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Recent trends in lending for civil service reform

Civil service reform contributes to good governance and has implications for a wide range of World Bank projects. This note assesses how the volume, distribution, structure, and objectives of Bank lending for civil service reform have changed in recent years.

In Bank operations, civil service reform usually refers to interventions that affect the organization, performance, and working conditions of employees paid from central, provincial, or state government budgets. It excludes reforms that affect police, the armed forces, public health care workers, primary and secondary public school teachers, and employees of state enterprises. (Administrative employees of ministries of health and education and other school administrators are included.) In addition, civil service reform generally does not cover interventions involving employees paid by local or district governments.

Assessments of such reform have wide relevance. The findings can strengthen the Bank's civil service reform efforts. They can also help client countries improve governance, because a well-functioning civil service helps foster good policymaking, effective service delivery, and accountable resource use. Finally, the findings are important for Bank sectors and projects that do not directly aim to improve governance. Although the Bank is promoting efforts that give communities more say in how central government services are delivered, most Bank projects are implemented by the civil services of client countries. So, even projects without civil service reform components are affected by Bank support for such reform.

This note assesses how the volume, distribution, structure, and objectives of civil service reform lending have changed since a 1999 Operations Evaluation Department (OED) review of such lending covering 1980–97. Only lending is considered; the assessment does not cover economic and sector work.

Volume of new lending

The OED review found that between the late 1980s and 1997 the Bank financed a growing number of standalone civil service reform projects. But between fiscal 1999 and 2001 only 4 of 62 civil service reform interventions were standalone; the rest were components of larger lending operations. (Data for 1998 were not included in the OED review or the review conducted for this note.)

Civil service reform appeared most often as part of public sector management reform projects—with financial management reform, decentralization, legal reform, and procurement reform as the other components—accounting for 26 of the 62 interventions. After that health and economic policy operations were the most likely to include civil service reform, each with 7 projects involving such reform. Other projects with civil service reform components involved education, transport, private sector development, agriculture, and social protection.

Exact lending for civil service reform is difficult to determine because the Bank's data on its operational activities are primarily

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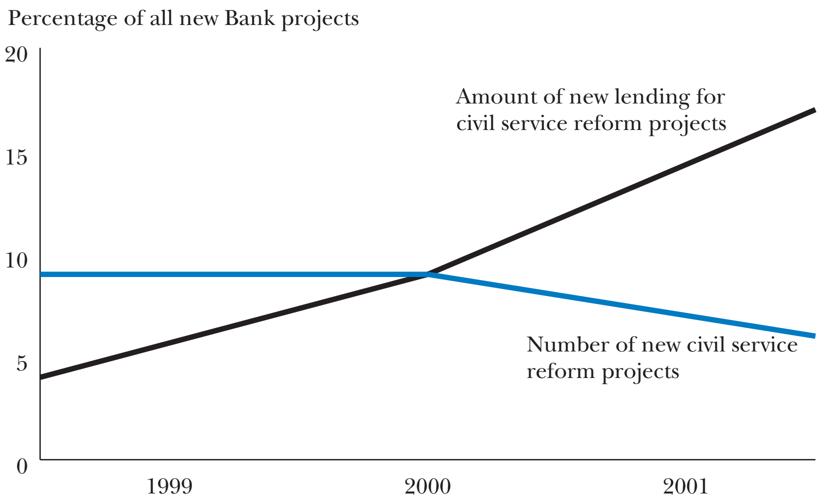
FROM THE DEVELOPMENT ECONOMICS VICE PRESIDENCY AND POVERTY REDUCTION AND ECONOMIC MANAGEMENT NETWORK

Figure 1 New civil service reform projects as a share of all World Bank project approvals, fiscal 1999–2001



Source: World Bank 2000a; http://www4.worldbank.org/sprojects.

at the project level. Even loan documents do not fully separate the cost of civil service reform components from other interventions. Thus efforts to measure the volume of civil service reform lending must isolate specific reform components from the larger projects and sectors of which they are a part.

Between fiscal 1999 and 2001 the number of civil service reform projects fell in real terms—with 24 in 1999, 21 in 2000, and 17 in 2001—and as a share of total Bank projects approved (figure 1). (During these three fiscal years the Bank approved loans for 806 projects.) But as a share of Bank lending, loans for civil service reform increased. Fewer projects and larger loans suggest that civil service reform is increasingly associated with high-value projects.

Distribution of new lending

During fiscal 1999–2001 the regional breakdown of new loans involving civil service reform was broadly similar to that in the OED review for 1980–97 (table 1). Sub-Saharan Africa had the most, with 23 new projects, though its share of the total has fallen considerably: from 74 percent in 1987–93 to 37 percent in 1999–2001. Latin America and the Caribbean was second, with 10 new projects. East Asia and the Pacific had the fewest new projects involving civil service reform, while other regions—particularly Europe and Central Asia and South Asia—saw a significant increase in such projects.

Structure of new lending

The Bank uses two main lending instruments. Standard investment loans have a 5–10 year focus and finance goods, works, and services in support of economic and social development. Standard adjustment loans have a 1–3 year focus and provide quick-disbursing assistance to countries in need of external financing, to support policy changes and structural reforms in a sector or the economy as a whole. Of the 62 new loans involving civil service reform during fiscal 1999–2001, 40 were investment operations and 22 were adjustment operations.

