



IDA18

**Special Theme:
Governance and Institutions**

**IDA Resource Mobilization Department (DFiRM)
May 26, 2016**

ACRONYMS AND ABBREVIATIONS

Fiscal year (FY) = July 1 to June 30

| | | | |
|-------|---|--------|--|
| AFR | Africa Region | MIGA | Multilateral Investment Guarantee Agency |
| ASA | Advisory Services and Analytics | OECD | Organization for Economic Co-operation and Development |
| BETFs | Bank Executed Trust Funds | OFCs | Offshore Financial Centers |
| DLI | Disbursement-linked Indicators | OGP | Open Government Partnership |
| DPO | Development Policy Operation | PEFA | Public Expenditure and Financial Accountability |
| DRM | Domestic Resource Mobilization | PEFM | Public Expenditure and Financial Management |
| EAP | East Asia and Pacific Region | PforR | Program-for-Results |
| ECA | Europe and Central Asia Region | PHEICs | Public Health Emergencies of International Concern |
| EITI | Extractive Industries Transparency Initiative | PIM | Public Investment Management |
| FCS | Fragile and Conflict-affected States | RAT | Rapid Assessment Tool |
| FCV | Fragility, Conflict and Violence | RETFs | Recipient Executed Trust Funds |
| FY | Fiscal Year | RPDR | Regulatory Policy and Delivery Review |
| GDP | Gross Domestic Product | SAR | South Asia Region |
| GHSA | Global Health Security Agenda | SCD | Systematic Country Diagnostic |
| GPSA | Global Partnership for Social Accountability | SDG | Sustainable Development Goal |
| IBRD | International Bank for Reconstruction and Development | SOE | State-owned Enterprises |
| IDA | International Development Association | StAR | Stolen Asset Recovery Initiative |
| IEs | Impact Evaluations | TADAT | Tax Administration Diagnostic Assessment Tool |
| IEG | Independent Evaluation Group | TPAF | Tax Policy Assessment Framework |
| IFC | International Finance Corporation | UN | United Nations |
| IFF | Illicit Financial Flows | WBG | World Bank Group |
| IHR | International Health Regulations | WDR | World Development Report |
| IMF | International Monetary Fund | WHO | World Health Organization |
| INT | Integrity Vice Presidency | YESB | Yangon Electricity Supply Board |
| LCR | Latin America and the Caribbean Region | | |
| MAPS | Methodology for Assessing Procurement Systems | | |

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EXECUTIVE SUMMARY

- i. **Good governance and strong and accountable institutions are crucial for poverty reduction and development effectiveness in IDA countries.** Weak institutions are at the heart of the challenges many IDA clients face in achieving the twin goals of ending extreme poverty and boosting shared prosperity. The inextricable link between poor governance and persistent poverty is difficult to break, however, as building and operating successful public institutions is a long-term challenge for governments, even in ideal circumstances. The complexity of this challenge is compounded by the volatile conditions found in many IDA countries (particularly Fragile and Conflict-affected States (FCS)), where human security, social cohesion, political stability, and economic activity can be uncertain and volatile.
- ii. **Governance and institutional capacity touch the World Bank’s work in all sectors – serving as a foundation for IDA’s effective investment in growth, resilience, and opportunities.** The World Bank Group (WBG) supports IDA countries in building open, effective, and accountable institutions for inclusive development. This involves a focus on both: (i) strengthening of core systems at the center of government necessary for channeling resources to the bottom 40 percent; and (ii) development of a public sector grounded in transparency and citizen participation that increases trust between governments and citizens. This emphasis on strengthened and transparent government systems, combined with a continued mainstreaming of citizen engagement in all IDA activities, will also support the anti-corruption agenda. As a Special Theme, Governance and Institutions will facilitate an integrated, multi-sectoral approach to public sector reform that builds on lessons learned and promotes a results-driven delivery of IDA.
- iii. **Institutional reform is often a slow, non-linear, and cumulative process – requiring a long-term view and multi-sectoral support that IDA provides.** Institutional change is to a large extent about reform implementation, which is often harder than reform design. The heart of successful governance reform, therefore, lies in ensuring that formal institutions (i.e., the laws, procedures, regulations) and the actual behaviors of those functioning inside the public sector are mutually consistent and targeted towards delivering results. The complexity and depth of this challenge affects components of each of the Special Themes. A coordinated reform dialogue on governance under IDA, therefore, will ensure that institutional advances are simultaneously leveraged for impacts in the other four Special Themes and IDA’s ongoing work in other areas.
- iv. **A special theme of Governance and Institutions for IDA18 allows the WBG to deepen its engagement and develop the tools necessary for identifying the entry points for sustained reform.** The WBG has provided significant resources under previous IDA Replenishments to support public sector reform and strengthen institutional capacity. Under IDA18, the WBG proposes a set of “enhanced” interventions that: (i) build an integrated “One WBG approach” to strengthening Governance and Institutions with greater synergies with other special IDA themes; (ii) leverage opportunities provided by the new Global Practices model to mainstream governance in sectors; (iii) support global demand for policy reforms in Tax, Illicit Financial Flows (IFFs); and (iv) strengthen preparedness for preventing Pandemics. Specifically, IDA18 will focus on the following Governance and Institutions policy actions:

- Strengthen domestic resource mobilization (DRM) by conducting Tax Policy Assessment Frameworks in six IDA countries by FY20, of which two are in Fragility, Conflict and Violence (FCV);
- Improve public expenditure and financial management (PEFM) by supporting at least nine IDA countries to undertake Public Expenditure and Financial Accountability (PEFA) assessments to inform preparation of their Systematic Country Diagnostics (SCDs);
- Increase coverage of Open Contracting principles in eight IDA countries (including preliminary procurement assessments), leading to improved disclosure of contract data and compliance with international open contracting transparency standards;
- Perform IFF assessments in ten IDA countries by FY20;
- Support at least ten IDA countries on enhancing service delivery performance in State-owned Enterprises (SOEs) through: (i) Performance Agreements and/or (ii) increased Transparency through Annual Published Independent Audits;
- Support health institutional capacity to respond to pandemics by supporting 15 IDA countries to develop pandemic preparedness plans;
- Develop frameworks for governance and institutional arrangements for multi-sectoral pandemic preparedness, response, and recovery in 15 IDA countries.

v. **The challenges ahead for IDA countries in generating growth, reducing poverty and increasing shared prosperity are daunting.** In the face of a global economic downturn, combined with global trends that have an enormous impact on IDA countries, it is imperative for governments to consider how to improve governance, strengthen their institutions and to maximize effectiveness in providing services in an inclusive and transparent way. As a global convener and key partner to countries throughout the world, IDA18 can catalyze renewed efforts to improve progress in Governance and Institutions that is essential for the global community to reach its development goals.

I. INTRODUCTION

1. **As the world aims to achieve a new set of Sustainable Development Goals (SDGs) and to eradicate poverty, global conditions are creating significant headwinds.** The recent cyclical downturn has generated a series of vulnerabilities in many developing countries through growing external and fiscal pressures, increasing levels of debt and slowing productivity. Global trends including significant demographic transitions, ongoing globalization, increasing urbanization, the pressures from climate change, and an increase in cycles of violence and fragility generate enormous challenges for IDA countries in the years ahead.

2. **In the face of these challenges, trust in government and institutions around the world has fallen.** Data shows that more than half of the global population expresses distrust in government institutions.¹ This distrust is further exacerbated by increasing inequality, where the average gap in trust in institutions between the elite and the general population has widened to 12 percentage points. The broader political, administrative, and social institutions in which the public sector operates and the incentives that they generate impact the performance of providers to deliver services well. Poor performance reinforces low trust in the state, with citizens no longer having as much confidence in the ability of governments to meet their needs and to solve today's problems.

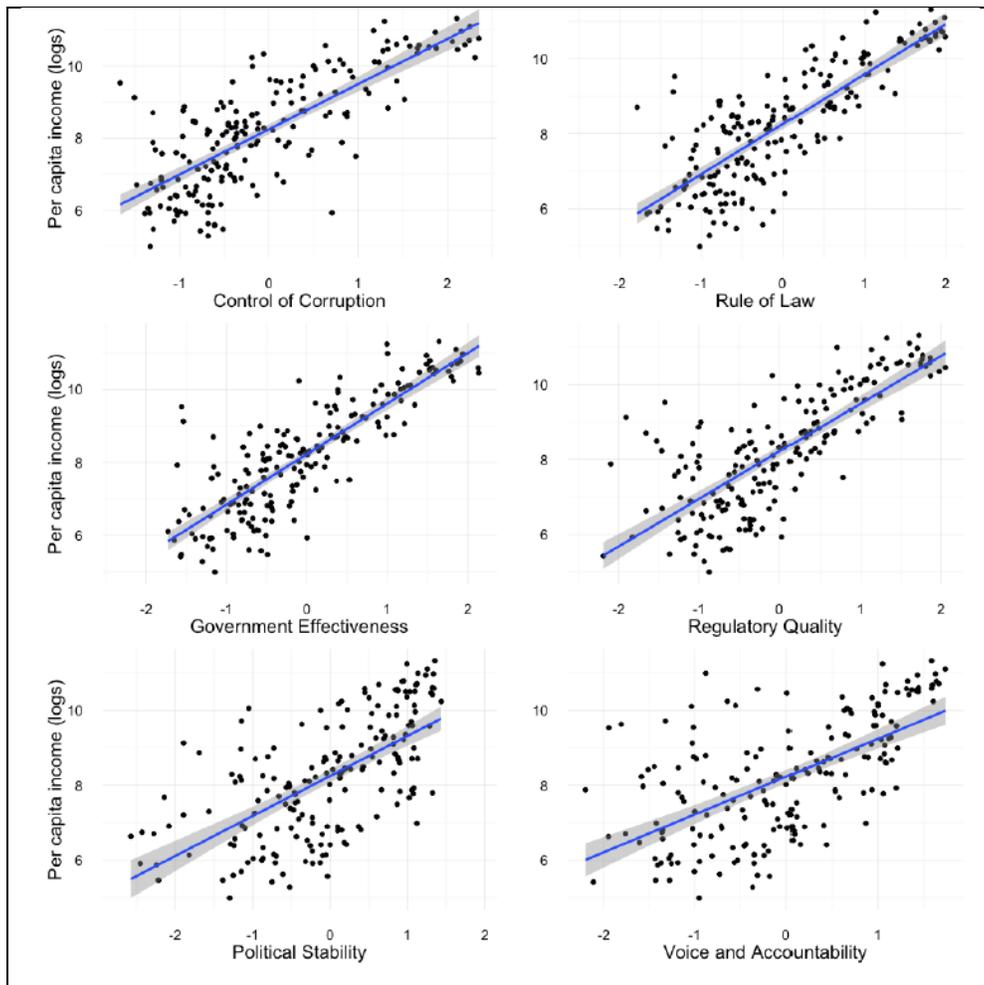
3. **In this context, strengthening good governance and building capable institutions becomes even more critical to poverty reduction and development effectiveness in IDA countries.** There is a clear correlation between aggregate measures of governance and per capita income across countries (Figure 1).² Capable, inclusive and accountable governments are essential to addressing the challenges noted above. The ability of governments to effectively provide public goods, to support an environment that can generate jobs and growth, to address market failures and to engage citizens in the process is more important than ever, and will determine whether the global community is able to achieve the ambitious goals that it has set for itself.

