

## INDEPENDENT EVALUATION GROUP

### Public Sector Reform Evaluation

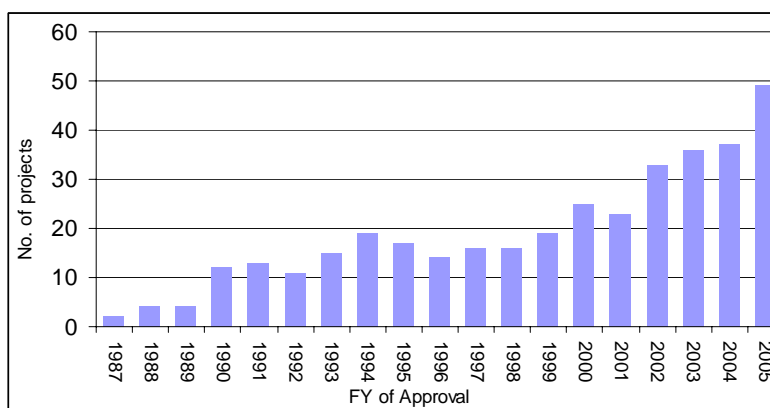
#### Approach Paper

1. Public sector reform is part of the agenda for improving governance, which falls into three broad areas—rule-based operation of the government itself to improve the supply of public goods, voice and accountability for citizens to demand better public services, and more efficient and effective regulation of the private sector to improve its competitiveness. Public sector reform in this document refers mainly to the first area. The Independent Evaluation Group (IEG) plans to carry out an evaluation of Bank assistance for public sector reform from FY00 to FY06. The evaluation report will be completed in FY08. This Approach Paper presents the background, scope, and analytic method of the proposed evaluation.

#### Bank Assistance for Public Sector Reform

2. Public sector reform (PSR) or support for improving the operation of the government has been part of the World Bank's work with countries for a long time, and it has grown since the late 1980s to be one of the most prominent items on the agenda, see Figure 1. The attention to PSR has emerged from two considerations. First, the quality of the public sector—accountability, efficiency in service delivery, transparency, etc—correlates strongly with and is thought by many to contribute to long-term growth and poverty reduction, although there is probably causality in both ways (Bates 2006, Kaufmann et al. 2005; Przeworski et al. 2000; van de Walle 2001). Second, the World Bank works primarily with government counterparts and intermediaries, so improving their efficiency and public support contributes to the effectiveness of the Bank's assistance to development.

**Figure 1. Projects with major Public Sector Reform components, 1987-2005**



Source: World Bank Internal Database and IEG staff calculations.

3. Two milestones in the Bank's involvement in public sector reform were former World Bank President, James D. Wolfensohn's, speech on the "cancer of corruption" at the 1996 Annual Meetings and the 1997 World Development Report (WDR) on *The State in a Changing World*. The speech and the Board's acceptance of the WDR opened the

way for dealing with public sector reform in a comprehensive way, without having to demonstrate in each case that it was necessary for growth and poverty reduction. Moreover, they created the expectation that the Bank would deal with PSR issues in general, including but not limited to corruption.

### **Bank Strategy for Public Sector Reform**

4. The intellectual attention from the 1997 WDR coincided with the creation of the public sector network and board (among many others), which aimed to give a Bank-wide institutional coherence to public sector reform. In 1997, a public sector group was established as one of four families in the Poverty Reduction and Economic Management (PREM) Network, governed by a twelve person Public Sector Board. To address the issues identified in the 1997 WDR, the public sector group produced a sector strategy in 2000, which was discussed with and approved by the Board of Executive Directors (PSR Strategy). Updates of the strategy implementation were produced in 2003 and 2006 and shared with the Board.

5. The Bank's PSR Strategy aims to help build efficient and accountable public sector institutions in addition to providing discrete policy advice. The strategy notes that a main lesson from experiences in the 1990s is that "...neither good policies nor good investments are likely to emerge and be sustainable in an environment with dysfunctional institutions and poor governance" (p. vii). The PSR Strategy "...focuses primarily on core public sector institutions and their interface with sectoral institutions. It touches only lightly on institutional concerns within specific sectors..., and it does so primarily to point out generic issues that concern many sectors" (p. 12). It identifies eight areas of public sector reform in which Bank activities could contribute: public expenditure analysis and management, administrative and civil service reform, revenue policy and administration, anticorruption, decentralization, legal and judicial reform, sectoral institution building, and public enterprise reform (p. 13).

6. Principal objectives in the above areas include:

- "more efficient use of public resources for development through improved public expenditure analysis and management;
- "more efficient use of public resources and more effective government action through improvements in the civil service; and
- "increased public resources and reduced market distortions through improved revenue administration" (p. 60).

