

East Asia and Pacific Region (EAP)

Before the recent economic crisis that swept through the East Asia and Pacific Region, public institutions were largely thought to be working well, credited with many of the virtues associated with the “Asian miracle.” Indeed, the Bank’s approach to public sector institutional reform and governance was hands-off for most of the last decade; a small public management unit was disbanded for perceived lack of country demand. This view has changed in the wake of the past few years’ political and economic turmoil. Public sectors throughout the region have had difficulties responding to the crisis, which has exposed previous institutional weaknesses that had escaped notice during periods of economic growth. Moreover, the context for public management and governance has changed dramatically: in addition to the crisis, both further democratization and increasing globalization have raised the requirements for accountable, transparent and efficient government. The Bank is responding by rebuilding its public sector institutional capacity in the East Asia Poverty Reduction and Economic Management Sector Unit (EASPR) and developing a strategy to address public sector and governance issues in a

highly diverse set of countries. Three groups of countries, requiring distinct assistance strategies, are discussed in this note: the East Asia 5 (Indonesia, Korea, Malaysia, Philippines and Thailand); the transition countries (China and Vietnam), and the small economies (Cambodia, Laos, Mongolia, Pacific Islands, and Papua New Guinea).

Salient characteristics of the East Asia and Pacific Region

East Asia’s pre-crisis reputation for competent public management was based on its macroeconomic and sectoral performance. Budget surpluses contributed to macroeconomic stability and low debt burdens; extensive public investment in education paid lucrative dividends in rising productivity; and public programs to improve agricultural productivity and improve health status combined with rapid growth to lift 350 million people out of poverty over the last two decades.

But East Asia’s public sectors were vexed by underlying structural problems. State enterprises were ineffi-

cient and over-protected. State regulation was excessive and ineffectual. Government policies thwarted competition. Civil service rules were antiquated, and internal systems of checks and balances to ensure governmental accountability and probity were often lacking. The abuse of public office for private gain was widespread, but largely ignored. Such problems did not shake investor confidence, however. The *WDR97* survey of businesses ranked East Asia Pacific as among the best performing regions on measure after measure.²

In July 1997, the economic crisis changed all this, thrusting the need for public sector reform onto center stage. The crisis put three new pressures on the public sector. First, it forced a sharp adjustment of public finance, demanding greater efficiency in the use of government resources. Bank recapitalization suddenly and significantly increased public sector debt levels, raising concerns that interest payments would crowd out other important expenditures, including those that targeted social welfare. This came precisely when demands for government to protect the new poor and to improve overall societal living standards were rising.

Second, the economic downturn revealed poor management and regulatory practices, notably in the financial system. Implicit guarantees to the banking system and private infrastructure projects caused contingent liabilities to mount. Investments in public education declined. And without appropriate social safety nets in place, vulnerable groups were particularly susceptible to the crisis.

Third, the crisis was associated with a sea change in the demands of the citizenry for new, more accountable governance. The economic crisis brought political change in four of the East Asia 5. As financial sector liabilities made claims on the public purse, the clamor for greater transparency and accountability rose. Corruption, a hushed secret in most countries prior to the crisis, became a rallying cry in the daily press for proponents of better government. For example, in Thailand,

The Bangkok Post in a month in 1998 (picked randomly) ran more than 30 stories on corruption or other government failings. Even in the transition countries, senior officials launched programs to curb the regime-threatening corruption that wastes public resources, frustrates the business community, and alienates the citizenry. By the end of 1998, in China, for example, the Central Commission for Discipline Inspection had sanctioned 158,000 Communist party members.³

In short, the crisis exposed latent problems (corruption and contingent liabilities), aggravated others (inefficient tax administration), and created new ones in public sector management (budget deficit pressures). Taken together, these problems currently threaten to impede the region from recapturing the high growth momentum of the past. They also stand in the way of realizing a broader concept of development, one that incorporates dimensions of participation and national community. Throughout the region, governments have no choice but to *improve their efficiency* in resource management, improve the *effectiveness of their service delivery and regulation*, and augment the *progressivity of their policies* in a way that improves their *transparency and accountability*.