4. **A special theme of Governance and Institutions for IDA18 allows us to step up the WBG's efforts to support improved governance and institutions.** Governance and Institutional development is a topic that touches on the work that the WBG does in every area. Some of this work has focused specifically on core public institutions, much of it has been carried out in a mainstreamed fashion across sectoral interventions in areas such as education, health, water, transport and private sector development. Yet other aspects of the work have focused on both the governments' and the WBG's fiduciary obligations and ensuring that government resources and those resources lent by the WBG are used for their intended purposes. Finally, the WBG's work has promoted openness, transparency and citizen engagement in order to assure that governments and our private sector partners are accountable. Good governance is everyone's business, but given the challenge ahead and the importance of meeting those challenges, it is time to give Governance and Institutions a special focus in IDA18.

¹ Edelman Trust Barometer, Annual Global Study (2016).

² World Governance Indicators (2015).

Figure 1. Correlation between Per Capita Income and Governance Measures



Source: World Governance Indicators (2015).

5. **Strengthening Governance and Institutions is a multi-faceted topic, but work in the international community has evolved around five key areas that are critical for growth and development.** The most basic function of government is to provide security and rule of law – key public goods for societies to function effectively. Governments also organize the delivery of a variety of public goods, which requires the capacity to plan, efficiently allocate resources, and to oversee and monitor the delivery of those services. In order to deliver services, governments must raise revenue through taxation in a way that is transparent, equitable and minimizes distortions. Finally, governments must use the resources they receive for the public good and not private gain – they must be accountable for their actions in order to retain the trust and support of their citizens.

6. **Strengthened institutions and improved governance are especially critical for IDA countries.** The world's poorest and most vulnerable states face a range of issues that are deeply rooted in historic and systemic institutional inefficiencies. As such, for any intervention to be successful and sustained, governments must develop institutions that are effective, transparent and responsive to citizen needs. Improved governance equips IDA countries to create avenues and opportunities for citizen engagement, and help build and maintain trust between the state and

citizens. Reducing poverty and promoting shared prosperity is predicated on institutions that are effective in not only solving the problems of the past but responding to the changing needs of the citizens they serve (Box 1).

7. **As part of IDA18, IDA can improve the effectiveness of governance work by focusing more on three dimensions.** The first dimension is to support governments in the *effective and credible delivery* of their commitments. This means understanding incentives and bottlenecks in the delivery chain of services and making sure that these are addressed, so that citizens see and feel results. The second dimension is a greater focus on *inclusion* – especially inclusion of women, minorities and youth – in order to assure that public services reach all parts of society and that the WBG is delivering on its promise to support the bottom 40 percent. The third dimension is to draw more on *innovation and new technologies* to improve transparency, feedback loops and the use of data in a way that helps governments make the most of their limited resources.

8. **This note sets out the recent progress of IDA countries in strengthening Governance and Institutions** and then proposes some key areas and measures through which IDA18 may help to advance results in this critical area in the years ahead.

Box 1. Examples of Governance Interventions in IDA Countries

IDA financing for Governance and Institutional development provides customized support to IDA countries depending on their specific circumstances ranging from those experiencing violence and conflict to IDA blend countries:

The Central African Republic Emergency Public Services Response Project aims to improve the capacity of the government to reestablish an operational government payroll and related financial management systems after the civil war. Results included a decline of the salary to GDP ratio from 7.1 percent in 2013 to 5.1 percent in 2015 and increased revenue collections by 50 percent from 2014 to 2015. This enabled the government to gain additional fiscal space and rebuild service delivery functions after the crisis.

The Tanzania Open Government and Public Financial Management Development Policy Operation (DPO) aims to improve the management of public resources and increase transparency and accountability in the government. Improving the management of public resources includes strengthening budget credibility and execution through better cash management, public investment management, and procurement. Through open data, the project also seeks to increase access and use of service delivery information to improve budget credibility and execution in health, education and water.

The Punjab Public Management Reform Program in Pakistan leverages technology to improve transparency and citizen engagement. The project uses a multi-sectoral approach to improve citizen access to information and collect feedback on the delivery of public services. The project represents one of the largest scale attempts to engage with citizens and empower them in the fight against corruption and underperforming government systems.

II. RECENT PROGRESS AND LESSONS LEARNED

A. GOVERNANCE AND INSTITUTIONS: CENTRAL TO IDA DELIVERY

9. **Supporting effective and accountable public institutions is a core component of the WBG's twin goals of ending poverty and boosting shared prosperity.** In its early decades, the World Bank and other donors focused largely on institutional issues in development primarily as

a technocratic challenge – making sure Project Implementation Units were well staffed and structured to implement projects. Through the 1980s as the World Bank moved into more policy-based work, the role of institutions took on a greater importance, given their critical role in the implementation of policy.³ These approaches subsequently resulted in a shift in the World Bank’s attention to issues of good governance, publically highlighted by James Wolfensohn’s groundbreaking speech on corruption in 1996⁴ and the 1997 World Development Report (WDR) on *The State in a Changing World*. These helped contribute to the now broadly accepted recognition that at least as important as the policies and resources for development are the institutions within which public action is embedded – the “rules of the game” and the mechanisms through which they are monitored and enforced.

10. Governance and institutional capacity touch the World Bank’s work in all sectors – serving as a foundation for IDA’s effective investment in growth, resilience, and opportunities. The WBG supports IDA countries in building open, effective, and accountable institutions for inclusive development. This involves a focus on both (i) the strengthening of the core systems at the center of government necessary for channeling resources to the bottom 40 percent; and (ii) the development of a public sector grounded in transparency and citizen participation that increases trust between governments and citizens. By definition,⁵ institutional reforms shape the incentives of all actors interacting with the public sector, ranging from the health workers at the front-lines of Ebola response in Liberia to the mining firm paying its taxes in Papua New Guinea. As a Special Theme, Governance and Institutions will facilitate an integrated, multi-sectoral approach to public sector reform that builds on lessons learned (Box 2) and promotes a results-driven delivery of IDA.

Box 2. Lessons From World Bank Support on Governance and Institutions

The 2008 IEG evaluation of the World Bank Support for Public Sector reform identified several lessons in the Bank’s support for public financial management, administrative and civil service reform, revenue administration and anticorruption and transparency. These included:

- Be realistic about what is politically and institutionally feasible as well as being opportunistic in preparing the technical foundation for future reforms;
- Recognize that enhancing technology is not enough and the most crucial part is changing organizational behavior and culture;
- Deal with the basics first – such as registering tax payers with unique identification numbers;
- Develop clear diagnostic tools for civil service and administrative reform and acknowledge the inherent political difficulty; and
- Indirect measures against reducing bureaucratic corruptions such as simplification and transparency of procedures has greater impact than direct measures such as laws and anti-corruption commissions.

Source: World Bank Independent Evaluation Group (IEG 2008): Public Sector Reform What Works and Why?

³ Landell-Mills, Pierre and Serageldin, Ismail. Governance and the External Factor. World Bank Economic Review (1991).

⁴ In 1996, Wolfensohn gave a groundbreaking "cancer of corruption" speech to the World Bank/IMF annual meeting, citing corruption as a major burden for the poor in developing countries. Corruption is now widely recognized as a major impediment to development that must be tackled aggressively.

⁵ Institutions are the formal laws, informal norms and practices, and organizational structures that create the incentives which shape the actions of public officials. Governance, in turn, refers to the manner in which the state acquires and exercises its authority to provide public goods and services in relation to these institutions.

11. **Institutional reform is often a slow, non-linear, and cumulative process – requiring a long-term view and multi-sectoral support that IDA provides.** Institutional change is to a large extent about reform *implementation*, which is often harder than reform *design*.⁶ The heart of successful governance reform, therefore, lies in ensuring that formal institutions (i.e., the laws, procedures, regulations) and the actual behaviors of those functioning inside the public sector are mutually consistent and targeted towards delivering results. Equally important, it also relies on a good understanding of the political economy realities on the ground and where client countries are able to create a conducive policy and operational environment for capacity building. The complexity and depth of this challenge affects components of each of the Special Themes. A coordinated reform dialogue on governance under IDA, therefore, will ensure that institutional advances are simultaneously leveraged for impacts in the other four Special Themes and all other areas in which IDA works.

12. **IDA18 will allow for the continued investment in the data, diagnostics, and evidence necessary for a result-driven approach to governance and institutional reform.** It is well recognized that problem-driven policies should not involve the simple overlay of “best practice” institutional models to IDA clients, but to draw out each country’s unique circumstances and characteristics to help develop governance structures and institutions that will help them best deliver on their purpose. IDA18 will help deepen our engagement in countries and develop the tools necessary for identifying the entry points for sustained governance and institutional reform in client countries. With Governance and Institutions as a special theme, IDA18 will also provide the unique opportunity to operationalize the governance reform lessons of WDRs in IDA countries, including the upcoming WDR 2017 on *Governance and the Law* (Box 3).

Box 3. Governance in Previous World Development Reports

The topic of the 2017 WDR will be the role of *Governance and the Law* in the economic advancement of nations. The flagship report will examine the institutional foundations of a well-functioning state, and address two sets of issues facing the development community: The complicated interaction between economic development and the quality of governance; and the persistence of gaps between intended governance reforms and the reality on the ground.

A number of previous WDRs have addressed aspects of governance, institutions, and public sector management. The 2017 WDR will carry the distinction of being the first WDR the Bank has undertaken which comprehensively and exclusively addresses issues of governance and the law:

- **WDR 1997: The State in a Changing World:** The report was devoted to the “role and effectiveness of the state: what the state should do, how it should do it and how it can do it better in a rapidly changing world”. It outlined that the state should reinvigorate public institutions: ensuring adequate incentives to public officials and adequate restraints to check corruption and arbitrary behavior.
- **WDR 2002: Building Institutions for Markets:** The Report drew four main lessons for institution building: Effective institution building requires policymakers to “complement what exists, innovate to suit local conditions, foster open trade and open information exchange and foster competition among regions”. It cautioned that building institutions takes time, and emphasized the importance of history, norms, and culture.
- **WDR 2003: Institutions for Sustainable Development:** The Report looked at the challenge of building institutions that support sustainable development by helping manage environmental and social assets.

