

FAST TRACK BRIEF

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cc: MDs, VPs, EDs

Based on the IEG report *Evaluation of Bank Support for Public Sector Reform*, which will be presented to CODE on March 26, 2008.

Evaluation of World Bank Support for Public Sector Reform

- ◆ The effectiveness and efficiency of a country's public sector is vital to the success of development activities, including those the World Bank supports. Sound financial management, an efficient civil service and administrative policy, efficient and fair collection of taxes, and transparent operations that are relatively free of corruption all contribute to good delivery of public services.
- ◆ The Bank has devoted an increasing share—now about one-fifth—of its lending and advisory support to the reform of central governments, so it is important to understand what is working, what needs improvement, and what is missing. To address these questions, IEG has examined lending and other kinds of Bank support in 1999-2006 for public sector reform in four areas—public financial management, administrative and civil service, revenue administration, and anticorruption and transparency.
- ◆ Although a majority of countries that borrowed to support public sector reform experienced improved performance in some dimensions, there were shortcomings in important areas and in overall coordination. The frequency of improvement was higher among IBRD borrowers than among IDA borrowers. Performance usually improved for public financial management, tax administration, and transparency, but performance did not usually improve with respect to civil service. Direct measures to reduce corruption—such as anticorruption laws and commissions—rarely succeeded. Recommendations to the Bank focus on improving guidelines for civil service and anticorruption reforms and on setting realistic objectives and sequencing for reforms.

The public sector is the largest spender and employer in virtually every World Bank client country and it sets the policy environment for the rest of the economy. About one-sixth of World Bank projects in recent years have supported public sector reform (PSR, see figure) because the quality of the public sector—accountability, effectiveness and efficiency in service delivery, transparency, etc.—is thought by many to contribute to long-term growth and poverty reduction. The trend also reflects recognition that improving the efficiency of

government counterparts is essential for the effectiveness of the Bank's support to development.

Two themes of this evaluation correspond to the primary dimensions of the public sector: how it manages finances over the budget cycle and how it organizes and manages its employees—their recruitment, pay, and promotions. A third theme—tax administration—is a part of the public sector that the Bank has often supported with special projects or components. The fourth theme of the evaluation—

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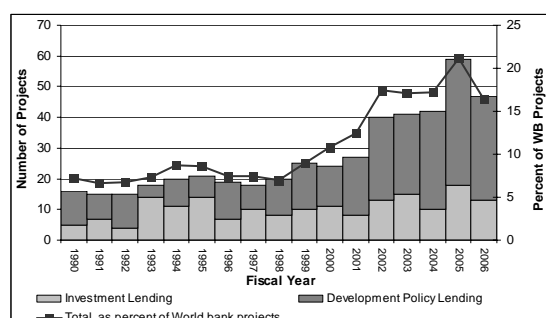
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anticorruption and transparency—has cross-cutting issues that appear in the other thematic areas and also in special components of some PSR projects. (Anticorruption components of sectoral projects are outside the scope of this evaluation, as are decentralization, legal and judicial reforms.) Forty-seven percent of IBRD borrowers and 74 percent of IDA borrowers in 1999-2006 had one or more projects with components in at least one of these four areas.

The evaluation team assembled and analyzed a database that combined information on all borrower countries and on the more than 460 projects that since 1990 have focused on PSR in one or more of the four thematic areas. The team also did in-depth studies of 19 countries, including field visits to 6, and supplemented this with information from IEG's recent country evaluations.

The knowledge of outcomes is imperfect, due to measurement problems and the long lag between the start of reforms and their full effects. Nonetheless, public sector performance on some key dimensions seems to have improved in a majority of cases where there have been Bank lending and analytical and advisory activities. But outcomes vary substantially across country types and thematic areas. Success or failure of PSR in any country is determined mainly by government actions, but Bank actions have also contributed.

Lending Projects with Significant PSR Components 1990-2006



Patterns of Bank Support for PSR

Almost all countries received some analytical and advisory assistance (AAA) on public sector issues over 1999-2006, but coverage varied by theme. Most IDA and blend countries had extensive AAA and three-fourths had PSR lending, including policy-based projects. For instance, Burkina Faso had nine PSR loans, including eight development policy credits, with major components in all four thematic areas, plus six AAA products.

About half of IBRD countries had no PSR lending in 1999-2006, and about a quarter had two or more loans. In

most IBRD countries, the Bank stayed engaged, even with problem-governance states. It did so with AAA or with lending if the countries wanted it; and the lending was usually associated with considerable improvement in the public sector performance.

