

INSTITUTIONS AND PROSPERITY

**PUBLIC INSTITUTIONS
FOR ENABLING
THE PRIVATE SECTOR**



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INSTITUTIONS AND PROSPERITY

Public Institutions for Enabling the Private Sector

with a focus on public procurement and regulatory institutions



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Foreword

A thriving private sector is the engine of economic growth and development. It drives job creation, generates income, and spurs innovation. Yet behind any flourishing private sector is a well-functioning public sector that fosters a strong business climate and provides public goods and services that support private investment. Nearly all governments have a mandate to enable the private sector, although many struggle to fulfill it in practice. Accordingly, effective public institutions—the ministries, departments, and agencies tasked with the day-to-day work of government—play a significant role in advancing private sector-led growth and development. Conversely, when public institutions are weak, they can inhibit the private sector and constrain broader growth and development.

Institutions and Prosperity: Public Institutions for Enabling the Private Sector examines private sector development through this critical but often overlooked lens: the capacity of public institutions to effectively implement their policy mandates. The report provides evidence that investing in institutional capacity can generate returns far greater than simply increasing spending on government-as-usual programs. Drawing on extensive evidence and data, it lays out for policy makers a practical illustration of how to diagnose the often-complex challenges facing public institutions and identify pathways for addressing them, with a focus on regulatory institutions and public procurement.

A distinguishing feature of this publication is its focus on individual public institutions rather than the government as a whole, capturing the differences within a government. The report's conceptual framework highlights that the capacity of each individual public institution depends on both *organizational* and *governance* dimensions. Organizational dimensions include the personnel, financial resources, information systems, and management practices that keep public institutions operating efficiently. Governance dimensions refer to the rules and incentives that keep them working in the public interest, particularly the extent to which they are independent from undue influence, accountable to citizens, and transparent in their processes.

The report shows how organizational and governance constraints can weaken regulatory and procurement institutions' effectiveness and, in turn, stifle private sector development and job creation. It applies the framework to each, including a discussion of corruption and passive waste in procurement and a case study on telecommunications regulatory institutions in Peru. The analysis underscores the need to understand how organizational and governance dimensions interact to determine public institutions' capacity to implement policies effectively.

Institutions and Prosperity is part of an emerging agenda to better understand and strengthen public institutions as critical organizations—the government bodies and public officials tasked with delivering policy goals in a world facing growing challenges. This report combines granular data, innovative research from across the social sciences, and practical examples to equip policy makers and practitioners with the adaptive tools needed to improve institutional performance. It also contributes to broader efforts to address weak institutions by developing a comprehensive data collection process to analyze institutions worldwide.

Highlighting the often-overlooked role of the public sector in private sector development, the current report focused on public institutions for enabling the private sector aims to serve as both a call to action to improve institutional capacity and as a resource for policy makers seeking to strengthen how the public and private sectors work together to unlock growth and development.

Arturo Herrera Gutierrez
Governance Global Director
World Bank

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Executive Summary

Introduction

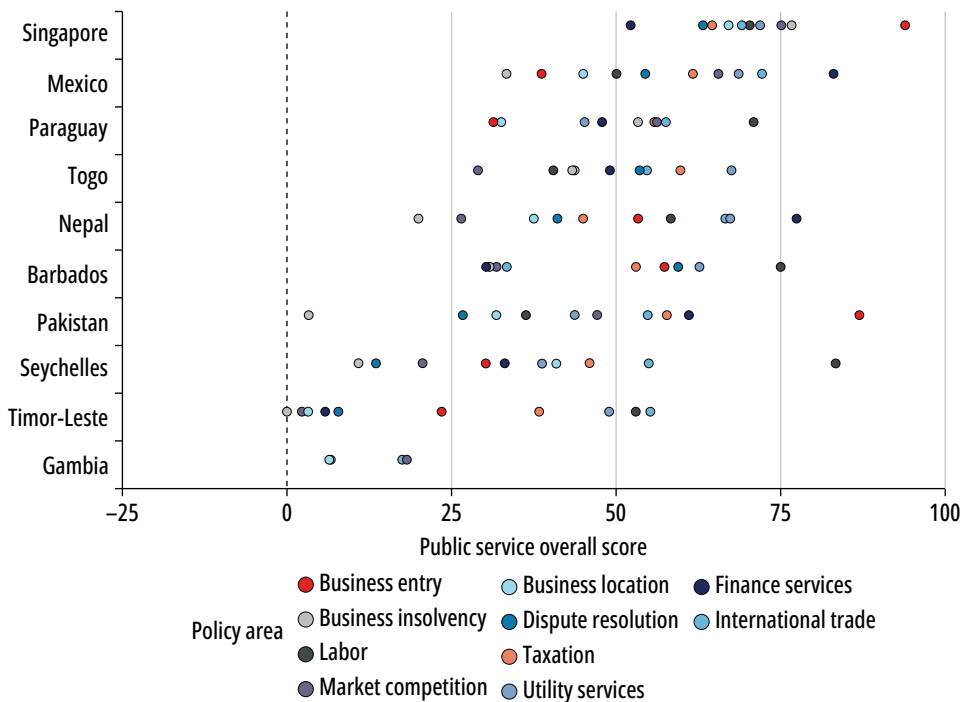
The private sector is the main driver of economic growth and development, but it needs a functioning public sector to thrive. Governments around the world invest heavily in public goods that are essential for private sector growth, from roads, bridges, and ports to regulatory frameworks. Yet institutional challenges such as waste, corruption, insufficient expertise, and uneven enforcement often weaken the link between spending and results. Consequently, policies and projects can frequently prove less effective than hoped for by citizens, firms, and policy makers themselves. Such implementation failures are a central challenge and one of the primary reasons why governments fail to enable economic development (Andrews, Pritchett, and Woolcock 2017; World Bank 1997, 2017).

Institutions and Prosperity: Public Institutions for Enabling the Private Sector focuses on why policy implementation fails and how it can be improved. It focuses on two areas that sit at the heart of market competition: public procurement and regulation. Globally, public procurement represents a large share of government expenditure, with spending largely concentrated in the construction of critical infrastructure. Likewise, regulations are policy instruments used by governments to ensure that the private sector develops in a manner compatible with the public interest, particularly when markets do not do this on their own. When public procurement or regulatory institutions function poorly, the costs fall on firms, consumers, and taxpayers.

This report advances current knowledge on governance and institutions by focusing on specific public institutions rather than on entire countries or governments. Because governments may implement policies effectively in some areas but not others, the report concentrates on the individual ministries, departments, and agencies responsible for implementation. The report refers to these entities as *public institutions*, defined as “public sector organizations mandated with policy implementation, along with the rules and processes that guide these organizations.” Evidence from the World Bank Business Ready Dataset shows that the performance of public institutions serving the private sector varies substantially even within the same country,

Institutional capacity can vary substantially within a country.

FIGURE ES.1 Variation in institutional capacity within countries across 10 policy areas



Source: Original figure for this publication using data from the World Bank Business Ready Database, https://data360.worldbank.org/en/dataset/WB_BREADY.

Note: Ten countries of the 50 covered were randomly selected for illustrative purposes. According to the World Bank Business Ready Database, "Public Services spans the facilities that governments provide to support compliance with regulations and the institutions and infrastructure that enable business activities. Indicators under this pillar are limited to the scope of the business environment in areas related to the life cycle of the firm. They emphasize such aspects as digitalization, interoperability of government services, and transparency."

underscoring the importance of focusing on specific institutions (refer to figure ES.1).

The report also develops a conceptual framework that can be used to identify institutional constraints to effective policy implementation. The framework unpacks institutional capacity along four organizational dimensions and three cross-cutting governance dimensions (refer to figure ES.2 and Kim et al. 2026). The organizational dimensions (personnel, financial resources, information systems, and management practices) capture the internal structures that determine whether an institution can deliver on its mandate. The governance dimensions (accountability to citizens and their representatives, independence from undue influence, and transparency in decision-making) determine

An institution’s organizational dimensions, along with the governance dimensions, ensure an institution functions efficiently and in the public interest. These cross-cutting dimensions allow institutions to translate their mandates into policy implementation and, in turn, development outcomes.

FIGURE ES.2 From policies to outcomes: Public institutions framework



Source: Original figure for this publication.

whether the delivery serves the public interest rather than narrow private or political interests. Although political economy and power dynamics in the policy arena affect which policy mandates are created (World Bank 2017), a public institution’s organizational and governance dimensions—the focus of this report—shape its ability to successfully implement those mandates and contribute to development outcomes.

A key feature of the framework is its emphasis on how institutions actually function rather than on their formal attributes. Many governance assessments emphasize the *de jure* form of institutions rather than their *de facto* capacity to function and implement their mandates. The framework in this report takes several such forms and policy mandates as a starting point while focusing on how they are executed in practice.

This emphasis highlights the importance of a holistic and multidimensional approach to institutional capacity. Typically, efforts to strengthen institutional capacity focus on one formal aspect at a time. For instance, government technology reform projects often emphasize information systems, whereas public administration reform projects frequently focus on personnel. This report's focus on common implementation problems underscores that institutional challenges often stem from interconnected weaknesses across multiple dimensions. Coordination failures across departments, for example, may result from ineffective information sharing as well as management practices that entrench silos. Similarly, low budget execution can stem from weak public financial management, insufficient staff training on budget processes, or high transaction costs resulting from poorly connected information systems.

Accordingly, the framework's organizational and governance dimensions are mutually reinforcing. Organizational dimensions collectively shape an institution's effectiveness at implementing its mandate, whereas governance dimensions determine whether its efforts serve the public interest. Notably, the governance dimensions can apply to institutions as a whole or to individual organizational components. An institution's personnel, for example, may be highly motivated and face strong career incentives to implement its mandate, but weak mechanisms for independence from the private sector may result in some employees exercising undue favoritism.

This report applies the framework to public institutions mandated to foster private sector development, focusing on procurement and regulatory institutions. It highlights the challenges and trade-offs these institutions must navigate to enable the private sector effectively while minimizing favoritism and corruption. More broadly, the report demonstrates how the framework can help diagnose the specific and interconnected constraints that frequently prevent public institutions from implementing their mandates effectively.

Organizational dimensions

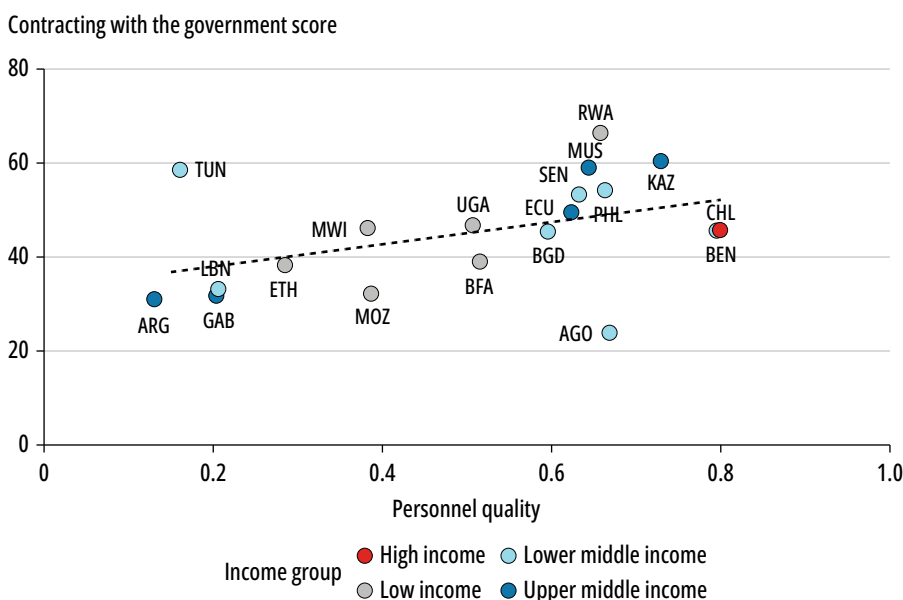
Personnel, financial resources, information systems, and management practices collectively help public institutions translate policy into implementation. These organizational dimensions are interconnected: An institution's management practices, for example, typically shape the recruitment, promotion, skills, and compensation of its personnel. Similarly, strong information systems may enable effective management of financial resources. As noted earlier, each organizational dimension also interacts with the framework's governance dimensions. The discussion examines each organizational dimension in the context of procurement and regulatory institutions.

Personnel are a key factor when assessing the capacity of procurement and regulatory institutions. Personnel encompass an institution's recruitment, promotion, and dismissal of staff as well as compensation and skills—including both staff competencies and work experience. These factors are critical for effective regulation and procurement (refer to figure ES.3). In telecommunications regulation, for instance, regulators need expertise in highly technical fields, including broadband technology and spectrum allocation (Stern 2000). Likewise, procurement agencies without capable personnel can pay higher prices, face cost overruns, and experience contract delays, incurring costs for both taxpayers and the private sector. In the Russian Federation, for example, about 20 percent of the variation in quality-adjusted prices paid by the government for goods and services is attributable to the skills of individual procurement officers (Best, Hjort, and Szakonyi 2023).

Financial resources are a critical factor for institutional effectiveness, particularly in procurement. Although limited resources are a common challenge for public institutions, weak budget management is also common. In procurement, poor financial management often involves cost overruns, contract renegotiations, payment delays, and capacity bottlenecks linked to fiscal cycles. Payment delays can be particularly harmful for the private sector, although they often result from broader weaknesses in public financial management—such as limited budget space or liquidity—requiring a more holistic response. In southern Europe, for example, public entities took an average of 5–6 months to pay for goods and services purchased between 2000 and 2010 (Conti et al. 2021). Such delays, which are typically more common with large construction contracts, can decrease firms' cash reserves and reduce corporate investment (Abad et al. 2023). Payment delays can also push firms, especially smaller and less-experienced ones, to exit the market

The quality of procurement personnel is positively correlated with procurement outcomes.

FIGURE ES.3 Relationship between country-level measures of the quality of procurement personnel and ease of contracting with the government



Sources: Original figure for this publication using calculations from MAPS and Nogués i Comas and Mendes dos Santos (2021).

Note: The x-axis is a country-level measure of the quality of procurement personnel derived from the MAPS assessments. See appendix A for more details and a list of the MAPS indicators used to calculate the measure. The y-axis is a country-level measure of the ease of contracting with the government from Nogués i Comas and Mendes dos Santos (2021). The indicator combines three dimensions: the steps required to complete the procurement process, the time associated with each step, and the sophistication of e-procurement platforms. The correlation remains significant at the 90 percent confidence level after controlling for GDP per capita. For a list of country codes, refer to <https://www.iso.org/obp/ui/#search>. GDP = gross domestic product; MAPS = Methodology for Assessing Procurement Systems.

(Conti et al. 2021). Such challenges can undermine procurement institutions' common policy goal of increasing the participation of small- and medium-size enterprises in public contracts.

Information systems help public institutions reduce transaction costs and make better-informed decisions, which are critical for both regulation and procurement. To effectively supervise dynamic and often rapidly evolving markets, regulatory institutions need timely data on market trends, technological developments, and compliance with existing regulations. Automated data gathering on air pollution, for instance, can enhance the quality and accuracy of information for environmental regulators (Greenstone et al. 2022). For procurement institutions, information systems such as e-procurement, which enables tender documents to be published online, can help reduce transaction costs at each step

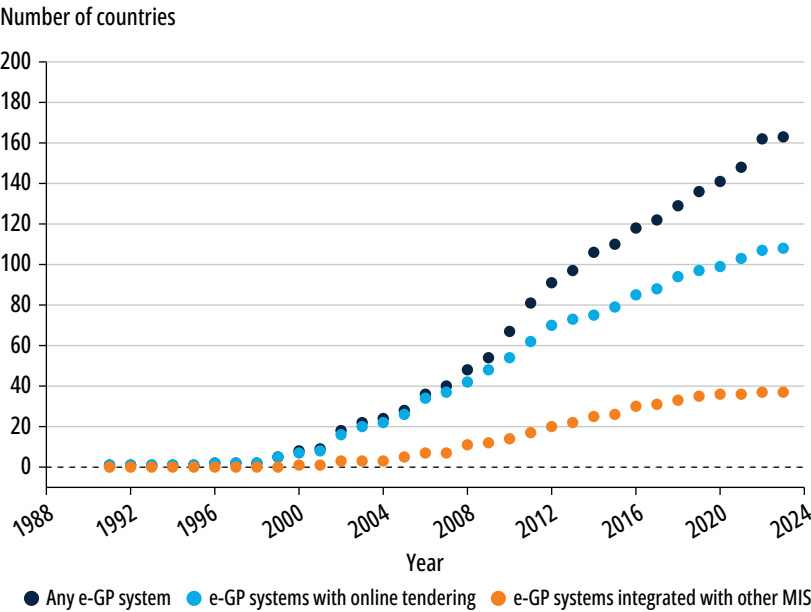
of the procurement process. In India and Indonesia, for example, the implementation of e-procurement platforms enabled firms outside the public buyers’ home regions to win contracts (Lewis-Faupel et al. 2016).

However, the capability of information systems can vary widely. Although about 160 countries in the world had some type of e-procurement system by 2024, only about 40 were connected to information management systems beyond procurement (refer to figure ES.4). Moreover, information systems will not deliver their full potential if bureaucrats lack the ability or incentives to use them effectively.

Management practices play a central role in how regulatory and procurement institutions function, particularly for strategy setting and coordination. In procurement, management practices that contribute to excessive workloads

Many countries have electronic government procurement systems, but system capabilities vary widely.

FIGURE ES.4 Number of countries with electronic government procurement systems, along with their features over time, 1990–2023



Source: Original figure for this publication using data calculations from the GovTech Maturity Index, <https://www.worldbank.org/en/programs/govtech/gtmi>.

Note: Any e-GP system refers to the countries that have any type of e-GP procurement system. Countries with e-GP systems that include online tendering are a subset of this first group. Countries with e-GP systems connected to other MISs are also a subset of the first group. e-GP = e-government procurement; MIS = management information system.

can harm procurement outcomes and inhibit innovation. When the workload of U.S. government procurement officers declines, for example, the probability that a procurement contract generates a patent increases (Giuffrida and Raiteri 2023). Procurement outcomes are also strongly correlated with the degree of employee cooperation (Best et al. 2023), likely reflecting the complexity of procurement processes, which involve multiple steps and actors with different skills. In regulatory institutions, setting and committing to a medium- to long-term strategy is equally as critical. Such forward-looking vision helps reduce regulatory uncertainty for firms and consumers.

Governance dimensions

Accountability, independence, and transparency influence whether public institutions implement their mandates in ways that align with the public interest. These governance dimensions reflect the importance of considering the broader political economy within which public institutions function. As with the framework's organizational dimensions, the governance dimensions are interconnected and interact across each organizational component. The discussion examines accountability, independence, and transparency in the context of procurement and regulatory institutions.

Accountability, or the influence of external stakeholders (including the private sector) on public institutions, has important impacts on procurement and regulation. Establishing structured and diverse accountability mechanisms is critical for procurement and regulatory institutions, given the wide range of stakeholders they face. In regulatory institutions, accountability can be understood along two dimensions: horizontal relationships with political institutions and other regulatory institutions and vertical relationships with regulated entities. Mechanisms such as annual reviews and oversight committees can strengthen horizontal accountability (OECD 2014), and dispute resolution and grievance mechanisms can support vertical accountability by enabling firms to voice their concerns. Evidence suggests that such mechanisms increase foreign direct investment and improve regulatory compliance (Hebous, Kher, and Tran 2020; Malesky and Taussig 2019). In procurement, accountability relationships also operate along two dimensions: ex ante oversight before contracts are awarded and ex post investigation after the award. Complaints processes are a common form of ex post accountability, allowing firms to challenge the validity or legality of procurement decisions. Published audits, another form of ex post accountability, can create incentives that decrease the risk of corruption (Avis, Ferraz, and Finan 2018).

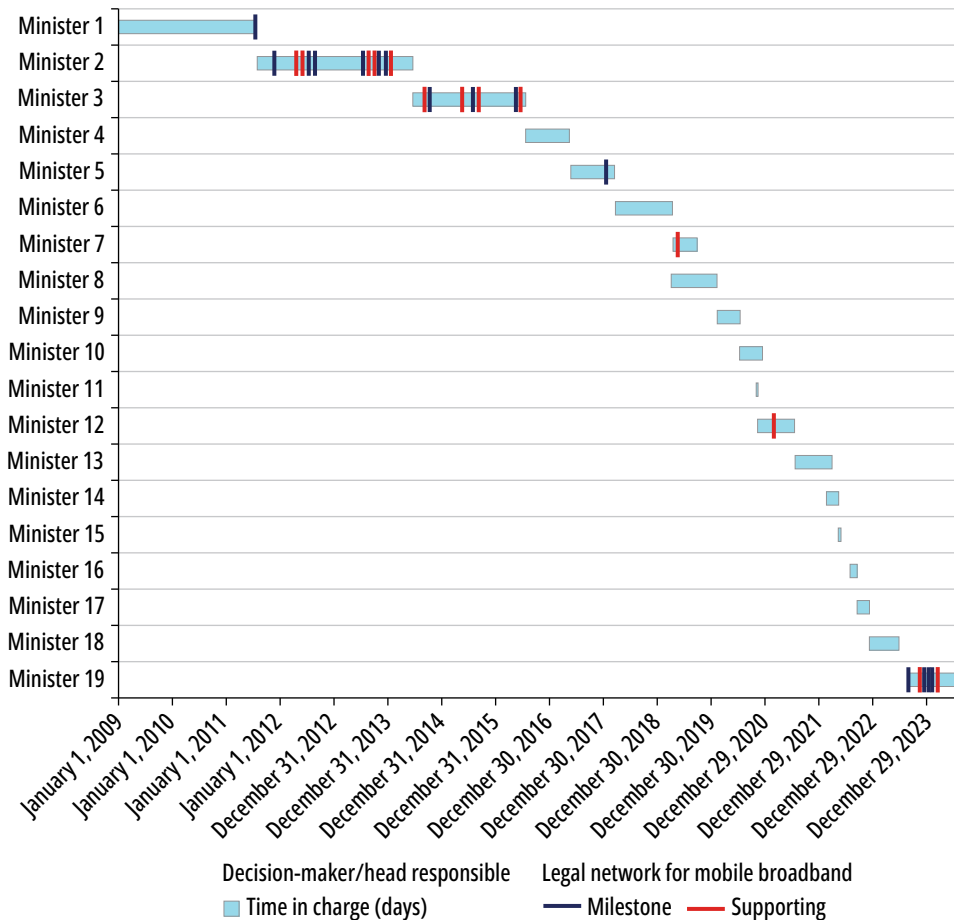
Independence protects procurement and regulatory institutions from undue influence not aligned with the wider public interest. In regulatory agencies, rules and processes can prevent regulatory capture by insulating regulators from undue influence from the private sector, politicians, and other interest groups (Carpenter and Moss 2013). For example, rules against revolving-door appointments—where regulators move to the industries they oversee and vice versa—can reduce the risk of capture (Dal Bó 2006). Stability in leadership is also critical for regulatory independence: Frequent changes in management can create leadership vacuums and shifting priorities, delaying decision-making and disrupting implementation. In this report’s case study on Peru’s telecommunications regulatory ecosystem, for example, frequent turnover of the relevant minister delayed key regulatory milestones (refer to figure ES.5). With the telecommunications sector undergoing rapid technological change, such delays can have significant consequences for the quality, accessibility, and price of services. Procurement institutions likewise require independence from firms bidding on public contracts and from politicians seeking to use contracts for patronage. Given the significant financial stakes, suppliers may have strong incentives to offer procurement officials bribes or kickbacks in exchange for favorable treatment (Campos et al. 2021). Without sufficient independence, such pressures can lead to contract awards based on factors other than quality, price, or policy objectives.

Transparency supports both accountability and independence in regulatory and procurement institutions. When external stakeholders have access to detailed information on institutional behavior, they can more effectively hold public institutions to account. In regulatory institutions, greater transparency can reduce the risk of capture by enabling public scrutiny of decision-making processes and interactions between the public and private sectors. For example, in the Peru case, adopting a more transparent and accountable approach to telecommunications regulation and market oversight reduced regulatory uncertainty. In procurement, the value of transparency depends on when and how data are published. Ex ante transparency in tender criteria enables horizontal monitoring by bidders (Bauhr et al. 2019), whereas ex post transparency on contract awards is most useful for citizens, civil society (such as nonprofit organizations and journalists), and nonselected bidders seeking to challenge procurement decisions (Duguay, Rauter, and Samuels 2023).

Institutions and Prosperity is designed to help policy makers and practitioners understand, analyze, and address challenges in the public institutions they engage with. Drawing on examples and case studies, this first report shows how the framework developed for the report can be applied to diagnose and

Frequent leadership changes delay key regulatory milestones in Peru.

FIGURE ES.5 Decision-maker tenure and regulatory milestones in Peru's telecommunications sector



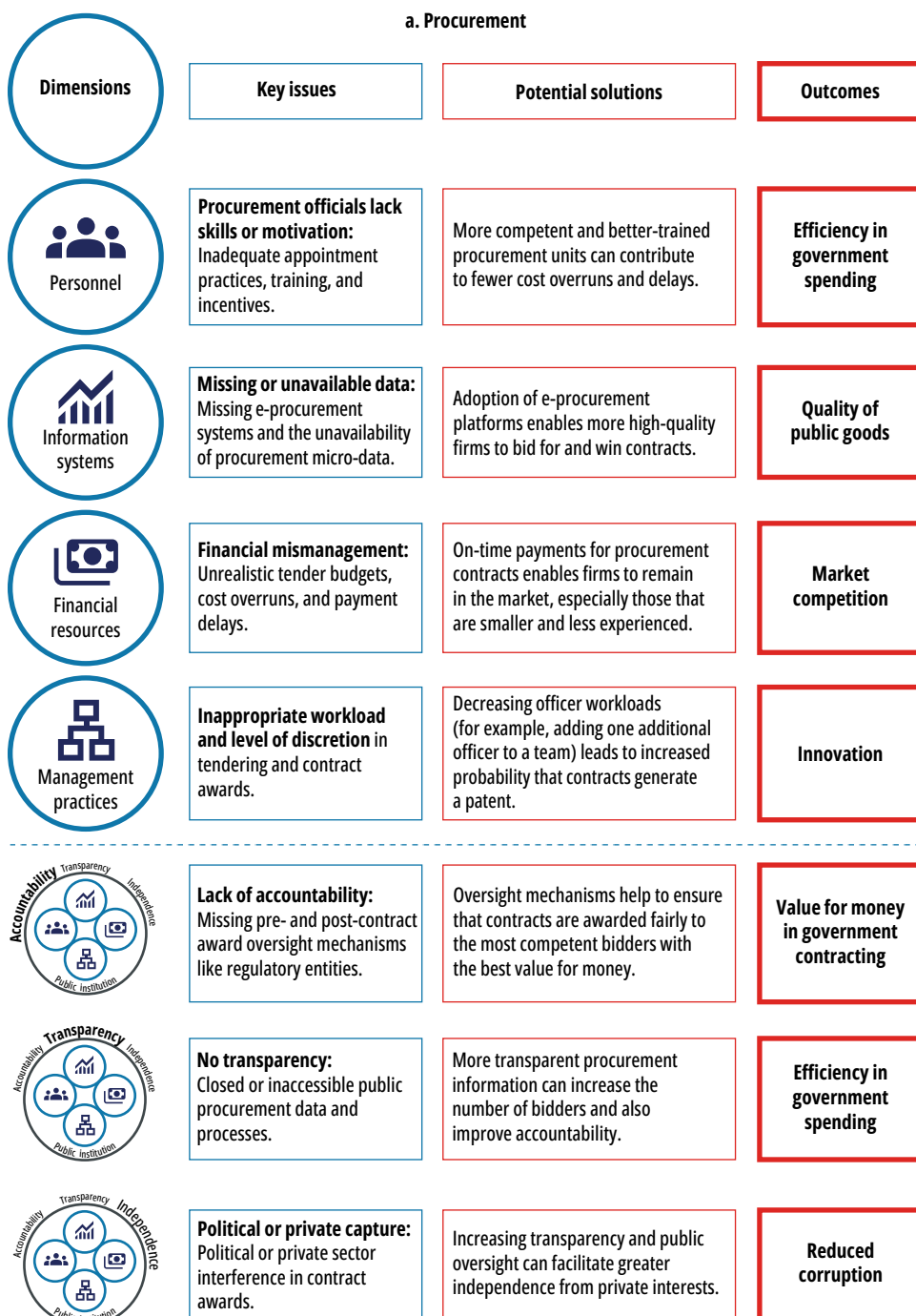
Sources: Original figure for this publication. Data for duration of ministers is from individual norms that legally appoint the Minister of Communications and Transportation; these norms were downloaded from the Ministry of Justice (<https://spijweb.minjus.gob.pe/>). Dates for milestones and supplementary norms were extracted from the Ministry of Transportation and Communications (<https://www.gob.pe/institucion/mtc/normas-legales/>), OSIPTEL (<https://www.osiptel.gob.pe/>), ProInversión (<https://www.investinperu.pe/>), and the Plataforma Digital Única del Estado Peruano (<https://www.gob.pe/>).

