ADB

Governance: Sound Development Management

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Contents

Abbreviations

ADF	-	Asian Development Fund
BIR	-	Bureau of Internal Revenue
CPC	-	Committee for Planning and Cooperation
DMC	-	developing member country
GCI	-	General Capital Increase
GDP	-	gross domestic product
IA	-	Irrigators' Association
IMF	-	International Monetary Fund
KESC	-	Karachi Electricity Supply Corporation Limited
MOF	-	Ministry of Finance
NGO	-	nongovernment organization
NIA	-	National Irrigation Authority
OECD	-	Organisation for Economic Co-operation and Development
OGC	-	Office of the General Counsel
O&M	-	operation and maintenance
PBPM	-	Program Budgeting and Project Monitoring
PPBF	-	planning, programming, budgeting, and financing process
RWSS	-	rural water supply and sanitation
SPO	-	Strategy and Policy Office
TA	-	technical assistance
TFIPQ	-	Task Force on Improving Project Quality
UNDP	-	United Nations Development Programme
VAT	-	value-added tax

Executive summary

(i) In recent years, there has been increasing concern about governance issues in the development debate. In February 1994, the President issued interim staff instructions on governance. Subsequently, in May 1995, the Board considered a Working Paper on the subject. The present Paper takes into account the views expressed by the Board at that time and sets out the role, approach, and policy of the Bank in relation to governance issues.

(ii) Being concerned directly with the management of the development process, from the Bank's point of view, governance has to do with the institutional environment in which citizens interact among themselves and with government agencies/ officials. The capacity of this institutional environment is important for development because it helps determine the impact achieved by the economic policies adopted by the government. Hence, this capacity, and the governance quality it reflects, is a vital concern for all governments.

(iii) Although policy aspects are important for development, the Bank's concept of good governance focuses essentially on the ingredients for effective management. Irrespective of the precise set of economic policies that find favor with a government, good governance is required to ensure that those policies have their desired effect. In essence, it concerns norms of behavior that help ensure that governments actually deliver to their citizens what they say they will deliver.

(iv) Similarly, the experience so far, especially within the region, shows that successful development has taken place in countries with different political systems. However, the common features that stand out in respect of the high-performing economies are stability in broad policy directions, flexibility in responding to market signals, and discipline in sticking with measures necessary for

meeting long-term objectives despite short-term difficulties, all hallmarks of sound development management, i.e., good governance.

(v) A basic issue that arises in relation to governance is the proper role of government in economic management. With governments having limited access to information, there is a growing consensus that markets generally allocate resources more efficiently. However, even in market economies, governments are expected to perform certain key functions, namely (a) maintaining macroeconomic stability, (b) developing infrastructure, (c) providing public goods, (d) preventing market failures, and (e) promoting equity.

(vi) Governments decide the policies they adopt to perform these functions. Once those policy choices are made, good governance is required to make sure that implementation is effective and consistent. As a development partner, the Bank has a clear and direct interest in the capacity of borrowing governments to fulfill their economic role by implementing the associated policies. More specifically, the success of the Bank's project investments depends crucially on the efficacy of the institutional framework in developing member countries (DMCs) and the consequent capability for purposive implementation.

(vii) A number of multilateral organizations have reflected on the elements of governance and their relation to development. Insofar as the Bank is concerned, the approach of the World Bank is the most relevant. For the World Bank, the essence of governance is sound development management, and the key dimensions of governance are public sector management, accountability, the legal framework for development, and information and transparency.

(viii) The Bank, too, regards questions of governance from the standpoint of their relation to the effectiveness with which development assistance is used, the impact of development programs and projects, and the absorptive capacity of borrowing DMCs. However, the Bank's analytical framework for addressing governance issues draws a distinction between, on the one hand,

elements of good governance and, on the other, the specific areas of action (e.g., public sector management), in which they could be promoted or their existence enhanced.

(ix) Accordingly, and building upon the approach of the World Bank, the Bank has identified four basic elements of good governance: accountability, participation, predictability, and transparency.

(x) The Bank's interest in governance issues has intensified, over time, as a result of several factors. These include (a) the growing recognition of the importance of the policy environment in which development takes place, (b) an increasing focus on equity issues and development performance, (c) the lessons highlighted by the Task Force on Improving Project Quality, and (d) the experience of the high-performing economies of the region.

(xi) The Bank's approach to governance issues will be guided by the provisions of its Charter. These explicitly exclude political activities and considerations. Hence, the Bank cannot act as an agency for political reform in DMCs. Nevertheless, if on purely economic grounds, the Bank has considered an action or measure worth supporting, it has not hesitated to do so even though the action or measure may have had political implications. The Bank's work on governance will follow this pragmatic approach.

(xii) Differences in political history have resulted in a diversity of political systems and institutional cultures in the Asian and Pacific region. None of these can reasonably claim to have any comparative advantage from the point of view of governance. There can, accordingly, be many institutional alternatives for managing the development process soundly. When applying the criteria of good governance, therefore, the Bank will take into account the characteristics and situation of individual countries.

(xiii) To make the elements of good governance operationally relevant, the Bank needs to translate them into specific areas of action. To this end, this Paper indicates some ways in which these elements can be promoted in the context of Bank operations. In most of these areas, the Bank is already contributing to quality governance and has been doing so for some time. The areas of action include

Accountability (building government capacity)

- public sector management
- public enterprise management and reform
- public financial management
- civil service reform

Participation (participatory development processes)

- participation of beneficiaries and affected groups
- public sector/private sector interface
- decentralization of public and service delivery functions (empowerment of local government)
- cooperation with nongovernment organizations (NGOs)

Predictability (legal frameworks)

- law and development
- legal frameworks for private sector development

Transparency (information openness)

- disclosure of information.

(xiv) The Bank will integrate governance dimensions into its operations. To the extent possible, Bank-supported programs and projects will be designed such that they raise governance quality in the sectors concerned (e.g., through inclusion of appropriate policy measures, project components, or technical assistance [TA]). In addition, the Bank will provide, on request, advisory TA for specific governance-oriented policy studies, seminars, and training. In all cases, the guiding principle for the Bank will be to act on the basis of DMC requests, rather than to seek loan conditionalities.

(xv) The Bank's modalities for enhancing governance in DMCs encompass the full range of its operations. In due course, it is likely that capacity-building activities and assistance for legislative reform will become central pieces in the Bank's efforts to help improve governance in DMCs.

(xvi) Enhancing the governance dimension of its development assistance will have resource implications for the Bank. These

relate to staffing, staff training, staff consultants, business travel, and loan and TA resources. With respect to staffing, the Bank would need to strengthen in-house expertise in various aspects of governance and institutional development. However, given the current constraints on the budget, any new staff positions required would have to be accommodated through ongoing redeployment efforts within the Bank. Necessary trade-offs with other activities of lower priority would be worked out. Similarly, insofar as the other resource implications are concerned, these would be adjusted so as to be accommodated within the relevant budget allocations.

(xvii) Two years after Board approval of the Bank's operational policy on governance issues (i.e., in late-1997), a Board paper will be circulated, analyzing the Bank's experience with governance activities, proposing modifications to the operational approach, as necessary, and indicating more specific resource implications.

Introduction

In recent years, there has been increasing concern about governance issues in the development debate. This has been reflected in the ongoing discussion within the Bank on the objectives, priorities, and approaches to its operational programs. It received attention, for example, during the discussions leading to the fifth replenishment of the Asian Development Fund (ADF VI). The document *ADF VI: Report of the Donors* noted "the vital connection between sound and responsive systems of public administration and the effective and equitable operation of the economy."[1] In this context, reference was also made to the need for "participatory and democratic frameworks" and for strengthening "the legal system and regulatory agencies." Similarly, during the negotiations concluded last year for the Bank's Fourth General Capital Increase (GCI IV), emphasis was placed on governance and its impact on the effectiveness of Bank operations.[2] It was indicated that the Bank would seek to address governance issues in its operations.

In view of the importance and urgency of the subject, the President issued interim staff instructions on governance in February 1994. Subsequently, in May 1995, the Board considered a Working Paper on the subject.[3] The present Paper takes into account the views expressed by the Board at that time and sets out the role, approach, and policy of the Bank in relation to governance issues.

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1 Doc. R230-91, Revision 1, Final, *Replenishment of the Asian Development Fund and the Technical Assistance Special Fund*, 16 January 1992. *ADF VI: Report of the Donors* was an attachment to this document.

2 Doc. R40-94, *Fourth General Capital Increase (GCI IV): (Draft) Report of the Board of Directors to the Board of Governors*, 14 March 1994 (Attachment 1).

3 Doc. Working Paper 1-95, *Governance*, 15 March 1995.

To this end, the chapters that follow (i) define what governance should mean for the Bank, (ii) identify elements of good governance, (iii) explain the factors that have intensified the Bank's concern with governance issues, (iv) discuss two general considerations that have a bearing on the Bank's approach to governance, (v) relate the elements of good governance to Bank operations, and (vi) indicate specific ways in which the Bank will address governance issues in its developing member countries (DMCs). Two concluding chapters deal briefly with resource implications and the reporting arrangements for the Bank's governance activities.

Good governance defined

The term "governance" means different things to different people. It is useful, therefore, for the Bank to clarify, at the very outset, the sense in which it understands the word. Among the many definitions of "governance" that exist, the one that appears the most appropriate from the viewpoint of the Bank is "the manner in which power is exercised in the management of a country's economic and social resources for development."[4] On this meaning, the concept of governance is concerned directly with the management of the development process, involving both the public and the private sectors. It encompasses the functioning and capability of the public sector, as well as the rules and institutions that create the framework for the conduct of both public and private business, including accountability for economic and financial performance, and regulatory frameworks relating to companies, corporations, and partnerships.[5] In broad terms, then, governance is about the institutional environment in which citizens interact among themselves and with government agencies/officials.