Experience to date in the East Asia Region

Guided by the presumption of a sound public sector, the Bank had concentrated its pre-crisis interventions on promoting public economic policy rather than on reforming government institutions. In the *emerging market economies* of the East Asia 5, for example, the Bank worked with clients on tariff structures, introducing corporatization and competition, and promoting private ownership among utilities. It worked on improving health care and education. The Bank

launched projects to improve tax administration in the Philippines.

But there were no initiatives to strengthen public administration on a broader basis. In fact, by mid-1995, the Bank had virtually ceased lending to Korea, Malaysia, and Thailand altogether. Even in the state-dominated *transition countries* of China and Vietnam, the Bank's work did not focus on core government institutions except in the context of fiscal reforms in small economies. Instead, Bank programs sought to reform state enterprises and the state-dominated banking system, and to introduce economic law, while bolstering anti-poverty programs.

Now, with the rising importance of the institutional agenda to Asian governments, the Bank faces the challenge of rebuilding its capacity to help countries implement core institutional reforms. These reforms span four areas: public financial management, administrative and civil service strengthening, regulatory and legal development, and governance and anticorruption initiatives.

Although there is a good deal of commonality in the problems governments throughout the region face, the initial conditions and pressures driving reforms in each country demand quite different strategies. Dividing the region into a tripartite typology of emerging market economies, the small market economies, and the transition economies provides a framework to discuss approaches, activities, and Bank responses.

Emerging market economies

The East Asia 5 (EA5) are generally wealthier, more endowed with managerial capacity and systems, and farther along on the path toward competitive and open societies than are the other two country subsets. Nonetheless, the crisis has doubled debt levels and driven deficits to two-decade highs in the EA5. While

the crisis has stabilized in all but Indonesia, the incipient recovery is uneven and fragile.

To rekindle high and sustained growth, these countries have to rethink rules, competition and “voice” to promote government performance and accountability. Improvements centering on fiscal management and service delivery can be obtained through civil service reform, budget management, and tax policy and administration. In the smaller economies, getting proper and transparent budgeting systems in place is the highest priority. Competition for state-supplied goods and services or competition among branches of government is badly needed to improve performance, by reforming state enterprises, deregulating sectors protected by policy-induced barriers, and even contracting out for selected public services. Governments also have to develop new ways to allow the “voice” of the citizenry to place new and effective demands on government to perform well.

Approaches. These countries share broad objectives for institutional change that the Bank is supporting. These are designed to:

- Improve fiscal management to achieve macroeconomic and development objectives (spending, debt management, and contingent liabilities). These require not only achieving budget targets—a task the advanced countries have generally done well in the past—but *institutional improvements*: in the strategic management of budgets over a multi-year period to better link policy objectives with budget outcomes; in coordinating fiscal and monetary policy to ensure better consistency in implementing annual programs; and in improving internal accounting standards and practices to ensure that political authorities are aware of public liabilities.
- Improve service delivery to contribute to short-term poverty amelioration and long-term development objectives (social services, human capital formation,

and infrastructure). This would involve setting outcome and output performance measures for line ministries and civil service reforms.

- Reduce corruption to establish a new legitimacy in the eyes of a wary public. Countries are taking a holistic approach that includes deregulation to reduce opportunities for corruption, enforcement of sanctions through development of special watchdog agencies and robust judicial systems, and through strengthened civil society institutions, such as an independent press to raise public awareness of the corruption problem.
- Decentralize government to reach citizens. Countries now enjoying—to varying degrees—greater pluralism and democratic participation, are taking a first step toward greater accountability by involving citizens in policy and budget decisions and, in the larger, more advanced countries, by devolving fiscal and administrative responsibilities to decentralized units of government closer to constituents. Such reforms need to be planned carefully, however, to make sure that decentralization does not increase the opportunities for corruption through weakened institutional capacity and supervision.

Experience to Date. The Region is using both lending and nonlending activities to achieve these objectives. The Bank has used adjustment lending as its central instrument of dialogue and financing. As a consequence, our regional commitments doubled from \$4.5 billion in fiscal 1997 to over \$9 billion in fiscal 1999 and our disbursements increased proportionately to about \$5 billion annually. Adjustment loans have supported an extensive dialogue on public sector issues, including macroeconomic policy, revenue and expenditure management, social safety net issues, and state enterprise reform.

Technical assistance (TA) loans in Korea, Thailand and Indonesia have promoted an institutional agenda.

