

Improving Public Sector Governance: The Grand Challenge?

MANY GOVERNMENTS IN DEVELOPING countries face the challenge of delivering a wide range of services essential for development—from infrastructure and social services to the functioning of the legal system and enforcement of property rights—all of which pose the challenge of how to get governance “right.”

States have responded with varying degrees of success. At one end of the spectrum are the failed states, where governments barely exist, and where they do, provide hardly any services. At the other extreme are a handful of countries where governments and their leaders are doing well by most development measures. In between are weak or predatory states that “consume the surplus they extract, encourage private actors to shift from productive activities to unproductive rent seeking, and fail to provide collective goods” (Evans 1995, 24); young democracies managing simultaneous political and economic liberalization with weak bureaucracies and few checks and balances; and more mature democracies where governments face the same difficulties as advanced countries when it comes to political corruption and abuse of office. Then there are the large, continent-size polities such as India and Brazil, within whose national boundaries can be found the entire range of governance configurations.

Though extensive research had probed the causes and impact of poor governance, and in particular of corruption,¹ it was not until the mid-

1990s, with improvements in data and econometric techniques, that large, cross-country analyses emerged on the impact of governance institutions on investment and growth. This research has shown that corruption—which is both a symptom and cause of bad governance—discourages private investment and, more generally, that the quality of governance institutions has a significant impact on economic growth (Mauro 1995; Knack and Keefer 1995; Wei 1996, 2000; World Bank, *World Development Report 1997*; Kaufmann, Kraay, and Zoido-Lobaton 1999; Kaufmann 2003; Kaufmann, Kraay, and Mastruzzi 2003; Rodrik, Subramanian, and Trebbi 2002). Further, the research provides evidence that corruption distorts the allocation of resources in ways that hurt the poor (Mauro 1998a, 1998b; Tanzi and Davoodi 1998; Gupta, Davoodi, and Alonso-Terme 2002).²

Combined with urbanization and the spread of democracy, and also the extensive public awareness efforts of international organizations such as Transparency International and the World Bank,³ the empirical research gave rise to governance reforms in developing countries. These ranged from very focused technical reforms of budgetary and civil service systems to more encompassing efforts such as decentralization and the overhaul of legal and judicial systems.

This chapter reviews these reform efforts and the lessons they yield. Section 1 introduces key governance concepts and discusses why governance reforms are particularly challenging, and section 2

draws emerging lessons. Recognizing that one size does not fit all, section 3 presents a heuristic approach to identifying avenues for reforms depending on broad country characteristics. Section 4 concludes the chapter.

1. Understanding the Governance Conundrum⁴

Public sector governance refers to how the state acquires and exercises the authority to provide and manage public goods and services.

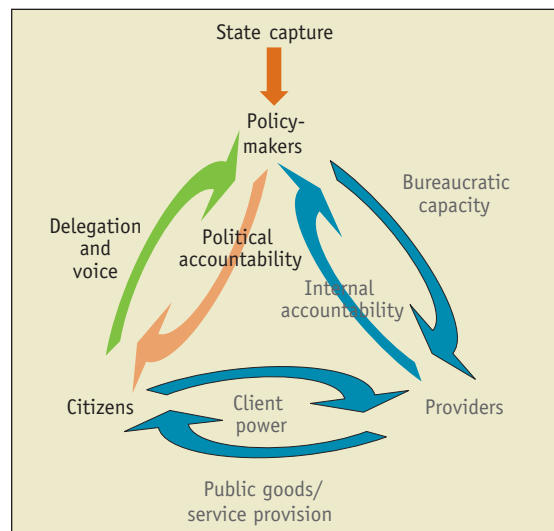
The quality of governance (and thus the nature and extent of corruption) depends fundamentally on institutions. As discussed in chapter 1, institutions are the “rules of the game” that shape the behavior of organizations and individuals in a society (North 1990, 3). Institutions can be formal rules, such as a country’s constitution, its laws and regulations, contracts, and internal procedures.⁵ Or they can be informal rules, such as the values and norms that drive bureaucratic behavior. Scholarly research and concern with institutions is not new, but a strong interest in institutions reemerged in the 1990s, largely because the stronger macroeconomic policies of the 1980s had not achieved more rapid progress in development and poverty reduction. Interest moved from “getting the policies right” to “getting the institutions right” and had a particular focus—the rules of the game on which the governance of the public sector is grounded.

Fundamentally, public sector governance is about the nature and quality of three principal relationships: between citizens and politicians, between politicians as policy makers and the bureaucracy (those responsible for providing public goods and services), and between the bureaucracy as delivery agents and the citizenry as clients (figure 9.1).⁶

Citizens and Politicians: The Heart of Governance

In an ideal world, citizens can hold politicians accountable for their actions and for policy out-

FIGURE 9.1
Citizens and Politicians



Source: Author's elaboration.

comes, both through elections and through checks and balances on the abuse of power. Periodic elections provide the basic means through which citizens can hold politicians’ feet to the fire. Restraints in the form of court adjudication of disputes among contracting parties, especially between government and the citizenry, and legislative oversight of executive or ruling party decisions and actions, foster accountability between elections. In well-functioning democracies, these latter features are embodied in the constitution and promote the rule of law: everyone, politicians included, behaves in accordance with agreed rules as embodied in laws and regulations and no one is above the law.

However, many countries are not democratic and even in those that are, as discussed in the next chapter, the conditions needed to make democracy function well are very demanding. In many countries, the formal trappings of democracy do not translate into accountable decision making for a variety of reasons—from the lack of a truly independent parliament or judiciary to electoral market imperfections. Even in countries with regular competitive elections among multiple political parties or

candidates, elections often do not have the desired effect, so that politicians can easily renege on campaign promises and responsibilities.⁷ In either case, the relationship between citizens and politicians is typically governed by weak institutions—whether political institutions (rules or arrangements that define, govern, and influence how leaders and other politicians are selected and replaced) or institutions of restraint (rules or arrangements that establish checks and balances on the abuse of power and authority). Courts are easily swayed by influential politicians; the legislature rubber-stamps the narrowly focused special interest initiatives of the executive; high-ranking officials abuse their authority for private gain; and enforcement agencies prey on the citizenry. In other words, the rule of law is weak.

When the rule of law is weak, the risk of state capture is high. State capture “refers to actions of individuals, groups, or firms . . . in the public and/or private sectors to influence the formation of laws, regulations, decrees, and other government policies to their advantage, through the illicit and nontransparent provision of private benefits to politicians and/or civil servants” (World Bank 2000a)⁸ and is a serious problem in many developing countries (Kaufmann 2003). When pervasive, it becomes the principal stumbling block for efforts to reform governance institutions.

Politicians and Policy Makers and the Bureaucracy: The Core Principal-Agent Problem

Politicians make policy and are responsible to the citizenry for the policies that are promulgated and implemented, but they delegate the implementation of policy to an army of bureaucrats. In delegating, they establish the rules and regulations that govern the operations of the civil service. These include, for example, formal institutions such as the civil service code, the budgeting system, and reporting systems as well as informal institutions (such as the practice of *amakudari* in Japan).

Delegation almost always gives rise to the principal-agent problem. The principal delegates

the implementation of a task to an agent but will need to monitor the agent efficiently to confirm exactly what has been accomplished.

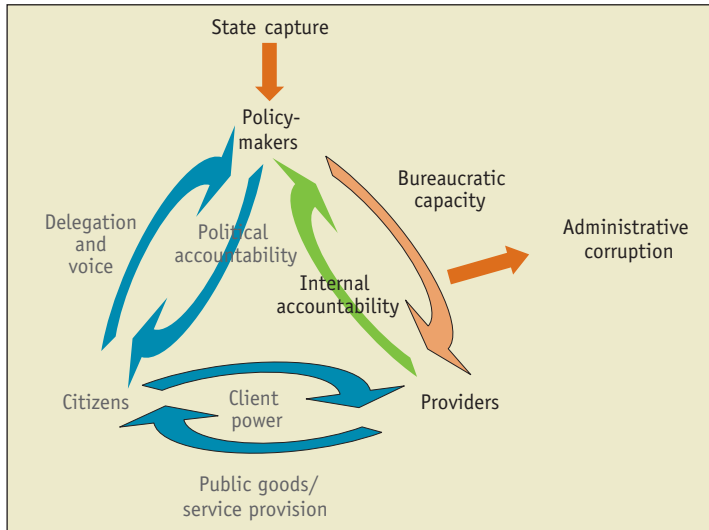
To delegate implementation, policy makers establish a compact with bureaucrats that has two major features. First, it provides the means through which the bureaucracy can develop and enhance its capacity to implement policies and deliver public goods and services. Capacity in this context refers to (1) the skills bureaucrats need to deliver on various mandates, (2) the resources (capital and financial) to support the needed efforts, and (3) the processes and systems (such as the budgeting system and the procedures for using it) that enable large numbers of individuals to function efficiently together. Second, the compact establishes means through which bureaucrats can be held accountable to policy makers for performing their tasks. That is, the bureaucrats are responsible to policy makers for accomplishing certain tasks and are prepared to explain and face the consequences of deficiencies or failures. Accountability mechanisms typically involve checks and balances internal to government agencies, such as internal audit, ex post program evaluations, and ex post reporting, as well as external restraints such as exercised by an ombudsman, supreme audit institutions, and anticorruption commissions.

Adequate capacity is needed if accountability is to work. Auditing, performance evaluation, reporting, investigations, and prosecution require information. And to produce the right information requires processes, skills, and resources to provide appropriate infrastructure and create appropriate incentives. In the same vein, more effective accountability helps strengthen capacity because policy makers are more willing to grant greater flexibility and because resources make the bureaucracy even more effective. Figure 9.2 highlights the salient features of the compact.

The nature of the compact between policy makers and bureaucrats critically determines the outcomes of policies. When the compact is defective, because capacity is weak or accountability is poor, administrative (or bureaucratic) corruption typically emerges. Weak capacity and accountability

FIGURE 9.2

Politicians and Policy Makers and the Bureaucracy



Source: Author's elaboration.

translate into numerous opportunities for soliciting or extracting bribes and other illicit payments.⁹

The compact is itself partly conditioned by the extent of state capture. Administrative corruption differs fundamentally from state capture but is inextricably linked to it. Politicians are at the heart of state capture—whether as perpetrators or as willing respondents to the captors—but since it is bureaucrats who implement the distorted policies that result from capture, corrupt politicians need at a minimum the acquiescence of at least some segments of the bureaucracy. In practice this implies that politicians constrain the capacity of bureaucrats or weaken their accountability. For instance, in many developing countries, the annual budgets allocated to the ombudsman or to the supreme audit institution are inadequate and the personnel appointed to key posts are rarely the most qualified (Heilbrunn 2002). Moreover, politicians will prefer to sustain clientilistic practices within the bureaucracy rather than to introduce formal, transparent merit-based recruitment processes (World Bank 2000b).