7. To these ends, the Strategy also has four process objectives:

- "Approach: ...to broaden the range of reform mechanisms, ...maintaining the efforts to strengthen internal rules and restraints within government while expanding complementary emphases on competition and 'voice' and participation—and to focus efforts where a country's overall commitment is strong and in ways that put a country's citizens in the driver's seat;
- "Analytic Work: to work with clients and other partners to strengthen our tools for institutional analysis and for knowledge transfer to underpin both projects and country programs;

- “Lending Approaches: to advance long-term institutionally oriented programmatic approaches where appropriate; and
- “Internal Capacity and Partnerships: to strengthen [the Bank’s] internal capacity to assist countries in public sector reform through continued improvements in staff skills, organization, incentives, and relations with partners” (p. 59).

## Objectives and Scope of the Evaluation

8. To assess the relevance and effectiveness of the PSR Strategy, the evaluation will focus on the period between 2000 and 2006, as well as look back to the previous decade in order to see the entirety of some countries’ PSR programs and to compare approaches and outcomes before and after the Strategy paper. The evaluation will focus on the four areas outlined in the 2000 Strategy that pertain to the way that the central government organizes itself.

- Administrative and civil service reform involves all aspects of the management and organization of personnel. It includes programs to downsize the civil service and reforms to the personnel information system (including civil service census), the career paths, the pay grades (decompression), other aspects of the incentive system, and the organization of ministries.
- Public expenditure analysis and management concerns the management of money through the budget cycle. This would include budget planning and execution, in particular financial management information systems (FMIS) and medium-term expenditure frameworks (MTEF), procurement, auditing, and monitoring and evaluation. It also includes the implementation of reforms arising from country financial accountability assessment (CFAA) and country procurement assessment review (CPAR) and the strengthening of key budgetary accountability institutions, like public accounts committees of the legislature and supreme audit institutions.
- Revenue administration. This would include key aspects of tax administration, particularly the institutional setting and development of operational processes, including automation and interaction with taxpayers (actual and potential).<sup>1</sup>
- Anti- corruption. Anti-corruption is involved in the first three areas, and going further, many recent operations support specific activities to combat corruption across the public sector.

9. Other aspects of public sector reform, such as state-owned enterprises and institution building within sectors, will be covered to the extent that they interface with the four system-wide issues, but this evaluation will not delve into the sector specific issues. This is consistent with the focus of the Bank’s public sector strategy on core public sector institutions and their interface with sectoral institutions.<sup>2</sup>

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<sup>1</sup> The evaluation will not cover tax policy, since that is not directly related to how the government organizes itself. For customs reform this evaluation will include the aspects linked to tax administration, but not the aspects that were in the recent IEG evaluation, *Assessing World Bank Support for Trade 1987-2004*.

<sup>2</sup> The strategy implementation updates in 2003 and 2006 no longer listed sectoral institution building and public enterprise reform among the areas of prime concern for the strategy.

10. The discussion of sectoral issues will be informed by the recent IEG evaluations of the transport and education sectors. Issues related to decentralization and legal and judicial reform will be covered by two other ongoing IEG evaluations of Bank assistance, and this evaluation will coordinate closely with them. These two evaluations plus the present one are expected to feed into a final umbrella evaluation of governance, to be done in the future.

11. The evaluation will consider all types of Bank activities to support PSR, including adjustment (development policy) and investment/technical assistance (TA) loans, institutional development fund (IDF) and other grants and the major institutional pieces in all types of analytical and advisory activities (AAA) like public expenditure reviews (PERs), Institutional and Governance Reviews (IGRs), and others. (Consideration of AAA will be coordinated with IEG's ongoing evaluation of economic and sector work (ESW.) The evaluation will consider research and World Bank Institute (WBI) activities in terms of their effects on and incorporation into country reforms. At a country-level, it will look at the activities of other donors. Among other documents, it will draw on the previous IEG evaluations of public expenditure reviews (1998), civil service reform (1999), anti-corruption activities (2004), capacity building in Africa (2005), World Bank assistance to LICUS countries (low-income countries under stress) (2006), and CFAAs and CPARs (2006), plus relevant country assistance evaluations (CAEs) and project performance assessment (PPAR) reports.

