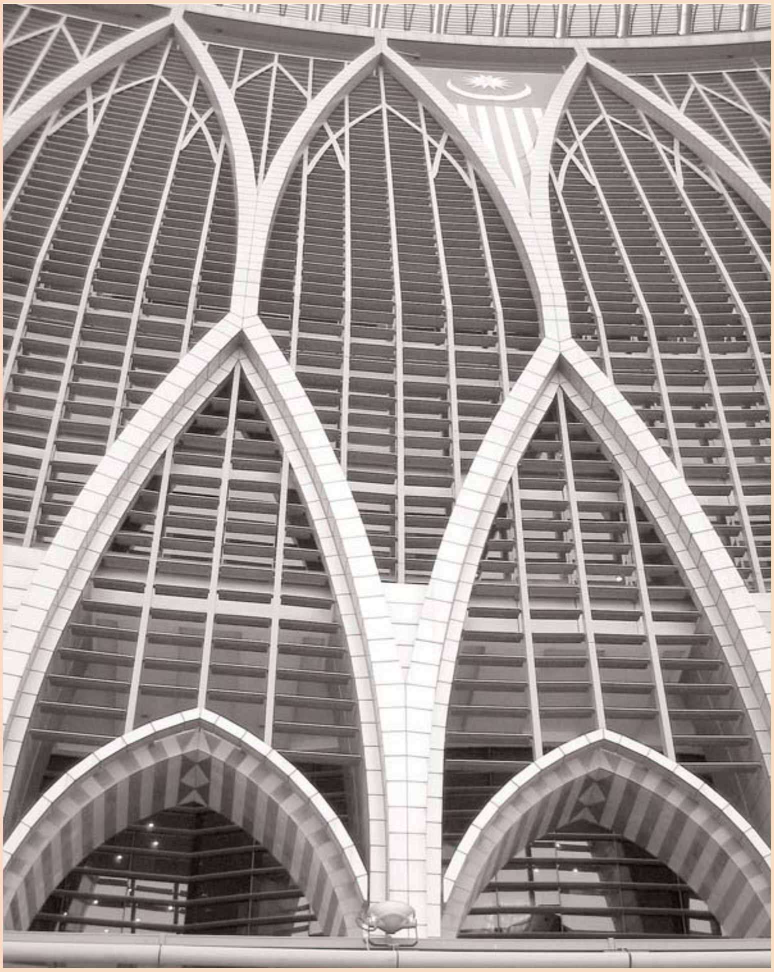
Chapter 5

Evaluation Essentials

- Performance measures usually improved for financial management and tax administration, where Bank lending supported such reforms.
- Measures for CSA systems—essential for sustaining other reform areas—did not improve on average. So improving the strategic framework and indicators needs high priority.
- Bank-supported programs for core PSR have rarely succeeded in reducing overall corruption, but have had some success in improving transparency.
- The thematic differences in outcomes result in part from financial management and tax administration being less politically and culturally sensitive than issues surrounding public employment and corruption.
- Bank practices also seem to have contributed to the differences in outcome.



Government building in Putrajaya, Malaysia. Photo © gferro.com.

Public Sector Reform Outcomes and Performance by Thematic Area

In addition to the differences in success across country groups, there are also important differences across thematic areas of PSR. This chapter lays out those differences and looks at country experiences for explanations.

Overview of Thematic Differences

The statistical evidence follows from the same methods as in chapter 4—looking at the percentage of countries in which the CPIA improved. The difference is that in this chapter the ratings for the individual thematic areas are used. Table 5.1 shows that for all countries (with CPIA information), improvement was most likely—60–70 percent likely—in PFM (CPIA 13) and revenue administration (CPIA 14)[1] for countries getting projects in those areas. Quality of public administration (CPIA 15), which we take as civil service reform, had the lowest success rate, with fewer than 45 percent of borrowers in this area showing improvement.

For transparency and anticorruption, the success rate was just over half for countries that had PSR lending in any of the thematic areas. Similar results obtain when considering only projects with explicit (direct) transparency and anticorruption components. It seemed more appropriate to consider PSR lending in any theme, because all themes aim to improve transparency and reduce corruption as at least collateral objectives.

Outcomes for IDA and IBRD countries were similar for PFM and civil service. For tax administration reform, the IDA countries did a little better than IBRD countries. This shows the importance of attention to tax collection even in places where the tax bases look meager. For transparency and anticorruption, however, the success rate for IBRD was considerably higher (almost equal to that with PFM), and the success rate was much lower for ACT among IDA borrowers. The question for the rest of this chapter is why we see these patterns.

Public financial management

What was the support for PFM trying to achieve? The framework for analyzing and improving PFM came mostly from upper-income countries. Among the PFM reforms pursued by Organisation for Economic Co-operation and Development (OECD) countries over the past 25 years, eight broad components are noteworthy (OECD 1995; Brumby 1999; Pollitt and Bouchaert 2004; Rubin and Kelly 2005):

Eight components of financial management are notable in the reforms pursued by OECD countries.

- Achieving budget savings through more robust central controls or by

Table 5.1: Changes in Selected CPIA Scores by PSR Theme, Initial Governance Score, and IDA/IBRD Classification

	IBRD		IDA or blend		Total		Major improvement (>0.5)	
	Percent	Number of countries	Percent	Number of countries	Percent	Number of countries	Percent	Number of countries
CPIA (13)—Quality of budget and financial management								
Any PSR PFM lending	64	28	61	59	62	87	28	87
No PSR PFM lending	21	29	32	19	25	48	10	48
CPIA (15)—Quality of public administration								
Any PSR CSA lending	44	18	42	53	42	71	10	71
No PSR CSA lending	41	39	20	25	33	64	16	64
CPIA (14) —Efficiency of revenue mobilization								
Any PSR TAX lending	67	18	73	26	70	44	32	44
No PSR TAX lending	46	39	56	52	52	91	21	91
CPIA (16) —Corruption, transparency and accountability								
Any PSR lending	61	31	48	62	53	93	26	93
No PSR lending	38	26	44	16	40	42	7	42

Source: World Bank CPIA scores and IEG staff calculations.

Note: Entries show the percent and number of countries that show an improvement in the respective CPIA score between the years 1999 and 2006 (or closest year available). Columns classify countries by their 1999 IBRD/IDA classification. Rows provide this figure for subsets of countries based on the number and type of investment loans approved or active fiscal 1999–2006 and development policy loans approved fiscal 1999–2006. CPIA = Country Policy and Institutional Assessment; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; PFM = public finance management; PSR = public sector reform; TAX = tax administration.

providing greater flexibility to managers and organizations in reallocating funds within budget line items to reflect changing conditions and priorities

- Restructuring budgets to include expenditures for all government activities, global budgetary targets, hard budget constraints, and program allocations to facilitate results monitoring and evaluation
- A multiyear budget linked to a realistic fiscal policy and revenue estimates
- Regular use of performance information in monitoring against targets to facilitate accountability and manage performance
- Shifting from cost accounting[2] toward accrual accounting[3]
- Shifting from compliance auditing[4] toward performance auditing[5]
- Computerized information systems providing timely financial and related information to all parties in the budget process
- Greater use of devolved budget management and market-based mechanisms, such as user and capital charges, market testing, outsourcing, and performance agreements.

Most of the countries receiving PFM support are doing better in that area, as noted earlier, which is consistent with the more detailed results of Levy and Kpundeh (2004) for a sample of African countries. In examining why this happened and what the limits to success are, the following questions are relevant:

- Have PFM reforms first rolled out in developed countries been transferred and adapted appropriately to developing country settings?

- Did the Bank understand the differences between formal, managerial processes and the practices that actually take place, and did it take the differences into account in designing and carrying out its support?
- Has the bank stressed "getting the basics right" before supporting more complex financial management reforms?
- Has PFM in sector ministries been a better entry point than PFM in core ministries, or vice versa? Have PFM projects/components been usefully piloted in sector ministries before wider rollouts have taken place? Has PFM in subnational jurisdictions been a useful entry point?
- Has the Bank's PFM approach resulted in improved public sector performance? Were the benefits achieved greater than the costs incurred? In what technical areas and country contexts has the Bank been effective/ineffective and why?

