru: Resource Dependency Network, 2000
Forging Coalitions for Reform
Philippines: Procurement Reform

Procurement Watch:
Drew other civil society groups into the advocacy efforts and coordinated the activities

- Transparency and Accountability Network (20+ member groups)
- Walang Ku-Corrupt Movement (Youth)
- PAGBA & AGAP (w/in Gov’t)
- Local chambers of Commerce (Private sector)
- Philippine Contractors Association (Private sector – main stakeholder)
- CBCP (Church)
Leadership with Integrity as a Driver of Reform
5 Cs to Counter Corruption

- **Connectedness**: Creating a sense of belonging to society
- **Care & Compassion**: Creating a sense of Compassion to care for the more needy in society
- **Courage**: Overcoming insecurity & incessant quest for material acquisitions
- **Cosmology**: Broaden vision by seeing life in the context of the huge universe
- **Commitment to Contribute**: Creating a commitment to public service – to give v/s take

Source: *H.H. Sri Sri Ravishankar (Founder, IAHV) @ The International Anticorruption Conference, Korea*
The World Bank Institute
Strategic Partnerships
Flagship Programs
Strategic Partnerships

- Flagship Executive Programs in Governance – Branded and Certified (e.g., City Managers program in India)
- Co-develop curriculum with reputed international partners (e.g., WBI-Harvard Health, Lee Kuan Yew School of Public Policy), based on actual cases
- Possible Topics: Leadership, Public Administration, Urban Governance, Anticorruption
- Customized and delivered through regional & national centers of excellence across regions, using GDLN video conferences with peer practitioners and e-learning
- Development of practitioner network for exchanging knowledge & innovations using alumni and other peers
Tackling the “How” of Reform: Building & Sustaining Coalitions

- Broaden student base of Flagship Executive Programs: government officials, CSOs, media, parliamentarians, donors
- A country cohort to include reps from all key groups
- Develop a strong alumni relations program and alumni/peer network
- Launch strategically focused International Conference Series
- Example -- RTI: feasible entry point to reforming public administration
- Hold every other year: monitor progress, discuss challenges, seek funding commitments
- Strengthen bond among coalition members from each participating country
Improving Governance
A Cross-Cutting Priority for Inclusive Growth

- **Building a sound investment climate for growth**
  - Institutions for macroeconomic stability (e.g., fiscal responsibility legislation, independent Central Banks)
  - Streamlined regulatory system: business entry, tax system
  - Independent, competent, trusted judiciary
  - Physical and financial infrastructure: power, transport, finance

- **Delivering better public services to empower the poor**
  - Health, including curbing informal payments, leakages of drugs
  - Education, including tackling absenteeism, leakages
  - User participation and oversight in service delivery

- **Managing public resources better**
  - Transparent & comprehensive budgets
  - Transparent, competitive public procurement system
  - Performance-based budgeting and human resource management system
Governance: Definition & Framework

Governance: The manner in which the state acquires and exercises its authority for providing public good, depends on interaction between:

- **Stakeholders** – leaders, political parties, bureaucracy, parliament, judiciary, private sector, civil society, media – and their interests
- **Capacity** – human, technical, financial – of stakeholders to perform their role
- **Incentives & Accountability** – rules & norms that provide incentives, rewards & sanctions to act in the public interest

Outcomes of Governance Systems: Corruption, quality of service delivery, investment climate

Corruption: is an outcome of poor governance
Strengthening Demand for Public Financial Accountability

- Strengthening Public Accounts Committees
  - Kenya, Ghana, India

- Civil Society & Media Oversight
  - Philippines, Slovakia

- Strengthening Supreme Audit Institutions
  - Hungary

- Public Expenditure Tracking & Information Campaigns
  - Uganda, Peru

- Participative Budgeting
  - Puerto Alegra, Brazil
Strengthening Administrative Capability

Challenges in Weaker Settings

Ambitious administrative reforms work only in those few countries with strong political commitment & sequenced reforms to build meritocracy & rule-compliance:

- **Latvia**: EU accession → market competitive pay, meritocracy, comprehensive administrative restructuring
- **Tanzania**: pay decompression; performance-based agency reforms
- Even in these countries, implementation was difficult

In most countries, a more modest administrative reforms is more likely to get results:

- **Albania**:
  - Pay reform and meritocracy targeted at top 1300 civil servants
  - Underpinned by independent appeals body
  - Beneficiaries successfully resisted political push-back
- **Peru’s SUNAT**: higher pay enclave for better results
- But challenges in clientelistic bureaucracies
Building the Demand Side
A constellation of checks and balances

- Executive
- Subnational governments and autonomous oversight agencies
- Legislature
- Judiciary
- Media
- Civil Society
- Broader International Community

Building the Demand Side
A constellation of checks and balances
Firms invest in influence, not productive investments

Influential firms ...
... enjoy a better investment climate...

... but innovate less

Source: WDR05, drawing on IC Surveys
Public Finance Management Performance

Percent of Benchmarks Met by PEFA Indicator (2001-2006)

Budget comprehensiveness, donor funds on-budget, medium-term perspective, internal audit, relatively weaker areas.
Improving PFM – A Platform Approach

Cambodia – Sequence of Platforms

Platform 1
A credible budget delivering a reliable and predictable resource to budget managers

Platform 2
Improved internal control and public access to key fiscal information to hold managers accountable

Platform 3
Improved linkage of priorities and service targets to budget planning and implementation

Platform 4
Integration of accountability and review processes for both finance and performance management

Broad Activities
- Full design of FMIS
- Develop IT
- Management
- Strategy
- Initial design of asset register

Enables more accountability for performance management
Enables focus on what is done with money
Enables a basis for accountability

Source: See “Study of measures used to address weaknesses in Public Financial Management systems in the context of policy-based support,” by Peter Brooke, at www.pefa.org
Forestry Sector: The Life of a Log

Local logger: $2.20

Local broker: $20.00

Foreign middle man: $160.00

Exporter of sawn timber: $800.00

US trader: $1,000.00

From illegal to legal

Foreign lumber processor: $710.00
Forestry Sector: 
*The Life of a Log*

- Satellite monitoring
- Local communities/third party
- Tracking system: *timber cut for export vs. exported lumber (value)*
- IKEA Model: log certification
- International code of conduct
- Increase supply thru fast growing trees
Business & Ethics: Complementary or Contradictory?  
*Global Crisis & Beyond*

**Was lack of integrity & social responsibility at root of crisis?**

Was this an edifice built on *indiscriminate pursuit of profit & dishonest assessment* of creditworthiness?

**Deregulation & abetting political incentives** (e.g., 2004 rule for Wall Street encouraging high leverage)

**Create awareness that ethics is good for business**

Recent events have shown poor ethics is bad for business (e.g., *Enron, Satyam Worldcom*).

But smart business also adopting ethical practices for profitability (e.g., *IKEA FSC-certified forests, Starbucks - fair trade coffee*).

Ethical businesses attract investor capital, good employees, new markets – critical in aftermath of crisis. (e.g., *Mo Ibrahim - Celtel*)
Improving Governance in Sectors
Corruption in Infrastructure Sector
The 2006 Pothole-Patching Operation in Brazil

- Roads significantly deteriorated in last several years
- A $200 million emergency program launched in January 2006 to repair 26,440 km of federal roads
- 27% to be contracted without competition; 73% as variation orders to ongoing contracts
- A significant amount of works to be awarded to a major contributor to the 2004 electoral campaign