Reforming Public Institutions and Strengthening Governance: A World Bank Strategy

Implementation Update

Part 1
Overall Update

April 2002

This update on the implementation of the World Bank’s Public Sector strategy was prepared by the Public Sector Governance Board, Poverty Reduction and Economic Management Network (PREM), under the direction of Cheryl Gray (Director, Public Sector). Members of the Board who provided input to the overall update and were responsible for their respective individual VPU updates include Pedro Alba and Charles Humphreys (MNA), Robert Ebel and Daniel Kaufmann (WBI), Brian Levy (AFR), Helga Muller (ECA), Ron Myers (LCR), Barbara Nunberg (EAP), Sanjay Pradhan and Bob Beschel (SAR), Ritva Reinikka (DEC), and Helen Sutch (PREM). Representatives from three Vice-Presidencies – LEG, OPCS, and PSI – were recently added to the Board, and they provided helpful input to make the Update more inclusive. Others who contributed centrally to the preparation of the VPU updates include Joel Hellman (ECA), Yasuhiko Matsuda (LCR), Rick Stapenhurst (WBI), and Joel Turkewitz (WBI). Tripti Thomas (PREM) provided invaluable input and assistance throughout the process. We appreciate the many comments received from reviewers inside and outside the Bank.
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<th>Description</th>
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<tbody>
<tr>
<td>AAA</td>
<td>Analytic and Advisory Activities</td>
</tr>
<tr>
<td>AAP</td>
<td>Anticorruption Action Plan</td>
</tr>
<tr>
<td>ACBF</td>
<td>Africa Capacity Building Foundation</td>
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<tr>
<td>ACS</td>
<td>Association of Caribbean States</td>
</tr>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>ADR</td>
<td>Alternative Dispute Resolution</td>
</tr>
<tr>
<td>AFR</td>
<td>Africa Regional Vice-Presidency</td>
</tr>
<tr>
<td>AP</td>
<td>Andhra Pradesh</td>
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<tr>
<td>APL/C</td>
<td>Adaptable Program Loan/Credit</td>
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<tr>
<td>ASA</td>
<td>Association for Social Advancement</td>
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<tr>
<td>ASEEM</td>
<td>Asia-Europe Meeting</td>
</tr>
<tr>
<td>BEEPS</td>
<td>Business Environment and Enterprise Performance Survey</td>
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<tr>
<td>BRAC</td>
<td>Bangladesh Rural Advancement Committee</td>
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<tr>
<td>CARD</td>
<td>Computer-aided Administration of Registration Department</td>
</tr>
<tr>
<td>CAS</td>
<td>Country Assistance Strategy</td>
</tr>
<tr>
<td>CBO</td>
<td>Community Based Organization</td>
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<tr>
<td>CD</td>
<td>Country Director</td>
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<tr>
<td>CDD</td>
<td>Community Driven Development</td>
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<tr>
<td>CDF</td>
<td>Comprehensive Development Framework</td>
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<tr>
<td>CDP-G</td>
<td>Comprehensive Development Partnership on Governance</td>
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<tr>
<td>CEM</td>
<td>Country Economic Memorandum</td>
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<tr>
<td>CEP</td>
<td>Community Empowerment and Local Governance Project</td>
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<td>CFAA</td>
<td>Country Financial Accountability Assessment</td>
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<td>CHOGM</td>
<td>Commonwealth Heads of Government</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<tr>
<td>CLAD</td>
<td>Centro Latinoamericano de Administracion para el Desarrollo</td>
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<tr>
<td>CMU</td>
<td>Country Management Unit</td>
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<tr>
<td>CODE</td>
<td>Committee on Development Effectiveness</td>
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<tr>
<td>CPAR</td>
<td>Country Procurement Assessment Report</td>
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<tr>
<td>CPIA</td>
<td>Country Performance and Institutional Assessment</td>
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<td>CPU</td>
<td>Commonwealth Press Union</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>DEC</td>
<td>Development Economics Vice-Presidency</td>
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<td>DECDG</td>
<td>Development Data Group</td>
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<td>DFID</td>
<td>Department for International Development, U.K.</td>
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<tr>
<td>DGF</td>
<td>Development Grant Facility</td>
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<tr>
<td>DL</td>
<td>Distance Learning</td>
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<tr>
<td>DOSE</td>
<td>Downsizing Options Simulation Exercise</td>
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<tr>
<td>DPR</td>
<td>Development Policy Review</td>
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<tr>
<td>DRG</td>
<td>Development Research Group</td>
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<tr>
<td>EAP</td>
<td>East Asia and Pacific Regional Vice-Presidency</td>
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<td>EASPR</td>
<td>Poverty Reduction and Economic Management Sector Unit, EAP</td>
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<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<tr>
<td>ECA</td>
<td>Europe and Central Asia Regional Vice Presidency</td>
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<td>ECSPE</td>
<td>Poverty Reduction and Economic Management Sector Unit, ECA</td>
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<tr>
<td>EIB</td>
<td>European Investment Bank</td>
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<tr>
<td>EPZ</td>
<td>Export Processing Zone</td>
</tr>
<tr>
<td>ESSD</td>
<td>Environmentally and Socially Sustainable Development Network</td>
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<tr>
<td>ESW</td>
<td>Economic and Sector Work</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FEDP</td>
<td>Finance and Enterprise Development Loan</td>
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<tr>
<td>FRY</td>
<td>Federal Republic of Yugoslavia</td>
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<tr>
<td>FY</td>
<td>Fiscal Year</td>
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<tr>
<td>GDLN</td>
<td>Global Development Learning Network</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GFS</td>
<td>Government Financial Statistics</td>
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<td>GLIN</td>
<td>Global Legal Information Network</td>
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<td>GoAP</td>
<td>Government of Andhra Pradesh</td>
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<td>GoK</td>
<td>Government of Karnataka</td>
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<td>GOVNET</td>
<td>DAC Network on Good Governance and Capacity Development</td>
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<td>GPM</td>
<td>Governance and Public Management</td>
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<tr>
<td>GTZ</td>
<td>German Association for Technical Cooperation</td>
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<tr>
<td>HD</td>
<td>Human Development Network</td>
</tr>
<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Country</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IBTA</td>
<td>Institution Building/Technical Assistance</td>
</tr>
<tr>
<td>ICR</td>
<td>Implementation Completion Report</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
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<tr>
<td>IDB</td>
<td>Inter-American Development Bank</td>
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<tr>
<td>IDF</td>
<td>Institutional Development Facility</td>
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<tr>
<td>IGR</td>
<td>Institutional and Governance Review</td>
</tr>
<tr>
<td>IFMIS</td>
<td>Integrated Financial Management Information Systems</td>
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<tr>
<td>IFMS</td>
<td>Integrated Financial Management Systems</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IRP</td>
<td>Institutional Reform Project</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>ITD</td>
<td>International Tax Dialogue</td>
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<td>KDP</td>
<td>Kecamatan Development Project</td>
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<tr>
<td>LCR</td>
<td>Latin America and Caribbean Regional Vice-Presidency</td>
</tr>
<tr>
<td>LEG</td>
<td>Legal Department</td>
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LICUS  Low Income Countries Under Stress
LIL   Learning and Innovations Loan
M&E  Monitoring and Evaluation
MDB  Multi-lateral Development Bank
MDGs Millennium Development Goals
MNA  Middle East and North Africa Regional Vice-Presidency
MNSED Social and Economic Development Group, MNA
MoTF Ministry of Taxes and Fees
MTEF Medium Term Expenditure Framework
NGO  Non-Governmental Organization
OCS  Operational Core Services Network
OECD Organization for Economic Co-operation and Development
OED Operations Evaluation Department
OP   Operational Policy
OPCS Operational Policy and Core Services Network
OSCE Organization for Security and Co-operation in Europe
OVP  Operational Vice President
PAC  Parliamentary Accounts Committees
PACT Partnership for Capacity Building in Africa
PDR  People’s Democratic Republic
PE   Public Expenditure
PEFA Public Expenditure and Financial Accountability
PEIR Public Expenditure & Institutional Review
PEM  Public Expenditure Management
PEPFMR Public Expenditure, Procurement and Financial Management Review
PER  Public Expenditure Review
PETS Public Expenditure Tracking Surveys
PHRD Policy and Human Resource Development Fund
PIU  Project Implementation Unit
PPF  Project Preparation Facility
PREM Poverty Reduction and Economic Management Network
PRI  Panchayat Raj Institutions
PRMPS Public Sector Group, PREM
PRSC Poverty Reduction Support Credit
PRSP Poverty Reduction Strategy Paper
PS   Public Sector
PSAL/C Programmatic Structural Adjustment Loan/Credit
PSB  Public Sector Board
PSG  Public Sector Governance
PSI  Private Sector Development and Infrastructure Vice Presidency
PSP  Private Sector Participation
PSR  Public Sector Reform
PSRL Public Sector Reform Loan
QAG  Quality Assurance Group
QSDS Quantitative Service Delivery Surveys
R&D  Research and Databank
RPED Regional Program on Enterprise Development
SAC  Structural Adjustment Credit
SAL  Structural Adjustment Loan
SAR  South Asia Regional Vice-Presidency
SATAC Structural Adjustment Technical Assistance Credit
SEE  South Eastern Europe Region
SEWA Self-Employed Women’s Association, India
SIAF-SAG Sistema Integrado de Administración Financiera y Control
SIGMA Support for Improvement in Governance and Management in Central and Eastern European Countries
SIL  Specific Investment Loan
SMTP Strategic Medium Term Plan
SMU  Sector Management Unit
SPAI Stability Pact Anticorruption Initiative
SSR  Social and Structural Review
STAMP State Tax Administration and Modernization Program
TA  Technical Assistance
TAL/C Technical Assistance Loan/Credit
TAMP Tax Administration Modernization Project
TG  Thematic Group
TM  Task Manager
TWINS Twin Cities Network Services
UN  United Nations
UNDP United Nations Development Programme
UPPCL Uttar Pradesh Power Corporation, Ltd.
USAID U.S. Agency for International Development
VAT  Value Added Tax
VPU  Vice Presidential Unit
WBG World Bank Group
WBI  World Bank Institute
WBIEP World Bank Institute Economic Policy
WDR  World Development Report
Executive Summary

1. The purpose of this report is to assess progress to date in implementing the World Bank’s strategy for governance and public sector reform, Reforming Public Institutions and Strengthening Governance: A World Bank Strategy (2000). It is organized according to the goals and commitments laid out in the strategy itself (as per headings below), in order to allow readers to track to what extent the strategy is being implemented. Part I synthesizes progress and issues across the Bank, while Part II highlights specific challenges and approaches of individual Regions, DRG, and WBI.

2. Moving Governance and Institutional Reform to Center Stage. The treatment of governance issues and the focus on institution-building in CASs and Bank programs have increased steadily over the past 4 years. Almost all recent CASs diagnose the governance situation in the relevant country, and lending for governance and institution building has increased significantly. OED and QAG ratings indicate that the quality of the Public Sector portfolio has improved considerably and that the number of projects at risk has fallen. And this growth in the quantity and quality of lending has been complemented by an extensive program of non-lending work, including analytic work and external learning and knowledge sharing programs. The key challenges ahead are to continue to enhance the focus and improve the effectiveness of the Bank’s work on governance, institutional reform, and capacity-building; to fully mainstream these concerns and build links among individual sectors (such as the social or infrastructure sectors); and to help build client capacities to analyze and implement governance and public sector reforms appropriate to their settings.

3. Broadening the Bank’s Approach. The strategy envisions that the Bank’s programs will not only supply advice and technical support to governments, but will also consider ways to enhance domestic ownership and demand for reform. Defining strategies that are workable in practice is critical, and public expenditure management, decentralization, e-government, and public service delivery are proving to be meaningful “entry points” in some countries. The Bank has also worked to strengthen its delivery of technical assistance and capacity-building support and to promote competition in public service delivery. We expect the next phase to be one of consolidation as we seek to measure impact and learn more about what works on the ground. We need to continue to experiment, particularly on the demand side, and to resist the temptation to settle back into “supply-side” technical assistance that leads to easy but often ineffective loans.

4. Deepening our Analytical Work. The Bank has invested significant resources in strengthening our tools for institutional analysis and assessment to underpin both projects and country programs. ESW on public expenditure increasingly focuses on institutional issues, and a family of ESW products under the broad title of Institutional and Governance Reviews has been developed and piloted in 13 countries. Toolkits and survey instruments to measure patterns of corruption, incentives facing public officials, and the delivery and financing of public services have been developed and widely applied. We now have an expanded complement of ESW and analytic tools that clients and country teams can draw on to understand institutional realities on the ground. Issues as we move forward include the need to coordinate and consolidate these instruments more
effectively and to handle challenges relating to political sensitivity and the adequacy of resources and staff skills.

5. **Moving to more Flexible and Longer-Term Lending Instruments.** The Bank has worked to strengthen institution-building in lending operations by designing and implementing more flexible instruments with longer time horizons, including Programmatic SAL/SACs, Adaptable Program Loans/Credits (APL/Cs), and Poverty Reduction Support Credits (PRSCs). We must continue to focus on results on the ground. Designing specific programs of support is a continuing challenge, including the need to identify “entry points” (as noted above) and the need to sequence reforms so that success and ownership can build on itself. A further broad cross-cutting issue concerns selectivity, particularly with regard to countries where governance is particularly weak. The Bank has become more selective over the past half-decade, reducing its lending in countries with poor governance and weak support for reforms, and continued efforts to increase selectivity are warranted.