In recent years the Bank has created new investment and adjustment lending products, called programmatic loans, to respond to longer-term needs. Programmatic investment loans are used when a country requires a sustained path of investments, each building on the one before, and usually support a phased program of sector restructuring. Adaptable Program Loans are the Bank's tool for such lending. Programmatic adjustment loans are used when a country needs incremental policy changes over a longer period (usually about 10 years), focusing on step-by-step capacity building. Programmatic Structural Adjustment Loans are the main tool for such lending, although the new Poverty Reduction Support Credits will be largely programmatic.

Among new investment loans involving civil service reform in fiscal 1999–2001, 18 were Specific Investment Loans. Thus these accounted for 29 percent of new loans involving civil service reform, making them the most common type. Technical Assistance Loans accounted for 21 percent, Adaptable Program Loans for 11 percent, Learning and Innovation Loans for 2 percent, and Sector Investment and Maintenance Loans for 2 percent.

The 1999 OED review found that during 1980–97 more than half (55 percent) of civil

Table 1 New civil service reform projects by region and year of board approval, 1980–2001
(percentage of total)

Region	*1980–86*	*1987–93*	*1994–97*	*1999–2001*
East Asia and the Pacific	0	6	14	8
Europe and Central Asia	18	2	5	15
Latin America and the Caribbean	27	12	11	16
Middle East and North Africa	5	5	8	11
South Asia	0	1	3	13
Sub-Saharan Africa	50	74	59	37
Total	100	100	100	100
	n = 22	n = 65	n = 37	n = 62

Note: Does not include data for 1998.
Source: OED 1999; authors' calculations.

service reform interventions were components of adjustment operations. That share plummeted in fiscal 1999 and 2000, when just a quarter of new loans with civil service reform components were adjustment operations. But in fiscal 2001 adjustment operations dominated new loans involving civil service reform, accounting for 60 percent. Overall, during fiscal 1999–2001 Structural Adjustment Loans accounted for 26 percent of new loans involving civil service reform, followed by Programmatic Structural Adjustment Loans (5 percent), Sector Adjustment Loans (3 percent), and Special Structural Adjustment Loans (2 percent).

Lending objectives

This note categorizes civil service reform objectives under three broad headings: correcting fiscal imbalances, adjusting civil servants' pay and grading structures, and improving accountability and service delivery. (The OED review, by contrast, grouped civil service reform projects into those that downsized the civil service, built administrative capacity, and reformed institutions.) The same objectives are pursued differently depending on whether a civil service reform intervention is part of an investment loan or an adjustment loan.

Correcting fiscal imbalances through investment operations involves funding civil service censuses or redeploying employees. Through adjustment operations it involves cutting wages or employees.

In investment operations, pay and grading structures are improved by reclassifying jobs, providing training on human resource management, improving payroll management, introducing human resource management information systems, and enhancing salaries selectively. Adjustment operations pursue this objective through policy reforms that change pay and grading arrangements.

Investment operations improve accountability and service delivery by funding management training, information technology and office equipment, appraisal systems, competitive performance improvement and challenge funds, and restructuring and reengineering. In adjustment operations such efforts usually involve strengthening meritocracy and user voice, organizational restructuring, and accountability improvement.

During fiscal 1999–2001 adjustment operations showed a broad balance between the three main reform objectives, with most projects pursuing all three. Investment operations focused on accountability and service delivery, but always in tandem with other structural reforms. Training and provision of information technology and office equipment were rarely undertaken unless they supported a larger structural reform. Regionally, objectives differ substantially. Projects in Latin America and the Caribbean focus more on fiscal imbalances and pay and grading structures than do projects in other regions (table 2).

Civil service reform projects focus on correcting fiscal imbalances, adjusting pay and grading structures, and improving accountability and service delivery

Questions remain about the financing, structure, and effectiveness of civil service reform loans

Table 2 Objectives of new civil service reform projects by region, fiscal 1999–2001

Region	*Total new loans*	*Correcting fiscal imbalances*	*Adjusting pay and grading structures*	*Improving accountability and service delivery*
East Asia and the Pacific	5	1	1	5
Europe and Central Asia	9	0	5	9
Latin America and the Caribbean	10	6	7	7
Middle East and North Africa	7	2	5	7
South Asia	8	3	1	8
Sub-Saharan Africa	23	8	8	19
Total	62	20	27	55

Note: Many projects have more than one objective.

Direction of future analyses

If the trends in 1999–2001 are representative, this note raises some issues for further consideration. First, financial support for the technical components of civil service reform is being provided through investment lending, in parallel with larger programmatic adjustment operations. Programmatic adjustment operations strengthen political incentives for long-term reforms, while investment lending provides more detailed support. What are the optimal combinations of such financing, and under what circumstances?

Second, any examination of new lending also raises questions about the shape of the underlying portfolio. While this note has not updated the OED review of the effectiveness of civil service reform operations, their record of effectiveness appears modest. Many operations approved prior to this period were still active in fiscal 1999 and 2000. Taken together, what is the structure of the overall portfolio? If the portfolio is changing, what impact is that having?

Further reading

OED (Operations Evaluation Department). 1999. *Civil Service Reform: A Review of World Bank Assistance*. Report 19599. Washington, D.C.

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