

6. Findings, Lessons, and Recommendations

6.1 This chapter summarizes the findings and overall lessons, and provides three sets of recommendations for Bank management in implementing the “Strengthened Approach.”

Findings

6.2 The evaluation finds that both instruments are relevant for supporting the Bank’s objectives. Over the past five years, the CFAA has gained acceptance as a useful instrument not only within the Bank but also by other donors who tend to rely on CFAAs for their own fiduciary reviews. CPARs are the only instruments currently available to help better understand the strengths and weaknesses of a country’s procurement system; and donors, in particular other MDBs, confirmed that they rely on these instruments for their information. Together, to varying degrees, these instruments have helped to sharpen the policy dialogue with client countries on FM and procurement, enhanced focus of these issues in CASs, and garnered knowledge on these issues within client countries.

6.3 Within the period covered by this evaluation, CFAAs have substantially achieved their development objectives in five out of the 10 countries and moderately in another two. That is, in these countries, to varying degrees, they have helped to garner and disseminate knowledge on FM issues, have helped to increase client resources for FM reform, and have contributed to effective implementation of FM reform agendas in a manner that is leading or likely to lead to a reduction of identified FM risks. Measured by the same indicators, CPARs have substantially achieved their development objectives only in two out of the 10 countries, and moderately in another four.

6.4 At the same time, both instruments have had only a limited effect on safeguarding Bank assistance, that is, in influencing FM and procurement arrangements of Bank assistance. Neither diagnostic had a discernible effect on the selection of instruments for assistance, or the choice of sectors to lend, but did influence the volume of Bank assistance. At the project level, CFAAs have had negligible influence, in part because until recently there was no framework for how CFAAs should influence project design. CPARs have helped to update the difference between Bank procurement policy and client regulations;

they have not contributed to strengthening setting of prior review thresholds or improving supervision arrangements.

6.5 A number of factors constrained the effectiveness of these instruments. First, the instruments were assessed to be substantially relevant in supporting the Bank's development objectives, but only moderately so when it came to its fiduciary objectives. Neither instrument provides a satisfactory framework for measurement of fiduciary risks. The risk models were weak, the risk rating was fragmented, and the risk ratings of different diagnostics were not amenable to aggregation. Second, the quality of the diagnoses was satisfactory, but included a high percentage of marginally satisfactory reports. In particular, this meant weak action plans that were not well phased or prioritized, not costed, without clear responsibilities, and without any monitoring indicators. Third, weak internal coordination in the use of these instruments further reduced effectiveness, with diagnostic work being undertaken in "silos." This resulted in inefficiencies with multiple, fragmented action plans for PFM reform, pursued independently by different task teams, increasing the transaction costs for the client. Fourth, client participation in the preparation of these reports was typical, but high levels of participation of a wider range of stakeholders that leads to ownership and capacity enhancement was still modest. Finally, donor collaboration was also only modest during the evaluation period. In regions where donor coordination is effective (AFR, EAP, and LAC), it is leading to coordinated support for the government to implement PFM reforms, although not to harmonization of bidding documents or financial reporting formats for donor-funded projects, something very much within the control of donors.

6.6 Additionally, influencing effective country-level procurement reform is more difficult. Unlike in FM (where the Ministry of Finance is typically the key stakeholder in initiating and monitoring change), private sector and non-governmental actors are very important if a procurement system is to function efficiently and effectively. Without their acceptance of the new rules or practices (which depends on their knowledge of procurement regulations, capacity, access to technology, and awareness and ability to enforce their rights), this evaluation finds that procurement reform cannot generate the desired results. CPARs have not systematically attempted to address this constraint.

Lessons

6.7 In moving forward with the "Strengthened Approach," management has reiterated that it intends to retain both the development and fiduciary objectives of these instruments. However, given that the commitment to maintain updated diagnostics for each active

client has been relaxed, the Bank risks losing the increasing attention that FM and procurement issues have received.¹ In addition to the lessons stated in Box 22, the evaluation summarizes six key lessons for management to enhance the effectiveness of its “Strengthened Approach.”