Note: Each dark blue line represents a key legislative or regulatory act (milestone) that has significantly affected the mobile internet service sector in Peru. Each orange line represents other legislative or regulatory acts (supporting) that complemented milestones. The light blue bars represent the number of days each decision-maker was in charge. For example, key regulatory milestones, such as the 4G spectrum auction and Mobile Virtual Network Operator regulations, were also delayed because of leadership changes. Transitions in leadership often shift priorities, resulting in inconsistent implementation and lack of follow-through on existing plans.

address capacity issues that hinder effective implementation in procurement and regulatory institutions. Figure ES.6 illustrates the framework's practical value, showing how it can pinpoint underlying organizational and governance challenges, inform targeted solutions, and help public institutions better fulfill their mandates in line with the public interest.

Addressing organizational and governance dimensions can affect outcomes in procurement and regulation.

FIGURE ES.6 Organizational and governance dimensions in procurement and regulation



Continued

FIGURE ES.6 Organizational and governance dimensions in procurement and regulation
(continued)

b. Regulation			
Dimensions	Key issues	Potential solutions	Outcomes
 Personnel	Regulatory officials lack skills or incentives: Inadequate appointment practices and lack of sectoral expertise and capture (for example, revolving doors).	Regulatory staff with the required level of expertise are better able to identify and diagnose quality issues.	Quality of goods and services
 Information systems	Unavailability of data: Missing market sector data and monitoring and evaluation of regulatory targets or citizen portals to facilitate compliance.	Up-to-date tracking systems provide the data needed for regulators to enforce quality standards.	
 Financial resources	Weak financing structure: Poor collection of regulatory fees, widespread budget earmarks, and weak financial incentives for compliance by regulated firms.	Appropriate funding can enable the implementation of thorough analyses and audits, promoting market regulation.	
 Management practices	Long-term perspective missing: Weak strategy setting for regulatory plans, leadership turnover, or infrequent regulatory impact assessments.	Good management practices are needed to update regulations regularly to reflect market changes.	Market competition
	Lack of accountability: Absence of reviews of existing regulatory frameworks, consultation with regulated entities, and dispute resolution.	Giving firms the opportunity to participate in and provide comments on regulations increases the likelihood of firms' complying with existing safety standards.	Quality of goods and services
	No transparency: Real-time market data for public scrutiny, disclosure of regulations and rationale, and publication of progress reports may be missing.	Increase transparency in real-time data for public scrutiny, to allow identification of excluded users.	Access to goods and services
	Capture by private interests: Regulatory institutions may favor politicians or businesses and create regulatory uncertainty because of politically induced modification.	Minimize revolving-door appointments to prevent pressure by firms on regulatory institutions to either increase barriers to entry or refrain from enacting competition-enhancing regulations.	Reduced Corruption

Source: Original figure for this publication.

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Abbreviations

ARCOP	Autorité de Régulation de la Commande Publique
CGJRs	Country Growth and Jobs Reports
CPSDs	Country Private Sector Diagnostics
e-gp	e-government procurement
FMIS	financial management information system
GSPS	Global Survey of Public Servants
GTMI	GovTech Maturity Index
HRMIS	human resources management information system
IFC	International Finance Corporation
LAC	Latin America and the Caribbean
MAPS	Methodology for Assessing Procurement Systems
MTC	Ministry of Transport and Communications
OECD	Organisation for Economic Co-operation and Development
ORD	Organisme Regional de Développement
OSIPTEL	Organismo Supervisor de Inversión Privada en Telecomunicaciones
PEFA	Public Expenditure and Financial Accountability
PFMs	public financial management
PIMS	public investment management information system
SMEs	small- and medium-size enterprises
TSA	treasury single account

Chapter 1. A Framework for Understanding Public Institutions

Introduction

Even when governments formulate effective policies on paper, their efforts often falter during implementation. Implementation failures are a central challenge in development and are often cited as one of the primary reasons why governments fail to enable economic development (Andrews, Pritchett, and Woolcock 2017; World Bank 1997, 2017).

Existing work on policy effectiveness frequently focuses on policy design rather than implementation. Governance assessments, for example, often examine public financial management (PFM), public procurement, or tax administration systems by focusing on de jure aspects of governance, such as laws, policies, and structures. However, policies may be ineffective not because their de jure form is suboptimal but because their de facto implementation is poorly executed.

This report focuses on failures that occur during implementation, which can take several forms. Implementation failures can result from coordination failures across departments, a lack of sufficiently specialized staff, or insufficient information for highly technical or context-specific aspects of policy implementation. Even when employees have sufficient skills, resources, and coordination, they may shirk their duties or misuse resources, performing in a manner that privileges their own private interests over the public interest. These implementation problems can lead to poor development outcomes: Teacher absenteeism can lead to poor educational outcomes, ineffective private sector regulation can lead to environmental externalities or poor service provision, and rent seeking and corruption can misdirect public funds from public services delivery to private interests.

To better understand implementation failures in public procurement and regulation, this publication presents a novel conceptual framework to map their institutional-level roots. Prior assessments frequently used imprecise concepts such as weak capacity or insufficient political will, which, although often accurate, do not pinpoint specific constraints or actors for targeted

interventions or reforms. The report's framework can help policy makers and practitioners describe, with greater precision, the weaknesses that often lead to failures in policy implementation.

Although most governance assessments are country- or government-wide, the framework takes individual public institutions as its unit of analysis. Policy-oriented analyses of government performance and institutional capacity at the country or government level can be imprecise, because they obscure substantial variation within governments. To be actionable, assessments should focus on the individual institutions, ministries, departments, agencies, and other government entities responsible for implementing a given mandate, policy, or project.

For additional precision, the framework differentiates between the organizational and governance dimensions of institutional capacity. Organizational dimensions relate to the internal structures and processes that shape a public institution's ability to deliver on its mandate, and governance dimensions influence whether that delivery aligns with the public interest, especially given the broader political economy in which institutions function.

The framework's more granular approach to assessing institutional capacity draws on insights from several *World Development Reports*. The 1997 *World Development Report*, highlighting the importance of effective states and institutions for development, emphasizes that institutional capacity limits the set of policies that states can implement effectively (World Bank 1997). The 2004 *World Development Report* emphasizes the principal-agent problem of service delivery and how accountability and transparency can help make public services work for poor individuals. The 2017 *World Development Report* established a high-level framework for understanding how power asymmetries in the policy arena shape how public institutions function (World Bank 2017a).

The *Institutions and Prosperity* report builds on the accumulated knowledge of these and other reports to provide a finer-grained and more specific analytical framework to assess the capacity of public institutions. This edition's focus on private sector development likewise builds on previous work developed in the 2002 *World Development Report* (World Bank 2002), which highlighted how public institutions can be designed for market-led economic growth.

To demonstrate how the framework can diagnose and measure policy implementation problems, the report uses newly available microdata

on the public sector. These data shed light on how specific dimensions at specific public institutions function—including personnel, using payroll and micro-level employment data, and financial resources, using procurement bids and tax records (Rogger and Schuster 2023). In addition to administrative data, the report also leverages surveys of public officials, some of which were analyzed using web-scraping and machine-learning techniques. The World Bank’s Bureaucracy Lab has pioneered such surveys across multiple countries through its Global Survey of Public Servants (GSPS).¹ The report uses these data initiatives to move beyond aggregate, country-level measures and better understand the diversity of public institutions within and across governments.

Defining public institutions, institutional capacity, and policy mandates

Building on existing literature, this report defines *public institutions* as public sector organizations mandated with policy implementation, as well as the rules and processes that govern these organizations. This is narrower than Douglass North’s (1990) canonical definition of *institutions* as the “rules of the game in a society, or more formally, the humanly devised constraints that shape human interaction” (p. 3). However, the report’s definition aligns with and builds on existing World Bank literature. The aforementioned 2017 *World Development Report*, for example, defines institutions as “a set of formal state institutions (a term used in the literature to denote organizations and rules) that enforce and implement policies” (World Bank 2017a, 3; refer to Bertelli et al. 2020; Grindle 2007; Levitsky and Murillo 2009; Pepinsky, Pierskalla, and Sacks 2017; Tendler 1998; Williams 2021; and World Bank 2017a).

The report defines *institutional capacity* as the ability of public institutions to successfully complete projects and implement the policies defined in their mandates. Colloquially, it is the ability to get things done (Foarta and Ting 2023). Increasing institutional capacity can thus be understood as decreasing the gap between de jure policy mandates and the de facto reality of policy implementation. Notably, this definition focuses on the level of individual public institutions. Although many definitions focus on the level of entire governments (that is, state capacity),² this perspective obscures variation in capacity across institutions with similar mandates within the same government.³

Policy mandates provide the starting point for the report’s approach to analyzing institutional capacity. Such analysis begins by identifying the aspect of policy implementation to be improved and the institution responsible for that policy area. For example, efforts to reduce cost overruns in budget execution would focus on the ministry of finance, specifically the department responsible for budgeting. In some cases, mandates require coordination across multiple institutions. Addressing climate change, for instance, involves an ecosystem of institutions implementing complementary policies, from green public procurement to water management. In such cases, institutions should be analyzed jointly to assess their collective capacity to implement shared mandates (World Bank 2021b). Building on this starting point, the framework then examines whether the relevant institutions have sufficient capacity across key organizational and governance dimensions to effectively implement their mandates.

Conceptual framework: The role of public institutions

Effective public policy requires both good policies and successful policy implementation. One of the main messages of the 2017 *World Development Report* (World Bank 2017a) is that the process through which policies are made—referred to as the *policy arena*—fundamentally shapes policy effectiveness. This is true, but the process through which policies are implemented also fundamentally shapes their effectiveness. Although acknowledging the importance of the policy arena and the design of policy mandates, this report focuses on whether such mandates can and will be implemented in a manner that serves the public interest.

Figure 1.1 presents a conceptual framework developed for the *Institutions and Prosperity* report, highlighting the organizational and governance dimensions of policy implementation. The framework starts with a public institution’s policy mandate. It then identifies four organizational dimensions relevant for all policy implementation: personnel, financial resources, information systems, and management practices. These are the core factors internal to public sector organizations. The framework also identifies three governance dimensions: accountability, transparency, and independence. These factors are externally facing, in that they capture how public institutions relate to other institutions, politicians, firms, or civil society more broadly.

An institution's organizational dimensions, along with the governance dimensions, ensure an institution functions efficiently and in the public interest. These cross-cutting dimensions allow institutions to translate their mandates into policy implementation and, in turn, development outcomes.

FIGURE 1.1 From policies to outcomes: Public institutions framework



Source: Original figure for this publication.

The framework's organizational and governance dimensions are mutually reinforcing. The governance dimensions, in particular, are cross-cutting in that they manifest across the four organizational dimensions. In other words, one should consider not just independence in the abstract but also the independence of personnel or the independence of financial resources. For instance, an institution's personnel may be highly motivated and face strong career incentives to implement its mandate, but weak mechanisms for independence from the private sector may result in some employees exercising undue favoritism. Taken together, a public institution's organizational and governance dimensions shape its ability to function effectively in the public interest, fulfill its policy mandates, and contribute to development outcomes.

The purpose of the framework is not to advocate for a set of best practices. This is particularly true given the pitfalls of what the literature refers to as *isomorphic mimicry*—the tendency of states to superficially mimic the processes, rules, and systems of governments they see as successful, with insufficient attention to whether they are suitable or effective in the relevant context.⁴ Instead, the framework seeks to provide a common language for policy makers and practitioners that is more precise and granular than vague diagnoses of “weak capacity” and “insufficient political will.” For any public institution, the combination of organizational and governance dimensions that shape implementation capacity depends on its specific political economy and historical context. Management practices may be particularly important in some environments, for example, whereas financial resources may be critical in others. Furthermore, a reform to improve financial resources in one context may differ from a reform to improve it in another.

In many cases, the framework can help diagnose aspects of political economy that contribute to weak institutional capacity or poor policy implementation. As noted, the 2017 *World Development Report* emphasized how political economy and power dynamics in the policy arena affect what policies are created (World Bank 2017a). Yet political bargaining in the policy arena often influences policy implementation as well. After all, the framework's organizational and governance dimensions highlight institutional features that result from historical processes, political bargaining, and an iterative process of institution building (Iyer and Mani 2012; Vogler 2020). For example, a lack of independence in personnel practices (that is, lack of meritocratic hiring) might suggest that politicians seek to influence staffing decisions through bribes, patronage, and

personal connections, leading to suboptimal outcomes (Dahlström and Lapuente 2022). Likewise, efforts to improve an institution's organizational and governance dimensions are often constrained by broader political economy dynamics.

In this context, the framework's mutually reinforcing organizational and governance dimensions can help identify opportunities for reform. In the earlier example, although it may not be feasible to strengthen independence by directly mitigating political influence over staffing, it may be possible to strengthen accountability by establishing new management practices, such as institutional target setting and evaluations of whether targets have been met. (Refer to the examples of target setting from Ghana and Guatemala in the "Management practices" section and in figure 1.5.)

Organizational dimensions

Organizational dimensions are internal to public institutions and represent the core nuts and bolts they need to function. This aspect of the framework is based on evidence that public institutions' organizational structures affect their capacity to implement policies (Bertelli et al. 2020; Pepinsky et al. 2017). Four organizational dimensions are emphasized: personnel, financial resources, information systems, and management practices. Although these dimensions are discussed separately here, they are connected. Management practices, for example, are likely to shape the career and skills of an institution's personnel, whereas financial resources typically shape their compensation. Likewise, strong information systems may support effective management practices and enable responsible oversight of financial resources.

The framework, therefore, emphasizes the importance of considering multiple organizational dimensions in a holistic manner rather than a more piecemeal approach. PFM reforms, for example, should consider not only aspects related to financial resources but also the personnel who construct the budget and the practices through which they are managed. In most cases, implementation failures occur because of problems related to multiple dimensions rather than a problem with one single factor. Practically speaking, this means interventions and reforms aimed at increasing institutional capacity should simultaneously target multiple dimensions rather than one at a time.

Personnel

Personnel are crucial for public institutions to deliver on their mandates and support effective implementation. Civil servants are effective when they can work together and respond to challenges that arise, rather than simply complying with a set of bureaucratic rules. As such, the framework highlights three connected elements that are particularly important for incentivizing personnel: career concerns, skills, and compensation.

Career concerns involve issues such as recruitment, promotion, dismissal, and the balance between specialists and generalists. For instance, the method through which civil servants are recruited is widely considered to select bureaucrats of different abilities (Finan, Olken, and Pande 2017; Pepinsky et al. 2017; World Bank 2019). In particular, meritocratic exams are associated with better development outcomes than other recruitment methods (Evans and Rauch 1999, 2000), although it is important to align exam content with the knowledge and skills required for the job (Muralidharan 2024). Once staff are recruited, opportunities for career advancement and promotion can offer strong incentives to improve performance (Bertrand et al. 2020; Deserranno et al. 2025).

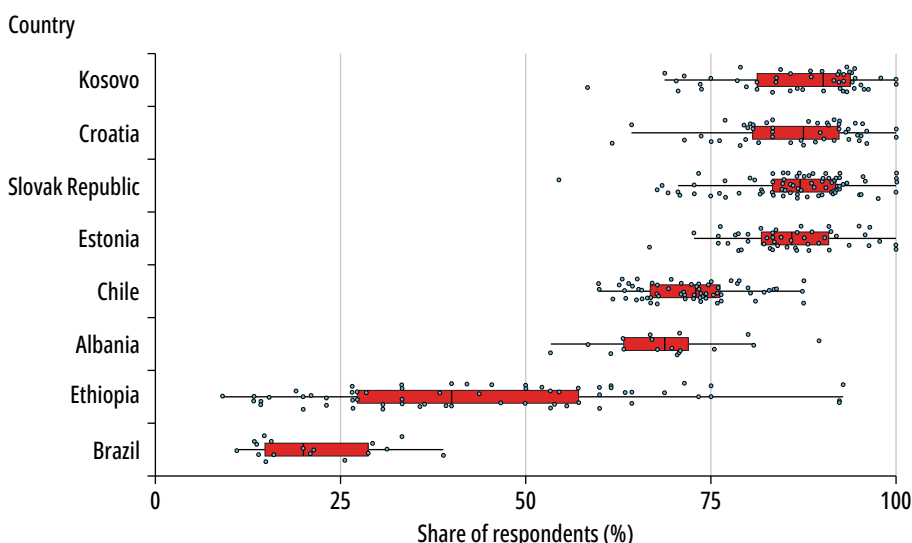
Skills such as the educational and professional backgrounds of an institution's staff, as well as training and other professional development activities, are also important. At the time of recruitment, educational attainment and relevant prior work experience are relevant (Best, Hjort, and Szakonyi 2023; Decarolis et al. 2020). Once officials are on the job, Azulai et al. (2020) suggest that capacity training programs can help improve performance.

Compensation, including both monetary and in-kind benefits, also shapes incentives (Dal Bó, Finan, and Rossi 2013; World Bank 2021a). Promotions are usually associated with both career advancement and salary increases, offering further incentives to improve performance (Bertrand et al. 2020; Coviello et al. 2024; World Bank 2026).

Using data from the GSPS, figure 1.2 illustrates variation in recruitment patterns across countries and public institutions. In multiple countries—notably Croatia, Estonia, Kosovo, and the Slovak Republic—institutions predominantly hire public servants through an interview process. In Brazil, institutions tend to rely on written exams. Ethiopian institutions, by contrast, are notable for their wide variation in recruitment practices.

The share of public servants recruited through interviews varies within and across countries.

FIGURE 1.2 Distribution of the share of public servants recruited through interviews, by public institution



Source: Original figure for this publication using calculations from data from the Global Survey of Public Servants, <https://www.globalsurveyofpublicservants.org/>.

Note: Each light blue circle represents an institution-level share. With minor variation across countries, the survey question is “For your first job in the civil service, do you remember whether you had to pass an interview as an assessment?” Note that the recruitment process for earlier and more recent cohorts may differ.

Financial resources

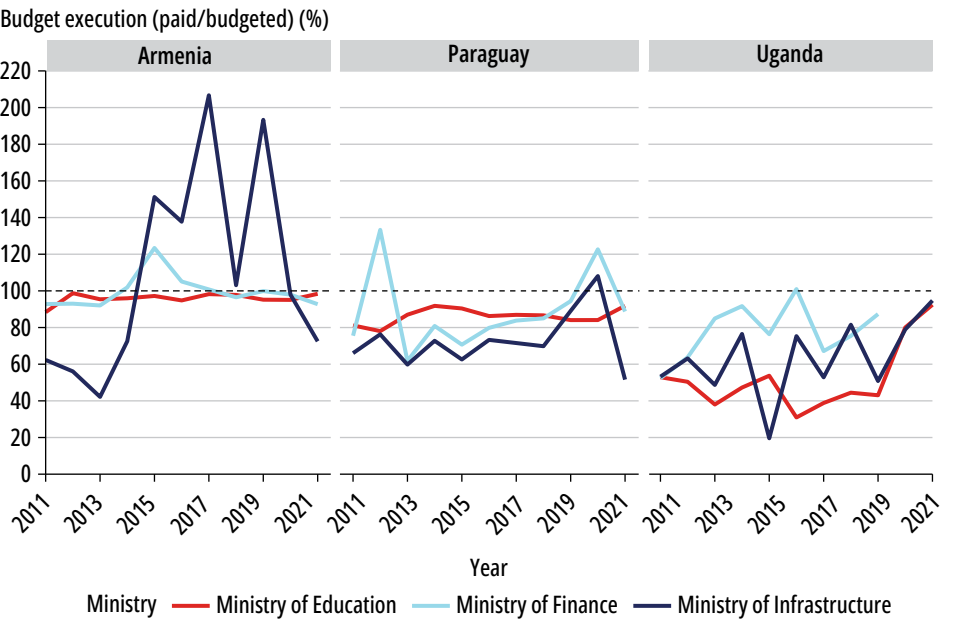
In the framework, *financial resources* refers to public institutions’ overall funding levels as well as the PFM processes through which they spend funds. Although many international PFM assessments exist—including the Public Expenditure and Financial Accountability Framework and the Open Budget Index—they often emphasize whether the form of PFM processes reflects international best practice (Andrews et al. 2014). In reality, many governments do not execute their budgets as planned (Addison 2013). This is often partly because of corruption and rent extraction, but budget execution is also frequently hampered by passive waste resulting from excessive procedures, ineffective training, lack of incentives to minimize costs, or coordination problems (Bandiera, Prat, and Valletti 2009; Rasul and Rogger 2018; Williams 2017). This report’s framework primarily focuses

on public institutions’ de facto PFM practices, such as the extent to which institutions draft credible budgets, make prudent fiscal decisions, and access reliable resource flows.

Budget execution varies considerably across public institutions within a single country. Figure 1.3 uses the World Bank’s BOOST public expenditure database to illustrate institution-level variation in budget execution for the ministries of education, finance, and infrastructure in Armenia, Paraguay, and Uganda.⁵ Although overall budget execution is consistently lower in Uganda than in Armenia and Paraguay, there are considerable differences across institutions within each country. Budget execution by Armenia’s infrastructure ministry, for example, is highly variable, whereas its finance and education ministries’ expenditures are much more closely aligned with

Budget execution varies within and across governments, which can be an impediment for public institutions to deliver.

FIGURE 1.3 Budget execution in Armenia, Paraguay, and Uganda, by public institution, 2011–21



Source: Original figure for this publication using calculations from World Bank BOOST data (https://data360.worldbank.org/en/dataset/WB_BOOST).

Note: Armenia, Paraguay, and Uganda were chosen because of data availability, as well as preference for countries from different income levels and regions.

their budgets. These large differences are not visible in Paraguay and Uganda. Interestingly, in both Armenia and Paraguay, the education ministries' budget execution is consistent over time. Within-country variation in budget execution may reflect differences in institutional capacity across line ministries (that is, education and infrastructure) and the mix of recurrent or capital expenditures they are responsible for executing. Alternatively, it may reflect cross-country differences in each ministry of finance's institutional capacity, given finance ministries' responsibility for allocating funding to line ministries.

Information systems

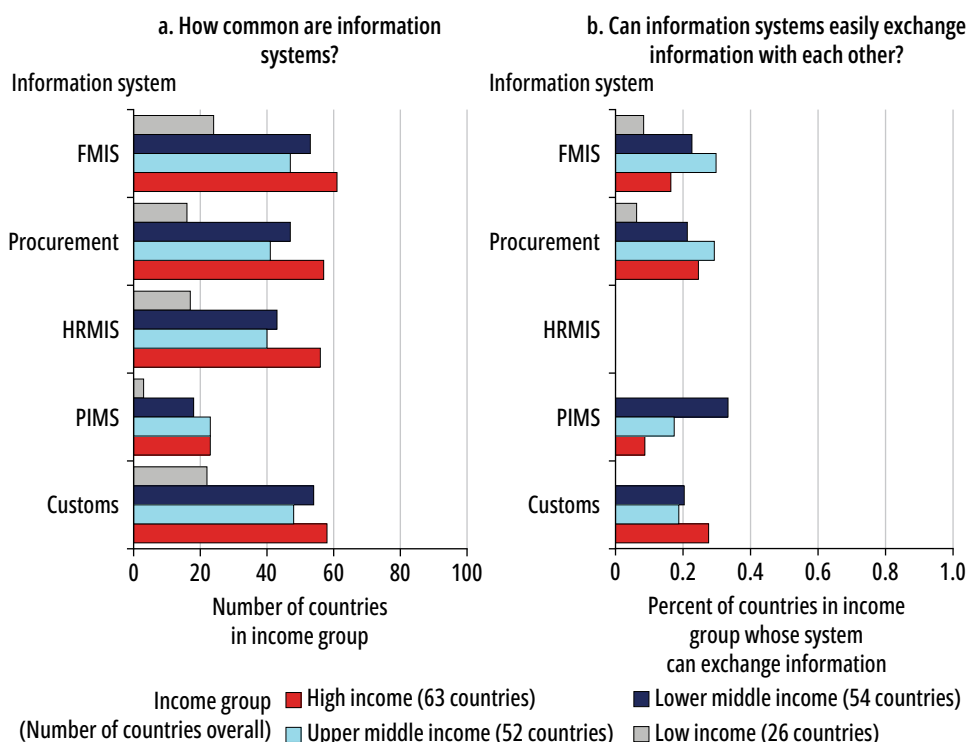
Information systems refers to how public institutions use government technologies in their core processes and routine operations (for example, budgeting, human resources management, procurement). These systems are increasingly digital, because digitalizing core government functions reduces costs, minimizes delays, prevents corruption, and facilitates access to information.

The mere presence of information systems is insufficient for effective implementation, so the framework refers to whether information systems are actively used by public officials. Public officials may not use information systems for a variety of reasons, but two primary factors stand out. First, officials may prefer to stick with analog processes if they do not have the knowledge, skills, or resources to fully use digital technologies. For instance, officials may not have a reliable internet connection or sufficient understanding of the relevant software. Second, officials may be hesitant to render their actions in a traceable and transparent format. Digitized processes and systems are more easily captured and analyzed than paper-based processes, which are often obscure and harder to trace. Officials' failure to use information systems or provide correct information can highlight important political drivers of weak institutional capacity, such as officials' personal or political interests or their ability to coordinate with other institutions (Eutsler et al. 2023; Liu 2023; Sandefur and Glassman 2015; Trinh 2019). As noted later, these incentives are closely related to the transparency of information systems.

Figure 1.4 analyzes the uptake and interoperability of information systems across countries using the World Bank's GovTech Maturity Index, which is a survey of governments' use of digital technology and various management information systems. As shown in panel a, although many countries have financial management information systems or customs systems, relatively

Although many countries have information systems, information exchange is limited—undermining these systems’ potential to help public institutions deliver.

