Chapter 7

Governance to achieve the Millennium Development Goals

The successful scale-up of investment strategies to achieve the Millennium Development Goals requires a commitment to good governance. This includes upholding the rule of law through administrative and civil services and through legal and judicial institutions. It includes promoting human rights, particularly civil liberties and political freedom. It also includes sound economic choices, especially for macroeconomic policies and regulatory frameworks. And it includes transparent, participatory, and accountable decisionmaking processes. These critical elements of governance serve as vital complements to the scaling-up of public sector management capacity (chapter 6).

There has been great progress in quantifying and standardizing indicators of governance (box 7.1). Although the idea of "poor governance" is often still used as a euphemism for corruption in development policy circles, advances in research and measurement have helped outline the many components of governance. The result is the ability to measure the variation in governance indicators across and within countries. Some countries have high scores on an absolute scale while others, led by political reformers, score poorly not because of their leaders' actions but because of entrenched corruption, possibly as a legacy of past regimes. Still other countries are governed by corrupt rulers, while some countries fall into violent conflict, making good governance difficult if not impossible. (We return to the special issues of violent conflict in chapter 12.)

The data also show that almost every dimension of governance is highly correlated with income. This correlation signifies a two-way relationship: good governance helps achieve higher income, and higher income supports better governance.

It is broadly accepted that better governance can lead to higher economic growth as a result of more efficient divisions of labor, more productive investments, lower transaction costs, and faster implementation of social and

Box 7.1

Assessing governance: many approaches

Good governance is a challenge to quantify and measure. The attempts vary dramatically in what is measured. Here we highlight some of these attempts and their definitions of good governance.

- *Country policy and institutional assessments.* The World Bank's country policy and institutional assessment cover policy choices and institutional structures. They evaluate economic management (debt, macroeconomic and fiscal policies), structural policies (trade, financial, private sector strategies), policies for social inclusion and equity and public sector management and institutions (rule of law, financial management, efficiency of public administration, transparency, accountability, corruption).
- *Freedom House.* The Freedom in the World rankings use surveys to measure political freedoms and civil liberties. Political freedoms are measured by the right to vote, compete for public office, and elect representatives who have a decisive vote on public policies. Civil liberties include the freedom to develop opinions, institutions, and personal autonomy without interference from the state.
- *International Country Risk Guide.* The International Country Risk Guide ranks countries based on political, economic, and financial risks. Political risks include government stability, socioeconomic conditions, investment profile, corruption, conflict, quality of bureaucracy, democratic accountability, law and order, and the presence of religion and the military in government. Economic risk measurements include per capita GDP, GDP growth, inflation, and fiscal policies. Financial risk measurements include foreign debt, trade balances, official reserves, and exchange rate stability.
- *Kaufmann, Kraay, and Zoido-Lobaton and Kaufmann, Kraay, and Mastruzzi.* These data sets, produced by the Global Governance group at the World Bank Institute, rank countries based on six aspects of governance: voice and accountability, political stability, absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.
- *Millennium Challenge Account.* The Millennium Challenge Account was announced by the U.S. government in 2002 as a new foreign aid program to assist countries that are relatively well governed. Governance is measured based on three broad categories: ruling justly, investing in people, and encouraging economic freedoms. Ruling justly is measured by scores on civil liberties, political freedoms, voice and accountability, government effectiveness, rule of law, and control of corruption. Investing in people is measured by public spending devoted to health and education, primary completion rates, and immunization rates. Encouraging economic freedoms is measured by fiscal and trade balances and the investor climate.
- *Transparency International.* Transparency International ranks countries on the basis of a Corruption Perceptions Index, a composite index that measures the degree to which corruption is perceived to exist among public officials and politicians.

economic policies.[1] But it is not often properly understood that poorer countries with low levels of human capital are less able to afford good governance, since this requires a well functioning and adequately paid civil service and judiciary, proper information technology (for registration of property or transparency in procurement), equipment and training for a reliable police force, and many other outlays for proper public administration. Moreover, richer countries generally have more literate societies, with civil society organizations and nongovernmental organizations, including the media, better able to act as watchdogs of public sector activities. Higher incomes also promote political participation and constraints on executive authority. Barro (1999), for example, has presented evidence to suggest that economic growth supports the development of democratic political institutions.