Advice and ESW have also been conduits of policy advice, some of it focused on public sector management issues, such as tax policy, tax administration, debt management and CSR in Indonesia; macroeconomic policy, revenue and expenditure management and deregulation in the Philippines; and budget management and regulation in Malaysia and Thailand. This new post-crisis institutional agenda is only just beginning. The Bank's contribution has been to catalyze a discussion, convene reform-minded entities, and promote the shared agenda. It has been most successful in situations like Thailand, when the spur of crisis and the vision of local policymakers combined with the technical expertise of the Bank to motivate reform. Indonesia remains more problematic for macroeconomic and political reasons and because the Bank's own experience with the volatile governance agenda is still traveling up the learning curve. In all countries, much remains to be done to promote institutional reforms that can help countries weather the current crisis and help sustain reforms well into the millennium.

The challenges ahead. The Region has been pioneering three new instruments that could be helpful in promoting the dialogue on public sector issues. The first is the use of programmatic public sector reform loans to promote institutional changes over a sustained period. Thailand's Public Sector Reform Program is the first of these. It envisages annual adjustment loans over three years to achieve improvements specified in detailed action programs. These cover expenditure management, human resource management, and improvements in accountability, and will affect core agencies and line ministries. A similar operation is contemplated for the Philippines. The second instrument is the use of the *Social and Structural Reviews*. The first Bank-wide *Social and Structural Review* was undertaken for Malaysia, with a major focus on the public sector. The Region intends to expand these to as many as five countries in the coming two-year period. In addition, the Region is innovating by placing governance

issues more explicitly at the center of country programs. The Indonesia country management unit, for example, now has a senior governance advisor to lead and coordinate a governance and public sector reform strategy that fully integrates cross-sectoral concerns in a coherent country program.

East Asia has also begun piloting *new diagnostic instruments* through surveys of government effectiveness. Corruption surveys have been undertaken in Thailand and Cambodia. In the Philippines, an analytic report on corruption has been presented to government in response to an official request for Bank guidance in developing an anticorruption strategy.

Risks. The emerging market countries run a series of institutional risks, as the Bank proceeds with its new work on public sector reform and governance. In Korea, Thailand and Malaysia, there is a significant risk that economic recovery will reduce country—and Bank—motivation to continue to push for institutional reform. There is also the risk that current reform-minded governments could be replaced by less committed regimes. Indonesia still poses its own particular set of risks. While political stability is not guaranteed, recent elections completed a peaceful political transition to a largely democratic regime that has displayed considerable disposition to public sector and governance reforms. Time will provide the only meaningful test of the new government’s resolve to implement serious reforms that introduce a governance system based on real rule of law—which is widely seen as the fundamental requirement for restoring public credibility. On the Bank’s part, capacity to help government and civil society achieve these fundamental changes will also be severely challenged. The depth of regional expertise on these issues is limited and the Bank’s reputation still needs to be strengthened on these issues. But the CMU has already demonstrated high commitment to raise the visibility and priority of the governance agenda to a central focus of the overall country program.

Small economies

In the smaller economies of the region—Cambodia, Laos, Mongolia, Papua New Guinea (PNG), and Pacific Islands—bilateral donors play a larger role in resource transfers. This means that coordinated donor efforts to improve public sector management is more central—and indeed foreign aid, left uncoordinated, risks contributing to the difficulties of public sector management instead of resolving them.

Progress in smaller countries has been mixed. Fiji is one among the Pacific Island countries that has attempted to improve the management of its expenditures with steady implementation of reforms. Other countries, such as the PNG and Laos, have made much less progress, as poor governance has set back broader reforms.

In these small market countries, prospects for reforms are offset by significant risks. PNG poses particular challenges; dysfunctional administrative and political institutions adversely affect all aspects of development, and reports of pervasive corruption and clientelism abound. The Bank has stepped up the volume and quality of its analysis of these issues. Governance was the central focus of the recent Country Economic Memorandum (CEM) on PNG and features prominently in the upcoming Structural Adjustment Loan. In others among the small countries, such as Cambodia and the Pacific Islands, PERs have been a common instrument of dialogue for performance on this new agenda in the emerging market economies. In Cambodia, the focus on governance followed directions laid out in the CAS. A governance action plan is being constructed with inputs from a Bank-supported survey of households, private businesses, and public officials that polls perceptions of government quality and probity and identifies areas for reform. The Cambodia SAC with a heavy governance focus is reinforcing work on civil service, public expenditure, and legal reform that has been underway through an ongoing TA

project. In Laos, an IDF is proposed to address public sector management constraints. Laos has also been the venue for Danish Trust Fund-financed analysis of the institutional impact of IDA lending, as part of a forthcoming cross-national study carried out by the Bank.