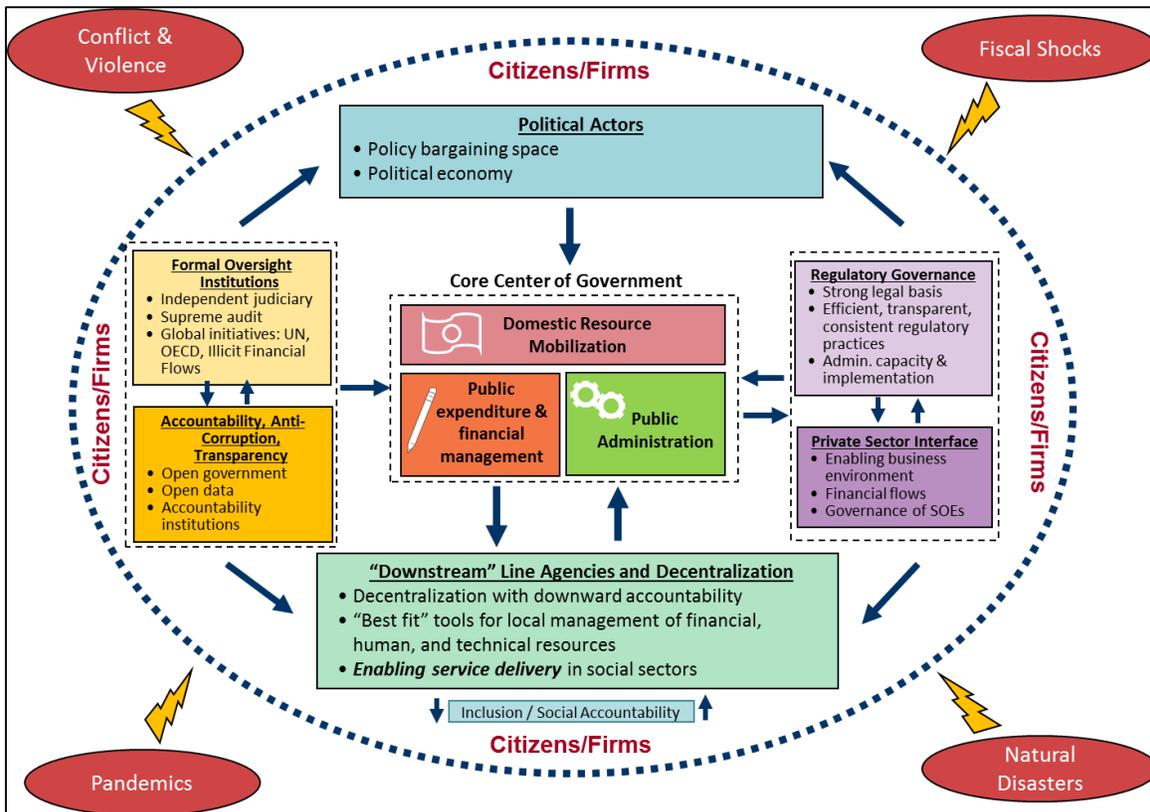
⁶ Blum et al. (2012) Public Sector Management Reform: Toward a Problem-Solving Approach. World Bank Poverty Reduction and Economic Management Network (PREM).

- **WDR 2004: Making Services Work for Poor People:** The 2004 WDR addressed service delivery, using a framework of relationships between “clients, providers and policymakers”. The Report argues that the long route of accountability that this three-sided relationship (triangle) entails is weak even in well-functioning democracies. It proposes that given the difficulties in strengthening the long route of accountability, it is important to focus on the short route: the client-provider relationship.
- **WDR 2006: Equity and Development:** The Report looked at the issue of how institutions are influenced by inequalities in the political and social realm.
- **WDR 2011: Conflict Security and Development:** recognized that weak institutions often explained why violence repeats in different forms. Breaking the cycle of violence required restoring confidence and transforming institutions that provided citizen security, justice, and jobs.

B. RECENT PROGRESS

13. **The Governance Global Practice supports countries in their efforts to build trustworthy institutions that can contribute to making development possible by delivering results for citizens.** This includes a team of more than 700 specialists worldwide, from a diverse set of technical backgrounds, deployed in nearly 100 countries, and providing fiduciary support to some 2,600 World Bank operations worldwide. Bringing together the World Bank’s formerly dispersed governance activities under one umbrella, the Practice provides clients technical expertise that is grounded in the local context while drawing on the World Bank’s global knowledge base.

Figure 2. The Governance and Institutions “Egg”



14. **The WBG’s governance support to clients has developed around the key functions of the different branches of government and how these institutions are held accountable** (Figure 2). At the core center of government, operations focus on strengthening the institutions that: (i) dictate the size, function, and incentive structures of the state (Public Administration), (ii) generate the fiscal resources necessary for delivering service (DRM), and (iii) ensure these resources are spent efficiently and effectively (PEFM and Procurement). Rule-of-law and regulatory programs create the legal foundation for the interaction with the state – through a strengthening of the environment for both citizen rights and security and private sector growth. Anti-corruption and transparency programs, meanwhile, harness both top-down (supreme audit, independent judiciary) and bottom-up (citizen oversight, open government) pressures to ensure accountability and performance. These institutions all interact with the ultimate goal of increasing downstream service delivery to the bottom 40 percent.

15. **Support to clients occurs, and will continue to occur, across a broad range of topics.** The following five areas, however, will be particular focus for IDA18 given both their importance to our work and the demands that have arisen as a result of the current challenges many countries are facing.

i. Public Administration

16. **Administrative and civil service reform comprises a range of activities that can improve the professionalism and capacity of the state.** Traditionally, public administration reform was concerned with the fiscal sustainability of the wage bill to improve internal equity and external competitiveness of the pay and grading structure while keeping the wage bill affordable. Increasingly, however, public administration interventions are concerned with the incentives driving the performance of individual civil servants comprising the bureaucracy who are responsible for service delivery. The ultimate aim of public administration reform, therefore, is to see improvements in public sector performance, with benefits to all citizens in IDA, and especially women and youth, through more efficient and inclusive service delivery.

17. **Stand-alone IDA lending solely dedicated to public administration reform is declining, but human resource components comprise an increasing amount of sectoral projects.** In recent years, there has been a decline in the number and volume of traditional civil service/human resource management focused projects. There are six active projects (US\$244 million) and one pipeline project (US\$18 million) with a majority focus in public administration. However, a recent study of the Bank’s wider portfolio identified activities related to human capital development in 78 percent of Public Sector Governance projects and, more significantly, in 59 percent of all World Bank lending.⁷ Additionally, 82 percent included at least one institutional development activity focused on service delivery outputs. These reforms, therefore, shape how the public sector machinery translates resources into credible results for citizens across levels of government and sectors.

18. **Innovative operations and collaborative analytic work have sparked this shift in focus in governance and institutional reforms towards supporting better service delivery.** Experience suggests that service improvements do not come simply through policy reforms,

⁷ AidData. Capturing the Universe of World Bank Investments in Institutional Development (2015).

administrative engineering, facility modernization, or staff training; they depend on effective political, administrative, and social institutions. To improve public services, policymakers, public servants, and service providers must be accountable to citizens, and citizens must trust and engage with public institutions. Recognizing the interconnections between institutions, service delivery, and citizen trust is especially crucial to make services benefit the poor, excluded and low-income population groups.

19. **SOEs are also often critical providers of service delivery in IDA countries.** SOEs can create value, build strategic industries and expertise, and deliver important basic public services such as electricity and water. However, this requires capable and performing companies, and a state that exercises its ownership and oversight function in an active and strategic manner, while letting public companies operate on business principles and without undue political influence. Poorly run SOEs (in addition to providing poor quality public services), can pose serious fiscal risks, be a significant and continuous drain on public resources and a source of corruption and patronage.

20. **Public administration issues are especially at the heart of the challenges confronted by many countries affected by FCV.** Building ‘resilient institutions’ capable of resolving conflict in non-violent ways and delivering public goods are critical to transforming dynamics and placing countries on pathways towards durable peace and development. The Governance Portfolio in Fragile States currently includes 26 active projects, representing US\$2.3 billion in commitments.⁸ The bulk of these engagements involve Administrative and Civil Service Reform and PEFM, but it also includes decentralization, tax policy, justice reform, citizen security and accountability.

21. **Strong and resilient public institutions are also key to managing shocks such as natural disasters or pandemics.** For example, a properly staffed, coordinated, and incentivized health workforce will be needed to withstand the shocks presented by global pandemics – in order prevent catastrophic outbreaks. The initial response to the Ebola crisis in West Africa displayed the effects of national governments and international stakeholders ill-prepared to handle such a crisis that ultimately resulted in a crippling mistrust in government among the population that hampered the necessary coordinated response. Rapid identification and effective response to disease outbreaks and pandemics requires coordinated disease surveillance, detection, response, and planning of health and non-health sectors within and across borders. Moving forward, a top priority for the WBG is to build a strong and well-trained health workforce in IDA countries, and build resilient health systems that can deliver essential, quality care in even the most remote areas; improve disease surveillance; and quickly detect, treat and contain future outbreaks.

ii. Domestic Resource Mobilization

22. **DRM provides governments with essential financing for development, while contributing to fiscal resources and sustainability needed to promote growth and ultimately alleviate poverty.** A sound revenue base is a fundamental underpinning for countries to deliver the services required to sustain the social contract between citizens and the state. It also may offer an antidote to aid dependence in low-income countries. However, strengthening DRM is not just a question of raising tax rates, but also of designing a tax system that minimizes distortions to

⁸ Note: this only includes the FCV sub-set – i.e., countries with below 3.2 CPIA scores and/or a UN peacekeeping mission.

economic activity and contributes to reducing income disparities and shared prosperity to the bottom 40 percent through progressive tax policies. Accountable tax systems are especially critical in FCV settings where domestic revenues are a key component of strengthening mutual accountability between citizens and states.

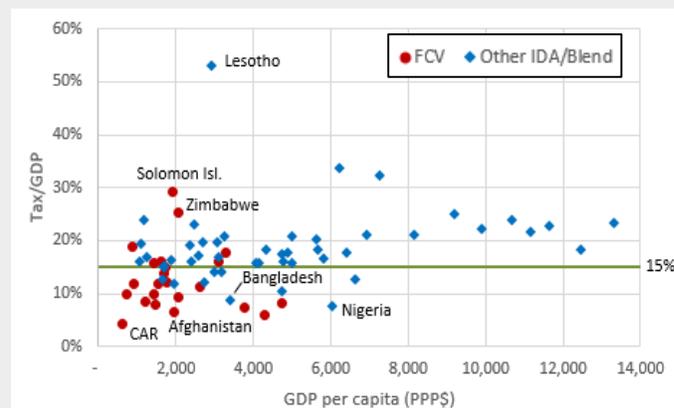
23. **Equitable enforcement of tax policies is also key.** The recent leak of the “Panama Papers” reinforced global concerns about tax evasion on a large scale. The recent disclosures have brought “niche” issues such as beneficial ownership of companies, asset declaration and the use of offshore financial centers to a broader global audience. The WBG has been focused on supporting tax reforms aimed at improving tax administration, reducing tax evasion, improving transparency and helping to build capacity to address some of these more specific issues for years. The World Bank’s comparative advantage has long been its strong presence in IDA partner countries, and its ability to bring the voice of developing countries into global tax discussions.

24. **The portfolio of WBG tax activities in IDA countries currently focuses on capacity building in revenue administration and improvements in tax policy.** There are 14 active operations that have a significant or majority focus on tax policy or administration (in the amount of US\$100 million in IDA commitments). This includes two Program for Results (PforRs in Bangladesh and Rwanda) and one Development Policy Financing in Nigeria. The project pipeline includes four operations with a focus on tax for US\$123 million in Moldova, Tonga, Tanzania, and Pakistan.

25. **The WBG promotes tax transparency and responsible investment in its lending operations through the Offshore Financial Centers Policy (OFC).** Adopted in November 2011, the policy utilizes the standard for tax transparency defined by the independent Global Forum for Tax Transparency and Exchange of Information. The OFC has two parts focused on: (i) restricting WBG investment (including IFC, MIGA, and Treasury) through non-compliant jurisdictions, and (ii) technical assistance in support of meeting the global standards by any jurisdiction which seeks it. The policy has met its twin purposes both in diverting investment away from non-compliant jurisdictions and in providing technical assistance (to 16 countries) upon request.