The Bank's *Public Expenditure Management Handbook* (World Bank 1998b) stresses the importance of getting the basics right first: Control inputs before seeking to control outputs, account for cash before moving to accrual accounting, operate a reliable budget for inputs before moving to budgeting for results, make a comprehensive budget and reliable accounting system before trying an integrated financial management system, get a proper budgeting and accounting function before strengthening the auditing function, and do reliable financial auditing before trying performance auditing (Schick 1998; Shand 2001).

Evidence from case studies shows favorable results where the Bank followed this advice. In countries such as Bulgaria, which is working to meet the standards for admission to the European Union, improving basic PFM has been an important part of the agenda. In Guatemala, the Integrated Financial Management System program supported basic public finance building blocks (improved budgeting, accounting, frameworks, and cash management) and well-sequenced capacity building. Progress has taken place even in weak capacity countries just emerging from conflict, such as Sierra Leone, which has improved transparency, procurement, accountability in budget execution, and audits (internal and external).

The Bank's handbook on public expenditure management stresses the importance of getting the basics right first.

In some other places, however, such as Ghana, Indonesia, and initially Honduras, the Bank supported the installation of systems that turned out to be overly complex. Guyana's PFM program in the 1990s was also overly complex, leading to problems at various stages of procurement and implementation. When Bank support for PFM restarted there after 2000, it concentrated more on the basics first.

Ambitious PFM reforms in the Republic of Yemen could have used a more incremental approach, starting with core treasury systems and a general ledger and then building broader capacity and commitment for more extensive reforms. An advanced financial management information system supported by the Bank, although showing initial results, may be difficult to sustain in a low-capacity environment.

Similarly, financial management information technology systems have been successfully adopted in some cases when there are sufficient commitment, capacity, and resources as part of a broad and appropriately phased reform program, with significant efficiency gains if conditions are right. In places with weak capacity, however, such as are found in many Bank borrowers, the principal benefit from information technology may be ensuring more systematic adherence to financial rules by manual systems, which finance staff may rely on more, as the older systems run in parallel to technology-based systems.

Case studies show favorable results where PFM reforms did address the basics first.

The evidence is also mixed on the related question of whether PFM reforms first tried in developed countries have been transferred with appropriate adaptations to local conditions in developing country settings. An early innovation was Bolivia's 1990 Financial Management and Control Law, which sought to increase the efficiency and effectiveness of the public sector by switching from a centralized rule-based system to a more modern, decentralized, results-oriented system. Enacted

Financial management reforms first tried in developed countries have sometimes—but not always—had appropriate adaptations for application in developing countries.

because of strong pressure from the Bank and other donors, it lacked sufficient incentives for public officials to enforce it. As a result, the required annual operating plans were formally undertaken as a ritual, but were ignored when it came to agency programming and resource allocation (Dove 2002).

Another type of innovation introduced in developed countries and now being promoted by the Bank among borrower countries is a multiyear perspective in fiscal planning, expenditure policy, and budgeting. Despite concerns about achieving transparency in multiyear budgeting and despite challenges evident in developed countries in making effective use of this tool (Oxford Policy Management 2000), MTEFs are central features of the Poverty Reduction Strategy Papers and PRSCs prepared in recent years. Craig and Porter (2003) point out that aside from technical problems of using this tool effectively, its use for upward accountability to central ministries and donors can undermine local political legitimacy and accountability, sideline the role of legislatures, and cut off important sources of local knowledge on what works and what does not in poverty reduction. Many developing countries have followed the example of developed countries in adopting this reform to help achieve greater certainty on future funding from donors.

Although MTEFs have been challenging for many developed countries, Albania, Burkina Faso, South Africa, Tanzania, and Uganda have adopted well-functioning systems, with Bank support. Such an innovation can be especially useful for a borrower in a context of high aid dependency, where the big uncertainty on the revenue side is donor support. Tanzania's MTEF helps coordinate commitment from the donors, which fund more than 40 percent of the budget, and thus helps get enough certainty on the revenue side to plan the budget. Implementation and utilization of the MTEF has been more difficult in Mali and Ghana.

Some countries have adopted well-functioning MTEFs with Bank support, although such frameworks have been challenging for many.

Slovakia has an MTEF, implemented with Bank support, that also includes program budgeting and a firmer (compared with previous years) ceiling for the current year and indicative ceilings for the next two years. This framework had the benefit of discouraging the past practice of submitting budget requests that are out of line with available resources. Program budgeting is still considered separately from the real budget preparation, however; there is little time devoted to substance; performance indicators focus on outputs rather than outcomes; and program managers are not accountable for results. In addition, budget execution does not take place on a programmatic basis, which reinforces the view that the program budget is not the real budget. Even where MTEFs are proving useful, a less-detailed and more strategic planning exercise might serve the purpose better.

Entry points are important, as noted above; PFM and tax administration are good thematic entry points, and AAA is a good entry instrument—such as PERs, CPARs, CFAAs, and PETS. Within the limits of PFM project activities, the question of entry points also arises. Some countries found it helpful to pilot nascent MTEFs and other reforms in ministries or subnational governments with demonstrated PFM capacity, to draw lessons from the pilot, and then to gradually scale up to other ministries.

Argentina, Cambodia, India (state level), Russia, and Tanzania were good examples. These initiatives were most successful when core ministries—finance and planning—provided the support and space for the sectoral or subnational interventions to succeed. Although entry points were mainly finance ministries or departments in ministries or subnational authorities, the Bank also supported legislative oversight and civil society initiatives in Ghana, for example.

Regarding lending instruments, there has been a shift toward more flexible, long-term lending instruments since 2000. This includes a shift in PFM support from investment to programmatic policy-based loans. The results of this shift are broadly favorable, with strong performance in Ghana, Guatemala, and Tanzania, for example. PFM outcomes tied to HIPC accession and PRSCs proved fruitful in Ghana, Honduras, Tanzania, and Uganda. Yet the delayed treasury system in Indonesia and the modest PFM improvements evident in Uganda point to continuing challenges under the new instruments.

In Mali, investment lending—rather than or in addition to policy-based lending—might have achieved better results. In Guyana, India, Russia, and Tanzania, the continuation of PSR investment lending, in parallel with Policy Reform Loans and often with longer-term instruments, was important to sustain support for reforms.

The Bank has been cautious in considering the use of procurement processes of governments or other donors, usually preferring the processes in the PIUs it sponsors rather than using government systems.[6] This can slow down improvements in government systems and exacerbate the delays in information technology projects, and it still does not ensure that procurement will be corruption free (see table 5.2).

For example, decentralized procurement in Honduras within the ministries and agencies has languished for lack of capacity and because perceptions of corruption make donors reluctant to channel resources through the regular civil service. Instead, a proliferation of PIUs has led to expensive and fragmented procurement managed under a host of balkanized rules and regulations. Procurement delays in Ghana, Guyana, and Indonesia, among other countries, have hampered PFM support, although this seems to be improving. The U.S. Millennium Challenge Corporation recently agreed to use the new information management systems for the management of its program in Honduras. This is a notable achievement, given the strict requirements of the U.S. government.

Investment projects for PFM and tax administration typically put a strong emphasis on technology and sometimes carried the expectation that it would be the main key to results, without adequately recognizing that changes of incentives, behavior, and organizational cultures are more important and more challenging (see box 5.1). Even when the people-management aspects were recognized in the project design, if these more difficult aspects of the projects hit snags, the tech-

The Bank has often used PIUs rather than government procurement systems, but this slows government improvements without ensuring corruption-free procurement.

Table 5.2: Improvement Rates in Public Financial Management (CPIA 13) by IDA/IBRD Classification

	CPIA (13) quality of budget and financial management and PFM PSR lending, 1999–2006							
	IBRD		IDA or blend		Total		Major improvement (>0.5)	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Any PSR PFM lending	64	28	61	59	62	87	28	87
With > = 2 PSR PFM IL	29	7	64	22	55	29	28	29
With > = 4 PSR PFM AL	67	3	82	11	79	14	21	14
With PFM IDF	79	14	68	37	71	51	31	51
Without PFM IDF	50	14	50	22	50	36	22	36
No PSR PFM lending	21	29	32	19	25	48	10	48
With PFM IDF	20	10	38	8	28	18	17	18
With any AAA	26	19	31	16	29	35	14	35

Source: World Bank CPIA scores and IEG staff calculations.
Note: Entries show the percent and number of countries that show an improvement in the average of CPIA 13 between the years 1999 and 2006 (or closest year available). Columns classify countries by their 1999 IBRD/IDA classification. Rows provide this figure for subsets of countries based on the number and type of investment loans (IL) approved or active fiscal 1999–2006 and development policy loans (AL) approved in fiscal 1999–2006. AAA = analytical and advisory activities; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; IDF = institutional development funds; PFM = public financial management; PSR = public sector reform.

