



The Public Sector Governance Reform Cycle: available diagnostic tools

The World Bank has developed a variety of tools to assess and strengthen public sector capacity in client countries. What role can these tools play, and when and how are they best used?

Developing more efficient, transparent public institutions in the Bank's client countries requires a two-pronged approach. First, countries must build their capacity to perform functions such as policymaking and policy implementation, regulation, service delivery, and administrative management. Second, they must enhance the state's accountability—both internally, among the executive, legislative, and judicial branches, and externally, to citizens, users of public services, and other stakeholders.

Initiatives in both areas contribute to good governance, understood as the exercise of public authority for the common good. To succeed, this approach must be based on a solid diagnosis of the weaknesses it is trying to address, accompanied by awareness and buy-in from citizens, politicians, and the international community.

How tools can help

As the Bank's work on building public sector capacity and improving governance has increased and become more complex, its diagnostic tools have expanded accordingly. (For the purposes of this note, a tool is a technique or skill that helps Bank task managers and client country counterparts prepare, design, implement, or monitor operational work. The description of public sector governance tools in this note is limited to those that are focused on governance diagnostics, that come with a manual or other report explaining their use, and that have been used in one or more coun-

tries with documented results.) These tools help users better understand the nature and sources of governance problems and capacity constraints, and develop strategies to address them. Using these tools can increase public transparency and fuel a participatory process that mobilizes civil society and generates pressure for reform.

A recent analysis by the World Bank Institute and the PREM Network identified a diverse inventory of Bank tools for improving public sector governance (see http://www-wbweb.worldbank.org/prem/premcompass/know_learn/tools4dev/index.htm). Some provide guidance on designing interventions to achieve a desired goal. Others directly assist clients in building the capacity needed to strengthen public functions. A few are used to monitor progress and results. For example, indicators of good governance focus on identifying institutional weaknesses and raising awareness among key stakeholders. Other diagnostic tools help assess institutional context, stakeholder ownership and commitment, readiness for reform, and institutional and political risks.

Only a few of these tools are widely known and used, even within PREM. This note proposes a dynamic framework, called the Public Sector Governance Reform Cycle, to help Bank staff and clients identify tools that may be useful in their work. For each phase of the cycle, it provides examples of tools currently in use or under development.

The Bank has a wide range of tools for improving public sector governance

The Public Sector Governance Reform Cycle captures and addresses five main phases of reform

The Public Sector Governance Reform Cycle

The proposed framework is a self-renewing governance cycle that captures and addresses five main phases of reform (figure 1). The cycle moves from identifying strengths and weaknesses in governance and raising awareness to assessing the scope for political change and reform to specifying problems and designing reforms. The fourth phase is managing the politics of reforms—in terms of engaging clients on policy recommendations—and ensuring sustainability. The cycle closes by monitoring and evaluating results, which yields information for use in policy diagnostics and adjustments in the next round. The main purpose of the cycle is to illustrate the process that helps assess and enhance capacity to build efficient, accountable institutions—while providing tools and techniques that can be used along the way.

Although each tool discussed in this note has a primary affiliation with one phase of the cycle, most cover more than one phase or are closely linked with other instruments. For example, the design of reforms goes hand in hand with monitoring, while assessing the scope for change and reform involves elements of raising awareness.