The capacity of this institutional environment is important for development because it helps determine the impact achieved by the economic policies adopted by the government. It has been observed that, while many governments have undertaken broadly similar reform packages, the outcomes have varied significantly across countries. There are several factors underlying these differences, but clearly one is the quality of governance in the countries concerned; in other words,

4 *Webster's New Universal Unabridged Dictionary*, London: Dorset & Baber, 1979.
5 *Managing Development: The Governance Dimension*, World Bank, June 1991.

the ability of governments to implement effectively the policies they have chosen. Hence, “getting policies right” may not, by itself, be sufficient for successful development, if standards of governance are poor. It is for this reason that improving governance, or sound development management, is a vital concern for all governments.

Although policy aspects are important for development, the Bank’s concept of good governance focuses essentially on the ingredients for effective management. In other words, irrespective of the precise set of economic policies that find favor with a government, good governance is required to ensure that those policies have their desired effect. In essence, it concerns norms of behavior that help ensure that governments actually deliver to their citizens what they say they will deliver.

Similarly, the experience so far, especially within the region, does not establish any direct correlation between the political environment, on the one hand, and rapid economic growth and social development, on the other. Successful development has taken place in countries with different political systems. However, the common features that stand out in respect of high-performing economies are stability in broad policy directions, flexibility in responding to market signals, and discipline in sticking with measures necessary for meeting long-term objectives despite short-term difficulties, all hallmarks of good governance.

A basic issue that arises in relation to governance is the proper role of government in economic management. The growing consensus among development specialists in this regard is that, with the limited access of governments to information, markets generally allocate resources more efficiently. In market economies, production and consumption decisions are based essentially on the price mechanism. However, even in such economies, governments are expected to perform certain key functions. These include (i) maintaining macroeconomic stability, (ii) developing infrastructure, (iii) providing public goods, (iv) preventing market failures, and (v) promoting equity.

Without macroeconomic stability, business prospects are uncertain and investment risks are high. Inflation and external imbalances do not provide a healthy environment for rational business decisions. An important dimension of macroeconomic stability is the link with equity. While the adverse effects of inflation are felt economy-wide, it

is the lower-income groups that are usually the hardest hit, since they have limited scope for reducing consumption in response to price increases. Thus, macroeconomic instability militates against equity in the distribution of economic welfare, a stated objective of most governments.

By developing infrastructure, governments can create conducive conditions for private investment in commercial activities. However, given the fiscal constraints of most governments, the role of the private sector in infrastructure development is likely to increase. The challenge for governments is to devise a policy and institutional framework that allows wider participation to the private sector in infrastructure development and management, while safeguarding the public interest at the same time.

Public goods are those that are jointly demanded and whose consumption by one individual does not diminish their availability to others. Education and health care are common examples of public goods. In most countries, governments assume responsibility for the provision of public goods, with fiscal resources being channeled in a preferential manner to ensure their supply. This also contributes to improving equity in the economy (although user fees may be levied to promote cost recovery where feasible).

In a market-oriented economy, the government has the obligation to see to it that markets function efficiently and that the playing field is level for all participants. This requires mobility of factors of production, free flow of information regarding prices and technology, and competition among buyers (for outputs) and sellers (for inputs). Market regulation by the government should ensure that the operating rules do not discriminate between individual participants or interest groups. This implies wide publicity for legislation and administrative rules and their fair and transparent application.

A key responsibility of government is ensuring that the benefits of economic growth are equitably distributed across society. Taxation and expenditure measures are prominent instruments for this purpose. While taxes should not be excessive (so as not to discourage production and growth), they should be collected effectively to provide adequate revenue for essential services (and help maintain fiscal balance). The latter consideration also requires that public spending avoid

excessive debt-service burdens, and subsidies for low priority activities be phased out. This underscores the close relationship between equity and macroeconomic stability.

Given the role of government as economic development manager, as outlined above, policies that best suit these responsibilities need to be followed. Once those policy choices are made, however, good governance is required to make sure that implementation is effective and consistent. As a development partner, the Bank has a clear and direct interest in the capacity of borrowing governments to fulfill their economic role by implementing the associated policies. More specifically, the success of the Bank's project investments depends crucially on the efficacy of the institutional framework in DMCs and the consequent capability for purposive implementation.

The elements of good governance

A number of multilateral organizations (e.g., the United Nations Development Programme [UNDP] and the Organisation for Economic Cooperation and Development [OECD]) have reflected on the elements of good governance, and on their relation to development. As the ethos and experience of these organizations vary, so, too, do their perceptions of what constitutes good governance. Insofar as the Bank is concerned, though, it is the approach taken by the World Bank—drawn from its global experience with project and adjustment lending—that is the most relevant. The World Bank's interest in governance stems from its concern with the effectiveness of the development efforts it supports. From this perspective, sound development management, in the broadest sense of the phrase, is critical for ensuring adequate returns and efficacy of the programs and projects financed, and for the World Bank's underlying objectives of helping countries reduce poverty and promoting sustainable growth. Hence, the World Bank's emphasis in recent years has shifted from its own interventions to the overall country context (i.e., the governance climate) within which those interventions take place. In doing so, it has been guided by the nature of its operations and the opportunities for action that these offer. Accordingly, the key dimensions of governance identified by the World Bank are (i) public sector management, (ii) accountability, (iii) legal framework for development, and (iv) transparency and information.

The Bank also regards governance as synonymous with sound development management. It therefore relates governance to the effectiveness with which development assistance is used, the impact of development programs and projects (including those financed by the Bank), and the absorptive capacity of borrowing DMCs.[6] Accordingly, like the World Bank, the Bank, too, is concerned directly with the manner in which the public sector is managed in DMCs, and with the legal framework for development. However, in formulating an analytical framework for addressing governance issues, the Bank prefers to draw a distinction between, on the one hand, elements of good governance and, on the other, the specific areas of action (e.g., public sector management) in which they could be promoted or their existence enhanced. In line with this reasoning, and building upon the approach of the World Bank, the Bank has identified four basic elements of good governance: (i) accountability, (ii) participation, (iii) predictability, and (iv) transparency.

The following sections consider briefly the relevance of the four elements of good governance to the development process.[7]

Accountability

Accountability is imperative to make public officials answerable for government behavior and responsive to the entity from which they derive their authority. This may be achieved differently in different countries or political structures, depending on the history, cultural milieu, and value systems involved. The mechanisms employed may vary from audit covenants, at one level, to broadly elected legislatures or more narrowly conceived consultative committees, at another.

Accountability also means establishing criteria to measure the performance of public officials, as well as oversight mechanisms to ensure that the standards are met. The litmus test is whether private actors in the economy have procedurally simple and swift recourse for redress of unfair actions or incompetence of the executive authority. Lack of accountability tends in time to reduce the state's credibility as an economic partner. It undermines the capacity of governments to sustain

6 Doc. R158-94, *ADF VI: Progress Report,* 7 April 1994 (para. 92).
7 The specific areas of action in which these elements of good governance will be applied are dealt with in the chapter "Promoting the elements of good governance in Bank operations".

the long-term business confidence essential for growth-enhancing private sector investment. Looked at from this angle, accountability can help reduce sovereign risk.

The accountability of public sector institutions is facilitated by evaluation of their economic and financial performance. Economic accountability relates to the effectiveness of policy formulation and implementation, and efficiency in resource use. Financial accountability covers accounting systems for expenditure control, and internal and external audits.

Participation

The principle of participation derives from an acceptance that people are at the heart of development. They are not only the ultimate beneficiaries of development, but are also the agents of development. In the latter capacity, they act through groups or associations (e.g., trade unions, chambers of commerce, nongovernment organizations [NGOs], political parties) and as individuals (e.g., through letters to newspaper editors, participating in radio and television talkshows, voting). Since development is both for and by people, they need to have access to the institutions that promote it (e.g., representative bureaucracies).

Participation is often related to accountability, but not necessarily so. In representative democracies, where citizens participate in government through the electoral process, public officials are, indeed, accountable ultimately to the electorate. This may not be the case, however, in other political systems (although accountability is still important). For all economies, though, the benefits of participatory approaches can be considerable. These include improved performance and sustainability of policies, programs, and projects, as well as enhanced capacity and skills of stakeholders.

At the grass roots level, participation implies that government structures are flexible enough to offer beneficiaries, and others affected, the opportunity to improve the design and implementation of public programs and projects. This increases "ownership" and enhances results. At a different level, the effectiveness of policies and institutions impinging on the economy as a whole may require the broad support and cooperation of major economic actors concerned. To the

extent that the interface between public agencies and the private sector is conducive to the latter's participation in the economy, national economic performance (comprising the combined contributions of the public and private sectors) will be enhanced.

Participation in economic life by agents other than the state would cover not only the role of the private sector, but also the activities (growing in recent times) of NGOs. These elements of civil society offer an alternative means of channeling the energies of private citizens. They can be helpful in identifying people's interests, mobilizing public opinion in support of these interests, and organizing action accordingly. Being close to their constituents, NGOs can provide governments with a useful ally in enhancing participation at the community level and fostering a "bottom-up" approach to economic and social development.

Predictability

Predictability refers to (i) the existence of laws, regulations, and policies to regulate society; and (ii) their fair and consistent application. The importance of predictability cannot be overstated since, without it, the orderly existence of citizens and institutions would be impossible. The rule of law encompasses both well-defined rights and duties, as well as mechanisms for enforcing them, and settling disputes in an impartial manner. It requires the state and its subsidiary agencies to be as much bound by, and answerable to, the legal system as are private individuals and enterprises.

The importance of rule-based systems for economic life is obvious. They are an essential component of the environment within which economic actors plan and take investment decisions. To the extent, therefore, that legal frameworks help ensure that (i) business risks can be assessed rationally, (ii) transaction costs are lowered, and (iii) governmental arbitrariness is minimized, they should prove conducive to risk taking, growth, and development. In the opposite scenario, the capricious application of rules generates uncertainty and inhibits the growth of private sector initiatives. Regulatory uncertainty also tends to raise the cost of capital by increasing the risk of investment.[8]

8 *The Regulation of Private Monopoly in Developing Countries*, Price Waterhouse, London, April 1994.