Box 5.1: Too Much Attention to the Technical Aspects—Not Enough to the Human Element in Ghana

The Public Financial Management Technical Assistance Project in Ghana had an information management system component that was overly complex, when simple spreadsheets could have done the job. It created "a very big conceptual, technical, and managerial challenge" and left gaps in policies and outputs. It did not link "the poor performance with the mandates, role, organizational structures, overlapping responsibilities, outdates procedures and processes, and skill levels," nor did it flag the issue of availability for training. There were too many components for the PIU and government to effectively coordinate, and the implementation schedule was overambitious. Functional units should have been given responsibility for implementing reforms rather than the PIU, which was recommended in the midterm review but which was not done.

Source: World Bank 2004d.

nology parts of the project often continued to disburse despite the changed conditions that reduced their effectiveness.

In the area of PFM, the Bank's analytic work has progressed furthest. A review of 50 recent development policy operations found that more than half were informed by at least three PFM studies by the Bank and other development partners (Parison 2005). The number of PERs has increased from 17 per year for 1999–2002 to more than 23 annually since then.

Increased attention is now given to institutional aspects. Initially, the focus was almost exclusively on budget formulation—setting aggregates and sectoral allocations—but since 2000 more attention has gone to the execution phase of the budget cycle. PERs are now routinely (although still not always) linked with CFAAs and CPARs, which now include governmentwide assessments and sometimes subnational governments.[7] The PETS has proven to be a powerful addition to the Bank's toolkit for identifying problems with (and corruption in) expenditure and financial management, although the cost and time demands have made PETS impractical for universal application.

CFAAs and CPARs helped increase the focus on PFM issues in subsequent country strategies.

A recent IEG evaluation (IEG 2007) found that 64 percent of CPARs and 71 percent of CFAAs were of satisfactory quality, with steady improvement in quality since the publication of the respective guidelines and with increased donor collaboration. They could have been more effective, however, with improved coordination among the units preparing them and other PFM reports; they could have avoided confusing situations such as clients getting multiple PFM action plans.

Despite these shortcomings, CFAAs and CPARs contributed to a greater focus on PFM in subsequent CASs and to increased PFM lending. CASs in 13 of the 22 countries studied proposed DPLs with PFM prior actions and conditions, and only 4 CASs proposed such lending prior to the completion of the CFAAs/CPARs. Likewise, twice as many CASs since 2000 proposed PFM investment lending as was proposed in countries prior to the completion of CFAAs/CPARs. These instruments have only had a modest overall impact, however, on PFM and procurement arrangements and on the choice of instruments for Bank assistance (IEG 2007, pp. 37, 41–42).

Routine monitoring of public expenditure management has improved greatly since the late 1990s, first with the HIPC tracking process and more recently with the PEFA indicators. The interest in ensuring good management of HPIC resources evolved into interest in ensuring that general budget support, with instruments such as PRSCs, went through efficient, transparent, and socially accountable processes.

This led the Bank, along with other partners and in consultation with many governments, to develop the PEFA indicators.[8] These focus on the PFM process but also include a little on tax administration, civil service, corruption, and reliability of donor funding. There are 28 major indicators of country performance, most with subindicators, plus three indicators of donor practices, such as predictability of direct budget support.

Building on the three budgetary outcomes discussed above, the indicators measure six dimensions: budget credibility, comprehensiveness and transparency, alignment with policy, predictability and control, accounting and reporting, and external scrutiny and audit (see PEFA Secretariat 2005 for a complete listing). They indicate gradations of improvement in PSM, corresponding to a sequence, and provide a range of standards that includes OECD countries, some of which are also rated. PEFA is thus a model for what could be extended to or replicated in other PSR thematic areas.[9]

As of August 2007, 40 countries had completed one or more PEFA assessments.[10] PEFA and other related indicators are useful because they measure actual practice, rather than perception or reputation, and they look at actions that would be the immediate objectives of reform.

An analysis of 15 countries with both HIPC and PEFA ratings looked at 11 indicators where there is close correspondence between the two assessment methods. Over the period 2001–2006, five countries showed improvement in the number of HIPC benchmarks met (with Ghana improving by six benchmarks), six showed a decline, and four remained largely unchanged. Based on raw scores, eight countries improved, four declined, and three were unchanged.

In terms of the different phases of the budget cycle, the greatest improvement was in budget reporting, with less improvement in budget formulation and some deterioration in budget execution. At a more detailed level, more than 90 percent of countries could limit the discrepancies between budget allocations and budget outturns in 2006, compared with less than 50 percent in 2004. Eighty percent of countries met the benchmark on improvements in budget classification in 2006, the same as in 2004. However, there was a decline in the quality of medium-term projections in budget processes and in ability to reflect donor funds in the budget (de Renzio and Dorotinsky 2007).

Some HIPC countries, where the Bank's work on PFM issues has been intense, have more detailed records of progress. Taking the 23 countries participating in HIPC that were monitored first in 2001 and then again in 2003–04 and considering the benchmarks set for 15 PFM elements, the number of countries meeting or exceeding the benchmarks increased for 8 indicators, declined for 6, and stayed the same for 1. Of the three main PFM areas (see appendix A), budget reporting improved the most, with 14 countries improving and 4 worsening.

Routine monitoring of public expenditure management has improved with the use of PEFA indicators, which measure practice rather than perception or reputation.

Within this indicator group is, for example, the indicator 13: "Regular fiscal reports track poverty reducing spending." Here the number of countries meeting the benchmark increased from three to seven. Forty-two percent of benchmarks in the "reporting" area were met in 2004, up from 33 percent in 2001.

In the other two PFM areas of "formulation" and "execution," however, there were modest declines between the two reporting periods in countries meeting the benchmarks (World Bank and IMF 2006).[11] Traditionally, the Bank gave more attention to budget formulation than to budget execution, and traditional financial management looked mainly at Bank projects, not the whole spending cycle. Somewhat more attention now goes to the downstream aspects, but more consistent effort is still needed in that direction.

In summary, the Bank's increased PFM lending and analytical work can be linked with encouraging PFM improvements among borrowers, usefully adapting PFM tools from other jurisdictions, and carrying out effective monitoring with robust assessment tools accepted by major donors. However, progress is uneven, both across countries and across different types of indicators. Bank performance might have achieved greater success with deeper institutional and governance analysis, greater attention to addressing basic systems before moving to advanced PFM tools, and more Bank support and flexibility in working to improve countries' own procurement systems. Conditionality worked better when it focused on PSR outcomes, leaving country governments to pick specific

The Bank's increased PFM lending and analytical work can be linked to encouraging PFM improvements among its borrowers.

measures and the Bank to give technical assistance on request.

CSA reform design

What was the support for CSA reform trying to achieve? This thematic area of reform includes several components:

- *Measures to track the existing staff*—for instance, developing computerized payroll and human resources databases—are usually an important early reform action without much controversy. Pay and employment data are often missing, and these data are essential to diagnosing civil service issues and designing reforms.
- *Measures to contain and reduce the number of staff*—via retrenchment and layoffs, early retirement, and hiring freezes—are usually the most controversial components of CSA reform.
- *Compensation reforms* deal with pay structures and pensions.
- *Human resource management* reforms deal with management of cadres generally and the senior civil service particularly. This includes merit-based recruitment, promotion and discipline, performance management, and appraisal systems.
- *Organizational reforms* deal with issues such as contracting, creating delivery agencies, and process engineering and organizational restructuring. These issues are usually based on functional and program reviews and aim to improve operational efficiency.
- *Demand-side reforms* focus on the users of services, through service standards, e-government, and so forth.
- *Training and capacity building*.

