



INDEPENDENT EVALUATION GROUP

## **PUBLIC SECTOR REFORM AND THE WORLD BANK: SOME PROGRESS IN MIDDLE-INCOME COUNTRIES, LESS IN POOR COUNTRIES**

**Washington DC, May 21, 2008.** World Bank support for public sector reform in developing countries has helped to advance performance in public financial management and tax administration. But shortcomings in civil service reform persist, according to a new report by the World Bank's Independent Evaluation Group (IEG). "Public Sector Reform -- What Works and Why?", released today, finds that over 80% countries borrowing from the International Bank for Reconstruction and Development (IBRD), the part of the Bank that lends to middle-income and creditworthy poorer countries, improved performance. Among the low income countries, which receive interest-free credits and grants from the Bank's International Development Association (IDA), 69% showed improvement, with considerable room for further progress.

The Bank is devoting an increasing share, now about one-sixth, of its lending and advisory support to the reform of central governments. For the evaluation, IEG examined the Bank's support from 1999 to 2006 in four areas—public financial management, administrative and civil service, revenue administration, and anti-corruption and transparency.

"To realize the benefits for improving service delivery and accountability, public sector reforms need to make progress across the board, including civil service and anti-corruption. Nonetheless, modest, selected and pragmatic entry points have brought partial success and supported later progress -- a lesson for the future," said Vinod Thomas, IEG's Director-General.

The evaluation points out that results across the different areas of public service reform varied greatly. About two-thirds of all countries that borrowed for public financial management showed improvement, as in Ecuador, Georgia Tanzania, Turkey and Vietnam, and the Bank's analytic tools in this area have become the most systematic and widely accepted. Bank projects for tax administration in countries such as Guatemala, Mexico, Pakistan, Ukraine, and the Russian Federation have been successful as well, and benefited from strong ownership by the government.

But in civil service and administration reform, only a minority of Bank projects has yielded the desired outcomes. "In countries, like Cambodia, Honduras and Yemen, the Bank's focus on retrenchment and salary adjustments was found to be politically unrealistic and failed to improve public administration during the evaluation period," said Steven Webb, lead-author of the report.

Direct measures to reduce corruption—such as anticorruption laws and commissions—rarely succeeded, as they often lacked the necessary support from political elites and

the judicial system. The Bank's Governance and Anticorruption Strategy, which was approved by the Board in 2007, proposed actions that could address IEG's concerns, and the outcome of that strategy remains to be evaluated.

"There is merit in setting priorities for anticorruption efforts based on assessments of the types of corruption most harmful to development," said Vinod Thomas, "Reducing corruption is a continuing concern, which highlights the priority for building country systems and making information public in ways that reduce possibilities for corruption."

IEG identifies three important factors that have contributed to success in public sector reform and which the countries and the Bank should apply more systematically to improve its project outcomes:

*Be realistic about what is politically and institutionally feasible.* In Bangladesh the Bank supported preparatory work on difficult areas of civil service and anticorruption when substantive reform was not yet politically feasible, but later these proved useful when a reform-minded government came to power.

*Recognize that enhancing technology is not enough.* The most crucial and difficult part is to change behavior of employees. In Ghana, for example, implementation of the integrated financial management system stalled until attention turned to changing behavioral patterns by introducing better incentives, such as rewards for good performance.

*Deal with the basics first.* For example, taxpayers should have unique identification numbers before installing a complex collection system, or the government should be able to execute a one-year budget well before launching a sophisticated, multiyear budgeting. Some projects in Bulgaria, Cambodia, Guatemala, Russia, and Sierra Leone did this relatively well. In other countries, however, policy-based lending aimed for reforms on too many fronts at once exceeded the government's technical or political capacity. Initial projects in Ghana, Guatemala, Guyana, Honduras, and Indonesia had difficulty because they went straight to complex measures, such as installing accrual accounting, when the personnel capacity was missing and the government was not successfully administering cash accounting.

"The Bank has done better in applying these lessons in middle-income countries than in low-income countries" said Steven Webb, "Also, often the Bank's approaches for implementing public sector reforms are not adopted appropriately for the situation in the poorest countries."

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