Transition economies

The transition economies of China and Vietnam are poorer than the emerging market economies, and they face fundamentally greater institutional challenges in realigning the use of state authority in the economy. To achieve their development objectives, these governments are reducing their authority over resource allocation by widening the scope of market competition and decreasing ownership of assets under state control. In the case of China, the government has taken steps at the local level toward improving fundamental relations of political accountability and institutions of government. The Chinese government has sought to match the pace of fiscal decentralization with improvements in local institutions to manage and account for public resources. The transitions in these dimensions involve a far more complex and sustained institutional transformation than for the market economies of the EA5.

Ironically, because they are less encumbered by checks and balances inherent in open political systems and have a history of command-based planning, these countries have the potential to promote sweeping reforms, once decisions are taken. Also, both countries have greater capacity to control the pace of reform because the crisis has not plunged them into recession.

To rekindle high and sustained growth, the transition countries have to take actions in three areas. First, *rules* governing the operation of the public sector are more informal and discretionary than in other parts of the region. State enterprises and state banks must be reformed and revenue and expenditure relations examined in a context of a new quasi-federalism. Second,

opening up formerly state-dominated sectors to *competition* from the private sector can reap considerable improvements; examples include state enterprise reform, and deregulation of sectors protected by policy-induced barriers. Finally, these countries, like other poor countries with low levels of per capita income, score low on business surveys of accountability, corruption and transparency, and are only now beginning to harness political competition and press oversight to their anticorruption efforts.

Approaches. These countries require sustained attention for the next decade to improvements in public sector management as they make the transition from plan to market. Three major classes of objectives comprise the shared areas of Bank-Government strategy:

- Promoting new forms of transparency in public decisions as a first step toward reducing corruption and enhancing citizen “voice.”
- Redefining the relationship of the government to the productive sectors. This implies revamping the ownership and governance of the state enterprises and banks, reshaping the architecture of government to allow competition and to regulate the non-competitive productive sector, changing civil service rules to end cradle-to-grave protections and rigidities, and implementing complementary sector level reforms.
- Mobilizing revenues more efficiently to ensure a stronger public sector while at the same time revamping revenue and expenditure assignments across levels of government.

Experience to date. To support these objectives, the Bank in China has used project lending as well as advice and ESW as its central instrument of dialogue and financing, since the Chinese government has not requested adjustment support and has been reluctant to borrow on IBRD terms for technical assistance. Vietnam has been more receptive to investment lending,

but its content remains to be determined. Both have engaged the Bank amply through its analytic services. Vietnam has also provided an arena for using traditional Bank analytic instruments in new ways. The Vietnam Public Expenditure Review is being carried out on a fully participatory basis, with country nationals actively involved in shaping analysis of public sector issues.

Project lending in roads, power, health and poverty programs have often promoted the three central objectives of public sector reform, even though they were not advertised as such. In power, for example, the Bank's multi-billion dollar program has successfully helped the government unwind from antiquated socialist pricing mechanisms and blurred government and party relations in the governance of power companies. It has helped the government gradually introduce competition to power generation, and even improve transparency of procurement. These are changes of enormous import since they have begun transforming the links between government and productive activity for a major share of the old public sector investment program.

TA loans in China have promoted an institutional agenda of public sector reforms with some success. Our Economic Law Project has had a major influence in the crafting of legislation that enables a market-driven sector to flourish in a modern system of business regulation. Our TA for fiscal policy contributed to the development of a more modern budget system and new regulations for fiscal management and macroeconomic planning.