Table 5.3 compares the different CSA reform components in terms of political risk, financial implications, and demands on capacity.

The Bank used to emphasize retrenchment and salary decompression among CSA reforms—an approach that usually failed.

The Bank's involvement in CSA reforms evolved out of the need to address the issue of an affordable wage bill as a significant component of public sector expenditures. As a result, CSA reforms often emphasized (especially in the 1980s and 1990s) retrenchment and salary decompression (increases at the top). But this focus often overlooked indications that these actions were politically unrealistic and also assumed without evidence that these changes would bring about improved public administration. This approach usually failed, because the downsizing either did not take place or was reversed by rehiring, often of the same people. Since then, the Bank has continued to endorse the same formula with similar lack of success in 1999–2006, although in fewer countries, such as Cambodia, Honduras, and the Republic of Yemen.

In the past few years, the Bank has shifted its focus in many countries to human resource management reforms, such as merit-based recruitment and promotion, both as a means to improve performance and as a counter to patronage-based systems. Drawing on project conditionality as a proxy for the Bank's activity in this area, the focus on merit-based measures has grown significantly in the past five years; downsizing is somewhat less prominent (see figure 5.1).

In the 19 case studies, the reforms most frequently supported with Bank programs since 1999 include payroll and human resources databases, redeployment/layoff provisions, pay reforms, merit recruitment and promotion, and training/capacity-building programs. The Bank has continued to advocate downsizing and pay reforms, but merit-related reforms have risen in importance since 2000 (see also Stevens and Teggemann 2004.)

Database reforms and training have also been common elements of many reform packages, in part because of their less controversial nature as well as their direct linkage to other reform areas, particularly PFM. An important step in many countries has been to get the human resource database and the payroll (usually at the ministries of finance) consistent with each other.

For administrative reforms, the bulk of activity has centered on functional reviews, at times to support downsizing efforts but also as a means to improve operational efficiencies. In Russia, some redun-

Table 5.3: Civil Service and Administrative Reform: Types and Challenges

Component	Political risk	Financial cost	Demanding of capacity	Successfully implemented reforms	Little or no progress
Pay and employment data	Minimal	Modest	Yes—but capacity building is part of project	Rep. of Yemen, Guyana	Honduras, Uganda
Downsizing	High	Significant one-time costs for retrenchment	Yes, to do it right (targeted)	Russia, Tanzania, India	Bulgaria, Guyana, Uganda, Ethiopia, Rep. of Yemen, Cambodia, Sri Lanka
Compensation reforms	Yes, in egalitarian cultures, where lower ranks are politicized or where unions are strong	Yes	Yes	Bulgaria, Albania	Guyana, Indonesia, Rep. of Yemen Pakistan
Human resource management reforms	Yes, especially in patgronage-based systems	Moderate	Yes	Bulgaria, Bolivia (pilots), Albania	Ghana
Organizational reforms	Moderate	Modest	Yes	Russia, India, Tanzania	Ghana
Demand-side reforms	Moderate	Modest	Yes	Tanzania, Uganda, India	
Training	No	Modest	No	Ethiopia, Russia, Rep. of Yemen	Bolivia

Source: IEG country case studies.

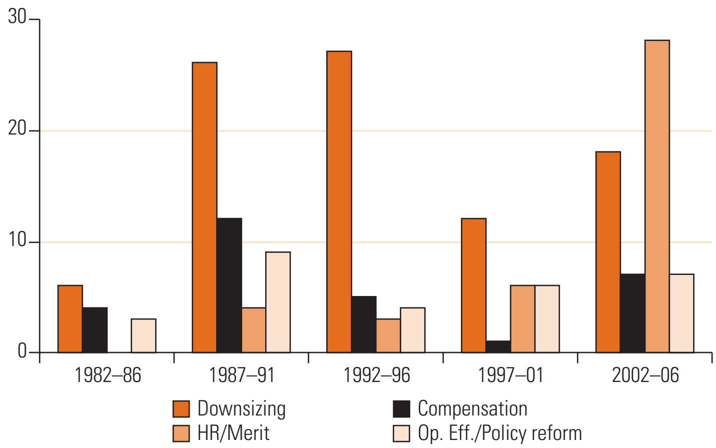
dant or duplicative functions were eliminated; in Ghana, some minor process improvements have been reported. However, in other case studies, these reviews generally did not lead to real process changes. There has been some reform effort focused on restructuring, including agency automation, such as in Tanzania. On demand-side reforms, citizen charters, standards of service, or other mechanisms like client service units and surveys have been introduced in some countries (Ghana, India, Russia, Tanzania, and Uganda), with favorable results beginning to show in some places.

Outcomes. Despite the continued efforts and some modification of the approach, civil service reform has been relatively unsuccessful, as is apparent from table 5.3. A similar table using a non-Bank indicator (the public administration rating of the ICRG) also gave an unsatisfactory result. Also, countries getting more Bank loans (development policy or investment) for CSA reform did not do better on average than those getting only one. The question is, why? And why were there successes in some cases?

In the past five years, merit-based measures for civil service reform have increased.

The case studies show that reform in the area of CSA has been extremely challenging, even in a relatively supportive environment. The cases highlighted a number of country-specific reasons why

Figure 5.1: Number of CSA Projects with Various Subcategories of Conditions



Source: Adjustment Lending Conditionality and Implementation Database and IEG staff calculations.
Note: CSA = civil service and administrative; HR = human resources.

implementation of these reforms—particularly downsizing, pay decompression, and merit-based reforms—failed.

Civil service reforms, despite modifications in approach, have remained a relatively difficult and often unsuccessful area of the Bank's assistance.

First and most common, there can be a lack of political commitment to reform or a discontinuity over the implementation period. In some countries, the government may adopt reform strategies and even pass new legislation. But then as implementation starts up, momentum slows, delays occur, and projects can completely stall, such as in Ghana, Argentina, and the Republic of Yemen. This issue of political commitment can affect even the most uncontroversial measures, such as introduction of new data systems, by reallocating resources or simply delaying projects because of staff turnover.

Changes in political leadership can also result in decisions to terminate, reverse, or dilute more controversial reforms such as downsizing. In a number of countries, such as Bangladesh, Ethiopia, and the Republic of Yemen, the persistance of patronage systems and politicization of the bureaucracy undermined implementation in the review period, particularly those reforms that affect pay, recruitment, promotion, and downsizing. In addition, the strength of trade unions in the public sector can subvert downsizing, pay, and merit-based reforms in an otherwise supportive political regime. Concerted government effort partly overcame this in Burkina Faso and Guatemala, but not in Honduras.

The Bank's analytical tools for analyzing CSA issues are underdeveloped and underused.

Despite these political, cultural, and institutional challenges, the cases give some examples of successful CSA reforms. Six factors seem to have contributed to these successes—and in their absence, likely contributed to reform failures: analytic diagnosis and advice, pragmatic opportunism in selecting reforms to support, realistic external expectations, appropriate packages of lending instruments, tangible indicators of success, and effective donor coordination.

Strong and coherent technical and contextual analysis. For CSA issues, the Bank's analytical tools are relatively underdeveloped and underused. There is no standard Bank diagnostic instrument or report for the analysis of the civil service. The absence of a standard analytical tool is partly a consequence of the lack of international consensus around the "right" civil service model for developing countries, or indeed for developed countries. Debate continues about the objective of CSA reform—whether it is affordability, performance, or accountability—and the sequencing and fit with political realities.

The Bank has rarely analyzed the political considerations that make civil service reform so difficult; the IGRs in Bolivia and Bangladesh are notable exceptions. As a result, many of the case studies attribute part of the failure to make headway in CSA to the narrow scope of the Bank's analytical work.

The diagnostic work done by the Bank on administrative and civil service reform is typically relegated to one chapter of a broader piece of analysis, most often a financial report of some type. In reviewing the country studies, for example, of 69 ESW reports that had some discussion of CSA, only 5 were freestanding analyses of civil service issues; 39 were PERs or other financial reports; 6 were CEMs; and 19 were parts of other broader papers. Although the number has grown—25 reports during the 1990s, increasing to 44 in the past 7 years—the bias toward using financial reporting vehicles remains strong. As a consequence, the CSA analyses tend to focus on affordability issues rather than on performance or accountability.[12] This is not to deny the importance of affordability, but rather to note that it has not usually proven successful as an entry point for dialogue on civil service reform.

