

# Evaluation Summary

## Country Financial Accountability Assessments and Country Procurement Assessment Reports: How Effective Are World Bank Fiduciary Diagnostics?

WORLD BANK ANALYSIS of a country's public financial management system is typically undertaken both to help the client country strengthen its system and to safeguard funds that the Bank provides against misuse, and is an important component of fiduciary diagnostics. The Bank's instruments for such analysis have generally been relevant; the resulting diagnostics have been of satisfactory quality and have fostered reform agendas in client countries.

Country Financial Accountability Assessments (CFAAs) have contributed substantially, and Country Procurement Assessments Reports (CPARs) modestly, to development outcomes in a sample of 10 countries examined. Client consultation and donor collaboration in the preparation of CFAAs and CPARs have been increasing, but internal Bank coordination among the three sets of units dealing with public financial management has lagged, resulting in fragmented action plans for clients.

Both instruments have had a more limited effect on managing risks to Bank assistance, owing to the lack of a sound analytical framework for assessing fiduciary risks and of associated guidance on how identified risks should be reflected in the design of country assistance strategies.

The evaluation recommends: (i) ensuring that fiduciary instruments use an integrated risk analytical framework that includes a common approach to defining "fiduciary risk"; (ii) issuing revised guidelines along with implementing an integrated training program for relevant staff; and (iii) supporting the client in preparing a single integrated, prioritized, costed, and monitorable set of actions within an agreed framework for PFM reform.

World Bank analyses and diagnoses of Public Financial Management (PFM) systems in client countries—covering public expenditure management (PEM), financial management (FM), and procurement—can contribute to two key goals. The first, a development goal, is to facilitate a common understanding among the government and development partners of the performance of PFM-related institutions, help identify priorities for action, and inform the design and implementation of capacity-building programs. The second, a fiduciary goal, is to help ensure that funding provided by the Bank is protected against misuse.

CFAAs, prepared by Bank FM units, and CPARs, prepared by Bank procurement units, support both the development goal and the fiduciary goal. These PFM-diagnostic instruments assess the strengths and weaknesses of FM- and procurement-related public

sector institutions and systems in a given client country, as well as the risks that these may pose of misuse of Bank funds provided to the country. Between July 1999 and December 2004, the Bank prepared 189 CFAAs and CPARs for about 100 countries at a cost of \$16 million. IEG's evaluation of these PFM-diagnostic instruments assesses how effective they have been in furthering the Bank's development and fiduciary goals, and makes recommendations to improve their effectiveness in the future.

### Key Findings of the Evaluation

**The CFAAs and CPARs evaluated are of central relevance to development effectiveness.** While both diagnostic instruments are highly relevant to the Bank's work, as prepared they had greater relevance to the development goal than to

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the fiduciary goal. When used effectively, the diagnostic instruments helped provide a good understanding of the weaknesses and strengths of client countries' FM and procurement systems, respectively. The diagnostic instruments' country-level (as opposed to project-specific) perspective helped sharpen policy dialogue on PFM-related institutions and systems and identify areas for FM and procurement reform. However, in general the CFAAs and CPARs evaluated lacked a satisfactory framework for risk analysis, thereby preventing the Bank from arriving at a comprehensive risk rating (which the Guidelines for these diagnostic instruments require). This has limited their relevance for the fiduciary goal.

**The overall quality of the diagnostic exercises evaluated is satisfactory.** A satisfactory report is one that responds to the stated objectives, provides an in-depth understanding of the strengths and weaknesses of a client country's PFM systems, includes sufficient empirical data to substantiate the analysis, results in a prioritized action plan, provides a clear assessment of the FM or procurement risks in the country and, in the case of CPARs, additionally serves as a source of guidance for staff on procurement-related matters in planning and preparing World Bank assistance. (Management contends that CFAAs are not expected to guide FM arrangements at the project level.)

About 71 percent of the CFAAs and 64 percent of CPARs evaluated were assessed to be of satisfactory quality, although in about one-third of the cases the assessment was qualified as "moderately satisfactory." CFAAs and CPARs have shown steady improvement in quality following the issuance of the respective Guidelines. Box A lists several reports that were assessed to be highly satisfactory reports, which the evaluation deemed good practice.

### **Box A: Good Practice CPARs and CFAAs**

Seven CPARs (Azerbaijan, Georgia, Malawi, Moldova, Russian Federation, South Africa, and Uzbekistan) and eight CFAAs (Croatia, Georgia, India-Karnataka, India-Orissa, FYR Macedonia, Poland, Romania, and Senegal) were assessed as good practices.

