

Management Response

Management welcomes this Independent Evaluation Group (IEG) evaluation of World Bank support for public sector reform (PSR), covering the period from 1999 through 2006. Management sees much on which it can build from the review's findings. However, it would like to make a few observations on the review, relative to recent strategy and policy changes. Last, management broadly concurs with the recommendations, with some nuances and clarifications.

Concurrence with the Broad Thrust of the Analysis and Recommendations

The evaluation contains a number of important conclusions that management welcomes in the context of its overall assistance to countries in PSR. Specifically, management appreciates the findings on the long-term nature of PSR, the conclusion that an incremental approach can produce results, and the usefulness of economic and sector work (ESW) up front. It will build on these in work going forward.

PSR requires time

Management notes IEG's finding that many PSR projects have succeeded, although often not immediately. The key lesson is to be realistic as to timing. That fact has implications regarding the lending products that best support PSR. In many cases, a programmatic approach using a series of loans, notably Development Policy Loans (DPLs), linked to a government's medium-term program has proven successful (see, for example, World Bank 2007a). As noted in the review, specific investment operations, either in parallel with DPLs or self-standing, can provide a longer time frame of support. Country context will determine the exact mix.

Incremental approach

The IEG review concludes that support through modest and selected entry points can have par-

tial success and can lay the basis for later progress, including in difficult areas such as civil service reform. That fits with management's view that PSR needs strong country ownership and that the Bank needs to tailor its assistance to the country's pace of reform. It also reinforces the point above with regard to lending instruments.

Usefulness of ESW

The IEG review notes the benefit of up-front ESW. It credits good diagnostic work in public financial management (PFM) as having contributed to successful outcomes of Bank support. In particular, it cites Public Expenditure Reviews and the Public Expenditure and Financial Accountability (PEFA) indicators as useful in this regard. Management notes the potential value of prior ESW with regard to support for countries that want to undertake civil service reform.

Management Observations

Management has just a few issues that it would like to raise with regard to the analysis in the review. These issues are related to governance and anti-corruption, to analytic and advisory activities (AAA) work on PFM, and to the evolution of Bank support over time, learning the lessons of experience. Management also acknowledges that greater progress needs to be made on civil service and administrative reform but notes that the outcomes

are weaker in poor governance environments and stronger in better governance environments, as measured by the Country Policy and Institutional Assessment.

Governance and anticorruption

The Bank does thematically classify a portion of its support as “other accountability/anticorruption.” However, as emphasized in its new Governance and Anticorruption (GAC) strategy, management sees corruption as an outcome of poor governance (World Bank 2007c). Support for better governance—and so for reduced corruption—is being mainstreamed across the Bank’s entire portfolio, including in traditional investment operations. Though this is recognized in the IEG review, from some of the discussion, a perception might be that the review is of the Bank’s anticorruption agenda rather than that subset of the agenda that can usefully be addressed through PSR. For instance, the IEG review does not evaluate treatment of GAC in country assistance strategies, GAC in sectors, or GAC in projects or global partnerships on GAC. The World Bank Group’s overall approach to anticorruption is best discussed in the context of the strategy cited above. Management has committed to report to the Board in 2008 on progress in implementation of this strategy.

Demand side of support for good governance and anticorruption

The report points to possible missed opportunities for supporting the demand side of good GAC. Management would point out that in many cases, countries have incorporated innovative measures into sector projects supported by Bank lending that helped develop the demand for good governance—for example, expenditure tracking surveys, beneficiary surveys, and citizen scorecards. Understandably, the purely sectoral operations with these components were beyond the scope of the IEG review.

Scope of public financial management AAA

Management would like to reiterate its different view on one point—whether Country Financial Ac-

countability Assessments (CFAAs) and Country Procurement Assessment Reviews (CPARs) should incorporate more diagnosis of corruption issues. CFAAs and CPARs typically identify aspects of country PFM systems that might facilitate corruption (such as off-budget accounts, inadequate financial management and procurement information systems, weak regulatory environments, inadequate systems of internal control and internal audit, poor capacity of implementing agency staff, excessively complex financial administration rules leading to poor enforcement, and “cash rationing”). Management considers this coverage of corruption issues appropriate. Given the complexity and multifaceted dimensions of the corruption issue, neither detailed corruption diagnostics nor the development of anticorruption strategies can be undertaken as part of the CFAA or CPAR per se. That said, as part of its overall work on implementing the new strategy, management is developing stronger linkages with corruption issues in the Bank’s PFM work, recognizing that PFM systems are an important instrument in a country’s anticorruption agenda and also that PFM performance is affected by the overall corruption environment.