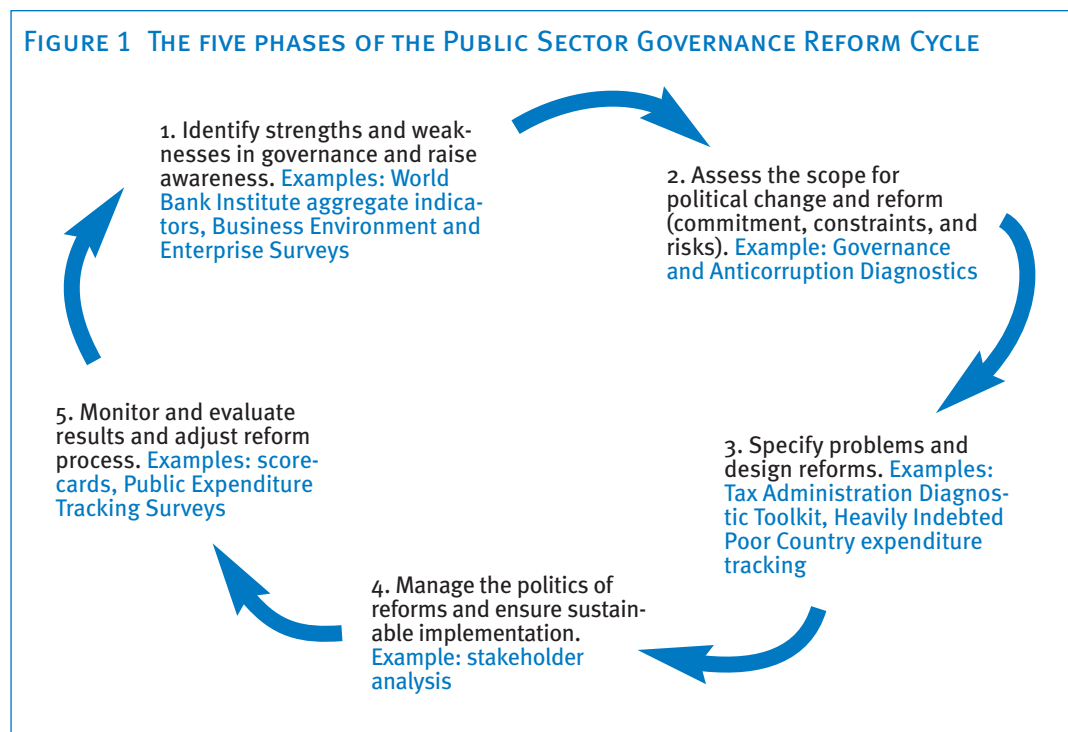
Phase 1: identifying strengths and weaknesses and raising awareness

A decade ago few data were available to assess governance across countries and over time. But recent years have seen significant progress in this area, based on research within and outside the Bank.

Country Policy and Institutional Assessments (CPIAs), produced annually by Bank country teams and reconciled within and across regions, assess how effective country policies and institutions are at reducing poverty, promoting sustainable growth, and using development assistance. Twenty equally weighted criteria are grouped in four clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions.

The cluster on public sector management and institutions captures key aspects of good governance—vital for sustained growth and poverty reduction. PREM recently began compiling quantitative, objective governance indicators for individual countries to help Bank staff answer the five CPIA questions related to public sector management and institutions (see <http://www-wbweb.worldbank.org/prem/prmps/publicsector/indicators.htm>).

FIGURE 1 THE FIVE PHASES OF THE PUBLIC SECTOR GOVERNANCE REFORM CYCLE



Box 1 RAISING AWARENESS—THE WORLD BANK INSTITUTE’S AGGREGATE GOVERNANCE INDICATORS

Drawing on empirical research in 200 countries, the World Bank Institute has developed six governance indicators that capture how governments are selected, monitored, and replaced, governments’ capacity to formulate and implement policies, and the respect of citizens and the state for institutions of governance. These six indicators are:

- Voice and external accountability.
- Political stability and lack of violence.
- Government effectiveness.
- Lack of regulatory burden.
- Rule of law.
- Control of corruption.

Source: <http://www.worldbank.org/wbi/governance/pubs/aggindicators.html>

These indicators provide insight into why previous attempts at capacity and institution building have failed. Detailed analysis at the country, regional, and even provincial levels reveals problems and raises awareness that helps reformers and civil society promote change. The indicators have received international recognition and are used for country comparisons. Five of the indicators are part of 16 indicators used by the U.S. Millennium Challenge Account (MCA) to allocate funds to developing countries. Special emphasis is given to corruption—countries scoring below the median on this indicator are ineligible for MCA funding (see <http://www.mca.gov>).