### **Evaluation Objectives and Questions**

12. The main objective of the evaluation is to help the Bank learn how to contribute more effectively to PSR in its member countries. Toward this objective, the evaluation will address the following three groups of evaluation questions:

13. **To what extent was the Bank's public sector strategy relevant?** In assessing the relevance of the strategy, the evaluation will aim to answer the following questions:

- (i) To what extent are the strategy objectives, scope, and implementation plan clear and realistic?
- (ii) To what extent is the strategy responsive to the Bank's mandate of poverty reduction and economic growth?
- (iii) To what extent is the strategy consistent with the priorities and needs of client countries?
- (iv) To what extent is the strategy consistent with that of other donors?
- (v) To what extent is the strategy consistent with the state of the art knowledge in the four thematic areas?

14. **To what extent was the Bank's strategy effectively implemented at the country level?** In assessing this dimension, the evaluation will assess the following questions:

- (i) To what extent was the Bank's strategy for PSR clearly outlined in individual Country Assistance Strategies (CASs)? Which strategies for incorporating PSR into CASs worked better than others?

- (ii) Was Bank assistance at the country level underpinned by sound analysis and adequate knowledge of institutional realities (including political dynamics)? Which entry points for the PSR agenda worked best?
- (iii) To what extent did the Bank ensure or help foster country ownership and commitment?
- (iv) To what extent did Bank assistance use instruments appropriate for country conditions, including the degree of reform commitment? To what extent did the Bank use a prioritized and phased approach? To what extent was the assistance oriented to results?
- (v) To what extent were staff skills, internal organization, incentives, and relations with external partners suitable for providing effective assistance to the client?
- (vi) To what extent was Bank assistance provided in collaboration with other donors and other development partners?

15. **To what extent did the Bank contribute to public sector reform in client countries?** This question has two parts: To what extent did PSR reform succeed in countries where the Bank was providing assistance? What aspect of the Bank assistance, if any, contributed to the success? In assessing results, the evaluation will focus on the achievement of key objectives stated for each of the selected dimensions in the PSR strategy (2000). Specific indicators for the assessment would need to be developed, building on those in the strategy itself. Working backward from desired impacts, the evaluation framework outlines a potential and partial line of causation leading to Bank interventions. Annex 1 shows a results framework for PSR, which is similar to the one in the 2006 sector update, Table 19.

16. In assessing results, the evaluation will seek to draw lessons on whether the Bank has achieved better results in some areas of public sector reform than in others, or has generated better results in some types of country situations than in others. In other words, it will seek to answer a finance minister's (or country director's) question— in light of experience elsewhere, what sort of PSR program is likely to work in my country's situation? And what is unlikely to work? It will try to understand better the strengths and limitations of Bank assistance for public sector reform and to make recommendations on how the Bank can improve the effectiveness of its public sector assistance in the future.

17. Attributing PSR results to Bank assistance will pose a challenge. The evidence for definitive successes will generally emerge in the longer term, about which this report may provide only preliminary conclusions. In addition to the World Bank program influences, the review will consider the impact of conditions in the country and the programs of other actors such as international finance institutions (the IMF and regional development bank) and bi-lateral donors. Important country conditions include: i) macroeconomic conditions, which are linked (causation in both directions) to the fiscal situation of the government and therefore its ability to address long-term priorities; ii) labor market conditions, which affect the challenges for personnel reforms in the public sector; and iii) political conditions and events, for most authors on the subject identify political support as essential for success in public sector reform.

## Methods of analysis

18. In trying to answer the evaluation questions, three main types of analysis will be undertaken: country case analyses, thematic analyses of the four selected thematic dimensions, and statistical analysis of the pattern of PSRs strategies, interventions and outcomes in a sample of countries.

19. *Country analysis.* With a topic as nuanced and country-specific as PSR, analyses of country cases will be the key aspect of the evaluation. The collection of country reviews should contribute to an understanding of how different combinations of interventions work in various country settings. The evaluation will undertake desk reviews of the Bank-supported programs for PSR in about 25 countries, drawing on CAE findings and PPARs where available.<sup>3</sup> For a subsample of the countries, field visits will also be undertaken.<sup>4</sup> Countries have been selected to represent different regions, sub-regions, and income groups. The amount of Bank assistance in PSR was also a criterion. The list includes a mix of apparent success cases and problematic ones, based on IEG ratings and discussions with the regional PS teams in the Bank; our reviews will revisit those earlier judgments. The selection of countries was also coordinated with the Decentralization and Legal/Judicial evaluations, in order to reduce the burden of the evaluations on client and Bank resources. The table and graph in Annex 2 show the representativeness of the sample in terms of overall and regional shares in public sector lending and in levels of CPIA ratings and GDP per capita.