Plenty of evidence shows that human capital is a fundamental predictor of economic growth and that rising human capital in turn seems to contribute to improved institutions (Glaeser and others 2004). This is important since it suggests that external factors contributing to low human capital, such as endemic disease (malaria) that leads to high child morbidity and mortality, can have an important adverse effect on the development of government institutions. It also corroborates the findings of Sala-i-Martin, Doppelhofer, and Miller (2004), whose innovative analysis finds that human capital and geography variables were among the main predictors of economic growth in the late twentieth century.

The upshot is that while good governance can contribute to economic growth and bad economic governance can certainly impede growth, governance itself can be improved by investing in other factors (such as education and health) that support overall economic growth and human capital accumulation. This two-way causation is hugely important from the vantage point of the Millennium Development Goals. It underscores the importance of a broad-based strategy to meet the Goals, directly through good governance practices and indirectly through investments in human capital, public sector management, and infrastructure. It also underscores the point that on average a poor country is likely to have lower governance scores than a richer one, even if both governments have equally benevolent and committed political leadership. A proper assessment of a country's governance therefore requires not an absolute scale of measurement, but a measurement in relation to other countries in a similar income group.[2]

A related complication, frequently overlooked in discussions of governance, is that most available indicators—such as perceptions of corruption, government effectiveness, and risk of expropriation—are outcome indicators that only partly reflect the will and actions of policymakers.[3] For example, if one uses only outcome measures to evaluate a country's efforts in governance, a new government that is committed to ending corruption but that has inherited a system of entrenched corruption from its predecessor will be penalized for high levels of corruption. Instead of punishing such governments, the development partners should help the new leaders to root out the remaining corruption. Similarly, governance assessments cannot rely solely on absolute indicators of rule of law, civil liberties, or institutional strengths since many of those systems require real resources to be implemented. Instead, a more effective approach is to assess improvements in outcomes and to compare them with countries at similar income levels. Many government leaders in poor countries with weak governance systems are making heroic efforts at improvement, and those efforts need to be recognized and supported.

Strategies to enhance governance for the MDGs

It is the responsibility of countries themselves to strengthen their own government systems. On that, there can be no doubt. But particularly in the light of evidence suggesting an important role for human capital and other factors that contribute to governance, the international community can often support the poorest countries in strengthening both the components of governance and the elements that contribute to long-term good governance. As stated in chapter 4, we recommend that a strategy for strengthening governance be included in every developing country's long-term MDG framework. But we stress that there is no one-size-fits-all approach to undertaking highly contextualized approaches based on local needs.

To this end, we stress the need to distinguish between two broad sources of inadequate governance: bad volition and lack of capacity. The first addresses the genuinely "corrupt" governments where political power is held by larcenous leaders. The state may be run for the personal plunder of a narrow elite, a particular interest group, or an ethnic group. These are countries that consistently rank low on civil liberties, political freedoms, and human rights while rating high on corruption, with little demonstrable will to achieve broad-based poverty reduction. In these cases, the international community can play a role in humanitarian assistance and deliver aid through NGOs, but there is little hope for achieving the Goals.

At the other end of the spectrum is a second—typically overlooked—category of countries that suffer from weak governance, not because of the ill will of the leaders, but because the state lacks the resources and capacity to manage an efficient public administration. Of course most countries are somewhere between these two extremes, and it is sometimes difficult to determine levels of volition, but the distinction is critical for understanding a country's governance challenges and for shaping the appropriate responses.

The most important point is that when the limiting factor is not the volition of leaders but a lack of capacity or resources, we should view the governance challenge as an opportunity for investment in improved skills, capacities, and systems. Governance, in short, should be considered in *operational* terms, subject to investment and improvement.

Governments lacking volition

With truly rapacious government leadership, the scope for long-term development policy is limited until that leadership leaves office. Some of these governments are the outcome of deeply flawed political processes. Many such regimes in developing countries have been propped up with external support from the rich world for economic or geopolitical reasons. Indeed, memories are often short in developed countries. Public officials and the broader public tend to forget the role their countries played in supporting truly corrupt politicians and political structures, while at the same time criticizing the developing country governments of today for not having developed better institutions.

In such cases, it would be difficult for the government to produce a broadly credible MDG-based poverty reduction strategy (chapter 4), and large-scale external budget support would clearly be inappropriate. Indeed there is limited potential to achieve the Goals under such circumstances. Development strategies need to focus on humanitarian and health concerns, and aid should be channeled mainly through nongovernmental organizations. International assistance needs to be closely tied to incentives for improving governance, especially in the realms of civil liberties, political rights, voice and accountability, and anticorruption successes. Support is also needed in these countries for civil society organizations that monitor corruption, human rights abuses, government secrecy, and repression.