Besides legal and regulatory frameworks, consistency of public policy is also important. Government policies affect the investment climate directly, and economic actors require reasonable assurance about the future behavior of key variables such as prices, the exchange rate, and employment levels. However, consistency does not mean rigidity. Governments do need to respond flexibly to changing circumstances and to make midcourse corrections, as necessary. Also, when governments change, the successor administration will, understandably, want public policy to reflect its priorities, rather than those of its predecessor. Barring such situations, though, consistency in the broad directions of government policy is valuable (with modifications being limited, as far as possible, to fine-tuning).

Predictability can be enhanced through appropriate institutional arrangements. For example, it has been argued that an autonomous central bank could lead to more predictable monetary and exchange rate policies. Many governments face the challenge of regulating money supply, while pursuing expansionary fiscal policies to encourage investment. In such situations, if monetary policy is too accommodating, inflationary pressures can put investor confidence at risk, thus defeating the very objective of the fiscal policy. In some countries, managing the fiscal deficit may be made more difficult by compulsions to bail out a politically manipulated banking sector. Granting greater autonomy to the central bank is one way that governments can signal investors that macroeconomic policy will be prudent and sound. Insulating economic ministries from political pressures can have similar benefits, but may be even more difficult to achieve.

Transparency

Transparency refers to the availability of information to the general public and clarity about government rules, regulations, and decisions. Thus, it both complements and reinforces predictability. The difficulty with ensuring transparency is that only the generator of information may know about it, and may limit access to it. Hence, it may be useful to strengthen the citizens' right to information with a degree of legal enforceability. For similar reasons, broadly restrictive laws that permit public officials to deny information to citizens (e.g., an Official Secrets

Act) need to provide for independent review of claims that such denial is justified in the greater public interest.

Access to accurate and timely information about the economy and government policies can be vital for economic decision making by the private sector. On grounds of efficiency alone, such data should be freely and readily available to economic agents. While this is true across all areas of the economy, it is especially relevant in the case of those sectors that are intrinsically information intensive, such as the financial sector in general and capital markets in particular.

Transparency in government decision making and public policy implementation reduces uncertainty and can help inhibit corruption among public officials. To this end, rules and procedures that are simple, straightforward, and easy to apply are preferable to those that provide discretionary powers to government officials or that are susceptible to different interpretations. However well-intentioned the latter type of rule might be in theory, its purpose can be vitiated in practice through error or otherwise.[9]

In practice, though, it may sometimes be necessary to place limits on the principle of transparency. In doing so, it may be helpful to distinguish information as a commodity from information as a process. For example, intellectual property rights may need to be protected in order to encourage innovation and invention; but decision making on the establishment of intellectual property and rights thereto (i.e., to whom they are granted and why) should be transparent.

Interlinkages among the elements of governance

Conceptually, the four elements of governance indicated above tend to be mutually supportive and reinforcing. Accountability is often related to participation, and is also the ultimate safeguard of predictability and transparency. In the absence of accountability to affected groups, even predictable decision making of autonomous government agencies may result in the latter placing agency interests above those

9 For example, a uniform tariff rate (where merchants know exactly what customs duty payment is required) is preferable, on this ground, to multiple tariff rates that offer customs officials discretion over the classification of goods.

of the former. Similarly, transparency and information openness cannot be assured without legal frameworks that balance the right to disclosure against the right of confidentiality, and without institutions that accept accountability. Again, predictability in the functioning of the legal framework would be helpful for ensuring the accountability of public institutions. At the same time, predictability also requires transparency, because without information about how similarly placed individuals have been treated, it may be difficult to ensure adherence to the rule of equality before the law. Finally, a transparent system facilitates governmental accountability, participation, and predictability of outcomes.

The Bank's concern with governance quality

As mentioned, for the Bank (and the World Bank), governance is synonymous with development management. Given its involvement in the development of DMCs, the Bank has a legitimate and direct interest in governance issues. However, several factors have, over time, intensified the Bank's interest in the field of governance. These include (i) the growing recognition of the importance of the policy environment in which development takes place, (ii) an increasing focus on equity issues and development performance, (iii) the lessons highlighted by the Task Force on Improving Project Quality (TFIPQ),[10] and (iv) the experience of the high-performing economies of the region.

Policy context of the Bank's project lending

The Bank's principal activity has been—and remains—project lending. In that context, the Bank observed early on that weak implementation capacity in the public sector of borrowing DMCs impacts adversely (and significantly) on the performance of otherwise technically sound projects. The policy environment in the DMC concerned also influences the success of projects. Even well-designed and well-implemented projects can fail if they must function in a poor sector policy framework.[11] In view of this, the Bank undertakes policy dialogue and program (or policy-based) lending to complement its project

10 *Report of the Task Force on Improving Project Quality*, January 1994.
11 The macroeconomic policy environment is also relevant, but traditionally this has been addressed by the Bretton Woods institutions.

financing activities. Economic and sector work provides the analytical underpinning for policy dialogue and for program and project design, as well as for the more holistic approach to lending systematized in the strategic country planning documents (i.e., country operational strategy studies and country assistance plans). These efforts at helping DMCs "get policies right" are now commonplace in the Bank, and have led it to take greater interest in the capacity of borrowing governments for policy formulation and implementation. While the policy objective in a particular DMC sector might be clear enough, knowledge of the institutional framework and its capability will be helpful in the design of reform measures. In such cases, the Bank seeks to work with the DMC concerned to ensure that the institutional configuration is appropriate for giving effect to the sector policy objectives as agreed upon.

Focus on equity and development performance

The need for greater attention to the social dimensions of the development process has been broadly accepted by the Bank's shareholders, both donors and recipients (e.g., the understandings related to the ADF VI and GCI IV exercises). In line with this consensus, the proportion of the Bank's project portfolio addressing social issues has increased. Since 1993, the Bank has sought to ensure that at least half of the projects it finances (by number) address social and/or environmental concerns, either primarily or secondarily.[12] Going further, the share of such lending (in terms of loan volume) is expected to reach 35 percent by 1997, and 40 percent by 2000.[13]

The Bank's interest in governance quality in DMCs has deepened in tandem with this expanded concern with social and environmental development. The success of programs to increase economic opportunities for all requires an institutional and legal environment in which political and social authority are used equitably. It also implies that all segments of society should have recourse to courts of justice,[14] and be protected from both the power of the state and that of dominant social groups (e.g., ethnic majorities, economic elites, etc.). Likewise implied is

12 *The Bank's Medium-Term Strategic Framework (1993–1996).*
13 *Three-Year Rolling Work Plan (1995–1997) with Budget Implications.*
14 Such recourse should be available not only in theory, but also in practice. It matters little to citizens that they have access to the courts, if the high cost of legal proceedings effectively puts them out of their reach.

a system of governance that ensures that money spent to improve the social infrastructure is indeed used to benefit the sectors targeted. Equally important, a government's ability to effectively foster economic growth and implement social programs is conditional on its institutional and administrative capabilities. While implementation capacity is crucial across the board, it is particularly so in the case of programs and projects addressing social concerns. Thus, the Bank's growing emphasis on equity issues (e.g., poverty reduction, women in development, environment) has highlighted the need to focus on government capacity.

The ADF VI understandings also intensified the focus on development performance. It was indicated that the Bank would emphasize development performance as a criterion for the allocation of ADF resources.[15] For this purpose, development performance was defined broadly as comprising (i) sound economic management; (ii) efforts towards growth with equity, and poverty reduction; and (iii) efforts towards sustainable economic and social development. This balanced concept of development (combining considerations of efficiency, equity, and sustainability) is assessed in terms of (i) economic management, and (ii) progress on "crosscutting concerns." The Bank now carries out such performance assessments of DMCs, annually for the major borrowing countries and once every two years for other DMCs.[16] By their nature, these assessments reflect, to a considerable degree, the quality of governance in the countries concerned.

Project quality

One of the major themes identified by the TFIPQ was the importance of institutional capacity in DMCs and project "ownership" by executing agencies and potential beneficiaries.[17] In view of this, it was emphasized that the Bank should help strengthen DMC capacities for policy analysis, formulation, and management. A related priority was assisting DMCs to reform and strengthen public sector management, particularly in its functions of establishing and maintaining public

15 Doc. R230-91, Revision 1, Final (para. 28). It was also noted (para. 3) that many of the understandings concerning ADF operations should apply, where relevant, to operations financed from ordinary capital resources as well (though such application would be the subject of separate proposals to the Board, in due course).

16 *Bank Operations and Country Performance*, 1 September 1992.

17 *Report of the Task Force on Improving Project Quality*, January 1994.

infrastructure, the delivery of public services, the mobilization and management of domestic resources, and the creation and enforcement of an appropriate legal framework. It was also recommended that the Bank encourage governments to shed roles and functions that could be fulfilled by the private and nongovernment sectors with greater efficiency and effectiveness. This would be conducive not only to sustainability, but also to wider participation in the development process in DMCs (which was highlighted as being a value in itself).[18]

The East Asian experience

The high-performing economies of the Bank's region are now widely accepted as being prime examples of sound development management. These DMCs have not only registered high rates of economic growth on a consistent basis, they have also been effective in improving their social indicators (*Table 1*). Remarkably, these DMCs also "achieved unusually low and declining levels of inequality, contrary to historical experience and contemporary evidence in other regions." The positive association between growth and low inequality in these high-performing economies, and the contrast with other economies, has been well illustrated by the World Bank. Forty economies were ranked by the ratio of the income share of the richest fifth of the population to the income share of the poorest fifth and by per capita real gross domestic product (GDP) growth during 1965–1989. Of the seven high-growth, low-inequality economies, six were developing economies in East Asia (i.e., Hong Kong, China; Indonesia; Republic of Korea; Singapore; Taipei,China; and Thailand) and the seventh was Japan (*Figure 1*).

