



Lessons from Armenia's Institutional and Governance Review

Armenia's experience with a new World Bank tool offers valuable guidance for similar efforts elsewhere.

Institutional and Governance Reviews (IGRs) are a new tool in the Bank's package of analytical and advisory activities (see *PREMnote 75*). Because they are politically sensitive, the development of these reviews involves careful tradeoffs. Though each requires thorough analysis of a country's institutional shortcomings, the final product must be acceptable to country authorities and other development partners.

To be credible and acceptable, an IGR must reflect extensive participation by a variety of national stakeholders. In Armenia the Bank's IGR team engaged the government (executive, legislature, judiciary), civil society (nongovernmental organizations, political parties, trade unions, academics), and other development partners from the outset. This approach resulted in widespread acceptance of the report's analysis and recommendations within both Armenia and the Bank.

Objectives of Armenia's review

Armenia's IGR was a pioneering effort by the Bank's Europe and Central Asia Region to systematically evaluate a country's public institutions and develop a program of reforms supported by follow-up operations. The IGR had two main objectives. First, it was to diagnose institutional dysfunction at the national level using quantitative benchmarks of performance. Second, it was to assess political realities and constraints to reform, to foster the sustainability of Bank operations.

Armenia was chosen for several reasons. There was a dearth of analytical work on public sector institutional reforms prior to 1998. Moreover, country authorities evinced keen interest in an IGR—and were matched by strong support from the Bank's country unit and team.

Consultations

Before the formal concept review, the task team discussed the IGR informally with government authorities and members of civil society. The discussions focused on poor public sector performance and on the development of key public institutions. During this process a basic question emerged: why was Armenia able to generate successful policies in some areas (such as defense, foreign affairs, and national security) but not others (such as the social sectors)?

The team obtained valuable information from a variety of sources, including the executive branch at the central, provincial, and local levels, parliamentarians, NGOs, academics, and the media. Based on this information it was decided that the IGR would analyze institutions critical to good governance, sustainable development, and economic growth, and identify priorities for institutional reform (box 1).

The first preparation mission took place in the fall of 1998. The focus was on checks and balances in national institutions and the importance of accountability arrangements. Taking into account the broader

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help address
institutional
challenges?

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political and institutional context, as well as exogenous shocks that influence opportunities for reform, the team developed quantitative indicators of public sector performance and explicitly analyzed issues of political economy.

The health sector was chosen as an example for tracing the institutional causes of poor outcomes. The team identified weaknesses such as unpredictable budgets, arbitrary policies, and weak contracting mechanisms, civil service incentives, and accountability arrangements. The investigation served as a launching pad for examining cross-cutting issues in budget management, civil service and cabinet decisionmaking, and checks and balances on the executive. This analysis was intended to identify concrete entry points for reform, to be supported by follow-up dialogue and operations with explicit performance benchmarks.

Discussions were then held with NGOs and academics, and background papers were commissioned from academics, historians, and journalists. In addition, households and public officials were surveyed to assess service delivery and public sector functioning.

Interim impacts

The tragic October 1999 assassinations of several high-ranking Armenian officials—

including the prime minister—delayed the completion of the IGR. Yet even though three administrations held office during the IGR process, top-level support for it never wavered. The IGR was completed in June 2000 with collaboration from Armenia's executive branch, legislature, intellectuals, and civil society.

When the final draft of the IGR was shared with government authorities, it was lauded as the first attempt to review Armenia's economic development in the context of the country's political and institutional environment. Apart from minor suggestions, there were no objections to the report. One high-level policymaker remarked: "We, not the Bank, should have reviewed all these issues much earlier, as they are at the heart of the existence and development of Armenia."

The IGR also had several notable impacts during its preparation, including:

- The report's analysis of the health sector encouraged the government to review its strategy for health sector reform. As a result the Bank-financed Armenia Health Sector Project was restructured during the preparation of the IGR.
- The team's comments and participation were solicited on several legislative and capacity-building initiatives, including the new Law on Inspections (which reduced inspections and other intrusive controls) and the Law on Civil Service. The team's input also led to greater appreciation of the importance of implementing a medium-term expenditure framework.
- The IGR supported a government initiative to improve implementation of externally financed investment and technical assistance projects. The authorities established new institutional arrangements for project implementation, emphasizing accountability and ownership by government agencies. These measures were promulgated in the face of opposition from interests who perceived a diminution in their authority and resented being made accountable to state agencies.

BOX 1 KEY MESSAGES FROM ARMENIA'S IGR

Armenia's IGR argues that the country's two most pressing institutional issues are its unbalanced policy development capacity and its underdeveloped institutions for accountability. The first issue reflects shortcomings in the supply of good sector policies; the second, shortcomings in the demand for them.

On the supply side the IGR concludes that the capacity to generate good policy is limited by Armenia's institutional structures and skills—which are unsuited to the needs of an independent nation-state and a market-oriented economy—and by the predominance of defense and security concerns. In terms of accountability the IGR finds that the demand for good policy is hindered by poor expenditure controls, pervasive informality, a center of government constrained by the Soviet legacy, and especially by the overarching preeminence of the executive over other branches of government. This weak demand is exacerbated by Armenia's underdeveloped media and civil society.

