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**To:** Nick Manning, Director of Public Sector Governance; PFM Practice Evaluation Task Force  
**Subject:** Assessment of Public Expenditure Review (PER) knowledge products  
**Date:** 10/16/2013

### **Recommended Action**

This memo outlines the results from an evaluation of several PER products, in order to assess the accuracy and practicality of the World Bank's current methods for analyzing Public Financial Management (PFM) problems and formulating policy recommendations. It is recommended that the Bank introduce a new product more focused on optimizing implementation through **1)** closer attention to leadership, coalition building and change management and **2)** a smaller number of targeted, high-priority policies and programs designed to produce quick wins and tangible results. These new short-term implementation strategies would seek to 'jump-start' a sustainable momentum for internally-driven reforms by: **first** identifying a coalition of domestic leaders that will be invested in and dedicated to the long-term success of reforms, **and then** empowering and legitimizing this reform coalition in the short-term through high-impact interventions building on the Bank's existing PER analytical strengths.

### **Issues**

The Independent Evaluation Group (IEG) recently published findings that point to an uneven, sometimes poor, track record of PFM reform implementation in many countries. A PFM Practice Evaluation Task Force was therefore created to explore strategies to reinforce the Bank's PFM work. This memo offers a first review and assessment of a key component of the Bank's PFM activities, the PER. The PER is a valuable knowledge product that serves a critical role in helping both borrower countries and Bank staff to better understand the current state of PFM in borrower countries. PERs also outline different alternatives for reforms. However, lessons learned over the past two decades highlight the fact that achieving development requires more than an accurate diagnosis and broad policy advice. Due to resistance and opposition from vested interests and institutionalized power structures, successful implementation requires first changing political realities on the ground. It is therefore recommended to launch a new product that will complement the PER by identifying one, concrete and targeted short-term implementation strategy. Supported by the research and analysis of PERs, this new product would be briefer, more direct and action oriented. Through reforms designed to have a quick impact on public sector structures and practices, the objective is to weaken existing power brokers and use tangible results in government efficiency and service delivery to mobilize broader support (inside and outside governments) for reforms.

The PER as it stands is a necessary but not sufficient tool for achieving public sector reforms. The strength of the PER comes from the combination of accurate in-depth analysis with medium-term strategic thinking (generally through the formulation of a Medium Term Expenditure Framework). Whether they address the topic of PFM on a national, state, or sector level, the documents generate detailed accounts and evaluations of how governments are structured (e.g., institutional arrangements, legal frameworks, executive and regulatory agencies), how governments function (e.g., budget formulation, execution and reporting, or the allocation and distribution of funds, or civil service management). The reports are well grounded in national contexts at specific historical junctures, resulting in timely and relevant analysis. For instance,

the External Review of Public Expenditures and Financial Management (ERPEFM) for Ghana from May 2009 is shaped by the Ghana's specific challenges, including: the improvement of public human resource management via the integration and strengthening of its financial, accounting and payroll systems; or specific legislative challenges such as the urgent need to pass a successful oil & gas bill after years of paralysis. Similarly, the Agricultural and Rural Development (ARD) PER for Mexico from December 2009 offers valuable insights into the historical evolution and current structure, efficiency and impacts of Mexico's ARD programs and policies. This analysis is vital in order to improve the strategic coordination and pro-poor allocation of government activities that have in the past resulted from mostly ad-hoc or politicized (rent-seeking) considerations. Moreover, the insights and recommendations found in PERs are generally well supported by direct observations and field research. In an education sector focused PER for Brazil from 2002, the Bank conducted field research in order to track the performance of a vast reform initiative undertaken by the government starting in the mid-1990s. As a result, the researchers were able to reach conclusions about the relative efficiency and effectiveness of different levels of government (state vs. municipal) in their management and assistance of critical school-level educational reforms. These conclusions, carefully supported by empirical evidence, serve as a tangible basis for policy-recommendations to the Brazilian government. Similarly, tools such as the Public Expenditure Tracking Survey (PETS) (as used in the previously mentioned Ghana ERPEFM) allow researchers to conduct very detailed assessments of trends and performance in government practices. Through this direct engagement, researchers test their assumptions and sometimes identify unexpected obstacles or problem areas (as explained in the Ghana ERPEFM regarding problems identified related to sub-national financial reporting.)

While they consistently refer to problems with the application and enforcement of reforms, PERs do not pay enough attention to the political realities of reform and change management. Some reports do mention the importance of political factors. Mexico's ARD-PER briefly mentions the importance of political resistance to and manipulation of reforms. A Public Expenditure and Financial Management Review (PEFMR) for Mongolia from June 2002 addresses in more detail the need for a change-management strategy in order to engage all key stakeholders, identify sources of resistance and empower 'champions of change'. Overall, current PER policy recommendations are too broad and open-ended, leaving too much room for selective or partial implementation by domestic political actors intent on preventing or manipulating reforms.

Political factors must be a central consideration in the Bank's approach to PFM reform implementations. These factors could be addressed more closely in the PER, but this would risk over-politicizing this tool and generating borrower country resistance. Instead the Bank should create a new document which would explicitly outline one specific short-term strategy, with the objectives cite above, in order to create an enabling environment for longer-term change.

### **Implementation**

The first step to implementing this initiative requires defining a detailed 'change-management strategy' as described in the Mongolia PEFMR in order to understand which actors will support or resist reforms, and simultaneously conducting a review of existing PERs in order to identify the short-term interventions that can empower reformers and generate broad support. Once a coalition of reformers is empowered, these domestic actors can adopt (and adapt) many of the medium-term reform policies already identified in the existing PERs.