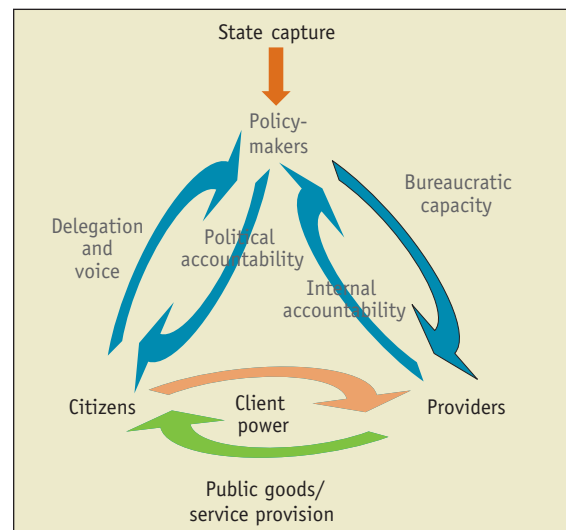
Bureaucrats and the Citizenry: Where the Rubber Hits the Road

Most citizens' immediate contact with the state is through the bureaucracy. Citizens can complain to their congressman or mayor about the poor quality or inadequacy of some service and hope that the representative will intercede with or pressure the bureaucracy on their behalf. If they are generally unhappy with the response, they can vote the person out of office. But they cannot penalize or punish bureaucrats directly or officially.¹⁰

Citizens acquire leverage over the bureaucracy if they can organize themselves into nongovernmental organizations (Rose-Ackerman 2004). The capacity to organize gives citizens "voice" (the ability to monitor the performance of the bureaucracy, generate valuable information, and pressure politicians for action) and "client power" (the ability to engage directly with the providers of services). Both of these attributes strengthen the compact between politicians and the bureaucracy and thus help to improve the delivery of public goods and services.¹¹ Figure 9.3 highlights the role of voice and client power in the triad.

FIGURE 9.3

Bureaucrats and the Citizenry



Source: Author's elaboration.

Citizens generally find it difficult to organize themselves, however. Collective action is costly and thus does not always emerge naturally. A weak link between citizens and politicians, as when electoral processes are flawed, can exacerbate the problem of administrative corruption: desperate for service, citizens may ultimately offer bribes to bureaucrats or to give in to bureaucratic demands for bribes. The inability to organize can thus worsen an already defective compact.

2. Public Sector Governance Reforms in the 1990s

Using the three-part analytical framework outlined in section 1 as a guide, this section identifies some potential lessons from the governance reforms of the 1990s.

Enhancing Political Accountability: Legal and Judicial Reforms

Democracies, particularly nascent ones, face dilemmas in promoting genuine political competition, and thus in establishing political accountability. When the citizenry cannot clearly attribute responsibility for poor outcomes to politicians, elections—already blunt instruments for accountability—become distorted, and this enables nonperforming or poorly performing politicians to remain in power (see also chapter 10).¹²

Perhaps partly because of the immense difficulty of addressing problems in political institutions, countries in the 1990s turned to the other channel of political accountability: reforming legal and judicial systems, which seemed more amenable to technical solutions.¹³ Two trends—the privatization thrust and the new emphasis on private sector development—helped to make legal and judicial reform an imperative in many developing countries.¹⁴ Several other factors also provided an impetus: globalization and trade, drug trafficking, human rights, immigration, protection of intellectual property, suppression of terrorism, and the

consolidation of emerging democracies (Messick 1999). Law reform and development activities skyrocketed during the decade, encouraged by support from the international financial institutions and key donors.¹⁵

Pragmatic Approaches Have Been More Effective and Are More Likely to Succeed

Most reforms affecting private sector law were supported through short-term technical assistance involving foreign law professors or expert practitioners (Kovacic 1995; deLisle 1999). The foreign experts typically brought the text of their own country's laws, either as a basis for drafting a country-specific statute or simply for adoption wholesale.¹⁶

Many of the new laws have had little or no effect on behavior. For example, several former Soviet nations have statutes that on paper provide corporate shareholders more protection than under French or German law, but in practice, as capital flows attest, investor rights in France and Germany are much more secure (Pistor, Raiser, and Gelfer 2000, 65). Albania and Romania have enacted statutes governing the posting of collateral for a loan and the regulation of banks and securities markets, but businesses report that the statutes are ineffective (Gupta, Kleinfeld, and Salinas 2002, 13–14). And although new laws in Bangladesh, Benin, and Pakistan require bank debtors to repay their outstanding loans immediately, most debts remain unpaid (Messick 1999).

Experience emphasizes the need for pragmatism in legal reform. First, a new law must reflect the realities of the institutional environment within which it is to be inserted, including in particular the state of the institutions that will enforce it—judiciary, ministry of justice, the police, and regulatory agencies (box 9.1). When the agencies that will enforce a new law are corrupt, technically incompetent, or insufficiently independent of political authorities, the law must compensate for these deficiencies.

Second, implementation is easier if a new law incorporates customs, or norms that citizens are

BOX 9.1**Bright Line Rules versus Standards**

An early lesson that law reformers learned was the importance of substituting bright line rules for standards wherever possible. A bright line rule specifies the exact conduct expected (for example a law establishing a 45 miles per hour speed limit) whereas a standard leaves the question of violation to the enforcement agency (for example a law that makes a “reasonable speed” the limit). Bright line rules put less of a burden on enforcers than standards. Determining whether a driver was exceeding 45 mph is straightforward, whereas deciding whether a speed was reasonable requires investigation into such factors as time of day, weather conditions, and the presence of pedestrians and other traffic. Bright line rules leave enforcers with little or no discretion and so reduce opportunities for bribery. Since the enforcement of bright line rules is far easier to monitor, this can provide openings for self-help and other means of enforcing the law without resort to the authorities.

already observing. Hernando de Soto, for instance, spearheaded several law reforms in Peru that incorporated the norms and practices of street vendors, urban transit operators, and small landholders (de Soto 1989). Peru’s new land law, granting urban squatters property rights to their land, relies on customary methods of showing possession to establish these rights.

Experience also shows that a transparent and inclusive reform process reduces opposition to a new law and enhances compliance with it. In its projects, the European Bank for Reconstruction and Development has included representatives not only of government ministries, regulators, judges,

and legislators but also of businesses and other civil society groups.

Poor Incentives Rather than Weak Capacity Have Been the Root Cause of Poor Judicial Performance

Concern to improve the implementation of laws gave rise to parallel reforms of the judiciary. Early in the 1990s, reforms focused on contract enforcement, influenced by seminal work on institutions and economic growth that emphasized the important role that contract enforcement plays in economic development (North 1990; Weingast 1995; see also Oliver Williamson 1985). The rationale for judicial reform broadened as the decade unfolded, and with increasing frequency a better functioning judiciary was linked to, if not equated with, the rule of law.¹⁷ This broader emphasis coincided with the growing recognition in the international community that a well-performing judiciary was part of the solution to many development problems. By the close of the 1990s, judicial reform had, in the words of one practitioner, become “the big tent for social, economic, and political change generally.” Because it lent itself more readily to technical solutions, judicial reform became the entry point for addressing a problem that was fundamentally political in nature.

The widening of objectives caused significant changes in judicial reform programming among assistance agencies. At the World Bank, for example, judicial reform projects to create commercial courts and support similarly focused interventions gave way to much more ambitious undertakings: supporting new institutions to assume responsibility for governing the judicial branch, revising rules on the selection and promotion of judges, overhauling the management of the judiciary’s human and physical resources, rooting out corruption, constructing new court houses and equipping them with modern communications and computer technology, training lawyers and judges, providing programs to reach out to women and the poor, and establishing administrative courts.

Judicial reform proved to be a far greater challenge than expected. As did the attempted reforms of other public sector institutions during the 1990s,

most of these interventions produced little change (Burki and Perry 1998). As experience grew, it became clear that the roots of poor performance in the judicial system lay much less in a lack of resources and skills than in the behavior of judges, clerks, lawyers, and litigants. For example, India has created an enormous number of tribunals to handle civil service, tax, land, and consumer cases, to reduce the burden on the regular civil courts and speed up the disposition of cases, but these reforms have had little effect (Moog 1997). The reason is that lawyers, clerks, and many litigants have an interest in court delays and thus continue to frustrate reform efforts. State capture has compromised the proper functioning of formal institutions.

Development of Complementary Institutions Is Essential for Reform

The absence of parallel institutional reforms will tend to negate any progress in judicial reform. For example, efforts to improve the judiciary will be hindered if they are not complemented by reforms of the police and the public prosecutor offices (box 9.2).

While most efforts at judicial reform focused on improving court systems, some dealt with alternative dispute resolution mechanisms, offering arbitration, mediation, and other dispute-resolution methods as a way to channel disputes away from the courts to private fora. These projects tended to overestimate the potential of alternative dispute resolution methods. Unlike state-sponsored courts, private dispute resolution fora cannot induce the parties to appear or to comply with the resulting decision. For private methods to substitute effectively for resolution by the courts, the parties must have some incentive to submit their dispute and to be bound by the outcome.

At the same time, the projects largely ignored that many disputes could be avoided altogether if more information were available on the creditworthiness and reliability of potential contracting parties. The importance of credit bureaus and other devices for sharing information is beginning to be recognized. For instance, recent research has shown the significance of information availability for

BOX 9.2

Integrated Justice Sector Reforms: The Jamaican Case

The justice sector plays a critical role in enforcing the rule of law and protecting property rights and the rights of citizens. Safeguarding the accountability mechanisms that underpin the justice sector requires effective collaboration between the courts and the police. Successful violence reduction programs substantially increase the cost of crime by combining a high probability of capture (by the police) with a high probability of conviction (by the judicial system).

Jamaica's fairly well-developed judicial system has been criticized because of dramatic increases in political and criminal violence. To have an effective crime prevention strategy, Jamaica would need to match the effectiveness of its judicial system with better police capabilities; it would need to increase police accountability and improve police-community relations.