The development record of the East Asian high performers is clearly of considerable interest to the Bank, and to other DMCs. Their achievement of balanced and equitable development ("shared growth" is the expression of the World Bank) suggests high-quality governance. Lessons drawn from the East Asian experience could be useful for other DMCs, and the Bank is, therefore, implementing a regional TA project for this purpose.[19] This TA project is expected, among other things, to throw light on the degree to which the success of these high-performers

18 *Op cit.* (Box 1).
19 TA REG 5605: *Governance and Development: Lessons of the East Asian Experience* (December 1994).

Economy	GNP per Capita Annual Growth Rate (1980–1991) (%)	Real GDP Annual Growth Rate (1980–1991) (%)	Life Expectancy at Birth (1991) (years)	Female Adult Literacy (1990) (%)
Hong Kong, China (1975)	5.6	6.9	78	64.1
Korea, Rep. of	8.7	9.6	70	93.5
Singapore (1985)	5.3	6.6	74	74.0
Taipei,China	9.8 (GDP)	7.7	77[a]	84.0
Indonesia	3.9	5.6	60	75.3
Malaysia	2.9	5.7	71	70.4
Thailand	5.9	7.9	69	91.3
China, People's Rep. of	7.8	9.4	70	61.8
Low and middle-income developing countries, all regions (average)	1.3	3.3	64	46.0

Table 1: East Asia's Development Performance

a Refers to female in 1990.

Sources: World Bank, *World Development Indicators* 1993; ADB, *Key Indicators*, 1993.

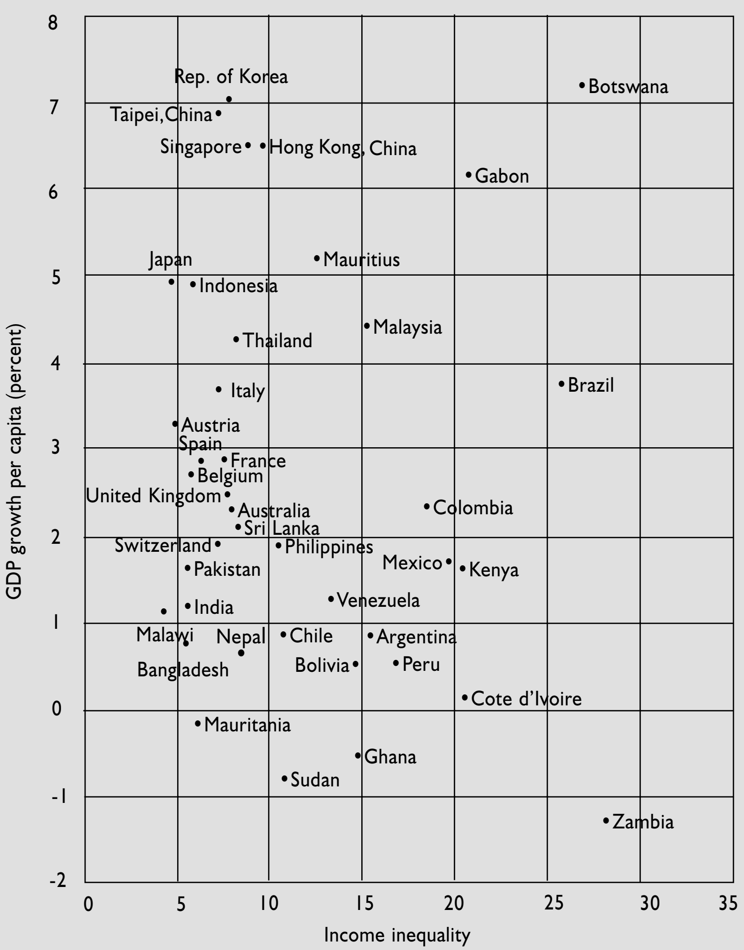
reflected (i) accountability of public officials, (ii) an effective public/private sector interface, (iii) predictable application of rules and regulations (or changes thereto), and (iv) sharing of market information between the government and private actors.

Outlook for the future

As a result of the factors discussed above, issues of governance are now considered in the Bank in various contexts and at various levels (e.g., country operational program, project design and implementation, advisory TA). Given the Bank's strategic objective of supporting economic growth that is socially equitable and environmentally sustainable, its determination to enhance the quality and impact of project operations,

and the situation of borrowing DMCs, especially those in the low-income, transitional (i.e., erstwhile centrally planned) and small island categories, this focus on governance aspects can be expected to grow.

Figure 1: Income Inequality and Growth of GDP, 1965–1989



Note: Income inequality is measured by the ratio of the income shares of the richest 20 percent and the poorest 20 percent of the population.

Source: *The East Asian Miracle-Economic Growth and Public Policy* (World Bank, 1993)

The Bank's approach to governance issues

The Bank's approach to governance issues will be guided by two general considerations. These are (i) the provisions of its Charter as they relate to governance, and (ii) the need for flexible (i.e., nondoctrinaire) and country-specific approaches.

The Bank's charter and governance activities

The General Counsel is circulating to the Board separately an opinion on the implications of the Charter provisions for governance activities. He has summarized this opinion as follows. Governance has at least two dimensions: political (e.g., democracy, human rights) and economic (e.g., efficient management of public resources). In dealing with governance and the promotion of the fundamental elements of accountability, participation, predictability, and transparency, the Bank needs to stay close to its mandate for accelerating the process of economic development in DMCs.[20] Accordingly, the Bank regards good governance from the perspective of sound development management, and does not concern itself with aspects of governance not related directly to the latter. Such an approach is also justified by the fact that the Bank's role in the field of governance is strictly circumscribed by its Charter. This is evident from Article 36 of the Charter, "Prohibition

20 *Agreement Establishing the Asian Development Bank* (Article 1).

of Political Activity: The International Character of the Bank." In view of its importance in this context, the Article is reproduced in full below.

"1. The Bank shall not accept loans or assistance that may in any way prejudice, limit, deflect or otherwise alter its purpose or functions.

"2. The Bank, its President, Vice-President(s), officers, and staff shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member concerned. Only economic considerations shall be relevant to their decisions. Such considerations shall be weighed impartially to achieve and carry out the purpose and functions of the Bank.

"3. The President, Vice-President(s), officers, and staff of the Bank, in the discharge of their offices, owe their duty entirely to the Bank and to no other authority. Each member of the Bank shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties."[21]

Article 36(2) first prohibits *interference* in the "political affairs" of a member and, second, being *influenced* by its "political character." It then stipulates that "Only economic considerations shall be relevant" to decision making in the Bank, and that such consideration should be "weighed impartially... to achieve the purpose and functions of the Bank." The purpose of the Bank under Article 1 of the Charter is to foster "economic growth and cooperation" in the region and to contribute to the process of "economic development" of DMCs in the region. The focus of the Bank's purpose is, therefore, economic, and the Charter clearly seeks to establish a technical and functional financial institution that is, as far as possible, free from ideological and partisan political considerations and influences in its decision-making process. The Charter, therefore, gives primacy to economic considerations in the achievement and carrying out of the Bank's purpose and functions.

The term "economic considerations," however, has been widely interpreted by the Bank. A narrow and somewhat mistaken definition

21 *Op cit.*

of "economic considerations" would exclude the Bank from engaging in some of the programming considered most important by its members; for example, programs that focus on the environment, education, or the position of women. While such programming may be viewed as "social," the Bank finances such programs on the basis of a clear consensus that they are based on direct linkages to economic development and that they can be justified on the basis of the economic effects of such noneconomic "social" factors. Therefore, while Article 36 prevents certain types of political activities, it does not prohibit the Bank from taking into account demonstrable and direct economic effects of noneconomic factors as part of the "economic considerations" on which the Bank must base its decisions. The economic effects of such noneconomic factors must, however, be clearly established before the Bank finances programs focusing on such noneconomic factors.

The Bank's internal processes, in which the Economic and Development Resource Center and the Office of the General Counsel are involved, provide adequate and reasonable assurance that the provisions of Article 36 are not violated and that Bank financing in respect of apparently noneconomic factors is justified on "economic considerations," i.e., the demonstrable and direct economic effects of such noneconomic factors. A further safeguard against the Bank basing its decisions on noneconomic and political considerations is provided by Article 14(iii) of the Charter, under which the DMC concerned has the final say over financing of any undertaking in its territory.[22]

It is pertinent to mention that governance activities of the type contemplated in this Paper are carried out by the Bank's sister institutions, especially the World Bank, under charters with almost identical prohibitions on political activities and provisions directing that decision making should be on the basis of economic considerations alone.

Accordingly, the Bank will steer clear of overtly political goals, such as parliamentary democracy and human rights (however desirable these may be, for their own sake). That being said, however, it also needs stressing that, in many ways, the Bank's operations are conducive, albeit indirectly, to the pursuit of these goals (e.g., through wider participation in development activities, raising living standards, expanding

22 An exception is the European Bank for Reconstruction and Development, whose Charter embodies political considerations.

access to public goods and services, women in development). Hence, though the Charter provisions explicitly preclude any role for the Bank in the political aspects of governance, efforts to enhance the quality of economic governance in DMCs (i.e., management of resources for development) could well redound to the benefit of the former.

Need for flexible country-specific approaches

The Asian and Pacific region is the site of ancient civilizations, where the science of government has had a long and distinguished tradition. At the same time, differences in political history have resulted in a diversity of political systems and institutional cultures. None of these can reasonably claim to have any comparative advantage from the point of view of governance. Countries accepted to be political democracies seem as prone to fall short of governance standards as those in which parliaments are weak or nonexistent. Indeed, governance quality appears indifferent to the type of political system, and aspects of good governance can be found in countries with widely dissimilar political construction, ranging from the Western democracies to the high-performing economies of East Asia. There has been much analysis and discussion in recent times of the development experience in these DMCs, and interpretations of the phenomenon vary. What is not disputed, though, is that the institutions accounting for East Asian success differed dramatically from those associated with the rise of the Western democracies. Clearly, then, there are many institutional alternatives for managing the development process soundly.