20. Each country level review will start by seeing the place of public sector reform within the country assistance strategy. At one end of the range would be CASs with no PSR or only in PREM-MOF projects. At the other end of the range, public sector reform would be the center point of the whole CAS, as in Indonesia recently. The analysis of each country will explore how these strategies were implemented and what contribution Bank support made to achieving the PSR objectives. It will also examine how the evolving economic, political and institutional capacity conditions in each country affected the outcomes, and whether the Bank took appropriate account of these conditions in the design and implementation phases. In a complex area like PSR, unintended consequences are likely, and the evaluation will look for them at the project and country levels.

21. *Thematic analyses.* These will compare the evolution of Bank practice with the state of the art in the four thematic areas mentioned above. They will begin with reviewing the literature on international experience, including countries outside of the country analysis, and posing questions to be covered in the country studies. Then, drawing on the results of the country studies, they will look for the patterns of success and failure of the most common approaches in each thematic area.

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<sup>3</sup> Tentative list: Angola, Burkina Faso, Ethiopia, Ghana, Malawi, Mali, Tanzania, Zambia, Cambodia, Indonesia, Vietnam, Albania, Bulgaria, Georgia, Kyrgyz, Russia, Argentina, Bolivia, Chile, Guyana, Honduras, Morocco, Yemen, Bangladesh, India, and Pakistan.

<sup>4</sup> Tentative list: Ghana, Tanzania, Cambodia, India, Bulgaria, and Russia are proposed for country visits; three or four more may be added in coordination with other IEG studies.

22. *Statistical analysis.* For a larger sample of countries we will complement the country-case and thematic studies with statistical analysis of the pattern of public-sector issues, interventions and outcome. This analysis will inform the thematic and country studies, by showing how individual countries and types of interventions compare to others on standard dimensions. From this we will identify the countries with substantial programs with the Bank for public sector reform. For these countries, and for other low and middle income countries, we will assemble a data set of public sector quality indicators and country circumstance variables—macroeconomic (inflation, government and current account balances, International Monetary Fund program) and political (government form, electoral cycle, other events). With these data we plan three types of analysis. First, we will examine the pattern of choices for PSR intervention. With a statistical probit analysis we will see what political and economic circumstances make it more likely that a country will have a PSR project of one type or another. Second, we will examine the data to see what factors if any predict success of projects, as measured in implementation completion report reviews (ICR)/ IEG ratings. Third, we will look for medium term change in broader public sector quality indicators in the countries where the Bank has worked intensively.<sup>5</sup>

23. All aspects of the evaluation will be informed by interviews with task managers and other staff, field visits, and interchange with IEG teams doing CAEs and relevant PPARs.

24. The attached outline shows the expected manner of exposition.

#### ***Collaboration with other agencies***

25. The team is investigating the prospect of collaboration with the Norwegian Development Agency, NORAD.

#### ***Evaluation Schedule and Team***

26. *Timetable:* The evaluation will be presented to the Committee on Development Effectiveness (CODE) in the second quarter of FY08. Key issues from the evaluation will be discussed with internal and external stakeholders in spring 2007.

27. *Team.* The team will include experts familiar with Bank's processes and the key issues in public sector reform, and will be led by Steven Webb, Lead Evaluation Officer, IEGCR, under the guidance of Lily Chu, Interim Manager, IEGCR. A peer review team of Catherine Gwin, Lead Evaluation Officer, IEGCM, Roumeen Islam, Manager WBIPR, and Marcelo Selowsky, will provide guidance and comments on the design and final reports. In addition, a panel of external experts will be constituted to provide IEG management with reviews of the evaluation design and the draft report.

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<sup>5</sup> The team recognizes the many limitations of these indicators and will take them into account in assessing any results.

## References

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**Annex 1: Results Framework for Public Sector Reform in the Four Focus Areas of this Evaluation**

| PSR Area                                   | Ultimate Desired Impacts   | PSR Outcomes  | Outputs  | Inputs   |
|--|--|---|--|--|
| Administrative and civil service reform    | Economic growth, reduced poverty, security of life and property, participation and empowerment of people | High-performing public service that attracts, retains and motivates competent staff; transparent, non-discretionary pay regime appropriate to local labor market; wage bill within budget constraint  | Adequate personnel information system; reduced salary compression and turnover; adequate training; effective business processes and interministerial coordination (Cf. CPIA 15)  | Adjustment (and policy reform) lending; TA/investment lending; IDF and other grants; AAA (PERs, PRSPs, IGRs, other); research and WBI activities |
| Public expenditure analysis and management |  | Fiscal discipline, allocation of resources consistent with policy priorities, and good operational management   | Comprehensive budget; transparent budget planning, approval and execution; robust and timely accounting and audit; cost effective and transparent procurement. (Cf. CPIA 13)   |  |
| Revenue administration                     |  | Improved revenue performance; more equitable and efficient tax system, reduced tax evasion; more open to citizen feedback   | Improved information system; well-paid staff; reduced arrears; reduced cost of taxpayer compliance; reduced collection cost (Cf. CPIA 14b)   |  |
| Anti-corruption                            |  | Executive branch and personnel are held accountable for use of funds and other actions; accountability is enhanced by audit institutions and public access to information; accountability and transparency help discourage the use of public office for private gain. | In addition to anticorruption measures in the three areas above, rules about conflict of interest are clear; sanctions are enforced through effective laws, audits, prosecution and judiciary; the public has access to information and whistleblowers are protected (Cf. CPIA 16) |  |