Sources: U.S. Library of Congress country study and study by the World Bank Group Jamaican country team, 2004.

deepening credit markets (World Bank, *World Development Report 2003*, 101–103).

Improving information sharing is a relatively apolitical approach to improving the rule of law, but by itself it cannot solve the problems of credible commitment that are inherent in contracting among private parties. The question that then arises is what else a country can do to make an investment environment more predictable, while waiting for the courts-based rule of law to emerge.

Reforms to the Legislature Deserve Greater Attention

In most countries, the legislature is the constitutionally mandated institution through which the electorate holds government to account. In doing so, the legislature can use several means, including approval of budgets, the questioning of senior gov-

ernment officials, the review and confirmation of executive appointments, impeachment and/or the power to dismiss the government, the establishment of parliamentary committees, and the formation of commissions of inquiry.

Relatively few attempts were made to reform legislatures during the 1990s (Manning and Stapenhurst 2002). The reasons included the more political and controversial nature of such reforms, donors' lack of experience with such reforms, and the nascent state of many legislatures (Lippman and Emmert 1997).

Nevertheless, the spread of democracy created the space for legislatures to evolve into independent political institutions that could oversee the executive and, with or without foreign assistance, legislatures ventured slowly to build their oversight capacity. Numerous organizations, including bilateral donors, multinational organizations, and international financial institutions, supported these efforts. Their assistance ranged from supplying office and other equipment to helping establish legislative budget offices and strengthening committees.

The decade saw a trend toward legislative budget activism in developing and transition countries, reflecting the process of democratization and the opening up of possibilities for legislative involvement in what were previously closed budgetary systems. In Brazil, for example, where Congress had historically played no significant role in the budget process, constitutional changes gave Congress powers to modify the budget. In Africa, too, changes occurred. For example, South Africa and Uganda passed financial administration or budget acts that give more influence to the legislature during the budget formulation and approval processes.

The experience to date suggests that developing-country legislatures have a long way to go before they can adequately perform their oversight functions, especially over national budgets. Building oversight capacity involves, among other things, strengthening "money committees," establishing dedicated research staff, enhancing complementary institutions such as national audit offices, and encouraging public input at the various stages of the budget cycle.

In assistance for democracy, it is support to legislatures that most often falls short of its goals, and legislative strengthening efforts should be seen as complements to related improvements in governance. In the case of money committees, this means dovetailing reform activities with broader efforts to enhance government accountability and strengthen public financial oversight, and ensuring that training activities include participants from other stakeholder organizations, such as the ministry of finance, the auditor general's office, and representatives from civil society.

Strengthening the Compact

For more than two decades now, public sector reforms have focused strongly on improving the compact between politicians as policy makers and civil servants as implementers of policy and providers of services. With the fiscal crunch arising from the debt crisis of the 1980s, efforts to prune and rationalize the role of the state led to privatization of state-owned enterprises. Budget and financial management reforms were initiated, and even challenging and controversial New Public Management reforms were undertaken in a great number of developing countries.¹⁸

The public sector reforms had essentially two thrusts. The first was to build the capacity of the public sector—personnel skills, systems, and processes—to formulate and implement policies. The second, whose emphasis increased during the 1990s, was to instill clearer and more binding accountabilities in civil servants to policy makers and politicians. Underpinning both of these trends was the move toward greater democratization of politics, which sought to strengthen political accountability. This often took the form of a major decentralization of financial and functional authority to local governments, to bring governments closer to the people.

Three caveats apply to the lessons offered below. First, given the slow pace at which institutions change, and the fact that most of these reform efforts are rather recent, it is too early to reach

definitive conclusions about successes or failures. Second, very little systematic research has evaluated results and outcomes. Third, since reforms imply changes in formal and informal rules, both of which are deeply rooted in a country or organization's culture and history, it is not obvious that successful reform efforts in one organization can be transplanted into other circumstances.

Fiscal Management

Governments faced with populist pressures can strengthen fiscal discipline by tying their own hands. During the 1990s, governments attempted to improve fiscal discipline in a number of ways. As noted in chapter 4, the most high-profile efforts granted independence to central banks, as a means to clarify the banks' direct responsibility for controlling inflation and to grant them the flexibility to meet this mandate. Recent research suggests that the central bank's ability to play this role depends heavily on the nature and efficacy of checks and balances in the larger environment (Keefer and Stasavage 2003, 407).

On the public expenditure side, the experience of the 1990s suggests that institutions define and constrain the political bargaining that affects fiscal outcomes.¹⁹ Well-defined antideficit rules, especially when coupled with credible limits on government borrowing, induce smaller deficits and more rapid adjustment of taxes and spending to unexpected fiscal shortfalls.²⁰ In recent years, a number of developing countries and subnational governments have passed fiscal responsibility acts to strengthen fiscal management. These laws enhance transparency, as well as the accountability of the executive to the legislature and the accountability of both the executive and the legislature to the citizenry, by stimulating discussion of fiscal policies and their implications before and after budget deliberations. Although no studies have yet assessed their effects, the new laws are expected to strengthen fiscal discipline.

Fiscal transparency is essential for maintaining fiscal discipline. The Asian financial crisis highlighted the importance of budget transparency, since hidden contingent liabilities can destroy the fabric of fiscal discipline. Greater budget transparency provides a

basis for informed debate about budgetary policy among the public and the legislature, and within the executive; it also increases the chances that fiscal risks will be identified and policy responses put in place. But the adoption of more transparent practices has often been slow, partly because of capacity constraints and partly for political reasons (box 9.3).

A medium-term expenditure framework (MTEF) will work only if politicians embrace it. Many countries adopted MTEFs during the 1990s, as a way to increase the transparency of budgeting and enhance the predictability of agency budgets. The primary function of an MTEF is to infuse a multiyear perspective into budgeting, enabling policy makers to recognize the implications of current budgetary decisions for future government finances and creating a more disciplined, sequenced budget process that clarifies the deliverables and accountabilities of both central and line ministries.²¹ Part of an MTEF's value comes from the discussion, debate, and agreement that it generates among different parties engaged in the budget process—in particular the legislature—about the tradeoffs that need to be made among programs, activities, and projects. To be effective, an MTEF needs to be integrated into the budget process and budget documents.

Among Organisation for Economic Co-operation and Development (OECD) countries, few have adopted the full plethora of features of MTEFs, whether by choice or by circumstance.²² Their adoption of multiyear features evolved gradually, usually as technical improvements to the budget process. Their experience suggests that an MTEF may be better used as a conceptual framework for thinking how elements of budget reform fit together, rather than as a reform in and of itself. Pursuing the key features of an MTEF individually appears to be a more effective approach than wholesale adoption of the full gamut of features.

Largely through donor initiatives, developing countries have introduced the MTEF as a process technically superior to annual budgeting. In Africa, implementation has been slow and MTEFs have not produced the expected results. As of 2002, 19 countries had MTEFs at some stage of implementation,

BOX 9.3**Fiscal Transparency and Developing Countries**

The International Monetary Fund introduced the Code of Good Practices on Fiscal Transparency in 1998 as a response to the financial crises of the late 1990s, and updated it in 2001. The Code is based on the following objectives: roles and responsibilities in government should be clear; information on government activities should be provided to the public; budget preparation, execution, and reporting should be undertaken in an open manner; and fiscal information should attain widely accepted standards of data quality and be subject to independent assurances of integrity.

The IMF helps countries to implement the fiscal transparency code through participating voluntarily in fiscal modules of reports on the observance of standards and codes (ROSCs). These assess the availability and quality of fiscal data and evaluate the fiscal management framework, including relations between levels of government and accountability for fiscal activities

outside the budget. As of end-2003, ROSCs had been completed in 63 countries; 58 of these reports had been posted on the IMF Web site.

Countries electing to have a fiscal ROSC are often those already engaged in fiscal management reform, yet in developing countries the reports have identified pervasive problems of data quality (unreconciled accounts, lack of clarity in accounting policies, weak external audit); excessive discretion in tax administration and poor enforcement; unrealistic budgeting; weak internal controls; significant payment arrears; and lack of clear responsibilities at various levels of government. In a number of developing economies, the scope and extent of off-budget activities (including quasi-fiscal activities) is an issue to be addressed. Further, except for a few industrial countries, most countries do not quantify tax expenditures. Many of these problems reflect underlying institutional problems.

Source: IMF 2003e.

but only five had integrated MTEFs in a meaningful way into their budget processes. In most cases, MTEFs have operated in parallel to the general budget process (Le Houerou and Taliercio 2002). Only four countries had submitted MTEFs to both cabinet and parliament and, in some cases, the MTEF has remained strictly a technical document of the ministry of finance (Le Houerou and Taliercio 2002, 13).

Just as is the budget, an MTEF is fundamentally political. Its effectiveness depends heavily on the willingness of politicians to embrace it as a reformed budget process and to accept the discipline it brings.

Organizational and Human Resource Management

Capacity constraints are binding; strategic incrementalism may be the only option for many developing countries. *World Development Report (WDR) 1997* argued that

the state should match its role to its capacity, since taking on too much makes the state less effective. This was certainly evident from the various reforms that were pursued in public expenditure management, but it is perhaps most salient in the attempts of many developing countries to adopt New Public Management (NPM) approaches.

NPM reforms are a challenge even in countries with strong capacity. In environments where the basics are very weak, resort to NPM-style performance management techniques has been associated with poorer performance, as measured by increases in administrative corruption (Anderson, Reid, and Ryterman 2003; Schick 1998). These authors found that the most significant factor contributing to better performing public organizations is the creation of merit-based personnel management practices: putting in place recruitment and selection systems, performance evaluation procedures, promotion

procedures, salary-setting rules and procedures, wage bill controls, and due process protections, and ensuring that they function as planned.²³ The implication is that these core systems and practices are preconditions for effective performance management.

Performance-based budgeting emerged as a corollary reform of NPM, and over the past 20 years OECD countries have gradually shifted the focus of their public sector budgeting and management from inputs to outputs. Arguably this development has enhanced public sector management and increased the effectiveness and efficiency of governments. But, as has the multiyear expenditure framework, it has taken many years to mature. And the experience has debunked the earlier belief that performance measurement can often be an effective catalyst for organizational change (Schick 2003). An important lesson for developing countries is the fact that OECD countries already had basic personnel management systems that functioned very well, many in the Weberian tradition, before they launched into performance management and budgeting.

