Management Action Record

COUNTRY FINANCIAL ACCOUNTABILITY ASSESSMENTS AND COUNTRY PROCUREMENT ASSESSMENT REVIEWS: HOW EFFECTIVE ARE WORLD BANK FIDUCIARY DIAGNOSTICS?

MANAGEMENT RESPONSE (SUMMARY)

1. Management welcomes this Independent Evaluation Group (IEG) evaluation of Country Financial Accountability Assessments (CFAAs) and Country Procurement Assessment Reports (CPARs) that were undertaken between July 1999 and December 2004. Management supports the broad thrust of many of the observations and recommendations contained in IEG's evaluation. In particular, Management notes the evaluation's conclusions that these specialized assessments have contributed positively to partner countries and thereby to the Bank's development objectives. In addition to generating a significant knowledge base on public financial management (PFM) issues, the CFAA and CPAR instruments have helped initiate dialogue on PFM issues, generate country ownership, and catalyze reforms in many countries. (See Annex __ for a more detailed Management Response to this review.)

2. ***Reinforcement of Broad Direction of Management Actions.*** Several findings of the evaluation confirm Management's thinking on strengthening the Bank's PFM work. Management agrees on the need for attention to a number of areas: for example, prioritizing and sequencing PFM reforms; disseminating PFM analytic work findings; establishing better linkages with corruption issues in all PFM work; and providing staff guidance and training. Indeed, Management is already acting on many of the recommendations of the evaluation. Drawing on lessons of implementation experience, in July 2005 Management issued a memorandum to staff, emphasizing these and other areas to strengthen the Bank's PFM work. These measures are being implemented, and Management will continue to emphasize these aspects.

3. ***Areas of Divergence.*** In spite of the usefulness of IEG's review, Management has observations and comments on some of the analysis and recommendations.

- Management does not agree that these tools have made only a limited contribution to the design and arrangements of Bank assistance; they have been among the main sources of country-level PFM knowledge, including information on procurement (which is not covered under any other type of assessment).
- The IEG review gives little coverage to the important contribution of CFAAs and CPARs to the Bank's fiduciary work on DPOs; however, CFAAs and CPARs have been central contributors to the knowledge base for DPOs and have provided the platform to initiate PFM (including procurement) dialogue with partner countries,

build government commitment, and catalyze reforms supported under DPOs. Management also notes that CFAAs and CPARs are one of the inputs—but not the only input—in decisions about extending DPO lending to a country.

- For investment lending, Management does not agree with the IEG findings that CFAAs and CPARs have had little influence at the project level: they provide the country context for the financial management (FM) and procurement (PR) assessments that are mandatory for all projects. They have also provided very useful information to assist in assessing whether country FM and PR systems can be used in Bank-financed investment projects.
- Management does not see a tension between the development and fiduciary objectives of these instruments and notes that the development and fiduciary objectives usefully complement one another. Management also does not agree that the development objectives of CFAAs and CPARs would be better served by focusing on a few sectors or selected functions: partner countries have found the coverage of the entire PFM cycle useful.
- Management does not agree that there is a need to develop a separate integrated risk analytic framework for addressing country-level risks posed by corruption; as the Bank's Governance and Anticorruption Strategy provides, such risks are most appropriately addressed in the Country Assistance Strategy (CAS) process.
- Finally, Management does not consider that it would be helpful to mandate action plans in CFAAs and CPARs (although the current CFAA and CPAR instructions provide guidance on including a prioritized action plan for implementing CPAR recommendations). Country circumstances should dictate whether an action plan is included, and what its level of detail should be. Similarly, there is no need to mandate a PFM concept note, since the Bank's approach to country PFM issues is covered in the CAS.