Hence, promotion of the elements of good governance needs to take into account the characteristics and situation of individual countries. The specific features of public administration in each DMC reflect, and respond to, its own political and bureaucratic evolution, cultural norms, and social values. This underscores the need for home-grown approaches for enhancing governance quality in DMCs. Lessons derived from the experience of any one country or group of countries, regardless of how successful it or they may have been, cannot be transplanted directly (i.e., without suitable modification). Instead, the Bank needs to identify general criteria or objectives to guide the search for local solutions, rooted in the public administration traditions of the country concerned.

Promoting the elements of good governance in Bank operations

The elements of good governance set out in an earlier chapter are abstract and conceptual in nature. To make them operationally relevant, the Bank needs to translate them into specific categories or areas of action. To this end, this chapter indicates ways in which these elements will be pursued in the context of Bank operations. As will be seen, in most of these areas, the Bank is already contributing to governance quality, and has been doing so for some time. The areas in question are the following.

(i) **Accountability** (building government capacity)
- public sector management
- public enterprise management and reform
- public financial management
- civil service reform

(ii) **Participation** (participatory development processes)
- participation of beneficiaries and affected groups
- public/private sector interface
- decentralization of public and service delivery functions (empowerment of local government)
- cooperation with NGOs

(iii) **Predictability** (legal frameworks)[23]

- law and development
- legal framework for private sector development

(iv) **Transparency** (information openness)

- disclosure of information

The succeeding sections of this chapter deal with each of the above areas of action.

Building governance capacity

Good governance implies the capacity to provide citizens with an acceptable level of public services, in an effective and efficient manner. From the Bank's point of view, a DMC's institutional capacity to conduct public business determines in large part its ability to undertake economic reforms and implement projects successfully. Hence, failure to establish effective public sector capacity undermines the credibility of reform initiatives and impacts adversely on the performance of development projects, raising costs for both borrowers and the Bank. Insofar as Bank operations are concerned, efforts to build (and strengthen) governance capacity in DMCs would cover (i) public sector management, (ii) public enterprise management and reform, (iii) public financial management, and (iv) civil service reform.

Public sector management

The Bank's bread-and-butter business has been—and is—assisting the public sector in DMCs. As such, the Bank has always taken a major interest in the ability of public sector agencies (line ministries and departments, as well as project executing agencies) to manage their affairs. This includes not only the capacity to design and execute programs and projects effectively, but also, more broadly, to formulate and implement policies, plan operations, and monitor feedback—in short, the capability to anticipate, enhance, and manage change.

23 Although legal frameworks are related directly to Predictability and are dealt with here accordingly, it needs to be recognized that they are overarching in scope and thus relevant also for Accountability, Participation, and Transparency.

Right from the start, therefore, lending to the public sector has been accompanied by TA for institutional strengthening. Progressing from the provision of ad hoc advisory inputs (attached to loans or otherwise), the Bank shifted to more focused, long-term support to specific DMC institutions, often in the context of repeat loans. Moving on, the Bank is now undertaking a strategic approach to capacity-building activities. These will become an important element of country strategies and will be reflected accordingly in country assistance plans. To this end, the Bank's economic and sector work will seek to identify underlying weaknesses and suggest remedial measures.[24] As always, the primary responsibility for developing institutional and organizational capacity rests with the DMCs themselves, but the Bank has—and will continue to have—a substantial role to play in assisting their efforts in this regard.

Box 1 describes a recent example of the Bank's strategic approach to capacity building.

Box 1: Public Sector Management

In Indonesia, the Capacity Building Project in the Water Resources Sector (1994) takes a holistic approach to improving the management of a critical natural resource. It will help (i) establish a national body to monitor demand, supply, and allocation nationwide and by province, undertake policy reviews, introduce new policies as appropriate, and coordinate allocation; (ii) set up water management committees, hydrometeorological networks, and quality control systems in selected provinces; and (iii) strengthen the capacity of the Directorate General of Water Resources Development for policy review, general and project management, human resources management and development, and technical support to the regional agencies, as well as to the private sector. By strengthening water policies and water quality standards, and establishing a database at the national level, the Project will result in allocation of water among competing users on a sustainable and economic basis, smoother project implementation with reduced delays, greater participation of beneficiaries, and better quality construction of water resources infrastructure.

24 Doc. IN.161-94, *Bank Support for Capacity Building in Developing Member Countries*, 7 September 1994.

Public enterprise management and reform

At a fundamental level, public enterprise reform should begin with consensus-building in respect of an appropriate role for the state in a market-friendly economy. Downsizing the public sector may not be an end in itself, but is likely to result from an unbiased examination of which goods and services are provided better by private institutions. At the same time, the ability and willingness of governments to trim profitable state-owned enterprises could depend on the availability of other sources of revenue. Where this is the case, enlarging the tax base would help smooth the path of public enterprise reform. While problems in the management of public enterprises can occur anywhere, they may be particularly acute in the former centrally planned economies that are undertaking the transition to market-oriented systems and in South Asian DMCs.

The reassessment of the rationale of a public enterprise and its economic prospects could result in a confirmation of its continued validity or in a recommendation for reform. If the former, the focus would be on ensuring more effective operations. This may require increased autonomy in day-to-day functioning (say, through conversion to a joint stock company), on the one hand, and greater accountability (to its principal shareholder, the government), on the other. Reconciling these twin goals may involve shifting from *ex ante* (or input-oriented) controls to *ex post* (or output-oriented) ones. Further, as a rule of thumb, state-owned enterprises serving commercial ends could be made to maximize profits, while those that are monopoly providers could concentrate on minimizing costs instead.

Reform of public enterprises could follow several directions. In some cases, liquidation may be the answer, with market mechanisms taking over the function previously rendered by the enterprise concerned. In others, it may be decided to merge two or more enterprises and rationalize their operations. For some, privatization may be the preferred option, though this is often the most difficult decision to implement, on account of the political and social costs involved. Typically, the process of privatization takes longer to complete than is originally anticipated. Nevertheless, an extended, but successful, program for divestiture is better than an underprepared privatization that fails or is thwarted. The damage caused by the latter could sap the will of

the government to pursue other privatizations, and thus reduce the momentum for economic liberalization.

Where privatization is the chosen route, experience suggests some ground rules. Creating a competitive operating environment for the enterprise concerned should normally take priority over the objective of increasing government revenues in the short run. Hence, public monopolies should not normally be replaced by private ones. Enterprise sales should be transparent, and assets should be evaluated by an independent firm to avoid the danger that only political insiders have accurate assessments of plant capacities and liabilities. Labor should be invited to participate in the process, to avert subsequent organized unrest. For the same reason, the proceeds of divestiture could be used for social safety nets or other social purposes (and/or for priority investments in physical infrastructure). The sale of shares to local financial institutions and individuals could also help garner political support for privatization. Public disinvestment should not crowd out local capital markets, but be used instead to stimulate them.

The success of the Bank's efforts to assist public enterprise reform depends largely on two preconditions: first, the commitment of governments to improve public sector operations; and second, movement towards an appropriate macroeconomic and sector policy framework (including trade liberalization, exchange rate decontrol, and market-oriented interest rates, and other basic prices in the economy).

Box 2 provides two examples of the Bank's activities in the field of public enterprise reform.

Public financial management

Improvements in accounting and auditing procedures are the first line of reforms in the public finance system. The Bank's loan agreements routinely incorporate covenants on accounting and auditing requirements, and executing agencies are encouraged to strengthen financial management practices (for example, through performance-based budgeting and external audits). Going beyond the level of individual executing agencies, the focus of attention has to be the government budget, and the need for fiscal discipline. Given the concern with sustainability of programs and projects (e.g., allocations for operation and maintenance), what is of interest is not just public investment plans,

but public expenditure as a whole (i.e., both capital and recurrent expenditures). Also important in this context are budgetary allocations within and between sectors, and the overall adequacy of the government's development expenditures. Although the Bank endeavors to analyze these budgetary issues in DMCs, and to raise them in policy dialogue as appropriate (e.g., during country programming), it needs to be recognized that its capacity for full-blown public expenditure reviews is still limited.

Box 2: Public Enterprise Management and Reform

In conjunction with the Sixth Road Improvement Project in the Lao People's Democratic Republic (1993), an advisory technical assistance was provided for the privatization and management of road sector institutions. This institutional support to the Ministry of Communication, Transport, Post and Construction covers (i) management assistance to already privatized road transport enterprises, (ii) privatization of the remaining government-owned road transport organizations, and (iii) privatization of the government-operated road construction and maintenance industry. The objective is to focus on maximizing private sector participation within a regulatory framework, with the Government increasingly adopting the role of supervisor and regulator rather than carrying out operations on its own.

The Water and Power Development Authority of Pakistan is implementing a strategic plan for privatization of the power sector in the country. Under the proposed structure for the power sector, a vertically integrated authority such as the Karachi Electricity Supply Corporation Limited (KESC) would be an anachronism. To determine the optimal method of privatizing this enterprise, the Bank financed an organizational and financial restructuring study, which recommended that KESC be restructured around subsidiary companies encompassing the core business of generation, transmission, and retail distribution. Since the technical and financial conditions of the enterprise were not attractive, the KESC Sixth Power (Sector Loan) Project (1994) seeks to rehabilitate the transmission and distribution system, and to finance a further study for recommending actions for the restructuring and privatization of KESC.