FIGURE 1.4 Percentage of countries with information systems, by type of information system, and percentage of countries with interoperable information systems, by income group, 2022



Source: Original figure for this publication using calculations from the GovTech Maturity Index 2022, <https://www.worldbank.org/en/data/interactive/2022/10/21/govtech-maturity-index-gtmi-data-dashboard>.

Note: Panel a shows the availability of different systems within governments. Panel b underscores that system interoperability in existing systems varies. FMIS = financial management information system; HRMIS = human resources management information system; PIMS = public investment management information system.

few—including upper-middle-income countries—have public investment management systems. As shown in panel b, for example, only about half of low- and lower-middle-income countries with e-procurement systems can easily exchange information with other government technologies. Similarly, although almost all countries have a human resources management information system (HRMIS), the absence of HRMIS bars in panel b indicates that these systems cannot exchange information with other

government systems. This lack of information exchange may originate in rules about the confidentiality of personnel data, yet it also represents a trade-off: Not being able to connect data across different parts of the government prevents information flow, creates silos, and undermines government coordination and effectiveness.

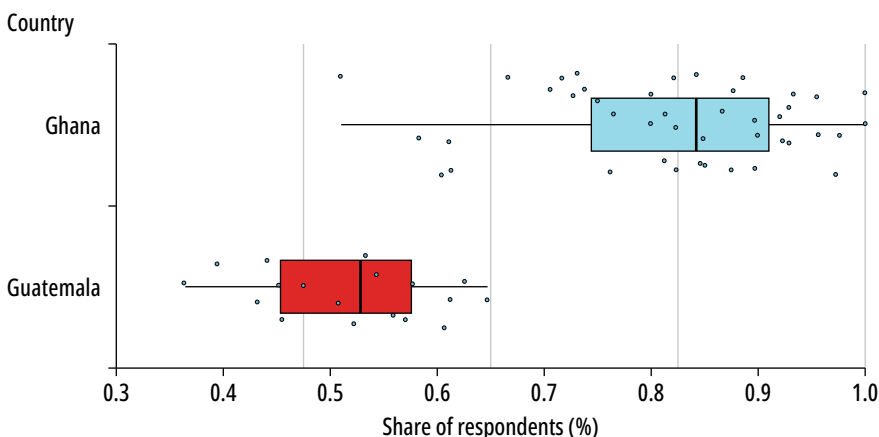
Management practices

To function effectively, public institutions need strong management practices to coordinate and steer their operations and strategic direction. *Management practices* are distinct from personnel in that they concern not individuals themselves but how groups or teams of individuals interact within institutions. Three elements are particularly important: strategy and decision-making, or how an institution sets its strategies and distributes decision-making authority to implement them; monitoring and evaluation, or how an institution oversees, evaluates, and incentivizes staff; and organizational culture, or mutually agreed-upon behaviors and beliefs that are not codified or written down. Although the first two elements refer to practices often formalized through written rules and processes, organizational culture captures more informal aspects, including esprit de corps, norms, and trust between public officials.

The formal aspects of management practices have been shown to affect institutional capacity in both the public and the private sectors. Cross- and single-country studies emphasize how effective management can enhance productivity (Bloom et al. 2015; Rasul and Rogger 2018; Scur et al. 2021). Effective management practices offer a balance between giving public officials sufficient autonomy to perform and innovate while providing enough monitoring to ensure objectives are met. In the public sector, however, management practices are often overly focused on monitoring while providing limited autonomy or discretion (Rasul, Rogger, and Williams 2021) or overburdening officials with compliance tasks (Dasgupta and Kapur 2020). Honig (2024) argues that mission-driven management practices—motivating officials to fulfill their organization’s overall mission—can be more effective than simply monitoring compliance. Using GPS data, figure 1.5 illustrates a high degree of within-country variation with respect to whether public institutions in Ghana and Guatemala set mission-driven targets. Setting targets is a first step; ensuring implementation requires more than just the intention to implement.

Institutions in Ghana and Guatemala vary in the extent to which they set targets.

FIGURE 1.5 Distribution of the share of public servants stating that their organization sets clear targets across public institutions in Ghana and Guatemala



Source: Original figure for this publication using calculations from the Global Survey of Public Servants, <https://www.globalsurveyofpublicservants.org/>.

Note: Each light blue circle represents an institutional-level share. The vertical lines within the bars represent the median of the distribution. The survey question is "Does your organization have a clear set of targets derived from the organization's goals and objectives?"

The informal aspects of management practices, or organizational culture, are also crucial for implementation.⁶ Although the report's framework takes culture at the societal level as given, organizational culture may differ across institutions in the same country and evolve over time. For instance, public sector managers can inspire greater motivation in their personnel through nonfinancial appeals, such as appeals to the public interest (Honig 2021). This type of prosocial motivation has been shown to improve job performance in a wide range of settings (Callen et al. 2015).

Governance dimensions

In addition to strong organizational capacity, effective public institutions also need strong governance. Even with sufficient and capable personnel, effectively managed budgets, sophisticated information systems, and sound management practices, public institutions can still fail to fulfill their mandates in a way that aligns with the public interest. Often, this occurs when institutions work inefficiently, drift from their policy mandates, misallocate public resources, or implement policy in the private interest of some set

of internal or external stakeholders. To address these possibilities, the framework emphasizes the importance of three cross-cutting governance dimensions: accountability, independence, and transparency.

The governance dimensions describe institutions' relationships with external actors, such as politicians, the private sector, and civil society. The framework's organizational dimensions, by contrast, are internal to each institution. The governance dimensions are motivated by an understanding of policy implementation as a principal-agent problem in which public institutions implement policy on behalf of external stakeholders, such as citizens and political representatives (World Bank 2003). Accountability, independence, and transparency help align institutional incentives with these stakeholders' interests.

Accountability

Accountability is the appropriate influence of external stakeholders over a public institution's decision-making.² Often, the stakeholder is another public institution within the same government, such as public sector auditors who investigate allegations of abuse of public spending. In other cases, the stakeholders can be private firms, civil society organizations, or the general public. This includes the extent to which firms can meaningfully challenge regulatory decisions that they believe to be biased or unfair. Across these stakeholders, their influence can take multiple forms, including the ability to review the institution's decisions, enact consequences (negative or positive) for policy outcomes, and provide feedback on performance. When the stakeholder is the general public, accountability can include oversight by citizens and bottom-up mobilization through what is often called the *short route of accountability* (Kosack and Fung 2014; World Bank 2003).

Effective accountability aligns an institution's interests with those of external stakeholders. This includes preventing it from acting in its own interest or drifting from its mandate (Schillemans and Busuioc 2015). Several examples from the literature illustrate the effect of accountability mechanisms on developmental outcomes. In China, for example, citizen monitoring—in the form of public appeals to regulators when firms violated pollution standards—decreased pollution emissions (Buntaine et al. 2021). Counterintuitively, in Brazil, bureaucrats' personal connections to politicians increase public accountability and performance (Toral 2023).

Independence

Independence reflects the rules and processes that protect a public institution from undue influence and ensure that private interests do not capture it. Although accountability ensures that external stakeholders have influence over policy implementation, independence helps ensure that institutions act without bias and evade institutional capture. The framework specifically considers independence from two sets of actors: politicians and the private sector.

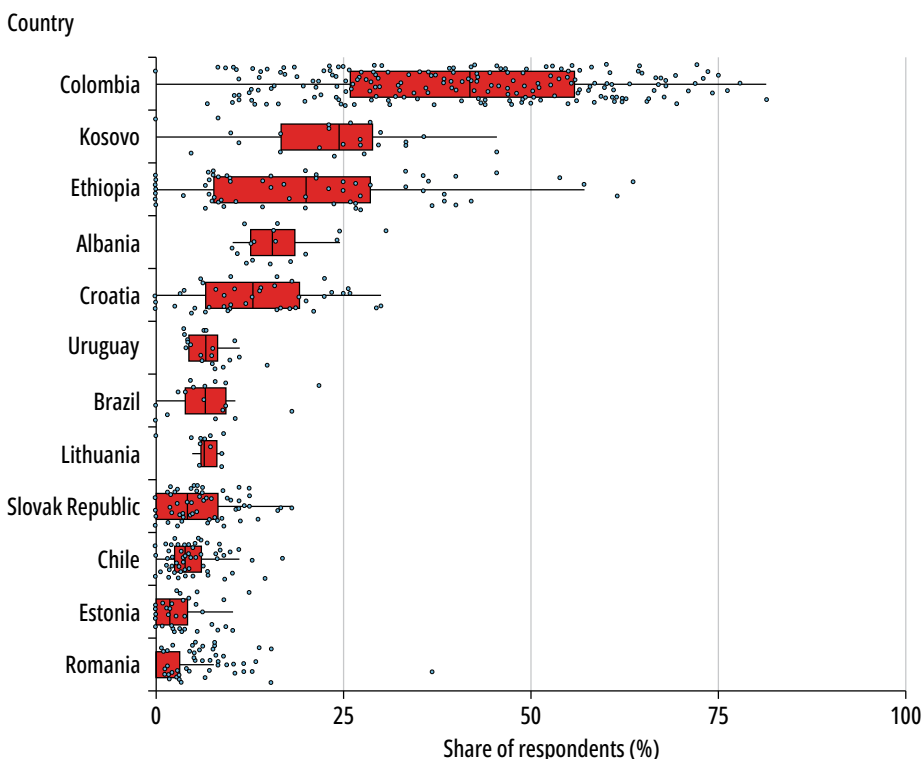
Independence from politicians can be enhanced when civil service systems protect some public servants from dismissal or appointment by executive leadership (Grindle 2012). Another example of independence is the appointment process common among high-ranking central bank officials, which requires legislative approval or term appointments spanning consecutive administrations. Independence from the private sector can be strengthened through rules preventing revolving-door career trajectories where officials alternate between public institutions and private firms. Similarly, policies prohibiting the exchange of gifts and bribery can reduce the likelihood of private capture and increase independence (Bajpai and Myers 2020).

Independence is particularly important when political institutions are not fully democratic or when private interests have captured the policy arena. When the political process is captured, politicians and other external stakeholders may seek to influence public institutions in ways that do not align with the public interest (Canen et al. 2023; Rijkers et al. 2017). Moreover, independence measures prevent elected officials from using institutions for their own political gain; evidence suggests that competitive elections may incentivize politicians to extract resources from public institutions to finance political campaigns (Brierley 2020).⁸

Figure 1.6 uses GPS data to highlight indicators that measure the independence of public institutions' personnel and management practices. It shows the extent to which personnel recruitment is not perceived to be influenced by political connection, showing wide variation across institutions within the same countries.

Large institution-level variation exists in perceptions of the influence of political connections on recruitment.

FIGURE 1.6 Distribution of the share of public servants across public institutions of the same country acknowledging that political connections are important to get a public sector job



Source: Original figure for this publication using calculations from the Global Survey of Public Servants, <https://www.globalsurveyofpublicservants.org/>.

Note: The light blue circles show the share of respondents at an individual public institution that agrees that knowing a politician or having political connections is important to get a public sector job. The vertical lines within the bars represent the median of the distribution. The survey question, with minor variations, is “How important have the following criteria been for you to get your first job in the civil service? Knowing a politician or someone with political links?”

Transparency

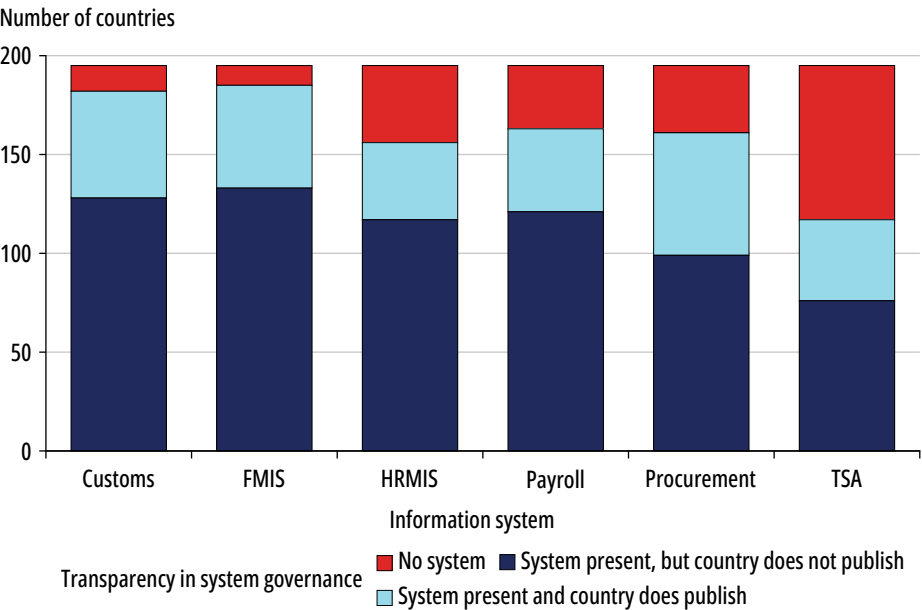
Transparency is the visibility of a public institution’s decisions and actions to external stakeholders. Transparency is essential for accountability: Enforcement mechanisms are effective only if the relevant stakeholders have enough visibility into a public institution’s operations to become aware of infractions or deviations from its policy mandate (World Bank 2016b). Cross-country analysis finds that countries with more transparent central banks face lower costs of disinflation during economic emergencies

(Stasavage 2003). Increased media freedom, a proxy for transparency, is also associated with decreased corruption (Camaj 2013). Transparency is particularly effective at improving outcomes when paired with accountability mechanisms. As a famous example from Uganda demonstrates, public access to information through newspapers deterred local officials from capturing education grants and thus helped improved school enrollment and learning outcomes (Reinikka and Svensson 2011).

The framework’s transparency dimension emphasizes that government information and data should be public, easily accessible, and reasonably easy for citizens to understand. Information systems vary in their degree of transparency, both across and within countries. Figure 1.7 shows for six information systems whether selected income countries have the system and publish system governance information (for example, audit or compliance reports), have the system but do not publish such information, or do not

Governments frequently have systems for collecting information but may not publish it, undermining transparency.

FIGURE 1.7 Number of countries with no systems, with systems but without publishing information, and with systems and publishing information, by type of information system, 2022



Source: Original figure for this publication using data from the 2022 GovTech Maturity Index, https://data360.worldbank.org/en/dataset/WB_GTMI.
 Note: FMIS = financial management information system; HRMIS = human resources management information system; TSA = treasury single account.

have the system. About 30 percent of low-income countries with customs information systems publish this type of information, and a much smaller percentage with an HRMIS publish it. The same country is often in each of the three categories across different systems. Malawi, for instance, has a financial management information system that publishes governance information, but it has no e-procurement system. Such variation in transparency across information systems suggests that some types of government information are more publicly accessible than others, even within the same country.

Governance’s cross-cutting role

The framework’s governance dimensions are cross-cutting, in that they apply to each of the framework’s organizational dimensions. For example, reforms designed to strengthen independence cannot target independence in and of itself; instead, the independence of one or multiple organizational dimensions must be addressed. Independence reforms focused on personnel, for instance, may increase the number of public officials recruited through meritocratic processes rather than political appointments. Likewise, independence reforms focused on information systems may seek to render the information collected by digital technologies more neutral, comprehensive, and free from bias (refer to table 1.1).

TABLE 1.1 Examples of measures for governance dimensions across organizational dimensions

Governance dimensions	Organizational dimensions			
	Personnel	Financial resources	Information systems	Management practices
Accountability	Rewards or sanctions based on performance evaluations or other observable measures of behavior	Release of funds conditional on periodic budget review or audit	Repercussions for data manipulation	Existence of pay-for-performance schemes
Independence	Percentage of civil service recruited through meritocratic processes	Whether cash flows are forecasted, monitored, and predictable	Whether those collecting, processing, and securing data are different from those enacting policy	Autonomy in determining staffing and use of budget
Transparency	Publicly available organizational structure	Publicly available budget and expenditures	Public documentation of how data are collected and secured	Existence of reporting on monitoring and evaluations

Source: Original table for this publication.

Applying the framework

The framework offers policy makers and practitioners an approach to diagnosing the causes of failure in policy implementation. Table 1.2 presents examples of common problems in policy implementation and illustrates how a public institution's organizational and governance dimensions might contribute to those problems. Although several problems may also originate in the policy making or institutional design phase, the focus of the report and framework is on identifying institution-level problems at the time of policy implementation. The exact ways in which organizational and governance dimensions contribute to problems will depend on context; table 1.2 presents examples to illustrate different possibilities.

Implementation problems can stem from multiple organizational or governance dimensions, highlighting the framework's interconnectedness. For example, recruitment practices—an aspect of the personnel dimension—may prevent the hiring of sufficiently skilled public officials. But this challenge can also stem from weaknesses in the management practices dimension, such as a lack of sufficiently specialized departments to hire technical staff. As such, a weakness in one organizational dimension can lead to a weakness in another. Weaknesses in an organizational dimension may also be related to governance weaknesses, as table 1.1 highlights. Poor hiring practices, for instance, can stem from the capture or insufficient independence of an institution's personnel practices.

Once practitioners have identified the most relevant dimensions for a given implementation problem, context-appropriate solutions can be targeted. Although the range of potential solutions is wide, the last column of table 1.2 presents selected examples from the literature.

Applying the framework to procurement and regulatory institutions

To demonstrate the framework's diagnostic potential, the next chapters will apply it to analyze how procurement and regulatory institutions' capacity may affect outcomes in the private sector. Rather than focusing on the "right" regulatory or procurement policies for a particular sector, this report focuses on the organizational and governance dimensions that may prevent institutions from delivering on their given policy mandates. This approach aligns with existing World Bank Group private sector diagnostics.⁹ Box 1.1, for example, examines common procurement and regulatory challenges faced by firms, as identified by Country Growth and Jobs Reports and by Country Private Sector Diagnostics. The diagnostics highlight clear scope for improving institutional capacity in these areas to address domestic constraints to private sector growth, such as conducting basic functions like procuring infrastructure and maintaining strong regulatory environments.

The framework can be used to diagnose multiple interrelated causes of common policy implementation problems.

TABLE 1.2 Using the framework to diagnose potential sources of common policy implementation problems

Implementation problem	Potential sources of problems				Possible solutions
	Personnel	Financial resources	Information systems	Management practices	
Public officials lack the skills for the job (that is, regulators do not have the skills to understand a specific market, leading to failures in consumer protection).	Recruitment does not identify the most relevant skills. <i>Independence:</i> Recruitment favors private interests. <i>Accountability:</i> Few repercussions exist for poor hiring.	The institution lacks financial resources to recruit, employ, and retain skilled officials.		The institution lacks sufficiently specialized departments to tackle technical issues.	Limited term lengths, as well as public election or joint administrative and legislative appointment of administrative officials (independence of personnel practices), reduces the likelihood of their capture by private interests (Besley and Coate 2003; Martimort 1999; Smart 1994).
The institution lacks information about the nature of the problem it is addressing (that is, procurement agencies do not track schools' needs, leading to lack of supplies).			Information about the problem is not stored in a systematic and interoperable way. <i>Independence:</i> Private actors prevent the collection of data that might expose malfeasance.	The institution lacks departments specialized in the nature of the problem it is addressing. <i>Accountability:</i> No repercussions exist for technical failures in program implementation.	Officials' focus on personal or political interests or poor coordination with other institutions can inhibit use of information systems (Eutsler et al. 2023; Liu 2023; Sandefur and Glassman 2015; Trinh 2019). Technology for monitoring expenditures (transparency of financial resources) can reduce corruption and graft (World Bank 2016b); audits decrease unaccounted-for expenditures (Olken 2007).
Public officials shirk duties (that is, teacher absenteeism leads to poor learning outcomes).	Career advancement and salary are not appropriately tied to individual performance; multiple individuals are responsible for an outcome, leading to free-riding. <i>Independence:</i> Personnel are motivated by private interests. <i>Accountability:</i> Few mechanisms exist to sanction absenteeism.	Passive waste limits resources available to tie salary to individual performance, or salaries are not paid in a timely manner.	Systems to monitor progress on a project do not exist or are not used. <i>Transparency:</i> Public and higher-level officials do not have access to data measuring officials' effort.		The potential to contact the top of a public organization is a powerful determinant of bureaucrat performance (Bertrand et al. 2020); meritocratic promotions lead to higher worker productivity (Caria et al. 2022); capacity training programs can help improve performance even further (Azulai et al. 2020). Target setting can increase productivity and motivation (Locke and Latham 2002), yet it can also crowd out other objectives, inhibit learning, and reduce intrinsic motivation (Ordóñez et al. 2009); increased autonomy is associated with higher rates of task completion (Rasul et al. 2021).

Source: Original table for this publication.

Box 1.1 Public institutions for procurement and regulation: Insights from World Bank Group Diagnostics

Procurement of infrastructure contracts

The World Bank Group's Country Growth and Jobs Reports (CGJRs) and Country Private Sector Diagnostics (CPSDs) often highlight how the effective management of financial resources shapes ability of public institutions to procure the construction of infrastructure such as electricity, roads, and supply chain nodes. The CGJR for Moldova (World Bank 2023), for example, notes this challenge when emphasizing the need to improve the country's low quality of infrastructure. The country's CPSD (IFC 2023) finds that roads, in particular, have received insufficient investment. The State Road Fund is both insufficiently capitalized and lacks predictability as a source of funding for road maintenance. One recommendation is to establish multiyear payment mechanisms that would enable output- and performance-based contracts to improve road maintenance and operation. As one of Europe's poorest countries, Moldova may face challenges in allocating additional resources to road maintenance; however, strengthening how existing funds are managed could still improve contracting outcomes.

Regulatory environments

CGJRs and CPSDs also highlight how weak transparency, accountability, and independence in regulatory institutions can create constraints for firms. For example, in Pakistan, both domestic and foreign investors cite corruption in the country's fragmented regulatory environment as a major impediment to doing business, with the CGJR identifying this as a key barrier to foreign direct investment. Pakistan has at least 12 different categories of regulations, and enforcement is irregular, creating opportunities for rent-seeking and corruption. The country's CPSD (IFC 2021), therefore, recommends strengthening accountability, particularly through the establishment of redress and dispute mechanisms for investors.

Public procurement

Chapter 2 focuses on *public procurement*, which represents a large share of government expenditure globally, and this spending is primarily concentrated in the construction of important public goods such as roads, bridges, and ports. Procuring a quality road network helps decrease transport costs, make supply chains more resilient, and integrate labor markets (Banerjee et al. 2020; Chaurey and Le 2022; Shamdasani 2021). The government's ability to develop high-quality public goods is, therefore, critical. The adoption of e-procurement systems in India, for example, helped change the composition of winning road contractors, which helped strengthen the quality of the country's road network (Lewis-Faupel et al. 2016).

Strong institutional capacity is essential to ensure that procurement institutions deliver these benefits. Inefficiencies including passive waste, administrative delays, and home bias—a preference for domestic or subregional firms over foreign or more distant competitors—can severely

increase timelines and costs while simultaneously disincentivizing firms from bidding in the first place (Bandiera et al. 2009; Conti et al. 2021; Garcia-Santana and Santamaria 2025). Because procurement contracts directly benefit the firms that win them, it is also important for institutions to rely on efficient allocation practices that are free from corruption, collusion, or undue favoritism (Avis, Ferraz, and Finan 2018; Chassang and Ortner 2019; Mironov and Zhuravskaya 2016).

Regulation

Chapter 3 focuses on *regulations*, the laws and formal rules that determine requirements and standards for firms, citizens, and the public sector.¹⁰ They aim to ensure that private sector development aligns with the public interest when markets do not do so. Developing and developed countries alike are exposed to market failures in the form of weak competition and information asymmetries (IFC, MIGA, and World Bank 2010). Among other responsibilities, regulations set business registration requirements and fees as well as credit market and labor regulations (World Bank 2016a). Existing evidence suggests that weaknesses in institutional capacity can lead to regulatory failures, increasing costs and risks to firms (Estache and Wren-Lewis 2010; IFC et al. 2010).

Regulatory institutions are responsible for several processes that support and enhance the design and implementation of regulations (OECD 2014).¹¹ For example, financial sector regulatory institutions gather market data on innovative products, such as cryptocurrencies or blockchains, to design regulations that address underlying risks (US Government Accountability Office 2023). Regulatory institutions may also engage with firms, including in manufacturing, to gather feedback on regulations, strengthening accountability and improving compliance (Malesky and Taussig 2019).

However, in many developing countries, the design and enforcement of regulations are often constrained by the weak capacity of regulatory institutions (Laffont 2005). A lack of independence resulting from political interference, for example, can shift priorities toward electoral considerations rather than broader welfare objectives (Müller 2023). Low institutional capacity can also exacerbate regulatory risk and uncertainty, negatively affecting firms' investment and business decisions (World Bank 2016a). Improving regulatory institutional capacity can, therefore, enable private sector development in developing countries (Brown et al. 2006).

Notes

1. The Global Survey of Public Servants is an international research initiative led by the Bureaucracy Lab at the World Bank, in collaboration with academic institutions including Stanford University, University College London, and the University of Nottingham. The survey respondents are public servants, who provide individual- and organizational-level insights into human resources management in governments. Although the specific topics covered in the survey vary by country, they generally include public officials' attitudes and behaviors, management practices, and similar topics. Additional details can be found on the Global Survey of Public Servants' website, <https://www.globalsurveyofpublicservants.org/>.
2. The expansive literature on state capacity includes Berwick and Christia (2018), Fukuyama (2013), Hanson and Sigman (2021), Khemani (2019), Mann (1984), and Soifer (2008).
3. For arguments highlighting the need to refine the concept of institutional capacity, refer to Centeno, Kohli, and Yashar (2017) and Williams (2021). For empirical work on the variation of institutional capacity within the same state, refer to Azulai et al. (2020); Bersch, Praça, and Taylor (2016); Gingerich (2013); and McDonnell (2017).
4. Refer to Andrews et al. (2017) for a discussion of how isomorphic mimicry can undermine state capacity.
5. The BOOST data contain highly disaggregated budget and expenditure data for a range of countries. These microdata are derived from the chart of accounts. The countries were selected on the basis of availability of harmonized data.
6. For more on organizational culture, refer to Gailmard (2010); Grindle (1997); Honig (2022); Khemani (2019); Lourenço, Vakis, and Zoratto (2022); and Ritz, Brewer, and Neumann (2016).
7. Note that the framework does not refer to electoral accountability here (that is, the linkage between public institutions and citizens that occurs through elections and the ballot box). The framework considers these to be aspects of the policy arena, which is not within the scope of the framework.
8. Independence and accountability are compatible with structured consultations with private sector firms, which are often important stakeholders for public institutions. The framework's accountability dimension highlights how public institutions should consult firms during the implementation process. Independence requires that these accountability mechanisms follow due process, ideally with strong mechanisms for transparency and oversight. In contrast, informal attempts at influence, such as patronage appointments, are not compatible with independence or accountability.
9. It also complements the work of the World Bank's Business Ready (B-Ready) report (<https://www.worldbank.org/en/businessready>), which has a wider scope and focuses on good practices in regulatory frameworks, public services, and operational efficiency for enabling the private sector.
10. This definition is adapted from the OECD (2011) and Jacobs and Ladegaard (2010). Such external-facing regulations are distinct from internal-facing rules and laws that govern how public institutions operate. The latter are considered a branch of administrative law.
11. The issue of regulatory enforcement varies by country. In some countries, the responsible entities are justice institutions. In others, the regulatory institutions themselves have the mandate for enforcement. For example, regulatory institutions overseeing the water sector may be responsible for inspecting water resources; in such cases, the use of risk ratings can support the management of water resources. In South Africa, for example, such ratings have been used to monitor water supply and demand, informing both policy dialogue and mitigation measures (World Bank 2022).