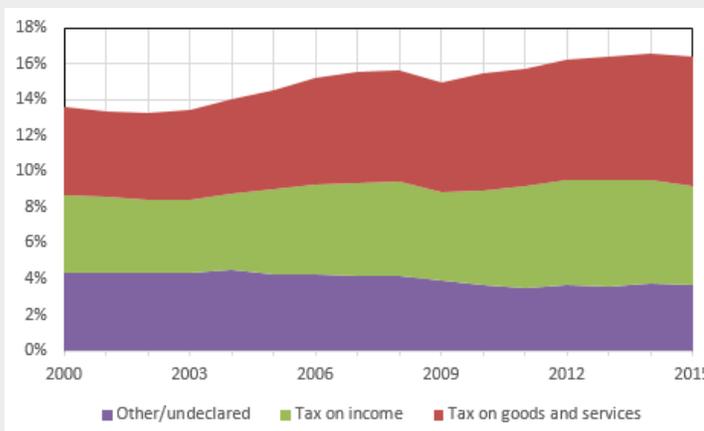
26. **The WBG recently launched a new Global Tax Team to further bolster the institution’s cutting-edge work and provide IDA countries and development partners a focal point to engage on all DRM-related activities.** This will enable WBG teams to apply a more comprehensive approach to tax issues, harness particular sets of expertise, and to provide IDA countries a more integrated approach in the efforts to improve DRM. These efforts have begun with a series of regional consultations designed to gather insight into the specific problems faced by our clients, and to work with them to find solutions. An overview of the state of tax in various countries can be found in Box 4.

Box 4. State of Tax in IDA Countries



Tax revenues of the general government average about 16½ percent of GDP in IDA countries (including blend), against 18½ percent in IBRD countries. Taxes in over one-third of IDA countries (36 percent) are below 15 percent of GDP, and fall short of what is needed to fund basic state functions. A much larger share (70 percent) of FCVs do not meet this threshold for tax revenues.

IDA countries have raised tax receipts over the last 15 years from an average of just under 14 percent of GDP at the start of the millennium to 16 percent in recent years. Taxes on goods and services account for much of this increase, but often affect the poor more than income taxes.



Source: IMF World Economic Outlook, April 2016.

iii. Public Financial and Expenditure Management and Procurement

27. **PEFM and procurement are key operational pillars in reforms to build a more capable and accountable state in IDA countries.** PEFM and procurement reforms contribute to the wider state-building goals needed for poverty reduction and development effectiveness, including more transparent management of public finances, regular payment of civil servant salaries, ensuring fund flows to finance public services, and a better allocation of resources in support of investment priorities and implementation. In addition, during IDA17, there have been a number of innovations in PEFM and procurement support to IDA clients.

28. **PEFM continues to be the largest component of the World Bank's Governance support to IDA countries and continues to outpace other governance sectors.** There are 22 active operation totaling US\$525 million in total commitments with a focus on PEFM. There are a further five operations of US\$100 million in the lending pipeline for FY16. In terms of Knowledge Products, the World Bank has financed 184 diagnostic and analytic studies in IDA countries over the past five years which have helped identify constraints in the country's PEFM systems and prioritize areas for investments. IDA investments have also been complemented by Trust Fund resources. In FY16, 76 Recipient Executed Trust Funds (RETFs) totaling US\$320

million and 147 Bank Executed Trust Funds (BETFs) totaling US\$62 million have PEFM as an area of focus.

29. **Public procurement serves as a significant policy instrument that governments can use to propel changes in public service delivery, create fiscal space, increase employment, and stimulate private sector growth.** Enhanced capacity and institutions in public procurement increase the value of investment, reduce risks, and improve development effectiveness and results, which in turn strengthen the governance of public funds to bring about increased confidence in the public management system. The Governance Global Practice's Directorate for Public Integrity and Openness has staff located in 77 countries and is leading the development of a portfolio of projects supporting countries that are taking the next steps in procurement reform by increasing quality, efficiency and transparency of procurement operations and outcomes. Reform areas of focus include: (i) professionalization of procurement cadres, (ii) Information and Communications Technology and data (including e-Procurement), and (iii) promotion of transparency through the Open Contracting Data Standard.⁹

30. **PEFM and procurement operations are fundamentally interlinked with several of the Special Themes of IDA17** and serve as the foundation for a new generation of governance projects being utilized as a tool for risk management and crisis response (Box 5):

- *Innovations in PEFM support for FCV:* The WBG has been innovating in its support, to better fit the context of FCS, notably through combining recurrent financing to ensure salary payments fundamental to the operation of the government, with capacity building for basic PEFM and revenue management functions.
- *Public Investment Management (PIM) for inclusive growth and job creation:* The WBG is working with IDA countries on improving their management of public investment through standalone governance projects and through other Global Practice project interventions. Examples include technical assistance to the Ethiopia Road Authority to build their capacity, support to improved whole-of-government Public PIM systems in Uganda and an engagement of management of mega projects in Botswana.
- *Transparency, Technology and Accountability:* The WBG has been working to strengthen transparency, technology and accountability in support of better PEFM performance. Some initiatives include: (i) a rapid increase in the integration of fiscal transparency or public participation into PEFM-related lending operations, (ii) BOOST¹⁰ public expenditure databases have been developed and delivered in 20 IDA countries,¹¹ and (iii) support for

⁹ In 2015 the World Bank approved a new Procurement Framework which will help clients get better development results as it gives the World Bank the space and capacity to significantly increase its support to help countries develop their own procurement systems. The Bank will also allocate resources to provide hands-on help to fragile countries, small states or others in the greatest need to assist them in procurements financed by the Bank.

¹⁰ The BOOST initiative is a Bank-wide collaborative effort launched in 2010 to facilitate access to budget data and promote effective use for improved decision-making processes, transparency and accountability. Currently deployed in about 40 countries globally, the appeal of the BOOST approach is that it provides user-friendly platforms where all expenditure data can be easily accessed (often in conjunction with nonfinancial indicators) and used by researchers, government officials and ordinary citizens to examine trends in allocations of public resources, analyze potential sources of inefficiencies, and become better informed about how governments finance the delivery of public services.

e-procurement systems is emerging as a potential game-changer to increase transparency, private sector participation and efficiency in public procurement.

- *PEFM for Service Delivery*: Through innovative operations and collaborative analytic work, PEFM support has started to shift towards supporting better service delivery; through a problem-driven approach by the removal of blockages and plugging of leaks throughout the PEFM system. This is reflected in a recent IEG report¹² which pointed to the need for collaboration between health and governance sectors to tackle sustainable health financing arrangements. The focus on service delivery, especially in health and education, can also strengthen inclusion, by helping governments to assess whether spending and services are reaching women, minorities and youth and whether the outcomes of these efforts are sufficient.

Box 5. New Generation of Governance and Crisis Response

On April 25, 2015, a magnitude 7.8 earthquake hit central Nepal causing widespread destruction. Over 1000 health facilities were damaged or completely destroyed. The total needs of the health sector amounted to US\$147 million and public sector management inefficiencies largely contributed to weaknesses in the delivery of health services. Issues such as a deficit of qualified health workers due to inefficient cadre management and drug stock-outs as a result of poor resource allocation highlighted the imperative of strong institutions in the delivery, availability and quality of health services. Co-led by the Health and Governance Global Practices, the Nepal Health Sector Management Project addresses key areas of public management in the health sector and engages citizens to strengthen accountability for improved service delivery. The US\$150 million project uses a results based financing modality to ensure the success of interventions and the achievement of key indicators.

Specifically, the project aims to:

- **Improve Public Procurement:** Enhanced procurement management systems and effective operational logistics and supply chain management aimed at reducing drug stock outs and enabling the timely availability of medicine at all health facilities and to all populations.
- **Improve Public Financial Management:** Aims at reducing inefficiencies and facilitating better redistribution of resources, reforms are focused on facilitating a timely response to audit reports and improving the entire cycle of planning, budgeting and expenditure execution. A more evidence-based resource allocation ensures that affordable and appropriate health services are available to the Nepali population, particularly the disadvantaged.
- **Improve Transparency and Accountability:** There is currently no system in place to provide reliable and timely information to citizens that would enable them to hold the health system accountable for accessibility, affordability and quality of service delivery. The project aims to design and strengthen systems for data monitoring and citizen engagement.

iv. Rule-based Governance and Regulatory Management

31. **Creating an efficient, effective, and inclusive institutional environment for enterprise and business is fundamental to promoting growth and shared prosperity.** A strong legal basis for secure property and contract rights and predictable, transparent business regulations are critical influences on the development of the private sector and economic growth – and thus on the creation of jobs and better livelihoods. Well-designed and properly implemented regulatory reforms complemented by strong institutional oversight can promote private sector growth by eliminating bureaucratic obstacles, reducing the cost and time constraints to doing business and improving the

¹² Schneider, Pia. 2014. World Bank Group support to health financing. Washington, DC; World Bank Group. <http://documents.worldbank.org/curated/en/2014/07/23214919/world-bank-group-support-health-financing>

efficiency of legal institutions. A well-functioning and accountable justice system, moreover, facilitates the efficient and effective resolution of both commercial and non-commercial disputes, reduces violence and insecurity, and increases citizen support of and trust in government. It also underpins the forms and functions of other institutions that deliver public services and regulate access to resources.

32. Enabling private sector development is also a “two-way street” – improved governance in the private sector can influence public sector governance and strengthen institutional responsibility in delivering services. In some countries, for example, private sector-led standards through Corporate Governance reforms are influencing State-owned Enterprises to improve their accountability, which in turn has a positive impact on the context in which these companies are operating.¹³ As these standards become a core part of business operations, they increasingly influence institutions and create tangible benefits throughout the public sector supply chain, stimulating improved service delivery to citizens.

33. The WBG is connecting the public and private sector perspectives on regulatory reform. Worldwide, policy-makers are increasingly cognizant of the potential of “smart” regulation – moving beyond the more exclusive focus on deregulation in recent decades. The WBG is working to enable this “smart” regulation by not focusing on the enactment of one-off rules, but rather strengthening the capacity of the governance systems needed to develop, consult and effectively implement regulation. This includes:

- *Promoting Regulatory Simplification:* Elements include streamlining and simplifying business registration and licensing procedures and e-services to facilitate government to business interactions.
- *Strengthening Institutions for Regulatory Reform:* Support to help clients build strong governance frameworks for high-quality regulation. Relevant elements include strengthening capacities and governance of regulatory reform units and instruments to improve the flow and existing stock of regulations.
- *Supporting Transparency and Engagement:* Policies to help improve the quality of regulatory design and delivery through transparent and inclusive rulemaking and enforcement. Elements include open and inclusive consultation on new regulatory measures and efficient grievance and complaints mechanism for citizens.

34. The most basic function of government is to provide security and rule of law – key public goods for societies to function effectively. This is supported by the World Bank’s justice and rule-of-law portfolio that focuses on improving management and performance of courts while ensuring citizens have access to and understand laws and court decisions and how to make use of law and justice institutions. This work cuts across all of the WBGs activities and interventions have produced results in IDA countries. The average volume of lending for projects has normally been the smallest portion of the IDA portfolio, averaging only US\$10 million per year. Much of the Bank’s rule of law portfolio in IDA countries is backed by Trust Funds with almost US\$67 million of commitments.

¹³ Recent training on Corporate Governance for SOEs in IDA countries includes programs in Afghanistan, Côte d’Ivoire, Ghana, Pakistan, and Togo.

35. **The justice, rule-of-law, and regulatory portfolio is critical for the support of the implementation of the WBG's Gender Equality Strategy.**¹⁴ Many laws and regulations continue to prevent women from improving their own well-being and that of their families by working or running a business. Meanwhile, gains in voice and agency remain uneven, especially in practice. The *Women, Business, and the Law* collects unique data on laws and regulations on barriers to women's entrepreneurship and employment in 189 countries, helping identify the necessary entry points for legal reform. The portfolio is also addressing the removal of barriers to women's ownership and control of economic assets by addressing legal inequities and increasing access to justice service delivery. In Tanzania, this is being provided through the Justice Service Delivery project which aims to empower vulnerable groups (women, youth, and small businesses) by providing quick and affordable justice services where they live and work.¹⁵

v. **Transparency, Accountability, and Anti-Corruption**

36. **Open government reforms, such as deliberative transparency, citizen engagement, and freedom of information laws, have the potential to be transformative.** They contribute to the World Bank's twin goals and SDG 16 by promoting the efficient use of public resources, facilitating inclusive decision making processes, strengthening accountability, improving trust and building citizen stakeholders' capacity to engage in the development dialogue, and allowing for better service delivery. Following political momentum at the international level, there is increasing client demand for assistance in implementing open government reforms with 12 IDA countries already members of the Open Government Partnership (OGP) and another 16 that are emerging members having met the eligibility criteria.