An aspect that has been receiving increasing attention from donor countries is excessive "nonproductive" (e.g., military) expenditures by some recipient countries. The concern is twofold: first, budgetary allocations for military purposes should not crowd out development activities; and second, since money is fungible, external assistance for economic development should not have the effect of freeing up resources for unreasonably high military-related expenditure. These

concerns are understandable and valid (although, to some extent, military expenditures may be supply-driven by armaments exporters from donor countries). At the same time, governments have a sovereign duty to protect their citizens and territories, and they act in accordance with their own perceptions of threat, rather than those of outsiders. To address these issues in a balanced, coordinated, and effective manner, funding agencies have used the forum provided by country aid groups or consortia (usually organized by the World Bank). Thus, in recipient countries where the military budget seems unduly large, the aid community usually expresses its concern at the annual consortium meeting, with the clear implication that the level of the overall aid commitments reflects that concern. As a member of such aid consortia, the Bank associates itself fully with such expressions of concern, provided the economic effect of military expenditure on the development process in the DMC concerned is unequivocal and demonstrable.

In addition to expenditure matters, the Bank also looks at ways to help DMC governments improve their domestic resource mobilization efforts, more directly through enhanced cost recovery by public utilities, but also including TA for policy reforms. Taxation is another aspect. Indeed, in many ways, the manner and effectiveness with which a government collects taxes are reflective of the standard of governance that prevails. Hence, the Bank provides training for tax policymakers, as well as TA for improving tax collection and administration.

Box 3 provides a flavor of the Bank's activities for helping improve public financial management in DMCs.

Civil service reform

Civil service reform is perhaps the most elusive transformation facing a government engaging in reforms to strengthen market-friendly processes of development. One major aspect of this problem, namely, public sector wage bills that are unsustainably high (in relation to government revenues or expenditure), is a direct function of the size of the state system, and will benefit from any downsizing that takes place. Other ills that afflict the public service include low morale and productivity, uncertain prospects for career development, and insufficient linkage of merit to promotion. When combined with inadequate salary scales, the cumulative effect can be pervasive corruption among public officials.

Box 3: Public Financial Management

In collaboration with the United Nations Development Programme (UNDP), the Bank has helped institutionalize program budgeting and project monitoring (PBPM) in Nepal. Under the first phase (1986), a program budgeting system for efficient and economical allocation of scarce resources in the public sector, and a project monitoring system, were set up in the Ministry of Finance (MOF). The second phase (1986) improved (i) the program budgeting system by including clear criteria and weights to accommodate multiple objective considerations when ranking projects in order of priority; and (ii) the project monitoring system by introducing a quantitative methodology, developing appropriate interface points among MOF, line ministries, and other government bodies, and providing training manuals and workshops. In the final phase (1989), PBPM systems in MOF were improved further and extended to line ministries with the long-term objective of making PBPM the basis for an integrated government system.

The Committee for Planning and Cooperation (CPC) is responsible for strategy and investment planning, management of foreign investment, and coordination of external assistance. Since CPC is constrained by shortages of skills and experience, UNDP, in cooperation with the International Monetary Fund (IMF) and the World Bank, provided technical assistance (TA) for taxation and customs reform, privatization, foreign investment promotion, and public investment planning. The Bank provided complementary assistance in macroeconomic planning (1990). Under a follow-on project of the Government, UNDP, IMF, and the Bank (1993), an integrated framework is being introduced for the planning, programming, budgeting, and financing (PPBF) process. The Bank's contribution would strengthen the capacity of CPC and selected line ministries to undertake macroeconomic planning, policy analysis, formulation, and coordination, and help establish a public investment programming system that is integrated effectively into the PPBF process.

The Philippines introduced a value-added tax (VAT) in 1988, in replacement of a variety of sales taxes. Although, since then, the VAT emerged as a dynamic component of tax revenue, its potential yield (levied at 10 percent) seemed much larger than the amount of VAT actually collected (less than 1 percent). The Bank has, therefore, assisted the Bureau of Internal Revenue (BIR) to improve the VAT assessment, collection and planning systems, and computerization of these systems (1991). The major outputs of this TA were (i) an integrated final Information Systems Plan, as the basis for computerization of all the taxes administered by BIR and (ii) a detailed VAT information system. Together, these systems would help ensure a more uniform and widespread implementation of tax laws.

Financial accountability is a particular concern of the Bank in the Pacific developing member countries (DMCs). Although this problem is not unique to these DMCs, it is exacerbated by the lack of qualified auditors and the dearth of systematic training. The Bank, therefore, financed a program of audit manpower development workshops for the South Pacific DMCs to introduce updated audit techniques and to upgrade the technical skills of the participants (1989). This was followed by an audit training program for the same DMCs, covering two workshops: one on financial audit management and supervision, and the other on computers in the audit process (1994). The workshops emphasized in-house training and development of informal regional support networks for national audit offices.

A professional and accountable civil service that can administer rules, maintain standards and competition, and respect property rights is critical for private sector confidence in the government's efforts at economic reform. What is needed, therefore, is to move progressively towards public administration systems that provide clear career paths, adequate compensation and benefits, and incentives that tie advancement in the civil service more closely to staff performance and productivity. While downsizing operations should facilitate such improvements, it will not by itself obviate the requirement for more sophisticated management and control systems.

Reforms of this nature, especially action to tackle salary erosion and wage compression, should also impact favorably on the incidence of corruption. So, too, should market-friendly economic reforms in general, by reducing the discretionary powers of public officials. In addition, however, effective oversight mechanisms can help prevent government agencies from serving their own interests and, thus, reduce corruption. The Bank's region offers several good examples of such institutionalized oversight (especially in Hong Kong, China; Republic of Korea; and Singapore). By familiarizing policymakers with what has worked elsewhere, the Bank could help DMCs design tailor-made oversight systems to fit their own civil service environments. However, in this—as in other areas—the Bank will proceed on the basis of requests made by the DMCs concerned.

Box 4 outlines a modest initiative taken by the Bank in the field of civil service reform.

Participatory development processes

Participation is necessary for governments to make informed choices in respect of people's needs, while allowing social groups to protect their rights. The Bank could help expand participation in several ways, such as through (i) participation in projects, (ii) the public sector/private sector interface, (iii) decentralization of economic functions (empowerment of local government), and (iv) cooperation with NGOs.

Box 4: Civil Service Reform

The Bank, in cooperation with the United Nations Development Programme (UNDP) and the World Bank, is involved in a modest way with public service reform in the Republic of the Marshall Islands. Rationalization of the public service is a pressing need, as compensation of government employees preempts nearly 60 percent of all external funds received by the country. Ensuring an affordable public service and enhancing the effectiveness of government operations are thus the crucial objectives of reform in this regard. A Presidential Committee appointed in October 1992 identified six major dimensions of the problem: (i) an overstaffed public service, (ii) inefficient delivery of public services, (iii) a large number of unproductive employees, (iv) a serious shortage of technically qualified manpower, (v) organizational structures that are excessively fragmented and tiered, and (vi) widespread functional duplication among units. The specific measures suggested for addressing these weaknesses included streamlining of administrative structures, privatization and contracting out of services, reduction of nontechnical staff, and reduction in average personnel costs. A strategy for implementing these measures in the short and medium term was also outlined. To reinforce local ownership of the reforms, a seminar-cum-workshop was organized under Bank technical assistance, involving key political dignitaries and public officials. This collaborative exercise helped spread understanding of what needs to be done as part of the reform, and mustered support and commitment for the changes envisaged. Implementation of the reform measures is now being undertaken through assistance from UNDP.

Participation of beneficiaries and affected groups

The representation and participation of citizens heightens effectiveness and accountability in development activities. This is particularly true in the case of rural or community development projects and those in the social sector at the grass roots level. Given the Bank's growing emphasis on equity issues, and hence on projects of this nature, *The Bank's Medium-Term Strategic Framework (1993–1996)* foreshadowed a shift from "blueprint" (or engineering-intensive) projects to "process-oriented" (or beneficiary-involvement) projects. Unlike projects in the former category (where project parameters are reasonably well known in advance), process-oriented projects commence with only a broad but flexible design concept, the details of individual components being worked out subsequently in close consultation with potential beneficiaries. Even in blueprint projects, the Bank will ensure consultations with groups likely to be positively or adversely affected, providing an opportunity to improve project design or suggest ways of mitigating adverse impacts.

To help ensure implementation of more participatory approaches, the pamphlet *Guidelines for Incorporation of Social Dimensions into Bank Operations* was prepared and distributed to DMC agencies and Bank staff concerned. The pamphlet also includes guidelines for social preparation of beneficiaries, essentially a preinvestment phase designed to strengthen the absorptive capacity of communities by helping them form local (grass roots) organizations that can serve their development needs in an ongoing way. The report of the TFIPQ emphasized the need for beneficiary consultation at even earlier project stages, such as during project identification and programming. However, as that report pointed out, there remain serious constraints that inhibit greater use of participatory techniques of project design and implementation. These include inadequate appreciation by government agencies of the significance of participation, their lack of related skills and capacity, lack of appropriate skills and capacity of the beneficiary groups, as well as the limited number of experienced, socially oriented consulting firms, both within DMCs and internationally.

Box 5 contains two illustrations of Bank projects in which beneficiary participation has been promoted actively.