Capacity constraints and political imperatives can severely impede civil service reform. In many developing countries, establishing basic personnel management systems requires overhauling the civil service. A malfunctioning civil service creates disillusionment among the citizenry, and a de-politicized, reasonably well-compensated, and skilled civil service can serve as a credible commitment mechanism signaling that better public services are on the way (Shepherd 2003). Thus one might expect politicians to be interested in improving the internal incentive mechanisms that affect the civil service. However, many developing countries attempted civil service reforms under conditions where clientelist politics of one form or another were already deeply entrenched. Hence the reforms met formidable opposition and, not surprisingly, their results have been quite discouraging (World Bank 2000a; Levy and Kpundeh 2004). A key part of the difficulty is that such efforts must inevitably transfer some authority from the political echelons (legislators, ministers, and their political appointees) to a cadre of de-politicized officials (civil servants)

(Manning and Parison 2003). In many developing countries, the political history and environment make this a gargantuan task.

Enclaving is a potential path to sustained reforms of the civil service. The challenges of politics and capacity constraints have led some countries to experiment with enclave approaches to civil service reform, spinning off selected government entities from central government ministries.

Increased autonomy for revenue collection agencies became a key feature of governance reforms in Latin America in the early 1990s, starting with Peru in 1991, followed by República Bolivariana de Venezuela, Mexico, Bolivia, Guatemala, Argentina, and Colombia. Such reforms became popular in Africa in the late 1990s, with 12 countries experimenting with revenue boards or semi-autonomous agencies. In Asia, by contrast, only Malaysia and Singapore have given greater autonomy to their tax administrations, although other countries in the region are beginning to consider this.²⁴ In general, an autonomous revenue agency has more flexibility in managing personnel and finances and more control over corporate governance than does the typical government agency. At the same time, it also has clearer and more transparent accountabilities. The introduction of such agencies implied that collections would increase and service would be more taxpayer friendly.

In practice, the performance record of these agencies has been mixed.²⁵ Performance problems have resulted mainly from lack of political support, tensions between the autonomous revenue agency and the ministry of finance, and poor organizational design, including weaknesses in the new accountability regime. Nonetheless, on the whole the record suggests that, with enough political push and proper design, these agencies can improve tax administration and be sustainable (box 9.4).²⁶

Given the immense difficulty of overhauling the whole of government, for many developing countries enclave reforms may be the only game in town. The important lesson is that enclaving must be strategic if it is not to constrain and/or distort the capacity-building efforts of government (box

BOX 9.4**SUNAT in Peru: A Modest Success**

In the late 1980s, Peru decided to set up a semi-autonomous revenue authority (SUNAT), since tax administration was riddled with corruption and on the verge of collapse, with revenue collections dropping to a record low of 9 percent of GDP in 1988. A comprehensive staff screening and replacement program was initiated, and less than one-third of the original tax administration staff was rehired by the new organization. A modern human resource management system was introduced and SUNAT was allowed to operate under private sector labor laws and without undue political interference. Salaries were adjusted to private sector levels. A new financing mechanism provided financial stability. By 1997 tax revenues had recovered to 14 percent of GDP.

After its successful start, however, SUNAT suffered from decreasing political support for efficient revenue collection; a decline in the quality of the tax policy framework, which made fair and efficient tax collection more difficult; and increased interference by the Ministry of Finance. As a consequence, SUNAT has suffered a loss of standing in public opinion. Despite these problems, however, its creation has permitted the launch of far-reaching efficiency- and integrity-enhancing reforms, which are having an ongoing impact. Revenue collection, at 12 percent of GDP in 2001, remains far above the prereform level.

9.5).²⁷ Part of the reason why autonomous revenue agencies have been modestly successful in some countries is that revenue collections dictate government budget envelopes.

In Africa, narrowly focused strategic interventions tended to be more successful than broader reforms over the long run, and among the more narrowly focused reforms, the capacity-building initiatives that focused on improving expenditure accountability were considerably more successful than those that focused on human resource management, according to Engberg-Pedersen and Levy (2004). These authors conclude that the expendi-

BOX 9.5**The Enclave Conundrum in Uganda**

The Government of Uganda now has to decide the fate of more than 70 enclave units, most of which are outgrown project implementation units and semi-autonomous organizations called secretariats. These were set up at the behest, or with support, of donors who doubted line ministries' capacity and were dissatisfied with ministries' procurement practices. The enclave units were allowed to set their own wage rates, above ministry levels, based on the premise that the necessary skills would not be available at the public service's low salary levels.

Ironically, with these higher salaries, the enclaved units recruited substantial numbers of skilled personnel from within the public service, depleting the capacity of ministries and demoralizing competent ministry staff.

Enclaving has also undermined the budget process. First, although budgeted under development expenditures, two-thirds (71 percent) of the enclave units' expenditure is of a recurrent nature. These recurrent expenditures come from the government's 10 percent contribution to donor-funded projects. While this may seem a nominal proportion of any project's total budget, the total constitutes nearly one-third (28 percent) of the government's own generated funds. This significant share is spent without the rigor that is associated with allocating other government expenditures.

Source: Draft report, "Affording Uganda's Public Administration Sector" (December 2003), World Bank. The report is currently being reviewed by the Government of Uganda.

ture accountability reforms, given their more technical nature, may have been less threatening to vested interests than the more politically sensitive administrative reforms, and, perhaps more important, that expenditure reforms produce more readily observable results that generate the general public support needed to counter vested interests.

Values, commitment, and pride in public service matter as much as controls and compliance. NPM reforms sought to introduce stronger market-based incentives as a means of reforming government bureaucracies. Emulating the experiences of developed countries such as New Zealand and the United Kingdom, developing-country governments adopted performance management techniques that grew out of reforms in the private corporate sector and sought to enhance the autonomy and accountability of public sector managers and staff. Such reforms have arguably led to improved service and

performance in developed countries, but have had little success in developing countries.

Industrial countries' experience with industrial performance and workplace transformation shows that workers' dedication to the job is an important explanation for improvements in performance (Tendler 1997). Recognition of this relationship has caused firms that perform well to pay close attention to innovative practices that increase worker dedication. Tendler contrasts this with the development literature, which has been rife with suspicion that "civil servants are self-interested, rent-seeking, and venal, unless proven otherwise." Her research in Ceará, Brazil, demonstrates that the creation of a sense of calling and ownership around public service by a committed leadership, a dedicated workforce, and an informed and engaged civil society can increase acceptance of reform and improve service delivery (box 9.6).

BOX 9.6

Building a Sense of Calling and Commitment in Public Service Delivery: Ceará, Brazil

Ceará has substantially improved its preventive health services, as reflected in indicators such as infant mortality and vaccination coverage. Agriculture programs have raised output and productivity. Spillover effects from procurement reform programs have resulted in local economic development, in addition to increasing output and productivity for small-firm suppliers. Public works construction has created more jobs in the economy than usual, resulting in a greater share of public expenditure being allocated to labor.

Four closely intertwined explanations can be offered for this improved performance:

First, civil servants in these programs showed high dedication to their jobs. Either they were dedicated entrants into civil service, and work conditions perpetuated that dedication, or the circumstances of the jobs elicited their commitment.

Second, the government repeatedly and publicly demonstrated admiration and respect for the civil ser-

Source: Tendler 1997, 135–65.

vants by regularly announcing successes and openly rewarding good performance, building a sense of calling and pride around the workers and creating a sense of chosen elite in the public service. Publicity also increased citizen awareness and public monitoring of civil servants and local governments, and created a new constituency that would help leaders and agencies overcome political opposition.

Third, innovative organization of tasks for workers in the public programs resulted in often voluntary ownership of varied and multiple tasks. These multiple tasks often coalesced into client-centric, problem-solving approaches to service delivery.

And fourth, repeated messages from the government and reorganization of tasks kept rent-seeking behavior under control by creating a sense of pride, ownership, and recognition around public service, in the eyes of society and civil servants alike.

The effectiveness of information and communications technologies (ICT) depends on the reengineering of underlying processes and the proactive use of change management. To increase transparency and efficiency in the delivery of front-line services, many countries in the 1990s began adopting ICT in such varied areas as tax collection, customs valuation, procurement, treasury and cash management, issuance of licenses, land registration and titling, passport issuance, and other focused front-line public services. This trend, which has come to be known as “e-government,” involved significant experimentation with the application of ICT to internal processes (box 9.7).²⁸

In a wide range of countries, e-government has been a powerful tool for enhancing the efficiency and effectiveness of public services (table 9.1).²⁹

Experience nonetheless suggests that e-government is not a panacea for basic problems. First, for real gains to be made, processes need to be simplified and automated in ways that reduce the discretion of government officials. For example, a study

of the effectiveness of efforts to introduce computerized integrated financial management systems in Africa concludes that “technology can only add value in the context of an underlying commitment to disciplined decision making, and internal management systems geared to monitoring compliance” (Dorotinsky and Floyd 2004). Second, most e-government projects have faced substantial resistance from public servants who tend to see such projects as a threat to their jobs; publication and easier access to information dilutes their control and diminishes their responsibility as information brokers. Hence, reform projects can stall unless adequate change management processes are adopted.³⁰ Third, political support from top leadership is critical. In Andhra Pradesh, India, for example, top leadership publicly pushed for e-government and allocated resources accordingly for an ambitious program. Several services are now delivered online and the state secretariat is moving to a paperless office and electronic workflow. In the Republic of

BOX 9.7

Mexico’s e-SAT Program for More Efficient Tax Administration

Inspired by the early successes of Argentina, Brazil, and Chile in using ICT to improve the delivery of government services, the Mexican government (as part of its OECD-based program of regulatory and administrative reform), began moving government information and services online. Mexico’s federal tax administration (*Servicio de Administración Tributaria*, or SAT) embarked on e-SAT, a program to offer tax services online. Starting in 1995, e-SAT has evolved gradually. By 1998, SAT had established an interactive Web page that contained basic information on tax laws and procedures and permitted taxpayers to file their annual declarations electronically. The main beneficiaries of the first phase of this new system were large corporations. During 2000–03, SAT expanded the nucleus of online tax services to allow tax-

payers to (1) obtain a personal form of electronic identification, (2) obtain a corporate tax ID for new entities via the Internet, (3) submit a tax declaration and other relevant forms, (4) enquire into the status of a taxpayer account, and (5) schedule an appointment with a SAT tax counselor. In August 2002, SAT promulgated a new regulation requiring the electronic submission of most individual and corporate taxpayer declarations (through SAT’s portal) and payments (through the portal of the taxpayer’s bank). SAT is now working to develop and make operational online systems for the receipt and processing of credit card payments and payment of tax refunds. e-SAT has greatly reduced the amount of paperwork previously managed by Mexico’s tax registry, declaration, and collection units.