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Chapter 2. Public Institutions That Procure from the Private Sector

Introduction

Public procurement enables the development of the private sector by creating important public goods such as roads, bridges, and ports that benefit firms across the economy. Quality public goods are also important for a range of other efforts that benefit the private sector, such as improving supply chains, connecting workers to jobs, and reducing transaction costs. Facilitated by public procurement, these public goods are the engines that fuel economic growth. Weak procurement institutions can, therefore, harm private sector development through poor provision of public goods, inefficient use of public resources, and undue favoritism in awarding contracts.

This chapter applies the report's conceptual framework to procurement institutions, demonstrating how the framework can be used to diagnose weak institutional capacity. It complements the Independent Evaluation Group's recent report on the World Bank's 2016 procurement reform (World Bank 2024b), which focused on the procurement rules and processes used in World Bank-financed projects. The second policy recommendation in that report specifically recommends efforts to "strategically strengthen country-level procurement capacity" (World Bank 2024b, xxiii). Expanding on that recommendation, this chapter identifies procurement institutions' policy mandates and then, using concrete examples, clarifies how the framework's organizational and governance dimensions can be applied and measured. It concludes with a case study illustrating how the framework can be used to diagnose the causes of corruption and waste in public procurement.

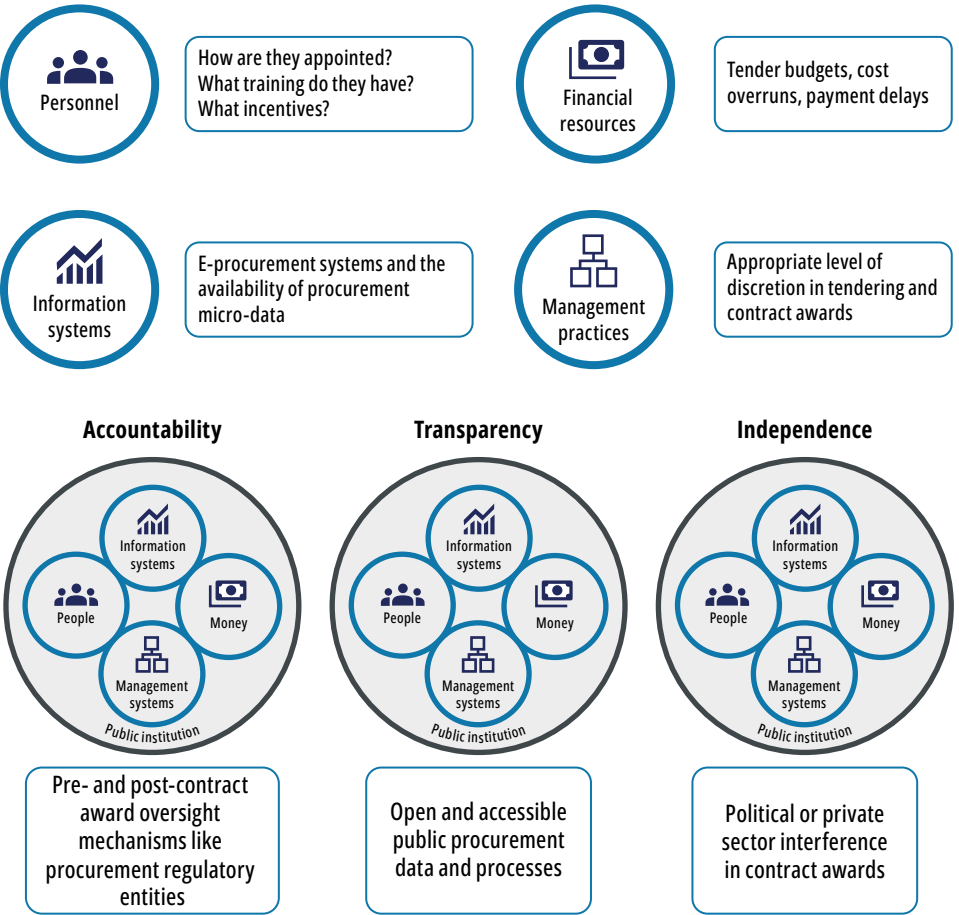
Framework for public procurement institutions

To diagnose these issues, figure 2.1 applies the framework to public procurement institutions. As noted in chapter 1, the report defines *institutional capacity* as the ability to get things done: to successfully complete the projects or implement the policies described in an institution's mandates. This section applies that definition to procurement institutions.

It unpacks the framework in figure 2.1, highlights the relevant literature, and presents novel analysis of the available data. Although measuring the organizational and governance dimensions of procurement systems is difficult, the available data can be used to explore and diagnose weaknesses across countries, as well as across institutions within the same government. Many of these data are indicators constructed from the Methodology for Assessing Procurement Systems (MAPS) assessments, which are detailed evaluations of country procurement systems.¹

A procurement institution’s organizational dimensions, along with its cross-cutting governance dimensions, ensure it functions efficiently and in the public interest.

FIGURE 2.1 Framework applied to procurement institutions



Source: Original figure for this publication.

Policy mandates

Procurement institutions are spread across different levels and layers of government. Some countries have a central government procurement agency that procures standardized items such as medicine or office materials for use across the administration. The procurement of nonstandardized goods and services, however, is usually handled by individual units lodged within other ministries, agencies, state-owned enterprises, and other institutions. These units—which may consist of only two or three individuals—are responsible for coordinating with the ministry's or agency's staff about their procurement needs and conducting the necessary purchases. This report takes a broad definition of *procurement institutions* as both the centralized buyers and the more disaggregated units lodged within other ministries and agencies. These two types of procurement institution are conceptually distinct and have different personnel and responsibilities. That said, the framework outlined in figure 2.1 can be applied to either type.

Most procurement institutions have two key policy mandates, the first of which is to maximize efficiency and economy. Procurement institutions are responsible for purchasing goods and services in a manner that maximizes both quantity and quality while simultaneously minimizing costs. In other words, public buyers make purchases that try to maximize efficiency and economy. Efficiency is usually related to transactional efficiency or the timeliness of the procurement process, and economy is generally concerned with avoiding unnecessary or unproductive costs (World Bank 2022b).

Procurement institutions' second key policy mandate is to advance the governments' broader policy objectives. Increasingly, procurement institutions are asked to focus on policy objectives such as value for money, a concept encompassing both fiscal savings and broader socioeconomic concerns (World Bank 2022b). These broader socioeconomic concerns include ancillary policy goals, such as minimizing greenhouse gas emissions, promoting the growth of small- and medium-size enterprises (SMEs), supporting firms owned by women or disadvantaged groups, and favoring the development of domestic firms. In part because of the significant size of the procurement sector, governments hope to achieve these goals by incentivizing firms through the goods and services they purchase.

It is important to note that these two policy mandates are sometimes at odds with one another. Broader policy objectives such as prioritizing sustainable or minority-owned suppliers are often worthy and important goals. However,

such suppliers may have higher costs, so awarding them contracts can often contradict efforts to maximize efficiency and economy. Likewise, evaluating the implications of various bids for carbon emissions and environmental harm is time consuming, so conducting these types of analyses during the contract award stage may jeopardize efficiency. Such tensions emphasize the complexity often faced by public procurement institutions.

Procurement outcomes such as unit prices or the quality of goods can vary widely for similar contracts across institutions within a single country. For example, in several Latin American countries, different institutions pay vastly different prices for the same pharmaceutical products (Fazekas, Veljanov, and Borges de Oliveira 2024). There are similar differences in unit prices across institutions in the Russian Federation, even after controlling for potential differences in the quality of the goods purchased (Best, Hjort, and Szakonyi 2023). In these and other contexts, much of the differences in unit price can be explained by differences in how procurement laws and policies are implemented. In other words, even when faced with the same national procurement frameworks, some institutions are more capable at implementing their policy mandates than others.

Procurement institutions may not deliver on these two policy mandates because of a wide range of organizational and governance problems. The procurement process involves many stakeholders, each with their own objectives and priorities. The problems most relevant for each actor will depend on those objectives and their broader operational context. That said, several problems commonly prevent procurement institutions from delivering on their mandates:

- Procurement officials may lack sufficient knowledge of procurement methods or markets to minimize costs while maximizing quality. In these cases, officials may not have sufficient incentives to collaborate with the private sector, which is often crucial for important upstream procurement tasks such as researching the market, designing appropriate specifications, and drafting terms of reference.
- Firms, politicians, or other public officials may pressure procurement officials to award contracts to favored firms that may not be the most qualified, increasing costs or decreasing quality.
- Procurement officials themselves may be captured by firms and receive bribes from specific suppliers in return for awarding them contracts.

- Procurement activities may be overly arduous and complex, such as relying on paper-based, manual processes that require approval from many stakeholders. The number and manual nature of these steps can create delays.
- Politicians or other decision-makers may impose unnecessary or unrealistic time constraints that rush steps in the procurement process and hinder effective implementation.

Organizational dimensions

This section goes through each of the governance dimensions introduced in chapter 1 and applies them to public procurement institutions: personnel, financial resources, information systems, and management practices.

Personnel

Procurement officials manage many complex tasks throughout the procurement process (Decarolis, Fisman, et al. 2020). They must first work with their technical colleagues to define the ministry's or agency's needs and translate those needs into tender documents. For instance, what are the specifications of the vehicles the agency wants to purchase, or the requirements of the bridge it wants to construct? Second, procurement officials manage the design of procurement auctions and the solicitation of firm bids. They must then carefully evaluate each bid, which requires an understanding of the market for the good or service in question. Finally, after the winning firm is chosen, procurement officials must design a contract that minimizes the risk of delays and cost overruns.

Each of these steps requires different types of knowledge, implying that the competence of procurement officials has a significant effect on outcomes. Procurement agencies with fewer competent officials can pay higher prices, face cost overruns, and experience contract delays. In Russia, for example, roughly 20 percent of the variation in quality-adjusted prices paid is attributable to the individual officers managing the procurement process (Best et al. 2023). Likewise, in Italy, prices for similar products vary significantly across different office clerks in the procurement system; the worst-performing procurement units pay approximately 55 percent more than the best-performing units (Bandiera et al. 2009). This research demonstrates that there is considerable variation in procurement performance across officers, even within the same

institutional environment. This variation in effectiveness often stems from weaknesses in the personnel dimension.

Procurement officials' education and the extent of their procurement-specific training, for example, are important determinants of performance. Unfortunately, many governments do not have specific career paths or roles for procurement bureaucrats. Instead, the procurement function is typically fulfilled by officials who specialize in other policy areas but spend some of their time on contracting. For instance, only 22 of 95 countries surveyed in a recent World Bank report recognized public procurement as a stand-alone function in the civil service (World Bank 2023b). Similarly, in France, procurement contracts have long been managed by officials with an exclusively legal background (Saussier and Tirole 2015). Although knowledge of legal requirements is important, it is often not enough to optimize efficiency and value for money.

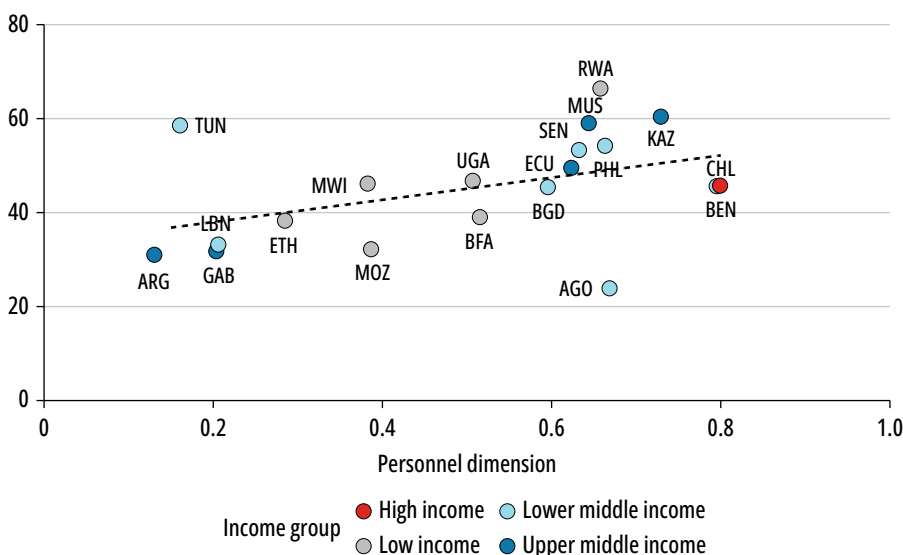
Beyond personnel qualifications, procurement units are often understaffed and overburdened. Even in the United States, public agencies often rely on short-term consultants to manage procurement rather than full-time staff (Liscow et al. 2023). In addition to frequently lacking the necessary expertise, such consultants do not have the same career incentives for performance as full-time employees. Overreliance on consultants without adequate expertise has been shown to lead to tenders without sufficient detail in key upstream procurement tasks such as conducting market research, designing appropriate specifications, and drafting realistic terms of reference (Liscow et al. 2023). Lack of specificity in such early-stage procurement tasks can increase prospective contractors' perceived risks, leading them to increase their bids and ultimately increasing the cost of the contract.

The capacity of procurement institutions' personnel varies across countries as well as across institutions within the same country. As noted in chapter 1, the framework's personnel dimension consists of three components: Career, skills, and compensation. Figure 2.2 plots the quality of a country's procurement personnel, as derived from the MAPS assessments, against a measure of how easy it is to contract with the country's government, based on a survey of procurement professionals. The latter measure captures procurement outcomes related to a range of relevant factors, such as the number of procurement steps or the timeliness of the procurement process. The figure shows a positive correlation between the quality of a country's procurement officials and procurement outcomes. In other words, the presence of more capable or higher-quality procurement personnel makes it easier for the private sector to contract with a country's government.

The quality of procurement personnel is positively correlated with procurement outcomes.

FIGURE 2.2 Relationship between country-level measures of the quality of procurement personnel and ease of contracting with the government

Contracting with the government score



Sources: Original figure for this publication using calculations from MAPS and Nogués i Comas and Mendes dos Santos (2021).

Note: The x-axis is a country-level measure of the quality of procurement personnel derived from the MAPS assessments. The MAPS assessments capture 20 indicators relative to the personnel dimension, reflecting many of the elements cited in the text as important for competent procurement officials. The criteria are rated as present (2), partially present (1), or not present (0). Refer to appendix A for more details on the MAPS criteria used. The y-axis is a country-level measure of the ease of contracting with the government from Nogués i Comas and Mendes dos Santos (2021). The indicator combines three dimensions: The steps required to complete the procurement process, the time associated with each step, and the sophistication of e-procurement platforms. The correlation remains significant at the 90 percent confidence level after controlling for gross domestic product per capita. For a list of country codes, refer to <https://www.iso.org/obp/ui/#search>. MAPS = Methodology for Assessing Procurement Systems.

Financial resources

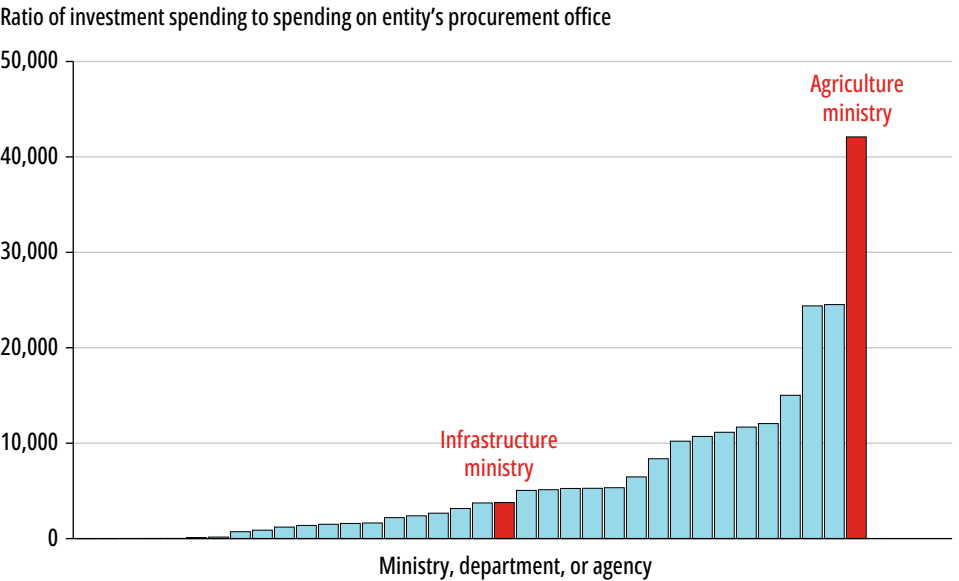
The framework's financial resources dimension focuses on the resources available to procurement units for managing the procurement process, as well as their practices and processes for managing contract expenditures. Given the scale of government procurement, how these resources are managed has an important effect on procurement outcomes and the ability of procurement institutions to realize their mandates. Although a large literature examines how auction design affects firm bidding and contract values (Decarolis 2018; Lewis and Bajari 2011, 2014), auctions are generally determined by law

rather than individual procurement units. The financial dimension therefore covers two aspects when applied to procurement institutions: The budget and staffing resources for managing the procurement process (rather than the expenditures on procurement contracts themselves) and the practices and processes for managing contract expenditures, such as contract design, renegotiations, and payments.

Budget and staffing resources vary widely across procurement units, even within the same government. For example, figure 2.3 uses the World Bank’s BOOST public expenditure database to illustrate this variation across ministries, departments, and agencies in Burkina Faso. It plots the ratio of procurement volume (measured by total investment spending) to the resources spent on the offices managing procurement—including staff and recurrent costs but excluding contract expenditures. The figure shows significant differences across institutions, with the scale of resources

The financial resources available to procurement units within Burkina Faso vary significantly.

FIGURE 2.3 Distribution of the ratio of investment spending to spending on procurement office, by ministry, department, or agency, in Burkina Faso



Source: Original figure for this publication using calculations from BOOST data, https://data360.worldbank.org/en/dataset/WB_BOOST.
Note: Each bar represents a different procurement unit within the government of Burkina Faso.

devoted to procurement management often misaligned with the scale of the procurement task. For instance, investment spending in the agriculture ministry far exceeds the resources allocated to its procurement unit, whereas the ratio is much smaller in other entities, such as the infrastructure ministry. Consistent with this report's emphasis on institution-level analysis, these patterns highlight the importance of examining variation across procurement institutions within a country.

The practices and processes for managing procurement contract expenditures involve four key challenges: Cost overruns, contract renegotiations, payment delays, and capacity bottlenecks due to fiscal cycles. First, cost overruns are a persistent problem in public procurement, especially for large-scale public works projects (Decarolis, Guiffrida, et al. 2020). Overruns can occur for a variety of reasons, on both the buyer and the supplier sides. With respect to suppliers, firms might provide intentionally low prices to win the contract, or they may mismanage a contract during implementation. From an institutional capacity perspective, cost overruns can also occur when procurement officials underestimate the contract budget. As discussed earlier, this can be due to officials' lack of substantive domain expertise in the goods or services being purchased. Particularly in construction projects, design flaws or unforeseen site conditions—such as removing unanticipated rock formations—may require greater costs than foreseen in initial contracts.

Cost overruns typically lead to contract renegotiations, which can greatly increase the cost of the overall contract. Renegotiations impose significant adaptation costs on suppliers, who can respond strategically by marking up the price of their initial bids (Bajari et al. 2014). As such, the practices and processes that contribute to cost overruns and renegotiations can fuel unnecessarily expensive contracts. Well-connected firms may even factor the prospect of renegotiation into their bidding strategies. Energy firms connected to the Indian government, for example, have been found to submit power bids below cost because they know they can renegotiate the contract later when global coal prices increase (Ryan 2020). In this case, the possibility of renegotiations decreases initial contract costs but greatly increases overall costs.

Payment delays are also common in public procurement. Although not always the fault of procurement units themselves, such delays often reflect weak integration with the broader public financial management system. Across the 50 countries covered in the World Bank's (2024a) *Business Ready 2024* report,

firms waited an average of 55 days for payment after submitting an invoice, with delays exceeding 100 days in 10 percent of countries. In southern Europe, public entities took 5–6 months on average to pay for goods and services purchased between 2000 and 2010 (Conti et al. 2021). In Brazil, although public finance laws mandate that public buyers pay their suppliers within 30 days after procurement verification, many payments exceed this window (Dahis et al. 2024). The 90th percentile in payment length reaches 42 days.² Delays are usually more common in construction projects than in smaller contracts for off-the-shelf goods, but in all cases they can decrease firm cash reserves and corporate investment (Abad et al. 2023). Payment delays may also lead firms to exit the market, especially smaller and less experienced firms (Conti et al. 2021). Notably, this runs counter to the common policy goal of increasing SME participation in procurement contracts. Favoring SMEs in contract assignment may be counterproductive when payment delays are significant, because these firms tend to be more liquidity constrained. More broadly, this illustrates how potentially beneficial policies can have adverse outcomes when institutional capacity is weak.

Government fiscal cycles can also create capacity bottlenecks for procurement units, especially when public budgets have use-it-or-lose-it policies. When a public buyer ends the fiscal year with a surplus, such policies require the buyer to lose that surplus, either by not carrying it forward to the next fiscal year or by reducing the buyer's subsequent budget. This dynamic can contribute to contract award values spiking toward the end of the fiscal year. In European countries, for example, award values rise sharply in the final quarter and month (Lofaro et al. 2023). Similarly, the U.S. federal government spends 4.9 times more in the last week of the fiscal year than the average weekly level for the rest of the year (Liebman and Mahoney 2017). Such rushed spending risks awarding contracts to lower-quality suppliers and undermining implementation.

Information systems

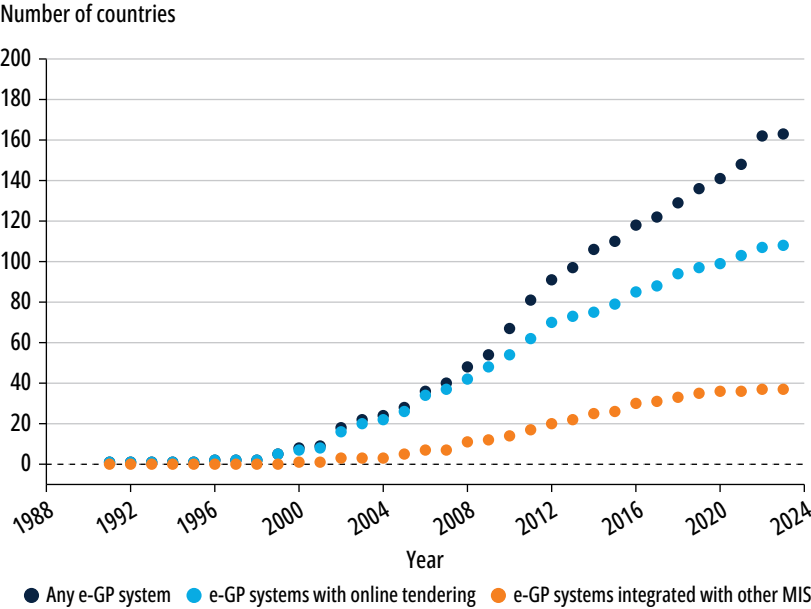
Public procurement is a complex policy domain with many distinct processes and procedures (Nogués i Comas and Mendes dos Santos 2021). Until recently, each step in the procurement process—from distribution of public tenders to the announcement of contract awards—required communication between buyers and suppliers through paper documents. Over the past three decades, however, the diffusion of information systems specific to public procurement, such as e-procurement systems, has streamlined procedures.

Figure 2.4 demonstrates the growth of these systems over this period. By 2024, more than 160 countries had e-procurement systems, and more than 100 of these systems included online tendering capabilities. Although these systems can help procurement institutions implement their mandates more efficiently, reduce costs, and decrease corruption, they are also not necessarily a straightforward or automatic remedy for weak institutional capacity.

The most obvious potential promise of e-procurement systems is their ability to reduce transaction costs at each step of the procurement process. E-procurement systems enable tender documents to be published online, where they are more accessible for potential bidders. This is especially important in many low- or middle-income countries, where public buyers in rural or remote areas may not be near relevant bidders. The implementation

Many countries have electronic government procurement systems, but system capabilities vary widely.

FIGURE 2.4 Number of countries with electronic government procurement systems, along with their features over time, 1990–2023



Source: Original figure for this publication using data calculations from the GovTech Maturity Index, World Bank, <https://www.worldbank.org/en/programs/govtech/gtmi>.

Note: Any e-GP system refers to countries that have any type of e-GP system. Countries with e-GP systems that include online tendering are a subset of this first group. Countries with e-GP systems connected to other MISs are also a subset of the first group. e-GP = e-government procurement; MISs = management information systems.

of e-procurement platforms in India and Indonesia, for instance, enabled firms outside the buyer's home region to win contracts (Lewis-Faupel et al. 2016). On average, these firms were of a higher quality than firms from the buyer's home region, which in turn led to improvements in procurement outcomes. Similarly, the introduction of an e-procurement system in Bangladesh increased the number of average bids per contract and increased savings (Blum et al. 2023).

The electronic management of tender documents and firm bids enables procurement officials to study these documents and award contracts more efficiently. Paper-based analog systems require officials to manually enter information, and many e-procurement systems automatically fill in forms based on information that suppliers submit with their bid. This mechanism decreases processing times and minimizes data entry errors. In Bangladesh, the total time for processing a government tender—from the publication of the tender advertisement to the contract award—decreased by an average of about 16 days after the adoption of an e-procurement system (Blum et al. 2023).

In addition to reducing transaction costs, e-procurement systems can decrease corruption that occurs through the procurement process. E-procurement systems increase transparency because they make it easier for firms and civil society organizations (CSOs) to access information about public tenders and contract awards. Increased transparency should enable firms and citizens to monitor and oversee the procurement process more easily. However, empirically isolating the effects of such systems on procurement-related corruption is difficult. Although e-procurement systems may save public buyers financial resources, these savings are not easily attributable to reductions in corruption because they may also reflect efficiency improvements, such as easier access to tenders or faster processing of paperwork (Blum et al. 2023; Lewis-Faupel et al. 2016).

Despite their many promises, e-procurement systems are not a silver bullet for improving procurement institutions' capacity. As figure 2.4 highlights, not all e-procurement systems are the same, and some systems are more capable than others. Although about 160 countries had some type of system by 2024, only about 40 of those systems were directly connected to other management information systems outside procurement. Moreover, information systems will not fulfill their promise if bureaucrats have neither the ability nor the incentive to fully use them. There are concrete reasons why public officials

often resist using such platforms: If they lack the technical skills to understand and use new technologies, for instance, they may avoid information systems and continue with status quo processes (Adam and Fazekas 2021).

Such gaps can be addressed. Public officials who serve corrupt political principals or who are corrupt themselves may have strong incentives to sidestep information systems that make their work more transparent. As a result, although many countries have e-procurement systems, there is often significant heterogeneity in how public buyers use them and for what purposes (Schuster et al. 2023).