37. **Institutional strengthening is also at the forefront of the World Bank's governance and anticorruption strategy in IDA countries.** Reducing corruption stands at the heart of the recently established SDGs and achieving the ambitious targets set for Financing for Development. Working closely with anti-corruption agencies across IDA countries, objectives revolve around changing outcomes by helping both state and non-state actors establish the competencies needed to implement policies and practices that improve results and build public integrity. This has been achieved through active assistance in the implementation of transparency and accountability efforts such as Publish What You Pay and Extractives Industries Transparency Initiative (EITI). It is also reinforced through engagement in international forums on anti-corruption including the G20 Anti-Corruption Working Group.

38. **IFFs¹⁶ remain a critical focus of the WBG's anti-corruption agenda.** The impact of IFFs on development are often most acute in the IDA countries that are often already struggling to put in place policies, organizations and practices that are essential for stability and prosperity. Overall, IFFs together with the underlying activities distort economic and political competition, subvert government institutions, generate conflict and violence, and undermine the integrity of legal and financial systems. The WBG, led by the Finance and Markets Global Practice, has past

¹⁴ World Bank Group Gender Strategy (FY16-23): Gender Equality, Poverty Reduction and Inclusive Growth.

¹⁵ Citizen-Centric Judicial Modernization and Justice Service Delivery (P155759).

¹⁶ The WBG understands the term Illicit Financial Flows to cover both the flow of illicit funds and assets across borders and the underlying activities that generate the flows (WBG Board Paper, 2016).

and on-going engagements in the area of IFFs including support for anti-money laundering efforts, the Stolen Asset Recovery Initiative (StAR) and improved auditing and assistance in measuring IFFs. The Governance Global Practice is working closely with the Finance and Markets Team to better integrate our various strands of work in this areas to support our clients in addressing the risks of IFFs.

39. **The WBG addresses anti-corruption and fraud within its financed activities through the Integrity Vice Presidency (INT).** As an integral part of the WBG's overall Governance and Anti-corruption strategy, INT contributes to risk management working closely with World Bank units and external stakeholders to mitigate risk through preventative advice and training. To encourage a global and coordinated response to corruption, INT spearheads initiatives such as the Cross-Debarment agreement with other multilateral development organizations and the Internal Corruption Hunters Alliance, bringing together more than 200 attorney generals, director so prosecution and heads of national anti-corruption agencies.

40. **The WBG's 'Strategic Framework for Mainstreaming Citizen Engagement in WBG Operations' aims to foster mainstreaming of citizen engagement in all of the WBG's activities.** There is growing evidence linking citizen engagement positively to improved public service delivery, public financial management, governance. The WBG has a goal of 100 percent beneficiary feedback in its lending projects by FY18. In addition to improving sector performance in areas such as education, health and water and sanitation, engaging citizens can improve transparency and accountability of public spending, help to sustain reforms, and increase trust in public institutions. For example, the 'MajiVoice' software in Kenya is transforming service delivery in the water and sanitation sector- linking citizens, utilities and the regulator and providing tools and incentives that improve customer service. In Kenya's largest utility, complaint resolution rates rose from 46 percent to 94 percent and resolution time halved.

41. **The Global Partnership for Social Accountability (GPSA) aims to improve development results by supporting capacity building of civil society organizations and governments for effective beneficiary feedback and participation.** Capacity building efforts are aimed at: (i) strengthening beneficiary and government capacity for engagement; (ii) implementing social accountability tools to improve transparency and accountability of service delivery; and (iii) promoting institutions and policies that are more inclusive. 27 IDA countries have opted into the GPSA and can contribute to enhancing IDA development goals by leveraging citizen feedback and participation to ensure IDA alignment with country development priorities and to measure, monitor, and report on results attained under IDA18.

42. **The IDA lending portfolio committed to transparency, accountability, and anti-corruption in the public sector has grown into the Governance Global Practice's second largest product line in both lending and advisory services.** Lending since IDA17 has doubled to US\$85 million while Advisory Services and Analytics (ASA) has tripled to nearly 100 projects in FY15. While citizen engagement has now been mainstreamed into all Bank operations,¹⁷ the Governance Global Practice offers a diverse menu of products focused on enabling transparency and accountability that cross-cut traditional lending sectors and ongoing IDA Special Themes:

¹⁷ With the Strategic Framework for Mainstreaming Citizen Engagement in World Bank Group Operations (2013), the Bank systematically mainstreamed citizen engagement, including beneficiary feedback, in all supported operations.

- *Fiscal Transparency / Open Contracting*: Creation of e-procurement systems and open data platforms, capacity building of monitoring institutions and independent regulators, adoption and implementation of Open Contracting Data Standards;
- *Governance of Extractives*: Public sector governance and corporate responsibility in the mining sector, promotion of compliance and partnership with EITI;
- *Citizen Engagement*: Support design and implementation of grievance redress mechanisms, notice and comment regulatory policy, and public participation forums;
- *Access to Information*: Drafting and implementation of Access to Information Laws, promotion of public awareness of right to information.

C. RESULTS-BASED INSTRUMENTS, DIAGNOSTICS, AND EVIDENCE

43. **The World Bank's Governance portfolio is evolving from a lending-centric model towards a problem-solving and evidence-based approach that seeks to improve results by identifying sustainable improvements in the public sector results chain.**

44. **The focus on results has materialized in the project portfolio which has displayed shifts from complex IPFs to results based approaches such as PforRs, disbursement-linked indicators (DLIs), and sector-wide approaches.** One example is the Madagascar Public Sector Performance Project which uses a results-based approach to address fiscal space constraints limiting the effective provision of vital social services. The project is designed to deliver improvements in revenue management, service delivery capacity of local governments, and governance mechanisms in the education sector. Although the instrument is IPF, 70 percent of the financing will be through DLIs. By adopting such a results-based approach, the project will address coordination issues and create a conducive environment to mitigate political economy constraints and resistance to change by aligning incentives of different actors while focusing on measurable results.

45. **Several landmark diagnostic tools have been developed across the tax, PEFM, procurement and public administration spaces to identify the relative strengths and weaknesses in country-specific systems, processes, and institutions.** One new example is the Global Tax Team's Tax Policy Assessment Framework. Based on the assessment, actionable reform programs are designed, building a common understanding of a given country's priorities in the tax policy area. These tools involve multiple stakeholders, in particular relevant government agencies, legislative entities, the private sector, and civil society of partner countries. Other examples are outlined in Box 6.

Box 6. Existing and New Governance Diagnostics

- **BOOST for Expenditure Analysis:** The BOOST data tool makes it easy to analyze how the allocation and use of public expenditure can be made more efficient. It makes detailed public spending data, including data on sub-national spending, more open and accessible.
- **MAPS II (Methodology for Assessing Procurement Systems):** Globally recognized common methodology for the assessment of national procurement systems that looks at 12 indicators and 53 sub-indicators that are grouped under four organizational pillars: legislative and regulatory framework, institutional framework and management capacity, procurement operations and market practices, and integrity and transparency of public procurement systems.
- **RPDR (Regulatory Policy and Delivery Review):** The RPDR helps governments assess the tools and institutional framework to develop and sustain an efficient regulatory system, and provides a baseline for prioritized regulatory governance reforms. The RPDR reviews administrative capacities to develop new regulation; to review the regulatory stock; and to effectively implement regulation (“regulatory delivery”).
- **TADAT (Tax Administration Diagnostic Assessment Tool):** The TADAT is a means to provide an objective and standardized assessment of the relative strengths and weaknesses of the administration of a country’s tax system. It offers an integrated monitoring framework that measures performance of a country’s tax administration at a point in time. Specifically, the TADAT assesses the performance outcomes achieved for the major direct and indirect taxes critical to central government budget outcomes.
- **TPAF (Tax Policy Assessment Framework (*In development*)):** TPAF is a diagnostic framework to provide systematic and structured assessment of a country’s tax policy system, and to develop options for improving such system given a set of policy objectives.

46. **Several initiatives have also been launched to provide the Governance Global Practice the tools to lead the de facto adoption of “best fit” reform** by: (i) systematically and rigorously collecting evidence from operations to inform project design; and (ii) helping operational task teams to design operations in a results-oriented way that is firmly based in evidence on what works and why. The *ieGovern Initiative* is a portfolio of 20 Impact Evaluations (IEs) embedded early in project design that will allow project teams to “experiment” with different intervention design and examine which one works best before moving to scale. Six of these IEs are currently being launched in FCV settings exploring issues including civil servant motivation in Liberia and local justice efficacy in Solomon Islands. Combined with diagnostics, this evidence not only informs country-specific operations, but contributes towards a broader public body of evidence of what works in public sector reform.

III. SCALING-UP GOVERNANCE AND INSTITUTIONS AS A SPECIAL THEME IN IDA18

47. **IDA countries need to prepare to meet global challenges, and the WBG can help them to be ready.** *First*, countries need to raise more resources domestically to finance development priorities and do this in a way that doesn’t increase the tax burden on the poorest citizens. *Second*, countries need to strengthen core government systems, that are resilient to shocks, assure that funds flow efficiently, and in an inclusive, transparent and accountable manner. *Third*, IDA countries will need to strengthen oversight and regulatory systems to ensure greater transparency and mitigate risks in order to pull in the private sector and other actors to create jobs and opportunities for the poorest segments of society, and particularly women and youth. *Fourth*, IDA countries will need to support open and inclusive governance through a combination of deliberative transparency, citizen engagement, and external oversight that pushes the anti-corruption agenda forward.

Finally, IDA will need to continue to strengthen state and parastatal institutions to “crowd- in” private sector investment and ensure better service delivery outcomes to citizens living in IDA countries.

48. As described in Section II, the WBG has provided significant resources under previous IDA contributions to support public sector reform and strengthen institutional capacity. We now propose a set of “enhanced” interventions that: (a) build an integrated “One WBG approach” to strengthening Governance and Institutions with greater synergies with other special IDA themes (Box 7); (b) leverage opportunities provided by the new Global Practices model to mainstream governance in sectors; and (c) support global demand for policy reforms in Tax, IFFs, and Pandemic prevention.

Box 7. Governance and Institutions: Linkages with IDA18 Special Themes

Governance and Institutions are inherent components of the other four IDA18 Special Themes, allowing for a coordinated reform dialogue that allows institutional advancements to be levered for impacts across the IDA18 portfolio:

Fragility, Conflict, and Violence: In fragile and post-conflict settings, strengthening core systems of government has been a long-standing priority of the World Bank and IDA – evidenced by Governance representing 29 percent of the current IDA FCV portfolio. During the IDA18 period, a focus on supporting *resilient institutions* marked by accountable institutions and effective service delivery will include:

- *Fragility Assessments:* The governance components of fragility assessments will be deepened drawing from the frontier analytic work conducted during IDA17 to better inform SCDs and Country Partnership Frameworks.
- *Recurrent Cost Financing:* There will be a review on the lessons learned from the Bank’s recurrent cost financing programs in FCV settings such as Afghanistan and Central African Republic.
- *Parallel Delivery Structures:* An increased focus on the balance between “capacity fixes” and “institutional sustainability” will promote the avoidance of harmful practices that arises from parallel delivery structures in FCV settings.