Source: Kossick 2003.

Table 9.1
Examples of Efficiency Gains from ICT

Country, region	Type of government application	Time to process before application	Time to process after application
Brazil	Registration of 29 documents	Several days	20–30 minutes per document, one day for business licenses
Chile	Taxes online	25 days	12 hours
China	Online application for 32 business services	2–3 months for business license Several visits to multiple offices for filings	10–15 days for business license Several seconds for routine filing for companies
India, Andhra Pradesh	Valuation of property	Few days	10 minutes
India, Andhra Pradesh	Land registration	7–15 days	5 minutes
India, Karnataka	Updating land registration	1–2 years	30 days for approval, request completed on demand
India, Karnataka	Obtaining land title certificate	3–30 days	5–30 minutes
India, Gujarat	Interstate check posts for trucks	30 minutes	2 minutes
India, Andhra Pradesh	Statutory certificates on caste	20–30 days	15 minutes
Jamaica	Customs online	2–3 days for brokers to process entry	3–4 hours
Philippines	Customs online	8 days to release cargo	4 hours – 2 days to release cargo
Singapore	Issue of tax assessments	12–18 months	3–5 months

Source: Bhatnagar and Deane 2003.

Korea, the success of the OPEN project has been largely due to the support of the mayor of Seoul, who took a multipronged approach to curbing corruption.³¹ In Gujarat, India, with strong support from the leadership, computerized check-posts trebled the fines collected from overloaded trucks, but when this support waned, the verve to reduce corruption weakened, and new forms of extortion hampered the overall effectiveness of the program.

External Restraints

To combat corruption, prevention may be more effective than investigation and prosecution. With the spiraling concern over corruption in the public sector, developing countries began to establish institutions of restraint that focused mainly on enhancing internal accountability: supreme audit agencies, the ombudsman function, and anticorruption agencies.

Among these, anticorruption agencies gained most currency, in countries from Latin America to Africa. These agencies have had mixed results. The successes of Singapore's CPIB and Hongkong's

ICAC are widely known. More often, however, such agencies have been seriously impeded by resource constraints, weaknesses in complementary institutions such as the judiciary and the police, and multiple goals (Meagher 2002). Some have been set up to satisfy a political need—such as an outcry from a corruption scandal or loan conditionality—but lack enough resources or political backing to actually do their work. They have served to deflect demands for action against corruption while the authorities fail to undertake any real responses (Heilbrunn 2002). Box 9.8 outlines the demanding requirements for an effective anti-corruption agency.

Supreme audit agencies are crucial for enforcing the financial accountability of the government, and during the 1990s such agencies were established or restructured in many developing countries. Their effectiveness has been highly variable (Heilbrunn 2002). In many countries, the auditor general's independence is compromised by an executive that seeks to prevent the opposition from learning of

BOX 9.8**What It Takes to Create a Successful Anticorruption Agency**

E*stablishment:* Carefully situate the agency within a set of well-defined supports: a comprehensive anticorruption strategy, careful planning and performance measurement, realistic expectations, and strong enough political backing (across class and party lines) to make it effective regardless of political and personal consequences. Agencies that score high on these measures are those in Hong Kong (China), Singapore, Malaysia, Uganda, and Australia's New South Wales.

Focus: Define the agency's focus in a way that will maximize its effectiveness. For example, an agency could focus on prevention and monitoring government implementation of anticorruption policy, forgoing a comprehensive mandate (as in Korea); or its jurisdiction could be mainly prospective, with only limited concern with past cases (as in Hong Kong, China); or it could choose cases selectively, based on clear standards (as in Argentina and New South Wales); or it could deal only with the probity and reputation of the public service (as in the United States and India). Clarity of focus seems to be consistently associated with success, except where massive resources are available.

Accountability: Promote the agency's accountability through such factors as the application of legal standards, the availability of judicial review, systems of public complaint and oversight, a requirement that the agency answer to all branches of government and the public, and precise and comprehensive expenditure accountability. Some commentators also suggest minimizing the agency's size, as well as the "free" support given by aid donors. Accountability is not uniformly associated with success. Many successful anticorruption agencies are strongly accountable, but this is probably an outgrowth of the rule of law, which seems to be more consistently associated with success (see below).

Independence: Independence arises in some cases simply from outside accountability, and in others from

the agency's placement and line of responsibility, the appointment and removal procedures for top officials, or some forms of fiscal autonomy. The most important sign of independence is the absence of political intrusion into the agency's operations. De facto autonomy enables anticorruption agencies to operate on a consistent and professional basis with relatively little partisan intrusion. In most environments, this mode of operation is important to success.

Powers: A successful anticorruption agency will have strong research and prevention capabilities, along with the authority to do the following: access documents and witnesses, freeze assets and seize passports, protect informants, monitor income and assets, propose administrative and legislative reforms, and exercise jurisdiction over the head of state. Many agencies have most or all of these powers on paper but frequently cannot put them into effect owing to lack of coordination, weak capacity in cooperating institutions, and political factors.

Resources: Agencies in this field, as in others, depend on well-trained personnel, including sufficient numbers with highly specialized skills. Staff should also be well compensated, subject to integrity reviews and quick removal, and endowed with a strong ethic of professionalism, integrity, and high morale. Also important are sufficient funds, adequate facilities and assets, high-level information sharing, and coordination with other government bodies.

Complementary institutions: Anticorruption agencies do not succeed without the basic features of the rule of law: functioning courts, free and active media, an active community of nongovernmental organizations (NGOs) and public interest groups, and other capable institutions such as supreme audit agencies and central banks. Civic factors such as free media and capable nongovernmental watchdogs are not as clearly associated with their success.

possible cases of illicit enrichment. For instance, reports from the auditor general are submitted to the president who then determines when and how to release the information. Too often, the information is not released.

Focusing on cure rather than prevention of corruption has rarely worked in developing-country contexts, at least not in the short to medium term. As the 1990s ended, it became clear that the gestation period for such reforms would be much longer than had been expected and that, over the medium term, better results could probably be obtained from preventive measures that achieve the following:

- *Reduce the likely benefits from corruption.* Promoting competition in the private sector, through lowering barriers to entry and reforming regulations where there are natural monopolies, serves to reduce rents and rent seeking. Ensuring competition in procurement through nationwide advertising and efforts to prevent collusion can also greatly reduce corruption. More radical measures include calling for a referendum for the public to approve large projects and the tax and expenditure allocation choices these imply.
- *Reduce the number of transactions that create opportunities for graft,* for example by liberalizing imports, removing price controls, removing industrial and trade licensing requirements, or making such licensing automatic. For example, when India liberalized industrial licenses in the early 1990s, a large industry aimed at obtaining licenses disappeared, along with the corruption associated with it. Similarly, when Indonesia liberalized its trade regime in the 1980s it radically reduced corruption in import licensing. Streamlining bureaucracy by reducing the number of approvals required for particular transactions, reducing bureaucratic instructions, simplifying rules, improving service standards, and decentralizing services all have this effect.
- *Increase information, transparency, and public oversight.* Corruption often occurs because of lack of information. Governments lack information on

what their agents are doing on the ground. Consumers of government services are not aware of what rules or charges are legitimate. Clarifying rules and increasing transparency helps to reduce opportunities for corruption, as does involving beneficiaries in the oversight of government programs. Indonesia's Kecamatan Development Program is a good example of this (World Bank 2003c).

- *Establish time-tested, basic systems of personnel management.* Merit-based recruitment systems and long-term career path arrangements—essential attributes of a Weberian system—significantly reduce bureaucratic corruption (Evans and Rauch 2000), and there is evidence that smaller pay differentials between the public and private sectors lead to lower levels of bureaucratic corruption (Van Rijkeghem and Weder 2001).

Much current thinking about fighting corruption is influenced by the principal-agent problem. The above lessons assume that the principal (the politician or the head of a government agency) is himself or herself not corrupt, and that he or she has an interest in ensuring that his or her agents are not corrupt. But most principals, that is, politicians, even if they themselves are honest, need money to stay in power, fight election battles, or buy off opposition. Those who contribute such money can then influence the way power is exercised. If politicians are beholden to special interests or are captured by various interest groups, fighting corruption becomes rather difficult (see the discussion in section 3 on reform strategies in captured states).

Nurturing Voice and Client Power

By the mid-1990s, it was clearly seen that civil society organizations—such as NGOs and religious organizations—could play an important role in inducing better performance from government. In many developing countries, the introduction of elections opened the way for citizens to hold politicians accountable for the performance of the public sector. Homegrown experiments sprouted

throughout the developing world, showing that active civil society participation in reform can potentially lead to much needed improvements in the compact.³² For example:

- Citizen report card surveys, which originated in Bangalore (box 9.9), have spread to other parts of India and are now being tried in other developing countries including Peru and the Philippines. This instrument has channeled the collective voice of citizens seeking better public services.
- Different forms of participatory budgeting have emerged in parts of the developing world including Brazil and South Africa. At its core, participatory budgeting engages citizens and their elected representatives, such as the mayor or governor, in a partnership to determine the priorities of the community and what projects will be funded from the local budget during the coming fiscal year. Typically, this process has been launched by forward-looking local politicians as a means of locking future politicians into a transparent budget process for which they can be held accountable.
- NGO advocacy for greater transparency and fairness in public procurement and monitoring of procurement processes has become more common as well. So-called integrity pacts developed by Transparency International have now been used in several countries as part of huge procurement contracts, for example in Colombia and Mexico.³³

Most demand-driven reforms have taken place in the delivery of public services, because service delivery is where the state meets the average citizen. Changes in quality, quantity, and access to services affect everyday lives and thus make citizens more prone to support, if not to seek, reforms in governance.

Interventions to improve service delivery are a potential entry point for broader governance reforms (box 9.10). In the Middle East and North Africa, there are few democracies and the gover-

nance gap is significantly wider than in other developing regions, largely as the result of weaknesses in public accountability (World Bank 2003c). Though there appears to be much less governance reform activity than in other regions, civil society efforts to address poor service delivery appear to be sprouting at the community level. All regimes care about their legitimacy, and one way that nondemocratic regimes can maintain their legitimacy is by providing adequate public services.³⁴ To do this, they need information about service delivery problems. Civil society organization efforts such as report card surveys provide such information.