The IGR explains why these institutional limitations should matter to policymakers and others, emphasizing their consequences in terms of inadequate delivery of services to poor people. The report also unbundles these challenges to suggest specific reform actions.

Dissemination

The IGR was disseminated in three stages. First, it was distributed publicly. After the Bank and the authorities cleared the IGR for publication, it was translated into Armenian and distributed to the executive branch, parliamentarians, political parties, NGOs, the media, and donor partners.

Second, a workshop was held in Yerevan in October 2000 to publicly disseminate the IGR's findings and generate consensus on institutional reform priorities, to underpin a medium-term public sector reform program. Jointly organized by the government and the Bank, the workshop attracted more than a hundred public officials from all government branches as well as representatives of donor agencies and civil society, including political parties, the Armenian diaspora, and NGOs. The workshop saw vigorous and open debate on the issues raised in the IGR—and widespread recognition of the urgency and importance of public sector reform.

Third, follow-up consultations were held with a more focused group of policymakers. Several videoconferences were organized to discuss further follow-up and implementation of the IGR's recommendations. Policymakers from the executive and legislature and the Public Sector Reform Commission joined the Bank team for detailed consultations on specific reforms. The final meeting decided to include the IGR workshop recommendations in the reform agenda being developed by the Public Sector Reform Commission.

Lessons and caveats

Armenia's IGR offers valuable lessons for similar efforts elsewhere. To succeed, IGRs should aim to:

- *Ensure country ownership.* An IGR requires strong support from a country's executive and legislative branches. Armenia provided such support before, during, and after the wrenching political turbulence that coincided with the preparation of its IGR. Moreover, continuous consultations with a wide range of stakeholders contributed to country owner-

ship of the report. And though Armenia's civil society organizations are only starting to develop, very public discussions were held on the IGR's analysis and recommendations.

- *Secure assistance from the Bank's country unit* before, during, and after the IGR process. Among other tasks, the country unit must determine the IGR's focus and the institutional and governance issues to be addressed. Moreover, the IGR should be reflected in the Bank's follow-up country strategy, with concomitant provision of resources.
- *Be clearly defined.* Because IGRs are an evolving, country-specific tool, each one's concept, scope, and focus should be defined as clearly and early as possible.
- *Involve an appropriate mix of analytical tools.* In developing Armenia's IGR, the Bank team faced a wide range of possible data sources, including official statistics, governance ratings by external agencies, interviews with domestic stakeholders and external experts, and surveys of households, enterprises, and public officials. A key lesson was realizing what surveys can and cannot accomplish—and the need to focus surveys on essential issues.
- *Foster commitment to institutional reforms.* Institutional reforms do not come quickly, cheaply, or easily: sustainable follow-up requires clarity and consensus on the strategies, instruments, and timeframes for implementing IGR recommendations. In addition to indicating specific areas that the Bank and other donors intend to support, an IGR could propose mechanisms to ensure consensus between country authorities, different parts of the Bank (both sector units and the country unit), and other development partners. This approach assumes consensus within the Bank on strategies, instruments, and timeframes for public sector institutional reforms, a long-term appreciation by sector units and the country unit of the human and financial resources required to achieve such goals, and tie-ins with the Country Assistance

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Armenia's IGR showed the feasibility and value of focusing on political issues in the Bank's analytical and advisory activities

Strategy and Poverty Reduction Strategy Paper processes.

- *Appropriately address sensitive political issues.* Armenia's IGR was relatively frank about sensitive issues such as the preeminence of the so-called power ministries (defense, interior), though the final analysis was somewhat muted in deference to comments made during the report's review. In some countries, however, nontransparent power structures and extraconstitutional or informal sources of political power inhibit accountability and transparency, impede institutional reforms, weaken governance, and undermine poverty reduction efforts. In such cases the IGR process needs to examine whether such issues can and should be analyzed—and if so, the degree of frankness warranted. If not, it could suggest an alternative mechanism to do so. An IGR's assessment of institutional arrangements and sources of dysfunction may also raise constitutional issues. The extent to which an IGR can or should deal with such issues—especially if they are at the heart of governance and accountability concerns—may have to be addressed more explicitly in future IGRs.

Despite the potentially sensitive scope of Armenia's IGR, the process followed by the Bank and government teams showed the feasibility, acceptability, and value of focusing on political economy and governance issues in the Bank's analytical and advisory activities. This approach was facilitated by full support from Armenia's civil society in addressing previously "unmentionable" issues in a framework that showed how institutional dysfunction is linked to weak service

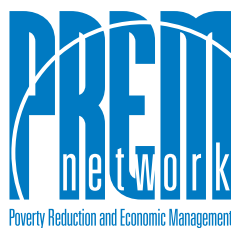
delivery. Within the Bank, the IGR benefited enormously from close collaboration with other sector units (especially Human Development) and the PREM Network.

Further reading

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