What about economic sanctions? Not only are they difficult to implement, but they tend to harm the population and political opposition at least as much as the government. Sanctions typically have little success in toppling bad regimes, but they can have a powerful effect in impoverishing the society.

Improving governance in poorly resourced but well intentioned governments

In low-income countries where the political will genuinely exists to meet the Goals, specific investments and policy reforms are necessary to improve governance in six areas: public administration, strengthening the rule of law, increasing transparency and accountability, promoting political and social rights, promoting sound economic policies, and supporting civil society. The remainder of this chapter focuses on these issues, all of which need to be tackled in the context of an MDG-based poverty reduction strategy.

Investments in public administration

In poor countries with well intentioned governments, the public administration should be a target of investment. The private sector long ago learned that good management requires resources; the same holds in the public sector. For example, low-income country governments with good volition but poor public administration frequently need to raise civil service pay scales to make them comparable to the salaries offered by the private sector, international agencies, and development partners. Higher pay is needed to attract and retain highly qualified public sector workers and to reduce the incentives for corruption and moonlighting. Yet impoverished countries lack adequate domestic resources to meet such challenges. Donors thus need to provide ODA to support civil service pay scales, a practice long rejected but sorely needed today. In addition to increased pay, the public sector needs to invest in ongoing worker training and capacity building, another expensive but vital activity (chapter 6).

Governments must also invest in the physical infrastructure of the public administration to improve service delivery and reduce opportunities for corruption. Some examples include:

- Communication and information infrastructure for all levels of government, including computer and telecommunications services for government offices, public hospitals, land registries, schools, and other public institutions.
- Information systems to improve the speed, reliability, and accountability of public sector transactions and systems to share information across branches of government. India, for example, is working to put all land deeds into a national database, which citizens can gain access to from anywhere in the country. This will eliminate the need for citizens to travel in order to request a copy of the deed to use as collateral in a loan.
- Modern technological capabilities for the customs bureau, to speed shipments, reduce smuggling, and control cross-border movements of illegal or dangerous goods.
- Modern technological capabilities for law enforcement, including national criminal databases, information systems to improve response times, and adequate dissemination of information to local law enforcement.
- Electronic government procurement and logistical systems, for example, to ensure reliable access to essential medicines in government clinics and hospitals.

As discussed in chapter 6, the upgrading of public administration will take center stage in the scaling up public investments and services to meet the Goals. Since all of these investments require financial resources, they should be included in the MDG-based poverty reduction strategies so that donor financing can be brought to bear in the common circumstance when domestic resources are insufficient.

Strengthening the rule of law

The rule of law, a prerequisite to sound governance, can affect the way policies are formulated and implemented. In many countries, weak institutional structures are susceptible to influence and capture by elites. Power is concentrated in a few select offices and people, and legal systems are severely overburdened, contributing to rampant corruption and mismanagement.

Setting up institutional mechanisms to respect the basic rights of all citizens and to treat them fairly is a first step to establishing the rule of law. This requires that the roles, responsibilities, and limitations of power of the different branches of government be outlined with transparent and clear accountability norms. It also requires that all three pillars of government—executive, legislative, and judicial—are well resourced and staffed to function effectively. Law enforcement is easier when the police force and the bureaucracy are well trained, adequately paid, and accountable. It is also easier when an independent judiciary has the power to consistently apply the rule of law and when the courts are well staffed and its lawyers and judges adequately paid.

Governments need to pursue an effective anticorruption strategy, by clarifying codes of conduct for public officials, by making it easier to report and track cases of corruption, and by creating more transparent procedures (box 7.2). In addition, adequate compensation to government officials is a step in enforcing strong anticorruption policies. Establishing the rule of law requires significant investments in efficient public sector management. Since low-income countries typically lack the resources to make these investments, it is difficult not just to scale up investment packages but also to create the institutional and legal framework to implement them.

Promoting accountability and transparency

Accountability requires the presence of democratic mechanisms that can prevent concentrations of power and encourage accountability in political systems. Citizens should be able to hold politicians responsible for their promises and actions through, for example, regular and fairly conducted elections in democratic forms of government and periodic reporting on electoral promises.

Implementation becomes more effective if there is a free press that can inform the public, analyze and critique government policies, monitor government performance and service delivery, and raise concerns if some parts of the population are being excluded or marginalized. Benchmarks should include general access to public information (freedom of information legislation and its effective implementation), legislative protection for the press, and specific steps to increase media freedom. For its part the press can highlight international commitments by national governments on the Goals and track progress.