6.8 *The effectiveness of PFM diagnostics is likely to be enhanced if the client is supported in the preparation of an integrated, prioritized, costed, and monitorable set of actions for PFM reform. This would be helpful even when the diagnosis is undertaken through multiple instruments; this process of arriving at such an action plan will be easier if the multiple instruments are undertaken within an integrated conceptual framework for PFM diagnosis.*

6.9 *The Bank, in consultation with key governments and donors, needs to agree on approaches to defining the term “fiduciary risk.” This is particularly important as the “Strengthened Approach” brings in fiduciary risks posed by public expenditure management systems. Management must also ensure the development of an integrated risk assessment framework, consistent with the definition, within which each instrument can undertake a risk assessment. In addition, given that the Bank intends to use these assessments to safeguard its assistance, it is important to decide how such a risk assessment would lead to a consistent and comprehensive risk rating and whether such a rating should be disclosed in the reports. In addition, staff need to be provided guidance on how such risk ratings should influence Bank assistance – both at the program and project levels.*

6.10 *If CFAAs and CPARs are to assess risks in a meaningful manner, the risk framework should explicitly integrate issues such as the impact of corrupt practices on these systems. CFAAs are not expected to consider the impact of corruption on FM systems according to the Guidelines; and while CPARs are expected to do so, the Guidelines are weak and inadequate. Risk assessment, consequently, remains not only fragmented but also incomplete.*

6.11 *The impact of these diagnostics can be enhanced through encouraging stronger country ownership and fostering greater collaboration between relevant donors. The evaluation finds that these diagnostics are most effective when the findings are integrated in the government’s reform strategies and policies. The process for preparing these diagnoses should include a clear country-led dissemination strategy that will broaden and deepen the ownership of the report, thereby strengthening commitment for reform among a wider range of client stakeholders. This said, such ownership should not result in detracting from an open and candid assessment of the fiduciary risks in the country. A standard analytical framework and approach to measuring risks could help to mitigate such concerns.*

6.12 *It is important to support the client in monitoring the progress and costs of reform.* Few of the Bank's diagnostics provided any indicators to track and measure the results of planned activities (outputs or intermediate outcomes) or to understand the costs of reform (inputs). In most cases, the Bank and the client had only a general and anecdotal idea of the results, with little or no idea of the costs of the reform. For the most part, these diagnostics assumed that the inputs would automatically lead to the desired reform. To improve impact, it is important that action plans include progress-monitoring indicators.

6.13 *While donor collaboration is important, equally important is effective internal coordination among Bank actors undertaking PFM diagnosis.* The efficiency and efficacy of these instruments can be increased with improved coordination among the key actors responsible for PFM diagnosis – the three operational units lodged in two vice-presidencies, and with three sector boards.

Moving Forward with the “Strengthened Approach”

6.14 In moving forward with the “Strengthened Approach,” management has already identified some of the above concerns; the approach stresses the need for improved country-specific and country-led reports, results orientation, integrated implementation, and donor collaboration. The introduction of the PFM PM Framework has also increased the focus on results. The Procurement team has also introduced the OECD/DAC Methodology for the Assessment of National Procurement Systems, which has been used in more recent CPARs. However, the evaluation finds that there is a need to improve the “Strengthened Approach,” if it is to achieve its stated objectives. In addition to developing an integrated risk analysis framework that also assesses the impact of corruption, a few other measures are needed to ensure that the client receives an integrated, prioritized, costed, and monitorable set of actions for PFM reform.

6.15 First, the PFM PM Framework is a monitoring tool (Box 21). It measures the extent to which the PFM system is becoming an enabling factor for achieving development outcomes. It is not suitable for measuring outputs, intermediate outcomes, or the cost of reform.

6.16 Second, a formal institutional process is needed for internal coordination of PFM diagnostics. As part of the CAS formulation process, diagnostic work in this area could be initiated through a joint PFM concept note prepared by an integrated team in consultation with the client and key donors. This note could state the PFM reform strategy for the country including the objectives of the PFM diagnostic work, its linkages with the Bank's Country Assistance Strategy, broadly outline the scope, instruments and process through which such objectives will be achieved, and clearly state the roles of each unit. This note can pro-

vide an opportunity for effective planning among the three units, encourage internal coordination, and yet provide flexibility to each unit to pursue the diagnosis independently if necessary, keeping in mind the overall PFM framework and the need for the process to support the client in the preparation of a single set of integrated and prioritized actions for reform. Such concept note should allow each unit adequate functional flexibility, particularly in the case of IBRD countries, to react to sudden requests for assistance which may not necessarily have been foreseen at the time of preparation of the strategy.