6. **Staffing, Organization, and Partnerships.** The Bank has met the Strategy’s goals to date in the areas of organization, staffing and partnerships. To insure coherence in this agenda, senior management has recently decided to create an inclusive Public Sector Governance Board by expanding the membership of the Public Sector Board to include LEG, OPCS, and PSI. This Board, which will also interact closely with other VPUs and Sector Boards, will be the focal point for the Bank on public sector governance. Country-based governance work will continue to be driven by country needs and strategies, defined in the CAS and coordinated by the Regional PSG Board member (working with other Regional managers as needed, given the cross-cutting nature of this work). We now have a sizeable cadre of technical experts and senior task managers, although the Bank remains in need of skills to meet demand in some key areas. We also have a strong network of external partnerships, staff and client learning programs, and external websites.

7. **Next Steps.** The Bank has made substantial progress in implementing its strategy and expanding its governance work, but this area of work is still relatively new and we all still have a tremendous amount to learn. On the operational front, we need to continue to deepen our efforts to understand and measure governance realities on the ground; monitor the impact of Bank programs; mainstream governance concerns across sectors; balance our concern for anticorruption with the need for country ownership and the imperative of poverty reduction; and enhance selectivity by focusing our efforts where the likelihood of success is strong. On the management front, we need to continue to deepen our efforts to implement the inclusive model and expanded mandate of the Public Sector Governance Board; address strategic staffing concerns; help staff work effectively in an increasingly decentralized environment; strengthen staff incentives to document and disseminate lessons of experience and good practice; and ensure resource availability and handle budgetary tradeoffs. We intend to continue to address these challenges as we move forward in this critical area of work.
Reforming Public Institutions and Strengthening Governance: A World Bank Strategy

Implementation Update

1. In July 2000, the Executive Directors of the World Bank discussed the World Bank’s strategy for governance and public sector reform, entitled Reforming Public Institutions and Strengthening Governance: A World Bank Strategy. The Strategy had been developed and refined over the previous three years, a period of unprecedented growth in the Bank’s attention to issues of governance and anticorruption. It built on or coincided with numerous studies -- including The State in a Changing World (World Development Report 1997), Helping Countries Combat Corruption: The Role of the World Bank (the Bank’s anticorruption strategy, 1997), Assessing Aid: What Works What Doesn’t and Why (Policy Research Report 1999), Attacking Poverty (WDR 2001), and, most recently, Building Institutions for Markets (WDR 2002), which all emphasized the critical importance of well-functioning and accountable public institutions to economic growth and poverty reduction. It also built on evaluation results from OED, QAG, and other sources that shed light on the strengths and weaknesses of previous donor-financed initiatives to reform public institutions and build capacity and accountability in government.

2. The Strategy called for the Bank to move governance, institutional development and capacity-building to center stage. Rather than focus on individual policy changes or the direct provision of public services, the Bank’s primary goal should be to help our clients build the institutions to make and implement good policy and deliver public services themselves. The Strategy then laid out four broad recommendations on how to enhance effectiveness in this effort:

- broaden the approach to focus on the “demand” as well as the “supply” side of reform – that is, on external voice, participation, and competition in public service delivery, as well as on internal changes in government;

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1 Governance is broadly defined in the Strategy as “the way in which power is exercised in managing economic and social resources for development.” Institutions are defined as the “rules of the game” that emerge from formal laws, informal norms and practices, and organizational structures in a given setting; the incentives they create shape the actions of public officials. Clearly this is a large topic that touches almost everything the Bank is engaged in. The Strategy focuses primarily on reforms of system-wide public sector institutions (such as administrative and civil service reform, public expenditure management, tax and customs administration, legal and judicial reform, decentralization and intergovernmental relations, and other system-wide accountability and anticorruption institutions) and their interface with sectoral institutions. It touches only lightly on institutional concerns within specific sectors (for example, in health, education, the financial sector, the private sector, and rural infrastructure), and it does so primarily to point out generic issues that concern many sectors. Sector-specific and governance issues are covered in greater depth in strategy papers for individual sectors.
• start with what exists on the ground -- emphasizing “good fit” rather than “best practice” -- and deepen the Bank’s analytic work to understand existing situations better;
• move to broader, longer-term, and more flexible lending instruments that are likely to be more attuned to institution-building needs; and
• strengthen staffing, organization and partnerships, which are all critical to successful implementation.

3. The Strategy’s plan of action summarized the Bank’s specific goals – both outcome objectives in client countries and output objectives within the Bank – for the FY01-03 period. The table in Annex 1 lists the proactive initiatives committed to in the Strategy (many of which were well underway before it was finalized and published).

4. The purpose of this report is to assess progress to date in implementing the Strategy and to note ongoing challenges. Part I synthesizes progress and identifies issues across the Bank, while Part II highlights the specific challenges and approaches of individual Regions, DRG and WBI. Both Parts are organized along the Strategy’s major themes (as per Annex 1) and try to illuminate the range of activities undertaken in support of each. The discussion focuses primarily on inputs and outputs rather than outcomes; while the Bank’s governance work is clearly guided by the fundamental mission of poverty reduction – whether through enhanced accountability for public resources, improved delivery of public services to the poor, better policy making, or a more attractive climate for investment, it is not yet possible in most cases to assess the impact of specific Bank-sponsored governance programs on poverty outcomes. Part of the reason is methodological, and the Bank is working intensively to develop tools to better monitor the impact of governance reforms on how government operates and on the quantity and quality of public services (as discussed further below). But it also must be recognized that institution-building is a long-term process, that many of the Bank’s initiatives are still relatively new, and that we are still very much in a learning mode in this difficult area of work.

I. MOVING INSTITUTIONAL DEVELOPMENT AND CAPACITY-BUILDING TO CENTER STAGE

5. The overarching theme of the Strategy is the need for the Bank to move institutional development and capacity-building to center stage. Rather than focus on individual policy changes or the direct provision of public services, the Bank’s primary goal should be to help our clients build the institutions to make and implement good policy and deliver public services themselves. This is not an easy challenge, for it demands patience and a long-term vision, a willingness to work in partnership, a broader set of analytic and interpersonal skills, and a tolerance for less readily-measurable indicators of success.

6. The Strategy noted several specific areas where increased focus on governance and institution-building was warranted: in Country Assistance Strategies, in patterns of overall lending, and in the contents of specific lending operations.
A. Governance in Country Assistance Strategies

7. The attention devoted to governance and anticorruption in Country Assistance Strategies (CASs) has risen steadily over the past 4 years. A recent review of the coverage of governance issues in 28 CASs that were completed during the period FY00 to mid-year FY01 found increases from the previous 1999 retrospective in the number of CASs that:

(i) address governance and corruption issues (up from 78 to 100 percent),
(ii) use governance-related triggers (up from 27 to 82 percent),
(iii) discuss audit institutions and other accountability mechanisms (up from 52 to 79 percent),
(iv) discuss the causes of corruption (up from 57 to 79 percent), and
(v) diagnose governance conditions and the risks of corruption (up from 73 to 100 percent).

8. There was, however, somewhat less discussion in the recent CASs of the risks of corruption to Bank projects (down from 54 to 46 percent of CASs reviewed). Furthermore, fewer of the recent CASs (down from 51 to 32 percent) based their diagnosis on in-depth governance-related ESW, although many CASs included governance-related ESW in forthcoming country programs (see discussion of ESW in Section III below).

9. Although there is significant progress, further work is still needed to incorporate governance issues fully into country strategies. In some cases coverage is thin due to country sensitivity. In others it is incomplete due to a lack of in-depth analytic work. There is still a wide variation in coverage among countries. Future work should be aimed at strengthening the evenness, depth, and quality of such coverage.

B. Overall Patterns of Lending

10. The Bank has made significant progress in focusing its lending more centrally on institution-building, both through an increase in lending focused on systemic cross-cutting areas of public sector reform and through a greater focus on institution-building in specific sectors. Systemic cross-cutting (or “core”) areas were defined in the Strategy to include administrative and civil service reform, decentralization and intergovernmental fiscal relations, public expenditure and financial management, revenue (tax and customs) policy and administration, legal and judicial reform, systemic approaches to public enterprise management, and the development of other system-wide accountability institutions (such as legislatures and supreme audit organizations, ombudspersons and anticorruption agencies, and NGOs and citizen watchdog groups). While these broad systemic topics have close links to a number of individual sectors, sector-specific lending typically focuses on institution-building within the particular sector – for example, sector ministries, schools, or public health facilities.
11. According to PREM’s data base on Bank-wide lending for public sector institutional reform in FY97 the Bank approved 14 core public sector projects accounting for 3.7 percent of total Bank commitments. By FY01 the number of approvals had increased to 22 projects representing 14.5 percent of total Bank commitments.

Table 1. Lending for Core Public Sector Reform, FY97-FY01

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of Projects per year</th>
<th>Commitment Amount ($) b</th>
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<td>1997</td>
<td>14</td>
<td>0.7</td>
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<tr>
<td>1998</td>
<td>21</td>
<td>1.5</td>
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<td>1999</td>
<td>22</td>
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<td>2000</td>
<td>25</td>
<td>2.5</td>
</tr>
<tr>
<td>2001</td>
<td>22</td>
<td>2.5</td>
</tr>
</tbody>
</table>

12. The prevalence of core public sector components in overall WB lending also increased considerably over the same period. For example, in FY97 the Bank approved 21 loans with a public expenditure component, while by FY01 that number had increased to 51.

Figure 1. Public Sector Components in WB Lending, FY97-FY01

13. Total commitments for public sector institution-building, i.e. core projects as well as public sector components in sector-specific interventions, have almost doubled in the

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2 Since 1997, PREM’s Public Sector anchor has maintained a data base on the Bank’s lending for institutional reform, both lending for “core” public sector areas and institution-building components of sector lending. This data base was used in the Strategy, and it is also used here because it is directly comparable across years and thus can show trends in lending over time. However, it is important to note that this data base is not directly comparable to the data on lending for public sector governance that was recently compiled as part of the Bank-wide portfolio reclassification exercise, which used somewhat different categories and methodology.
last four years, due primarily to an increase in adjustment lending targeted at public sector reform. Investment lending, including targeted technical assistance, has stayed relatively constant over the period. In FY97 adjustment lending constituted only 16 percent of the total public sector portfolio, while by FY01 that share had increased to 52 percent. The total size of technical assistance components in Bank lending stayed relatively constant over the period.

**Figure 2. World Bank Overall Lending for Institution Building, FY97-FY01**

*(in $billion)*

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Investment</th>
<th>Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>2.5</td>
<td>1.5</td>
</tr>
<tr>
<td>1998</td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>1999</td>
<td>3.5</td>
<td>2.5</td>
</tr>
<tr>
<td>2000</td>
<td>4.0</td>
<td>3.0</td>
</tr>
<tr>
<td>2001</td>
<td>4.5</td>
<td>3.5</td>
</tr>
</tbody>
</table>

**C. Institutional and Governance Analysis in Bank Projects**

14. The Strategy reviewed OED evaluation findings on the institutional impact of Bank lending. The percentage of Bank projects judged by OED to have had substantial impact on institutional development rose over time from a low of about 25 percent for projects completed in FY95 to about 50 percent for those concluded in FY00. Although this improvement is noteworthy, the percentage should be much higher still if institution-building is to be a central objective of Bank assistance.

15. The Strategy called on the Bank to revise the Operational Policy on Institutional Assessment in Bank Projects to assist in this regard. A draft OP was prepared in FY01 that called for analysis of two questions as part of project preparation: a) Is the institutional environment in which projects are prepared conducive to their successful implementation?, and b) What is likely to be the impact of the project on the institutional environment? To help bring specificity and concreteness to these questions, an electronic-based toolkit was prepared for task managers to guide them in undertaking an institutional analysis along the lines envisioned in the OP. The OP and associated toolkit were then piloted in ten projects in ten countries and seven sectors in FY01. The revised

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3 The results of the piloting exercise were quite favorable. The OP was generally well understood and appreciated, adding value to the pilot projects. Meanwhile, the supporting electronic tool, though not required to pilot the OP, was used in eight of the ten pilots. In the area of institutional analysis, Bank staff appear eager to avail themselves of the structure and guidance that a toolkit can provide. Based upon the feedback from task managers, the electronic tool is being revised to make it more agile and less time-consuming for use by Bank staff.
OP has been reviewed with OPCS and is expected to be finalized in 2002. Training for Bank staff is included in the FY02 Learning Program.

16. This work on the OP on Institutional Assessment is only one dimension of the broader challenge of integrating governance concerns into sector analysis and lending. Although all regions and sectors recognize the importance of good governance and significant progress has been made in some settings (see, for example, the SAR update), progress remains uneven across sectors and regions. This remains a central challenge as we move forward, as discussed further below.

D. Moving to Center Stage: Summary and Ongoing Issues

17. The treatment of governance and the focus on institution-building in CASs and in Bank lending programs have increased markedly over the past 3 years. With regard to the targets laid out in the Strategy’s action plan (Annex 1):

- The Public Sector Strategy has been published and widely disseminated inside and outside the Bank, and donors are working together more closely with a large degree of consensus on overall approach and priorities.
- The OP on institutional assessment has been piloted and is expected to be adopted in 2002. The target of regular application in at least 25 percent of Bank projects by end-FY03 is still in force.
- A regular process of advice and review with regard to the coverage of governance issues in CASs and PRSPs is in place, and the extent of coverage has increased steadily. The Strategy set as a target by end-FY03 that 90 percent of CASs contain an adequate diagnosis of the governance situation in the relevant country, and the Bank is already close to meeting that target.
- Anticorruption Action Plans for FY99 and FY00 were developed and fully implemented. In FY01 the AAP was not prepared as a separate document but rather was mainstreamed into the overall governance and public sector reform work program in each VPU.