Effective analysis of CSA issues is made more difficult by the scarcity of standardized data, such as numbers of staff by grade and occupation group, as well as data on the wage bill. Nor do standard measures of performance or indicators of reform implementation exist.

Recently, however, there has been some process in this area. For instance, the CPIA question on quality of public administration has four subcomponents: policy coordination and responsiveness, service delivery and operational efficiency, merit and ethics, and pay adequacy and management of the wage bill. WBI governance indicators also measure bureaucracy quality. Although there is no civil service equivalent to PEFA, there have been a few diagnostic pilots in the Europe and Central Asia Region (Albania and the former Yugoslav Republic of Macedonia, for instance) and in some Indian states—measuring rates of turnover, shares of personnel recruited through competitive exams, and so on—but these have not been widely applied in other countries.

Often even basic data are lacking, and initial reforms may involve personnel inventory and information systems. This is sometimes a good opportunity for an entry point to the civil service reform agenda. However, the Bank has not (with other stakeholders) developed or promoted an adequate framework and tools to incorporate CSA issues into the standard diagnostics.

Russia is an example of a country for which the Bank provided good quality analysis and advice on CSA reforms that was well received and valued by the client and that helped support the client's reform agenda. Bolivia and Honduras are other examples where contextual analysis was carried out to good effect. Understanding labor market conditions has been an important part of successful contextual analyses. Unfortunately, the more common experience has been the opposite—the absence of good diagnosis and analysis can lead to inappropriate reforms or failure to convince governments to take action. This issue was highlighted in a number of case study countries, including Ethiopia, Ghana, Guyana, and Indonesia.

Analytics tend to focus on civil service reform affordability issues rather than on performance.

Taking a pragmatic and opportunistic approach to CSA reforms where the institutional environment is challenging. Ingrained systems of patronage political appointments are often at the root of problems with the civil service, which successful diagnosis has understood. But the Bank's traditional tools, especially lending conditions, are ill suited to addressing this fundamental challenge.

Some positive results are being achieved where the design of reform measures is more pragmatic; the reforms try to shift existing practice rather than advocate all-or-nothing change. Russia, for example, has started to require that new hires meet certain minimum qualifications even if the final selection is politicized, to keep track of absentees, and to make it easier to fire them. In Cambodia, selective, enhanced pay schemes have been used; at first the Bank and IMF staff were unsupportive, concerned that a two-tier salary system would cause friction. But ultimately it was recognized that an informal two-tier system was already in place because of ad hoc donor arrangements and that this program would encourage consistency and a better targeting of resources. Implementation of reforms through pilots—as in Russia—when a more comprehensive approach would likely fail can also be more effective in riskier environments.

Realistic expectations by the donor community. It is now well acknowledged that CSA reforms take time to implement and to show tangible results. Tanzania provides a good example of a reform process where the Bank and other donors have let the government take the lead in terms of pace and direction and have shown patience for building capacity. In this case, the Bank has used a longer-term and more flexible lending instrument (such as an adaptable program loan) and has pooled funds with other donors to respond to this reality.

Other cases, however, show that Bank and other donors can have expectations that are too short term, which inevitably sets the reforms up for failure. The Republic of Yemen offers an example of this. It is also true that unrealistic expectations can be created by the political leadership within the country (such as Ghana), where broad and ambitious strategies are at times promoted and approved, but implementation stalls as vested interests coalesce.

Case studies show that technical assistance funded with investment loans has been particularly important in encouraging civil service reform.

Appropriate package of lending instruments. The case studies show that technical assistance funded with investment loans has been a particularly important tool for encouraging civil service reform, especially in poorer countries where capacity levels are usually very low. In some of the cases, such as Cambodia, Honduras, and Tanzania, the combination of policy-based lending supported by technical assistance was a positive feature, particularly in countries with low capacity for implementation.

In other cases, where only development policy lending supported civil service reform, the lack of supporting technical assistance was a hindrance to progress. Learning from such experiences sometimes led to the revival of investment lending to support civil service reforms. In Uganda, the government did not initially allocate enough budget resources to the CSA reforms; now bilateral funding supports them.

Linking CSA reforms to PFM reforms may help overcome the perceived lack of tangible benefit to CSA reform.

Tangible indicators of success. Unlike tax reform, where leaders see obvious benefits, the political leadership cannot easily identify tangible benefits of CSA reform. Linking CSA reforms to more concrete PFM reforms where possible is one way to address this. Most conducive to this effort is the development of payroll and human resources databases, as well as training and capacity building in support of PFM.

Another strategy is to develop measurable indicators of results. The Albania case study shows some progress in this area, with the Bank supporting the development of a number of civil service–related measures, such as the percentage of recruitment done by merit, which the government is now tracking on a regular basis. These are not final outcome measures, but they provide a more transparent method of demonstrating progress in implementation.

A few other countries are tracking similar measures, such as FYR Macedonia and some Indian states, but there is no standard set of indicators or wide adoption that is similar to the PEFA indicators. Further effort in this area is certainly worth pursuing.

The case study of Russia offers additional insights. Its reform agenda began with economic reforms and then moved to fiscal reforms. Russia has more recently reached the stage where poor capacity is holding back other reforms, and with this realization at the political level, there is now a growing acceptance of the need for civil service reform. Not only has this case shown the importance of building demand for CSA reform through identifying tangible benefits, but it also shows that it is possible to proceed with some elements of reform in the absence of or in advance of comprehensive action.

Effective donor coordination. In some countries, reform strategies have become joint efforts with the donor community, with positive effects. Tanzania, Bulgaria, and Guyana provide good examples, as does Ghana with its joint CAS process. In some cases, the Bank has shown itself to be an effective facilitator, and results have generally been more positive than when it has tried to drive reforms (such as downsizing) in the absence of political commitment. Interestingly, Tanzania's reform agenda suffered in the early years because an uncoordinated approach by donors resulted in conflicting advice and multiple agendas. This situation changed when the government successfully demanded better coordination among donors.

These various Bank strategies to support CSA reforms in the case study countries are consistent with and reflect a number of the recommendations from the 1999 IEG evaluation. For instance, that report emphasized the need to preface reform design with institutional assessments of administrative systems and analyses of labor market trends in addition to budget scenarios. However, this type of analysis is still the exception rather than the norm.

Another recommendation proposed that the Bank engage in a more participatory approach to reform design and implementation. This is now happening, for example, in Tanzania. The Bank has also made progress on the report's recommendation to coordinate better with other donors and focus its input where it has a comparative advantage. In Bulgaria, for example, the Bank provided a roadmap for reform, but other donors provided the technical assistance for specific reforms. The development of standardized performance measures, as is being tried in Albania, was a recommendation from the 1999 report.

Tax administration

What was the support for tax administration trying to achieve, and why did it usually succeed? Tax administration reforms aim—or at least should aim—primarily to increase voluntary compliance. Other important objectives include raising more revenue, reducing evasion, and making the pattern of tax collection and incentives correspond to those intended in the legislation. This evaluation does not discuss tax policy (legislation), although tax administration *is* tax policy in the sense that what actually gets implemented is what matters (Bird and Casanegra de Jantscher 1992). Legislated tax policy also matters for administration, of course, with clarity and the absence of exemptions in the law facilitating collection, compliance, and enforcement.

For tax administration reform, the typical entry point for the Bank's policy dialogue has been the government's need for additional revenue. Other objectives include preparation for accession to the European Union (Bulgaria), adapting tax administration to a free market economy (Russia and other Eastern European countries), and increasing transparency and efficiency to improve the image of tax administration with voters and the business sector.

There have been positive effects where tax reform strategies have become joint efforts with the donor community.

Over the past decades there have been several trends in tax administration reform:

- Reorganization of tax departments along functional lines
- Establishing a comprehensive system of taxpayer identification numbers
- Computerization
- Granting autonomy to tax departments
- Establishment of large taxpayer units.

