

APPENDIX B: STATEMENT BY THE EXTERNAL ADVISORY PANEL

The Panel believes that the report *Public Sector Reform: What Works and Why?* by the Independent Evaluation Group (IEG) provides a very competent and informative analysis of the Bank's efforts to promote PSR from 1999 to 2006. The importance of good governance to development has been well established in the academic literature at this point; given the large and steadily increasing amount of PSR lending by the Bank, evaluation of the Bank's efforts in this regard is critical.

The history of the Bank's involvement with PSR in the report is very useful, and the four main thematic areas highlighted—public financial management, tax administration, CSA reform, and anticorruption and transparency—cover the most important dimensions of PSR. The report appropriately recognizes the underlying complexity and the challenges posed by PSR and is sensitive to the multivariate and bidirectional nature of causality in government performance. The Panel also commends the three-pronged approach of country case studies, thematic assessments, and statistical analysis as an appropriate methodology for an evaluation in this intrinsically difficult area. The report underlines the importance of performing a broad political economy analysis before proceeding with PSR and the need for the Bank to include more noneconomists on its country teams to help in this effort. We fully endorse this recommendation.

The Panel feels that the report's findings could be strengthened or extended in the following areas:

1. The statistical analysis in chapters 4 and 5 relies very heavily on Country Policy and Institutional Assessments (CPIA) scores. Although the CPIA yardstick may be familiar to people in the Bank, it is not well known outside the Bank (indeed, CPIA scores for middle-income countries are not publicly available). This means that they (unlike, for example, the World Bank Institute Worldwide Governance Indicators) have not been carefully scrutinized externally for possible biases, endogeneity, and so forth. It may well be, as the report suggests, that no better set of indicators exists, but it is worth explaining at greater length how the CPIA scores are derived and their possible weaknesses.
2. As far as the Panel can tell, the statistical analysis is not based on a full-blown multivariate statistical analysis that seeks to isolate the degree of variance in governance outcomes accounted for by Bank PSR programs. It is therefore not possible to know with any reasonable confidence the extent to which improvements in public sector performance result from Bank PSR operations versus other factors, such as the intensity of PSR activities, complementary programs by other donors, or exogenous trends (such as European Union accession). The Panel appreciates that it may not be possible to perform this kind of analysis given the limitations of the data, but more explicit recognition of this problem would have been appropriate.
3. The report makes some scattered allusions to the importance of stimulating demand for good governance, an issue that has been under considerable discussion within the Bank in recent years. However, the conclusions and recommendations make no reference to a possible role for the Bank on the demand side.
4. What is most striking about the report is the finding that public financial management and

tax administration operations have been reasonably effective in improving public sector performance in most Bank client countries, but that civil service reform and anticorruption efforts have not had a significant impact on outcomes. Accordingly, the Panel expected a recommendation that the Bank should focus much more heavily on the relatively technical areas of public financial management and tax administration that it knows best. There is no such recommendation. Somewhat inexplicably, the report recommends that the Bank continue with civil service reform and anticorruption and transparency efforts (albeit prioritized and based on better analysis), as opposed to confronting more forthrightly the possibility that the Bank may have reached the limits of potential effectiveness in these areas.

5. The Panel believes that there are a number of reasons why this may be so, which could have been further elaborated in the report. Civil service reform, for example, is limited by fiscal constraints that many countries face and by

the growing mobility of skilled labor and competition from the private sector that have been brought about by economic development and globalization. Corruption is often driven by key political actors (who, on occasion, are members of governments that are clients of the Bank and whose behavior may not be corrected by anything that the Bank or other donors can offer). The report suggests that civil service reform and anticorruption and transparency efforts take a long time to germinate; it may be, however, that external donor interventions are permanently hostage to local and global conditions over which the donors have no control.

The IEG report provides an excellent analytical basis for understanding both the importance and functioning of PSR. Its evaluation of the Bank's recent work in this area is quite frank and suggests important new directions for future strategy. We fully support the Bank's focus on anticorruption, transparency, and good governance more generally.

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