Jobs: Supporting an efficient, effective, and inclusive institutional environment for enterprise and business is fundamental for the IDA18 jobs agenda and will be supported through governance programs including:

- *Public Investment Management:* IDA18 will strengthen the link between center of government PIM and investment management in sector agencies to optimize jobs impacts of infrastructure investments.
- *Trade Facilitation and Costs:* Support to connect firms to markets through improving trade and competition will be promoted through the Governance Global Practice’s work focused on reforming customs border facilities and the incentives of civil servants manning them.

Gender: The WBG’s Gender Equality Strategy is fundamentally linked to the justice, rule-of-law, and regulatory portfolio. An emphasis in IDA18 on strengthening the laws and regulations necessary for gains in women’s voice & agency will include:

- *Asset Ownership:* The portfolio will address removing barriers to women’s ownership and control of economic assets by employing innovative tools to increase access to justice for underserved populations through innovative tools such as mobile units and legal aid clinics.
- *Law and Regulatory Discrimination:* The legal and regulatory inequities highlighted by the annual *Women, Business, and the Law* report will be further incorporated into the regulatory management and Justice for the Poor portfolio managed by the Governance Global Practice.

Climate: Effective public sector governance are crucial for helping IDA countries develop the resilient and flexible institutions necessary for managing climate and disaster risks. As the prevalence of natural disasters and effects of climate

change continue to rise, IDA18 will support:

- **Carbon Taxes:** The Governance Global Practice's expertise in the Global Tax, Regulatory Management, and Civil Service Reform teams will provide the multi-sectoral collaboration necessary to design a coordinated and credible carbon tax regime in IDA countries.
- **Disaster Response and Resilience:** IDA18 will apply a problem-driven approach towards the development to flexible procurement and public financial management systems to ensure a timely response to disasters in especially prone areas.

A. INCREASE DOMESTIC REVENUE MOBILIZATION

49. **IDA18 will help build on the momentum following the Third Global Finance for Development Conference in Addis Ababa.** The Tax Policy Assessment Framework (TPAF), will be instrumental on this front by assessing more systematically how a country's tax instruments, rates and structure align with principles of efficiency, equity, neutrality, revenue adequacy and administrative feasibility. TPAF will also offer policy options for reform to be supported by our operations and technical assistance. On tax administration, the Bank is cooperating with the IMF in implementing a Tax Administration Assessment Tool (TADAT) that measures the performance of a tax administration and provides a global benchmark. Furthermore, in collaboration with the IMF, OECD and UN, and at the request of the G20, the WBG is developing eight toolkits on international tax issues for low-capacity countries.

50. **The World Bank is also collaborating with international partners to launch the Platform for Cooperation on Tax to support IDA countries on international tax issues.** This initiative is designed to boost developing countries' ability to build more equitable, efficient tax systems and ensure that the interests of developing countries are heard in the growing international dialogue on tax reform. The members of the platform will be responsible for producing cutting-edge research, organizing events, and collaborating with donors, regional organizations, including regional development banks, and regional tax organizations. The platform's members will also respond to specific tax-related needs voiced by developing countries, which are seeking both more support in building capacity and greater influence in designing international rules

51. **The Bank is strategically positioned to leverage its current tax programs to continue to help IDA countries expand their work in the tax area.** The Global Tax Team within the Equitable Growth, Finance, and Institutions Practice Group provides a focal point for countries and development partners to engage on all domestic revenue mobilization-related activities. This will enable WBG teams to apply a more comprehensive approach to tax issues, harness particular sets of expertise, and to provide partner countries a more integrated approach in the efforts to improve DRM. In addition, the WBG is enhancing collaboration with IMF, OECD, and UN to provide more cohesive and systematic support for tax.

52. **We propose the following policy actions in IDA countries with the aim of helping IDA countries achieve a share of revenue of at least 15 percent of GDP – considered a minimum threshold for a state to function effectively – while minimizing market distortions and ensuring equity.**

- *Conduct Tax Policy Assessment Frameworks in six IDA countries by FY20, of which two are in FCV.*

B. IMPROVE PUBLIC EXPENDITURE AND FINANCIAL MANAGEMENT AND PROCUREMENT

53. **IDA can play a role in adopting a programmatic and long-term focus in countries that have significantly lost momentum making progress in PEFM.** This does not account for the impact of conflict, in some countries leading to the degradation of institutional capacity; in other countries, changes in administration has led to policy reversals in transparency or in the management of public finances. In the unfinished core PEFM reform agenda, data indicates that audit and parliamentary oversight continue to merit particular attention. At the same time, new PEFM challenges are emerging as fiscal consolidation becomes the norm against a backdrop of falling commodity prices, weak global trade, increasing capital outflows from emerging markets, and declining aid volumes. How to improve the quality of expenditures, and get better value for money, given a shrinking public purse has become a universal objective. Here, too, IDA can play a role by more selectively focusing on essential dimensions of transparency.

54. **The WBG is also strengthening the link between whole of government PIM and investment management in agencies to help build capacity of governments to implement public infrastructure and PPP investments.** Given that the long term growth and jobs impacts of investments are largely driven by the quality of these investments, there is a need for improved planning as well as more effective implementation management and operation of assets. To support this, the WBG is deepening its technical assistance on public investment management, including by integrating and linking whole-of-government and sector investment planning and implementation. Capacity building support could be deepened around public investment management, including project development, prioritization and selection, procurement, implementation and ex post evaluation and audit.

55. **Support is also focused on strengthening municipal and provincial government systems in IDA countries with increased fiscal decentralization.** Subnational governments in IDA countries require a well-structured and context-appropriate PEFM system to help ensure appropriate and accountable use of public resources that are being increasingly allocated downstream. A number of IDA financed PforR operations (Box 8) are utilizing flexible, results-based lending instruments to improve performance of public financial management, local level participatory planning, citizen engagement, and public investment management. These operations help build local capacity to deliver services, and strengthen trust between lower-levels of government and their citizens.

Box 8. PEFM and Results-Based Instruments in Decentralized Service Delivery

IDA financed PforR operations in Tanzania, Uganda, Ethiopia and now Kenya seek to strengthen municipal and county governments to improve basic public financial management, planning, citizen engagement, and public investment management. Although each operation varies significantly, they share several common elements:

Results-based. They support sub-national governments to achieve a set of PEFM, planning, citizen engagement, and investment management results that are tailored to each country context and the state of decentralization.

Top-down and bottom-up. Recognizing that “supply-driven” capacity building inputs have delivered limited results in many contexts, the operations seek to both improve “top down” capacity support from national/regional governments and to simultaneously provide “bottom up” incentives and support for the sub-nationals themselves to make measurable progress, using comparative sub-national performance data.

Levers existing institutions. Like all PforRs, the operations use and seek to strengthen country systems, including the intergovernmental financing architecture, the quality and scale of capacity support to sub-nationals, and incentives for the sub-nationals to steadily improve actual capacity and results on the ground. They also seek to strengthen (and regularly assess) public financial management systems, public investment quality, and systems for managing environmental and social risks.

56. **PEFM is moving towards supporting better service delivery through innovative operations and collaborative analytic work.** This involves a problem-driven approach and includes removal of binding constraints throughout the PEFM system that undermine service delivery and efficient public investment in the sectors. There are at least ten ongoing investment operations in which there is collaboration between the Governance Global Practice and other Global Practices on PEFM and service delivery. Global work, meanwhile, is underway to develop and test a diagnostic of PEFM constraints for health service delivery. Similarly, there is a need to move the PIM reform agenda from a focus on the role of central financing institutions and project selection to strengthening capacity for investment implementation management in sector agencies.

57. **IDA18 will support improving open and inclusive governance through the Open Contracting initiative, by promoting transparency and participation in government contracting processes.** Transparency in the contracting process helps ensure that public resources are managed efficiently and that citizens receive quality services and goods. In many IDA countries, however, contracting information is still unavailable for public scrutiny. This creates an uneven playing field for the private sector, makes it difficult for government to analyze whether they are achieving value for money, and limits the capacity of citizens to ensure government contracts are delivering the services to which they are entitled. The WBG's new Procurement Framework will also allow IDA18 to better respond to the needs of client countries, giving the World Bank the space and capacity to significantly increase its support to help countries develop their own procurement systems.

58. **We propose the following policy actions** to link core public sector reforms targeted at enhancing predictability and control in budget execution, enhancing the quality of financial reporting, and strengthening public procurement chain from contracting to downstream implementation.

- *Support at least nine IDA countries in performing PEFA assessments to inform preparation of their SCDs;*
- *Increase coverage of Open Contracting principles in eight IDA countries (including preliminary procurement assessments), leading to improved disclosure of contract data and compliance with international open contracting transparency standards.*

C. MITIGATE ILLICIT FINANCIAL FLOWS

59. **IFFs and recovery of stolen assets have significant developmental consequences in the context of the twin goals, and are a focus of SDG 16 which aims to reduce corruption.** This makes it a critical area for IDA policy action. IFFs also impede efforts to strengthen DRM, constrain the ability to provide basic social services and, more importantly, undermine the social contract between governments and citizens. The WBG with its wide membership, knowledge and

experience in capacity building is uniquely placed to galvanize partnerships at the country, regional and global level to mitigate the consequences of IFF.

60. **The WBG will continue to provide support to clients in three principal areas: measuring IFFs; preventing the activities that give rise of IFFs; and stopping the flow of illicit funds and returning stolen assets.** IDA will support this work at the country level through analytical work (e.g., measuring flows or assessing governance in the Extractive Sector); lending operations (e.g., improving tax administration and customs), and supporting anti-money laundering efforts. IDA18 will also support international efforts to end safe havens for corrupt funds through a continued commitment to the StAR by working with IDA countries and financial centers to prevent the laundering of the proceeds of corruption and to facilitate more systematic and timely return of stolen assets.

61. **As part of a broader suite of interventions, the WBG will improve tools to monitor and measure IFFs.** The WBG has a range of analytical tools to measure different dimensions of the IFF issue. The WBG will lead an effort to refine the existing instruments and create field methodologies to assess, diagnose and monitor IFFs at the country level. The new IFF Rapid Assessment Tool (RAT) will help countries assess their exposure to IFF outflows and inflows, and enable them to identify levels of risk, the nature and the challenges. The RAT will inform SCDs and thus allow countries to obtain a more detail and action oriented profile of IFF risks, and their developmental impact.

62. **The proposed policy action is to implement the roll-out of IFF Assessments.**

- *Perform IFF assessments in ten IDA countries by FY20.*

D. STRENGTHEN ACTIVE OWNERSHIP OF STATE-OWNED ENTERPRISES

63. **Analysis indicates that IDA countries have not invested in their ownership function in SOEs.** This is exemplified by governments whom are inactive and uninformed owners who do not regularly monitor their SOE portfolio or engage with SOEs to set performance targets and hold them to account. Recent initiatives to put in place performance agreements have only been partially successful, and many companies experience significant political interference in their daily operations. The immediate priorities for IDA countries should be to reduce political interference in business operations while strengthening government capacity to monitor SOE performance on a regular basis. Higher level political decisions can then be taken on the basis of this information and analysis, and companies can then be held to account on the basis of their performance and senior staff or board members replaced when necessary. Support will also focus on assisting governments of IDA countries to evaluate carefully which essential public goods and services are provided through SOEs with an ultimate focus on downstream service provision to citizens.