Box 21. The PFM PM Framework

The PFM PM Framework offers a conceptual framework for addressing PFM issues as well as a monitoring tool for assessing the results of PFM reform. It is not, however, a risk assessment tool:

- The Framework only measures whether funds are being used for the purposes intended.
- The 28 indicators include only one indicator (and a few sub-indicators) on procurement. Procurement staff perceive this as being insufficient, particularly given the Bank's fiduciary obligations in this regard.
- The set of indicators does not currently allow an assessment of risks posed by corruption to the functioning of these systems.
- The PFM PM Framework also does not include a standardized methodology for combining the 28 risk ratings into an aggregated and single country risk rating.

Box 22. Common Factors of Effective Diagnostics

- The diagnostic is timely for the client.
- The diagnostic is prepared jointly with government stakeholders.
- The diagnostic leads to the preparation of an action plan, in which the government takes the lead and the Bank and other partners provide the technical assistance.
- A wider range of relevant stakeholders (from the private sector, business associations, and civil society) must be meaningfully involved in the preparation of the diagnostic. Participation must be used to build their experience and capacity as well as also to involve them in future dissemination and capacity-building activities.
- A dissemination strategy helps to focus attention on the reform agenda by a wider range of government stakeholders, including at different administrative, technical, and political levels.
- The action points are adopted into a government action plan, program, or strategy after wider discussion among a larger number of critical stakeholders, reflecting not only ownership but also commitment to reform, and leading to the establishment of an empowered body or process that coordinates and monitors the reform.
- The findings of the diagnostics are integrated into the CAS and the government's efforts are complemented with Bank assistance.
- The diagnostic is prepared in collaboration with other key donors, leading to joint support of an agreed action plan.

6.17 Third, improved guidelines agreed among the three Sector Boards, other relevant Bank units, key donors, and client representatives would enhance effectiveness of PFM diagnosis for the client and significantly improve the impact. Such guidance should cover a range of issues including the establishment of an integrated conceptual framework for the “Strengthened Approach,” guidance on risk assessment as well as how such ratings should influence Bank assistance, and how the Bank will facilitate greater coordination so that the client receives an an integrated, prioritized, costed, and monitorable set of actions for PFM reform.

6.18 Fourth, Bank staff need more training on implementing the “Strengthened Approach.” Such training must be developed and implemented jointly by the two Networks.

Recommendations:

6.19 In close coordination with key donors and client representatives, Bank management needs to consider the following three recommendations:

- ❖ **Gear CFAAs and CPARs more directly to the fiduciary goal.** In order to accomplish this, Management could:
 - Agree on a common definition of “fiduciary risk” that would be applied consistently in all PFM diagnostic instruments;
 - Develop a comprehensive and integrated risk analytical framework that would include a standardized methodology for aggregating country-level PFM risks; and
 - Guide staff on how risk assessments should influence the design of Bank assistance both at the project and program level, and revise guidelines as needed.

- ❖ **Enhance the quality of the diagnostics.** In order to realize this, Management could:
 - Issue revised guidelines jointly prepared by the three sector boards on undertaking integrated diagnostics; and
 - Develop and implement an integrated training program for staff from all three Networks on implementing the “Strengthened Approach.”

- ❖ **Strengthen the impact of fiduciary work and associated outcomes.** In order to achieve this, Management could:
 - Ensure that the Bank supports clients in preparing a single integrated, prioritized, costed, and monitorable set

of actions within an agreed framework for PFM reform even though the diagnosis may be undertaken using multiple instruments.

NOTES

1. Management notes that while the requirement for mandated core diagnostics for each country has been removed, Management has committed that diagnostic work will be programmed on a country by country basis, taking into account type and level of Bank engagement, client priorities and circumstances and the availability of relevant knowledge from partners: and that updated country knowledge would be maintained as needed to support the Bank's program.