Several tools are available to assess the scope for reform

CPIA ratings for governance and the other clusters are used to place countries into quintiles, and the results are publicly available (see <http://sitesources.worldbank.org/IDA/Resources/Quintiles2003CPIA.pdf>).

Perception-based *cross-country governance indicators*, developed mainly by the World Bank Institute, can also be used to measure and monitor the quality of governance and institutions. Using survey data, these indicators provide a relative measure of governance across countries. Their purpose is to generate awareness and debate, both nationally and globally, on country performance in six areas of governance (box 1). Although aggregate governance indicators perform a crucial role in monitoring governance in general terms, they provide little information on specific governance issues at the country level.

Multicountry survey instruments—such as the Bank’s *Business Environment and Enterprise Surveys* (BEEPSs, conducted in 1999 and 2002) and *Doing Business database*—analyze recent developments in institutional quality, performance, and constraints in the public and private sectors from a firm-level perspective. BEEPS is an interactive tool designed to generate comparative measurements in areas such as corruption, state capture, lobbying, and quality of the business environment, which can then be related to specific firm characteristics and performance. The Doing Business database pro-

vides indicators of the regulatory costs facing businesses and can be used to analyze specific regulations that enhance or constrain investment, productivity, and growth.

At the country level, more in-depth analysis is made possible by surveys of citizens (service users), enterprises, and public officials that ask detailed questions about types, manifestations, levels, costs, and private returns of misgovernance and corruption.

Phase 2: assessing the scope for political change and reform

The challenge of reforming public institutions and the growing focus on institution building in the Bank’s Country Assistance Strategies and lending programs have encouraged the development of institutional assessment tools. These tools enable practitioners to assess the scope for political change and reform, identify processes and constraints, find country-specific starting points, and match them with options for public action. Several tools are available to assess the scope for reform.

Participatory approaches—such as reform readiness analyses, stakeholder assessments, and beneficiary assessments—have been developed in recent years based on the premise that, to succeed, reforms must be politically desirable, feasible, and sustainable. Such approaches provide a structured method for assessing client commitment to

The Bank's tools
tailor reform options
to local settings

BOX 2 ASSESSING THE SCOPE FOR REFORM—SIERRA LEONE'S GOVERNANCE AND ANTI-CORRUPTION ASSESSMENT

Sierra Leone's Governance and Anticorruption (GAC) assessment was conducted in response to a 2002 presidential call for action on strengthening governance and building capacity. Carried out in collaboration with the U.K. Department for International Development (DFID), the assessment involved an in-depth diagnosis of the quality of governance and provided needed information for the country's Institutional Reform and Capacity Building Project.

To ensure sustainable collaboration among local stakeholders, the DFID and World Bank Institute promoted the creation of a steering committee responsible for implementing the assessment and designing a National Governance Strategy. The committee is made up of representatives from Sierra Leone's Governance Reform Secretariat, vice president's office, Anti-Corruption Committee, Central Statistical Agency, civil society, media, and donors (DFID,

United Nations Development Programme, European Union, and the Bank).

In a second step, three diagnostic surveys of governance—covering public officials, households, and businesspeople—were designed and conducted by a local firm with World Bank technical assistance. The surveys identified institutional strengths and weaknesses, providing the steering committee with the information needed to design the National Governance Strategy. The results of the surveys were compiled in a report released in October 2003 at a national workshop sponsored by the vice president. The workshop provided an opportunity to discuss the findings of the surveys and identify key areas for reform. It also facilitated the drafting of a governance action plan, which is currently being revised by the steering committee and was discussed in four regional workshops in March 2004.