64. **The WBG will support the active ownership of SOEs in IDA countries through a “One WBG” approach to fully capture the multi-dimension nature of the topic.** The Governance Global Practice has recently developed a “Toolkit” for Corporate Governance of SOEs to help policy makers and practitioners improve the corporate governance of SOEs.¹⁸ Additionally, a

¹⁸ World Bank Group. Corporate Governance of State-Owned Enterprises: A Toolkit. (2014).

flagship study is currently underway to provide a comparative analysis of SOE Governance in Africa. These tools will be utilized in collaboration with the IFC which continually searches for new solutions to public-private challenges including, on a case-by-case basis, working with SOEs (Box 9). Increasingly, SOEs are seeking opportunities for taking their capital and expertise abroad, where they are obliged to operate as commercial investors. In this context, the IFC has carried out significant analytic work on SOEs and is looking to assist “south-south investment” of financing, providing an understanding of the regulatory framework and its in-country experience, including a spectrum of relationships, both helpful for investors new to a country. This theme provides an opportunity to work as one WBG, and for IDA to help leverage private sector financing to improve performance and create jobs.

Box 9. Supporting SOEs through a “One WBG” Approach

Myanmar’s economy has started to recover from years of conflict and the government is opening up and reforming. The private sector is playing a critical role in influencing governance in the country as investment opportunities are being driven by large infrastructure spending, strong potential in agriculture and natural resources. The WBG has a strong focus in supporting SOEs, WB advisory work on restructuring of SOEs in the context of broader sector reform and IFC investment support for corporatization and subsequent privatization.

In this context, IFC’s is supporting transformation of the Yangon Electricity Supply Board (YESB), which comes under the Ministry of Electric Power responsible for power distribution in Yangon - into a commercially viable corporate entity. With IFC’s help, the government and YESB will take necessary actions that allow YESB to operate as a standalone and regulated electricity supplier within a three year time frame. To help progress the corporatization process and ensure necessary financing is available, IFC is envisaging taking an equity stake in YESB.

Support for the corporatization of YESB is part of the WBG’s efforts to pursue public-private partnerships in the power sector, which will allow the government to leverage private capital to increase investments in the electricity sector. IFC is also advising the government on the competitive selection process for the 250 MW combined cycle gas fired Myingyan Independent Power Producer project. This work complements IFC’s engagement on the distribution end by helping to create a Public-Private Partnership framework that would allow quality power developers to invest in Myanmar and provide much needed power supply to close the fast growing gap between soaring demand and supply.

65. The proposed policy action is to improve SOE performance and reduce the fiscal impact of SOEs in IDA countries.

- *Support at least ten IDA countries on enhancing service delivery performance in SOEs through: (i) Performance Agreements and/or (ii) increased Transparency through Annual Published Independent Audits.*

E. SUPPORT CAPACITY OF GOVERNMENTS TO RESPOND TO PANDEMICS

66. A shifting global landscape, particularly globalization and rapid urbanization, while representing great development opportunities, has also escalated the risks to global health security. As witnessed in the last few years, outbreaks of Ebola, Middle East Respiratory Syndrome, avian influenza and the Zika virus can devastate communities through loss of life and severe social and economic impacts. Rapid identification and effective response to pandemics requires coordinated detection, response and planning of non-health and health sectors across and within borders. Although a pandemic is a health emergency, its impact is by no means confined to the health sector. Adopting a “whole-of government”, and a “whole-of-society” approach to

pandemic preparedness is crucial in order to respond to pandemics or other disasters and mitigate their social and economic consequences. While responding to emergencies as they occur is the norm, prevention is a far more cost effective strategy.

67. The international community is stepping up efforts to anticipate public health risks and address pandemic preparedness and response. In the wake of the Ebola scare, the international community has increased its efforts to develop a coordinated approach to anticipating and addressing Public Health Emergencies of International Concern (PHEICs). These efforts include (i) establishment of the Global Health Security Agenda (GHTSA) which is a partnership of 50+ countries and development partners to enhance capacity to prevent, detect, and respond to health threats; (ii) promoting the critical need for countries to comply with the International Health Regulations; (IHR) and monitoring country reporting on disease outbreaks and public health events to WHO (iii) establishment of an Alliance for pandemic preparedness to oversee implementation of the joint external evaluation of country IHR/GHTSA core capacities. In addition, SDGs include a target “to strengthen the capacity of all countries, in particular of developing countries, for early warning, risk reduction and management of global health risks” (target 13).

68. The World Bank has led global efforts for an effective response to improve global health security and is actively involved in pandemic emergency preparedness efforts. The World Bank is well positioned to address emergency preparedness given its strong presence across sectors in most countries, and its financial and convening capabilities. Currently, the World Bank is working with other global partners to help countries strengthen the One Health approach to attain optimal health for people and animals while protecting the environment. Together with the GHTSA partnership, the World Bank is supporting countries to develop national preparedness plans; build core competencies to enable them achieve compliance with IHR; build resilient and well-functioning health systems with motivated and trained front-line professionals; and, strengthen overall public administration capacity. The World Bank will ensure that preparation and implementation of IDA HNP projects will include assessments of core public health functions and development of pandemic preparedness. IDA HNP projects will also include an Immediate Response Mechanism (IRM) component to enable rapid deployment of funds for immediate response to pandemics.

69. Strengthening governance and leadership in developing countries to anticipate, address and manage PHEICs are a development imperative. Pandemic preparedness requires strong multi-sectoral action and resource mobilization. Therefore, preparedness should be “mainstreamed” in all relevant sectors during the inter-pandemic period and the financing of key sectors for pandemic preparedness and response should be prioritized and coordinated. Strong leadership, institutions and effective systems are required to coordinate and implement multi-sectoral pandemic preparedness, response and recovery. In addition, improving leadership and governance at national, regional and global levels is needed to increase financing and improve efficiency. The World Bank will support countries to develop a governance framework for multi-sectoral pandemic preparedness, response and recovery, as well as a financing framework for core investments in preparedness.

70. The new Global Practices model allows for closer and more effective collaboration across Global Practices in developing and implementing new diagnostic tools within “jointly-

managed” operations. The Governance Global Practice is working closely with the Health and Nutrition Global Practice to develop diagnostic tools to strengthen public sector resilience and effectiveness. For example, to understand how funds are channeled to the health sector, how they are spent, and how outcomes are measured, the Governance Global Practice has embarked on a flagship study to analyze the causal chain of selected health results. The study will map interactions between PEFM, health financing, and service delivery, while analyzing demand and supply side bottlenecks, and elaborating the interactions and relationships between PEFM and Health Financing and their impacts on results. Such diagnostics help improve the efficiency of financial management arrangements by donors, reduce fragmentation, produce substantial cost savings, and help channel funds quickly in the event of a pandemic. In addition, the Governance Global Practice is jointly preparing/implementing results-based operations in countries such as India where the Nagaland Health Project is working to improve health services and increase community utilization.¹⁹

71. The proposed actions support efforts to strengthen reporting of disease outbreaks and strengthening IDA countries preparedness to respond to pandemics.

- *IDA will support 15 countries in developing pandemic preparedness plans;*
- *IDA will support 15 countries in developing frameworks for governance, institutional arrangements, and financing for multi-sectoral pandemic preparedness, response and recovery.*

IV. CONCLUSION

72. The challenges ahead for governments in generating growth, reducing poverty and increasing shared prosperity are daunting. In the face of a global economic down-turn, combined with global trends that have an enormous impact on IDA countries, it is imperative for governments to consider how to improve governance, strengthen their institutions and to maximize effectiveness in providing services in an inclusive and transparent way. As a global convener and key partner to countries throughout the world, IDA18 can catalyze renewed efforts to improve progress in Good Governance and Strengthened Institutions that is essential for the global community to reach its development goals.

¹⁹ Ongoing joint health projects in IDA countries include Democratic Republic of Congo, India, Lesotho, Mauritania, Mozambique, Nepal, and Nigeria.

Annex 1: IDA18 Commitments

| OBJECTIVES | RECOMMENDATIONS/PROPOSED ACTIONS |
|---|---|
| Strengthen domestic resource mobilization | <ul style="list-style-type: none"> • Conduct Tax Policy Assessment Frameworks in six IDA countries by FY20, of which two are in FCV. |
| Improve Public Expenditure and Financial Management and Procurement | <ul style="list-style-type: none"> • Support at least nine IDA countries in performing PEFA assessments to inform preparation of their SCDs. |
| | <ul style="list-style-type: none"> • Increase coverage of Open Contracting principles in eight IDA countries (including preliminary procurement assessments), leading to improved disclosure of contract data and compliance with international open contracting transparency standards. |
| Mitigate illicit financial flows | <ul style="list-style-type: none"> • Perform Illicit Financial Flows assessments in ten IDA countries by FY20. |
| Strengthen active ownership of State Owned Enterprises | <ul style="list-style-type: none"> • Support at least ten IDA countries on enhancing service delivery performance in SOEs through: (i) Performance Agreements and/or (ii) increased Transparency through Annual Published Independent Audits. |
| Support health institutional capacity to respond to pandemics | <ul style="list-style-type: none"> • IDA will support 15 countries in developing pandemic preparedness plans. |
| | <ul style="list-style-type: none"> • IDA will support 15 countries in developing frameworks for governance and institutional arrangements for multi-sectoral pandemic preparedness, response and recovery. |

Annex 2: Governance Portfolio Overview

Overall Portfolio Statistics

1. **The IDA portfolio of the Governance Global Practice is small, but governance and institutional development activities form the foundation of the broader IDA portfolio.** Of the 883 IDA active projects in the Bank’s portfolio, governance represents just 5 percent of projects (46) and 2 percent of total commitments (US\$1.96 billion).²⁰ Analysis of the past IDA Special Themes reveals that governance and institutions permeate the portfolio, spanning natural resource revenue management under *Inclusive Growth* to investment in human capital development to combat *Climate Change*. This prevalence is confirmed by a recent AidData study which found **94 percent of World Bank projects** had at least one institutional development activity included in project plans.²¹

2. **The Governance Global Practice IDA Portfolio shows mixed performance.** Disbursement performance is significantly above the Bank-wide IDA averages during FY16. Proactivity is slightly behind Bank-wide averages, but performance will improve as numerous pending restructurings become effective. However, while the overall Governance Global Practice Candor Gap²² (IDA and non-IDA combined) is being consistently reduced, the Candor Gap of the IDA portfolio remains far above Bank-wide averages (55 percent vs. 15 percent). Regarding project Outcomes, IEG evaluated 49 projects in IDA countries which closed between FY10-FY15. Of these, 39 (80 percent) contained at least one of the three themes featured for IDA18: Outcomes were rated Moderately Satisfactory or Satisfactory for 18 of these projects (46 percent). While FY10-FY14 exits showed a slight decline in aggregate yearly Outcome performance, exits in FY15 show a marked improvement.

3. **The aggregate measurement of progress in governance and institutional development is difficult, but examples of country-level results are clear.** The CPIA has a cluster of five questions focused on Public Sector Management and Institutions²³ where IDA governance has remained relatively flat while FCV countries have displayed improvements. The Governance Global Practice has pushed the frontier on the development of actionable indicators of country governance and public management systems through flagship efforts such as the ISMPS²⁴ and governance-focused Core Sector Indicators.

Governance Theme Specific Breakdown

Portfolio Lending

4. **With the inclusion of Governance as a new IDA special theme, there is an opportunity to better refine our approach to governance and focus interventions towards outcome-**

²⁰ The Governance Global Practice is designated as the “Contributing GP” of 35 IDA projects, however – the most of any global practice.