18. The most recent Strategic Forum (January 2002) reinforced the importance of public sector governance and institutional reform to sustainable development and the need to continue to scale up the quantity and impact of the Bank’s work in this broad area. The centrality of governance as a corporate advocacy priority is also recognized in the Bank’s Strategic Framework Paper. Given the rapid growth in activity since 1997, we expect the leveling off that occurred in 2000-2001 to continue and the overall amount of activity to remain roughly similar to current levels for the next 3-5 years. The key will be to continue to enhance the focus and improve the effectiveness of the Bank’s work on governance, institutional reform, and capacity-building, as discussed below.

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4 The expansion of this work was also documented in OED’s IDA Review, “Governance – The Critical Factor, IDA 10-12”, OED, World Bank, May 2001.
II. THEME 1: BROADENING THE BANK’S APPROACH

19. The overarching message of Reforming Public Institutions and Strengthening Governance is the need to place institutional reform and capacity-building center stage in our work. How to do that effectively is the focus of the rest of the Strategy, and it lays out four themes to guide our work. The first theme is expressed in the Strategy as follows:

*Reform will proceed only when a country’s leaders are committed and in the driver’s seat. But changing the internal rules of government is usually not enough to achieve reform. To be effective, we need to work with our partners to understand and address the broad range of incentives and pressures – both inside and outside of government – that affect public sector performance.*

20. Public sector reform is both a political and a technical challenge. While many instruments and techniques of public management can be helpful, none will succeed in the absence of deep commitment and strong leadership within the country. Many of the failures of donor-financed technical assistance have stemmed from its supply-driven nature and the incompatibility of donors’ goals with those of the recipients. While a supply of technical assistance and insights from good practice around the world will continue to be needed, the Bank and its clients must also consider the “demand” side of the equation – both whether sufficient commitment exists to ensure adequate absorption of technical assistance and whether society’s demand for reform can be strengthened. Figure 3 encapsulates this broad approach by highlighting three “drivers” of reform: internal rules and restraints, competitive pressures, and “voice” and partnership. The Bank is increasingly seeking a balance among these drivers of change.

*Figure 3. Three Drivers of Public Sector Reform*
21. Our experience has also highlighted the importance of identifying “entry points” where progress can be made quickly and of sequencing reforms so that success -- and ownership -- can build on itself and become increasingly self-sustaining. These tasks are incredibly complex in practice. The Bank is making progress in working with these complexities, but the challenge remains difficult in most country settings.

A. Enhancing Ownership and Selectivity

22. The recognition of domestic ownership as a *sine qua non* of success in public sector reform underpins everything the Bank does in this area. This is not to say, however, that recognizing domestic ownership and building feasible programs of support around it are easy. Individual “champions” of reform can be found in most settings, but it is not always easy to judge how broad the consensus is and whether reformers have sufficient commitment and power to produce real results on the ground. In some cases donors can help to build ownership through careful engagement; in others, selectivity argues for a reduction in activity in one setting to allow for a growth where chances for success are greater. One lesson of experience is clear: these are exceedingly difficult judgment calls in practice.

23. Our core lending programs all build on the need to recognize and enhance ownership while ensuring selectivity, as described further in Section IV below. Three particular initiatives designed to enhance ownership and selectivity were included in the action plan for the Strategy (Annex 1):

- **The Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Paper (PRSP) Process.**

24. The first initiative included in the action plan under ownership is the CDF, which provides a framework for identifying the broad range of activities needed to support development, for putting clients in the drivers’ seat, and for helping to coordinate donor activities. Sustained progress has been made since the CDF was launched in 1999, and thereafter since the completion of the 12-country pilot. The PRSP process also has the potential to profoundly change the process and content of Bank operations (see AFR update). Together the CDF and PRSP processes reflect, perhaps more than any other single example, the increasing recognition of the centrality of client ownership to development outcomes. Because good governance and effective public institutions are critical contributors to poverty reduction, good governance is the first pillar of the CDF, and an effective governance strategy is a key ingredient of a PRSP. Ten PRSPs and some 40 Interim PRSPs had been completed by early 2002. Box 1 reports the results of a recent review of the coverage of governance in these PRSPs.

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5 A range of countries have made considerable progress—among them Bolivia, Burkina Faso, Ghana, Guinea, Mauritania, Mozambique, Rwanda, Uganda, and Vietnam. Except for one, these are also the countries that have successfully completed their first PRSP, demonstrating the close links developing between CDF and PRSPs.
Partnership for Capacity-Building.

25. The second ownership-related initiative in the action plan is the Partnership for Capacity Building (PACT) in the Africa region (see AFR update). This Partnership, funded in part through the Bank’s Development Grant Facility (DGF), was founded on the principle that Africans are in the best position to identify the region’s capacity-building needs, decide on trade-offs among competing demands for funding, and implement and monitor capacity-building programs. Rather than rely on foreign technical assistance, the PACT approach attempts to build and enhance indigenous capacity through projects and programs owned and implemented by the beneficiaries themselves. Since its establishment in FY00 (consolidating several previous programs under its broader umbrella), the PACT has approved 32 projects with anticipated funding of $52 million. Management of the program is in African hands and is overseen by an Executive Board with broad international membership and donor representation. While the process has not always been easy, it has been “learning-by-doing” and the PACT has been successful at developing a robust portfolio of projects with client ownership and potentially high impact.

Fiduciary Framework for Adjustment Lending.

26. To help further selectivity, the Strategy included as an action item the preparation of a fiduciary framework for adjustment lending. A first conception of such a fiduciary framework was discussed at CODE in May 2001 and at the Board in July 2001. Further work has since proceeded to develop an approach to fiduciary work in adjustment and programmatic lending, including an expansion in analytic work on systemic issues of public expenditure, financial management, and procurement, as discussed further below. Results in practice have included significant increases in both the amount and depth of analytic work on public expenditure, financial management, and procurement systems in borrowing countries, and in the extent of lending oriented toward improvements in these systems.

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6 IDA also utilizes the CPIA performance indicators and related “governance discounts” to help target IDA resources to committed and well-performing borrowers.

7 See “World Bank Work on Public Expenditure Management and Accountability: Evolution and Current Status” (SecM2001-0262) and “Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPC)” (IDA/SecM2002-0030).
Box 1. Governance in Poverty Reduction Strategy Papers (PRSPs)

The principles of the PRSP approach—be country driven, promote national ownership, base choices on comprehensive diagnoses, maintain a long-term perspective, and be results-oriented—resonate fully with the Public Sector Strategy. Just as the Strategy emphasizes that there is no one size that fits all in reforming institutions and building well-functioning, accountable governments, so also the PRSP approach envisages that each PRSP will be different, informed by the country’s institutional needs and implementation capacity and its PRSP consultations.

Ten full PRSPs and some 40 Interim PRSPs had been completed by early 2002.1 Progress in preparing and implementing PRSPs has varied widely. The treatment of governance and public sector reforms in these first PRSPs points to several overall lessons for the Public Sector Strategy. First, governance and institutional issues feature at some level in a large number of PRSPs (both interim and full), mirroring the importance these concerns have received in domestic consultations and from external partners. A few PRSPs integrate existing governance strategies into their PRSPs. But many lack an analysis of institutional weaknesses, fail to make the connection between poor governance and its poverty impact, and do not assess the potential payoffs and feasibility of governance reforms, thereby lacking a framework for assigning priorities. Second, and closely related, is the confirmation of deep capacity constraints that the PRSP process is surfacing. The PRSP process represents a tremendous governance challenge, since governments are trying to undertake strategic reallocations of public resources at the same time that they increase public sector effectiveness, requiring careful balancing of top-down reforms with bottom-up accountability. This poses a sharp, if familiar, dilemma: poverty reduction requires governance and institutional reforms for service delivery that the poorest countries are often in the weakest position to undertake. In coping with serious capacity constraints, the challenge for each country is to come up with a minimalist but self-reinforcing agenda suited to its starting point.

Third, PRSPs are providing more thorough treatment of public expenditure systems relative to other aspects of governance. This trend is welcome, both in terms of the service delivery implications for the poor and as an important entry point into more complex and politically challenging governance reforms. It also responds to donor concerns and improves prospects for aligning development assistance around PRSPs. Countries that are more advanced in this regard include those where PRSCs are being put in place (for example, Uganda, Vietnam, and Albania), but serious gaps in expenditure management capacity persist in many PRSP countries, as revealed in the recent HIPC tracking study. Fourth, the political dimensions of the PRSP process and cycle need to be fully factored in by countries and development partners alike. It will not be enough to have “technically” strong PRSPs that are not politically viable in implementation. Election cycles, for example, will affect the political sustainability of PRSPs, reinforcing the need for broad consultations so that an incoming government can commit to the existing PRSP with appropriate amendments. Fifth, parliaments have in general not been involved in PRSP formulation, missing an important opportunity to generate political consensus across party lines. Finally, governance indicators are largely absent and certainly weaker than those identified for other policy reform areas in PRSPs. This is in part a reflection of the political sensitivity of many indicators, the lack of M&E capacities both within government and outside, including in the media, and the need for development partners and countries to improve understanding of the links between governance and poverty.

This assessment suggests several implications for Bank support for PRSPs. First is need for assistance at the country level in unbundling governance issues, prioritizing them in terms of difficulty and payoffs, and designing a strategy for governance reform that is commensurate with domestic institutional capacities and political realities. The use of tools such as the Bank’s Institutional and Governance Reviews and related survey instruments can be useful here. Second, the attention that public expenditure management is receiving suggests that it is a useful entry point, and that we need to work with clients to leverage this attention into broader and deeper governance reforms, whether in sector ministries or in core public sector institutions such as the civil service. Third is the need to invest in governance monitoring and M&E systems, aimed at building both government and non-government capacities. Particular attention is needed on broadly understandable and acceptable governance indicators and on methods to link inputs and intermediate governance outputs to longer-term poverty impacts. Finally, the tendency to “stovepipe” governance concerns suggests that much remains undone in mainstreaming beyond core public sector areas. We must continue to build cross-sectoral links. Better strategies to deal with decentralization, anticorruption, expenditure tracking, civil service reform, the political context for reforms, legal institutions and the development of other accountability institutions are essential for the provision of health, education, transportation, water, sanitation, rural development, and other services to the poor and for fostering a climate for rapid investment, growth and job creation.

B. Designing Reform Strategies: Identifying “Entry Points” to Enhance Accountability and Transparency

27. Putting clients in the driver’s seat is critical to ensuring ownership. But just as critical is designing reform strategies that can work in practice. Experience has shown that a broad frontal approach -- i.e. a broad and comprehensive program of public sector reform simultaneously along many fronts – may not be the most effective strategy in some settings if it meets too much political resistance or encounters too many institutional, technical, or capacity-related barriers. Rather, reforms in particularly difficult settings may need to start with what is do-able in practice and is likely to lead to early successes that reinforce a “virtuous circle” of interlinked institutional reforms. Furthermore, effective programs are likely to combine a “supply” of technical assistance and policy advice with efforts to foster and channel a “demand” for reform. Broad-based “demand” for reform can be strengthened through active programs to encourage transparency, citizen voice, and government accountability.

28. Experience to date suggests that three promising “entry points” for reform include public expenditure accountability, decentralization and service delivery, and e-government. As themes around which to build a reform effort, they each combine key characteristics: They are feasible in practice; they have potentially powerful impacts, and they help to foster transparency and accountability (and thus continued demand for reform). Also related to the theme of accountability and transparency is the growing effort to develop tools and indicators to monitor institutional performance and governance improvements on the ground.

29. One strong “entry point” is public expenditure accountability, and the Bank is actively engaged in programs to strengthen public expenditure management and accountability in almost every active IDA borrower. These programs involve not only analytic work and lending, both discussed further below, but they also increasingly involve efforts to strengthen external accountability mechanisms – whether external auditing, Parliamentary oversight, NGO monitoring, or donor fiduciary controls.

30. Examples of expenditure accountability work are highlighted in every Regional update. For example, the LCR update describes the importance of this theme in its work in the Honduras PER and a series of financial management projects in Guatemala. The AFR Region has undertaken extensive work on expenditure accountability as part of its HIPC work and its support for the PRSP process, and it is a key theme in much of the Regions’ lending and ESW (including, in many cases, regular annual PERs as well as periodic CFAAs and CPARs). Comprehensive public expenditure work is highlighted in the MNA update as an important pillar for future Bank dialogue in Egypt and Iran. And the EAP, ECA, and SAR updates also highlight the importance of this theme in their public sector and governance agendas.
Decentralization and Service Delivery.

31. One strategy to enhance demand and accountability is to bring responsibility for service delivery closer to the citizens. Two main channels for this are decentralization of the public sector and stimulation and empowerment of community based organizations (CBOs). Bank support for both channels has grown significantly over the past decade. The Bank is assisting most of its clients with efforts to decentralize--fiscally, politically and/or administratively -- to lower levels of government through a variety of lending instruments, technical assistance and analytical work designed to support the intergovernmental framework and strengthen capacity of local governments. At the same time, the Bank has been very active in bringing resources directly to populations and encouraging participation in decisions that affect their lives. Social funds and other sector-based community projects are often very popular and appreciated by clients. In FY00, an estimated four to five billion dollars of Bank lending went for projects with community-based components.