The higher frequency of PSR lending to IDA countries reflects both a greater need in these countries for PSR and stronger pressure from the Bank and other donors to do PSR.

Among countries getting PSR lending, over 80 percent of IBRD borrowers showed improved performance, and 69 percent of IDA borrowers. The country cases identify three factors contributing to success in the different areas:

- *Being realistic about what is politically and institutionally feasible*, as well as being opportunistic in preparing technical foundations for what might become feasible in the future. In Bangladesh the Bank supported preparatory work on difficult areas of civil service and anticorruption when substantive reform was not on the table, but later these proved useful when a reform-minded government came to power.
- *Recognizing that enhancing technology was not enough by itself, that the most crucial and difficult part was changing behavior and organizational culture.* In Ghana, implementation of the integrated financial management system stalled until attention turned to changing the behavioral patterns and incentives.
- *Dealing with the basics first*, such as ensuring that taxpayers have unique identification numbers before installing a complex collection system or ensuring that the government is executing a one-year budget reasonably well before launching a sophisticated multiyear budgeting. Some projects in Bulgaria, Cambodia, Guatemala, Russia, and Sierra Leone did this relatively well. In many countries, however, the policy-based lending conditions were across-the-board and exceeded the government's technical or political implementation capacity. Projects in Ghana, Guatemala, Guyana, Honduras, and Indonesia had difficulty because they went straight to sophisticated measures, such as installing accrual accounting, when the personnel capacity was missing and the government was not successfully administering cash accounting.

Variation across Themes

Public expenditure and financial management was almost always a component in public sector reform loans. Public financial management—managing the money from budget planning, to procurement, treasury functions, and monitoring—has often been the leading edge of public

sector reform, in both the diagnostic and lending phases of Bank support. In this area (and in tax administration) the ministry of finance has usually given strong support, and the Bank's analytic tools have become the most systematic and widely accepted.

About two-thirds of all countries that borrowed for financial management showed improvement in this area on a Bank-wide dataset (CPIA), and it was the most consistent area of improvement in the case studies. Budget formulation and reporting usually received more attention and had more success than the downstream phases of the spending cycle, like procurement and auditing.

Fiscal crises often initially motivated governments to get the Bank's help in financial management, and the projects examined usually succeeded in resolving the fiscal crises and making recurrence less likely. To improve the effectiveness of spending, however, the criteria and loan conditions have been harder to specify.

The Bank's diagnostic work on financial management has contributed to the effectiveness of lending in this area. Public Expenditure Reviews are now more frequently participatory or government-led, and give more attention to institutions and the implementation of the budget. The Public Expenditure and Financial Accountability (PEFA) indicators have made an important advance by laying out a framework for all aspects of public budgeting and financial management, a framework agreed to by donor and borrower countries. They are monitorable and actionable—the government can observe and affect them directly with its actions.

Civil service and administration reform (CSA) has been the second most common area of PSR lending. Although CSA performance has improved in fewer than half the borrowing countries, improving CSA has been essential for sustaining PSR in other areas. The urgent issue of affordability of the wage bill often led to emphasis on retrenchment and salary adjustments that were politically unrealistic. This approach typically failed to improve public administration, as noted in a 1999 IEG evaluation. Since then the Bank has advocated the same approach with similar lack of success in some countries, like Cambodia, Honduras, and Yemen, but elsewhere it has had some successes by focusing more on personnel management reforms, such as merit-based recruitment and promotion, in order to improve performance and counter patronage-based systems.

The frequent failures of civil service and administrative reform, despite continued acknowledgement of its importance, seem to reflect the lack of a coherent strategy (with isolated exceptions) and of clear diagnostic tools to address CSA issues. Along with the inherent political difficulty, the weak diagnostic work on civil service seems

to be one reason why reform projects in this area have less success than financial management reforms. AAA on civil service is less than one-fourth as common as for financial management, and it did not precede lending in most case study countries.

Bank projects for tax administration have generally succeeded and benefited from strong ownership by the government, particularly the ministry of finance, and from good diagnosis and strategy (often led by the IMF). Over three-fourths of countries with investment projects for tax administration improved their performance. In the areas of tax administration, the IDA countries with investment projects had higher rates of improvement than IBRD countries. For countries with a fiscal crisis, tax administration reform was an attractive entry point, particularly in the former Eastern Bloc countries.