ESW and conferences have provided a broader policy dialogue in both countries. The recently completed PER for China, for example, focused on institutional reforms in budget management and won a wide hearing after launch at a high-level policy seminar. Also, the seven reports in the *China 2020* series provided advice on institutional reforms in public sector management of state enterprises and banks, environment, pensions

and other social programs affecting income distribution, the huge state-managed food distribution system, and the regulation of trade. Reports and policy notes on state enterprises have also proven to be useful. In Vietnam, the Bank has provided the government a steady stream of policy advice on state enterprise and financial sector reform, the institutions of social policy, and rural development. Vietnam has requested our assistance in CSR, but so far, the Bank's ability to respond to this request has been limited.

China's program of reform has been impressive, although, given the difficulties it confronts in the financial system and labor markets, the challenge is to maintain a pace of reform that is fast enough to maintain its high growth. China has made incontrovertible progress in delinking the state's authority from resource allocation—by providing an incentive framework conducive to competition, revamping its financial system, and beginning to tackle the state enterprise questions. It has also progressed in reforming the core institutions of the public sector, notably the system of taxation, fiscal administration and decentralization. Last year's administrative reform entailed a profound realignment of the structures of government with the needs of a market economy. No less important was the adoption of reforms to separate the military from the commercial sector.

While China's economic reform strategy is clear, the government's strategy to improve government responsiveness and the institutions of accountability at all levels of government is less clear. The government is still struggling with decentralized authorities that are not fully accountable to their citizenry, and with the corruption that comes from highly discretionary authority. Vietnam's internal reforms have been more fitful, and in contrast to China, the government has not yet succeeded in unleashing a virtuous circle of market-based reforms that produce growth and new constituencies supporting further reforms.

The challenges ahead. In China, the Region is

developing Learning and Innovations Loans (LILs) to promote pension and enterprise reforms. The objectives are to adapt potential improvements in enterprise reform methods to local circumstances, demonstrate feasibility through pilots, and make lessons from these widely known among local and central policymakers, leading to the replication of promising reform methods beyond the project itself. The project will focus, among other things, public mechanisms to help retrain laid-off state enterprise employees, and promote small business development. In Vietnam, the forthcoming SAC would have a substantial focus on state enterprises and financial sector reform. Programmatic adjustment lending may be eventually useful in supporting public sector and governance reforms in Vietnam, but these programs will have to be developed. Meanwhile, Strategic Compact funding is being used to develop an anticorruption strategy that will bring a range of civil society institutions into the public discourse.

Risks. Success in helping China and Vietnam with public sector reforms hinges critically on the Bank building on its established reputation as a cost-effective source of global knowledge. Several factors confine our role to providing modest input into policy:

- First, these issues involve huge internal political constituencies—ranging from government bureaucracies and state enterprise workers in the tens of millions—that dwarf any Bank influence.
- Second, these governments want access to our financial resources and embodied technical advice, but are not dependent on them. Governments will accept our financial resources only insofar as they see that the benefits in high quality embodied technical assistance and advice in promoting reforms outweigh the financial and preparation costs.
- Third, financial support has been confined to project assistance, and recent limitations on IDA avail-

ability as well as Chinese reluctance to accept TA on IBRD terms precludes much direct help on these issues. This underscores the importance of upgrading the Bank's advice and ESW, and of working intensively at the margin to promote high quality, intellectually driven interventions such as the TA embedded in our regular portfolio and in new instruments such as LILs.

Risks in the region

Threats to the realization of an ambitious policy dialogue in the East Asia and Pacific Region emanate from various sources, but two are particularly noteworthy. For prudential reasons, the Region will not be able to continue adjustment lending in large amounts for long. This may mean that countries, such as Korea, Thailand, and Malaysia, will become less interested in a dialogue with the Bank on these issues. This risk can only be mitigated through ensuring high-quality advice, appropriate structuring of conditions to consolidate steps forward in policy areas of mutual interest rather than dictating conditions high-handedly, and using multiple vehicles of dialogue of interest to the client. Much the same could be said for China.

A second constraint is that in some client countries, domestic politics may prevent effective policy formulation or implementation. The Bank can only deploy a reduced form of *advice and ESW* to maintain a sustained dialogue; simultaneously it can use *advice and ESW* to build bridges to private, reform-minded constituencies. Since these activities are usually not accompanied with a lending program, our internal budgeting mechanisms tend to require that managers assess the effectiveness of these investments against the probability of near-term pay-off in renewed political will to implement public sector reform.