For their part, parliaments are important in convening and promoting public debates on the best means of developing and implementing an MDG-based poverty reduction strategy. Parliamentarians can give voice to constituencies in remote and historically underserved areas, and they should provide a critical check on government by demanding public reviews of expenditures, by pointing out inequalities in implementation, and by making sure the policy debates on how to deliver services are linked quantitatively to the Millennium Development Goals and specific targets. The power to question government decisions publicly and to prevent the suppression of information is one of a parliament's foremost responsibilities.

In practice, accountability depends on citizens' awareness of the Goals and their corresponding rights and information about government actions. Governments need to introduce greater openness and provide full access to official data and performance indicators. They should produce timely publications of the fully audited accounts of the central bank and of the main state

Box 7.2

Actions to promote transparency

Source: Kaufmann 2004.

One of the most potent strategies to improve governance and control corruption involves transparency reforms. A government embarking on a transparency reform drive is also likely to make strides to integrate itself into the global economy and attract further FDI flows, since transparency plays an important role in investors' decisionmaking. A menu of concrete action items can be identified within a broader governance strategy. The main responsibility in implementing such actions resides with a number of key stakeholders. While the government's executive branch would generally play a key role, others—such as local governments, civil society, parliament, the private sector, and multilateral agencies—would expect to complement such efforts, and in some areas, even take the lead.

- *Empirical diagnostics of governance.* Country Governance/Anti-Corruption surveys and Public Expenditure Tracking diagnostic surveys can be conducted to assess the most vulnerable institutions and policy areas—such as procurement, customs, tax collection, public expenditure allocations to schools and clinics at the local level—and to assess progress on governance and anticorruption efforts. In natural-resource-intensive countries, a special corresponding diagnosis can be carried out. These in-depth country diagnostics have been carried out in dozens of countries, and their effectiveness is substantially enhanced where there is full transparency in publishing, disseminating, and publicly debating the implications of the results, with the objective of formulating governance action programs in a participatory fashion.
- *Access to information and freedom of the press.* Benchmarks can be set for the adoption of freedom of information acts and for publishing laws, regulations, budgets, procurement rules, incomes and assets of public officials, parliamentary voting records, and political funding contributions. Governments can also ensure timely publication of audited accounts for the central bank and major state enterprises (such as those in extractive industries). Ensuring that freedom of the press is duly protected, and that investigative journalism can be carried out and published without obstacles, is paramount.
- *Procurement assessment and action planning.* Countries can assess their procurement systems to identify priorities for reform. The role of information and communications technology can be deepened as a major protransparency tool, such as the government e-procurement system pioneered in Mexico (Compranet).
- *Public expenditure reviews (PERs).* PERs can be conducted periodically and within a governance and financial accountability framework to include a detailed assessment of all key dimensions of public expenditures (including military expenditures). Off-budget expenditures should be barred to the extent possible.
- *Public parliamentary review.* Parliamentary committees can review aid performance, with powers to question senior officials in public hearings on aid-funded projects and programs. Independent committees can also publish political and electoral financing and establish clear and enforceable rules on the use of state resources for political purposes.
- *Project-level transparency.* Transparency can be promoted by institutionalizing advance publication of all project details and rationale and convening public hearings prior to final project decisions on public investments, including those funded by multilateral agencies.
- *Civil society and private sector empowerment.* Governments and donors can implement a concerted strategy to enhance citizen, civil society, and private sector participation in transparency initiatives, with each serving a vital watchdog function by

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Box 7.2
Actions to promote transparency
(continued)

publicizing information and open critiques of government action. Likewise, donor agencies and international financial institutions can foster an open and transparent environment through their own examples, for instance, by ensuring full access to their own country assistance strategy documents and the details of the government investment projects they fund. To enhance accountability of the private sector, all international organizations, including the UN system, could institute a mechanism for transparently and publicly delisting companies that have been involved in bribery in projects funded by international financial institutions (a practice at present followed only by the World Bank).

enterprises, such as those related to extractive industries. Other information for publication includes laws, regulations, budgets, procurement rules, incomes and assets of public officials and parliamentarians, and public access to parliamentary voting records and political funding contributions. There is strong evidence to show that diversions of resources decrease with greater transparency (box 7.3).