Although transparency can help decrease procurement-related corruption or collusion, not all types of transparency are equally as effective. In particular, policy makers should carefully consider which procurement information is made transparent as well as when during the procurement process. The timing of transparency is especially important in procurement. Ex ante transparency, or the availability of information before a contract is awarded, is likely more effective at curbing corruption or collusion, because it enables fair competition and empowers firms to monitor tender requirements or bid selection. Ex post transparency, by contrast, or the availability of information after the award, has a much more diffuse audience (citizens, civil society), and thus has less of a direct stake in monitoring than bidding firms (Bauhr et al. 2019).

Management practices

The quality of management in the public sector is an important determinant of government productivity and effectiveness (Rasul and Rogger 2018; Rasul et al. 2021). Procurement institutions are no different. Management practices that contribute to excessive workloads, for instance, have been found to harm procurement outcomes (Giuffrida and Raiteri 2023). Similarly, in the United States, bureaucratic competence and procurement outcomes are most strongly correlated with the degree of employee cooperation—a finding that is potentially the result of public procurement’s complexity (Decarolis, Giuffrida, et al. 2020). As noted, procurement requires many different steps and activities spread across different individuals with different skills, so it is understandable that appropriately coordinating these processes requires effective management.

However, experts debate the extent to which effective management in public procurement requires strict rules or whether procurement officials should have more autonomy and discretion. Autonomy and discretion refer to practices that empower procurement officials with broad decision-making latitude when managing and awarding contracts. These may include the usage of nonprice factors in competitive procurement processes or, at the furthest extreme, the ability to award contracts without a competitive auction. Although important for achieving value for money, nonprice evaluation criteria introduce subjectivity and require more skilled evaluators. From the bidder perspective, greater discretion and more nonprice criteria can also create confusion with respect to how bids will be evaluated. In procurement institutions, the extent of discretion is often a function of legal rules that set thresholds below which officials have more flexibility in contract awards. Beyond such precise legal rules, discretion can also be limited through oversight mechanisms that provide other officials opportunities to monitor or review evaluator decisions.

Limiting discretion through rules and oversight is often thought to increase competition for public contracts, thereby decreasing prices and improving procurement outcomes. There is substantial evidence that procurement methods involving higher levels of discretion—such as restricted competition or direct awards—often leads to favoritism, corruption, and worse outcomes. For example, these relatively flexible, high-discretion procurement methods can incentivize public buyers to manipulate their contract values just below the mandated thresholds, thereby avoiding competitive auctions (Baltrunaite et al. 2021; Szucs 2024). Contracts awarded through such high-discretion methods are in turn more likely to go to politically connected firms and show signs of worse contract performance (Baltrunaite et al. 2021; Caires et al. 2023; Szucs 2024).

However, overly rigid rules and oversight that limit discretion and autonomy may actually constrain procurement officials, who are best placed to increase efficiency (Kelman 1990). Procurement practitioners often view strict price-only rules as limiting flexibility in decisions that may ultimately improve value for money. In particular, discretion may have positive effects if it enables buyers to direct contracts toward trusted suppliers with whom they have long-term relationships. This is especially important when buyers have incomplete information about the quality of bids or the capacity of potential suppliers to successfully execute a contract. As such, increasing discretion can increase the probability that the same firms repeatedly win contracts, even if this does not negatively affect procurement outcomes (Coviello, Guglielmo, and Spagnolo 2018). Experimental evidence

from Pakistan, for instance, demonstrates that granting procurement officers more autonomy from monitors actually reduces prices without reducing quality (Bandiera et al. 2021).

Governance dimensions

This section goes through each of the governance dimensions introduced in chapter 1 and applies them to public procurement institutions: accountability, independence, and transparency.

Accountability

Accountability in the context of procurement institutions can broadly be divided into oversight before and after contract award. As noted in chapter 1, this report focuses on accountability mechanisms within government or between government and society, rather than higher-level definitions of accountability, such as elections to hold politicians accountable to citizens. Pre- and post-contract award accountability relationships connect procurement institutions to various oversight actors. More broadly, transparency mechanisms also enable CSOs to hold procurement institutions accountable.

Pre-contract award oversight primarily focuses on whether the procurement process is respected, typically through audit and monitoring mechanisms. In Burkina Faso, for example, agents from a specialized agency—the Directorate for the Regulation of Public Procurement and Financial Engagement—are posted within each contracting authority to monitor whether the legal framework is respected (World Bank 2022a). However, the mere presence of internal auditors does not guarantee effective oversight, because auditors may be inefficient or corrupt themselves. In Pakistan, the profile of internal monitors has a significant effect on procurement outcomes, particularly delays; intentionally withholding approval is a key mechanism whereby auditors can manipulate the process (Bandiera et al. 2021).

Post-contract award oversight examines whether the winning bidder was selected fairly and in accordance with the tender specifications. In some countries, this oversight is conducted by procurement-specific regulatory entities, such as Uganda’s Public Procurement and Disposal of Public Assets Authority. In Brazil, the Administrative Council for Economic Defense has built a dedicated infrastructure for collusion screening in

procurement markets. One example is the Brain Project (Projeto Cérebro), launched in 2013, which uses data mining and algorithmic tools to detect suspicious bidding patterns in procurement processes. In other countries, general audit offices serve this function. Although the publication of audits can provide incentives that decrease corruption risk (Avis et al. 2018), the threat of ex post oversight may also skew the incentives of procurement actors. The introduction of audits in Chile, for example, decreased the use of procurement auctions with more regulated and transparent steps, because these features made the auctions more auditable (Gerardino et al. 2022).

Another type of post-award oversight enables bidding firms to file an appeal or complaint about a procurement contract they believe was awarded unfairly. This is often managed by a procurement regulatory entity. Firms in Burkina Faso, for instance, can appeal a contract award to the Authority for the Regulation of Public Procurement, an independent regulatory body consisting of representatives from the government, private sector, and civil society (refer to box 2.1). In Hungary, a similar procurement regulatory body averaged almost 2,000 complaints per year between 2019 and 2021, covering about 5 percent of the country's procurement contracts (OECD 2023). Despite the importance of procurement regulatory entities, however, few—if any—researchers have rigorously studied their effectiveness.

Box 2.1 Accountability in public procurement: Example of Burkina Faso

Most countries have a procurement regulatory agency that plays an important accountability role in public procurement. These entities provide post-award oversight for the procurement system by adjudicating complaints from bidding firms about the procurement process or contract awards. Given the importance and sensitivity of public procurement, these agencies typically enjoy some form of independence, at least nominally, from politicians and other parts of public administration. As public institutions that provide accountability within government, they both exemplify the framework's accountability dimension and are subject to its application.

In Burkina Faso, the most relevant procurement regulatory entity—the Autorité de Régulation de la Commande Publique (ARCOP)—has received positive reviews in recent international assessments. Burkina Faso's 2017 Public Expenditure and Financial Accountability (PEFA), for example, provides an A rating to the country's procurement complaint management (PEFA indicator 24.4). Among recent PEFA scores for other Sub-Saharan African countries, only 25 percent have received the same rating on that indicator. As such, although ARCOP falls short of international best practice (as discussed below), it is still a useful example of oversight in a context of limited institutional capacity.

As an independent administrative authority, ARCOP has formal financial autonomy from the rest of the government. It is responsible for adjudicating procurement-related disputes as well as training procurement officials and conducting audits or evaluations of Burkina Faso's procurement system (World Bank 2022a). When a bidding firm wants to dispute a particular tender or contract award, the firm files an administrative complaint with the Organisme Regional de Développement (ORD), a committee within ARCOP that reviews procurement complaints and rules on their validity.

As part of ARCOP, the ORD has considerable institutional independence from the rest of the government. The committee consists of 24 representatives reflecting different stakeholder groups in the procurement process. To represent the public sector, eight members are civil servants appointed by the prime minister, the finance minister, the infrastructure minister, or the health minister. Eight other members represent the private sector and are appointed by professional associations or the Chamber of Commerce. The final eight members represent civil society organizations working on governance and corruption. Every complaint before the ORD is reviewed by a three-person subcommittee with one representative from each of these groups.

The presence of representatives from the private sector and civil society in the ORD strengthens ARCOP's accountability function. Between 2014 and 2021, ARCOP received complaints from more than 1,500 different firms, filed against contracting authorities ranging from ministries to small local governments. Although the ORD judged many of these complaints to be valid and ordered the contracting authority to revisit the award, the system is not perfect. It is relatively cumbersome and difficult for bidders to file disputes, resulting in many smaller or less-experienced firms being either unaware of or unable to take advantage of the dispute mechanism. That said, the system does enable bidders who believe they have been treated unfairly to have some means of recourse.

In addition to exercising its accountability role, ARCOP is itself a public institution to which this report's framework can be applied. ARCOP's own capacity is limited because of shortcomings in its organizational and governance dimensions, limiting its ability to fully deliver on its mandate. The 2022 Methodology for Assessing Procurement Systems (MAPS) assessment of Burkina Faso's public procurement system, for example, noted that ARCOP does not provide sufficient training for procurement officials or conduct sufficient audits of the procurement system (World Bank 2022a). When it does conduct them, ARCOP's procurement audits are not exhaustive, focusing on only a small sample of contracts and contracting authorities. Although every entity and contract need not be audited, the MAPS assessment makes clear that the current status quo is not sufficient to address potential accountability concerns.

ARCOP's own institutional capacity suffers in part because of issues related to its financial resources. The entity's most significant and consistent funding source is a user fee paid by bidding firms when they file disputes with the ORD. Although these fees should provide ARCOP some independence from political budget decisions, the 2022 MAPS report notes that they are insufficient, limiting ARCOP's auditing capacity (World Bank 2022a). These dynamics highlight the interdependence of institutional capacity across entities within the same government. Enhancing the accountability of procurement institutions in Burkina Faso may thus require attention to the institutional capacity of related institutions such as ARCOP.

Independence

The ability of procurement institutions to balance quality, price, and strategic policy objectives in their contract award decisions depends on their independence from external pressures. To realize their mandates, procurement institutions require sufficient independence from two types of pressure: Private sector firms that hope to win public contracts and politicians seeking to interfere in procurement decisions. Firms face strong incentives to offer bribes to officials in exchange for favoritism in the procurement process, given the significant financial stakes involved (Campos et al. 2021; Decarolis, Fisman, et al. 2020). Without sufficient independence from private sector interests, the promise of kickbacks can also incentivize procurement officials to award contracts based on the size of bribes rather than quality, price, or policy objectives.

In addition to pressure from potential suppliers, procurement officials often face pressure from their own political principals. Politicians can directly interfere in contract awards to favor firms for personal enrichment, political finance, or both (Boas et al. 2014; Brierley 2020; Titl et al. 2021). For example, procurement methods with significant discretion have been found to be more likely to result in contracts awarded to suppliers that are connected to the ruling party (Szucs 2024). Politicians can also exert pressure by selecting who serves as procurement officials (Sigman 2023). Even if selection into procurement institutions is meritocratic, politicians may still exert pressure by threatening to rotate officials to undesirable or isolated workplaces (Brierley 2020).

Pressures from firms or politicians can have many negative implications for procurement outcomes. Contracts awarded to politically connected firms often lead to higher prices and the selection of less-productive suppliers (Mironov and Zhuravskaya 2016; Szucs 2024). Political interference in the procurement process can also lead to more contracts with cost overruns (Bellodi et al. 2024) or renegotiations. Across contexts, distributing contracts on the basis of political favoritism rather than criteria related to price, quality, and strategic objectives is associated with poorer procurement outcomes (Brogaard et al. 2021). In Bulgaria, for instance, reducing noncompetitive procurement practices that suggest corruption could generate savings of about €700 million (World Bank 2023a).

Beyond procurement outcomes, insufficient independence also weakens procurement institutions' ability to support broader private sector development.

Corruption stemming from insufficient independence, in particular, impedes private sector growth by discouraging market entry and propping up unproductive firms. In Brazil, for example, municipalities receiving anticorruption audits experience an increase in the number of firms receiving public procurement contracts (Colonnelli and Prem 2022), and politically connected firms perform worse after the audits. Firms can also be discouraged from bidding for public contracts if they doubt the integrity of the public buyers (Colonnelli et al. 2024). In such cases, particularly when buyers are not seen as independent, only well-connected firms willing to pay bribes may choose to submit bids.

Transparency

Transparency in procurement institutions is connected to several organizational and governance components. Strong information systems, for example, can promote transparent procurement processes. Although tender advertisements and procurement data are often published in official government gazettes or newspapers, in practice such information can be difficult to access if it is only available in physical publications. Transparency in public procurement is thus most effective when procurement information is made publicly accessible through e-procurement information systems, as described earlier. Although such systems require firms to have internet access, the publication of tender information on digital platforms diversifies the types of firms that bid on public contracts (Blum et al. 2023; Lewis-Faupel et al. 2016).

Transparency in procurement institutions also supports both accountability and independence. Accountability actors can more effectively hold procurement institutions in check when they have detailed information about their behavior, although which actors benefit depends on the data available. As noted, ex ante transparency—the availability of tender criteria before a contract is awarded—is most effective, because it allows for horizontal monitoring by bidders, who have a strong incentive to monitor contract information and ensure that contracts are awarded fairly (Bauhr et al. 2019). In contrast, ex post transparency—the availability of information after the award—is more helpful to citizens and civil society (for example, nonprofit organizations, journalists), as well as national procurement regulators (Duguay et al. 2023).

Increasing the transparency of procurement institutions and tender information has many positive effects on procurement outcomes. Publicizing

tender information leads to more competition (Coviello and Mariniello 2014) and attracts different kinds of bidders, particularly those who are not based near the public buyer (Kenny and Crisman 2016; Lewis-Faupel et al. 2016). There is debate, however, on how these effects ultimately affect contract execution. Some evidence shows that publicizing tender information can reduce the cost of procurement without affecting renegotiations or delays (Coviello and Mariniello 2014). Conversely, transparency may actually restrict the discretion of procurement officials and prevent them from using private information to direct contracts to suppliers they know will perform well (Duguay et al. 2023). The ultimate effect of transparency may, therefore, depend on the capacity and incentives of procurement officers to identify high-performing firms.

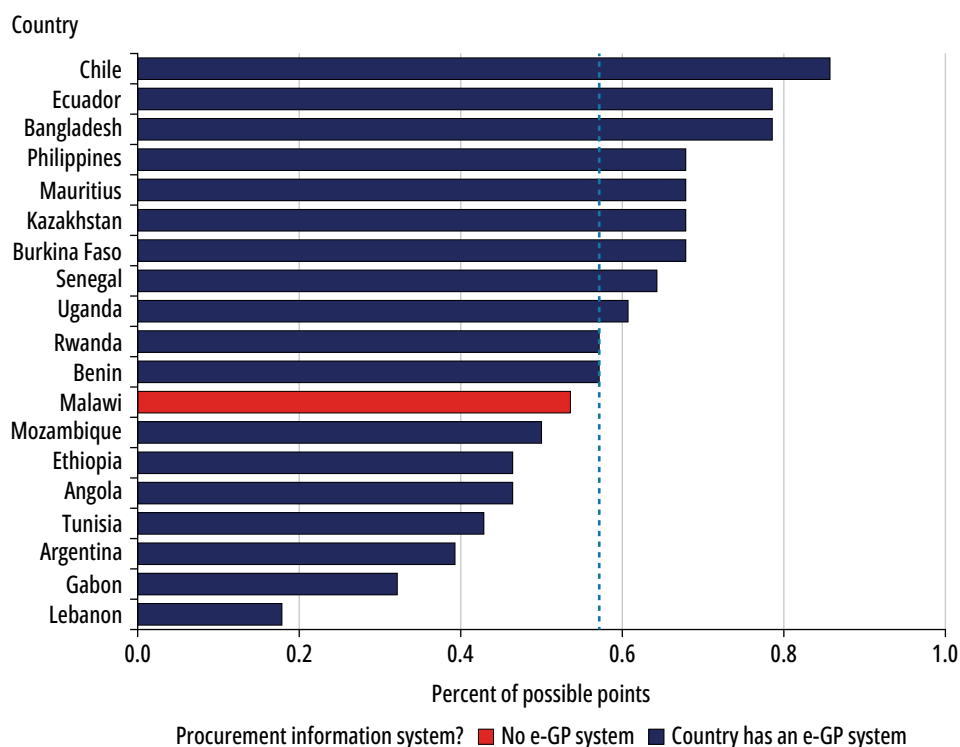
There is considerable cross-country variation in the transparency of procurement institutions. The MAPS assessments capture 14 indicators related to transparency, including legal rules around the publication of tender opportunities, the publication of information in a structured and machine-readable format, and the availability of procurement statistics. Using MAPS data, figure 2.5 plots the scores received by a selection of countries on transparency-related criteria as a share of the total potential points. (Refer to appendix A for more details on how this measure is constructed.) As with the personnel measure in figure 2.2, Chile's procurement institutions rank highest on transparency. Several countries, such as Gabon, Lebanon, and Tunisia, need to improve their procurement transparency. Notably, GovTech Maturity Index data indicate that all countries in figure 2.5 except Malawi have an e-government procurement system. However, the wide variation in MAPS scores suggests that the mere presence of a system does not ensure transparency. Rather, their implementation and effective use—captured in the MAPS indicator—appear to be more important.

Institutional challenges in procurement span multiple dimensions

As highlighted earlier, most capacity challenges in procurement institutions involve multiple organizational and governance dimensions of the framework. Table 2.1 outlines a set of procurement problems with key examples from the literature and practical experience. Given that many issues cut across multiple dimensions, the framework can be useful for identifying relevant interventions or reforms to support institutional capacity in procurement. A critical first step is clearly defining an agency's mandate because this guides assessment of which issues and dimensions are most relevant.

Although many countries' procurement institutions have e-government procurement systems, there is wide variation in their transparency.

FIGURE 2.5 Country-level measures of transparency in the procurement system



Sources: Original figure for this publication using calculations from MAPS, <https://www.mapsinitiative.org/>; GTMI, World Bank, <https://www.worldbank.org/en/programs/govtech/gtmi>.

Note: The x-axis is a country-level measure of transparency in procurement personnel derived from the MAPS assessments. There are 14 MAPS related to the transparency concept. Refer to appendix A for more details and a list of the MAPS indicators used to calculate the measure. e-GP = e-government procurement; GTMI = GovTech Maturity Index; MAPS = Methodology for Assessing Procurement Systems.

For each procurement challenge, table 2.1 notes how it can hinder procurement outcomes such as efficiency of government spending, quality of public works, and speed of government contracting. All of the outcomes listed support private sector development; quality public works, for instance, help keep transportation costs low and supply chains resilient. Many outcomes stem from multiple dimensions: The efficiency of government spending, for example, is related to the competence of procurement personnel, their independence from political pressures, and the transparency of procurement processes. Assessing procurement problems in this way helps diagnose where interventions can improve procurement-specific outcomes while also supporting broader private sector development.

Procurement outcomes are linked to both organizational and governance dimensions.

TABLE 2.1 Common procurement problems and how the organizational and governance dimensions contribute to them

Procurement problem	Organizational and governance dimension	Procurement outcome
Procurement officials do not have sufficient knowledge of procurement methods or markets to minimize costs while maximizing quality.	• <i>Personnel.</i> Of the variation in quality-adjusted prices paid in the Russian Federation, 20% was attributable to the individual officers who managed the procurement process (Best et al. 2023). More competent procurement units are associated with fewer cost overruns (Decarolis, Guiffrida, et al. 2020).	Efficiency of government spending
Procurement officials lack sufficient market knowledge to write tender or contract documents relevant to the market in question. This may attract an insufficient number of high-quality firms.	• <i>Information systems.</i> Implementation of e-procurement platforms in India and Indonesia enabled more high-quality firms to win contracts, thus improving the quality of the ultimate infrastructure that was built (Lewis-Faupel et al. 2016).	Quality of public goods
Procurement activities are arduous and complex because they rely on paper-based, manual processes that require approval from many different stakeholders. The number and manual nature of these steps creates delays.	• <i>Information systems.</i> Total time for processing a government tender in Bangladesh decreased by an average of about 16 days after adoption of an e-procurement system (Blum et al. 2023). • <i>Accountability.</i> More competent procurement units are associated with fewer time delays and renegotiations (Decarolis, Fisman, et al. 2020). • <i>Personnel.</i> Identity of individual procurement monitors in Pakistan greatly influenced procurement delays (Bandiera et al. 2021).	Speed of government contracting
Politicians or other decision-makers impose unnecessary or unrealistic time constraints that rush steps in the procurement process and hinder effective implementation.	• <i>Management practices.</i> Decreasing officer workloads (that is, adding one additional officer to a team) leads to a 28% increase in probability that contracts will generate a patent (Giuffrida and Raiteri 2023).	Innovation (that is, patent filings)
Firms, politicians, or other public officials pressure procurement officials to award contracts to specific, favored firms. These firms may not be the most qualified, thereby increasing costs or decreasing quality.	• <i>Independence.</i> Contracts awarded to politically connected firms result in higher prices and the selection of less-productive suppliers (Mironov and Zhuravskaya 2016; Szucs 2024). Procurement methods that allow for greater officer discretion are more likely to be awarded to suppliers connected to ruling politicians (Szucs 2024). Firms that donate to political campaigns are more likely to subsequently receive a significant increase in the size of contracts they win (Boas et al. 2014). • <i>Transparency.</i> Publicizing tender information reduces procurement costs by increasing the number of bidders (Coviello and Mariniello 2014).	Reduced corruption

Source: Original table for this publication.

Applying the framework: Corruption and passive waste in public procurement

The inefficient use of public resources, through corruption or other types of waste, is a common problem in public procurement. It is difficult to quantify the extent of financial resources lost through corruption in procurement,

but the risks are large and present throughout the procurement process (OECD 2016). In addition to outright corruption, procurement may create passive waste—administrative inefficiencies that do not accrue any direct benefits to officials but that, if removed, would make all procurement officials better off (Bandiera et al. 2009). Examples include excessive red tape or poor coordination. The report’s framework offers a useful tool for understanding these and similar challenges faced by procurement institutions. More important, the framework emphasizes that potential solutions must approach these problems from multiple angles and will inevitably involve trade-offs.

Although procurement-related corruption is often treated as a personnel issue, the framework highlights why the problem is more complicated. A commonly proposed solution is to change who is appointed as a procurement official, based on the assumption that more professional personnel with higher ethical standards will be less likely to misappropriate financial resources (World Bank 2023b). Another common approach is to professionalize the procurement cadre through training programs. In addition to helping address corruption, more qualified officials may also reduce passive waste, because they may be better equipped to scrutinize complex bids and minimize costs (Best et al. 2023). Although these approaches can help address corruption and passive waste, the framework’s other dimensions show that personnel are only one part of the solution.

For instance, addressing procurement-related corruption almost always requires considering procurement officials’ independence from political pressures. As noted, procurement institutions face multiple pressures that exacerbate corruption risks. Extracting financial resources through procurement, for example, can serve as a channel for politicians to finance campaigns, leading them to pressure even highly skilled officials to award contracts to firms that will provide kickbacks or campaign contributions (Sigman 2023). Even professional bureaucrats hired through meritocratic systems can yield to pressure from their political principals, particularly if those politicians can transfer them to undesirable posts in rural, isolated areas (Brierley 2020). Addressing corruption, therefore, requires attention not only to personnel aspects—career, skills, and compensation—but also to the extent of political control over these features of the procurement system.

Likewise, strengthening management practices within procurement institutions is another important tool for addressing corruption and passive waste. Policy makers concerned about the misuse of public resources may impose strict controls on procurement officials, limiting their discretion through formal rules and subjecting them to close oversight. Such reforms could

be justified, given evidence that discretion in procurement can lead to corruption (Baltrunaite et al. 2021; Szucs 2024). However, even if such efforts decrease corruption, they may also increase passive waste. Greater oversight and more rules can overemphasize compliance at the expense of outcomes—for example, by preventing officials from contracting quickly with capable, high-performing firms. Some degree of discretion, therefore, may improve procurement outcomes (Coviello et al. 2018).

The optimal level of discretion likely depends on specific personnel characteristics, as well as governance quality and contextual factors. Constraints on discretion are typically more effective in low-capacity settings, whereas greater discretion may be optimal in high-capacity environments. It is important to note that there can be substantial heterogeneity across institutions, even within the same government. In Italy, for example, increased procurement discretion led to favoritism primarily among public buyers with less-qualified staff and less-transparent processes (Baltrunaite et al. 2021). Evidence from a randomized controlled trial in Pakistan similarly shows that greater autonomy reduced prices and delays when procurement officers were overseen by inefficient monitors (Bandiera et al. 2021).

This suggests that expanding discretion can improve efficiency and reduce passive waste when delays stem from supervisors rather than officers. These strong links between the framework’s personnel, independence, and management practices highlight that addressing corruption and passive waste in public procurement requires a multifaceted approach. Focusing on a single dimension may provide only a partial remedy—or even unintended negative outcomes.

Notes

1. More information can be found at <https://www.mapsinitiative.org/>. Refer to appendix A for a detailed discussion of how the indicators are constructed from the MAPS assessments.
2. In recent years, Brazil has passed several laws and decrees that seek to address the issue of delayed payments. Whether these laws are effectively implemented and enforced still remains to be seen.

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Chapter 3. Public Institutions That Regulate the Private Sector

Introduction

Regulations are laws and formal rules that influence how markets operate. Regulations establish requirements and standards for goods and services, affecting the behavior of firms, consumers, and public institutions.¹ Regulations influence (and often constrain) the behavior of firms and consumers across multiple areas of economic activity. Whether in business registration or bankruptcy laws, regulations have profound consequences for private sector development and economic growth (Klein and Hadjimichael 2003). For example, regulations affect business entry decisions by defining the requirements to open a business. Although these business regulations may intend to protect consumers from firm malpractice, they may also inadvertently protect incumbent firms (World Bank 2024b). Thus, designing and enforcing regulations that enable private sector development while protecting the public interest is a complex task.

Regulations can enable private sector development, but this requires regulatory institutions capable of designing and enforcing them well. A vibrant private sector is characterized by healthy competition between firms, as well as by high-quality goods and services for consumers (IFC et al. 2010). Well-designed and enforced regulations can protect and even strengthen these market characteristics by reducing barriers to entry, deterring cartel formation, and making information available for consumers (World Bank 2016a, 2021). However, the benefits of regulations depend on the capacity of the regulatory institutions that design and implement them (Estache and Wren-Lewis 2010; IFC et al. 2010; Laffont 2005). Regulatory institutional capacity manifests itself in various dimensions. For instance, regulators' expertise enables regulatory institutions to monitor and interpret market developments accurately, designing regulations that adequately address changing technological conditions. In addition, institutional independence prevents capture by incumbent firms, which may otherwise pressure regulatory institutions to enact regulations that restrict market entry (Ait Ali Slimane and Hasan 2021; Müller 2023).

This chapter applies the report’s conceptual framework to regulatory institutions. Drawing on empirical evidence and global data, the chapter demonstrates how it is possible to implement a data-driven assessment of regulatory institutions’ capacity. The chapter begins by identifying regulatory institutions’ policy mandates and then shows how the framework’s organizational and governance dimensions can be applied and measured using data and country examples. The chapter concludes by applying the framework to the utilities sector, with a case study on telecommunications regulatory agencies in Peru.