²¹ AidData Citation.

²² Governance is designated as the official “Contributing GP” in the Operations Portal; This Global Practice works in collaboration with the Lead Global Practice to ensure project success.

²³ 12. Property Rights and Rule-based Governance; 13. Quality of Budgetary and Financial Management; 14. Efficiency of Revenue Mobilization; 15. Quality of Public Administration; 16. Transparency, Accountability, and Corruption in the Public Sector.

²⁴ Indicators of the Strength of Public Management Systems.

oriented results. Historically, the WBG Corporate Scorecard has reported on governance interventions by measuring the number of countries with strengthened public management systems in: (i) civil service and public administration; (ii) tax policy and administration; (iii) public financial management; and (iv) procurement. While this methodology has been useful in capturing the breadth of activities that contribute to improved governance, it is a time consuming process and captures institutional strengthening in the broadest of terms. Across the various themes, governance interventions have focused on the following:

5. **PEFM:** Governments have recognized the inextricable link between sound public financial management and the delivery of public services. In response to this, governance projects have focused on improving the strategic planning, allocation and expenditure of public resources. A limited view on budgeting without a medium term macro-fiscal outlook hinders a government's ability to align their objectives with the resources available. Furthermore, unifying cash balances under a single account and creating links between procurement and treasury systems allows for improved management of public finances to ensure investments in public infrastructure and social goods are realized at both the national and local levels.

6. **Public Administration – Education and Health:** Strong institutions and systems are essential to meeting a society's needs for effective health, education and social protection services. In both education and health, governments are looking beyond just increasing access to services but ensuring equity and quality of service delivery. To support these goals, governance projects have focused largely on budget allocation and performance management.

7. **Domestic Resource Mobilization:** Improving tax administration is a critical component in a government's ability to increase revenues. Inefficiencies such as inconsistencies in legislation and a lack of clarity and guidance on procedures undermines a government's ability to manage compliance. Improvements in the administrative efficiency of tax administration allow for strengthened fiscal resilience, enable stronger business investments and improve the country's competitiveness. Both citizens and businesses benefit directly from lower compliance costs, and indirectly through higher revenue collections that finance social and infrastructure expenditures.

8. **State Owned Enterprises:** Despite the trend toward privatization over the past 20 years, SOEs are still significant economic players. Globally, SOEs account for 20 percent of investment, 5 percent of employment, and up to 40 percent of output in some countries. They continue to deliver critical services in important economic sectors such as utilities, finance, and natural resources. Even in competitive industries, enterprises in large-scale manufacturing and services remain in state hands in many countries. Nowadays, SOEs are increasingly under pressure to improve their performance, particularly in the area of good governance. This demand has led to a growing body of knowledge and analytical work across the Bank: overall, the Bank has integrated corporate governance and fiscal and financial management into its broader SOE reform efforts, assessing the state of corporate governance in SOE sectors in various countries, providing policy recommendations and actions plans, and supporting reform implementation through its advisory and lending operations.

9. **Rule of Law/Regulatory Reform:** Access to equitable and efficient justice fosters a favorable environment for investment and the foundational framework needed for the sustainable

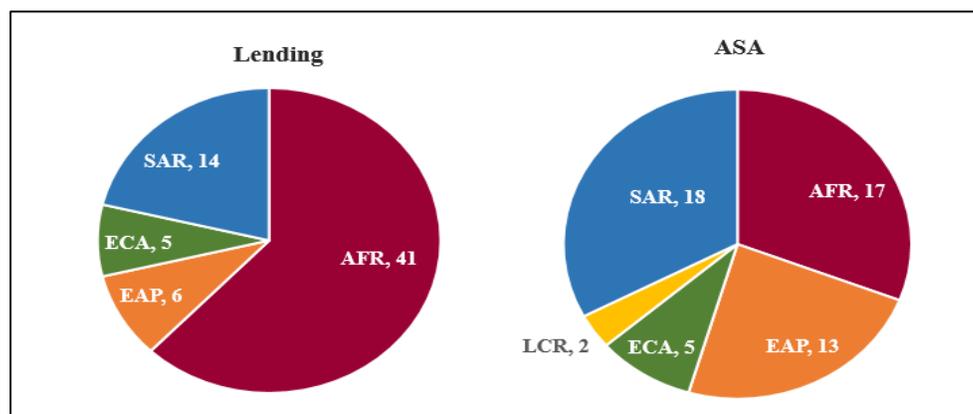
development of other social sectors. Furthermore, it enables the robust application of rule of law to promote transparency and accountability in society and government. Through legislation reform, modernization of justice systems, and the capacity building of judges, magistrates and staff, rule of law projects improve the efficiency, transparency and accessibility of justice to aid citizens and to promote public and private investments.

10. **Transparency and Accountability:** Recognizing that transparency and accountability are at the heart of good governance, project interventions have gone beyond anti-corruption to fostering demand-side governance through social accountability, decentralized PEFM systems and greater access to information. Governance projects look to institutionalize transparency and accountability in all levels of government and all nodes of the results chain by leveraging new technologies and promoting civic engagement.

Advisory Services and Analytics

11. **The Governance Global Practice currently manages 130 analytic and advisory products in IDA countries, spanning all IDA18 Themes** (Figure 3).²⁵ *Public Financial Management* (broadly defined, including *inter alia*, service delivery improvements, budget preparation and budget execution technical assistance, strategic planning for investment management, IFMIS, improved accounting and auditing, PEFA and other diagnostics) is the core business line of the Global Practice, and as such, comprises the largest thematic share of the ASA portfolio. *Rule of law issues and the regulatory environment* have seen increasing focus, particularly on SOE reform in SAR, AFR, and ECA, as well as on land issues such as land leasing policy recommendations (EAP). The ASA portfolio devoted to *DRM* is small, but growing, with efforts to-date focused on legislative revisions, and reform diagnostics.

Figure 3. Governance Global Practice IDA Lending and ASA by Region



12. **Improving the quality of public administration in order to drive improvements in service delivery is one of the key goals of the Governance Global Practice’s work program.** Recognizing the critical role of the sectors (vs. simply focusing on center of government), the

²⁵ Compared to the Bank-wide averages, Governance Global Practice IDA ASA has slightly lower (10 percent) average lifetime expenditures, and roughly equivalent average age (17.6 months for the Bank overall, vs. 16.7 months for Governance Global Practice).

Global Practice is branching out to include technical assistance on how bottlenecks in PEFM affect service delivery in the education and health sectors especially.

13. **Client Feedback Instrument.** The latest results from the Client Feedback Instrument (FY14) shows continuing strong relevance of, and demand for, Governance Global Practice managed ASA in IDA countries. 73 percent of respondents reported ASA Relevance as Highly Effective or Effective, and 93 percent would use World Bank ASA again. Technical Quality received 79 percent Highly Effective or Effective scores, and no scores of “Not Effective.” Importantly, the scores for Effective engagement were dramatically improved since FY13, with 79 percent Highly Effective or Effective scores (compared to 43 percent in FY13). In fact, all measures of quality have improved between FY13 and FY14, and all are either at, or exceed, Bank averages.

14. **Further, a direct link to lending is observed,** with over 50 percent of activities reported as leading to World Bank or IFC financing. Beyond the World Bank, 77 percent of ASA was reported as leading to external funding. For example, the Ghana Public Financial Management Bottlenecks to Service Delivery ASA will develop recommendations to minimize PEFM impediments in the health and education sector. These recommendations will then be implemented under the Public Financial Management Reform Project. Another example is the Tanzania Open Government PEFM DPO shown in Box 10.

GOVERNANCE LENDING PIPELINE FOR THE IDA18 PERIOD

15. **The lending pipeline for FY17 is still evolving.** At present, 11 projects are planned, amounting to at least US\$620 million (the amount for the second Open Government DPO in Tanzania is still to be determined). In line with the Governance Global Practice’s core business, projects focus primarily on public financial management reforms for improved service delivery. Reforms related to improved human resources practices, and assistance with decentralization are also featured objectives. Transparency, accountability, and open government continue to be important thematic areas, particularly in the Tanzania DPO series (Box 10).

Box 10. Tanzania Open Government and Public Financial Management DPO Series

Although Tanzania has seen strong economic growth over the last ten years, key service delivery indicators and citizen satisfaction with public services have been deteriorating, and trust in public institutions seems to be eroding. And despite some improvements, a number of Public Financial Management weaknesses also impede service delivery, including issues related to cash management, public investment management, and procurement. The government, realizing that a “business as usual” approach would not be sufficient, has joined the Open Government Partnership (OGP) in order to promote increased transparency and citizen participation. It has also adopted a new delivery results model called “Big Results Now!” (BRN), which places a strong focus on results, with accountability and performance management at the core of implementation. BRN is focused on eight priority sectors, including Education, Health, and Rural Water. In support of both OGP requirements, and the needs of the BRN initiative, the government has recognized that Open Data is a critical prerequisite for improving participation and monitoring of Government activities.

The Bank’s Open Government and Public Financial Management DPO series is designed to support the institutionalization of Open Data and supplementary PEFM goals. The first pillar, which supports the broader transparency and accountability agenda, provides assistance for Tanzania to meet its commitments under the OGP to promote access to information, open budget, and open data in Education, Water, and Health. The second Pillar

focuses on Public Financial Management to improve budget credibility and execution through better cash management, public investment management, and procurement.

Links to Technical Assistance (ASA). The Open Government PEFM’s design is notable for its inclusion of ongoing complementary technical assistance through the **Support to Open Government, Data, and Accountability in Tanzania (SOGDAT)**). This program – funded by the UK – will provide US\$12 million over three years to assist with: (i) the supply of open Government data in health, education, and water, making such data more discoverable¹, accessible and reusable; and (ii) the development and use of sectoral service performance dashboards in health, education, and water, powered by Open Data.

Trust Funds

16. **The total amount pledged by donors to TF grants for governance in IDA countries amounts to US\$808 million, spanning across all IDA18 themes.** Within this amount, BETFs account for US\$66.0 million or 8 percent of the grant amounts, while US\$742 million has been pledged to RETFs. These RETFs are leveraged for the benefit of governments and CSOs in IDA countries, with significant amounts allocated to fragile or post conflict areas (e.g., Niger Delta in Nigeria, Northwest Frontier Province in Pakistan), where governance is a priority.

17. **A summary of Trust Fund resources is given in the tables below:**

Table 1. Trust Funds by IDA18 Theme

| Themes | RETFs - Grant Amount (US\$) | RETFs TF# | BETFs - Grant Amount (US\$) | BETFs TF# |
|---------------------------------|------------------------------------|------------------|------------------------------------|------------------|
| PEFM | 386.4 | 52 | 30.1 | 72 |
| Public Administration | 134.0 | 15 | 3.3 | 20 |
| Rule of Law | 49.0 | 10 | 3.5 | 17 |
| Tax | 24.9 | 12 | 8.8 | 23 |
| Transparency and Accountability | 30.9 | 34 | 4.5 | 32 |
| Others | 117.2 | 60 | 15.8 | 108 |
| Grand Total | 742.4 | 183 | 66.0 | 272 |

Table 2. Trust Funds by Region

| Regions | Grant Amount (US\$) - RETFs | Grant Amount (US\$) - BETFs |
|----------------|------------------------------------|------------------------------------|
| Africa | 351.2 | 30.3 |
| South Asia | 350.5 | 19.5 |
| East Asia | 25.4 | 11.7 |
| ECA | 7.5 | 3.7 |
| MENA | 6.8 | 0.7 |
| LCR | 1.0 | 0.1 |
| Total | 742.4 | 66.0 |