In addition to systemwide transparency, governments also need to ensure project-level accountability. This means publishing all project details and the rationale in advance, setting up public hearings and town hall meetings for public feedback before making final decisions, and adopting specific procurement and bidding safeguards to minimize manipulation.

Promoting human rights

Human rights are both a central practical objective of good governance and a normative standard agreed to by all signatories to the UN Millennium Declaration. The declaration reaffirmed the commitment of all signatory nations to respect and uphold the principles identified in the Universal Declaration of Human Rights and to fully protect social, cultural, economic, and political rights for all, including the right to development. We fully endorse this commitment and believe that a human rights framework, as outlined, for example, in the Convention on the Rights of the Child and the Convention on the Elimination of All Forms of Discrimination against Women, is an essential prerequisite to achieving all the Goals. But there has been no systematic effort to integrate development planning with a human rights framework, even though such integration has tremendous potential and relevance.

The Goals have been criticized by human rights proponents for targeting only a proportion of the population and for not referencing human rights principles, among other reasons (Alston 2004; box 8.1). To ensure the Goals are applied in a manner consistent with human rights, governments need to recognize the relevance of their human rights obligations, encourage community participation, and develop human rights–based accountability mechanisms.

Box 7.3

The power of information

Source: Reinnika and Svensson 2004a, 2004b.

In the mid-1990s the government of Uganda conducted a review of its primary education capitation grant scheme and found evidence of rampant graft and corruption. The review found that approximately 20 percent of disbursed funds were actually reaching schools, and that the median school was receiving nothing.

After some investigation, Ugandan officials discovered that most of the revenues were being captured by corrupt officials in the local agencies managing the funds. But since parents, normally active participants in school management and planning, had little knowledge or information about the capitation grant program, the large-scale embezzlement of public funds continued undetected for years.

The Ugandan government launched a new strategy to combat corruption, under which it began publishing data on monthly transfers of capitation grants to each school district in national newspapers and their local-language editions. Primary schools and district offices were also required to post notices of actual receipts of funds for everyone to see. Now, citizens could clearly compare the amount set aside for the school with the amount that schools actually received.

Equipping citizens with this information significantly improved performance of the grant program. While the median school received nothing in the mid-1990s, it received 82 percent of its entitlement in 2001. During the same period the proportion of funds lost to corruption fell from 80 percent to just 20 percent. By pursuing an inexpensive strategy of mass information, Uganda dramatically reduced corruption and improved the efficiency of its support to primary education.

Recognizing the relevance of human rights obligations

Each country should make reference in its MDG-based poverty reduction strategy to the international human rights obligations it has voluntarily undertaken. This could take the form of a human rights assessment similar to the way the World Bank conducts environmental assessments before undertaking projects. It would include:

- Acknowledging that human rights (economic, social, and cultural rights) already encompass many of the Goals, such as those for poverty, hunger, education, health, and the environment.
- Referring to international treaty obligations as well as customary law and relevant soft law standards within the national context.
- Accepting the Goals as intermediate targets that contribute to the progressive realization of basic development outcomes. The eventual development objectives can then be framed in terms of elimination of want, gender discrimination, and hunger and the promotion of health, political and social participation, and access to information for development.

National MDG-based poverty reduction strategies should be consistent with the principles of equality and nondiscrimination laid down in applicable international human rights standards. This implies that strategies are designed to reach the entire underserved population, irrespective of ethnicity, religion, regional background, or gender. It also implies taking steps to ensure that the most underprivileged and marginalized sections of society can exercise their rights. And it implies that strategies and actions do not worsen existing inequities. In particular, MDG-based strategies need to include a special focus on addressing the needs of indigenous and tribal peoples, who number about 370 million worldwide.

An outcome-based approach to the Goals, empowered within the context of human rights obligations, also encourages dealing with issues not specifically mentioned in the official targets and indicators but relevant to the outcomes to be included in the poverty reduction strategy. For example, the Goals do not refer explicitly to sexual and reproductive health, but these rights are important to achieve many of the other Goals, and are essential in themselves.[4]

Encouraging community participation based on human rights formulations

As discussed in previous chapters, governments need to affirm that broad-based and meaningful participation in decisionmaking is sought, both in design and in implementation. Such participation should always include the right to criticize official policy positions.[5] As both the *Human Development Report 2004* (UNDP 2004b) and the *World Development Report 2004* (World Bank 2003d) outline, governments need to identify mechanisms to allow groups commonly excluded from the political process to participate actively in decisionmaking processes. This is especially important in countries with rich social diversity and large indigenous and tribal populations (UN 2004c, d). Special attention needs to be paid to ensuring a balanced gender representation.