If demand-raising efforts are to be effective, public officials and civil society groups must be willing to work closely together (box 9.11). Civil society organizations need partners inside the public sector, since they have the knowledge and understanding needed to move a reform agenda within the government. Likewise, reform-minded politicians and civil servants need civil society organizations to galvanize public support.

Decentralization

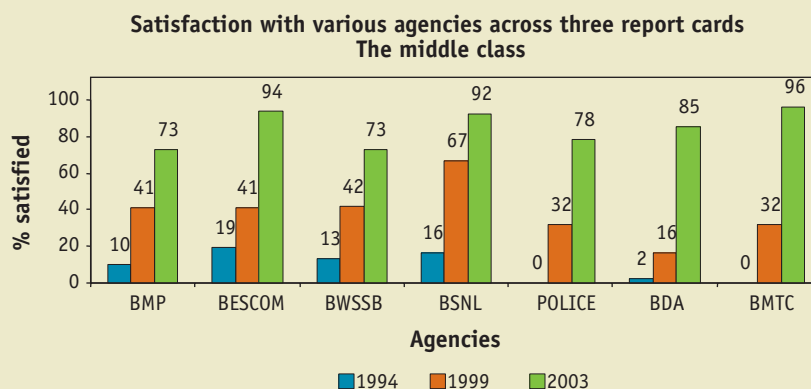
Many developing countries embarked on wide-ranging decentralization efforts in the 1990s (*WDR 2000*; Litvack, Ahmad, and Bird 1998; Burki, Perry, and Dillinger 1999b; Ebel and Yilmaz 2002). In developing countries on average, the share of subnational governments in total government spending increased by 20 percent from the 1980s to the 1990s.³⁵ Although some of the decentralization efforts may have been indirectly stimulated by fiscal crisis, as in Indonesia, most were inspired by changes in the political landscape: the collapse of long-standing highly centralized regimes and the emergence of strong global pressures for democratization. In many countries, including Thailand, pent-up distaste among the citizenry for tight, unchecked central control and a greater desire to hold political leaders accountable provided the impetus.

Decentralization is a political choice, whose design and implementation may not improve service delivery. Designed well, decentralization can move decision

BOX 9.9**The Report Card Survey in Bangalore, India: Stimulating Administrative Reforms**

The 10-year experience of the Public Affairs Centre (PAC) in Bangalore, India, illustrates the potential of using client surveys as a lever to induce upstream public management reforms and an improvement in service delivery. Established in 1994 to improve public sector governance in India, PAC's primary focus and strength lies in assisting citizen groups in "using knowledge as a basis for collective action" (Paul 1995). In 1994, the PAC conducted its first report card survey, effectively an opinion poll, of citizens in Bangalore on their perceptions of the quality of services provided by eight key government

organizations. Citizens showed themselves generally dissatisfied with the delivery of public services. The results of the survey were published in a leading newspaper, raising their visibility and leading public officials in a number of agencies to discuss their agencies' problems with PAC and citizens' groups. PAC offered to help these agencies address some of the problems. Further surveys, undertaken in 1999 and 2003, show that over 10 years the public has become much more satisfied with the service delivery across all eight agencies. The lesson: demand pressures can lead to needed public sector reforms.



Source: Paul 2003.

making closer to the people, enhance the efficiency and responsiveness of service delivery (Faguet 1997; Kahkonen and Lanyi 2001; Bardhan and Mookherjee 2000), support economic growth, and offer a potentially powerful tool for alleviating poverty. But designed inappropriately, or introduced without strong local participation and accountability (of local officials to local citizens), it can lead to macroeconomic instability, declining service levels (Martinez-Vazquez and Boex 2001), heightened regional disparities or conflicts (Smoke 2001), and increased corruption (Brueckner 1999).

Because the ultimate objective of devolved arrangements is to provide needed public services in an equitable and technically efficient manner, the most critical concern is the political accountability of locally elected officials to local residents. Political representation appears to be insufficient, however, reflecting capture by elites and the weaknesses of local political processes (Crook and Manor 1998; Conning and Kevane 2001). Experience also shows that even if local elected officials are strongly committed to responding to local needs, the intended services may not be forthcoming.

BOX 9.10**Service Delivery and Civil Society in the West Bank and Gaza**

A 1998 review of service delivery in the West Bank and Gaza asked a representative sample of beneficiaries about the provision of health and education services by NGOs, the private sector, and the Palestinian Authority. Meanwhile, specialists carried out institutional reviews of education and health facilities. The findings show that beneficiaries often select a particular provider because its service is better or easier to access—areas in which NGOs and the private providers ranked higher than the government. The findings were presented at dissemination workshops that were attended by ministers, senior civil servants, and senior representatives from NGOs and private organizations. The ministers of health and education reacted by using the findings to improve the quality of health and education services across the board and to improve coordination among the government, the NGOs, and the private sector.

Source: World Bank 1999.

ing without appropriate inputs by the bureaucracy (Schroeder 2002).

A local government should be just as accountable for funds transferred to it as for funds collected directly from local taxpayers. Instruments for ensuring financial accountability are often in place, but their implementation is often poor. Financial audits of local accounts, for example, tend to be delayed for long periods, and as a result, they have not become effective instruments of accountability. Experience has varied widely across countries, but emphasizes the importance of imposing credible, hard budget constraints on local governments

BOX 9.11**Procurement Watch: Working with the “Enemy”**

In the Philippines, Procurement Watch Inc (PWI) was born in part out of the need to harness citizens’ collective anger and frustration about widespread corruption. It was organized as a nonprofit institution with encouragement from the government Department of Budget and Management (DBM) and seed funding from the World Bank’s Asian Emergency Trust Fund (ASEM) grant facility, along with private contributions. To establish its credibility with citizen groups and legislators, PWI quickly developed technical expertise in the area of procurement. With well-trained and experienced staff and an active board of directors, it drew attention from the media on the need for a procurement reform bill. It secured advocacy support from different citizen groups throughout the country, was invited to participate actively in the three technical working groups formed to formulate the law—one in the executive, another in the House of Representatives, and the third in the Senate—and was sought after for advice by proponents of the bill in both the House and the Senate. With technical assistance from donors and advocacy support coordinated and managed by PWI, DBM secured the enactment of the Government Procurement Reform Act of 2002. The President signed the bill into law on January 10, 2003, almost four years after the effort was initiated.

(Rodden, Eskeland, and Litvack. 2003). Otherwise local governments may borrow recklessly to fund local initiatives or find other ways to transfer liabilities and potentially expose the national government to unwanted fiscal risks.

Throughout the 1990s, decentralization efforts featured intergovernmental fiscal reforms. Argentina's experience highlights the challenges in the design and evolution of a good intergovernmental fiscal system (box 9.12).

The administrative aspects of decentralization are as important as the fiscal aspects. The details of implementation arrangements ultimately determine outcomes. The challenges that have emerged fall into three categories: (1) adoption of a more systematic view of decentralization (Bahl 2000); (2) balancing of responsibility with resources, capacity, and accountability; and (3) creating incentives for implementation to match formal decentralization arrangements. Experience shows the value of pragmatism in implementing decentralization (Litvack, Ahmad, and Bird 1998; Bahl 2000; Bahl and Smoke 2003). A pragmatic strategy would be unique to each country undertaking decentralization, but should include a general vision and framework for reform, mechanisms for coordination and resolving

conflicts, a prioritization of reforms and plan for sequencing them, information to monitor outcomes and adjust the reform program, and incentives to change central and local behavior.

Information and Media Help Build Citizen Power

The media can be a powerful instrument for galvanizing citizen action. A free press raises popular awareness of inappropriate actions by elected and appointed officials. When people are aware of corrupt officials or networks, their reaction may include voting against incumbents, protests, and manifestations of unrest, or disengagement from the formal economy.³⁶ Widespread press coverage was notable in the deposition of former Brazilian President Collor in the early 1990s, which brought citizens to the streets to protest (Stapenhurst 2000). It was also instrumental in building the people power movement in the Philippines to depose then-Presi-

BOX 9.12

Hard Budget Constraints: The Challenge of Fiscal Decentralization in Argentina

Provinces in Argentina depend on federal transfers for the bulk of their fiscal resources. Revenue sharing (*coparticipaciones*) was introduced in the 1930s to compensate provinces for the introduction of national income and sales taxes, and in 2000, 56 percent of provincial resources came from this common pool. The majority of provinces (roughly 60 percent) relied on their own resources for less than 30 percent of their spending.

The challenge of ensuring hard budget constraints under fiscal decentralization depends on a country's social, cultural, and institutional features. Experience in countries such as Argentina and Brazil underscores

that central commitment problems and limitations in effective regulation can conspire to weaken subnational hard budget constraints. Strong efforts by the central government to regulate can exacerbate problems, as for example when subnational governments circumvent the spirit of regulations through recourse to affiliated state-owned enterprises, including regional banks. Argentina's experience shows that such problems have no quick fixes. They require the evolution of credible policies—and political will—buttressed by effective institutional arrangements, whether predominantly market based or hierarchical and dependent on central oversight.

Sources: Eaton 2003; Perry and Servén 2002; Rodden, Eskeland, and Litvack 2003; Saiegh and Tommasi 1999; Tommasi 2002; Webb 2003.

dent Estrada in 2001, and widespread protests in Ecuador to oust then-President Bucharam in the late 1990s.

Media pressure (more precisely, from progressive elements), can create the impetus for reform. Just as brave reporting brought down the Nixon administration in the United States, so too it can shake the foundations of corruption in developing countries.

The power of good research that feeds into the media should not be underestimated (box 9.13). Experience in Uganda illustrates how access to information can galvanize civic action. The Ministry of Finance launched a public expenditure tracking survey to monitor the flow of funds from the budget for per capita education grants to local school districts. The survey showed that, in 1994, the local districts received on average only 13 per-

cent of the funds due them. Alarmed by the huge leakage, the ministry launched a nationwide awareness program that informed communities of the funds that were due their respective districts, thus giving communities a benchmark for monitoring the flow of funds. As a result, the leakage has fallen to less than 20 percent of the budgeted funds.³⁷

Laws on the right to information empower NGOs, business organizations, and civil society more generally. For example, a grassroots campaign in Rajasthan, India led by a local nongovernmental organization, MKSS, used information gleaned from government files to expose and then combat massive corruption at the local level, showing how public officials skimmed money off the wages of workers and paid friendly contractors for work never done. A recently passed freedom of informa-

BOX 9.13

Investigative Journalism: Lifestyle Checks of Public Officials

In 2003, over an intense period of six months, a team of researchers from the Philippines Center for Investigative Journalism (PCIJ) conducted a lifestyle check on personnel from the Bureau of Internal Revenue (BIR) and published their findings in a three-part report, "BIR Officials Amass Unexplained Wealth," which later was picked up by the daily newspapers. Throughout the years, survey after survey has indicated that the Bureau is one of the most corrupt government agencies.