Public sector/private sector interface

The manner in which the public and private sectors function together in an economy is one test of the effectiveness of the participation principle. From the point of view of economic growth and development, this interface can work at two levels. First, market-friendly economic reforms (i.e., a conducive environment for private enterprise) help release the energies and dynamism of the private sector and enable it to contribute more fully to the development process (thus, making it more broad-based and participatory). Second, consultative mechanisms for dialogue between government and private actors (e.g., business councils) can give the latter opportunities to provide effective input into the policy process. Such business councils can be valuable to the government as well. By including the relevant parties in the discussion, they increase the government's capacity to achieve consensus on policy initiatives. Other advantages include enhanced credibility of the government's commitment to growth, and increased safeguards against

Box 5: Beneficiary Participation

The National Irrigation Authority (NIA) of the Philippines has been active in involving beneficiaries in its operations. Of around 1.5 million hectares under irrigation in the country, about 42 percent is served by national irrigation systems, another 42 percent by communal irrigation systems, and the remaining 16 percent by pump irrigation systems. The communal and pump systems are operated and maintained by farmer Irrigators' Associations (IAs), which were first introduced in the Philippines some 20 years ago (with assistance of the Ford Foundation). The performance of IAs in operation and maintenance (O&M) of communal systems has encouraged NIA to extend the concept of beneficiary-implemented O&M to the (larger-size) national systems. With support from the World Bank and the United States Agency for International Development (USAID), NIA is undertaking a program of restructuring and strengthening IAs to help them cope better with these additional O&M responsibilities. Under the Bank's Irrigation Systems Improvement Project (1990), five national systems financed by earlier Bank-assisted projects are being rehabilitated and handed over to IAs for O&M. Participation of IAs is envisaged under all phases of project development, viz., preparation, implementation, and operation. Their involvement in the implementation of the civil works would recompense beneficiaries for any temporary decrease of farm productivity caused by interruptions in water supply during construction. The IAs will also be empowered increasingly to collect the irrigation service fees. An institutional development component aims to reorganize the IAs into cohesive larger groups with greater self-reliance, and to initiate a cooperative program that will give them better access to the credit facilities of the Land Bank of the Philippines and other rural financing institutions.

In Pakistan, the Bank, along with the World Bank and other funding agencies, is supporting the Social Action Program (SAP; 1994). The SAP, which covers the entire country for a five-year period, embraces four subsectors: (i) primary education, (ii) primary health, (iii) population welfare, and (iv) rural water supply and sanitation (RWSS). Its design is based on an annual assessment of objectives, targets, and policy and institutional reform measures, and includes a review of the entire public sector expenditure program related to the four subsectors. The SAP aims to improve access and quality in the delivery of basic social services, with particular emphasis on rural and underserved areas and with a considerable gender bias towards women. A process approach has been followed in preparing and implementing the SAP, stressing community involvement and participation of nongovernment organizations (NGOs) and the private sector. Users' committees are being introduced in all RWSS activities, and Village Education and Parent-Teacher Committees are being established for supervision of schools. During FY1992/93, about 100 communities built their own schools staffed by women teachers, paid by the Government. Similarly, increasing the number of female, village-level family planning workers will help community participation under the population program, while community health workers will achieve the same purpose in the health subsector. To promote NGO involvement, education and health foundations are being established in the provinces, and privatization of basic health units and rural health centers will be considered, where feasible. As a multiagency effort, the SAP will also provide major opportunities for dialogue with the Government on social sector policy reform.

corruption.[25] A notable feature of the successful economies of East Asia is that most developed effective government-business deliberation councils, fostering rule-bound decision making by government, and rendering it harder for government to renege on agreements made. Their example suggests that, designed properly, consultative mechanisms can increase not only participation and accountability, but also transparency and predictability in policy formulation and implementation.

Decentralization of public and service delivery functions

As a rule, the Bank prefers that the obligations related to its loans be borne fully by the agencies that ultimately use the loan proceeds. This is also conducive to greater "ownership" on the part of project agencies. By analogy, it is likely that devolution of authority to smaller administrative units (e.g., provinces, districts, and municipalities) will foster greater responsiveness to local situations and possibilities than may be displayed by decision makers in a distant capital. At the same time, some government functions are best handled in a centralized manner. Also, the distribution of powers between central and provincial authorities usually reflects the political imperatives of national governance. Hence, decisions on the scope and degree of decentralization are best left to the governments themselves.

That said, however, once a DMC chooses to embark on devolution, the Bank can assist the process by helping identify those characteristics of decentralization that are market preserving and that can enhance economic performance. Often, a critical issue is whether financial accountability of different levels of government can be assessed accurately, so that local authorities can benefit from policies that produce a revenue surplus. Allowing local governments to raise funds through taxation or borrowing makes them more accountable for the fiscal and financial consequences of their policies. When obliged to compete among themselves for access to financial resources, they experience fully the costs of any unsound economic policies or decisions. However, the central government must ensure that local authorities do not transfer the costs of unsound policies to their neighbors by erecting local trade barriers. If requested to do so, the Bank

25 Once actions of civil servants are open to the scrutiny of consultative councils, secret deals between officials and preferred clients become more difficult to arrange.

will provide TA for analyzing these and other issues related to decentralization, and thus help smooth its implementation.

Cooperation with NGOs

NGOs offer borrowers and the Bank another possibility of engaging civil society in project formulation and implementation. Small, nimble, and with good local knowledge, NGOs can be effective and efficient vehicles for mobilizing and reaching project beneficiaries. On the negative side, there has been a proliferation of NGOs in recent times, and some have political agenda. While their lack of formal structures facilitates fast response times, it also implies some lack of accountability. Many NGOs face financial constraints that limit continuity of their program work. Also, by their nature, NGOs prefer to maintain their own identity by staying within the informal sector. Still, the better-managed NGOs can usefully assist in discharging some of the responsibilities in Bank-financed projects. They can act as consultants, financial intermediaries, contractors, or implementation monitors. In time, the Bank may also consider ways of providing financial assistance to them, where appropriate.[26] The types of activities in which NGOs can be especially helpful include poverty reduction, empowerment of marginal groups, challenging gender discrimination, and delivering emergency relief.

Box 6 shows some ways in which the Bank has sought to cooperate with NGOs.

Legal frameworks

Law and development

A legal environment conducive to development is essential for all DMCs. It would cover the traditional concept of the rule of law, the existence of a stable and predictable legal system, as well as law reform for economic development. It would also imply effective and efficient administration of law. This legal framework impacts the entire process of development and is, therefore, directly relevant to efforts for promoting the latter. This is seen most clearly in the need for market-friendly,

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26 The Bank's policies already permit provision of TA to NGOs.

Box 6: Cooperation with NGOs

The nongovernment organization (NGO)-Microcredit Project in the Philippines (1988) sought to reduce poverty, particularly in rural areas, by supporting the Government's *Tulong Sa Tao* (Self-Employment Loan Assistance) Program. It financed microenterprises and cottage industries using low technology and local raw materials. The proceeds of the Bank loan were channelled to the intended beneficiaries through selected NGOs that acted as credit intermediaries. In conjunction with this Project, technical assistance (TA) was provided for (i) institutional strengthening and technical guidance of self-help groups among the low-income poor, and (ii) institutional strengthening of about 30 NGOs that were accredited under the Project (both for project implementation purposes and to enhance their effectiveness in longer-term contribution to poverty reduction in the country). The Project covered six selected regions of the country; Bank support to the *Tulong Sa Tao* Program was continued through the Second NGO-Microcredit Project (1991), which extended the coverage nationwide.

In Bangladesh, a TA has been provided for ensuring closer involvement of NGOs in the design and implementation of the Government's development projects. The objectives of the TA are to establish effective mechanisms for Government-NGO cooperation, strengthen the NGO Affairs Bureau, and provide assistance to NGOs. It comprises four components: (i) institutional support for both the NGO Affairs Bureau and the NGO sector, (ii) a regional training program, (iii) support for establishing a formal Government-NGO Consultative Council, and (iv) monitoring and evaluation. It is expected that the project will increase the understanding of the NGO Affairs Bureau in its work with NGOs; improve the capacity of the NGOs involved for professionalism and self-regulation; and help prepare guidelines, regulations, and legislation for Government-NGO collaboration, including a framework for participation of NGOs in externally funded projects. Since a process approach is being employed, the monitoring and evaluation component will assess its effectiveness, and will also identify further work required to achieve the original objectives of the project.

economic reform to be matched by laws suited for the purpose. However, the requirement of appropriate legal dispensations is no less in other areas, such as improvement of the status of women and protection of the environment.

The Bank's operations will help legal reform in several ways. The most obvious and direct contribution is through improvement of sector policy frameworks. Legal training in development law is another. Where the legal system suffers from accumulated arrears, recourse to commercial arbitration and alternative dispute resolution mechanisms could be promoted, with the Bank offering information on best practice in other (preferably regional) countries. Similarly, competition policy varies greatly in the region, and a systematic analysis of the

relative costs and benefits of different regulatory regimes may be useful to DMC policymakers.

The erstwhile centrally planned economies in transition to market-oriented systems represent a special situation. Rules originating under their existing jurisprudence may penalize activities considered normal business practice in a competitive economy. There are also enterprises that are neither purely public nor private, and in which the rights and responsibilities of management are ambiguous. Transfer of ownership in such cases can be problematic. As these economies open themselves to foreign investment and trade, they may need to undertake wide-ranging reform of their legal systems.

Similarly, the special cultural circumstances of Pacific DMCs may also need to be recognized in this regard. These economies are yet to be fully monetized, with many transactions in the outer islands remaining outside the money economy. Land is held in the name of the community as a whole, and land transactions are subject to customary law. The coexistence of Western political, legal, and administrative systems, on the one hand, and communal property rights and traditional forms of conflict resolution, on the other, and their interface present considerable challenges to the governments concerned, necessitating careful and sympathetic adjustments.

Legal frameworks for private sector development

Promoting development of the private sector in general, and that of the financial sector and securities markets in particular, requires an especially strong legal underpinning. This is needed because the system must protect private property, regulate transfers, and register titles, so that property can be used as collateral, thus enhancing credit and liquidity. The system is also required for enforcing contracts, reducing the costs of bankruptcies, and setting competition policy, including rules for entry and exit. By determining the ease with which creditors can attach assets of borrowers in case of default, the effectiveness of the legal system can affect the willingness of lenders to make loans. More generally, the enforceability of contracts and agreements is vital for the promotion of investment and trade. In its absence, economic uncertainty increases, raising costs all around.

Another consequence of a poorly functioning legal apparatus is growth of the informal sector, which in turn further undermines the legal order. Informal enterprises function in the shadow of the law and, lacking access to formal dispute settlement procedures, have to resort to extra legal methods. By encouraging such entrepreneurs to register their operations, reform of the legal environment enhances the sustainability of the liberalization process by expanding the size of the formal sector. It also enlarges the government's revenue base.