All these measures helped improve the effectiveness of tax administration, but none was a magic bullet. A judicious combination of these measures with others, such as simplification of procedures, appropriate collection systems, effective audit and appeal mechanisms, adequate human resource policies, and well-designed taxpayer information and service systems, are all necessary to increase the effectiveness of tax administration and reduce opportunities for corruption. Although there is not a unique ideal administrative model that fits all revenue agencies, there is a widely recognized set of administrative strategies that allows experts to usually agree on the main set of reforms needed in a country. Some of these are captured in the PEFA indicators, three of which deal with tax administration, each with three subdimensions.

To develop an appropriate reform strategy, success has depended on starting with a good diagnostic of the problems of the existing tax administration. With respect to both diagnosis and strategy design, it is advisable to profit from work done previously by other donors—for example, the IMF in Albania, Bulgaria, and Tanzania—and complement it with Bank work. A pilot approach to tax administration

The Bank's entry point for tax administration reform has typically been the need to increase revenues.

reform has proven successful in many cases. In some countries, implementation of the value-added tax has been used as a pilot for introducing modern systems of taxpayer identification, tax collection, and so on (for example, Albania). In other countries, the establishment of large taxpayer units has served the same purpose (for example, in Bulgaria and Russia).

Outcomes. Among the 27 countries with tax administration investment projects approved or still active in 1999–2006, more than three-fourths showed improved CPIAs (1999–2006) for revenue mobilization; seven had major improvements. In contrast, among countries with tax administration conditions in DPLs but no investment/technical assistance loans, only a bare majority showed improvement—not much better than in countries with no tax administration lending. Doing a complete reform of tax administration takes some time—most of the Bank's tax administration investment projects lasted five to seven years, and more than 80 percent had to be extended to achieve the desired results. Patience has paid off.

Most of the Bank's tax administration investment projects have been extended, but they have usually paid off.

Working with other donors has been important in most of the cases studied. The IMF often helps with the diagnosis and strategy; others, such as DFID and the European Union often help with cofinancing. Still, the role of Bank expertise is important; even when the IMF is providing a lot of technical advice, having the Bank help design and manage the actual project has been essential, according to interviews with country counterparts. And the IMF is not always available; in those cases, the in-house expertise and consultant roster of the Bank become even more important.

On diagnosis and general strategy for tax administration (and treasury), the IMF routinely takes the lead, as in Bulgaria, Guatemala, Russia, and Uganda. The Bank has a good manual on tax administration (Gill 2000), but it has not been updated. Only a few regular Bank staff have the appropriate expertise, so consultants have often been used when IMF support was not available. More contribution from Bank staff has been needed and is beneficial, according to the case studies, when there are tax administration projects, which the IMF does not have the instruments to design, finance, or supervise. Bank staff expertise is very thin in tax administration, as noted in chapter 3, so care is needed to maintain it and perhaps deepen it.

Anticorruption and transparency

What was the support for ACT trying to achieve? The Bank's standard definition of corruption has been "the abuse of public office for private gain" (World Bank 1997a). Although this does not include all kinds of corruption, it matches well the corruption concerns for reform of the core public sector.

The attention to anticorruption and transparency in CASs, AAA, and projects has grown strongly since the late 1990s, when the "C word" first gained official usage. Initially, corruption only appeared in the CASs of countries that were enthusiastic reformers or that were heavily aid dependent. It was prominent in the 1997 Indonesia CAS and included in the 1998 Honduras and Bolivia CASs. It has become standard in PRSCs, starting with the first in Uganda.

As more countries have opened up on the topic, it has become a negative point of note if a country does not say it is doing something about corruption. Even the most ardent opponents of discussing the topic initially now have something on it in their CASs or Country Partnership Strategy. Real action has come more slowly. The Bank and others usually distinguish two broad types of corruption—state capture (or grand) and bureaucratic (or petty) corruption—and two ways of combating it—indirect and direct—as laid out in table 5.4, showing some examples in each of the categories.

State capture gets the front-page headlines: "Hundreds of millions stolen and stashed overseas" or "Public enterprises sold to insiders for 20 percent of true value." It also includes more subtle examples, where persons with political authority make decisions, without explicit bribes, that ad-

Table 5.4: State Capture and Bureaucratic Corruption, and Indirect Ways to Combat Them

	Types of corruption: State capture	Types of corruption: Bureaucratic
Examples	• Corrupt award of big contracts • Embezzlement of public funds • Kickbacks from big international corporations • Privatization to insiders at bargain prices	• Bribe taking or extraction • Skimming paychecks • Nepotism in appointments • Selective enforcement of taxes • Absentee employees, teachers, doctors • Doctors using public facilities for private paying patients • Teachers tutoring for pay to prepare students for tests
Ways to combat		
Indirect	Transparency • Publication of budgets and actual spending—with comprehensible formats • Access-to-information law • EITI • Independent audits published • Procurement reform Publication of opportunities Competitive bidding E-procurement	• Civil service pay reform • Expenditure tracking surveys • Bank payment systems for taxes and public salaries • Public announcement of hiring opportunities • Removal of ambiguity from laws and regulations
Direct	• Anticorruption commission with high power • Public officials' disclosure of assets • Investigation and prosecution of officials' unaccounted-for wealth • Stolen asset recovery	• Anticorruption commission with low-level mandate • Prosecution/fining/firing of bribe takers • Code of conduct for public officials • Public officials' disclosure of assets • Investigation and prosecution of officials' unaccounted-for wealth

Source: IEG assessment.
Note: EITI = Extractive Industries Transparency Initiative.

vance the particular interests of their family and business associates.

Bureaucratic corruption usually gets less media attention but can have serious impacts on development: some teachers and doctors frequently fail to come to work, without consequences. People have to pay bribes to get birth certificates or access other public services.

The two phenomena have intrinsic links, however. Costs of grand corruption are described in terms of how many school books and medicine doses the stolen millions would buy, and these calculations assume that efficient noncorrupt institutions use the funds—that is, without much bureaucratic corruption. Grand corruption is rightly condemned for setting a bad example at the top, but the "little guys" at the bottom would tolerate it less if they were not also getting some morsels from petty corruption.

In considering the outcomes for anticorruption and transparency efforts, one must keep in mind that there are many aspects of the anticorruption agenda that are not considered here—such as legal and judicial systems, public utilities, and private corporations—and that CPIA 16 considers not only the ultimate objective of lower corruption but also transparency and accountability. Both are process inputs for reducing corruption, as well as for other objectives.

As shown in table 5.1, only 53 percent of countries getting PSR lending showed improvement in CPIA 16, but the difference between IDA and IBRD borrowers is the largest of any theme. The IDA countries that borrowed for PSR did little better than those that did not. IBRD countries, in contrast, had a 61 percent improvement rate, almost as good as for PFM. Europe and Central Asia had the strongest performance, with 79 percent of borrowers improving, compared with none of the nonborrowers. In half of the Europe and Central Asia countries that borrowed for PSR, CPIA 16 improved by 1.0 or more during the period 1999–2006.

Although many countries now talk about corruption, action has been slow.

Other indicators round out this picture. With the Corruption Perception Index (from Transparency International) and the Worldwide Governance Indicator for Control of Corruption (from WBI), about half of the countries getting PSR lending improved their corruption ranking from 1999 to 2006, which is only 4 and 10 percentage points, respectively, better than the countries with no PSR lending.[13]

For IDA countries, the improvement is slightly less, and there is no difference from countries without PSR lending. Because these results are based on rankings, they change at least a little even if nothing changes in the country's performance. The small or zero difference with nonborrowers implies no significant improvement. With the ICRG rating on corruption, the percent of PSR borrowers that improve is much lower—only 13 percent—and only 2 percent of countries without PSR lending show improvement. These results from the non-CPIA indicators are consistent with results in most of the case studies—there is improved transparency, which explains the improved CPIA 16, but not usually reduction in corruption per se.

In some of the case study countries, reforms on other public sector themes improved transparency and reduced bureaucratic corruption.

As with civil service reform, reducing corruption involves deeper and more politically challenging change than in PFM. Even today's relatively low corruption in upper-income countries did not come about quickly, but often took generations. Bank programs can have only marginal effects on whether and when the political will materializes to address corruption. The Bank's lending support for anticorruption efforts has mostly used indirect methods, which still predominate, often through reforms to PFM, civil service, and tax administration, as discussed above.