Organization and staffing

The Region has begun to build a public sector cluster in the EASPR unit to help governments implement the institutional agenda. While this will spearhead the agenda described above, it will need to match resources and skills to the demand for specialized expertise on public sector reform and governance. Given the cross-sectoral nature of this institutional work, it will need to coordinate closely with other EAP units, which will play important roles. The PSI unit is heading up the state enterprise reform agenda in China, for example, and advises on competition policy and deregulation. The Legal Department is handling most legal and judicial reform activities and has advised on regulatory reforms in other areas. The Bank's Special Financial Operations Unit (SFO) has headed up the Region's activities in the financial sector. ESSD, HD, and FPSI staff are deeply involved in social, sectoral and subnational aspects of the larger governance agenda. A social policy and governance group has been meeting regularly in the Region to facilitate cross-sectoral institutional work.

To build an effective public sector cluster within the Region, EAP has hired a full time Lead Specialist in the Public Sector and has now recruited four additional professionals (including the Indonesia governance position) to begin to fill the skill gap in the areas of administrative and civil service reform, public financial management, and decentralization. With such constrained resources, public sector work in EAP has to be selective. Direct operational support for CSR, anticorruption activities and broader governance work has, of necessity, been limited. The cluster's efforts have been leveraged through its work in concert with the eight or so economists in PREM—in HQ and the field—and with CMU and sectoral staff who are presently spending a significant portion of their time carrying out the work program in the public sector. A challenge will be

to develop a professional cadre with network-standard skills to deliver on the public sector agenda. In this effort, the public sector group will also work closely with the social policy secretariat, where anticorruption efforts spanning both the private and public sectors are integrated for the Region as a whole.

Strengthening partnerships

The Region has appointed an external advisory group on governance and anticorruption to broaden our thinking on these challenges. The group includes senior figures from the Region, and has so far met three times with the Region's management team to discuss strategic directions.

The Bank is working in coordination with IMF's Fiscal Affairs Department and its Public Expenditure Division. For example, in Thailand, IMF consultants on tax and customs administration are working with our PSRL mission to implement jointly sponsored programs. In Vietnam, public expenditures efforts were coordinated through joint missions. In Mongolia, our fiscal TA program is coordinated with the Fund.

The Bank has collaborated loosely with the ADB, primarily in the common agendas of the financial sector. The potential upside to increased collaboration is great: the ADB routinely offers our client countries tens of millions of dollars in technical assistance grants, and in most countries without formal country donor meetings, this is implemented with little if any Bank involvement. Similarly, the Bank could work more closely in its projects and analytic work with the ADB. Impediments on both sides include distance, staff overload, and differing internal agendas.

The Bank is also collaborating with other partners in the region around specific projects, for example, with the UNDP, USAID and the Asia Foundation during the development of the anticorruption work in the Philippines.

Cambodia: Public Expenditure Review

Type of Activity: Analytic and Advisory Activity

Timing: Initiating memorandum February 20, 1998; Final report January 8, 1999

Summary of Contents

The Cambodia Public Expenditure Review (PER) undertakes, for the first time, a systematic review of the adequacy and effectiveness of public expenditures in Cambodia. Rather than narrowly focusing on expenditure issues, the PER takes a broader approach—it closely links public expenditure issues to revenue mobilization and governance problems because reforms to enhance the effectiveness of public expenditures need to be implemented in a comprehensive context. While the PER analyzes sector-specific issues for various sectors within the overall framework, it provides a more in-depth analysis of the health and education sectors because of their direct relevance to poverty reduction through human resource development. The PER was prepared as the main document for discussion at the Consultative Group (CG) meeting.

Innovative / Risky Elements

The PER tackles governance issues as a critical impediment to sustainable development in Cambodia, in particular through estimating the extent of revenue loss resulting from weak governance. It

estimates foregone revenues with credible accuracy based on known information and assesses the potential for enhancing revenue mobilization, a prerequisite for effective expenditure policy in Cambodia. The PER also constructs, in close collaboration with government, a consolidated public expenditure database, encompassing expenditures incurred by the government, donors and NGOs, and analyzes the level and composition of this more complete picture of public sector expenditures with government. In addition, the PER assesses the implications of the institutional arrangements and management practices in the budget process on determining budget outcomes, and makes specific recommendations for reforming institutional procedures in view of Cambodia's weak institutional capacity. The Cambodia PER received a "best practice" rating from a QAG assessment panel.