32. In the past couple of years, the Bank has undertaken a major push to link these two related efforts, as described in greater detail in the AFR update. On the one hand, in order to be knowledgeable and capable of responding to local needs, governments need to reach communities. On the other hand, for community-based programs to be sustainable, they need to link with capable local governments to ensure ongoing fiscal support and political accountability. Increasingly, country programs are addressing these two aspects in tandem, whether through separate but coordinated projects or through a new wave of “Community-Driven Development” (CDD) projects that provide long-term support for both local government institution-building and participatory processes at the community level. In LCR for example, a major public sector loan in Bolivia supports reform of the intergovernmental framework, including integrating the budgetary flows of social funds into local government budgets, thus improving incentives for prudent local management and responsive service delivery. In EAP, the Bank is working with the Indonesian government on its highly ambitious decentralization effort, and is also supporting the provision of public services to 751 districts (covering 9000 villages and 25 million people) through the Kecamatan Development Program (KDP). In Africa, the Zambian social fund is supporting community participation and infrastructure investment as well as strengthening local governments. A significant number of CDD projects are under development in AFR, with the objectives of channeling funds to communities and encouraging participation in the short term, while building the capacity of local governments to be more responsive to their populations over the medium term. In MNA, while there is some work on system-wide decentralization strategies (as in Morocco and beginning in Yemen), much of the work in the area of decentralization and community empowerment has been via sector initiatives, for example, in municipal development, education, and rural development.

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8 A path-breaking area for further understanding is the linkage between local governments and community based organizations. The CDD Group and the Decentralization Thematic Group are working closely together on the question of how to provide incentives and channels for improving relations between local governments and community-based organizations.
E-Government.

33. A third “entry point” in enhancing transparency and accountability is to take advantage of the benefits of the information technology revolution by seeking ways that governments in developing countries can provide services or information or conduct its business through the internet and related electronic technology. Like decentralization, e-government has powerful potential to enhance public service delivery, and the impact of many e-government initiatives can be directly measured through changes in the quantity, quality, speed, and/or cost of public services. Countries such as Brazil, Chile, and India (most notably the state of Andhra Pradesh – see Box 10 in SAR update) are among the most advanced practitioners, and the Bank has been working to gather lessons from these settings to disseminate elsewhere. The Bank is currently providing advice and assistance to an array of clients (two diverse examples being Mozambique and Jordan) that are seeking applications that might be practical in their settings. In ECA, for example, virtually all countries have national “e-government” strategies either promulgated or in the making, and the Bank is increasingly being asked for assistance and support (see ECA update). Public procurement is another area where e-government brings potential for substantial improvements in governance and efficiency (Mexico, Chile, and other Latin American countries being on the forefront in this area) and where the Bank is increasingly providing advice and assistance to clients.

Governance Monitoring and Indicators.

34. Finally, the Bank has put significant effort over the past 18 months to identify and examine a broad range of possible tools and governance indicators that might be used to measure and monitor institutional performance on the ground in client countries (Box 2). Numerous research programs have sought to define meaningful indicators and to examine indicators that are already in use or potentially available from external sources. Various Regional VPU As are engaged in work with client countries to design institution-specific governance monitoring tools (see, for example, ECA and SAR updates). WBI has undertaken extensive work to combine existing external indicators from a variety of sources into broad governance indicators along a range of dimensions. PREM is working with OECD and DFID to identify a set of “second generation” governance indicators that measure institutional performance and progress in governance reforms in a specific manner. And a variety of analytic and survey instruments – addressed more fully in Section III below -- have been developed and applied to measure the extent and pattern of corruption, to identify the incentives facing public officials in a particular setting, to track actual public spending, and to assess the performance of particular institutions.

9 In 2000 the Bank established a Thematic Group on E-government. This TG has gathered relevant experience by commissioning case studies from all over the developing world and disseminating them through an external website (http://www.worldbank.org/publicsector/egov) and through several major seminars, including an E-Government workshop at Bank headquarters in June 2001.
10 These are available through the WBI website at http://www.worldbank.org/wbi/governance/.
11 An external website developed in conjunction with OECD DAC [http://www1.oecd.org/dac/indicators/] contains information on these efforts.
C. Working on the Supply Side: Reconsidering Technical Assistance

35. While building domestic ownership and demand for reform is critical, it is also important for the Bank to continue to provide a supply of meaningful and effective support for public sector institution-building, whether financial support, technical assistance, computer systems, training, or other types of support. On the financial side, an increasing amount of Bank assistance is provided as general budget support through adjustment-type lending instruments. However, investment and technical assistance lending is still considered important in many cases – often in conjunction with adjustment lending -- because it facilitates a focused and intensive effort in key reform areas. In addition to financing technical assistance and computer systems, it is noteworthy that the Bank has recently moved to allow investment loans to also finance severance pay for public sector workers.12

36. A recent study13 looked at technical assistance in PREM operations and found progress in overcoming some of the shortfalls found in traditional Bank approaches to technical assistance. The design of most TA operations is now based on upstream analysis that seeks a realistic understanding of the client’s demand for reform, governance context, incentive framework, and management capacity. More attention is being given to “good fit” rather than ideal models of “best practice” that may not fit the context, and client involvement in preparation and monitoring is on the rise, all of which is being reflected in better quality of entry and stronger outcomes. Nevertheless, TA remains something of a stepchild in Bank operations, and efforts will need to be made to

12 Updated OM on “Financing Severance Pay in Public Sector Reform Operations”.
ensure continuity of supervision by experienced staff, monitor results and share lessons, explore participatory mechanisms, and deepen efforts to understand the institutional and country context.

37. With regard to the delivery of technical assistance, the Bank is working with partners – including most prominently the Dutch, UNDP, OECD, SIGMA and the EU -- to review and revisit our approaches to technical cooperation. As one part of this broader initiative, the Bank is now implementing a $2 million program funded under the Bank-Netherlands Partnership Program to promote new models of technical assistance, including the development of toolkits and websites that improve the information and skills-base of the ultimate beneficiaries of assistance. The objective is to level the playing field, rely less on foreign “experts”, and instead make country counterparts active partners that are able to formulate, challenge, redesign and/or carry forward proposed reform initiatives.

D. Promoting Competition and Accountability in Public Service Delivery

38. Competition is the third leg of the broader approach, and there are many ways that competition can spur greater efficiency, transparency, and accountability in government. Reforming Public Institutions and Strengthening Governance pointed to the need to foster greater competition in public service delivery and pointed out the growing number of examples where this is fostered in Bank work. The Bank’s new Private Sector Development Strategy: Directions for the World Bank Group continues this theme in proposing a move toward “output-based aid”, whereby donors pay for outputs rather than inputs, thus allowing competition in output provision.

39. Much of the Bank’s work in spurring competition and accountability in public service delivery is done through sector projects and related analytic work. For example, in an innovative experiment, the Colombia Secondary Education Project financed vouchers for poor students to enroll in selected private schools with excess capacity. This scheme grew substantially in five years, incorporating more than 100,000 students from poor families. It was efficient in achieving lower unit cost per beneficiary student (about 77 percent of the unit cost of public secondary education), and provided education of at least comparable quality to that provided in public schools. The program has increased educational opportunities for the poor and achievement results are positive for many students.

40. Many critical governance issues are sector specific, and every sector family in the Bank is facing an array of governance challenges in its operational work. One example is the power sector in Uttar Pradesh, India (Box 3), where governance problems impose enormous economic costs that are being intensively addressed in the Bank’s program of support to that state (see SAR update). We need to continue to enhance the sharing of knowledge and support across sectoral boundaries – including through multi-sectoral tools like PRSPs and PRSCs.
Box 3. Governance Challenges in the Power Sector In Uttar Pradesh

It is estimated that 41 percent of the power purchased by UP Power Corporation Ltd. (UPPCL) is lost in the transmission and distribution system, due both to technical problems and to theft, pilferage, and faulty metering. Of the remainder, about 80 percent of what is billed is collected. Thus, less than one-half of the power provided is paid for. UPPCL estimates foregone revenue to be on the order of $250 million.

Losses occur through a variety of mechanisms. At the lowest level, meter readers, linesmen and billing clerks do not read meters and bill or collect efficiently, presumably benefiting from personal payments and political protection. These officials have often been in their positions for 15 to 20 years and therefore have long-established links with local political interests. The nexus with organized crime makes the problem particularly difficult to address: local mafia groups, with the protection and complicity of local politicians, reportedly provide illegal supplies of electricity to urban slum dwellers who represent important blocs of votes. In some areas, utility staff cannot enter the streets, let alone the premises of consumers. Non-payments also result from high-level collusion between large industrialists and traders and politicians. There are several tiers of overseers and supervisors in the bureaucratic chain, but they do not have adequate managerial autonomy and are often themselves compromised.

High-level political commitment to address these problems is often lacking. The requirements of coalition politics make it difficult to remove politicians suspected of receiving illicit benefits. Board appointments have been heavily politicized, at times favoring candidates rumored to be corrupt. The fact that the government, through its various departments, offices and residences (including those of politicians and bureaucrats), is one of the largest defaulters on electricity payments reveals further lack of commitment.

E. Broadening the Bank’s Approach: Summary and Ongoing Issues

41. The Public Sector Strategy calls for a broadening of our perspective and our approach to governance issues. It envisions that the Bank’s programs will not only supply advice and technical support to governments, but that they will also consider ways to stimulate domestic ownership and demand for reform. Over the past several years Bank staff have worked with clients and partners in the development community on a wide number of initiatives to those ends – including development of the PRSP and CDF processes, the testing of new modes of technical assistance such as PACT, enhancing accountability through expanded emphasis on public expenditure and financial management, getting resources to the people through decentralization and CDD, reducing discretion and expanding public service delivery through e-government innovations, and enhancing transparency through improved governance indicators. The Bank has also worked to strengthen its delivery of technical assistance and capacity-building support and to expand competition in public service delivery in client countries. It has been a period of innovation, and the breadth of our approach has expanded considerably.

42. We expect the next phase to be one of consolidation, as we continue to take stock of these various experiences to determine their benefits and costs and the settings in which they may or may not be effective. However, we still have much to learn about what works on the ground, and it is important to continue to undertake research, to work with clients to test approaches, and to monitor and evaluate those efforts to gather lessons from experience. We need to continue to experiment, particularly on the demand-side, and to resist the temptation to settle back into a “supply-side” mode of technical assistance that leads to easy but often ineffective loans.
III. THEME 2: EMPHASIZING “GOOD FIT” OVER “BEST PRACTICE” AND DEEPENING OUR ANALYTIC WORK ACCORDINGLY

43. The second theme of the Strategy emphasizes the uniqueness of each country’s conditions and the need to start our work with a thorough understanding of those conditions:

We need to start with a thorough understanding of what exists on the ground and emphasize “good fit” rather than any one-size-fits-all notion of “best practice”. And we need to work with our clients and other partners to develop and apply analytic tools to do this effectively.

44. Attention to governance issues in the Bank’s analytic work has grown considerably since 1997. Analytic work on public expenditure management, civil service incentives, and intergovernmental finance, as well as the use of survey instruments to understand patterns and costs of corruption, have all expanded. New analytic approaches have been piloted that seek to understand the political and institutional roots of public sector dysfunction and that link such dysfunction to poverty and service delivery outcomes. While much work still needs to be done to develop analytic tools with strong operational linkages, the progress to date provides a useful base on which to build.

A. Institutional and Governance Reviews

45. The action plan for the Strategy identified 4 key activities to be undertaken to expand our knowledge of institutional realities on the ground. First, the Strategy envisioned an expansion of governance-related ESW through the piloting and development of a family of ESW products called “Institutional and Governance Reviews” (IGRs). IGRs were intended to undertake “a broad assessment of the quality of accountability, policymaking, or service delivery institutions in a country and propose a strategy for institutional change”. Thirteen ESW activities that fit within the broad family of IGR products have been undertaken since 1999.14 These include both a number of pilots that received partial financial support through the Public Sector Board and numerous other analytic activities financed wholly from country or regional budgets.

46. These products have varied considerably in focus, cost and length, structure, and methodology:

• Some--including all of the formal pilots--have provided an extensive and in-depth overview of a country’s political and institutional setting, its particular set of governance-related issues, and specific suggestions on where to begin

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14 These include the Argentina Social Sector Institutional Review (FY01), Armenia IGR (FY99-00), Bangladesh IGR (FY01), Bolivia IGR (FY01), Burkina Faso IGR (FY01), Cameroon Governance and Poverty Scoping Work (FY01), Chad Governance and Poverty Scoping Work (FY01), Eastern Caribbean IGR (FY01), Indonesia IGR (draft FY00, not completed), Nigeria – State and Local Governance Study (FY01), Peru IGR (FY01), Tanzania Governance and Poverty Scoping Note (FY01), and Zambia – Governance and Poverty Scoping Note (FY01).
and how to sequence reform efforts. The Bolivia IGR, for example, examined the roots of weak performance and patronage in the civil service and suggested specific reforms to help move the country to a more meritocratic and effective system.

• Others have provided more of a quick and broad-brush look at a governance environment to illuminate issues and possible priorities as input to a country assistance strategy. A short IGR for Chad, for example, helped the country team understand the historical roots of current institutional systems.