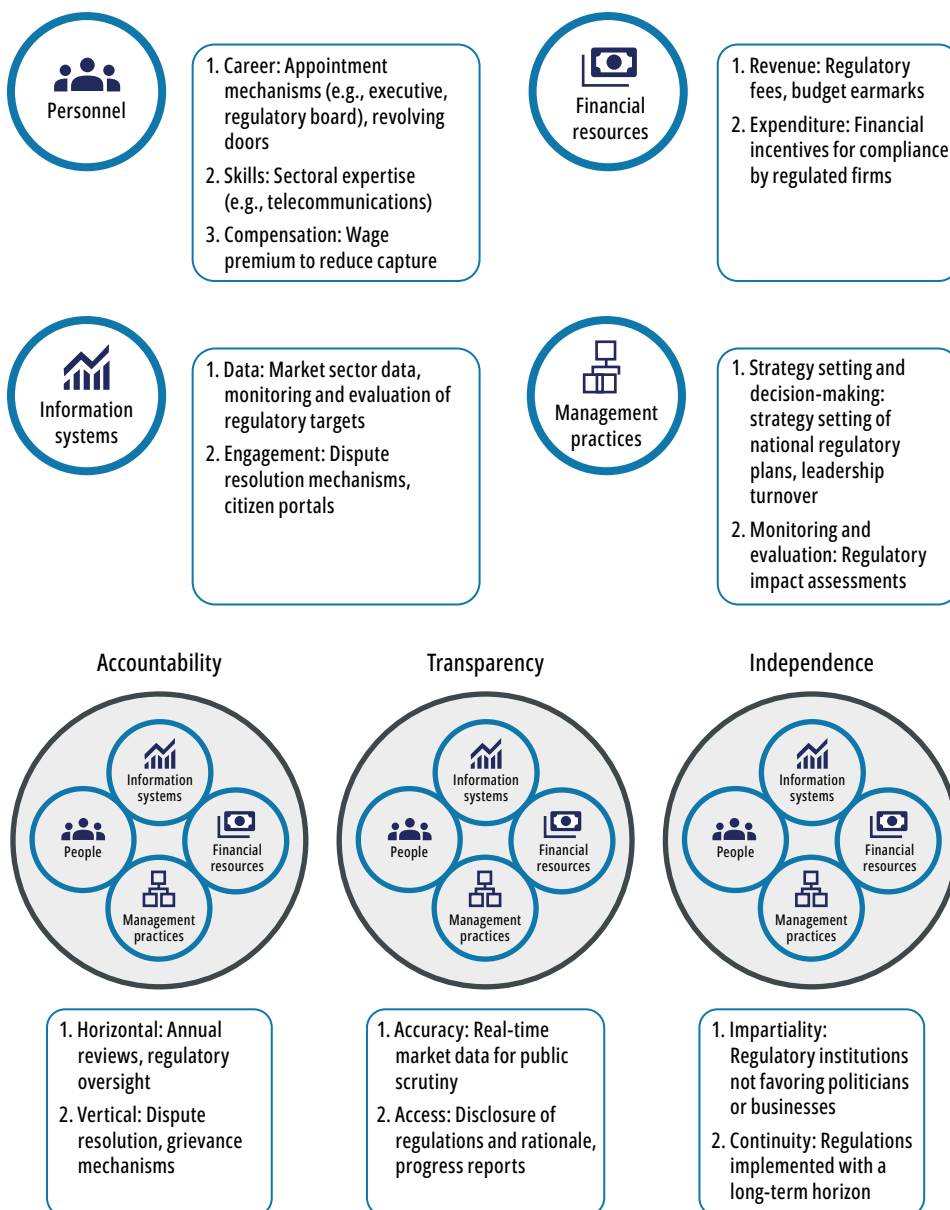
Framework for regulatory institutions

Regulatory institutions’ organizational and governance dimensions shape their capacity to achieve key policy mandates. For example, the governance dimension of accountability—in the form of consultations with regulated firms—improves firm compliance with manufacturing regulations (Malesky and Taussig 2019). Likewise, organizational issues such as leadership vacancies in regulatory institutions, as well as limited staffing—key aspects of the personnel and management practices of this report’s framework—cause delays in the implementation of regulations (Bolton, Potter, and Thrower 2016; Carpenter 2002). This report focuses on the organizational and governance dimensions that shape regulatory institutions’ capacity to achieve their policy mandates (refer to figure 3.1).

The capacity of regulatory institutions varies across countries in the same sector and across sectors in the same country. One way to assess this variation is to examine how regulatory frameworks are implemented in practice, assessing the quality of public services that support firms to be in regulatory compliance (World Bank 2024a). Data from the World Bank Business Ready Dataset (<https://www.worldbank.org/en/businessready>) include four topic areas that are especially associated with regulations: business entry, market competition, financial services, and utility services.² Figure 3.2 shows that the quality of these public services varies substantially across countries in the same sector and across sectors in the same country. For example, New Zealand and Singapore are top performers in the implementation of their regulatory frameworks on average, yet they display substantial variation across sectors in the same country. Across the sample, implementation gaps are generally higher in financial services and business entry than in utilities and market competition.

The framework can be applied to regulatory institutions to diagnose and suggest solutions to common problems.

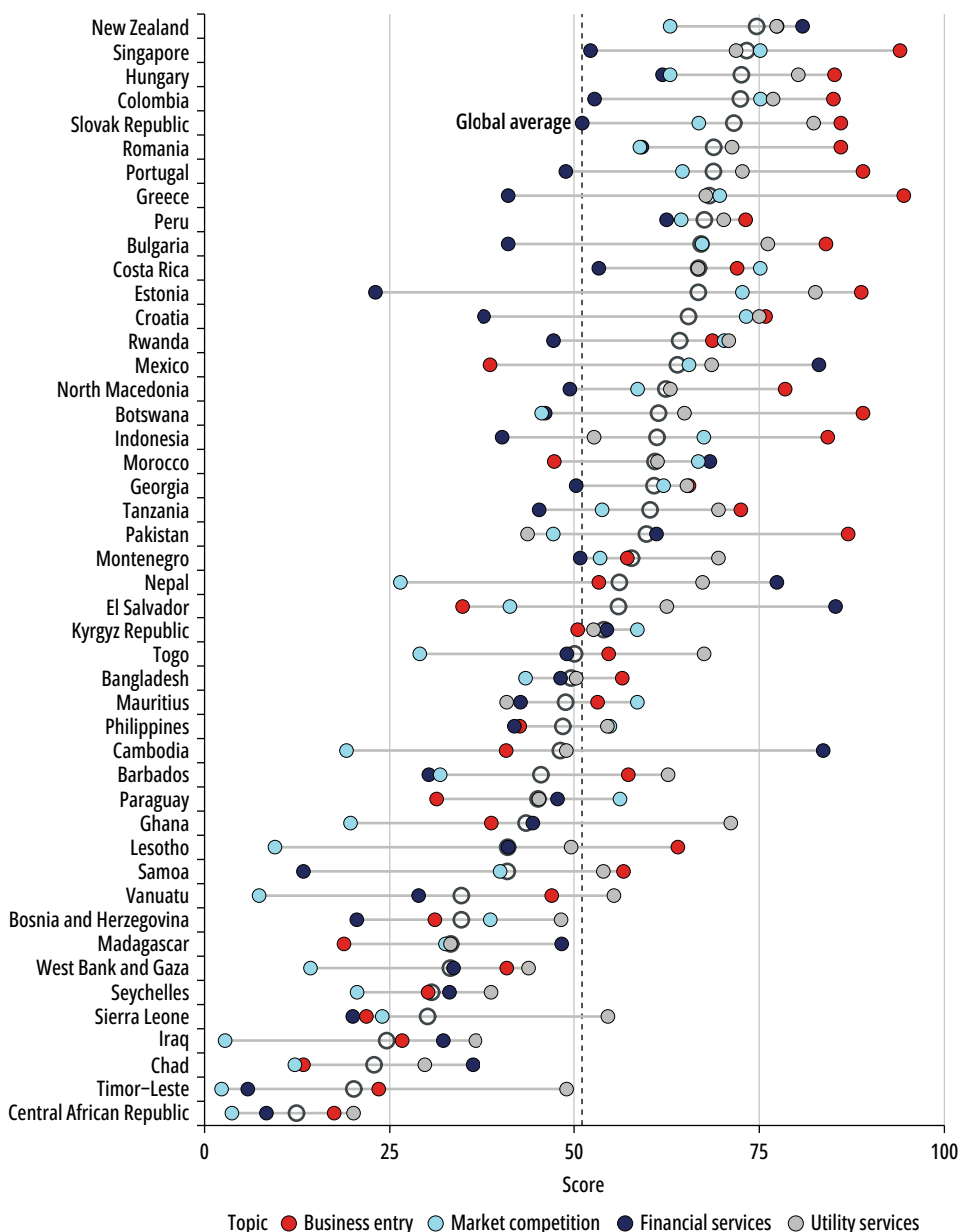
FIGURE 3.1 Framework applied to regulatory institutions



Source: Original figure for this publication.

The implementation gap in regulatory frameworks varies across countries and their sectors.

FIGURE 3.2 Scores for government-provided services that support regulatory compliance, by type of service



Source: Original figure for this publication using Business Ready data from World Bank 2024a.

Note: Public services are defined as the set of government-provided services that support regulatory compliance, including institutions and infrastructure that enable business activity (World Bank 2024a). Scores represent composite indices based on several indicators, and higher scores denote better public services. The dotted line represents the global average.

Policy mandates

Regulatory institutions have three main policy mandates: promoting competition, improving the quality of goods and services, and ensuring accessibility. These regulatory mandates at times complement one another. For example, promoting competition is often a means to improving the quality of goods and services because of innovation from new entrants or enhancing accessibility through lower prices (World Bank 2024b). Given these synergies, competition is typically a core policy mandate for a subset of regulatory agencies known as *competition authorities*. Policy mandates vary according to country, sector, and policy priorities and are determined in the policy arena (IFC et al. 2010). Regulatory institutions design and enforce regulations to achieve these mandates, and *regulatory institutional capacity* is defined as the ability to do so. Sometimes, these mandates lead to trade-offs. For example, setting and enforcing quality standards can lead to higher prices and reduced access. Ultimately, managing these complementarities and trade-offs requires context-specific and fine-tuned adjustments by capable regulatory institutions (IFC et al. 2010).

Regulatory institutions play an important role in promoting competition in markets. Some sectors, such as utilities, are vulnerable to natural monopolies. Regulatory institutions such as competition authorities can address this by implementing regulations to prevent the abuse of natural monopoly power and by attempting to emulate the competitive market setting (Joskow 2007). Typically, promoting competition requires the design of regulatory policies that reduce anticompetitive practices, such as price setting (for example, a price cap regulation, as described in Laffont and Tirole 1993). The World Bank regularly applies the Markets and Competition Policy Assessment Toolkit (World Bank 2023) to identify regulations that limit competition and induce distortions in the market, providing an evidence-based approach to regulatory reforms. In some cases, reducing regulations may promote competition. For example, business sectors in the Philippines with fewer regulatory barriers to competition are more likely to adopt information and communications technologies (World Bank 2016b). However, regulations such as exclusivity rights limit firm entry (World Bank 2018).

Regulatory institutions also play an important role in improving the quality of goods and services. Information asymmetries between firms and consumers can occur when there is uncertainty regarding the underlying quality of goods (Akerloff 1978). In these cases, regulations can improve access to information for consumers and empower them to choose higher-quality

goods and services. For example, regulatory institutions can require food producers to provide accurate and reliable information on nutritional facts (for example, caloric value, macronutrient contents) that enable consumers to make informed decisions about their dietary intake (Christoph et al. 2018). Regulatory institutions can also implement regulations that ensure food safety and quality standards for goods and services (Kotsanopoulos and Arvanitoyannis 2017; World Bank 2025). In financial sector regulation, banking regulators may establish rules that protect consumers from fraud or deception (Levitin 2012). However, onerous standards can be prohibitively costly for firms, reducing incentives for them to enter the market and thus reducing competition. These dynamics underscore the importance of regulatory institutions assessing trade-offs across mandates when seeking to improve the quality of goods and services in the private sector.

Regulatory institutions further influence who can access private sector goods and services. Digital technologies such as the internet and mobile phones are often concentrated among consumers with higher incomes, creating a digital divide (World Bank 2016b). In these contexts, telecommunications regulatory institutions can ensure access to populations that would otherwise be excluded. For example, a telecommunications regulator can require mobile providers to provide coverage to communities in remote areas. Similarly, an energy regulatory institution may require electricity providers to connect underserved communities (for example, rural areas) even if that is unprofitable for firms (Kelly and Rossotto 2012). These potential trade-offs between accessibility and firm profits need to be carefully assessed so that firms still choose to join the market despite access-enhancing regulations. At the same time, policy mandates such as promoting competition and ensuring access can complement each other. Prices of goods and services are one determinant of accessibility. Generally, lower prices increase access, so regulatory institutions should ensure that competition between firms drives prices down (refer to figure 3.3).

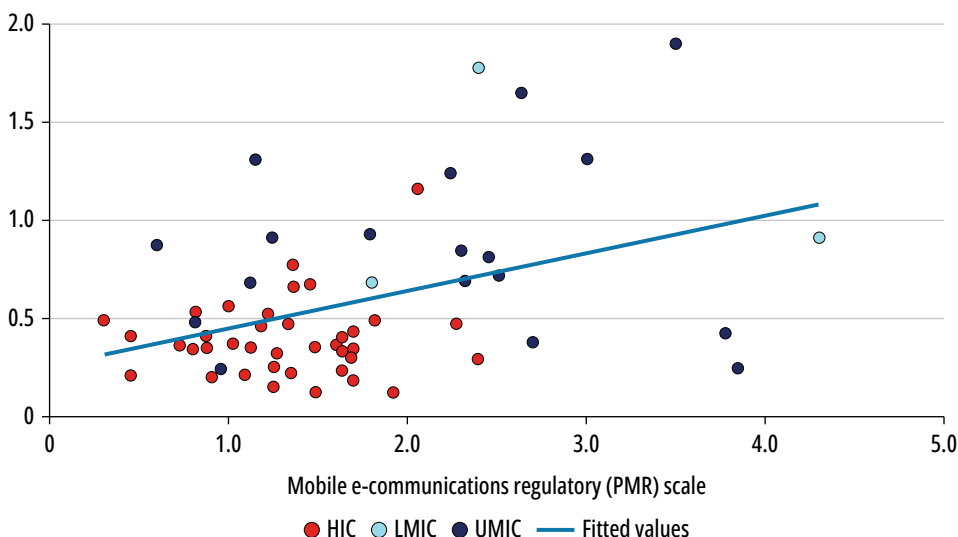
Regulatory institutions can fail to deliver their policy mandates because of a wide range of organizational and governance challenges. Several problems commonly prevent regulatory institutions from delivering on their mandates:

- Politicians appoint regulators who tilt the rules in favor of certain firms and private interests to the detriment of consumer interests.

Countries with regulations that reduce competition have higher prices in mobile services.

FIGURE 3.3 Country-level data on regulatory restrictions and price for a data-only mobile broadband basket

Price of data-only mobile broadband basket (% GNI p.c.)



Sources: Original figure for this publication, using data from OECD PMR 2023–24 (<https://www.oecd.org/en/topics/product-market-regulation.html>), WB-OECD PMR (https://data360.worldbank.org/en/int/dataset/OECDWBG_PMR), and International Telecommunication Union 2024 (<https://www.itu.int/en/ITU-D/Statistics/pages/stat/default.aspx>).

Note: The PMR scale ranges from 0 to 6, with 6 being more restrictive. The indicator evaluates regulatory restrictions on market entry and conduct, as well as the extent and quality of public ownership, across eight network sectors: electricity, natural gas, air, rail, road, water transport, fixed telecommunications, and mobile telecommunications. PMR data for Ecuador, Kazakhstan, Kosovo, Malaysia, Moldova, Montenegro, the Philippines, Russian Federation, Serbia, and Viet Nam are based on WB-OECD 2018 PMR scores (https://data360.worldbank.org/en/int/indicator/OECDWBG_PMR_PMR). These data were collected between 2018 and 2022 using the previous methodology and should, therefore, be interpreted with caution. The data-only mobile broadband basket (2 GB, 3G, and above) refers to the cheapest nonpromotional option providing at least 2 GB of high-speed data over a 30-day period from the operator with the largest market share. The data-only mobile broadband basket is expressed as a share of GNI per capita. GNI = gross national income; HIC = high-income countries; LMIC = lower-middle-income countries; OECD = Organisation for Economic Co-operation and Development; p.c. = per capita; PMR = product market regulation; UMIC = upper-middle-income countries; WB = World Bank.

- Regulators lack sufficient knowledge of markets to address market failures without undermining private sector development and market competition.
- Regulatory institutions do not have sufficient incentives to collaborate with the private sector, which is often crucial for understanding regulations' secondary and potentially unintended impacts on firms.
- Monitoring compliance with regulations can be arduous and complex because of insufficient data and inadequate information systems to manage that data.
- Politicians or other decision-makers can cause disruptive changes in leadership at regulatory agencies, making it difficult to approve new regulations to address technological or market changes.

Organizational dimensions

This section examines each of the organizational dimensions introduced in chapter 1 and applies them to regulatory institutions: personnel, financial resources, information systems, and management practices.

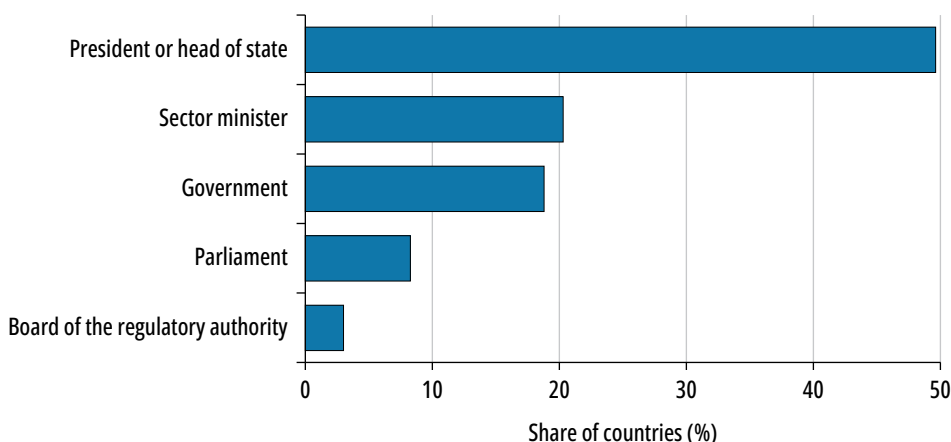
Personnel

Personnel is a key dimension to consider when assessing the capacity of regulatory institutions. Regulators need to understand complex markets, such as those in the financial and electricity sectors. These are often very large and profitable markets in which small changes in regulations can have a significant monetary impact for the firms involved. It is, therefore, crucial that recruitment, promotion, and dismissal practices are structured in ways that prevent conflicts of interest between regulators and regulated firms, providing them with sufficient independence to carry out their intended functions. In addition, regulators should be adequately paid and have the qualifications needed to understand the markets they regulate.

Recruitment and dismissal processes for the heads of regulatory institutions can set the incentives for the whole agency. In general, heads of regulatory agencies tend to be appointed by heads of government, particularly among telecommunications regulators (refer to figure 3.4). Although this arrangement can improve policy alignment with government priorities, it also constrains regulatory institutions' ability to pursue their mandates independently of short-term political interests. For example, a head of government might appoint regulatory heads on the basis of loyalty rather than on their ability to implement agency mandates impartially. To ensure a degree of independence between regulatory institutions and political priorities, some countries require that heads of agencies be appointed by a board or reviewed by the legislature.³ The latter arrangement is rare: According to 2023 data on Organisation for Economic Co-operation and Development (OECD) member countries from the Governance of Sector Regulators, legislatures are involved in only 27 percent of regulatory leadership appointments (Van Langen et al. 2025). Flexibility in dismissing regulators can help address cases of undue influence or partiality in regulatory decisions that favor specific firms. However, it also risks enabling politically motivated dismissals that prioritize short-term priorities rather than long-term stability and market competitiveness (OECD 2017).

The heads of telecommunications regulatory institutions are appointed by the head of state in nearly half of all countries.

FIGURE 3.4 Distribution of appointment authority for telecommunications regulatory institutions



Source: Original figure for this publication based on calculations using data from the International Telecommunication Union (<https://www.itu.int/en/ITU-D/Statistics/pages/stat/default.aspx>).

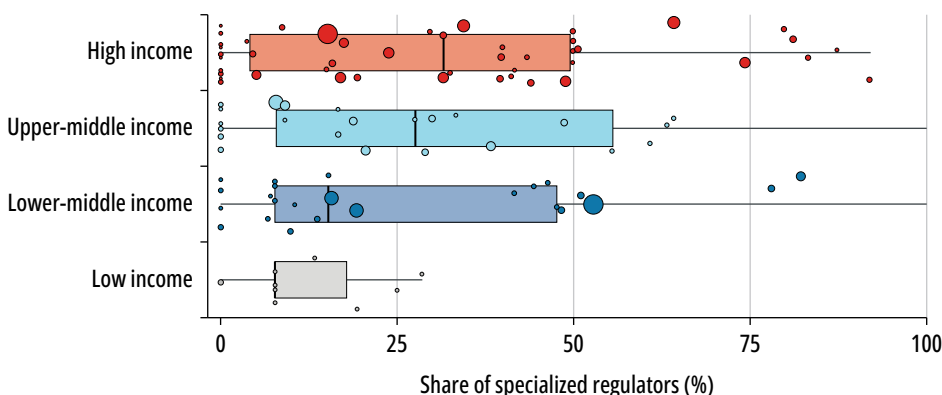
Note: Data are the most recent available for country respondents and include self-reported answers from telecommunications authorities that are part of the International Telecommunication Union, a United Nations agency that specializes in digital technologies. Nonresponses and “other” category are excluded. The sample includes 133 countries.

Regulatory institutions should be staffed by personnel with adequate sectoral expertise. Given that sectors are complex and regulations can have unintended consequences, personnel in regulatory institutions need expertise to design and enforce regulations that are appropriate for their sector (Stern 2000). In financial regulation, for example, regulators should have relevant skills and specialization in specific bank and risk functions. There is substantial cross-national variation in the share of specialized banking regulators, even when accounting for country income levels (refer to figure 3.5). Although countries in the high-income group tend to have more specialized staff, the median share is below 50 percent, and the range is wide. Generally, regulatory institutions in low-income countries have less specialized staff.

Given the skills requirements and the risk of capture, compensation is a key consideration in ensuring the appropriate staffing of regulatory institutions. To attract and retain competent personnel, regulatory institutions typically pay salaries with a positive wage premium with respect to prevalent wages in the public sector. This was the strategy used by regulatory institutions in Brazil, which pay comparatively higher salaries than other public institutions in the federal government (dos Santos, Brandão, and Maia 2015).

Countries with higher income tend to have more specialized personnel in banking regulators, but there is substantial overlap across income groups.

FIGURE 3.5 Country-level share of bank regulators specializing in bank functions



Source: Original figure for this publication based on calculations using data from the 2021 Bank Regulation and Supervision Survey (<https://www.worldbank.org/en/research/brief/BRSS>).

Note: The share is computed as the total number of professional bank supervisors specialized in bank functions (for example, treasury) or risks (for example, credit markets), divided by the total number of supervisors (excluding support functions and management). The size of each circle is proportional to the total workforce in the regulatory institution. Country income groups reflect the latest classification provided by the World Bank. The vertical lines in the bars are the median of the distribution.

Financial resources

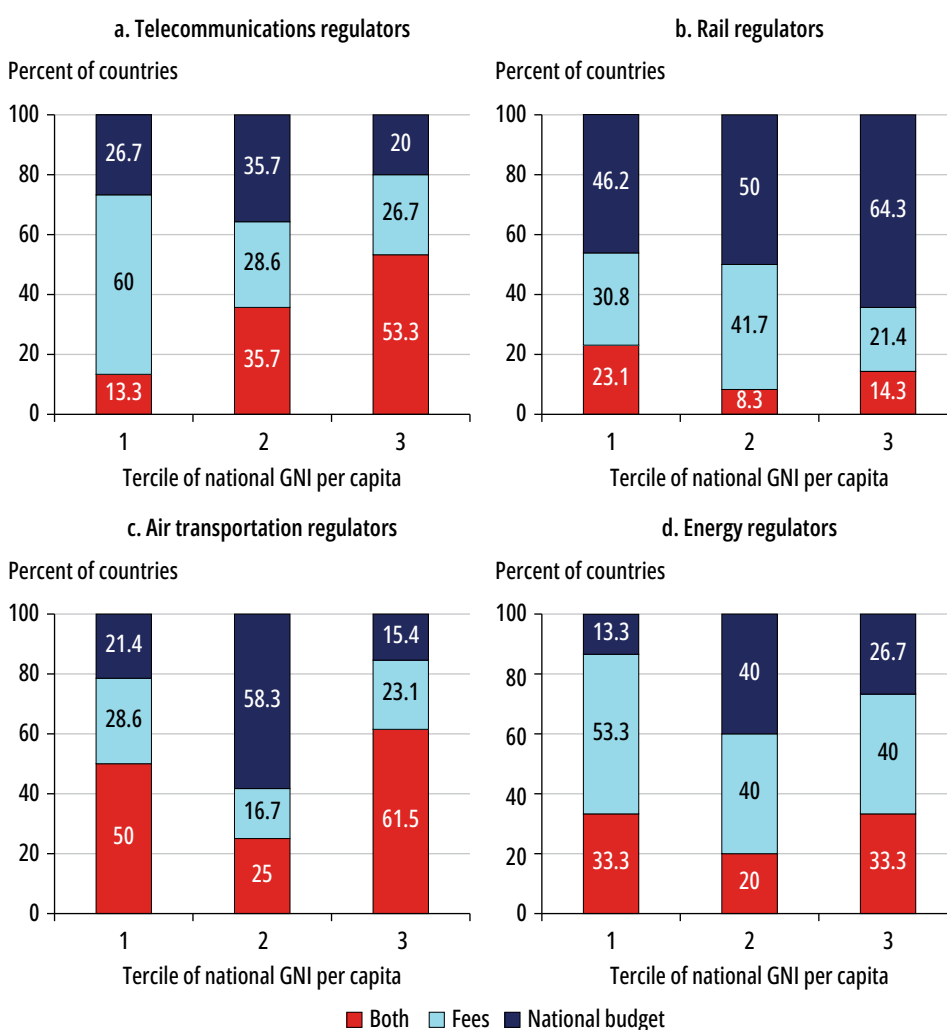
Regulatory institutions' funding streams encompass budget earmarks, regulatory fees, or a mixture of both (World Bank 2019a). Each of these financing mechanisms has implications for regulatory institutions' incentive structures. If regulatory institutions rely on fees, for example, they may overregulate in an attempt to increase their budget. By contrast, budget earmarks provide more stability across fiscal years and enable institutions to separate their funding needs from their policy mandates.

For OECD countries, these financing mechanisms vary across sectoral regulatory agencies and income levels. Figure 3.6 provides an illustration. Among telecommunications regulatory agencies (panel a) in countries in the lower-income tercile, for instance, 60.0 percent rely exclusively on regulatory fees, whereas countries in the upper tercile rely on both fees (26.7 percent) and earmarked budget (20.0 percent). Rail regulatory agencies (panel b) generally rely less on fees and more on national budgets, with slightly higher shares in higher-income terciles (64.3 percent in the upper tercile). Air transportation regulatory agencies (panel c) rely predominantly on mixed financing mechanisms, although budget funding remains common in middle-tercile economies. Energy regulators (panel d) consistently rely on

regulatory fees across income groups, with fees accounting for 53.3 percent in the lower tercile and 40 percent in both the middle and the upper terciles. Overall, telecommunications and energy regulators tend to draw a large share of resources from regulatory fees, whereas rail regulators rely mostly on national budgets, and air transportation regulators exhibit more variation.