**Satisfactory client participation ensured that the analysis in CFAAs and CPARs was country-specific and realistic, but client leadership in the diagnoses was low.** Only in about 20 percent of the CPARs and about 14 percent of the CFAAs did the

government team undertake the diagnosis and take leadership in preparing the report as suggested by the CFAA Guidelines, possibly forfeiting some commitment.

**Donor collaboration on CFAAs and CPARs increased over the evaluation period,** particularly in the AFR, EAP, and LAC regions. Collaboration with other donors has led to the preparation of, and support for, joint programs of action in some countries.

**Better internal coordination among Bank units preparing CFAAs, CPARs, and other PFM-related diagnostics such as Public Expenditure Reviews, would have resulted in greater efficiency** for the Bank and avoided instances of clients receiving multiple action plans for PFM reform (one by each diagnostic).

**CFAAs, and to a lesser extent CPARs, have significantly furthered the Bank's development objectives.** CFAAs have been useful in garnering existing knowledge on FM systems into a single report, thereby providing a comprehensive lens for analysis and seeking remedies for identified weaknesses. CFAAs have also fostered the integration of FM issues into assistance strategies and increased the availability of resources for FM reform in several sample countries. In addition, CFAAs have contributed to varying degrees in fostering FM reform in the sample 10 countries where field visits were undertaken. Overall, CFAAs have substantially achieved their development objectives in 5 out of 10 countries, and moderately in two. In comparison, CPARs have had less success in achieving similar objectives when measured by the same indicators, and have substantially achieved their objectives only in two out of the 10 countries, and moderately in another four.

**However, CFAAs and CPARs have only contributed in a limited fashion to the achievement of the Bank's fiduciary objectives.**

While the diagnostics have had a substantial influence on the overall volume of Bank assistance in subsequent CASs (FM and procurement measures were the basis for triggers in several countries), the diagnostics have had limited influence on the choice of instruments and the selection of sectors for assistance. A review of more than 100 projects found these to incorporate only modest recognition of the FM or procurement risks raised by the diagnostics and their implications. At the project level, CPARs have

helped to distinguish unacceptable practices in national competitive bidding in client countries.

## Key Lessons of the Evaluation

**The various related diagnostics should support the client in preparing a single, integrated action plan.** The Bank can strengthen the effectiveness of CFAAs and CPARs by supporting client countries in the preparation of an integrated, costed, prioritized, and monitorable set of actions for PFM reform, even when the diagnosis and the actual implementation may be undertaken through multiple instruments and activities.

**To be more effective in helping to achieve the Bank's fiduciary goal, CFAAs and CPARs should incorporate an integrated fiduciary risk assessment framework.** If these instruments are to effectively influence the design of Bank assistance and achieve their fiduciary goals, the instruments must assess fiduciary risk consistently and comprehensively. The diagnosis could consider the impact of corrupt practices on FM and procurement systems, if the instruments are to realistically measure risks.

**A strengthened role for the country and greater collaboration with relevant donors in the preparation of CFAAs and CPARs would enhance their impact.** The diagnostics are most effective when their findings are integrated into the government's reform strategies and policies. The process for preparing CFAAs and CPARs would benefit from a clear country-led dissemination strategy that would broaden and deepen the ownership of the analyses, thereby strengthening commitment for reform among a wider range of client stakeholders.

**The diagnostics should help the client track and measure the costs and results of PFM reform.**

Few diagnostics have provided any indicators to track and measure the results of planned activities (outputs or intermediate outcomes) or to understand the costs of reform (inputs). To improve impact, action plans should include progress-monitoring indicators.

**Finally, the efficiency and effectiveness of CFAAs and CPARs would increase with better internal coordination among the various units responsible for PFM—three operational units lodged in two vice-presidencies and three sector boards.** Incentives and mechanisms could be created for effective planning and coordination among the three units. In certain contexts, integrated

diagnostics may be the answer; in others, flexibility for independent diagnosis is best retained.

## Recommendations

Management has already addressed some of the concerns enumerated above in announcing a “Strengthened Approach” to PFM diagnostic work (July 2005). The approach stresses the need for greater client leadership and country specificity in the analysis, stronger results orientation, integrated implementation, and enhanced collaboration with other donors. For the “Strengthened Approach” to be as effective as possible, Bank management should, in coordination with key donors and client country representatives, consider three sets of recommendations:

1. **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 the risk assessments in these diagnostics should influence the design of Bank assistance both at the project and program level, and revise guidelines as needed.

2. **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 an integrated learning program for staff from all three Networks on implementing the “Strengthened Approach.”

3. **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.