• Still others have focused on a narrower set of governance and public sector reform issues, identifying specific legal rules and institutional incentives that need to be changed to address particular dysfunctions in public service delivery. The IGR for Burkina Faso, for example, analyzed specific rules governing intergovernmental fiscal relations and pinpointed changes that could empower subnational governments for more effective service delivery.

47. The IGR is proving to be a useful vehicle for understanding institutional realities on the ground and helping countries identify needed actions to address governance weaknesses. But the format, coverage, and timing of IGRs must remain flexible to respond to the specific substantive needs and budget constraints of country teams. There is no “one size fits all” approach to governance analysis, any more than there is a “one size fits all” approach to governance reform. Issues addressed in IGRs are often highly sensitive; the Bank's disclosure policy -- past and revised -- makes provision for appropriately handling sensitive information in ESW.15

B. ESW on Public Expenditure and Financial Accountability

48. The second action item pertaining to analytic work in the Strategy is the progressive strengthening of the institutional components of PERs. The Bank has made significant progress on this agenda, and public expenditure management is now a central focus of virtually all PERs as well as a large number of investment and adjustment loans. Public financial management and procurement are addressed in depth in the expanding program of Country Financial Accountability Assessments (CFAAs) and Country Procurement Assessment Reviews (CPARs), which have grown considerably in scale and depth since the preparation of the Strategy. A fuller description of the Bank’s expanding program of analytic work on public expenditure and financial accountability (including procurement) is contained in a paper, “Public Expenditure Management and Accountability: Evolution and Current Status of World Bank Work”, which was prepared for the Board in April 2001.

49. Two other recent initiatives complement and expand the attention given to public expenditure and financial management in the Bank’s ESW. First, the Bank and Fund undertook a joint exercise in 2001 to work with HIPC's to assess their capacity to track

poverty-reducing public spending and to formulate action plans to improve such capacity. Objective and readily measurable indicators were used to evaluate HIPCs’ capacity in various areas of public expenditure management and to set priorities for follow-up action. This work, discussed in two recent Board papers, concluded that no HIPC had yet reached all of the benchmarks needed to fully track such spending, although several were close. It helped to set a baseline to monitor performance and the impact of future reforms, and the methodology is potentially replicable in other settings.

50. Second, the European Union has entered into a Trust Fund with the Bank to cosponsor an expanded program on “Public Expenditure and Financial Accountability” (PEFA). The goal of the PEFA program is to bring various interested donors together – initially including the Bank, the EU, the IMF, and several bilateral donors – to develop analytic toolkits, support joint assessments of PEFA capacity in client countries, and share knowledge, information, and good practice in PEFA-related capacity-building. It is also supported by the Bank’s Development Grant Facility and DFID, and several other bilateral donors are interested in becoming active partners. Within the Bank, the PEFA program is facilitating enhanced collaboration between PREM and OPCS in the analysis of public expenditure, financial management, and procurement issues— including an increasing shift toward closer integration of PERs, CFAAs, and CPARs.

51. The Bank is increasingly stressing the importance of a participatory approach to its analytical work – in particular PERs -- to increase its relevance and impact on the ground and help build client capacity. For example, the ongoing Morocco PER (see MNA update) uses a participatory approach involving inter-ministerial government working groups in two areas chosen by the government: budgetary procedures reform and civil service reform. Unlike previous adjustment lending that relied on conditionality (with minimal success), this PER process provides the government with a sense of ownership and builds on the in-depth knowledge that only those in the country can provide. The Bank contributes by ensuring strategic cohesion and a broad vision, providing analytical inputs and international experience, and influencing the content of some key administrative decisions through the policy dialogue. A similar emphasis on participation can be seen in the recent PER for Vietnam and the joint PER-CFAA-CPAR underway in the Philippines (see EAP update).

C. Toolkits and Surveys

52. The last two action items pertaining to analytic work in the Strategy called for the development of toolkits and survey instruments and their dissemination through an institutional analysis website. While IGRs and PERs are broad categories of ESW that support the analysis of issues related to governance, institutional reform, and public expenditure and financial accountability, they necessarily vary in focus depending on country needs and circumstances. Once broad areas of focus are identified, more detailed

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16 Note 7 above.
toolkits and survey instruments can help guide the analysis in IGRs and PERs by identifying specific questions of interest or concern.17

Analytic Toolkits.

53. Annex 2 of the Strategy listed a number of specific toolkits that were being developed at that time to help guide analysts both in the Bank and in client countries. These included toolkits for analysis of governance and poverty, public expenditure management, civil service, revenue mobilization capacity, legal and judicial systems, intergovernmental relations, constraints on service delivery, commitment to reform, and the role of the media. These toolkits have been completed and are available internally and externally through the internet. Efforts are continually underway to disseminate them and increase their usefulness; for example, the civil service toolkit has also been translated into Russian as part of the Bank’s assistance for institutional reforms.

Surveys of Public Sector Institutional Performance.

54. As noted in Section II above, one approach to enhancing transparency and accountability in government is to survey the users of public services or public officials themselves and, where appropriate, disseminate the findings to interested parties or more broadly to the public. Since 1997 the Bank has developed numerous types of surveys for this purpose, including:

- *Governance and Anti-corruption Diagnostic Surveys* that seek the views of households, private firms, and/or public officials on the extent and causes of corruption. These are carried out in conjunction with local institutions and seek the involvement of a wide array of stakeholders in order to help build local capacity for governance monitoring. They have been initiated or completed to date in 25 countries (see Box 4);

- *Public Officials Surveys* that analyze the incentives faced by civil servants working in various parts of government (undertaken to date in 16 countries; see ECA update);

- *Public Expenditure Tracking Surveys* that help to identify the share of budget disbursements that reach intended beneficiaries, such as schools and health clinics (underway to date in 7 countries; see Box 5);

- *Surveys to Measure the Capacity of HIPCs to Track Poverty-Reducing Spending*, undertaken in 26 HIPCs18;

- *Surveys of Court Cases* to understand what types of cases are handled by courts and where there might be scope for greater efficiencies (Box 5);


18 See note 7 above.
Box 4: Linking Empirical Analysis with Capacity Building: Governance and Anticorruption Diagnostics

Country governance and anticorruption diagnostic studies, developed jointly by WBI and ECA PREM, establish governance profiles in a manner that builds local capacity at the same time that it produces direct inputs into policy development. The diagnostic studies are organized as one component of a broad effort to establish a rigorous, inclusive and country-led process to develop governance and anticorruption reforms. The key components of the diagnostic include:

- Use of experience-based (vs. ‘opinion’/generic) questions in separate surveys of public officials, firms, and households;
- Training of local organizations in conducting empirical studies and in analyzing findings using up-to-date analytical approaches;
- Establishment of multi-stakeholder Steering Committees to guide the utilization of survey findings in the design of anticorruption and governance programs;
- Public commitment on the part of the government and other stakeholders to undertake reform within the context of well-publicized national workshops;
- Development of benchmarks on governance and public sector performance.

Governance and anticorruption diagnostics act as a mechanism for creating policy-relevant knowledge within a process that forges multi-stakeholder coalitions for reform. The design and implementation of these surveys also foster learning through the close collaboration between external experts and local counterparts. Furthermore, the agency-specific data steers the debate toward institutions rather than individuals, depoliticizing the problem and facilitating the reform process. Governance and anticorruption diagnostics have been initiated or undertaken in numerous countries in LCR, ECA, AFR, and EAP.

Scorecards of Public Services to facilitate civil society monitoring of public service provision (supported by the Bank in the Philippines and Ukraine).

55. These various survey instruments have added considerably to our knowledge base, and in some cases have helped to stimulate demand for governance improvement while also pinpointing priorities and possible entry points for reform strategies.

- Scorecards of Public Services to facilitate civil society monitoring of public service provision (supported by the Bank in the Philippines and Ukraine).
Box 5: Two Innovations in Diagnostic Surveys: PETS and Court Cases

The increase in ESW and lending for governance reform has been matched by a major expansion in innovative surveys of various types. These surveys help to measure institutional performance and establish baselines to monitor the development impact of interventions. They provide an important window to reality on the ground in client countries. Two interesting innovative examples include the Public Expenditure Tracking Surveys (PETS) and Surveys of Court Cases.

Public Expenditure Tracking Surveys. Good public expenditure management requires attention to the level of aggregate spending, allocation of public funds, and actual service delivery. Less attention has typically been given to the third due to lack of relevant data. PETS (or a related variant – the Quantitative Service Delivery Survey, or QSDS) can help provide the missing information from different tiers of government and frontline service facilities using the sample survey approach. (Examples of these survey instruments can be found at www.publicspending.org [tools].) These surveys have two broad uses. First, they serve as diagnostic tools on budget execution and service delivery. Second, they provide primary data on service providers for empirical research. Several PETS studies have been or are being implemented in a number of countries in Africa, East Asia, Europe and Central Asia, and Latin America. In Africa, for example, surveys in Uganda, Tanzania, and Ghana confirm that leakage of non-wage public funds seriously obstructs social service delivery. While ghost workers on wage bills accounted for about 20 percent of total spending, leakage in non-wage expenditures ranged from 40 to 80 percent. Uganda responded to the survey results by increasing the dissemination of spending information to the public through the media and all tiers of government. The extent of leakage fell dramatically as a result, illustrating the positive impact that collection and dissemination of quantitative data on public services can have as a tool to enhance voice and accountability.

Surveys of Court Cases. In an effort to improve the informational base for its legal and judicial reform, the Bank has developed and piloted a new and innovative approach: surveys of random samples of court case files. This methodology provides a disaggregation of court use, identifying types of disputes and parties and relating them to differences in treatment and outcomes. Applied research on legal and judicial systems in developed countries has long underscored the value of objective case analysis in testing – and sometimes debunking -- conventional wisdom, but until recently this lesson had not been applied rigorously in the developing world. Four in-depth surveys of courts cases have recently been undertaken in Dominican Republic, Mexico, Peru, and Argentina. While there is considerable variation among and within systems (where several court districts were covered), there are also consistent "unexpected" findings: Amounts claimed were far smaller than usually depicted; Individuals, rather than commercial and industrial firms, were the most common user (although in Argentina, the state was a principal user); Delays and appeals were less than expected; Certain anticipated biases (e.g. pro-debtor in debt collection cases) did not hold; Executions of judgments proved particularly problematic. Moreover, real judicial workloads were less than nominal ones, as many cases are abandoned by the parties, often soon after filing. This also raises a question for further research as to whether and how these disputes are resolved extra-judicially.

Aside from emphasizing the importance of this type of diagnostic work, the studies indicate a need for rethinking some common reform strategies. The needs of small users may be different from those of larger ones, but most reforms seem to aim at the latter. More attention is required to enforcement of judgments; it does little good to speed up case processing if the claim is never paid. More attention should go to what happens out of court. Theory would say that a good system should encourage out of court negotiation (which is not the same as ADR); reforms, however, seem to assume success lies in the proportion of cases reaching judgment. Reforms intended to address problems of overload may have to reexamine their assumptions; every filing does not require the same attention from the judge, and assuming it does may lead to wasted resources. Finally, many procedures could be simplified, and some thought should go to de-judicializing certain types of cases.
D. Deepening our Analytical Work: Summary and Ongoing Issues

56. The Bank has worked hard to strengthen its tools for institutional analysis and assessment to underpin both projects and country programs. We now have a set of ESW and analytic tools that clients and country teams can draw on to understand institutional realities on the ground.

57. Several issues remain as we move forward. The first issue involves political sensitivity: Governance issues are complex and highly sensitive, and clients may be hesitant for the Bank to undertake in-depth analysis, particularly if it is likely to be widely disseminated. The Bank’s disclosure policy—past and revised—makes provision for handling information that is confidential, sensitive, or could adversely affect relations between the Bank and its member countries.19

58. A second issue, linked to the first, involves resource and staff availability. Because analytic work related to governance is both sensitive and difficult, it is often in danger of being dropped when budgets become tight. PERs are less likely to be dropped, because they have been included in the “due diligence” ESW package required for each country. This is not true of IGRs and related analytic and survey work, however, and it is not clear whether current resource constraints provide room for a continuation of in-depth governance analysis at the same level that we have seen for the past three years. Trust Funds—such as the Danish Governance Trust Fund, the Bank-Netherlands Partnership Program, and the EU Trust Fund for PEFA—have helped considerably in the past, but it is not clear that this funding source will be available in the future. In the final analysis, this is an issue of country strategy, as it depends on the priority given to governance issues and the degree to which a common public sector analytical framework and a focus on governance issues are fully integrated into the range of Bank activities in a country.

59. A third issue concerns the need to coordinate and consolidate our survey instruments and efforts to enhance both efficiency and impact. The past five years have been a time of experimentation; we aim for the next few years to be a time of consolidation and mainstreaming of these efforts. On the firm side, the Bank has recently taken steps to consolidate various firm-level survey instruments into a more common approach under the umbrella of “business environment surveys”, as described in the Bank’s recent private sector development strategy. On the public sector side, the Public Sector Group is working now in a similar fashion to consolidate the various approaches tested to date to develop a more common survey approach under the umbrella of “public officials and service providers surveys”. The broad vision is to have a set of complementary survey tools that can be tailored and applied in individual client countries: The business environment survey would help to diagnose problems and issues for attention, while the public officials and service providers survey would help to identify what can actually be done to improve governance and public sector performance on the ground. The latter would ideally be used as part of a broader analytic effort—

whether an IGR or another type of ESW -- to understand governance conditions on the ground, ideally upstream of a CAS.