Financing mechanisms vary across income levels and types of sector regulatory agencies.

FIGURE 3.6 Financing mechanisms for regulators in countries, by tercile of income distribution



Source: World Bank calculations using data from the OECD's 2023 Indicators on the Governance of Sector Regulators (Van Langen et al. 2025).

Note: Respondents include OECD member countries and select nonmember countries (for example, Brazil). Sample includes 45 countries. GNI = gross national income; OECD = Organisation for Economic Co-operation and Development.

Beyond the type of financing mechanism, another key consideration is the adequacy of funding. After the 2008 global financial crisis, heightened scrutiny of banking supervisors raised concerns about the adequacy of their institutional arrangements to regulate a financial services market that had grown in complexity and scale. Examples such as these underscore that regulatory institutions need adequate funding, authority to spend it effectively, and the capacity to collect revenues. Levy and Spiller (1994), for instance, find that regulatory institutions with adequate public financial management are associated with credibility and long-term investments in the enforcement of regulatory frameworks.

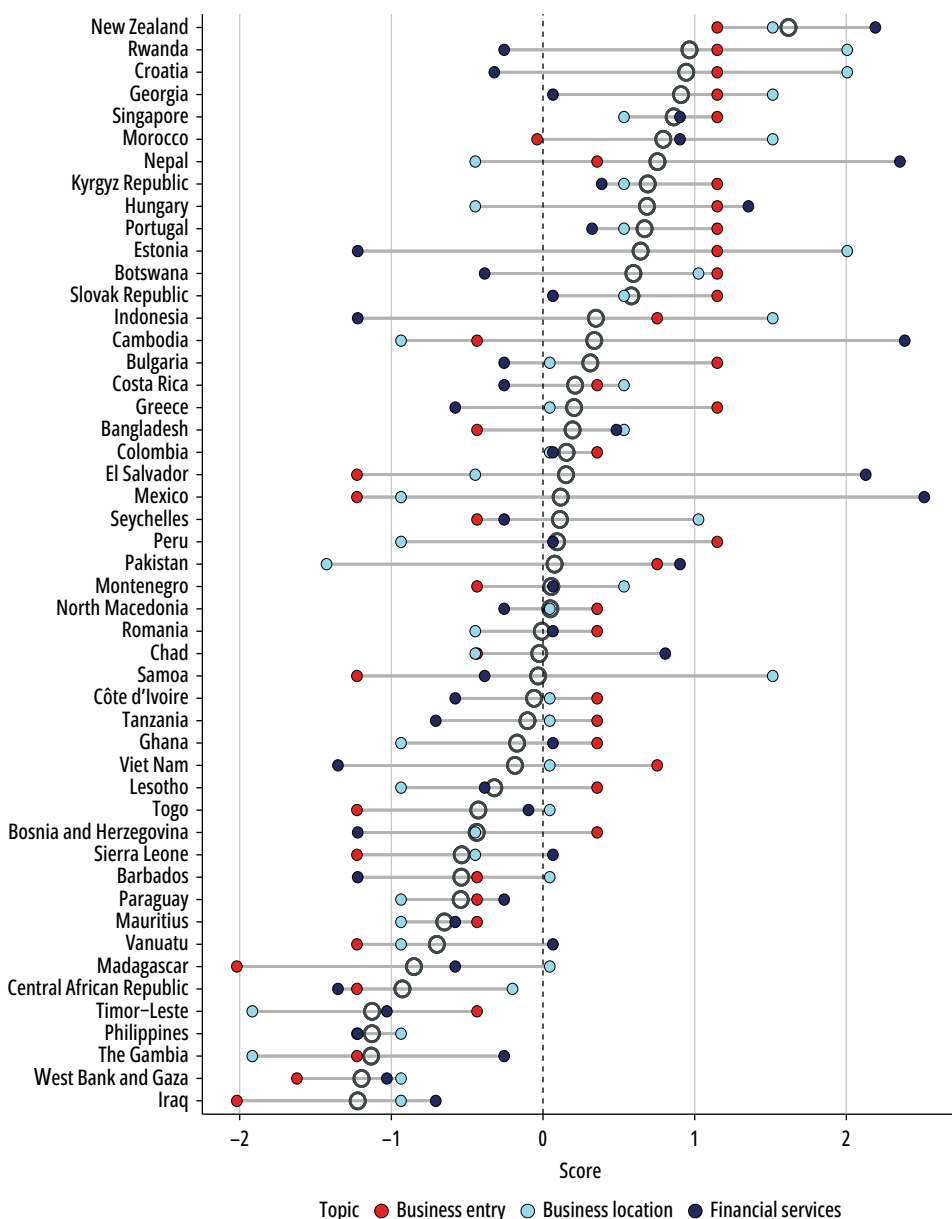
Information systems

Regulatory institutions' information systems include data on the market characteristics needed to inform the regulatory process as well as websites that make regulations and other documents publicly available. Regulatory institutions regulate a dynamic and evolving market. To ensure that their knowledge of the market is accurate and up to date, regulatory institutions require data (OECD 2021). Data enable monitoring of market trends and technological developments and compliance with existing regulations, including target metrics. Recent evidence suggests that automated data gathering on air pollution can enhance the quality and accuracy of information for environmental regulators. Greenstone et al. (2022) find that the introduction of automated air pollution-monitoring stations in China reduced misreporting in the air pollution reports produced by local government officials.

Because markets are complex, regulatory institutions need to leverage multiple data sources. This, in turn, requires interoperable data sources so that regulatory institutions can integrate multiple sources and build a comprehensive picture of market conditions. Business Ready gathers data on the interoperability of information systems across multiple topics, including business entry and financial services (refer to figure 3.7). Countries such as Croatia, New Zealand, and Rwanda tend to have more interoperable information systems, but they still show variation across sectors and services (for example, business entry). In Rwanda, information systems on business entry (for example, company information and identifiers) are set up for automated data exchanges across agencies more often than in the financial sector (for example, centralized registry of bank collaterals). In some countries, such as Mexico, the difference across regulatory institutions in the same country is almost as large as the average difference across countries, providing further evidence that government institutions are far from homogeneous.

The interoperability of information systems varies within the same countries and across sectors and services.

FIGURE 3.7 Interoperability of different information systems, by country



Source: Original figure for this publication, based on calculations using data from the World Bank Business Ready Dataset (<https://www.worldbank.org/en/businessready/data>).

Note: Each circle represents a different sector or topic in the Business Ready data. The black circles represent the mean. Indicators are scored on the basis of the presence of good practices in the interoperability of information systems, such as a centralized and integrated data registry. Indicators for each topic are z scores, computed by subtracting the topic-specific mean and dividing by the standard deviation, to account for differences in the scoring of indicators.

Management practices

Regulatory institutions benefit from effective management practices, particularly in strategy setting and monitoring and evaluation. Setting a strategy and committing to it for the medium to long term is an important foundation for regulatory institutions. Strategic management requires clear objectives and plans to guide institutions' internal functioning and establish different roles and responsibilities, complemented by mechanisms for coordination with relevant public institutions (OECD 2014). These management practices are mutually reinforcing. Role clarity enables other institutions to identify where coordination is relevant, and coordination can reduce role duplication and clarify a regulatory institution's scope.

Notably, regulatory overlap and duplication are commonplace. A study of tourism in Cusco, Peru, for example, found significant overlap in the mandates of government agencies regulating tourism, increasing the cost and complexity for travel agencies to acquire their business licenses (Molfetas 2019). Strategy setting is generally the responsibility of a regulatory institution's head, who ensures institutional alignment with a forward-looking vision. Evidence suggests that strategy setting as a management practice varies across countries and types of sectoral regulatory agencies (refer to figure 3.8).

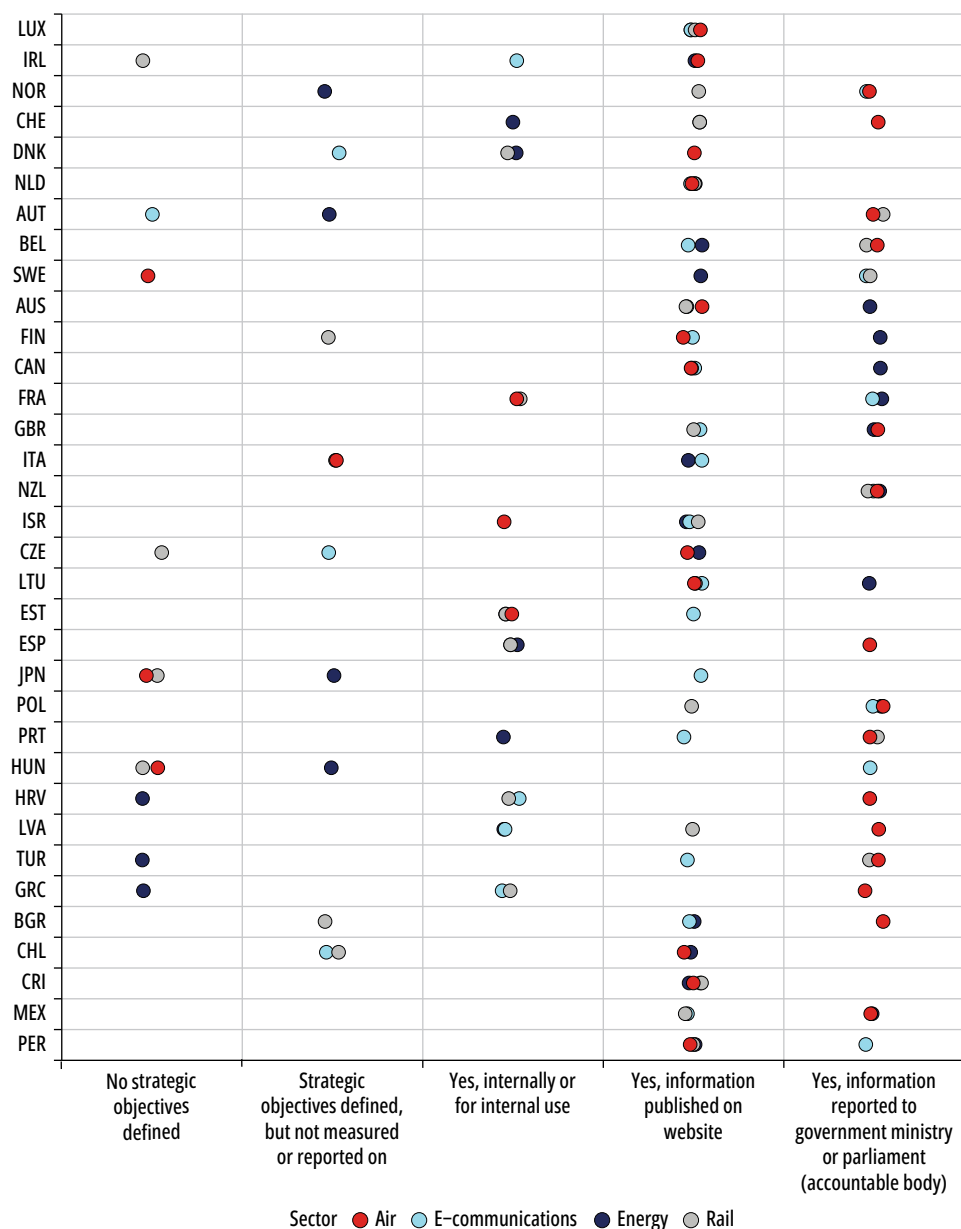
Monitoring and evaluation are useful management tools for regulatory institutions. Regulatory impact assessments are a common tool for reviewing, evaluating, and adjusting the regulatory process according to its actual or expected impact on regulated entities (Ladegaard 2005; Ladegaard, Lundkvist, and Kamkhaji 2018; OECD 2020). Through regulatory impact assessments, regulatory institutions can make better-informed decisions about what to regulate and how, minimizing unwanted consequences for firms and consumers. As such, these assessments offer an opportunity for regulatory institutions to adjust their strategy, learn from the consequences of regulations, and predict what might occur in the future. Together, robust strategy setting, monitoring, and evaluation facilitate coordination between regulatory institutions and other relevant public institutions.

Governance dimensions

This section goes through each of the governance dimensions introduced in chapter 1 and applies them to regulatory institutions: accountability, independence, and transparency.

Sector regulatory agencies in OECD countries publish and report their strategic objectives consistently.

FIGURE 3.8 Within-country and across-sector variation in the setting and disclosure of strategic objectives



Source: World Bank calculations using data from the OECD's 2023 Indicators on the Governance of Sector Regulators (https://www.oecd.org/en/publications/the-2023-indicators-on-the-governance-of-sector-regulators_dc22e402-en.html).

Note: Each circle represents an individual sector regulatory institution and their type of management practice. Circles are positioned to reduce overlap. Economies are ordered by gross domestic product per capita (constant international dollars, 2017), latest data available. The sample includes 45 countries. For a list of country codes, refer to <https://www.iso.org/obp/ui/#search>.

Accountability

Accountability mechanisms ensure regulatory institutions are responsive to external stakeholders, including politicians and the private sector. The variety of stakeholders with competing interests—including politicians, firms, and citizens—makes accountability a challenge for regulatory institutions, requiring a broad set of accountability mechanisms linked to each stakeholder type. For accountability to politicians as well as to other public institutions, annual reviews and regulatory oversight committees can be established (OECD 2014). For accountability to the private sector and citizens, dispute resolution, grievance mechanisms, and opportunities to provide public comments on proposed regulations enable firms and the public to voice their concerns and influence regulations. Evidence suggests that these accountability mechanisms, including consultations, increase firms' foreign direct investment and regulatory compliance (Hebous, Kher, and Tran 2020; Malesky and Taussig 2019).

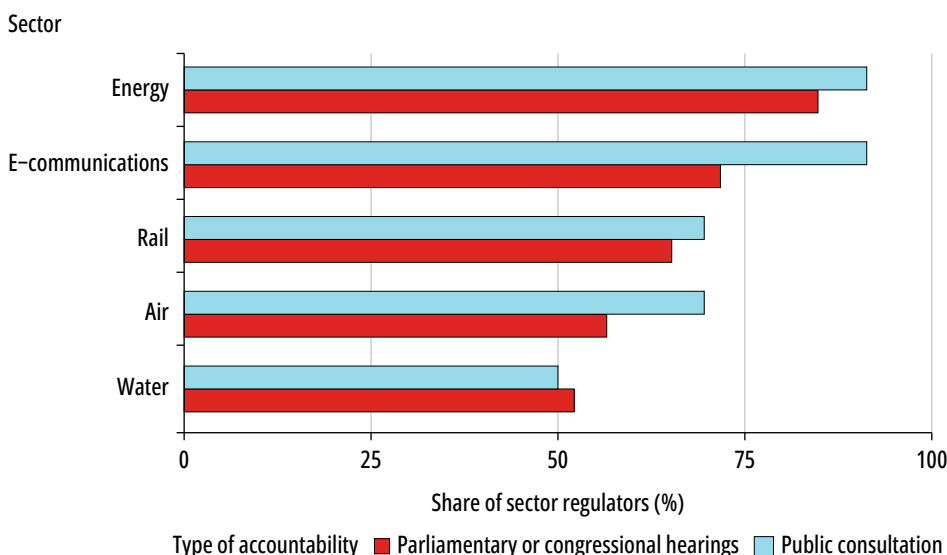
The accountability of sector regulators varies across institutions within the same country. Drawing on data from the Governance of Sector Regulators collected by the OECD, figure 3.9 depicts this variation in the accountability of sector-specific regulatory institutions for OECD countries.⁴ The accountability indicators used in the data set combine multiple types of accountability: to the executive and legislative branches, to regulated entities, and to citizens. The data show significant variation in the degree of accountability across sector regulators, although the type of accountability is consistent within sectors (for example, to the Parliament or to the public). For example, energy and e-communications regulatory agencies score high on accountability to both the legislature and the public, whereas water regulatory agencies score low for both.

Transparency

Transparency is the degree to which regulatory institutions disclose regulations, their implementation, and the regulatory process itself to the public. A range of rules and processes can strengthen regulatory institutions' transparency. For example, regulatory frameworks on infrastructure projects and services can be made publicly accessible to the public and key stakeholders (World Bank 2020). Transparency also depends on the accuracy and timeliness of information, including the provision of real-time, high-quality market data for public scrutiny.

Accountability to the legislature and to the public varies across sectors: Energy and e-communications sector regulatory agencies are more accountable than others.

FIGURE 3.9 Share of OECD sector regulators accountable to either the legislature or the public



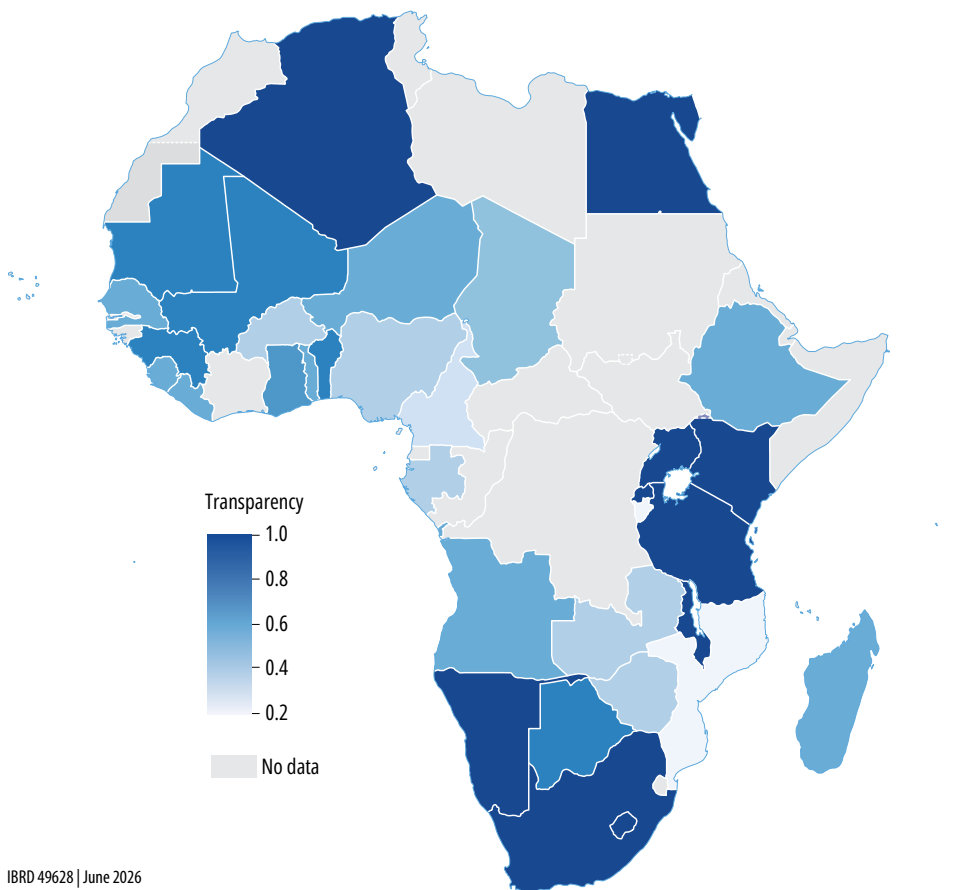
Source: Original figure for this publication based on calculations using data from the Governance of Sector Regulators (Van Langen et al. 2025).

Note: Shares of sector regulators are computed by sector. Bar color corresponds to type of accountability (that is, to the legislature or the public). Data are self-reported and reviewed by the OECD. Not all sector regulatory agencies in each country responded to the questionnaire. Specific questions include to whom the regulatory agency is accountable (for example, Parliament or Congress) and whether the government collects feedback through public consultation. Sample size is 230 sector regulators in 46 countries. OECD = Organisation for Economic Co-operation and Development.

In the energy sector, evidence points to substantial variation in transparency practices for regulatory institutions.⁵ The Electricity Regulatory Index for Africa, for instance, shows that energy regulators in Kenya, Tanzania, and Uganda exhibit relatively high levels of transparency, whereas those in Nigeria and Zambia lag behind (refer to map 3.1). Similarly, a study of the energy sector in Latin America and the Caribbean (LAC) found that improved governance of energy regulatory agencies, particularly greater transparency, is associated with increased reliability and connectivity of electricity grids (Andres, Guasch, and Azumendi 2009). Transparency reduces the risk of regulatory capture by making public how regulatory decisions are made, creating opportunities for greater scrutiny and accountability of regulatory institutions' operations. As such, transparency enhances the functioning of accountability rules and processes.

Transparency of regulatory institutions in the energy sector varies across countries in Africa.

MAP 3.1 Level of transparency in electricity regulations across the African continent, 2022



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Source: Original map for this publication from calculations using data from the Electricity Regulatory Index for Africa (African Development Bank 2022).

Note: Data are collected through a questionnaire sent to electricity regulators. The indicator assesses the extent to which regulatory agencies adopt international practices regarding transparency (with higher scores indicating a greater degree of adoption). This includes publication of information on regulatory procedures, regulatory decisions, and the rationale underlying these decisions.

Independence

Independence protects regulatory institutions from undue influence from politicians and the private sector. *Independence* refers to the rules and processes to prevent regulatory capture (Carpenter and Moss 2013). *Undue influence* is a key distinction between independence and accountability mechanisms, the latter of which involves stakeholders exercising legitimate influence. An example of undue influence is revolving-door appointments, which enable private sector firms to capture regulatory institutions by

appointing their own staff and rewarding regulators with jobs when they leave regulatory institutions (Dal Bó 2006).⁶

Independence rules and procedures can protect regulatory institutions from capture by politicians and are particularly important for the framework's organizational dimensions, such as personnel and financial resources. One of the benefits of independence is that it can ensure continuity in the regulatory framework. For example, regulatory institutions can commit to implementing regulations with a long-term horizon, which reduces the risk of sudden regulatory changes and lowers the risk for regulated entities (World Bank 1997, 2017a). Within recruitment, it is important to consider how regulatory staff are hired and whether competitive selection processes take place.

Systematic evidence on the independence of sector regulatory institutions is primarily limited to developed countries. The majority of systematically collected data on the independence of sector regulators is done by the OECD. Drawing on those data, it is possible to map out variation across and within countries (refer to figure 3.10, panel a).⁷ One example of a developing country that is doing relatively well in its overall regulatory independence is Brazil. This, however, does not mean that its regulatory independence is not politically contested. As in many other countries, legislative and executive proposals to curtail the independence of its regulatory agencies are frequent.⁸ Figure 3.10, panel b, focuses specifically on the independence of financial resources (for example, assessing whether the regulatory institution proposes and discusses its own budget or whether this is done by another governmental institution or ministry). Notably, the country ranking for overall independence is different from the ranking for independence of financial resources.

Regulatory institutional challenges span multiple dimensions

As with procurement institutions in chapter 2, regulatory institutional challenges are multidimensional. Table 3.1 outlines a set of problems commonly faced by regulatory institutions, with key examples from the literature and practical experience. It highlights that institutional challenges span multiple dimensions and reveals connections between different parts of the framework. As with procurement institutions, the definition of a problem is closely linked to the regulatory institution's mandate. For example, low-quality goods and services may reflect outdated information systems as well as limited expertise among regulatory personnel, making it difficult to identify and enforce quality issues. Organizing outcomes in this way helps diagnose where interventions can improve regulatory outcomes while also supporting broader private sector development.

Independence of sector regulatory agencies varies across and within countries.

FIGURE 3.10 Country-level measures of the independence of regulatory agencies and their financial resources, across sectors

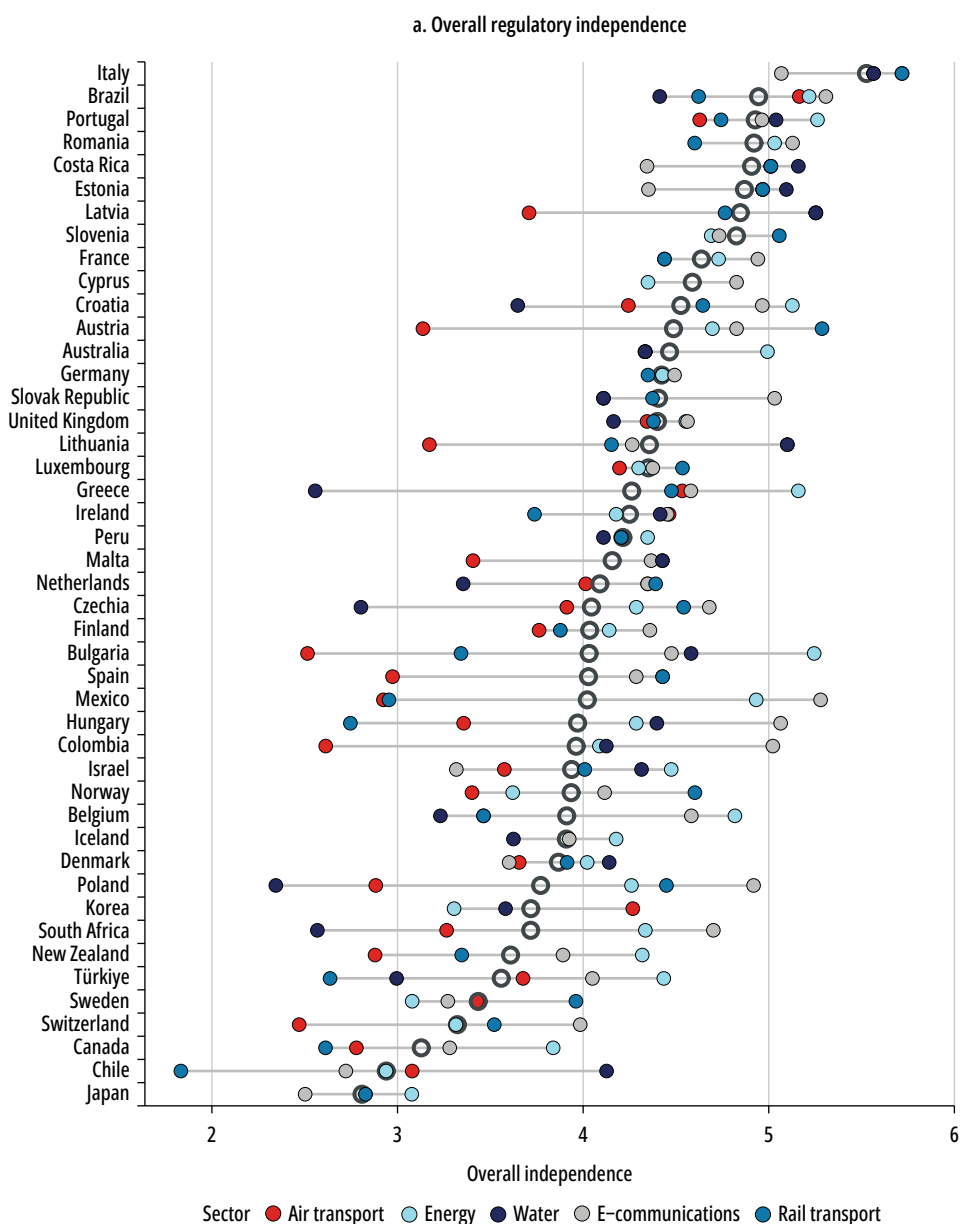
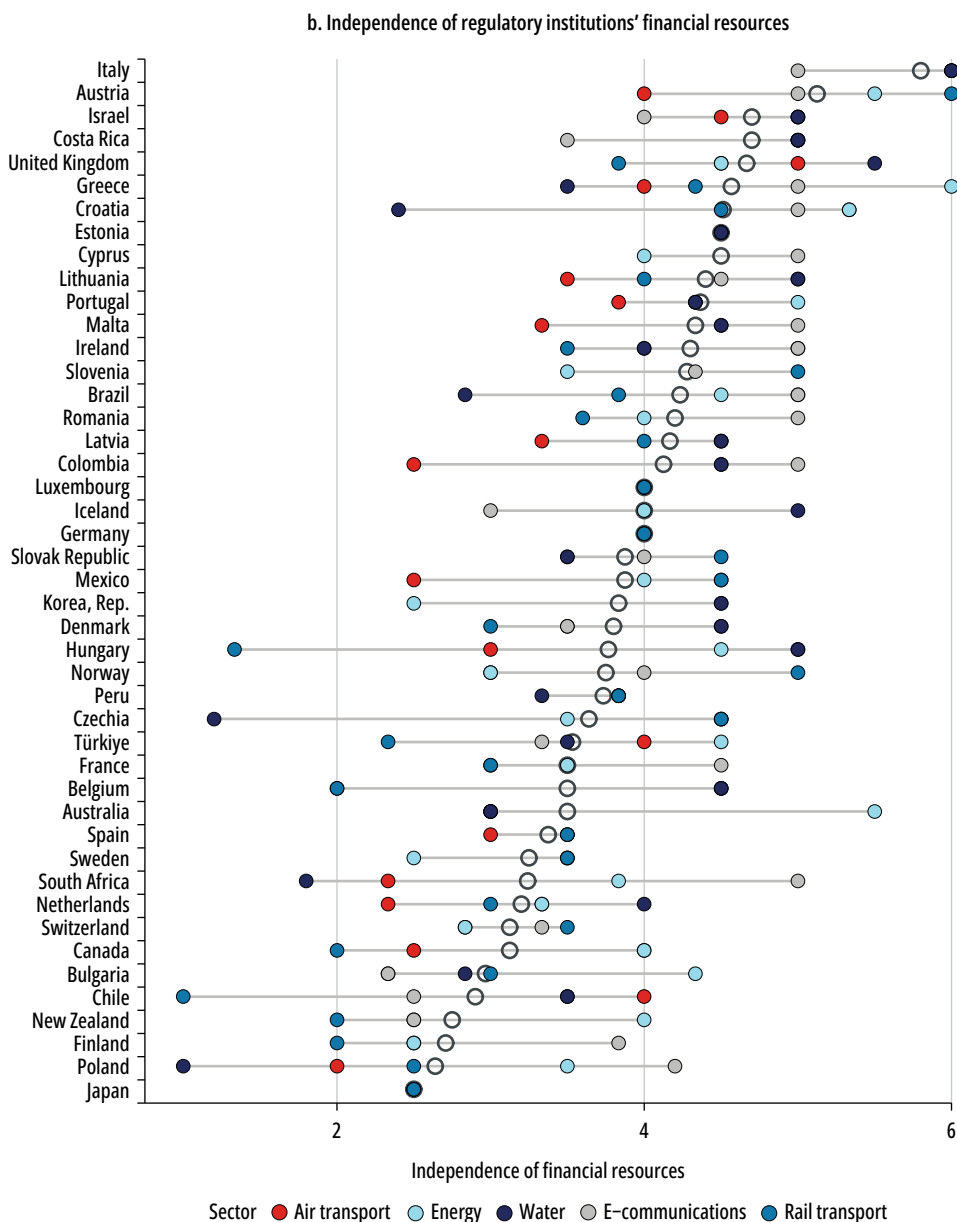


FIGURE 3.10 Country-level measures of the independence of regulatory agencies and their financial resources, across sectors (*continued*)



Source: Original figures for this publication using calculations based on data from the Governance of Sector Regulators (Van Langen et al. 2025).