The research produced a wealth of information on the lavish lifestyles of BIR officials and employees, ranging from grand houses in highly exclusive neighborhoods to expensive luxury vehicles, despite modest official incomes. The research covered 25 officials at various levels and found that many of them could not explain how they acquired their assets, including shares in businesses and companies. As the report stated, "One regional director, for example, lives in a big house

in posh Ayala Alabang, yet he earns less than P300,000 (approximately \$5,400) a year. Parked in his garage on the day PCIJ visited were a Ford Expedition, a Toyota Land Cruiser, and a brand new BMW."

The report also uncovered interesting schemes, such as BIR officials petitioning the Civil Service Commission to change their birth records so that they could delay retirement and hang on to their lucrative postings. The PCIJ team discovered 24 such applications from the BIR between 1989 and 2001.

Since the publication of the report, one senior official has resigned and several have been suspended pending investigation by the ombudsman. It remains to be seen whether any of the officials under investigation will be indicted and convicted of corruption, as many challenges still confront the legal and judicial system. But lifestyle checks have now been added to the arsenal of the anticorruption agencies, making it more difficult for public officials to enjoy illicit wealth.

Sources: Bacalla 2003; Porcalla 2004; Nocum 2004.

tion law made it possible for MKSS to conduct this vigorous and successful campaign.³⁸

3. Strategy and Implementation: The Challenge for Governance Reforms

Governance reform strategies in the 1990s typically fell into two broad categories: “big bang” or ad hoc incrementalism. Big bang approaches proved to be largely inconsistent with capacity constraints and political realities—in Hirschman’s words, countries with the wherewithal to carry out a coordinated big push “would not be underdeveloped in the first place.” The main results of these approaches were major changes in formal rules: new or amended constitutions, new legislation, ostensibly independent courts and audit institutions, and so forth. Such changes are not unimportant. But in practice they rarely shape behavior unless there is an equal commitment to better aligning *informal* rules to improve the incentives that face politicians, bureaucrats, and citizens (Burki and Perry 1998).³⁹

Ad hoc incrementalism has also been problematic. With few exceptions, the ad hoc reforms were often symbolic, intended to preserve the old rules and informality while pretending to reform. In some cases they represented well-motivated attempts of individual or small groups of reformers that, for lack of support, were undermined by jealousy, intrigue, or fatigue. More important, they tended to be unrelated to a more coherent reform strategy and thus over time many lost their steam.

What may be needed instead are highly focused, pragmatic interventions that may be termed “strategic incrementalism.” These interventions are opportunistic because they exploit the willingness to reform, but they are better grounded in political realities and consistent with the capacity constraints of the country concerned. Knowing what is appropriate in which country situation is often half the battle. Though providing a detailed road map to guide strategy is a task requiring fundamentally new research and analysis, the following discussion

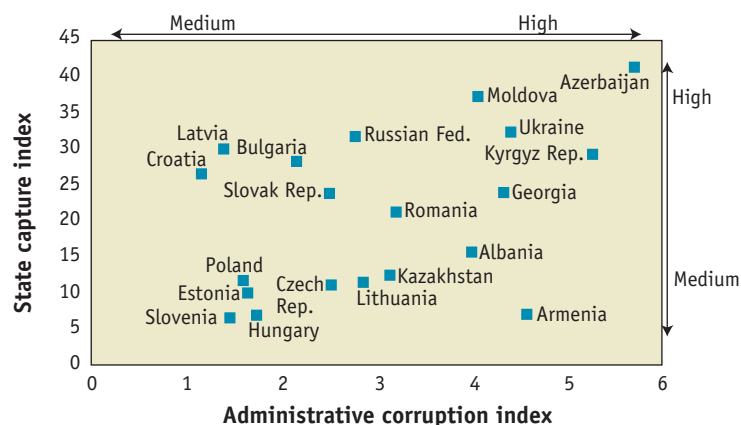
suggests a possible approach to governance reform strategies in developing countries.

A recent survey of firms conducted by the World Bank in Eastern Europe and Central Asia provided information that can be used to array the countries of that region along a two-dimensional matrix, with an administrative corruption index on one axis and a state capture index on the other.⁴⁰ Since administrative corruption reflects the quality of the compact and state capture affects the strength of political accountability, the quality or state of governance in a country can be broadly characterized by these two indexes.⁴¹ The matrix in figure 9.4 suggests a classification of countries into four possible types: capable, weak, captured, and restrained. Each type faces different challenges and different opportunities for reform.

Capable: In capable states, administrative corruption tends to be low and state capture not heavily entrenched. Examples are Korea, Chile, Hungary, and the Czech Republic. To a lesser extent, Botswana and the Indian states of Andhra Pradesh and Karnataka may fall into this category. In capable states, the challenge is usually to increase the quality and efficiency of public services, so as to best utilize limited public resources. Episodic scandals,

FIGURE 9.4

Classification of States by Governance Profile



Source: World Bank Business Environment and Enterprise Performance Survey (BEEPS), 1999 and 2003.

reported by vigilant media or civil society organizations, usually result in public dialogue and ultimately in a set of actions to reduce opportunities for corruption. In these countries it is often possible to undertake difficult systemic reforms using a more or less technocratic approach, providing there is leadership and support that coalesces around the reform objective.

Weak: Weak states lack many of the basic structures needed to manage the public sector. Many have only recently emerged from conflict or attained statehood. Bureaucratic capacity and accountability are weak, and administrative corruption is high. Often weak states have largely escaped capture by business interests, not because accountability mechanisms are effective, but because the state is itself insufficiently developed to be captured. In fact, as these basic structures are established, the risks of state capture quickly increase. Examples of such states are Albania (in 1999) and Armenia (in 1999). Nepal and Tanzania may also be examples, as may many low-income countries under stress.⁴² In weak states, the primary challenge is to ensure that taxes are collected, key services are delivered, and budget execution is sufficiently controlled. Given limited bureaucratic capacity, it is especially important that reform efforts be targeted and that international support for these reforms be highly coordinated.

Captured: These states have serious problems of administrative corruption and their environment makes them highly subject to capture. Many have an urgent need to build capacity in the public sector, but investments in capacity are unlikely to produce sustainable improvements, because political corruption (grounded in rents) permeates the system at all levels. Examples of such states include Azerbaijan (in 1999), the Russian Federation (in 1999), and the Kyrgyz Republic. States that are weak but resource-rich or dominated by a few valuable industries can fall easily into this category. The challenge in these states is to break the stranglehold of special interests, for example by breaking up powerful monopolies if capture is by private interests, or by reducing military expenditures if capture is by the military. Not surprisingly, these

types of reforms are the least likely to be adopted while vested interests remain strong.

Restrained: The bureaucracy in these states tends to have sufficient capacity and accountability so that administrative corruption is relatively mild. Political accountability is likely the weakest link in the chain, resulting in a high level of state capture. Examples of such states are Croatia (in 1999), the Slovak Republic (in 1999), Serbia and Montenegro (in 1999), Latvia, and, possibly Argentina, the Philippines, and some states in India. Reform options are limited in such states while the existing leadership is well entrenched. When a genuine change in leadership occurs, as in Croatia, Latvia, Serbia and Montenegro, and the Slovak Republic, and where civil society is relatively robust and can play an important role in stimulating demand for change, reforms can emerge fairly fast and can potentially be sustained.

Table 9.2 highlights the potential entry points for strategic interventions in each of the four types of states. “Breaking through” a captured state may be the most difficult strategic challenge in governance reform.

4. Conclusion

Improvements in governance are critical to ensuring sustainable development. Perhaps the most important lesson of the 1990s is that technocratic responses to improve governance work only in very auspicious settings—where there is committed leadership, a broadly based coalition in support of reform, and sufficient capacity to carry the reform process forward. Clearly, these conditions exist in only a minority of developing countries and rarely in those countries in most urgent need of governance reform. This is the crux of the challenge for the decade ahead.

Meeting the challenge requires a good understanding of the political dimensions of reform, and, in particular, of how reform can be used to identify and build constituencies that are capable of sustaining the reform momentum. This requires funda-

TABLE 9.2

Types of States and Entry Points for Strategic Interventions: A Governance Typology

<i>Type of state</i>	<i>Governance profile</i>	<i>Main implications for the triad</i>	<i>Key challenge</i>	<i>Possible entry point</i>
Capable state	Low to modest administrative corruption Mild state capture	Some gaps in bureaucratic capacity and internal accountability	Increasing efficiency of public service delivery	Technocratic reforms in public administration, as needed; comprehensive reform strategy may be feasible
Weak state	High levels of administrative corruption Mild state capture	Very weak bureaucratic capacity and/or internal accountability	Ensuring delivery of basic public goods	Highly targeted reforms in key sectors only, supplemented by limited reforms in budget execution to ensure financial accountability
Captured state	High levels of administrative corruption High state capture	Very weak political and internal accountability; possibly weak bureaucratic capacity	Breaking hold of vested interests on the process of policy and institutional reform	Build demand for reforms; possibly explore opportunities at subnational level
Restrained state	Low to modest administrative corruption High state capture	Very weak political accountability	Increasing “voice”	Build demand for reform; await change in leadership caused by crisis related to corruption, after which technocratic reforms to increase political accountability may be possible

Source: Authors' elaboration.

mental changes in current methods of analysis. In this context, a focus on “drivers of change” is promising (Duncan 2003). While the particular drivers will naturally vary from country to country, the common thread of this approach is a focus on solving the specific, highly salient problems facing individual communities—for example in health care, sanitation, or business regulation. These are problems around which constituencies for reform both inside and outside government may be easier to build and maintain than, say, upstream reforms in civil service reform or financial management.

Almost all successful reform efforts have been shepherded through by dynamic leaders (World Bank, *World Development Report 1997*, 154). In many countries, the drivers of change may be a group of young, perhaps inexperienced, leaders in need of training and support.