Developing human rights–based accountability mechanisms

The MDG-based strategy needs to include a commitment by the government to ensure that an appropriate legislative and legal framework will be put in place to facilitate meeting the Goals on the basis of respect for human rights (chapter 6). There is an important role for international human rights mechanisms in this, but the first line of support should be at the national level. Thus, in every country in which a national human rights institution exists, it should be given an explicit mandate to review and report on the realization of MDG targets at regular intervals. It is estimated that there are now at least 55 such institutions in existence, a dramatic increase from the 8 in 1990 (Kjaerum 2003). In countries that do not have such mechanisms, the MDG-based poverty reduction strategy could usefully recommend their creation.[6] The reporting would also need to be disaggregated to the extent possible, to take account of elements such as gender, regional disparities, and the situation of the most disadvantaged groups (which should be identified in the benchmarking process).

Promoting sound economic policies in support of the private sector

Governments need to ensure a favorable business environment for the private sector to flourish. This is the essential point stressed by two recent reports: *Unleashing Entrepreneurship: Making Business Work for the Poor* (UNDP 2004c) and the *World Development Report 2005: A Better Investments Climate* *for Everyone* (World Bank 2004d), both of which the UN Millennium Project strongly endorses. Building a vibrant private sector and helping the poor benefit from their entrepreneurship requires a strong foundation in the global and domestic macroeconomic environments, physical and social infrastructure, and the rule of law (figure 7.1).

The UN Millennium Project recommends, in the context of its long-term MDG framework, that each government collaborate with the local private sector to design a private sector development strategy that helps create a favorable business environment. This would include measures in seven key areas, described here.

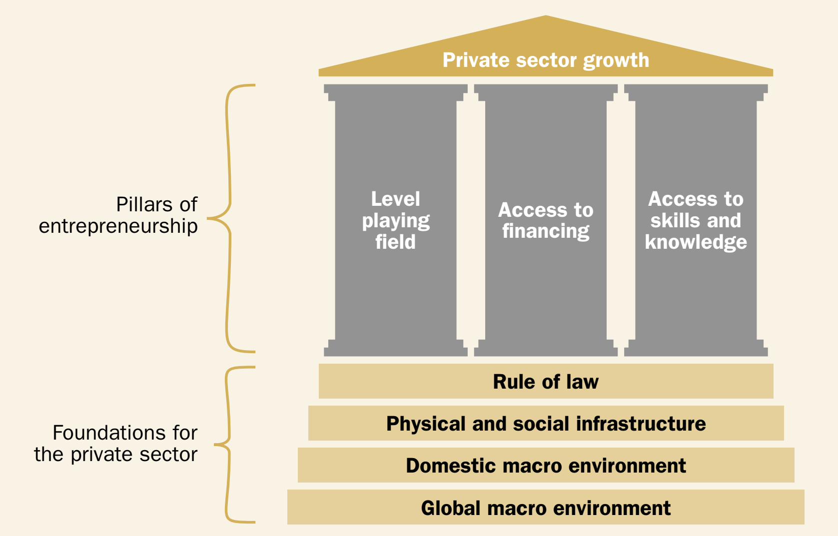
First, the private sector needs a supportive macroeconomic framework. International and domestic macroeconomic stability minimizes uncertainty for businesses. Businesses cannot dependably buy inputs or sell their products internationally when the local currency is unstable against other currencies—or if the country is experiencing high inflation with constant readjustments of prices and a loss of confidence abroad. Nor can they operate effectively when trade barriers hinder the acquisition of inputs from abroad, preventing them from attaining international competitiveness in their own market.

Second, the private sector requires a favorable legal and regulatory environment. This includes a functioning judiciary, an effective commercial law that defines and protects contracts and property rights, and a rational public administration that limits and combats corruption. Several studies have verified that corruption raises the cost of doing business and discourages investment by raising transaction costs and uncertainty. It leads to inefficiency, misallocates talent to rent-seeking activities, increases informality, and hinders tax collection, leading in turn to higher taxes. Several measures can be taken to combat corruption—including freedom of the press, systematic auditing of

Figure 7.1

Foundations of the private sector and pillars of entrepreneurship

Source: UNDP 2004c.



government outlays, and transparency in procurement, budget allocations, and the issuing of licenses (Gray and Kaufmann 1998).