Attention to anticorruption and transparency in country strategies and lending programs has grown since the late 1990s. A majority of the borrowers for PSR have increased transparency but not reduced perceptions of corruption. Even after 1997, when direct approaches were no longer taboo for the Bank, lending usually supported indirect measures against bureaucratic corruption—reducing opportunities for corruption by simplifying procedures and regulations, moving to e-government in various areas, and rationalizing personnel management—which have had some success. Direct measures to reduce corruption—such as anticorruption laws and commissions—rarely succeeded, as they often lacked the necessary support from political elites and the judicial system.

The Bank has helped develop tools to improve transparency and reduce bureaucratic corruption, such as the Public Expenditure Tracking Survey (PETS), quantitative service delivery surveys, and the Business Environment and Enterprise Performance Survey (BEEPS). In Bulgaria and the Indian state of Orissa, direct anticorruption measures helped make public service delivery more efficient and accessible to citizens while staying within the bounds of political feasibility. Some government-wide transparency efforts, like access to information laws and implementing agencies and the Extractive Industries Transparency Initiative (EITI), also show promise as tools against state capture, but it is too soon to see results in actually reducing corruption.

The Bank's diagnostic work on corruption and transparency generally follows a separate track from other public sector areas, focusing on global perceptions or the experience of the private business sector, and giving less attention to the extent of corruption in the core public sector, like procurement, personnel management, and tax

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administration. Most Country Financial Accountability Assessments and Country Procurement Assessment Reports have not dealt adequately with risks of corruption in those systems. Institutional and Governance Reviews rarely analyzed the political factors contributing to corruption, although their saliency is widely acknowledged.

Despite its mantra of “no one size fits all,” the Bank has not developed a framework that adequately recognizes the long duration of the process to reduce corruption and the differences in where countries start. As steps in the process, experiences in Nigeria and Cambodia suggest that reducing the development cost of corruption (including eliminating it in Bank-supported investment projects) is politically feasible and valuable for development. Still the Bank’s stance against corruption needs operational clarification in country contexts—for instance, how should the extent of corruption affect the balance between investment and budget-support operations.

Sequencing and Coordination across Themes

The evidence does not support either of two positions taken by some observers—that PSR is too difficult to be worth trying or that public sector issues are so interlinked that only comprehensive solutions will work. Many PSR projects have succeeded, although usually not immediately. To realize the full benefits for improving public service delivery and accountability, PSR must eventually lead to substantial improvement across the board, including the civil service, but modest and selected entry points can have partial success and lay the basis for later progress.

Starting with AAA has been a successful way for the Bank to develop a trusting relationship with the government in order to work on sensitive areas of PSR. In Egypt a reformist government requested Bank support for anticorruption after an Investment Climate Assessment in 2006 identified corruption as a major barrier for business. Often a PER with financial management emphasis was a good starting place, as in Bangladesh, Ethiopia, Tanzania, Uganda, and several Indian states.

The Bank has improved the integration of AAA and lending on the various aspects of public financial management, but not across the full range of PSR themes. Results are better where arrangements are institutionalized to coordinate staff in diverse sectors within the country program (as in the Latin America and Caribbean region, with the sector leaders in close proximity to country directors). Otherwise, coordination occurs less regularly, when there happens to be alignment of the personalities, skills, and schedules of the persons involved.

Recommendations (elaborated in Chapter 6)

Design PSR projects and allocate Bank resources to them with recognition that PSR has especially complex political and sequencing issues. Be realistic about the time it takes to get significant results, understand the political context, identify prerequisites to achieve the objectives, and focus first on the basic reforms that a country needs in its initial situation. Reconsider the balance between development-policy and investment lending, because institutional change usually needs the sustained support of investment projects, although development policy lending can help secure the enabling policy changes.

Within country PSR strategies, set priorities for anticorruption efforts based on assessments of which types of corruption are most harmful to poverty reduction and growth. Only when the country has both strong political will and an adequate judiciary system should the Bank put primary emphasis on support for anticorruption laws and commissions. Given that reducing corruption will be a long-term effort, the Bank should emphasize (i) building country systems that reduce the opportunities for corruption that is most costly to development and (ii) making information public in ways that stimulate popular demand for more efficient and less corrupt service delivery. Provide operational clarification to the country team about how the Bank’s anticorruption efforts fit within the overall country strategy.

Strengthen the civil service and administrative components of PSR, providing them with a better framework and indicator set, and give more attention to the budget execution phases of financial management. This will require PEFA-like actionable indicators for civil service and administrative performance and more linkage between the implementation of reforms for civil service and for financial management.