Box 7 provides examples of Bank assistance in the field of legal frameworks.

Box 7: Legal Frameworks

To facilitate Mongolia's transition from a centrally planned to a market economy, the Bank is providing technical assistance (TA) to help develop a legal system conducive to private enterprise (1993). This TA aims to

(i) review the existing institutional and legal framework in order to formulate a plan to coordinate all future foreign assistance to the legal sector;

(ii) review existing business and commercial laws, with particular attention to the impact of such laws on the country's industry sector;

(iii) identify the legislative action required to make the legal system more suited to a market economy, and assist in the drafting of the necessary legislation; and

(iv) enhance the capacity of the institutions concerned by appropriate training, and strengthen the resource base for legal training, including the establishment of a clearing-house for legal information and a center for translation assistance.

An ongoing regional TA project focuses on legal training in development law (1992). Short workshops are being held for midcareer lawyers and official legal advisers in Cambodia, People's Republic of China, Lao People's Democratic Republic, and Viet Nam. The topics covered include (i) legal aspects of privatization, (ii) managing international investment agreements and international trade transactions, and (iii) legal framework of financial sector and capital market development.

As another regional TA, the Bank is financing a comprehensive, comparative, and integrative study of regulations governing securities market operations and supervisory practices in Bangladesh; Hong Kong, China; India; Republic of Korea; Malaysia; Philippines; Singapore; and Taipei,China (1992). The study also reviewed the results of earlier Bank-financed studies on People's Republic of China, Indonesia, Pakistan, Sri Lanka, and Thailand. Based on this review and comparative study, a rationalization plan for each DMC is being prepared, in consultation with the government concerned, to cover gaps in policy and improve the quality and degree of regulation and supervision. A blueprint for implementing the recommended changes will also be finalized. In addition, specific proposals and areas for future Bank assistance will be identified.

Information openness

Disclosure of information

Information flows between the government and the private sector contribute greatly to the efficiency of market-oriented economies. Since the actions of governments are considered in the risk calculations of private enterprises, the latter value accurate information about government regulations and decisions. Publicly available knowledge also reduces information asymmetry between lenders and borrowers, thereby moderating interest rates to a commensurate extent. Governments, too, must have access to reliable information from the private sector, as an aid for effective economic decision making. The principal barrier to such information flows from the private sector is fear of opportunistic behavior by government officials. A cooperative, rather than adversary, relationship between government agencies and their constituencies helps the two-way exchange of information, facilitating constructive decisionmaking. Governments can also help private firms by supplying market intelligence as a public service (especially useful to exporters and small businesses, which may initially find it too costly to make the necessary investment in information).

The ready availability of high-quality information brings many advantages. Openness and competition are mutually reinforcing.

Institutions that facilitate dialogue between regulator and regulated serve as safeguards against corruption, since open participation in rule making is the most effective oversight of all. At the same time, the civil service is insulated from the pressures of powerful firms and individuals. Thus, two-way information flows between the private and public sectors not only ensure transparency, but also contribute to accountability, participation, and predictability. As in the case of legal reform, the Bank will serve as a clearinghouse for knowledge on best practice within the region and elsewhere, and will assist, upon request, in the evaluation of different consultative mechanisms.

The Bank's modalities for enhancing governance in DMCs

The Bank has always contributed significantly to increasing the quality of governance in its DMCs. This has been especially true since the adoption (in 1992) of the Bank's medium-term strategic frameworks and the pronounced emphasis on the equity and sustainability aspects of economic development. But even before 1992, indeed, from their very inception, the Bank's operations have had an impact, to a greater or lesser degree, across the full range of the areas of action indicated in the previous chapter. Given the nature of the Bank's activities, however, the categories of action that have benefited most directly have been public sector management and participatory development processes. This is likely to be the case in the future also, although the other areas mentioned will be targeted as well. As its focus on governance issues sharpens, the Bank will ensure that this dimension of its development assistance is highlighted appropriately. This will be achieved by identifying systematically, in consultation with the DMCs concerned, the opportunities for promoting quality governance in individual operations and procedures.

In making its approach to governance operational, the Bank will build on the experience gained thus far. As mentioned, Bank operations have contributed generally to improving governance standards in DMCs. More specifically, the manner in which the Bank has addressed "crosscutting" concerns (e.g., environmental protection)

offers a useful analogy. Together, these considerations suggest that the Bank should integrate governance dimensions into its operations. This means ensuring, to the extent possible, that Bank-supported programs and projects are designed such that they raise governance quality in the sectors concerned (e.g., through inclusion of appropriate policy measures, project components, or TA). In addition, the Bank will provide, on request, advisory TA for specific governance-oriented policy studies, seminars, and training. In all cases, the guiding principle for the Bank will be to act on the basis of agreement with the DMC concerned.

Given this approach, the Bank's focus on governance improvement will cover, as appropriate

(i) discussion in the country operational strategy study of governance issues in specific sectors, with a view to addressing them in the country assistance plan;

(ii) more detailed analysis of governance aspects in the context of loan-related economic and sector work, including assessments of the institutional capacity of borrowing entities;

(iii) coverage of governance aspects in policy dialogue and policy-intensive lending operations;

(iv) integration of capacity-building initiatives into the country assistance plan through advisory TA and project preparation and implementation (emphasizing in both cases longer term links with selected DMC agencies, for maximum impact);

(v) implementation of the shift towards process-oriented projects, with participation of beneficiaries (as well as affected groups) at different stages of the project cycle;

(vi) expanding cooperation with NGOs;

(vii) TA in support of the privatization initiatives of DMCs;

(viii) advisory TA for reform of laws and regulations dealing with tariffs, trade, environmental legislation, and the like;

(ix) compilation of best practice, in the region and elsewhere, concerning relevant governance aspects; and

(x) regional TA for analyzing public sector reform in general, and success cases in particular.

In due course, it is likely that capacity-building activities and assistance for legal reform will become central pieces in the Bank's efforts to help improve governance in DMCs. The focus in respect of capacity building will be on sector-level and national institutions in DMCs, aiming at enhancing the effectiveness of public administration and development management. Where appropriate, it will also cover institutional development of the local/provincial agencies and the private sector.[27] As regards legal reform, the Bank will emphasize customs, tariff, and other trade laws, laws and regulations affecting direct foreign and portfolio investment, banking and capital market regulations, and environment laws.

To signal its commitment to fostering quality governance in DMCs, the Bank is also simultaneously taking a number of initiatives to improve its own performance in this regard. These include the TFIPQ, and follow-up thereto;[28] reorganization of the Bank's structure; adoption of a new policy concerning confidentiality and disclosure of information; consideration of an inspection function within the Bank; and articulation of a human resources development strategy for the Bank.

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27 Doc. IN.161-94, *Bank Support for Capacity Building in Developing Member Countries*, 7 September 1994.

28 The commitment of DMCs to improving development performance was highlighted in the recent Regional Workshop on Improving Project Quality (28 November–1 December 1994).

Resource implications

Enhancing the governance dimension of its development assistance will have resource implications for the Bank. These would cover (i) staffing, (ii) staff training, (iii) staff consultants (for economic and sector work), (iv) business travel, and (v) loan and TA resources, which are discussed briefly below.

The Bank will need to build up its own institutional capacity for analyzing, assessing, and addressing governance issues in DMCs. This will require strengthening of the in-house expertise available to the Bank in the various aspects of governance and institutional development. However, given the current budgetary constraints, any new staff positions required would have to be accommodated through the ongoing redeployment efforts within the Bank. The Strategy and Policy Office (SPO), which has been designated as the Bank's interim focal point for capacity building in DMCs,[29] and the Office of the General Counsel (OGC) will be responsible for formulating policy and guidelines on governance matters.

Current staff, as well as new staff, in the operational departments/offices will have to be sensitized to and trained in the various aspects of governance related to Bank activities. The Bank has already started conducting staff training seminars on topics such as (i) strategies for institutional development, (ii) privatization and market regulation, (iii) incorporation of participatory approaches into project design and implementation arrangements, (iv) cooperation with NGOs, and (v) legal issues of operational interest to the Bank.[30] These programs

29 Doc. IN.161-94.
30 *Training and Development Handbook*, 1994.

will continue, and new ones will be added as the focus on governance sharpens. As is the case at present, Bank staff will serve as resource persons, to the extent feasible; nevertheless, there will continue to be a need for external consultants, especially for the more specialized subjects. In order to cater to these requirements within the Bank's training budget, activities of lower priority will have to be reduced.

The Bank's governance initiatives will be articulated through the Bank's existing modalities and activities, i.e., country and sector documents, and loan and TA projects. Addressing governance aspects in these contexts may add to lead times and complexity, as do other issues of Bank concern, such as women in development and environmental protection. It is difficult to estimate the resource increases necessary to do so. However, in several areas, the Bank is already carrying out the work involved (e.g., participatory approaches to project design and implementation), and, in some cases, has been doing so for a long time (e.g., public enterprise reform). Hence, any extra expenditure, in terms of staff time, business travel, and loan and TA resources would be adjusted and reflected in the relevant allocations made in the Bank's three-year rolling work program and budget implications.

Reporting arrangements

To monitor (and coordinate) the Bank's efforts with respect to governance issues in DMCs, departments and offices concerned would be requested to provide SPO and OGC (in respect of legal frameworks and legal issues of relevance to other areas of action) with periodic reports on governance-related activities. SPO and OGC would then collate the information received, serve as the clearinghouse on best practice, and offer suggestions for further work.

Two years after Board approval of the Bank's operational policy on governance issues (i.e., in late-1997), a Board paper will be circulated, analyzing the Bank's experience with governance activities, proposing modifications to the operational approach as necessary, and indicating more specific budgetary and other resource implications.