The government can also promote more business growth by reducing the cost, duration, and number of procedures for entry and exit of firms, by improving processes to enforce contracts, and by simplifying the tax system. The World Bank's *World Development Report 2005* (World Bank 2004d) explains the range of regulation that can influence private sector performance.[7] The richest places in the world are also those where it takes the least amount of time to start new businesses, though there is a large amount of regional variation (figures 7.2 and 7.3). Ample evidence shows that policies simplifying the closing of a business (especially by enacting bankruptcy laws that maximize value, rescue viable businesses, and keep the order of claims stable) and improving processes to enforce contracts also encourage private sector activity. The World Bank has made an important contribution by measuring systematically the

Figure 7.2

Average time to start a business, by region

Startup time (days)

Note: Data are averages weighted by population.

Source: Calculated from World Bank 2004a, d.

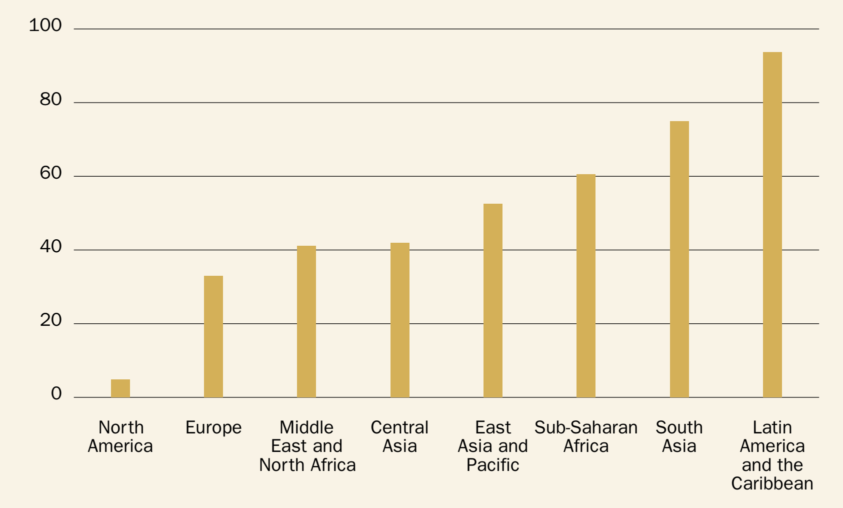


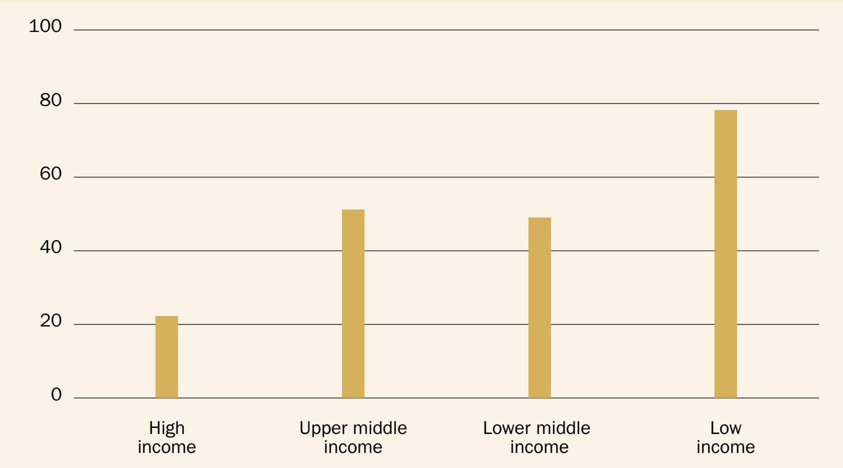
Figure 7.3

Average time to start a business, by income level

Startup time (days)

Note: Data are averages weighted by population.

Source: Calculated from World Bank 2004a, d.



costs of doing business in various parts of the world and showing how government policies may raise or lower those costs. We strongly encourage countries to take note of these findings as a guide to lowering the costs of doing business.

All these reforms are important facilitators of private sector growth, but they are neither sufficient (the infrastructure needs explained below are equally important) nor free. Blaming the poorest countries in the world for failing to enact some of the reforms rings hollow when the reforms themselves require resources. For example, reducing the number of procedures may require sharing information across branches of government and streamlining processes. But that requires computers and complex information systems, which many governments cannot afford.