Source: <http://www.worldbank.org/wbi/governance/sierraleone/about.html>

specific reforms, as well as for identifying possible political and institutional obstacles to implementation.

Participatory tools and surveys also feed into the Bank's *Institutional and Governance Reviews* (IGRs), which facilitate analysis of a broad range of public sector reforms. IGRs are highly country- and situation-specific, and require customized designs and good adaptation to local contexts. The reviews broadly assess the quality of accountability, policymaking, or service delivery institutions, and help countries identify actions needed for institutional change.

Surveying users of public services and disseminating the findings can enhance transparency and accountability in government and build momentum for institutional reform. One such mechanism, a *Governance and Anti-corruption* (GAC) assessment, was developed jointly by the World Bank Institute and the PREM Sector Unit for Europe and Central Asia. It consists of in-depth surveys of households, firms, and public officials assessing the extent and causes of corruption. GAC surveys help countries prepare action programs and promote capacity building by institutionalizing participatory approaches (box 2).

Phase 3: specifying problems and designing reforms

The Bank's current emphasis on the "good fit" approach has encouraged the development and use of analytical tools that identify each country's underlying problems and unique conditions, and that tailor reform options to local settings.

In recent years, in response to demands from the Bank's stakeholders, assessments of fiduciary risk have been incorporated in the Bank's analyses of public spending. *Public Expenditure Reviews* (PERs), *Country Procurement Assessment Reports* (CPARs), and *Country Financial Accountability Assessments* (CFAAs) are considered core economic and sector work in part because they provide critical understanding of client countries' budget systems, including their fiduciary aspects. Recent proposals to better link these instruments include a suggestion to replace individual reports with a standardized, module-based assessment (box 3).

An important goal of public sector reform is to improve fiscal performance. The *Tax Administration Diagnostic Toolkit* was developed to uncover the most critical tax administration deficiencies and constraints, and

BOX 3 TAKING A PROGRAMMATIC APPROACH TO PUBLIC EXPENDITURE WORK

In 2003 the boards of the International Monetary Fund (IMF) and World Bank issued a paper calling for increased collaboration on public expenditure issues. In response the Bank has proposed a programmatic approach to public expenditure work based on supporting country-owned reforms, coordinating donor efforts on diagnostic work and technical assistance, and periodically assessing performance to provide feedback on reforms. With an emphasis on building capacity and supporting reforms to strengthen budget systems, this approach would combine a number of diagnostic fiduciary and public financial management modules into a standardized assessment to respond to the specific needs of each country.

The standardized assessment would evaluate the performance of public financial management systems, assess the strengths and weaknesses of fiduciary systems, and identify

gaps in knowledge and local capacity building. It would be complemented by high-level indicators, enabling the Bank and client countries to monitor the performance of public financial management systems and assess progress over time. The standardized assessment would also provide donors with information on country efforts to improve public financial management, and inform policy dialogues with countries as well as decisions on aid modalities. Hence a standardized assessment would minimize the need for individual donors to undertake separate fiduciary assessments—reducing transaction costs for clients. A public expenditure working group consisting of staff from the Bank (PREM, financial management, and procurement staff), IMF, and other donors has prepared a few pilot desk assessments to test the usefulness of this approach in selected countries.

Source: <http://www1.worldbank.org/publicsector/pe/BankFundPERCollaboration.pdf>

Reforms are most successful when implemented in a participatory manner

to identify key reform priorities. The *Diagnostic Framework for Revenue Administration* involves more comprehensive analysis of revenue administration, evaluating systemic dysfunctions and illustrating common problems and possible solutions. Use of this framework is a prerequisite to developing a successful strategy for revenue administration reform (box 4).

HIPC expenditure tracking uses objective indicators to evaluate the capacity of heavily indebted poor countries (HIPCs) to track poverty-reducing public spending, set priorities, and formulate action plans for further improvement.