Reducing opportunities for corruption by simplifying procedures and regulations and getting incentives right through, for instance, personnel remuneration schemes, are systemic approaches that have been incorporated in Bank support to PFM, tax administration, and civil service reform. The expressed objectives have been to make public institutions more efficient, transparent, and accountable—all goals valuable in their own right that also contribute to reducing corruption. Some empirical evidence supports the latter connection, although some of the better government effectiveness is explained by higher income, which also correlates with both variables (Kaufmann, Kraay, and Mastruzzi 2005; Islam 2003).

In a variety of places examined for this evaluation—Bulgaria, Guatemala, Indian states such as Andhra Pradesh, Indonesia, Russia, and Tanzania—improvements to PFM (sometimes including implementation of PEFA) and tax administration improved transparency and reduced bureaucratic corruption. State capture has been more difficult to address, and the evaluation did not find clear evidence of success in the cases examined, at least not in the time observed. A sample of HIPC countries that have implemented PEFA showed a similar pattern; the CPIA transparency and corruption indicator (16) has not improved for the majority of the countries (all received PSR lending), even though a majority of the PEFA indicators showed improvement relative to the previous (HIPC) assessment.

Why did the Bank-supported ACT programs achieve as much as they have? Why has there not been more progress? Three groups of issues seem relevant: diagnosis and analysis (AAA), indirect versus direct approaches to different levels of corruption (state capture or bureaucratic), and supply-side versus demand-side approaches.

AAA. Anticorruption and transparency diagnosis and monitoring has been a major growth industry within and outside the Bank for the past decade (Levy 2007; World Bank 2006c). Some of this work, like the World Governance Indicators (from the WBI), tells about aggregate perceptions of the quality of governance in a country. These indicators have served to alert authorities that there is some problem; they can show medium-term results if things improve through government efforts or other factors, but they do not connect to what the government controls directly. Thus, they are not actionable. Some indicators, such as the Doing Business reports, tell about governance issues facing private investors.

BEEPS gathers data about actual government practices toward the companies surveyed, and these are, therefore, actionable indicators for constructing a business-friendly environment.[14] BEEPS was conducted in 2000, 2004, and 2006, and the changes over the period show a record of improvement in PSR borrowers, similar to that from CPIA 16. BEEPS does not cover many aspects of public sector corruption, because of its focus on business issues. That focus, however, is important for attracting foreign investment and therefore getting the attention of political leaders.

In 19 countries, the WBI has done extensive governance diagnostic studies, with much attention given to anticorruption and transparency.[15] WBI diagnostics in Ghana and Guatemala, among the case study countries, were central to developing extensive anticorruption strategies. The diagnostic is a potentially important tool for unbundling corruption, identifying weak/strong institutions, and assessing the costs of corruption on different stakeholders. Moreover, it identifies key determinants of good governance in a number of countries. This WBI governance diagnostic also addresses the importance of providing information as a monitoring tool, as well as a tool for empowering stakeholders. Monitoring and follow-up to the diagnostics have often not happened, with exceptions that include Paraguay.

The development and use of diagnostic tools has helped identify potential problem areas.

Although there is no PEFA indicator for corruption, improvements in the 28 areas covered by PEFA can help reduce opportunities for corruption. Most CPARs and CFAAs do not adequately address the question of how well procurement and financial management systems protect against or reduce the risk of corruption. They do not discuss specific methods to identify corrupt practices and measures to deter them in procurement and financial management. They rarely look at the incentives for corruption in these areas. A few have done so, such as for Bolivia and Indonesia, and with broader application this could help countries reduce corruption (IEG 2007).

For instance, researchers in Italy have developed a method to measure corruption by comparing the growth of infrastructure stock with amounts of spending. In the context of Bank work this would also identify the project areas where corruption is draining off the most public investment resources (Golden and Picci 2005).

The World Bank has been instrumental in developing new tools that help improve transparency and societal accountability, such as the PETS in 13 countries and quantitative service delivery surveys in FYR Macedonia and Papua New Guinea (DFID n.d.). Although some of the instruments used by the Bank and bilateral donors to assess fiduciary risk have been useful for identifying institutional weaknesses in the PFM systems of developing countries, especially the PEFA framework, the absence of political and cultural factors in these analyses reflects a general weakness in Bank and donor approaches to anticorruption.

Indirect or direct approaches for different levels of corruption. Many of the previously mentioned reforms to PFM, civil service (recruitment and pay reform), and tax administration are

Box 5.2: Extractive Industries Transparency Initiative–Multi-Donor Trust Fund

Thus far, 22 developing countries have signed on to the Extractive Industries Transparency Initiative (EITI)—14 in Africa, 3 in Europe and Central Asia, 2 in East Asia, and 3 in Latin America and the Caribbean.

To help countries implement the principles, the Multi-Donor Trust Fund for the EITI was established in 2004 through an agreement between DFID and the World Bank. The governments of Germany, the Netherlands, and Norway joined in 2005. The goal of the EITI–Multi-Donor Trust Fund is to broaden support for the EITI principles and process by establishing extractive industries transparency initiatives in countries. The Multi-Donor Trust Fund is an arrangement whereby the Bank manages funds on behalf of multiple donors.

The EITI–Multi-Donor Trust Fund currently funds activities in more than 12 countries, and the EITI has been endorsed in almost 10 more. Country-specific grant agreements are signed between the recipient country and the Bank to define and establish which activities are to be executed by the recipient.

Source: EITI Web site (http://www.eitransparency.org).

important indirect ways to reduce bureaucratic corruption by reducing opportunities and incentives for corrupt acts. Increasing transparency and access to information in all parts of the public sector also help reduce state capture by supplying information that the media, civil society, and the broader political process can use to demand accountability and uncorrupt behavior from political leaders. Support for these measures has been the most important way to date that the Bank has advanced the anticorruption effort. Examples include the civil service, procurement, financial management, and tax administration measures in Albania, Bolivia, Guatemala, Russia, and the Republic of Yemen.

Reforms to financial management, civil service, and tax administration are important indirect approaches to reducing the potential for corruption.

Against state-capture corruption, the Extractive Industries Transparency Initiative (EITI) has received Bank support for the international set-up and for implementation in at least 12 of the 22 developing countries that have signed on (box 5.2). EITI improves transparency on the revenue side, but its potential and hoped-for effects in reducing corruption and increasing transparency in the use of funds depend mainly on a process of information about mineral revenues stimulating domestic political demands for accountability and for more information. If a country already has the infrastructure of inquisitive media, opposition parties, and democratic budgeting, EITI could have good effects on transparency and corruption in a few years. In most of the EITI signatory countries where the Bank has provided support, however, there are great needs for institution building.[16]

Direct anticorruption efforts supported by the Bank have mostly targeted bureaucratic corruption, such as an anticorruption commission with low-level mandate, prosecution and firing of those who take bribes, establishing a code of conduct for public officials, requiring public officials to disclose their assets, and investigation and prosecution of officials' unaccounted wealth. In Guatemala, however, the government showed only limited support for strengthening the anticorruption commission, even as it supported measures—computerized systems for financial management information and procurement—that indirectly reduced corruption.

Most of these direct anticorruption mechanisms also have potential against senior politicians and businessmen involved in state capture, but they are rarely invoked except to settle political scores. In Indian states, the anticorruption commissions—some of which are supported in Bank operations—usually can investigate officials above a certain level only with permission of the head of the administration. The issue illustrates the difficult balance between protecting officials from politically motivated prosecution and making sure that all are subject to anticorruption rules. In Ghana, the Commission on Human Rights and Administrative Justice has a small anticorruption unit cofunded by the government and donor; it has reported that the government has restrained its work and independence.

Tanzania had a good enquiry (United Republic of Tanzania 1996) into forms, loci, causes, and remedies for corruption. Its main recommendation was to treat the problem of corruption by starting at the top, but the government has not implemented the recommendations. The Good Governance Coordination Unit (donor funded but staffed with Tanzanian civil servants) and the Prevention and Combating of Corruption Bureau have not done much yet. The national anticorruption strategy and action plan theoretically empowers private citizens to take up a corruption issue, but none seems to have done this with any effect. Although the plan seems an ambitious and all-encompassing anticorruption approach, it lacks serious mechanisms to monitor compliance or to hold implementing agencies accountable. Indirect anticorruption efforts through financial management have been more effective through the Ministry of Finance and the Public Procurement Regulatory Authority. Support to the National Audit Office has also encouraged demand-side transparency.