Third, a thriving private sector depends fundamentally on adequate infrastructure, human capital, and research and development. The roads, electricity, seaports, and airports financed by the public sector are critical for private sector profitability, and there are several ways of involving the private sector in the provision of these services (chapter 9). Businesses cannot operate competitively if goods cannot be transported due to badly maintained or over-congested roads, poorly managed airports, outdated seaports, or rampant criminal activity unchecked by an effective police force.

Public investments to ensure a healthy and skilled labor force are crucial for private sector productivity, since many workers in poor countries suffer frequent illness, lowering productivity and leading to high rates of worker absenteeism. The government's investments in education, through the public school system, adult education, and worker training programs, directly increase the productivity of the labor force. Through support for higher education and for research and development outlays, the government lays the groundwork for economic growth through technological advance.

Fourth, governments can actively promote business activities in science, technology, and innovation. They can foster the creation and growth of small and medium enterprises, for example, by supporting business incubators and technology parks. They can establish industry extension services and help firms establish international partnerships and linkages, and use government procurement and trade policies to support technological development (UN Millennium Project 2005g).

Fifth, governments can take specific actions to promote foreign direct investment (FDI) in the country. Many countries have difficulty attracting foreign investment, due to either their small markets or the high cost of serving as a base for exports (Charlton 2004), so a strategy for promoting foreign direct investment that will contribute to development should target specific sectors and activities. For less developed countries, a good target is commodity diversification and complementary reforms in the global trading system (chapter 14). Promoting FDI will require not just a favorable regulatory environment, but also such measures to actively attract business as special economic zones. If carefully managed, these zones allow investors to easily bring capital and technology to set up businesses, hire local labor, produce world-caliber goods, and export them through an efficient port. In many situations governments can attract more foreign companies through tax incentives, perhaps in the form of tax holidays.

Sixth, the private sector requires functioning, competitive markets for both inputs and products. Well developed financial markets, which channel resources to entrepreneurs, help reduce the cost of and increase the access to capital. In many countries, the formal banking sector needs to be strengthened through regulatory reform and increased accountability of financial institutions. Functioning labor markets and access to trade can also help ensure a competitive production environment. Although regional trade is no substitute for market access to developed countries, regional integration in free-trade areas can expand markets and contribute to productivity increases (chapter 15).

Seventh, the informal economy needs government support in several ways. The government can enable easier access to financial capital by simplifying rules for collateral, increasing flexibility for informal entrepreneurs, and providing credit at subsidized rates. The government can facilitate registrations of informal enterprises by simplifying taxation and accounting norms. And it can help small-scale entrepreneurs by providing training and skill-building opportunities, through access to vocational or other education programs.

Partnering with civil society

Civil society and governments often have an ambivalent relationship. But if governments are to implement MDG-based strategies effectively, they need a flourishing civil society—to ensure representation of diverse views and interests, to help design plans and strategies, to supplement government implementation channels, to monitor, evaluate, and review progress on the Goals, and to ensure that MDG-based strategies are sustainable beyond the short term (chapter 8). The UN Millennium Project strongly recommends that governments create the political and institutional space for civil society to operate in the following ways.

First, governments need to give civil society groups political freedom to express their views, organize, and participate in the development process. Civil society should be allowed to voice divergent views through media and other public channels in an atmosphere free from fear or threats.

Second, governments need to provide the institutional space for civil society organizations to participate in the planning and review of MDG-based strategies. This would require, for example:

- Government support for civil-society-led public dialogues and consultations before and during the design of MDG-based poverty reduction strategies.

- A formal role for civil society in the technical teams set up to draft sector strategies leading into the poverty reduction strategies.
- Formal consultations with civil society representatives to review the draft poverty reduction strategy.
- A formal role for civil society organizations in reviews and budget tracking exercises to monitor progress toward the Goals.

Third, as governments plan to scale up nationwide investment programs, civil society organizations should be seen as valuable partners in implementing plans and in local service delivery. The government can create mechanisms for learning from successful pilot projects run by local communities. It can solicit civil society recommendations for ways of implementing programs in specific contexts. It can also implement programs in collaboration with civil society.

Fourth, governments can support civil society by helping build civil society capacity—training people in technical skills and providing financial help to strengthen the ability of civil society to expand its role in development.

Fifth, as in any other sector, the government needs to lay out clear norms of accountability and transparency to make sure that civil society organizations are accountable to their constituents.

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An overall message of this chapter is that governance has many dimensions. In some cases political choices are most critical. In many cases, concrete operational strategies can be implemented to improve governance outcomes. But, as is too infrequently appreciated, these strategies require investments that are often difficult for poor countries to afford.