IV. THEME 3: LENDING INSTRUMENTS TO ENHANCE INSTITUTION-BUILDING

60. The third theme of the strategy relates to our lending instruments:

We need to ensure our lending enhances institution-building (in addition to addressing relevant policy, physical investment, and resource transfer objectives). Both investment and adjustment loans have important roles to play, and it is important that lending approaches be tailored to country conditions. Longer-term programmatic lending approaches can help in some settings – both by emphasizing a longer-term institutional focus and by reducing the fragmentation often caused by uncoordinated donor activities.

61. The action plan called for the design of new approaches, including long-term Adaptable Program Loans and Credits (APL/Cs) and Programmatic SALs and SACs (PSAL/Cs) focused on public sector reform. The primary benefits of these approaches include a longer time-frame and greater flexibility, as countries have scope to adjust year-to-year programs in light of long-term goals and progress on the ground.

A. Approaches to Lending

62. The data in Table 1 and Figures 1 and 2 indicate the growth in overall lending for public sector reform over the past half-decade. The major growth has come in adjustment lending, which has increasingly focused on reforms in public expenditure management, revenue mobilization, the civil service, the legal/judicial system, and decentralization and intergovernmental fiscal relations.

63. There has been a significant move toward longer-term programmatic approaches in both investment and adjustment lending. The Poverty Reduction Support Credits (PRSCs) for Uganda, Burkina Faso, and Vietnam are three recent examples of programmatic adjustment loans with a strong focus on public sector reform and governance (see Box 6). Other programs of adjustment lending also increasingly focus on governance reforms with a medium-term approach – for example, the Programmatic SALs for Latvia and Ukraine and for the states of Andhra Pradesh, Uttar Pradesh, and Karnataka in India, the Public Expenditure Reform Credit in Benin, the series of public sector reform loans in Jordan, and the forward-looking program of adjustment lending in Turkey.
Box 6. Poverty Reduction Support Credits

Poverty Reduction Support Credits (PRSCs) were approved in 2001 for Burkina Faso, Uganda and Vietnam. They are designed to support the countries’ own poverty reduction strategies. Thus, PRSCs in different countries can vary in focus and scope, as demonstrated by the PRSCs for Burkina Faso and Uganda, which focus on service delivery, and the one for Vietnam, which is concerned largely with growth and private sector development. Despite their different focus, governance and public sector reform are a common theme underlying all three PRSCs.

The Burkina Faso PRSC is one of three loans planned to improve service delivery outcomes in the country. It is designed to (i) help maintain macroeconomic stability and create the conditions for accelerating growth; and (ii) help reduce poverty by improving the targeting and effectiveness of public expenditures to the poor and by actually channeling public funds to more accountable local spending agencies. The reform program stresses delegation, accountability and transparency in budget management to promote access to and quality of public services.

In Uganda, the focus of the PRSC is also on improving service delivery. The operation is based on three pillars: (i) the efficient and equitable use of public resources; (ii) improved governance through cross-cutting public sector reforms (including reforms in pay and employment, procurement, financial management, monitoring and evaluation, and measures to increase transparency and participation and to fight corruption); and (iii) improved access to and quality of education, health care, and water and sanitation services.

In Vietnam, the PRSC supports the government’s twin goals to promote growth and poverty reduction by (i) improving the climate for the private sector to generate jobs and higher wages; (ii) reforming state enterprises to improve efficiency and free up fiscal resources for poverty reduction; (iii) restructuring the banking system to reduce the risk of financial crisis, which could otherwise undermine poverty reduction efforts; (iv) integrating with the world economy to expand labor-intensive exports; and (v) improving public expenditure management.

64. On the investment lending side, public sector reform is increasingly pursued through Adaptable Program Loans and Credits (APL/Cs) that lay out a coherent long-term program. As discussed in the Strategy, APL/Cs are better aligned than traditional investment loans to the long-term character of institutional reform and capacity-building. APL/Cs are under supervision, for example, in Bolivia, Ghana, Guinea, Tanzania, and Zambia. Possible future APL/Cs under preparation are in Ethiopia, Mozambique, and Ukraine.

65. The appropriate mix between adjustment and investment lending in supporting public sector reforms depends on the particular situation in the country. Adjustment lending may provide an impetus to help authorities advance major policy and institutional reforms. And, as noted in Assessing Aid: What Works What Doesn’t and Why (1998) and in the Strategy, it has the systemic advantage of avoiding the budget and procedural fragmentation that can result from numerous individual donor initiatives. On the other hand, investment lending can often help focus Bank assistance on the design and support of specific institutional reforms within key ministries and/or key relationships between ministries or levels of government. Investment lending facilitates hands-on attention to complex institutional situations and provides targeted resources to help individual ministries finance reforms and sustain reform momentum. And it may be judged the only acceptable approach, from a fiduciary perspective, if the government’s expenditure
management and accountability are considered below some minimum baseline of performance.

66. In practice, many countries benefit from a mix of adjustment and investment lending, often with the adjustment loan providing support for the overall program of reform and the investment loan supporting specific institution-building components in a focused, in-depth, and sustained manner. This was the model, for example, in Uganda, where the PRSC was accompanied by a loan for Economic and Financial Management and is now being complemented by a slow-disbursing operation currently under preparation, in collaboration with other donors, to support a Capacity Enhancement Program. Another country where various types of analytic and lending instruments have been brought together effectively is Albania (Box 7).

Box 7: An Integrated Approach to Analysis and Lending: Institutional and Governance Reform in Albania

The Bank's support for institutional and governance reform in Albania since the mid-1990s provides an example of an in-depth program, combining both analytic work and lending, in a highly challenging setting. Analytic work undertaken to date has included a detailed analysis of pay and employment issues, a comprehensive anticorruption diagnostic, a Public Expenditure and Institutional Review (PEIR), a Country Economic Memorandum (CEM), a Country Procurement Assessment Review (CPAR), and an ongoing Country Financial Accountability Assessment (CFAA). A fiscal decentralization note is being prepared to support government’s efforts in decentralization and feed into the medium-term expenditure framework (supported by the PRSC) and sector-specific governance reforms. Much of this analytic work has provided input into the PRSP and the CAS and set the stage for various adjustment and technical assistance operations, including a SAC in 2000, two TA operations supporting public administration and the judicial system, and the planned PRSC (in support of the PRSP developed by the country). The continuous flow of analytic work has helped both to reinforce ongoing efforts and, perhaps more importantly, to constantly expand the range of issues being actively addressed by the overall reform effort. The variety of lending vehicles has provided flexibility and leverage to address various issues as they arise.

Collaboration with other donors has proven pivotal in advancing the agenda and addressing setbacks. For example, the EU and OSCE helped in the preparation of the Law on Civil Servants in 1999, and DfID helped with introduction of the MTEF in 2000 and (with SIGMA and OSCE) the recent Law on the Functioning of the Council of Ministers.

Although it is still early in the process, the Bank has made a strong effort to develop tools to monitor impact and provide feedback to inform subsequent policy deliberations. A detailed set of indicators has been developed and is being used to monitor the impacts of the Bank-financed Public Administration Reform Project. The government had little interest in monitoring and evaluation early-on, but the Department of Public Administration has increasingly begun to realize that such monitoring and the publication of results can strengthen its capacity to ensure effective implementation of the civil service reform agenda. Monitoring and evaluation has assumed even greater visibility with the preparation of the PRSP and the planned PRSC. The government has committed to mounting a serious effort to develop monitoring and evaluation systems within each ministry over the next three years. As with other elements of public sector institutional reform, experience to date underscores that building monitoring and evaluation into the reform agenda requires phasing and patience.

As with other low-income countries, capacity constraints are severe, and continuous support from the Bank and other donors will be needed to sustain the large reform agenda in Albania. Persistent instability in the political situation also creates continual risks of backsliding. The challenge will be to continue to maintain steady and patient support, to focus and prioritize reforms, and ensure that they are integrated into the government’s regular policy and budget management structures.
B. Portfolio Quality

67. The indicators on the quality of the Public Sector portfolio have risen substantially over the past five years. Figure 4 shows OED indicators on overall quality, sustainability, and institutional impact of public sector projects completed from FY95-FY00. All indicators rose through this period and are now better than Bank averages.

**Figure 4. OED Quality Indicators: Completed Projects**

68. Figure 5 shows QAG data on the percentage of ongoing projects and commitments at risk from 1997 to 2001. The riskiness of the portfolio declined dramatically over this period and is now below the average level of riskiness of the Bank’s portfolio overall.

**Figure 5. QAG Quality Indicators: Ongoing Projects**

69. Although it is difficult to pinpoint the exact mix of determinants of the quality improvements described above, we believe that several factors are important. The first is the increase in the depth and breadth of analytic work that has underpinned the
preparation of country strategies and projects, as discussed in the previous section. The second is the movement toward more flexible and realistic lending instruments noted above. The third is an increase in staff and management skills, as discussed below. Finally, the intensive work of OED and QAG help to ensure that quality remains high on the agenda.

C. Monitoring Impact

70. A long-standing issue concerns how to evaluate progress in governance reform. While progress has been made in developing indicators of good governance (see discussion in Sections II and III), we need to continue to work closely with countries (both governments and external oversight agencies) on defining performance indicators and on setting up viable monitoring systems, which in turn we can draw upon to assess the effectiveness of our support to governance programs. The ECA Region, for example, has invested considerable effort in identifying and implementing a set of governance monitoring tools for use in governance programs it supports -- for example, periodic interviews of firms to monitor the deregulation program in Russia, and workshops to assist in the development of monitoring tools planned in Albania, Kosovo, Romania, and Yugoslavia (see ECA update).

D. Lending Instruments: Summary and Ongoing Issues

71. The Bank has made progress in designing approaches to strengthen institution-building in our lending operations. We are using more flexible instruments with longer time horizons, and the overall quality of our lending has improved substantially.

72. We still face many challenges, however, as the Bank continues to focus on strengthening results on the ground. One key challenge, discussed in Part II above, involves how to design specific programs of support, including the need to identify “entry points” where progress can be made feasibly and the need to sequence reforms so that success and ownership can build on itself. A related challenge is to channel Bank financing in ways that respect and build on national processes of budgetary management, while assuring that resources effectively contribute to the government’s own programs. A further broad cross-cutting issue concerns selectivity, particularly with regard to countries where governance is particularly weak. The Bank has become more selective over the past half-decade, reducing its engagement and lending in countries with poor governance and weak support for reforms. Yet questions inevitably arise in borderline situations, where some reformers in client governments are striving to improve governance. When is commitment to reform widespread and strong enough to warrant increasing Bank support? How should programs be designed to further reform efforts and spur progress? How should short-term financing needs be weighed against the need for credible up-front progress before committing large amounts of funding in weak governance situations? The answers to these questions are rarely easy in practice. As in the past, they will need to be decided on a case-by-case basis. However, in general the Bank should continue to push for selectivity in order to assure that its limited resources have the strongest possible impact on poverty reduction.
V. THEME 4: INTERNAL STAFFING, ORGANIZATION, AND PARTNERSHIPS

73. The fourth theme of the Strategy focuses on internal management and staff capacity:

We need to continue to develop the skills to do better institutional, governance, and capacity building work in the Bank and fine-tune our organizational setup as needed to enhance responsibility, accountability, and quality assurance. Collaborating closely with partners is critical in this area of work.

74. The last three sections of the action plan lay out a number of specific steps to enhance in-house capacity, quality assurance, and knowledge management.

A. Organization, Staffing and Professional Development

75. The organizational structure and staffing patterns in the Public Sector Group and in our partner network families and VPUs (including, among others, OPCS for systemic financial management and procurement analysis, LEG for legal and judicial reform, and PSI for investment climate) have changed considerably over the past 3 years. Relative to 5 years ago, when staffing was very thin, the Bank now has a sizeable cadre of technical experts and senior task managers, with about 220 Bank staff formally mapped to the Public Sector Group, a growing number of financial management, procurement, and legal specialists in OPCS and LEG, and membership of over 840 staff from many VPUs in our seven core thematic groups. To date the staff from OPCS, LEG, and PSI have interacted with PREM staff primarily through Thematic Groups and informal partnership arrangements. To insure coherence in this agenda, senior management has recently decided to create a more inclusive Public Sector Governance Board by expanding the membership of the Public Sector Board to include representation from LEG, OPCS, and PSI. This Board, which will also interact closely with other VPUs and Sector Boards, will be the focal point and spokesperson for the Bank on public sector governance.

20 The community-driven development agenda will continue to be overseen by a cross-network Steering Group, which is linked closely to a similar cross-network Thematic Group on decentralization.

76. The agenda at the country level will continue to be driven by country needs and strategies, defined in the CAS and coordinated by the Regional PSG Board member (working with other Regional managers as needed, given the cross-cutting nature of this work). The three larger regions – AFR, ECA, and LCR – have dedicated Public Sector units with Sector Managers that each manage 25-40 PREM staff working on governance and public sector reform, and a large amount of work on public sector reform is also undertaken by country economists and sector and OPCS staff in those regions (and in some cases by staff from LEG, WBI, and other VPUs). The three smaller regions – EAP, MNA, and SAR – have somewhat different managerial arrangements but have all increased their focus and staffing in this area and have developed a clearer sense of responsibilities and accountabilities. The first activity in the action plan – designation of
units with clear accountability for governance and anticorruption work – has been largely achieved, recognizing, however, that this is a cross-cutting topic that affects virtually all activities and sectors in the Bank.