Phase 4: managing the politics of reform

Potential winners and losers from policy reform can influence reform outcomes, and resistance by losers can undermine Bank-supported reforms. *Stakeholder analysis*, used by different parts of the Bank, uses interviews, qualitative data, and quantitative analysis of secondary data to assess commitment to reform proposals among individuals, groups, and organizations. Implementation of stakeholder analysis requires substantial country-specific analysis and can be an expensive,

time-consuming effort (see Nunberg 2003). A new approach to stakeholder analysis, based on game theory, was recently piloted in East Asia and Morocco to better understand the preferences and behaviors of key stakeholders in civil service and anticorruption reforms (box 5).

Reforms are most successful when implemented in a participatory manner—which can be done by building coalitions of key stakeholders (such as government, civil society, and nongovernmental organizations). Such coalitions not only help sustain reform, they can also strengthen political will to improve governance. The World Bank Institute has been working on a strategy to identify capacity to solve problems and monitor implementation, and to increase transparency and civil society's access to public services. Civil society is playing a growing role in generating pressures for reform.

Phase 5: monitoring and evaluating results

Given the increasing emphasis on results in the Bank's work, significant efforts have been made to develop tools and indicators for monitoring and evaluating institutional performance. *Public Expenditure Tracking Surveys*

New tools and indicators help monitor and evaluate institutional performance

BOX 4 DESIGNING REFORMS—LATVIA'S STATE REVENUE SERVICE MODERNIZATION PROJECT

In Latvia an integrated diagnostic framework was used to ensure that a proposed reform—the State Revenue Service Modernization Project—fit well with the country's objectives and institutions. The project was designed to increase the technical efficiency of Latvia's revenue administration and facilitate the country's accession to the European Union.

A basic questionnaire identified deficiencies in the revenue service's organizational structure, management practices, and operational tasks and provided a basis for project design. An assessment of vulnerability to corruption in the tax and customs administration was accompanied by in-depth surveys of businesses, households, and public officials, helping to prioritize areas for reform. With the support of the prime minister, a corruption survey of government

officials was conducted and followed by the creation of a State Revenue Service Asset Declaration Unit, which was later expanded to cover the customs service.

In 2001 a law established legal and financial accountability for executive agencies. The design of a three-level organizational structure, piloted in two regional offices, helped consolidate and integrate functions and restructured all local offices to enhance service delivery. After the first round of diagnostic work the State Revenue Service conducted periodic surveys to assess client satisfaction and staff morale and ethics, and started a public information campaign. Survey findings have led to changes in management and business processes, including an internal reporting and audit strategy, guidelines for dealing with corruption, a bonus system, and a code of ethics.

BOX 5 MANAGING THE POLITICS OF REFORM—STAKEHOLDER ANALYSIS IN EAST ASIA

Two pilot studies were recently conducted in East Asia based on the *Expected Utility Stakeholder Model*, a framework for analyzing stakeholder perceptions and potential policy outcomes. The model simulates a bargaining process among stakeholders, predicts how they will shift their positions, and assesses the level of consensus in support of a particular outcome. A similar exercise is under way in Morocco.

In the pilot studies, country experts helped identify all stakeholders in the reform process, the stance of each stakeholder on a reform continuum, the power of each stakeholder, and the importance that stakeholders attributed to the reform outcome. In one country the mapping of this information for procurement reform

revealed that stakeholder opinions varied widely, that the most powerful coalition was against any reform, and that one player with veto power supported only moderate reforms. The most reform-minded stakeholders were new small and medium-size enterprises, which were likely to suffer the most from unfair practices. The simulation of a dynamic bargaining process revealed that positions toward reform might change slightly, but that no overall consensus could be expected. Recalibration of the model with a slightly less demanding reform proposal by the Bank, however, indicated that in softening its position the Bank could win support from more stakeholders—allowing for a second-best solution.

Source: Nunberg 2003.

(PETSs) and *Quantitative Service Delivery Surveys* (QSDSs) track the flow of resources through layers of government and identify reasons for public spending leakages.