The challenge is creating and nurturing an environment that encourages dynamic, forward-looking individuals to push much needed reforms. In some

cases, this may be achieved through political decentralization and economic liberalization, where the former gives local public officials autonomy over their localities and the latter creates pressures for competition among localities. In other cases, the pressure for reform may come from outside. Civil society groups, media, business associations, and/or religious organizations are fertile sources of change. While these groups are often plagued by collective action problems, experience shows that they are fully capable of overcoming these problems. The challenge they face is one of sustainability; a problem that donors and private foundations can address through technical assistance and funding. Because better governance is a public good, groups working on governance reforms will generally find it more difficult to solicit contributions from the general public.

Whether this focus on problem solving and results-oriented drivers of change will help countries to navigate the difficult terrain of governance reform in the next decade remains to be seen. What

is certain is that governance reform will retain a high place on the reform agenda.

Notes

1. See, for instance, Rose–Ackerman (2004) and Klitgaard (1988). Much of the literature on rent seeking from the mid-1970s to the 1980s, for example Bhagwati (1978), essentially tackled conceptual issues.
2. The causality can work both ways, with growth also perhaps inducing better governance. Some recent studies address this (Rodrik and Subramanian 2003; Subramanian and Roy 2001).
3. The 1996 “Cancer of Corruption” speech given by World Bank President James Wolfensohn is considered a watershed in the Bank in the fight against corruption and the push for reforms of governance institutions in developing countries. The publication of Transparency International’s Corruption Perception Index made governments and their constituent publics more aware of problems of corruption and helped trigger the development of cross-country empirical studies and survey-based diagnostic work on corruption (see, for instance, Kaufmann, Kraay, and Zoido-Lobaton 1999; Reinikka and Svensson 2003).
4. This section builds on an analytical framework from the World Bank’s *World Development Report (WDR) 2004*.
5. Formal organizations such as the central bank are also often referred to as institutions. In the abstract, an organization is a collectivity functioning within a predetermined set of formal rules. That is, it is an agglomeration of rules that affects the behavior of a given set of individuals.
6. *WDR 2004* characterizes the bilateral relationship as one of accountability (of agents to principals). But the relationship can also be affected by other factors—in particular, capacity issues. If the agent lacks the ability or the resources to perform his or her task, then no matter how strong the accountability link, he or she will be unable to deliver on his or her mandate. If, for instance, bureaucrats have a poor financial management information system to work with, they cannot produce adequate information upon which to judge their performance.
7. See also *WDR 2004*, chapter 5.
8. More specifically, the possibility of obtaining rents drives influential groups and/or individuals to bribe politicians or high-ranking civil servants. In turn, the latter introduce and maintain bad laws, policies, or regulations in order to perpetrate their illicit earnings. In this context, corruption causes bad governance.
9. Several empirical studies have shown that deficiencies in civil service processes and procedures tend to increase administrative corruption (Van Rijkeghem and Weder 2001; Evans and Rauch 2000; World Bank, *World Development Report 1997*) and have confirmed the findings of numerous case studies (for instance Rose–Ackerman 1978; Wade 1985; Klitgaard 1988, 1990). The relation between public sector pay and corruption is controversial: it is commonly presumed that the lower is public sector compensation, the greater is administrative corruption, but various empirical studies suggest that other factors confound this relationship. See <http://www1.worldbank.org/publicsector/civilservice/ineffectivemon.htm#4>.
10. Citizens can use shame tactics to pressure local-level civil servants who live within the same community.
11. “Client power” also includes the ability of citizens to choose among different providers of the same service. This does not require collective action on their part; rather it requires policy decisions to promote some form of competition among service providers. Voice (and thus organization) can play a role in getting politicians to promulgate such policies.
12. Political accountability during elections can be enhanced by independent electoral commissions. However, such institutions may themselves also be subject to capture.
13. Work has been done on reforming political institutions, including attempts at reform in political campaign finance. But such efforts have been far fewer than those devoted to legal, judicial, and legislative reforms.
14. The heightened concern with improving legal and judicial systems in the 1990s was predated by similar concerns and reform efforts in the 1960s—some of which are only now beginning to bear fruit.
15. The World Bank’s first significant effort was a 1990 adjustment loan to Bangladesh, followed two years later by support to Tanzania for training judges, upgrading legal libraries, and publishing court decisions. In 1992 the Bank also extended a \$30 million loan to Venezuela solely for judicial reform. This was the first of 11 investment loans totaling close to \$200 million that the Bank extended principally for judicial reform during the 1990s. Data from other organizations show a similar increase in judicial reform activities. Starting from scratch in the 1990s, the Inter-American Development Bank had made 18 loans totaling \$418 million by June 2001, and entered into 65 technical cooperation agreements comprising another \$43 million to support reform of judicial institutions (Biebesheimer and Payne 2001, 12).
16. For example, in the early 1990s the Ukrainian legislature was asked to enact a verbatim translation of the

- Uniform Commercial Code—a lengthy American statute governing sales, leasing, and related transactions—and advisors to the Mongolian government suggested that to create a stock market Mongolia simply copy U.S. securities laws.
17. This Anglo-Saxon concept—and related ones in use in Europe, Latin America, Asia, and Africa—can mean many different things. But in the parlance of the development community the rule of law became synonymous with a state where laws effectively restrained rulers from opportunistically seizing private property and simultaneously promoted welfare-enhancing cooperation among the citizenry.
 18. Though there are differing interpretations of the composition of New Public Management reforms, there is general agreement that the key components include deregulation of line management, conversion of civil service departments into free-standing agencies; performance-based accountability, particularly through contracts; and competitive mechanisms such as contracting-out and internal markets. Various authors also include privatization and downsizing as a part of the package (Polidano 1999).
 19. See Poterba (1996) for a review of the literature circa 1996.
 20. Alesina and Perotti (1996) discuss institutions in terms of the degree of centralization of authority in the budget process and the degree of transparency. Von Hagen (1992) provides summary information on the budget process in European Community nations. Von Hagen and Harden (1996) suggest that tighter budget rules are associated with smaller budget deficits and lower levels of government borrowing.
 21. An MTEF has five key features: (1) a top-down process for establishing hard budget constraints at the aggregate and sectoral level; (2) a bottom-up process in which line ministries prepare forward estimates of expenditures over a three- or four year period; (3) a system for reconciling the forward estimates and the hard budget constraints, which includes processes for making intersectoral reallocations; (4) a transparent system for incorporating changes to the forward estimates during rollovers to the following year; and (5) a tractable system for undertaking program evaluation (World Bank 1998b).
 22. World Bank/OECD Survey on Budget Practices and Procedures (2003). Available online at <http://ecde.dyndns.org>.
 23. Their finding is consistent with related work by Evans and Rauch (2000), and with research at the sector level. Gunnarsson et al. (2004) find strong evidence indicating that the granting of autonomy to local district school principals (akin to delegation under NPM) improves student performance only if the principal and the school staff have adequate capacity to take advantage of the increased autonomy.
 24. In related reforms, more than 40 developing and transition countries have set up special large taxpayer units to improve the tax compliance of the largest taxpayers and to pilot new organizational structures, systems, and procedures.
 25. For a particularly strong critique, see Fjelstad (2002); and for a more general country survey and balanced assessment, see Taliercio (2003).
 26. The same political support might perhaps have achieved the same results without the move to an autonomous revenue agency, but in some instances introducing such an agency has energized and crystallized support for more wide-ranging administrative and civil service reform.
 27. Harding (2003) analyzes different approaches to health care provision: direct provision by the public sector, through nonprofit providers, through for-profit providers, and through informal providers. The lessons suggest possibilities for focused strategic interventions in the health sector.
 28. E-government applications have normally evolved through a four-stage process. The first stage includes the publication of information on a Web site for citizens to seek knowledge about procedures governing the delivery of different services; the second stage is interactivity online, allowing clients to download applications for receiving services; the third stage involves electronic delivery of documents; and the fourth results in electronic delivery of services, which may involve more than one department in processing a service request or service.
 29. E-government can also enhance transparency. For instance, the use of electronic bulletin boards in government procurement has made information on government contracts much more widely available (Bhatnagar and Deane 2003).
 30. Bhatnagar and Deane (2003) estimate that roughly 40 percent of an e-government project's cost must be allocated to managing the change process.
 31. <http://www1.worldbank.org/publicsector/egov/seoulcs.htm>.
 32. *WDR 2004* provides examples and indicates the extensiveness of citizen-based mechanisms for raising the demand for better governance.
 33. An integrity pact embodies a transparent process of procurement which all participating bidders agree to bind themselves to. A civil society organization, such as a local chapter of Transparency International, monitors the process step by step to assure all bidders that each has kept to the joint commitment.

34. For examples see John Pomfret, "SARS Reported in Rural China," available online at <http://stacks.msnbc.com/news/904928.asp?cp1=1>, and John Pomfret, "China to Open Field in Local Elections," *Washington Post*, June 12, 2003. In Cuba, while dictatorial tactics have certainly kept the Castro regime in power for almost four decades, the high quality of health services—which are among the best in the developing world—is a factor that has contained citizen dissent.
35. Based on IMF *Government Financial Statistics*.
36. An excellent study that analyzes the effect of type of electoral system on policy outcome is Myerson (1999). Persson, Tabellini, and Trebbi (2000) assess the impact of corruption and voting in different electoral systems.
37. Reinikka and Svensson (2003, 2004).
38. For more on lessons on freedom of information laws, see World Bank (2004a).
39. There is "often a vicious circle whereby the failure of the state breeds more corrective rules which both reformer and opportunist applaud—the reformer under mistaken formalistic notions about how to reform and the opportunist in the knowledge that reform will be frustrated and his opportunism can continue" (Burki and Perry 1998, 128). This is not to imply that in developed-country settings there are no informal rules. These never disappear. But they tend to be better aligned with formal institutions rather than being inconsistent with them (North 2002).
40. This is the Business Environment and Enterprise Performance Survey (BEEPS) conducted first in 1999 and most recently in 2003. The findings of the 1999 survey were analyzed and published in World Bank (2000a).
41. Ideally, a third dimension measuring client power would be desirable. This dimension could be constructed using available data on citizen voice.
42. World Bank data suggest that 25 to 30 countries qualify as low-income countries under stress. In these countries, securing law and order and ensuring the delivery of very basic public services remain the primary governance tasks. Beyond this, the evidence suggests that comprehensive and/or more technically demanding governance reforms are unlikely to be feasible.