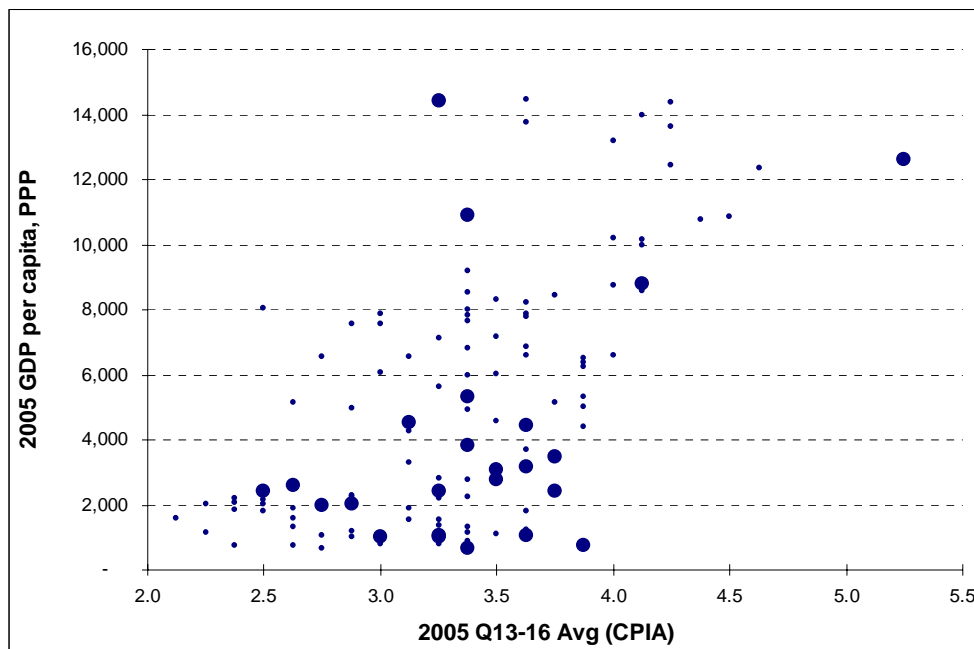
**Annex 2: Public Sector Reform Evaluation – Focus Countries**  
In US\$ million

| Region             | No. Countries | No. Loans       |            |              | Loan Amount (PSR component) |                  |              |
|--------------------|---------------|-----------------|------------|--------------|-----------------------------|------------------|--------------|
|                    |               | Focus Countries | Total      | %            | Focus Countries             | Total            | %            |
| <b>All Regions</b> | <b>25</b>     | <b>140</b>      | <b>384</b> | <b>36.5%</b> | <b>\$ 6,845</b>             | <b>\$ 16,397</b> | <b>41.7%</b> |
| AFR                | 7             | 42              | 150        | 28.0%        | \$ 1,373                    | \$ 3,919         | 35.0%        |
| EAP                | 3             | 15              | 31         | 48.4%        | \$ 410                      | \$ 1,091         | 37.5%        |
| ECA                | 5             | 24              | 70         | 34.3%        | \$ 1,070                    | \$ 3,342         | 32.0%        |
| LCR                | 5             | 28              | 85         | 32.9%        | \$ 1,745                    | \$ 5,250         | 33.2%        |
| MNA                | 2             | 6               | 14         | 42.9%        | \$ 309                      | \$ 606           | 51.0%        |
| SAR                | 3             | 25              | 34         | 73.5%        | \$ 1,938                    | \$ 2,189         | 88.5%        |

Note: Loans and loan amounts are those in loans with at least substantial components supporting activity in the four focus areas of this evaluation.

Percentages are the focus countries as a percent of the total, in all regions and in each region, respectively.

**PSR Focus Countries**



Note: Large dots are the 25 focus countries. Universe is all countries under \$15000 with CPIA. CPIA questions 13-16 pertain to budgetary and financial management, revenue mobilization, public administration (including civil service), and transparency, accountability and anticorruption.