77. Major progress has also been made on the other staffing-related activities in the action plan. The Sector Board discusses staffing needs on a regular basis and handles recruitment, short-listing, and promotion processes in accordance with clear criteria and procedures that have been developed and refined over the past 3 years and posted on the internal Bank website. In follow-up to the Bank’s Human Resources Strategy, PREM is now preparing an updated strategic staffing plan that will assess current staffing, future staffing needs, and specific issues that need particular attention.

78. The large growth in demand for work on public sector and governance has meant a continual effort at external recruitment. In most cases such recruitment has been undertaken to fill specific openings in individual VPUs. In mid-2000 the Public Sector Board also piloted a new approach to recruitment – a centralized “batch” recruitment exercise. It began with a focused world-wide search that identified a large pool of candidates. The pool was narrowed to a short-list of approximately 15 diverse candidates, these candidates were then interviewed, and a final list of 7 candidates was identified. Budget constraints limited hiring in FY00, but several of the candidates have since been hired into individual vacancies. Significant demand for new staff has again emerged, and we will continue to undertake external search and recruitment efforts to identify and bring the best possible candidates into the Bank.

79. Professional development and the quantity and quality of staff training have also been a major area of focus. In addition to regular offerings of basic courses in our various areas of interest, the Bank has worked to develop innovative training initiatives to meet the diverse needs of different staff. For example, “just-in-time” clinics for task teams undertaking PERs have proven to be a popular and effective way to provide focused and relevant learning when teams are most likely to benefit from it. In September 2001, “Public Sector Day” brought together staff working on governance issues for a day of participatory discussions and learning. This complemented PREM Week, which will be held again in mid-2002 and will be accompanied by a contiguous Staff Learning Week to provide extensive learning opportunities in a concentrated time span, which is particularly helpful for field-based staff. Finally, we sponsor a large number of short brown-bag seminars and participatory discussions to meet the needs of busy operational staff. Some examples of staff training offerings for FY02 (excluding informal seminars) is shown in Box 8.

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21 This experience surfaced some practical difficulties in hiring staff in anticipation of future job openings – particularly during periods of tight budgets -- rather than in response to specific job availability.
B. Quality Assurance

80. The rising quality of the Bank’s public sector lending portfolio was noted earlier. We have undertaken all of the various quality-related activities included in the action plan, including preparation of a portfolio database, review of at-risk and flagship projects, participation in QAG reviews, formation of peer reviewer list, and preparation of new PER guidelines. We have also worked with QAG to expand the number of Quality Enhancement Reviews to provide early input to task teams. While a number of these specific quality-related activities have proven useful (and a few have not), we believe that the broader network activities – most notably staff development and knowledge management – are and will continue to be the most critical tools for improving portfolio quality.

C. Knowledge Management

81. We have put extensive effort into knowledge management. Public Sector Thematic Groups are active and lively, and are widely-used as forums for formal and
informal knowledge sharing among staff. A TG-wide survey of staff was undertaken in summer 2001. While the results were generally favorable, they also helped highlight some areas for further focus – including the need to reach out more effectively to field-based staff. Respondents cited the lack of time and overwork as the key constraint to increased involvement in the TGs.

82. Committed and well-informed knowledge sharing through the internet is one of the most useful activities the Bank can undertake, and thus we have put and will continue to put significant resources to this end. The Public Sector anchor has launched and continually updates 9 websites that are all available externally, and these are complemented by sites managed by WBI, LEG, ESSD, and DEC (Box 9). The Public Sector sites currently receive approximately one-half million “hits” per month, and TG coordinators regularly receive comments and queries from around the world.

83. We also utilize “PREM Notes” to disseminate knowledge in easily readable form. A list of public sector Notes is included in Annex 2. All are available to a worldwide audience through the internet.

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Box 9: Governance and Public Sector Reform Websites

- **LEG Legal & Judicial Reform**

- **WBI Governance & Finance**

- **Development Research Group**

- **WBI Public Finance, Decentralization & Poverty Reduction**

- **Community Driven Development**

- **Legal Institutions of the Market Economy**

- **Anticorruption**

- **Public Expenditure Analysis & Management**

- **Tax Policy & Administration**

- **Decentralization**

- **Administrative & Civil Service Reform**

- **E-Government**

- **PREM Public Sector**

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D. Partnerships

84. The final activity listed in the action program is the exploration of new knowledge-sharing approaches with partners. One such activity is a Governance Knowledge-Sharing Partnership with the Dutch, financed through a special trust fund. This partnership is funding a variety of projects aimed at offering knowledge to clients in ways they can easily access and absorb. For example, a project in the state of Karnata, India, supports local initiative to develop tools for assessing the quality of government’s delivery of preventive health services. Another project supports a Russian language website to deepen and broaden a public debate on possible options in the upcoming civil service and public administration reform programs now being developed by the Russian Federation Government.

85. Another example of innovative knowledge-sharing--linked closely with capacity-building and analytic work (described in Section III above)--is the World Bank Institute’s approach to governance and public sector reform. WBI organizes and delivers a wide variety of governance and public finance-related workshops and programs, and all rely heavily on active client participation. The goal is not only to provide knowledge and build skills, but also to bring together clients to share their knowledge and empower them to analyze and address their own countries’ problems. One example is the Anticorruption Core Course in the LCR region, which has brought together policymakers and civil society representatives from seven LCR countries (Bolivia, Colombia, Ecuador, Honduras, Mexico, Paraguay, Perú) to understand, discuss and devise strategies to combat corruption in their countries.

86. A third initiative focused on knowledge-sharing with partners is the joint Bank-IMF-OECD initiative to establish an International Tax Dialogue (one of several recent joint initiatives with the Fund – see Box 10). This initiative, summarized in a note sent to the Boards of the Bank and Fund in February 2002,23 aims to establish a mechanism for the regular exchange of knowledge and ideas on taxation among developed and developing countries alike. It seeks to promote an effective international dialogue, giving all countries the opportunity for real input into the discussion of tax administration and policy issues. It also seeks to identify good practices in taxation, provide a clearer focus for technical assistance, and avoid duplication of effort in the activities of various international organizations.

87. Two other ongoing partnerships are GOVNET, a network of donors organized by OECD-DAC, and the Governance Partnership in Indonesia, through which the Bank, UNDP, and other donors are supporting a broad program of analytic work to help build civil society support for governance reforms (see EAP update).

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The activities discussed above and throughout Part II attest to the expanding set of partnerships the Bank has developed with partner organizations in the area of governance. We have invested heavily in strengthening partnerships both at the global level (for example, with the IMF, UNDP, OECD, the EU, other MDBs, the Commonwealth Secretariat, bilateral donors, and global NGOs) and at the regional level (for example, the PACT, regional Anticorruption Advisory Groups in ECA and EAP, the Network of Latin American Supreme Court Justices, and the joint Bank-UNDP Governance Partnership in Indonesia). Bank staff participate in many international conferences and working groups, and the network of contacts and exchanges in knowledge they foster has led to closer coordination and to a stronger and clearer consensus in many areas of our governance and public sector reform work.

E. Staffing, Organization, and Partnerships: Summary and Ongoing Issues

The Bank has made steady progress in organization, staffing and partnerships in the governance area and has to date fully met the goals set in the Strategy. With regard to organization, the matrix structure functions reasonably effectively in this domain, with a clear division of responsibilities and mutually supportive relationships between the

Box 10: Recent Bank-Fund Collaboration on Governance and Public Sector Reform

The IMF is an important partner for the Bank, and both the Fund and the Bank have increased their attention to issues of public sector reform in recent years. The Bank’s primary area of focus is structural and institutional reform, while the Fund’s is macroeconomic stability and aggregate fiscal balance, and the two organizations work together when interests overlap. Over the past 18 months, staff from the two organizations have strengthened collaboration further, including through a number of joint activities related to governance and public sector reform. One such activity is the analysis of public expenditure management systems in HIPCs and their ability to track poverty-reducing spending. This work involved missions to 26 countries and resulted in a set of PEM indicators and country-specific action plans for improvement in PEM systems. A second activity, also related to public expenditure management, is the Bank-EU Public Expenditure and Financial Accountability program, of whose Steering Committee the Fund is also a member. A third activity involves civil service reform, where the implementation of medium-term structural reforms may at times create a challenge for maintaining macro-fiscal balance. Bank and Fund staff have recently collaborated on an in-depth analysis of underlying issues in this area. In a recent workshop attended by 60 Bank and Fund staff and managers, agreement was reached to go forward with several country-specific pilots to test various means of closer collaboration on these issues. A fourth activity has been the joint effort of the Bank, Fund, and OECD to establish an International Tax Dialogue to provide a means to share information and lessons of experience among tax administrators worldwide. The ITD is expected to lead to closer collaboration in the tax area for years to come.

In all of these areas – public expenditure, civil service, and taxation – the Bank and Fund face important issues derived from their respective mandates. Areas of Bank focus include the composition and efficiency of public expenditure and civil service reform. Areas of Fund focus include the aggregate aspects of public sector spending and revenues. Tax policy and tax and customs administration are areas of overlap. The instruments of the two organizations to support clients’ programs in these areas are different and generally complementary. The Fund provides balance-of-payments support and a limited amount of expert technical assistance from in-house staff and resident experts. The Bank provides medium- and large-scale adjustment and investment lending, selected grants, and advisory and capacity-building support. Bank and Fund staff are working together to further advance their public sector reform agendas in line with their respective mandates and to continue to strengthen avenues for knowledge-sharing and collaboration. This close collaboration follows the spirit of the note on “Strengthened IMF-World Bank Collaboration on Country Programs and Conditionality,” agreed by both organizations in August, 2001.
Regions and the Network anchor. The PREM Public Sector anchor has remained relatively small, and its work program is heavily geared to supporting the Regions, both through its work on knowledge management, staffing, quality, and partnerships and more directly through operational support to Regional task teams. DEC and WBI are active participants on the Public Sector Board, and they both also support the Regions and their clients through research, knowledge sharing, and capacity-building activities. Staff in OPCS and LEG undertake specialized work on financial management, procurement, and legal and judicial reform. To date they have interacted with PREM staff primarily through Thematic Groups and informal partnership arrangements. To insure coherence in this agenda, senior management has recently decided to create a more inclusive Public Sector Governance Board by expanding the membership of the Public Sector Board to include LEG, OPCS, and PSI. This Board, which will also interact closely with other VPU and Sector Boards, will be the focal point and spokesperson for the Bank on public sector governance. Country-based governance work will continue to be driven by country needs and strategies, defined in the CAS and coordinated by the Regional PSG Board member (working with other Regional managers as needed, given the cross-cutting nature of this work).

90. Relative to 5 years ago, when staffing was very thin, we now have a sizeable cadre of technical experts and senior task managers, with about 220 Bank staff formally mapped to the Public Sector Group, a growing number of financial management, procurement, and legal specialists in OPCS and LEG, and membership of over 840 Bank staff from many VPU in our seven core Thematic Groups. Increases in overall staffing have been matched by a consistent growth in demand for work from our clients, and thus the Bank remains in need of skills to meet demand in some key areas. The kinds of staff needed were described in the Strategy: Governance is a highly interdisciplinary area, and effective task teams combine good task managers, technical experts in various areas, and broader experts in institutional and political analysis who can help integrate various approaches and disciplines into a holistic view at the country level. Broad disciplinary backgrounds that have proven to be highly relevant to this broad area of work include economics, political science, law, and public management, and these need to be complemented by expertise in more specific technical subjects such as accounting and auditing, informatics, and statistics.

91. With regard to staffing and professional development, a leveling off occurred in FY01 (after a previous 3-year period of rapid growth), due in part to considerable budget pressure. Recruitment and staff training and development needs and demands have picked up again, however, in FY02. Increases in overall staffing have been matched by a consistent growth in demand for work from our clients, and thus the Bank remains in need of skills to meet demand in some key areas. First, we need to augment our skill base in public expenditure management, for example, as well as in revenue (i.e. tax and customs) policy and administration and e-government. Second, we need to deepen our skill base in institutional and political analysis. Third, we need to expand our cadre of seasoned task managers who can work effectively with clients to integrate the various discrete areas of public sector reform into effective and mutually-reinforcing programs of governance reform on the ground. Fourth, we need more interdisciplinary and analytic
expertise in legal and judicial reform. The Bank has already made significant progress in all of these areas, but more is needed.

92. With regard to location of work, public sector expertise in the East and South Asia Regions is already highly decentralized, with almost one-half of public sector staff (the majority of whom are locally-recruited) -- including one Sector Manager -- located in field offices. Staffing in the other four Regions is less decentralized, and a modest increase in field presence is expected over the next 2 years. Patterns can be expected to vary by Region depending on a number of factors, including the number and size of countries, the volatility of country programs, cost and other logistical factors, and availability of local talent.

VI. CONCLUSIONS

93. Taken all together, the Bank has made steady progress in implementing the public sector and governance strategy it finalized in 2000, Reforming Public Institutions and Strengthening Governance: A World Bank Strategy. The need to focus on institution-building and the centrality of good governance to development are well-recognized, and the magnitude of the Bank’s efforts and activities has increased considerably. There has been consistent progress along all four of the major thrusts envisioned in the Strategy to improve effectiveness:

- broadening the approach to focus on the “demand” as well as the “supply” side of reform,
- starting with what exists on the ground and deepening analytic work to understand existing situations better,
- moving to broader and longer-term lending instruments, and
- strengthening staffing, organization and partnerships.