In recent years *citizen report cards* and *community scorecards*—user surveys that collect both qualitative and quantitative data on the performance of public services—have emerged as powerful tools for monitoring results, increasing accountability, and stimulating reforms (box 6). These tools aim to

increase public awareness and generate bottom-up pressure to improve service delivery. Once such surveys are conducted periodically, it is expected that service providers will use the findings to adjust their efforts.

Emerging lessons

Because the tools for public sector governance reform and the contexts in which they have been applied vary considerably, it is difficult to draw robust lessons. Still, a few general con-

BOX 6 MONITORING AND EVALUATING RESULTS—SCORECARDS IN SOUTH ASIA, EAST ASIA, AND EUROPE AND CENTRAL ASIA

The first citizen scorecard survey, implemented in 1994 by an independent NGO in Bangalore, India, assessed the performance of and user satisfaction with urban services such as electricity, health care, water supply, and telephony. Using the format of a report card, the effort and its findings launched a strong advocacy campaign. As a result the worst-rated agency—the Bangalore Development Authority—reviewed its systems for delivering services, introduced training for junior staff, and (along with the Bangalore Municipal Corporation) began hosting forums with NGOs and other public agencies to solve high-priority problems such as waste management. In addition, the Karnataka Electricity Board formalized periodic dialogues with resident associations to gar-

ner feedback from users, and two other public agencies took steps to strengthen their systems for responding to complaints.

Since then agencies around the world have used scorecard surveys in a variety of sectors. In the Philippines scorecards have been used to assess pro-poor services, and in Bangladesh, Ukraine, and Vietnam to assess the quality of governance.

Care-Malawi recently developed a more local, rural hybrid of the citizen scorecard, called the community scorecard. Instead of surveys, community scorecards rely on focus group discussions with communities and providers to monitor local public facilities. They provide a local interface between these two groups, facilitating the development of local feedback loops and reform action plans.

Source: <http://Inweb18.worldbank.org/ESSD/sdext.nsf/81ByDocName/ToolsandMethodsMonitoringandEvaluationCitizenReportCard>; <http://Inweb18.worldbank.org/ESSD/sdext.nsf/81ByDocName/ToolsandMethodsMonitoringandEvaluationCommunityScoreCard>

clusions can be reached in terms of analytical content and processes.

The first step in addressing capacity weaknesses involves collecting detailed, specific, reliable information to address relevant questions. For tools that rely on large sets of micro data (BEEPS, GAC), a combination of quantitative and qualitative data has proven useful—making it possible to describe not only inputs and outputs but also services, processes, and related constraints. Highly aggregated data (CPIAs, World Bank Institute governance indicators) are useful for making cross-country comparisons and raising awareness. Designing sector-specific reforms requires specific, disaggregated data (PETSs, GAC). Reform programs are greatly enhanced by the use of a wide range of data sources and tools (official statistics, surveys, external agency ratings) and the triangulation of the results. Quality control—achieved through openness, transparency, and rigorous analytical methods—can enhance the credibility of results.

Finally, client buy-in and participation matter. The degree to which these tools can influence policy debates and promote capacity building is closely related to the degree of client demand, openness, participation in the

assessment process, and transparency when disseminating results.

Challenges ahead

Effective use of public sector governance tools throughout the reform cycle largely depends on their sustained political buy-in. Although the Bank can leverage political commitment by partnering with other donors and civil society, such commitment is subject to constant change. As this stock-taking exercise reveals, tools to manage the politics of reform are scarce, with a few pilots under development. Teaming up with partner institutions and academia may help strengthen these efforts.

Another challenge lies in the need to move beyond applying governance diagnostics, toward implementing reforms and measuring progress on poverty reduction targets. Thus a next step could be to complement diagnostic tools with indicators that track progress in line with the targets embodied in Poverty Reduction Strategy Papers and the Millennium Development Goals.

