

Chairperson’s Summary: Committee on Development Effectiveness

On March 26, 2008, the Committee on Development Effectiveness (CODE) discussed the evaluation of World Bank support for public sector reform and the draft management response.

Background

Key strategy documents include “Strengthening World Bank Group Engagement on Governance and Anticorruption” (World Bank 2007c) and *Reforming Public Institutions and Strengthening Governance: A World Bank Strategy* (World Bank 2000). The update on implementation of the 2000 Bank strategy was prepared in April 2002, and it was also reviewed in 2005 as part of the Sector Strategy Implementation Update, which was discussed by CODE. The Independent Evaluation Group (IEG) evaluations related to public sector reform (PSR) include “Country Financial Accountability Assessments and Country Procurement Assessments Reports: How Effective are World Bank Fiduciary Diagnostics?” (IEG 2007), considered by the CODE Informal Subcommittee in 2007; and “The Impact of Public Expenditure Reviews: An Evaluation” (IEG 1998) and “Civil Service Reform: A Review of World Bank Assistance” (IEG 1999), which were considered by CODE in 1999.

Main Findings and Recommendations

IEG reviewed the Bank support for PSR between 1999 and 2006 across four themes—public financial management (PFM), civil service and administration (CSA), revenue administration, and

cross-cutting anticorruption and transparency initiatives. One of the key findings was that performance in at least one dimension of PSR improved in a majority of countries that borrowed for core public sector activities. IEG also noted that outcomes of PSR lending were better in PFM and revenue administration, but less successful in CSA. It found that direct measures to reduce corruption rarely succeeded, and it was more effective to strengthen systems and increase transparency. IEG identified three factors contributing to better performance: realism about what is feasible; attention to behavior and organizational culture as well as incentives that are underlying drivers of reform; and focusing on the basic issues first. The need for a Bank framework that recognizes the long-term process required to reduce corruption and the different starting points of countries was noted. IEG’s main recommendations were as follows: (i) recognize the complex political and sequencing issues in the design of PSR projects and allocation of resources; (ii) set priorities for anticorruption efforts within country PSR strategies based on an assessment of which types of corruption are most harmful to poverty reduction and growth; and (iii) strengthen the CSA components of PSR.

Draft management response

Management found that the report offered rich insights. It appreciated the manner in which the evaluation was undertaken and the dialogue with IEG on different aspects of PSR. Management was encouraged by the improved performance in a majority of countries that borrowed for PSR, although it also recognized that there was no room for complacency. Although broadly agreeing with the thrust of the analysis and recommendations, management commented on the treatment of the anticorruption agenda, support to the demand side of governance and anticorruption, and scope of the analytic and advisory activities related to PFM. It cautioned that the IEG evaluation may be perceived as a review of the Bank's anticorruption agenda rather than of PSR that contributes to reducing corruption. Regarding more diagnosis of corruption issues through the Country Financial Accountability Assessments (CFAAs) and Country Procurement Assessment Reports (CPARs), management considered that there is adequate coverage in these diagnostic assessments, which typically identify aspects that might facilitate corruption. It remarked that work was ongoing to develop stronger links with corruption issues in the Bank's PFM work. Management noted that many lessons emerging from this evaluation report have been taken into account in the Bank's PSR work.

Overall Conclusions and Next Steps

The Committee welcomed the clear and well-written evaluation and the positive response from management. Noting the central importance of PSR to the Bank's work, members were gratified by the improvements in performance in countries receiving International Bank for Reconstruction and Development or International Development Association resources for PSR. There was broad agreement with the main findings and recommendations, and members agreed on the importance of political commitment, complexity of sequencing, and the need to sustain efforts over the long term, especially to change organizational culture and behavior in support of PSR. Although the Bank has demonstrated comparative advantage in PFM, a member cautioned against excessive focus in this area. The importance of a

holistic approach to address the broader and more fundamental issue of government effectiveness—including of CSA and the delivery systems for various public services/functions—was emphasized. Some members emphasized the need for selection criteria based on the Bank's comparative advantage vis-à-vis other actors. There were several comments about support for CSA and anticorruption and the advisability of a more nuanced approach than a simplistic direct effort. Other interventions related to the need to consider the sustainability of PSR improvements; the progress in the Bank's knowledge of PSR support since the World Development Report (WDR) of 1997, whose findings are echoed in the report; the link between PSR and poverty reduction; and internal institutional issues, including incentives and instruments to better support PSR. Better understanding of PSR issues based on comprehensive international experience, and the need for candor in evaluation and learning from failures, were recommended.

The following main issues were raised during the meeting.