Partnerships

The Bank team collaborated extensively with the Government in establishing and analyzing the consolidated public expenditure database. The IMF contributed the chapter on "Macroeconomic Framework, Resource Envelope, and Public Expenditures" in consultation with the Bank team. The UNDP socioeconomic survey formed the basis of the health and education sector sections, as did consultation with WHO, UNICEF and UNESCO.

Indonesia: Governance Partnership

Type of Activity: Grant-based Activity

Timing: November 1999. First Board meeting: May 2000

Loan Amount: \$1 million, funded by IDF, Dutch & Australian governments

Summary of Contents

The Partnership's main objective is to help establish strong institutional building blocks for governance in Indonesia. It will function as a knowledge-sharing arena, a consensus-building forum, and a vehicle for strategy development and coordination of the various critical facets of the reform process. It will pursue this aim by:

- Generating and disseminating knowledge on good practice in governance from Indonesia and abroad,
- Coordinating the governance reform efforts of Government, donors, and civil society, and
- Funding initiatives to promote reform of governance in Indonesia.

The partnership will support activities in five key areas where governance reforms are urgently needed:

- Reform of democratic non-executive governing institutions;
- Regional autonomy and effective decentralization of government service delivery;
- Core executive public sector capacity building;
- Civil society strengthening; and
- Anticorruption initiatives.

The Partnership will help identify effective approaches by promoting a broad national consultation process

involving participatory assessment and wide dissemination of results. The aim is to reach consensus on a realistic strategy to affect and monitor key reforms.

Innovative / Risky Elements

The governing structure of the Partnership is an innovative arrangement between the World Bank and the UNDP. The Partnership's activities will fall under two components: the Facility for Policy Dialogue and Analysis, and the Trust Fund to support capacity building for good governance. The partnership is not intended to be a permanent structure; it is seen as a transitional mechanism to engender a longer-term governance agenda that will eventually be sustained by national institutions. The phase-out plan will contain a plan for transferring the partnership's activities to Indonesian organizations. The Partnership will provide a mechanism to transfer knowledge and expertise on governance transitions and to catalyze the initial stages of an ongoing national governance debate, helping to bring together diverse groups in government and civil society. This approach can also serve as a potential model for other countries where independent support for embryonic national governance institutions is needed.

Partnerships

In this joint undertaking, the Bank has submitted proposals for financing to IDF and bilateral funding sources, while Trust Fund financing will be arranged by UNDP with Bank consultation. The Executive Board running the Partnership will comprise representatives from UNDP, the Bank, Government of Indonesia, and civil society.

Thailand: Public Sector Reform Loan

Type of Activity: Loan, Programmatic Structural Adjustment Loan

Timing: Board Approval: October 14, 1999; Reform program defined over a 3-year period

Loan Amount: \$400 million for first stage of reforms

Summary of Contents

Thailand's PSRL seeks to improve public sector governance and enhance the efficiency, effectiveness, equity, and transparency of public resource management and service delivery. The reform involves both central agencies and line ministries such as education and health, which have embarked upon substantial reforms to deliver better services. Its core components include a more performance-oriented budget system, a flexible and effective civil service, and greater transparency. Reforms are being implemented in (a) expenditure management, (b) human resources management, (c) revenue management, (d) decentralization, and (e) cross-government accountability and transparency.

Innovative / Risky Elements

The PSAL framework of a three-year program of technical and financial assistance provided by the Bank, with flexible performance benchmarks, is ideally suited to the Government's reform program. However, improvements in the Thai economy have occurred both sooner and with greater depth than had been anticipated when the PSRL was presented to the Board. The Government's need for financing has diminished substantially while its commitment to the reform program remains strong. This presents an opportunity for redefining the Bank's role in supporting the Thai program with less emphasis on financial assistance and greater emphasis on technical assistance and facilitation, and monitoring of reform progress.

Partnerships

The Governments of Australia and New Zealand have provided significant technical assistance in support of the Thai reform program that has been well coordinated with ongoing Bank activities. The UNDP has been active in supporting decentralization and general governance issues, also in complementary ways.