Finally, the diversity of available tools calls for more consolidation and quality control to make them more easily accessible and relevant for operations. Ongoing work in this

Effective use
of public sector
governance
tools depends
on their sustained
political buy-in

area will be reflected in a forthcoming World Bank Institute–PREM Network Website. To learn more about public sector governance tools, contact the authors or visit http://www-wbweb.worldbank.org/prem/premcompass/know_learn/tools4dev/index.htm.

Further reading

BEEPS interactive datasets 1999–2000 and 2002: <http://info.worldbank.org/governance/beeps/> and <http://info.worldbank.org/governance/beeps2002/>

CPARs: <http://www1.worldbank.org/publicsector/cpar.htm>

CPIA ratings: <http://siteresources.worldbank.org/IDA/Resources/Quintiles2003CPIA.pdf>

CPIA 2003 assessment questionnaire: <http://siteresources.worldbank.org/IDA/Resources/CPIA2003.pdf>

Diagnostic Framework for Revenue Administration: <http://www1.worldbank.org/publicsector/toolkitstax.htm?OpenDocument>

Dehn, Jan, Ritva Reinikka, and Jakob Svensson. 2003. “Survey Tools for Assessing Performance in Service Delivery.” World Bank, Washington, D.C. [<http://www1.worldbank.org/publicsector/pe/PE-TS1.pdf>].

Doing Business database: <http://rru.worldbank.org/DoingBusiness/default.aspx>

Gonzalez de Asis, Maria. 2000. “Coalition-Building to Fight Corruption.” World Bank Institute, Washington, D.C. [http://www.worldbank.org/wbi/governance/pdf/coalition_summit.pdf].

HIPC expenditure tracking: <http://www1.worldbank.org/publicsector/pe/Newsletter/JanJune2003D.htm>

IMF (International Monetary Fund) and World Bank. 2003. “Bank/Fund Collaboration on Public Expenditure Issues.” Fiscal Affairs Department and PREM Network, Washington, D.C. [<http://www1.worldbank.org/publicsector/pe/BankFundPERCollaboration.pdf>].

Kaufmann, Daniel, Aart Kraay, and Pablo Zoido. 1999. “Aggregating Governance Indicators.” Policy Research Working Paper 2195. World Bank, Washington, D.C. [<http://ssrn.com/abstract=188548>].

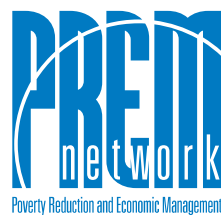
Nunberg, Barbara. 2003. “Getting Serious about Stakeholder Analysis.” A PowerPoint presentation. World Bank, Washington, D.C.

PERs: <http://www.worldbank.org/education/economicsec/finance/public/perev.htm>

Tax Administration Diagnostic Toolkit: <http://www1.worldbank.org/wbiep/decentralization/Module7/Toolkit.pdf>

This note was written by Vera Wilhelm (Senior Economist, PRMVP) and Inna Kushnarova (Consultant, PRMVP). The authors are grateful for useful comments from Poul Engberg-Pedersen, Indermit Gill, Gregory Kisunko, and Francesca Recanatini.

If you are interested in similar topics, consider joining one of PREM’s Public Sector Governance Thematic Groups. See <http://www-wbweb.worldbank.org/prem/premcompass/strategies/sectors.html>.



This note series is intended to summarize good practices and key policy findings on PREM-related topics. The views expressed in the notes are those of the authors and do not necessarily reflect those of the World Bank. *PREMnotes* are widely distributed to Bank staff and are also available on the PREM Website (<http://prem>). If you are interested in writing a *PREMnote*, email your idea to Madjiguene Seck. For additional copies of this *PREMnote* please contact the PREM Advisory Service at x87736. *PREMnotes* are edited by Paul Holtz and laid out by Suzanne Luft.

Prepared for World Bank staff