Note: Scores vary from 0 (lowest independence) to 6 (highest independence). Each color corresponds to a different sector regulator. Data are self-reported and reviewed by the OECD. Not all sector regulatory agencies responded to the questionnaire for each country. Sample includes 45 countries. OECD = Organisation for Economic Co-operation and Development.

Panel a: Questions on independence cover multiple areas, including relationship with the executive, staff, and budget. Specific questions include the legal status of the regulatory agency (for example, independent body), how the majority of staff are appointed (for example, positions are advertised publicly, and candidates are selected by selection panel), and the length of budget appropriations (for example, at least 3 years).

Panel b: Questions on independence specifically cover the budget (that is, financial resources). For example, who is responsible for proposing and discussing the regulator's budget? Scoring is based on OECD schemata for the Governance of Sector Regulators indicators, 2023 methodology.

Regulatory outcomes are linked to the organization and governance dimensions.

TABLE 3.1 Common regulatory problems and how the organizational and governance dimensions contribute to them

Regulatory problem	Organizational and governance dimensions	Regulatory outcome
Regulators lack sufficient knowledge of markets, as well as sufficient data and information systems to address market failures without undermining private sector development and competition levels.	• <i>Information systems.</i> Outdated tracking systems limit the data available for regulators to enforce quality standards (OECD 2021). • <i>Personnel.</i> Regulatory staff may lack the required level of expertise to identify and diagnose quality issues (Stern 2000). • <i>Accountability.</i> Not providing firms the opportunity to participate in and provide comments on regulations reduces the likelihood that firms will comply with existing chemical safety standards (Malesky and Taussig 2019).	Improve the quality of goods and services.
Politicians appoint regulators who tilt the rules in favor of certain firms and private interests to the detriment of consumer interests. Politicians or other decision-makers can cause disruptive changes in leadership of regulatory agencies, making it difficult to approve new regulations to address technological or market changes.	• <i>Independence.</i> Revolving-door appointments by firms may pressure regulatory institutions to either increase barriers to entry or refrain from enacting competition-enhancing regulations (Dal Bó 2006). • <i>Management practices.</i> Infrequent review and adjustment of competition regulations. Regulations may not be updated regularly to reflect market changes. • <i>Financial resources.</i> Underfunding of market studies and regulatory audits. Lack of funding can limit the ability to conduct thorough analyses and audits, hindering market regulation.	Promote competition.
Regulatory institutions do not have sufficient incentives or resources to provide information to the public.	• <i>Transparency.</i> Limited transparency in real-time data for public scrutiny, which prevents identification of excluded users. • <i>Financial resources.</i> Inadequate financial incentives to attract private sector investment in underserved areas. There may not be enough benefits to encourage private companies to invest.	Ensure access.

Source: Original table for this publication.

Applying the framework: Case study on telecommunications regulatory institutions in Peru

Telecommunications plays a significant role in economic development, although the digital divide in the LAC region remains noticeable. Telecommunications can provide network externalities and support economic activity by improving information flows for firms and consumers (Röller and Waverman 2001). However, coverage of and access to mobile services are not uniform across LAC (World Bank 2016b). The region has seen slower growth in broadband connectivity, as indicated by the Global System for Mobile

Association's Telecom Connectivity Index.⁹ This stagnation is primarily attributed to regulatory frameworks that constrain the expansion of the telecommunications sector (World Bank 2017b).

This case study analyzes the design and implementation of telecommunications regulation by the Ministry of Transport and Communications (MTC) and the Organismo Supervisor de Inversión Privada en Telecomunicaciones (OSIPTEL) in Peru. MTC and OSIPTEL are the country's main regulatory institutions for mobile services. OSIPTEL is a specialized regulatory institution attached to the Presidential Council of Ministers with de jure technical, administrative, and financial autonomy. OSIPTEL's broad mission is to improve the quality of services and customer protection in telecommunications, all within a framework of equitable and open competition. It focuses particularly on regulations for mobile internet and services, including spectrum broadband allocation and mobile network infrastructure (for example, cellular radio towers), among others.¹⁰ The MTC is mandated with broader infrastructure regulation, including telecommunications infrastructure. In particular, it is responsible for building and offering concessions for the national fiber optic network (the Red Dorsal Nacional de Fibra Óptica) in rural areas, in an attempt to bridge the urban-rural digital divide (OECD 2023).

As table 3.2 illustrates, implementation challenges in the telecommunications sector can have their roots in multiple organizational and governance dimensions. For example, low participation in spectrum auctions is driven by inadequate systems for monitoring market dynamics (an information systems issue) and lack of information shared with market participants (a transparency issue).

Competitive spectrum auctions

In Peru, more robust information systems could enhance monitoring progress and ensure compliance in spectrum use, increasing the number of potential bidders in spectrum auctions. Currently, regulators' outdated tracking systems and insufficient regulatory compliance tools impede effective oversight.¹¹ For example, after auctions to allocate radio spectrum to mobile services providers, OSIPTEL was unable to sufficiently track compliance, which resulted in operators either misusing or underusing their allocated spectrums. Improving real-time data collection and analytical capabilities would enhance compliance, enabling accurate monitoring with respect to the use of broadband spectrums. Clearer market performance metrics could lead to more competitive bidding behavior, affecting the overall competitiveness of the spectrum auction.

Implementation problems, their potential sources, and possible solutions in Peru's telecommunications regulatory agencies.

TABLE 3.2 Using the framework to diagnose potential sources of policy implementation problems in telecommunications regulatory agencies in Peru

Implementation problem	Potential sources of problems		Possible solutions
	Information systems	Management practices	
Lack of oversight and clear metrics in spectrum auctions results in low participation and compromises the integrity of the auction process.	Unclear market performance metrics lead to low participation by bidders. The systems for monitoring market dynamics and spectrum use are inadequate. <i>Accountability.</i> Lack of comprehensive and up-to-date information hinders audits. <i>Transparency.</i> Market performance metrics provided to market participants are not sufficiently clear.		Establish real-time data collection and analysis systems. Establish clear, standardized market performance metrics and regular evaluations and audits that are publicized to market participants.
Regulatory delays in the drafting and enactment of regulatory frameworks cause regulatory uncertainty among telecommunications operators.		Frequent leadership turnover disrupts regulatory decisions. Differing agendas and priorities among involved entities result in delays in interinstitutional coordination. <i>Independence.</i> Politically motivated appointments of heads of regulatory agencies compromise independence.	Ensure that heads of regulatory agencies serve for a fixed term and are subject to review by either the legislature or a regulatory board. Strengthen decision frameworks so that there is clarity of mandate between multiple regulatory institutions.

Source: Original table for this publication.

Transparency and accountability issues, such as inconsistent regulatory updates and delays in communication to mobile operators, have limited stakeholder engagement and trust in the country's broadband sector. Two key mobile service regulations—the National Broadband Plan and the Broadband Law—are designed to expand broadband access, but transparency limitations, such as a lack of clear metrics on how radio spectrums will be allocated, have undermined their success. To address this, regulators' norms emphasize timely and clear communication to ensure that stakeholders are well informed, facilitating smoother policy implementation. Transparency

issues also make it challenging to enforce accountability. For example, if the regulatory agency does not publish responses to comments by regulated entities, it is difficult to hold the agency accountable for regulatory decisions it has made. Inadequate auditing processes have further weakened regulatory accountability. Spectrum caps and competitive spectrum auctions require robust accountability mechanisms, such as audits to prevent market monopolization and ensure fair competition. Irregular implementation of such audits leads to uneven compliance with allocated spectrum bands.

Regulatory delays

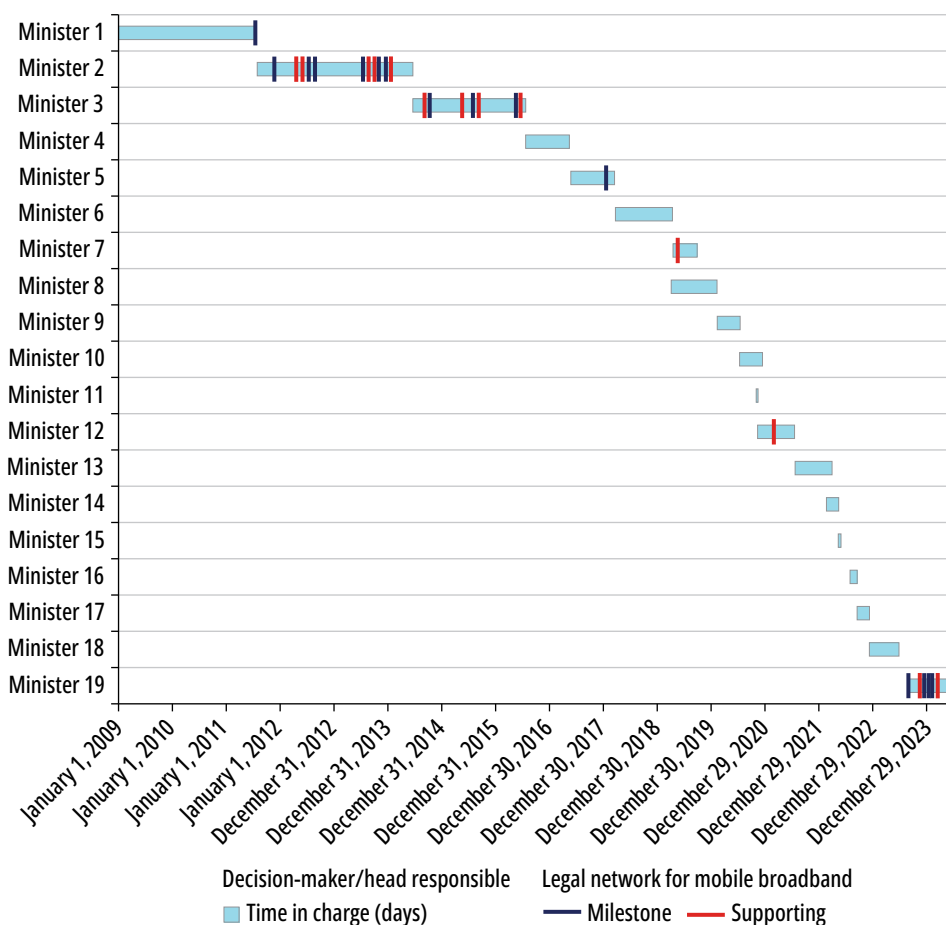
Strengthening the independence of Peru's regulatory agencies could provide more managerial stability and consequently regulatory certainty. Frequent changes in political leadership and shifting regulatory priorities have created an unstable environment for long-term telecommunications infrastructure projects. The average tenure of ministers and vice ministers of communications is short, with many serving less than a year. Figure 3.11 shows the tenure of the 19 ministers who oversaw telecommunications regulation in Peru from 2009 to 2023, as well as the timing of key regulatory decisions.¹²

Because the MTC is responsible for regulating the telecommunications sectors, these frequent leadership changes have contributed to inconsistent policy directives, fragmented efforts, and delays in executing critical regulatory milestones. For example, the implementation of the National Broadband Plan and spectrum caps was delayed because of shifting priorities caused by frequent managerial turnover. This case exemplifies how a lack of independence can have an impact on management practices.

Independence is crucial for unbiased decision-making, but Peru's regulatory agencies have faced challenges in maintaining it. According to the Framework Law on Regulatory Agencies, the country's regulatory institutions should operate autonomously, reporting to the Presidency of the Council of Ministers and enjoying administrative, functional, technical, economic, and financial independence. In practice, however, this independence is subject to contestation by the legislative and executive branches. For example, the 2021–22 Congress proposed a bill to alter the composition of regulatory councils and the criteria for membership. In May 2024, the executive requested legislative powers to modify the Framework Law on Regulatory Bodies to increase executive oversight of regulatory institutions.¹³

Frequent leadership change is a challenge for achieving key regulatory milestones.

FIGURE 3.11 Decision-maker tenure and regulatory milestones in Peru's telecommunications sector



Sources: Original figure for this publication. Data for duration of ministers is from individual norms that legally appoint the Minister of Communications and Transportation; these norms were downloaded from the Ministry of Justice (<https://spijweb.minjus.gob.pe/>). Dates for milestones and supplementary norms were extracted from the Ministry of Transportation and Communications (<https://www.gob.pe/institucion/mtc/normas-legales/>), OSIPTEL (<https://www.osiptel.gob.pe/>), ProlInversión (<https://www.investinperu.pe/>), and the Plataforma Digital Única del Estado Peruano (<https://www.gob.pe/>).

Note: Each dark blue line represents a key legislative or regulatory act (milestone) that has significantly affected the mobile internet service sector in Peru. Each orange line represents other legislative or regulatory acts (supporting) that complemented milestones. The light blue bars represent the number of days each decision-maker was in charge. For example, key regulatory milestones, such as the 4G spectrum auction and Mobile Virtual Network Operator regulations, were also delayed because of leadership changes. Transitions in leadership often shift priorities, resulting in inconsistent implementation and lack of follow-through on existing plans.

This proposal suggested unifying their regulatory functions to achieve cost savings and operational efficiencies. In practice, this centralization risked diluting regulatory independence. By unifying functions without considering different sectors' distinct regulatory needs, it created opportunities for the politicization of technical issues and reduced legal certainty for private investments. The proposal was ultimately rejected by the Congress.¹⁴

A key challenge for telecommunications regulation in Peru is the lack of interinstitutional coordination. Telecommunications is a complex system, requiring regulatory institutions to focus on regulating specific services and infrastructure while also coordinating their efforts. As mentioned earlier, OSIPTEL is responsible for improving the quality of services, protecting consumers, and ensuring competition. The MTC, by contrast, focuses on telecommunications infrastructure. In theory, these two institutions should coordinate their regulatory efforts. A high-quality mobile service requires the maintenance or rollout of mobile service infrastructure to support it. In practice, these institutions have often not coordinated their regulatory efforts, either working in isolation or competing with one another. This lack of interinstitutional coordination and collaboration has led to both regulatory delays and the uneven implementation of regulations that sought to improve the quality of mobile services.¹⁵

Notes

1. This definition is adapted from the OECD (2012) and IFC, MIGA, and World Bank (2010). External-facing regulations are distinct from internal-facing rules and laws that govern how public institutions operate. The latter are considered a branch of administrative law. https://www.oecd.org/en/publications/recommendation-of-the-council-on-regulatory-policy-and-governance_9789264209022-en.html.
2. These four topic areas were chosen because they represent sectors (for example, utilities) and services that are often subject to regulations by specialized regulatory agencies (for example, banking supervisor, competition authority, and utilities regulator).
3. The appointment of regulatory agency heads links the organizational dimension of personnel to the governance dimension of independence, illustrating the cross-cutting nature of these dimensions highlighted in chapter 1.
4. The definition of *accountability* in the Governance of Sector Regulators is similar to the one presented in this report: The mechanisms to hold the regulatory agency to account on its performance and decision-making. This concerns the regulator's accountability vis-à-vis the executive, legislature, regulated entities, users, and society (Van Langen et al. 2025).
5. The transparency indicator is composed of three subindicators: Information on regulatory procedures, information on regulatory decisions, and publication of regulatory documents and decisions.
6. Although some countries have rules safeguarding regulatory institutions from revolving doors (for example, cool-off periods), implementation of such safeguards is uneven.
7. The definition of independence employed in the Governance of Sector Regulators is as follows: "This dimension looks at the degree to which regulators can operate independently, free from undue influence from government and regulated entities. The independence dimension covers three sub-dimensions: Relationship with the executive, staff and budget" (Van Langen et al. 2025, 10).
8. A recent example of a legislative proposal in Brazil is to curtail the independence of the Central Bank of Brazil, the key regulator of banking services. The proposal ultimately failed (refer to Câmara dos Deputados 2023).

9. The Connectivity Index consists of about 31 indicators. It provides a broad overview of mobile and broadband services. To gain deeper insights into the institutional ecosystem of the telecommunications service sector, the indicators are split into two categories: (1) sector responsibility indicators, metrics that the telecommunications sector directly controls, reflecting internal capabilities and performance, and (2) coordination-dependent indicators, metrics requiring collaboration with other sectors, highlighting the need for cross-sectoral policies and public infrastructure support.
10. For the remainder of this section, we refer to mobile internet and services as mobile services, for conciseness.
11. Issues regarding outdated tracking systems and appropriate regulatory tools for enforcement are mentioned in norms issued by regulatory agencies in Peru. These include Law 29904 (Ley de Promoción de la Banda Ancha y Construcción de la Red Dorsal Nacional de Fibra Óptica. Congreso de la República del Perú, July 20, 2012) and DS 004-2021-MTC (Ley de Promoción de la Banda Ancha y Construcción de la Red Dorsal Nacional de Fibra Óptica. Congreso de la República del Perú, July 20, 2012).
12. Note that these ministers do not directly manage OSIPTEL, due to its de jure autonomy. However, the ministers heading the MTC often coordinate with OSIPTEL in designing and implementing regulations on telecommunications.
13. Refer to https://www.osinerg.gob.pe/newweb/uploads/Publico/3_1_Ley_Marco_Organismos_Reguladores_27332.pdf.
14. For more information, refer to <https://comunicaciones.congreso.gob.pe/noticias/aprueban-informe-para-otorgar-facultades-legislativas-al-poder-ejecutivo/>.
15. For resolutions addressing the issue of lack of interinstitutional coordination, refer to Resolución 040-2005-CD-OSIPTEL (<https://www.osiptel.gob.pe/n-040-2005-cd-osiptel/>) and Resolución 012-2008-CD-OSIPTEL (<https://www.osiptel.gob.pe/n%C2%BA-012-2008-cd-osiptel/>).

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Appendix A. Methodology for Assessing Procurement Systems Indicators

Figures 2.2 and 2.5 are constructed using the specific criteria coded in the Methodology for the Assessment of Procurement Systems (MAPS) framework. Tables A.1 and A.2 present the criteria for the personnel and transparency dimensions. For each country, the MAPS assessment rates each criterion as present, partially present, or not present. These ratings are then coded as 2, 1, and 0, respectively. The two figures plot the percentage of possible points that countries could have received for their personnel-related criteria.

TABLE A.1 Criteria in the MAPS framework relevant to the personnel dimension

MAPS pillar	Criteria
Pillar 1: Legal, regulatory, and policy framework	None
Pillar 2: Institutional framework and management capacity	• One or several agencies are clearly responsible for providing tools and documents, including integrity training programs, to support training and capacity development of the staff responsible for implementing procurement. • One or several agencies are clearly responsible for supporting the professionalization of the procurement function (for example, development of role descriptions, competency profiles, and accreditation and certification schemes for the profession). • The institution's internal organization, authority, and staffing are sufficient and consistent with its responsibilities. • The centralized procurement body's internal organization and staffing are sufficient and consistent with its responsibilities. • Responsibility for the management and operation of the system is clearly defined. • Government officials have the capacity to plan, develop, and manage e-procurement systems. • Procurement staff are adequately skilled to reliably and efficiently use e-procurement systems. • Substantive permanent training programs of suitable quality and content are created for the needs of the system. • Routine evaluation and periodic adjustment of training programs is done on the basis of feedback and need. • Advisory services or help desk functions are provided to resolve questions by procuring entities, suppliers, and the public. • A strategy is well integrated with other measures for developing the capacity of key actors involved in public procurement.

Continued

TABLE A.1 Criteria in the MAPS framework relevant to the personnel dimension (*continued*)

MAPS pillar	Criteria
Pillar 2: Institutional framework and management capacity	• Procurement is recognized as a specific function, with procurement positions defined at different professional levels, and job descriptions and the requisite qualifications and competencies are specified. • Appointments and promotions are competitive and based on qualifications and professional certification. • Staff performance is evaluated regularly and consistently, and staff development and adequate training are provided. • The country has established and consistently applied a performance measurement system that focuses on both quantitative and qualitative aspects.
Pillar 3: Public procurement operations and market practices	None
Pillar 4: Accountability, integrity, and transparency of the public procurement system	• There is an established program to train internal and external auditors to ensure that they are qualified to conduct high-quality procurement audits, including performance audits. • The selection of auditors requires that they have adequate knowledge of the subject as a condition for carrying out procurement audits; if auditors lack procurement knowledge, they are routinely supported by procurement specialists or consultants. • Auditors are selected in a fair and transparent way and are fully independent. • The appeals body is adequately resourced and staffed to fulfill its functions. • Regular training programs are offered to ensure sustained awareness and implementation of measures.

Source: Original table for this publication.

Note: MAPS = Methodology for the Assessment of Procurement Systems.

TABLE A.2 Criteria in the MAPS framework relevant to the transparency dimension

MAPS pillar	Criteria
Pillar 1: Legal, regulatory, and policy framework	• The legal framework requires that procurement opportunities are publicly advertised, unless the restriction of procurement opportunities is explicitly justified. • Publication of opportunities provides sufficient time, consistent with the method, nature, and complexity of procurement, for potential bidders to obtain documents and respond to the advertisement. The minimum time frames for submission of bids or proposals are defined for each procurement method, and these time frames are extended when international competition is solicited. • Publication of open tenders is mandated in at least one newspaper with wide national circulation or on a unique official internet site where all public procurement opportunities are posted. This should be easily accessible at no cost and should not involve other barriers (for example, technological barriers). • Opening of tenders in a defined and regulated proceeding, immediately after the closing date for bid submission. • Records of proceedings for bid openings are retained and available for review.

Continued

TABLE A.2 Criteria in the MAPS framework relevant to the transparency dimension (*continued*)

MAPS pillar	Criteria
Pillar 2: Institutional framework and management capacity	• One or several agencies are clearly assigned the function of providing procurement information without creating gaps or overlaps in responsibility. • In support of the concept of open contracting, more comprehensive information is published on the online portal in each phase of the procurement process, including the full set of bidding documents; evaluation reports; full contract documents, including technical specifications; and implementation details. • Information is published in an open, structured, and machine-readable format, using identifiers and classifications.
Pillar 3: Public procurement operations and market practices	• The selection and award processes are carried out in an effective, efficient, and transparent way. • Procurement statistics are available and a system is in place to measure and improve procurement practices. • The records are complete, accurate, and easily accessible in a single file.
Pillar 4: Accountability, integrity, and transparency of the public procurement system	• Requirements in combination with actual practices ensure that all stakeholders have adequate and timely access to information as a precondition for effective participation. • As part of the anticorruption framework, statistics on corruption-related legal proceedings and convictions are compiled, and reports are published annually. • There are legal provisions to protect whistleblowers, and these are considered effective.

Source: Original table for this publication.

Note: MAPS = Methodology for the Assessment of Procurement Systems.

A thriving private sector is the engine of economic growth and development, driving job creation, generating income, and spurring innovation. Yet, behind any flourishing private sector is a well-functioning public sector that fosters a strong business climate and provides public goods and services that support private investment. Weak public institutions can inhibit the private sector, constraining broader growth and development.

Institutions and Prosperity: Public Institutions for Enabling the Private Sector examines private sector development through a critical but often-overlooked lens: the capacity of public institutions to effectively implement their policy mandates. Drawing on extensive evidence and data, this report provides a practical conceptual framework that can diagnose the complex challenges facing public institutions and identify pathways for addressing them, focusing on regulatory institutions and public procurement.

The analysis underscores the need to understand how organizational and governance dimensions interact to determine public institutions' capacity to implement policies effectively. The report also includes a discussion of corruption and passive waste in procurement and a case study on telecommunications regulatory institutions in Peru. Highlighting the role of the public sector in the private sector, *Institutions and Prosperity* serves as a call to action to improve institutional capacity and as a resource for policy makers seeking to strengthen how both sectors can work together to unlock growth and development.



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