Learning the lessons of experience

Management notes that the review covers seven years. During that period, many of the lessons cited in the IEG review have been taken into account in Bank work, notably regarding development policy operations (DPOs). The Bank extensively reviewed its experience with adjustment lending, held wide consultations, and moved in 2004 from adjustment to DPOs (World Bank 2004b). That change was more than just in name and incorporates many of the suggestions that the IEG review highlights—including the importance of strong country ownership, a long-term approach to policy reform taken in realistic incremental steps, customization, and a sharp reduction in the number of conditions to just those critical for the success of the reform (normally taken in advance of Board approval of the operation—one indicator of ownership). One of the reasons for these changes was to better po-

sition the Bank to help countries strengthen public sector institutions. Under DPOs, the type of conditions has changed, notably toward measures to strengthen public sector management, and the number has fallen significantly (World Bank 2007a).

Conclusion

Overall, management warmly welcomes this evaluation from IEG. Management generally accepts IEG's recommendations. Detailed responses to the recommendations are outlined in the Management Action Record.

Management Action Record	
Recommendation	Management response
<p>Design PSR projects and allocate Bank resources to them with recognition that PSR has especially complex political and sequencing issues. Be realistic about the time it takes to get significant results, understand the political context, identify prerequisites to achieve the objectives, and focus first on the basic reforms that a country needs in its initial situation. Reconsider the balance between development policy and investment lending, because institutional change usually needs the sustained support of investment projects, although development policy lending can help secure the enabling policy changes.</p>	<p>Ongoing/Agreed. Bank management agrees in principle with this recommendation, noting that it points to the importance of intensifying AAA upstream of PSR operations—which can have significant budget implications. How the recommendation can best be implemented will require learning by doing and will depend on country context. To implement the GAC strategy, the Bank’s regional Vice Presidential units have identified 26 countries that currently are initiating country-specific country GAC strategy processes—including, in some of these countries, intensified governance assessments that aim to, among others, identify political obstacles to reform and feasible approaches to sequencing. At the conclusion of this learning process, Bank management is committed to reporting to the Board whether and how it intends to systematize and scale up its GAC work, including AAA. Reporting on the agreed actions will be done in the context of overall GAC reporting.</p>
<p>Within country PSR strategies, set priorities for anticorruption efforts based on assessments of which types of corruption are most harmful to poverty reduction and growth. Only when the country has both strong political will and an adequate judiciary system should the Bank put primary emphasis on support for anticorruption laws and commissions. Given that reducing corruption will be a long-term effort, the Bank should emphasize (i) building country systems that reduce the opportunities for corruption that is most costly to development and (ii) making information public in ways that stimulate popular demand for more efficient and less corrupt service delivery. Provide operational clarification to the country team about how the Bank’s anticorruption efforts fit within the overall country strategy.</p>	<p>Mostly agreed. Management agrees with the recommendation that the most effective way in which PSR can support anticorruption efforts is by giving priority to work on country systems and on information flows to the public. As the recommendation suggests, the more complex challenge (which goes beyond the scope of PSR operational work) has to do with the relationship between country strategies and operations more broadly and anticorruption efforts. Management’s response to this broader challenge has been laid out in the strategy, “Strengthening World Bank Group Engagement on Governance and Anticorruption” (World Bank 2007c). Three ways in which GAC strategy implementation addresses this broader challenge are (i) by signaling that GAC is not only a PSR concern but “is everybody’s business”; (ii) by intensifying efforts to manage fiduciary and other GAC risks in Bank operations; and (iii) by underscoring that approaches to addressing GAC are country specific and should be derived from poverty-reduction priorities. With regard to IEG’s request for operational clarification, this last point implies that attention to GAC issues generally will be most intensive in those sectors that are given priority for poverty reduction in country strategies. The GAC implementation progress report to the Board, to be presented in 2008, will report on experience.</p>
<p>Strengthen the CSA components of PSR, providing them with a better framework and indicator set, and give more attention to the budget execution phases of financial management. This will require PEFA-like actionable indicators for civil service and administrative performance and more linkage between the implementation of reforms for civil service and for financial management.</p>	<p>Ongoing/Agreed. Bank management agrees with the recommendation that a better framework is needed for the civil service and administrative components of PSR work. A strategic staffing exercise, being undertaken as part of GAC strategy implementation, will help implement this recommendation. The Poverty Reduction and Economic Management anchor already has begun recruiting to strengthen its staffing on civil service and administrative reform. Under the GAC strategy and implementation plan, intensified work is under way within that anchor to develop a new generation of “actionable indicators,” with indicators for civil service and administrative a top priority. However, as is evident from the seven-year experience of developing the PEFA indicators—cited as a success in the IEG evaluation—the development of new and better indicators is a challenging task that will take time. For the budget execution phases of financial management, Bank management notes that both the PEFA indicators and the CFAAs give them strong attention. An earlier, narrower focus on budget formulation has already been incorporated in the Bank’s operational work. Management will monitor and report on progress on these actions in reports to Executive Directors on the implementation of the GAC initiative.</p>