4. ***Management Actions.*** Management points out that CFAAs and CPARs are no longer mandatory: in the interest of better coordination, PFM work is more centered on a common PFM performance framework, the Public Expenditure and Financial Accountability (PEFA) assessment (with the CPAR and OECD/DAC procurement benchmarking tool feeding into the PEFA work). Thus Management has already put in place the more integrated approach IEG calls for. In response to the evaluation, Management has agreed to issue updated guidance to staff on assessing fiduciary risks in the use of country PFM systems in Bank-supported operations and on preparing CPARs; to continue implementing its active training program in fiduciary areas; and to continue strengthening the Bank's PFM work, emphasizing (a) country ownership of PFM reforms; (b) prioritizing and sequencing of PFM reforms; (c) better measurement and monitoring of PFM performance and progress, using the PFM Performance Measurement Framework developed by the PEFA partnership program; (d) coordinated work by the three Bank operational teams (Financial Management, Procurement, and the Public Sector Governance Unit in Poverty Reduction and Economic Management); and (e) coordination with other development partners. (See attached Management Action Record matrix.)

Recommendation	Management Response
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.	***Mostly Agreed*** In Management's view, the Bank's operational policies and guidelines provide sufficient guidance to staff on taking into account country PFM performance and fiduciary risks in decisions on and design of development policy operations and investment lending (see OP 8.60, Development Policy Lending; "Good Practice Note: Financial Management Issues in Development Policy Operations," "FM Practices Manual," and "Revised Instruction for Carrying out Assessment of Agency's Capacity Assessment to Implement Procurement, Setting of Prior-Review Thresholds and Procurement Supervision Plan"). The integrated approach to PFM work and use of the PFM performance measurement indicators help provide a holistic view of country PFM performance and risk, covering all dimensions of the PFM system. Management suggests that the emphasis now should be on further operationalizing these measures, including providing further guidance to staff on assessing fiduciary risks in the use of country PFM systems in Bank-supported operations Management will consider its agreed actions to be complete with the issuance of updated guidance to staff on assessing fiduciary risks in the use of country PFM systems in Bank-supported operations.
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."	***Ongoing/Agreed*** Within the overall framework of measures announced for strengthening the Bank's PFM work (outlined in the July 2005 memorandum issued by the Vice Presidents of the PREM and OPCS Networks), carrying out PEFA assessments has necessitated better coordination among the FM, Procurement, and PREM teams. In addition, work on revised guidelines for CPARs is under way. Staff learning has been, and will continue to be, a major area of emphasis. Since December 2005 PFM training sessions on the "strengthened approach" have been regularly provided for FM, Procurement, and PREM staff, both in Washington and overseas. Training sessions on the "strengthened approach" delivered in collaboration with the PEFA program have included workshops for Bank staff and bilateral donors (September 2005; June and November 2006; January, May, October and November 2007) and training events for multilateral development banks (December 2005 and December 2006). More training programs are planned for Bank staff and other development partners on the PFM performance measurement framework and the "strengthened approach," in addition to the Bank's regular core PFM courses that focus on PFM concepts, applications, and cases. The forthcoming Fiduciary

	Forum will devote a substantial time to PFM learning. Management will consider its agreed actions to be complete with the issuance of updated guidance to staff on CPAR preparation, and the continued implementation of the learning program for staff. Management will report on the state of its PFM work in its Annual Reports to the Audit Committee.
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.	***Ongoing/Agreed*** Building on the investment over the past few years, Management has taken steps to strengthen the Bank's PFM work, emphasizing (a) country ownership of PFM reforms; (b) prioritizing and sequencing of PFM reforms; (c) better measurement and monitoring of PFM performance and progress using the PFM Performance Measurement Framework developed by the PEFA partnership program; (d) coordinated work by the three Bank operational teams (FM, PR, and PREM-Public Sector Governance); and (e) coordination with other development partners (see "Strengthening the Bank's PFM Work," July 25, 2005, Memorandum issued by the Vice Presidents of the PREM and OPCS Networks). These measures are being implemented. Management will continue to emphasize these aspects, thus helping improve the outcome and impact of the Bank's PFM work. Management notes that this is a continuing, longer-term effort and will consider it complete when the "strengthened approach to PFM work" is followed in a majority of active countries. Management will report on the state of its PFM work in its Annual Reports to the Audit Committee. The Annual Reports for FY07 include capacity building as a follow-up to CFAAs and CPARs as a central theme.