The Bank's country strategy and major operations have directly addressed state-capture corruption only in rare cases, when deep political and economic crises exposed the corruption of old regimes and brought in new ones dedicated to a fresh start, such as in Indonesia in the late 1990s and Nigeria after 2003. Advocating wholesale transformation of neopatrimonial governments has been politically difficult for the Bank and is usually avoided, even when formal or informal analytic work identifies the problem, as it did in Bangladesh, Bolivia, Peru, and the Philippines.

Focusing reform efforts on combatting bureaucratic corruption seems unfair if state-capture corruption is persisting, but it may serve to make public service delivery more efficient and helpful to citizens while staying within the bounds of political feasibility. Reducing state capture (if possible) would make reduction of bureaucratic corruption more effective and sustainable, and reducing bureaucratic corruption seems to have some use in itself and may help move the broader political culture toward opposing grand corruption. In perception-based indicators of corruption, however, the persistence of state capture may obscure progress in fighting bureaucratic corruption.

Supply- and demand-side approaches. The measures discussed above are in the supply-side category, in that the reforms are supplied by the government (perhaps in response to domestic or international demands) and address corrupt practices by the government (perhaps in response to bribes that accompany private sector demands). In its transparency and anticorruption efforts (like the rest of PRS), the Bank has focused mainly on the supply side, because it generally works with governments and needs those governments' approval for its activities.

Direct anticorruption efforts supported by the Bank have mostly targeted bureaucratic corruption.

Nonetheless, there are more than a dozen projects listed in the GAC (World Bank 2007c) with components aimed specifically at the demand side for PSR in the areas of this evaluation. Most of them include measures to strengthen the oversight capacity of legislatures and their audit committees. Other support for the demand side includes WBI courses and contact with civil society, the media, and NGOs. Some programs, for example, in Guatemala and Indonesia, include measures to strengthen grassroots monitoring of local infrastructure developments and assist the media in enhancing transparency. Transparency and accountability of the budget processes are also reflected in some country portfolios, such as in Uganda. Generally, however, supply-side factors are at the core of the Bank's support of anticorruption. In particular, this applies to support to improve PFM legislation, public procurement systems, capacity of the auditor general's office, and CSA, especially payroll reforms.

Increasing awareness of the potential role of civil society in fighting corruption has only materialized in a few of the Bank's anticorruption lending programs. For example, reforms in Ghana to strengthen good governance and social accountability have to an important extent been demand driven from civil society; the Freedom of Information Act is expected to further strengthen the voice of civil society. In Indonesia, demand-side efforts brought in civil society and local stakeholders to perform monitoring and evaluation functions, especially in decentralization projects, investment climate surveys, and PETS.

Country strategies and Bank operations have rarely addressed state capture directly.

In Ukraine, the Bank has supported a program called Voices of the People. This program's goal is to improve municipal-level integrity by strengthening the voice of citizen groups as they demand better services and governance. The Canadian International Development Agency also supported this program. It started as a pilot in four cities, monitoring local service delivery, promoting NGO capacity, and facilitating public involvement in government decision making. Positive reaction to the first phase led to the addition of six more cities for the second phase, starting in 2003.

The persistence of state capture may obscure progress in fighting bureaucratic corruption.

The cases and literature reviewed raise challenges to traditional supply-side approaches—leaving it to the government and a country's legal institutions to devise and enforce public accountability. Conventional mechanisms, such as anticorruption commissions and audit and legislative reviews, may not be enough (Reinikka and Svensson 2006, p. 368). Collusion, organizational deficiencies, abuse of power, and lack of responsiveness to citizens have been hard to detect and rectify, even with the best of supervision. When the institutions are weak, as is common in developing countries, the government's potential role as auditor and supervisor is even more constrained.

Evidence suggests that corruption can be substantially reduced only when the supply-side reforms are complemented by systematic efforts to increase the citizens' capability to monitor and challenge abuses of the system and to inform the citizens about their rights and entitlements. Breaking the culture of secrecy that pervades the government functioning and empowering people to demand public accountability are important components in such an effort.

Tailoring an anticorruption strategy to country circumstances. The Bank dutifully repeats the mantra of "no one size fits all," yet it has not developed guidance on what to do if the Chilean or Nordic size—that is, the size that fits most countries where the Bank lends—does not come close to fitting in the country at hand, especially IDA countries. Most developing countries today (as with Western Europe and the United States 150 years ago) have political systems that depend fundamentally on patronage. In these places the recommendation *to be opportunistic* in fighting all types of corruption often degenerates into a game, where prosecuting corruption when it becomes most obvious or politically vulnerable leads to it popping out elsewhere. An open dialogue about the realistic options is needed.

The typologies of corruption elaborated above still do not provide a way to assess the cost of different corruption types to development, set the corresponding priorities, and choose remedies that work for the relevant situations.[17] The experiences in Indonesia, Nigeria, and Russia suggest that reducing the development cost of corruption is a politically attainable goal, even where patronage is ingrained in the political system. Even in patronage-based, corrupt governments, most leaders want to have at least somewhat more and better public services and infrastructure in return for their patronage spending. Beyond keeping corruption out of the projects it finances (which should be a high priority because the projects are presumably of high value for development), the Bank has not developed a systematic way to determine how it can and should work in such situations.

Summary Lessons from Thematic Comparisons

Standards and measurements

Actionable indicators exist for PFM and tax administration. Indicators exist for corruption perception, but mostly they are not actionable. Indicators for transparency are being developed in some areas—such as the Open Budget Project—and could be replicated in others. These indicators have sometimes been used to define project objectives and baselines, but this could be done more systematically. That would give more objective indicators for judging project outcomes, rather than relative to objectives defined in terms unique to each project, as is now the case with almost all projects.

For civil service, a few indicators exist, such as number of public employees, wage bills, dispersion ratios for wage rates, and (occasionally) absenteeism. However, these are not widely or systematically tracked. Also there is not a set of internationally standardized indicators established within a coherent framework for analysis.

Core agenda to be adapted

Everyone agrees that one size does not fit all, but it also seems important to start with a basic adaptable pattern and from that learn the best ways to adapt it. PFM, transparency of budget, and tax administration have such patterns, which the Bank, the IMF, OECD, and various other agencies and bilaterals have helped develop.

For civil service and administration, there is no such a pattern, although the beginnings for it have been tried in isolated instances. Where management of civil service and other personnel is weak, the Bank has had some successes in supporting the gathering of reliable data on numbers, total compensation, and attendance and the institutionalization of these processes. Improving the links between personnel management and financial management information systems has also been a useful way to get a technocratic start on problems that are often highly politicized.

Motivation and competence of counterparts

In PFM and tax administration, a lot of project, AAA, and IDF resources go to capacity building in the counterpart agencies. In the areas of CSA reform, there is less clarity about what content should be. Capacity building needs to include not only technical skills but also skills in managing and monitoring people.

Interdependence of the thematic areas

The analysis of PSR by themes should not leave the impression that they can or should be dealt with in isolation. There is a particular temptation to leave civil service out, as out of fashion or too difficult in practice, although it is sometimes also dismissed as "easy, if there is only the political will." Nonetheless, CSA reform affects the incentives and capacities of the people who have to implement reforms in all the other areas, so it cannot be ignored.

In the CPIA, the ratings for PFM are usually better than for CSA, but never by more than one grade (except in one country that has 5.5 for PFM and 4.0 for CSA). Improving PFM to the point where it gets beyond just processes and has real effects on public service performance and accountability has not happened without also improving the civil service.

The extent of coordination among Bank staff specializing in the themes discussed here varies within the operational Regions. Country cases and other staff interviews revealed that in (large) country offices, where the specialists sit in proximity, and in Latin America and the Caribbean, with country management teams representing all the areas, there tends to be better coordination. In other contexts, the Bank has not developed adequate institutions to avoid having silos in the Bank reflect and reinforce those that exist in the client countries.