94. The way ahead also looks strong. There is no evidence of waning attention or commitment; indeed, governance continues to be a central focus in Bank strategy documents and was highlighted at the recent Strategic Forum as a continuing top priority. One of many signs of continued commitment is the recent decision to focus the Institutional Development Fund (IDF) on two core areas related to governance: (i) public expenditure and financial accountability and (ii) legal and judicial reform.

95. Despite this general progress and optimism for the future, the Bank needs to continue to address a number of issues highlighted in this update. On the operational front, we need to continue to deepen our efforts to:

- Understand and measure governance realities on the ground (including their political and institutional roots) through upstream diagnostic work, conducted in a participatory manner to enhance capacity-building;
- Monitor the impact of Bank projects and programs in improving governance – and, ultimately, in reducing poverty -- in client countries;
• Mainstream governance concerns across sectors;
• Balance a stronger focus on anticorruption and governance with the need for country ownership and the imperative of poverty reduction, particularly in weak governance environments; and
• Practice selectivity by focusing our efforts where the likelihood of success is strong.

96. On the management front, we need to continue to deepen our efforts to:

• Implement the inclusive model and expanded mandate of the Public Sector Governance Board and deepen its collaboration with other sectors and VPUs;
• Address strategic staffing concerns (particularly the need to attract and retain a diverse and high-quality set of senior task team leaders);
• Promote effective work processes in an increasingly decentralized environment;
• Strengthen staff incentives to document and disseminate lessons of experience and good practice; and
• Ensure resource availability and handle budgetary tradeoffs.

We intend to continue to address these challenges energetically as we move forward in this critical area of work.
### Annex 1

**The 2000 Strategy: Proactive Initiatives in Support of Strategic Objectives**

<table>
<thead>
<tr>
<th>Issue or past problem area to address</th>
<th>Strategic objectives</th>
<th>Activities to achieve objectives</th>
<th>Responsible parties</th>
<th>Progress as of mid-FY02</th>
<th>Goals by end-FY03</th>
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<tbody>
<tr>
<td>Insufficient focus on institution-building in Bank activities</td>
<td>To place long-term institution-building center-stage in our work, recognizing that is the key to sustainable development and poverty reduction</td>
<td>Preparation of Public Sector Strategy and dissemination across Networks and with partners outside the Bank</td>
<td>PSB (including Regions, DE, PRMSP, WBI)</td>
<td>Extensive external consultation on SSP. Publication of SSP and wide dissemination internally and externally.</td>
<td>Widely-held consensus on donor approaches to public sector reform</td>
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<td>Preparation and piloting of draft OP on institutional assessment in Bank projects</td>
<td>PRMPS, OCS, and others</td>
<td>OP on Institutional Analysis in draft. Toolkit for piloting the OP developed. OP piloted in 10 operations covering 7 sectors and all 6 regions.</td>
<td>Regular application of OP on institutional assessment in at least 25 percent of Bank projects</td>
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<td>Establishment of process of regular CAS and PRSP advice and review (both upstream and downstream)</td>
<td></td>
<td>Advice and review system in place. Systematic review of CASs conducted by PS Anchor for CAS Retro (results in text). Draft guidelines being prepared for mainstreaming governance in CASs. CAS clinics planned. Governance chapter in PRSP sourcebook. Review of governance in PRSPs completed.</td>
<td>Adequate diagnosis of governance situation in 90 percent of Bank’s CASs. Upstream advice and downstream review of all major CASs and PRSPs by public sector network, and positive evaluation by CAS teams of timeliness and utility of advice; Systematic coverage of governance issues in advice provided to countries for PRSPs and in follow-up PRSCs.</td>
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<td></td>
<td>Development and successful implementation of Anticorruption Action Plans annually</td>
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<td>Anticorruption Action Plans phased out in FY01 with increased mainstreaming of anticorruption in Bank work.</td>
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<tr>
<td>Imbalance in our approach toward a narrow technocratic emphasis</td>
<td>To continue to broaden the range of reform mechanisms we support (increasing our emphasis on competition and voice and participation)</td>
<td>Enhancement of work on decentralization and community-driven development</td>
<td>Regions</td>
<td>Ongoing</td>
<td>Implementation of community action programs in at least 10 low-income client countries.</td>
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<td>Development and testing of survey instruments to measure the extent and causes of corruption and/or track public expenditures and service delivery, and thereby to increase citizen feedback</td>
<td>DEC, PRMPS, WBI, Regions</td>
<td>Public Officials surveys completed in 16 countries.</td>
<td>Implementation of citizen, firm and/or public official surveys in at least 15 client countries</td>
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<td>Governance and anticorruption surveys initiated/conducted in 25 countries.</td>
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<td>Public Expenditure Tracking Surveys undertaken in 7 countries.</td>
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<td></td>
<td>As of FY02, about ½ of participants in WBI learning activities from outside government (including private sector, media, NGOs etc.).</td>
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</tbody>
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24 OVP – Operational Vice Presidents; PREM – Poverty Reduction and Economic Management Network (including regional units); PSB – Public Sector Board; PRMPS – Public Sector Anchor; WBI – World Bank Institute; DRG – Development Research Group (in DEC); OCS – Operational Core Services Network
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<td>Inadequate ownership of the reform agenda by clients</td>
<td>• To help enhance client ownership and ensure that a country’s leaders are in the driver’s seat</td>
<td>• Further progress on CDF piloting and mainstreaming of anticorruption and governance agenda</td>
<td>Regions, AFR Region</td>
<td>• CAS mainstreaming as above. CDF piloted in 8 countries. 8 PRSPs completed. Promotion of client-created action plans for anticorruption and governance reform in several countries.</td>
<td>• Integration of governance concerns in all CASs and country programs</td>
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<td>• Implementation of PACT (Partnership for Capacity Building in Africa)</td>
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<td>• Preparation of fiduciary framework for adjustment lending</td>
<td>OCS, PRMPS</td>
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<td>Inadequate knowledge of institutional realities (including political dynamics) on the ground</td>
<td>• To ensure selectivity in our engagement</td>
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<td>• Successful implementation of PACT</td>
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<td></td>
<td>• To strengthen our tools for institutional analysis and assessment to underpin both projects and country programs</td>
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<td>• Finalization of fiduciary framework for adjustment lending</td>
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<td></td>
<td></td>
<td>• Initiation and substantial progress on pilot IGRs</td>
<td>PREM regional units</td>
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<td>• Progressive strengthening of institutional components of PERs</td>
<td>PREM regional units</td>
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<td>• Completion of set of toolkits for institutional diagnosis in IGRs, PERs, PRSPs, SSRs, and anticorruption surveys</td>
<td>DEC, PRMPS, WBI, with input from other sectors</td>
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<tr>
<td></td>
<td></td>
<td>• Development of institutional analysis web-site for easy access to toolkits and relevant data</td>
<td>DEC, PRMPS, WBI,</td>
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<tr>
<td></td>
<td></td>
<td>• PREM, WBI, DEC websites developed with online toolkits, access to country-specific governance data, and interactive features.</td>
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<tr>
<td><strong>Lending approaches that are not fully conducive to institution-building</strong></td>
<td>• To move progressively toward longer-term institutionally-oriented programmatic lending where appropriate</td>
<td>• Design of new approaches, including long-term AP LAs (e.g. Bolivia, Ghana, Tanzania) and PSALs (Latvia, Thailand, Uttar Pradesh, Uganda) focused on public sector reform</td>
<td>• PREM regional units</td>
<td>• Governance-oriented programmatic lending underway in many countries, including Latvia, Tanzania, Thailand, Brazil, and Peru (also under preparation for Ukraine and Jordan). Subnational PSALs underway in Andhra Pradesh, Karnataka and Uttar Pradesh. PRSCs for Uganda, Vietnam and Burkina Faso.</td>
<td>• Broader use of programmatic approaches in Bank lending with strong client ownership, where appropriate. Governance-oriented AP LAs and/or PSAL/Cs in at least 10 client countries.</td>
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<tr>
<td><strong>Shortage of qualified in-house expertise</strong></td>
<td>• To insure adequacy and quality in Bank staffing for public sector work</td>
<td>• Designation of units with clear accountability for leading governance work and anticorruption initiative in each region</td>
<td>• OVPs, PSB</td>
<td>• 220 mapped members of Public Sector Group identified; also significant expansion of staff working on governance reforms in OPCS, LEG; expanded Public Sector Governance Board established (with LEG, OPCS, PSI representation).</td>
<td>• Appropriate staff resources to meet the needs of clients and country directors</td>
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<td>• Determination of staffing needs for those units and development of a strategic staffing plan for the public sector group</td>
<td>• PSB</td>
<td>• Sector Board regularly addresses strategic staffing and cross-regional staffing opportunities.</td>
<td>• Widespread recognition of the Bank as among the world’s expert organizations in at least 3 areas of public sector reform</td>
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<td>• Development and implementation of external recruitment plan to identify expertise in areas with unmet need</td>
<td>• PSB</td>
<td>• Successful completion of pilot mid-career recruitment program. Recruitment pipeline developed.</td>
<td>• Well-functioning and integrated system of institutional recruitment for public sector specialists</td>
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<td>• Design and delivery of a professional development plan for existing staff (including training courses, informal seminars, mentoring program, PREM Fellows program, and professional development grants)</td>
<td>• PSB</td>
<td>• Comprehensive Governance and Public Sector learning plan, touching upon specialized technical skills as well as integrated governance approaches, submitted for approval to Learning Board.</td>
<td>• Well-regarded and integrated system of professional training and staff development for public sector specialists</td>
</tr>
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| **Incomplete quality-control mechanisms in public sector portfolio and ESW** | • To assure high quality in the Bank’s work on public sector institutional reform | • Preparation of portfolio database to monitor public sector loans  
• Adoption of active program to identify and collectively review at-risk and flagship projects in the pipeline  
• Active participation of Public Sector Group members in QAG reviews  
• Formation of peer reviewer list by thematic group (with the goal of having at least one reviewer from the list for each major Bank project)  
• Preparation of new PER guidelines and upgrading of PER monitoring and peer review process | • PRMPS  
• PSB | • Portfolio identified and tracked annually. Database created.  
• High-risk/return projects monitored.  
• Ongoing | • In conjunction with OED and QAG, development and consistent use of monitorable indicators for measuring institutional impact of Bank’s services  
• Rating of satisfactory or better on institutional components in 90 percent of QAG reviews for public sector loans |
| **Inadequate mechanisms for sharing and preserving knowledge** | • To build and share a knowledge base among practitioners inside and outside the Bank | • Building of 6-8 active thematic groups dealing with various areas of public sector institutional reform  
• Launching of 8 or more websites on public sector reform  
• Publication of series of PREM Notes on various topics of governance and public sector reform  
• Exploration of new knowledge sharing approaches with partners | • PSB  
• DEC, PRMPS, WBI  
• Public Sector staff  
• PSB | • 7 active TGs. FY01 survey of PS TGs revealed extremely positive results, with some areas identified for improvement.  
• PREM (8), and WBI and DEC websites launched on key topics in PS reform, including e-government. Websites include interactive elements to view governance and public sector data, and new research on institutional and governance reform, including governance indicators.  
• Over 30 PREM Notes published in FY00-02  
• $2 million received from Bank-Netherlands Partnership Program for a Governance Knowledge Sharing Program. Management team and Board established to oversee disbursement of funds. Business Plan approved. Proposals being considered.  
• PEFA program to integrate knowledge on public expenditure and financial accountability has leveraged EC Trust Fund, DFID secondment with DGF financing.  
• Internal and external learning and capacity-building programs engage partners to both capture and share knowledge. | • Full integration of virtually all Bank public sector staff around the world into the Bank’s knowledge management activities, and regular use of KM systems and resources in their everyday work  
• Large set of succinct and readable PREM notes for wide dissemination of lessons of experience  
• Quicker access to a wide range of external expertise as needed by the Bank or its clients |
Annex 2
Public Sector PREM Notes

# 60: Strengthening Peru’s Tax Agency
# 59: Features and functions of supreme audit institutions
# 58: Writing an effective anticorruption law
# 55: Decentralization and governance: does decentralization improve public service delivery?
# 54: Governing the justice system: Spain’s judicial council
# 53: Increasing the effectiveness of pre-shipment inspection services
# 51: Promoting good governance with social funds and decentralization
# 50: Technological innovation in public sector reform: Chile’s public procurement e-system
# 49: Toward more operationally relevant indicators of governance
# 48: Improving taxpayer service and facilitating compliance in Singapore
# 46: Reforming civil justice systems: Trends in industrial countries
# 44: Computerizing tax and customs administration
# 43: Indonesia’s decentralization after crisis
# 41: Decentralization and the challenge of hard budget constraints
# 40: Access to justice: the English experience with small claims
# 39: Reducing corruption: lessons from Venezuela
# 37: Reforming tax systems: lessons from the 1990s
# 34: Reducing court delays: Five lessons from the United States
# 33: An anticorruption strategy for revenue administration
# 31: Rethinking civil service reform
# 30: Mobilizing civil society to fight corruption in Bangladesh
# 29: Assessing political commitment to fighting corruption
# 26: The law and economics of judicial systems
# 25: Assessing borrower ownership using reform readiness analysis
# 24: Fostering institutions to contain corruption
# 23: Using surveys for public sector reform
# 20: Public expenditure reviews: progress and potential
# 19: Using an ombudsman to oversee public officials
# 15: Decentralizing borrowing powers
# 7: New frontiers in diagnosing and combating corruption
# 4: Corruption and development