Challenges of PSR

Given the central importance of PSR to the Bank's work and the complexity of PSR, speakers were encouraged by the Bank's performance in this area. Members generally concurred with IEG's findings and emphasized the need for a country-specific approach; government ownership and political will; time and patience for organizational culture and behavioral changes; coordination with other donors; and an opportunistic and realistic approach and appropriate sequencing for PSR. A member remarked on the paradox of PSR support, which can build capabilities but may not lead to an increase in government effectiveness; it was suggested that IEG could further explore this dichotomy in future evaluations. *Management commented that the Bank was attempting to increase government responsiveness and effectiveness in public service delivery by encouraging beneficiary participation in implementing, monitoring, and providing feedback.* Another member highlighted that PSR outcomes depend on both the Bank's and the government's

efforts and emphasized that IEG needs to be clear that it is evaluating the Bank's and not the government's performance. *IEG clarified that the evaluation's primary focus is the effectiveness of the Bank's programs, but there is a strong country context that needs to be considered.* The issue of how the Bank may bring about government commitment, political will, and behavior changes was raised. A member suggested that the Bank can only increase capacity and knowledge, which can lead to change. Questions were also raised on how to ensure sustainability of efforts and what the link between PSR and poverty reduction is. *Management sought to ensure sustainability by establishing models of success that would increase interest and political commitment for further reforms. Based on limited data, IEG found that sustainability had been more likely in PFM and tax administration than in CSA and cross-cutting anticorruption initiatives. Management and IEG commented on the links between PSR and poverty reduction, which is the final outcome (for example, greater budget transparency leading to predictable flow of resources for service delivery, and better targeting of social spending).*

The challenges of addressing CSA, which must be done country by country, go beyond the introduction of merit-based systems and could benefit from a long-term "in-service" approach. A member sought clarifications about IEG's reference to the "ingrained patronage systems" and whether this is applicable to all countries. *IEG clarified that CSA initiatives often did not succeed because of difficulties in removing resistance to reforms and indicated that it would take a careful look at the language in the final report.* It was expected that country teams would have a better understanding of the context in which PSR support, including for CSA, would be implemented. In view of the complexity of PSR, a few members stressed the importance of sharing experiences and lessons learned. Some speakers were interested in learning not only from successful experiences but also from failures and from countries that have made progress in PSR but that did not borrow from the Bank for this purpose. A member found that the findings of this IEG evaluation are similar to the main messages of the 1997 WDR

and of the 1999 IEG evaluation on civil service reform and wondered what the real progress in the Bank's PSR work has been. *Management explained how key findings from the 1997 WDR are being integrated into its work, such as focusing on the basics and being more realistic in PFM. As for the overall lower performance for CSA, management clarified that outcomes were poor in weaker governance environments but much stronger in those countries with a higher governance environment, as measured by the Country Policy and Institutional Assessment. Hence, the key challenge is CSA reform in weaker governance environments. IEG indicated that although the Bank is moving in the right direction in implementing the 1997 WDR recommendations, the report also highlights the need for continued efforts to strengthen support for PSR for which there is no single solution.*

Focus of Bank support for PSR

While noting the Bank's demonstrated comparative advantage in PFM, many speakers remarked on the need for a broader, comprehensive approach to PSR. A few of them cautioned about putting too much emphasis on PFM, which may detract from broader PSR efforts in other parts of the government, including service delivery (for example, health, environment, transport). Several others noted that PFM and CSA are interrelated and stressed the importance of continued support for CSA, which contributes to good governance. A few members supported a more nuanced approach in which the Bank should focus on areas of comparative advantage vis à vis other donors. They added that the Bank could still provide support for CSA, but this should depend on the country's request and readiness to address this area. *IEG noted that the report underscores the importance of the interlinkages between the different areas of PSR but also brings out the merits of more specific and opportunistic interventions where there is country ownership. Management agreed that PSR is broader than PFM and commented on Bank support to improve public service delivery. It also noted that the Bank's ability to support comprehensive reforms depends on country ownership and political commitment, and there is a need to be opportunistic and*

incremental in its intervention. Responding to a question raised about the development of a new financial instrument to enable long-term support for PSR, *management said the appropriateness of existing instruments is being reviewed in the context of the president's six strategic themes.*

Governance and anticorruption (GAC)

Several speakers considered indirect approaches to be more effective in addressing GAC issues in PSR, such as simplifying processes and enhancing the robustness of systems, which would reduce opportunities for corruption. A member urged a clear articulation of the GAC agenda in PSR and noted the need for adequate diagnostic tools for GAC, as well as for assessing the fiduciary risks in the use of country systems for procurement, and social and environmental safeguards. He suggested that the CFAAs and CPARs should be adjusted to better track progress in GAC. A speaker reiterated the Development Committee's request for actionable governance indicators. *Management clarified that the CFAAs, the CPARs, the Public Expenditure and Financial Accountability and the Public Expenditure Review already assess the system's vulnerabilities, which could provide opportunities for corruption. It added that efforts are under way to identify and address cor-*

ruption risk through systematic corruption risk mapping in procurement systems.

Staff skill mix and budget resources

A few speakers sought information on availability of resources within the overall budget framework, appropriate staff skill to work on PSR, particularly CSA, and balance of staff between headquarters and country offices and between the Poverty Reduction and Economic Management Network and the Regions. *Management said a strategic staffing exercise is ongoing in the context of the GAC strategy, including for CSA.*

Other comments

A member asked how IEG ensures the independence of its evaluation, given the staff mobility between IEG and the Bank. *IEG explained that staff who have directly worked on the topic being evaluated do not take part in the evaluation.* There was a request for IEG to do an evaluation on Bank support for privatization of public firms. *IEG indicated it would consider future work on this, but cautioned that its work program in the near term was already very full.*

Jiayi Zou, Chairperson