Helpdesk Research Report: Effectiveness of demand-led technical assistance and cooperation on public sector reforms

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Query: Identify evidence that demonstrates that the provision of demand-led technical assistance and cooperation helps support governments to undertake public sector reforms. Where possible, include evidence relating to supporting public sector reforms for improving economic governance and inclusive growth, and evidence applicable to supporting MENA governments' public sector reforms in response to the changing political dynamics.

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1. Overview

There is a large body of literature on technical assistance and cooperation, but no cases demonstrate that improved economic governance and inclusive growth has unambiguously been the result of demand-led technical assistance. There is, however, literature that evaluates technical assistance and the progress made in public sector reforms in the Middle East and North Africa (MENA) region, and that argues that public sector reform (PSR) can remove constraints on inclusive growth. Whereas a direct causative link between a technical reform activity and inclusive economic growth would be difficult to demonstrate, it is possible to break down the causal chain and say that PSR in MENA has been and continues to be effective, targeted technical assistance helps reform, and PSR can contribute to inclusive growth. Consequently, this report identifies illustrative case studies that: document PSR progress in MENA and show how further reform is possible; make the case for technical assistance and identify parameters that make such interventions effective; and outline the thinking behind the contention that PSR can lead to inclusive growth.

Public sector reforms in MENA

Historically, MENA has experienced lower levels of governance improvements and successful projects than other regions (Webb et al. 2008). However, a number of recent PSR efforts in MENA have been successful, improving institutions and capacity (World Bank 2010; OECD 2010). Successful reforms have occurred when: situational factors have been strong enough to counter vested interests; there has been wide stakeholder consultation; an experimental, gradual but opportunistic approach has been used; and when there has been sustained leadership and determination (Ibid.). In some cases value-based methods, such as developing codes of conduct, have been effective (OECD 2010).

A 2010 World Bank study identified ten principles for the implementation of public financial management reforms in MENA, which also apply to PSR in general (World Bank 2010). These are: know the value and limitations of political economy analysis; see reform as a way of solving broader problems, not an end in itself; work with the grain; combine grand strategies with incremental advances; start with basic reforms before advanced reforms; keep reforms quick and simple; be wary of large electronic systems; identify and coordinate reform champions; do not count on external stakeholders; and be strategic, flexible and modest. The study highlights how political and economic crises can facilitate and expedite reform; in the case of tax reform, a fiscal crisis helped to overcome obstructive vested interests. Political transition may also result in champions for reform being placed in influential positions and provide a political window for reform.

Effectiveness of technical assistance in public sector reform

In general, technical assistance has worked best in countries where there has been a significant degree of ownership and direction from the recipient country. Successful cases usually involve the developing country identifying specific needs and interventions. These interventions must be strategically developed, properly targeted to the context and prioritised. Factors that undermine the effectiveness of PSR are when it is too broad in scope, over-ambitious or when it does not address government priorities.

Between 1999 and 2006, three quarters of the countries that received World Bank support for PSR showed clear improvements in governance (World Bank 2010). Webb et al (2008) find that this was because: 1) the support helped improve the public sector; and 2) countries that wanted to improve their public sector had sought support. They note that it was not possible to identify which of these two factors predominated.

Disaggregating the countries shows that, as a result of PSR support, middle-income countries were more likely than lower-income countries to show improvements. However, when lower-income countries improved in governance, they improved by a greater degree: the poorest countries tended to start with the poorest initial levels of governance, so any improvement would be comparatively greater than those countries with good existing levels of governance (ibid).

Evaluations of three PSR activities in Papua New Guinea (PNG) found positive impacts (Ives et al 2004). One technical assistance activity focused on improving PNG's capacity to investigate alleged misconduct and discriminatory practices. This resulted in substantial increases in productivity and effectiveness as well as improvements in public awareness of the agency's work. An activity that twinned treasury employees in Australia and PNG had some impact, but failed to reach the programme's overly ambitious goals. A third activity involving placements of skilled staff showed significant success in some placements, but a modest impact overall.

Public sector reforms for inclusive growth

An ineffective public sector can be a constraint on economic development, and a number of authors argue that PSR can improve economic governance and allow inclusive growth. Derviş et al (2012) argue that a responsive and effective public sector is needed for inclusive growth in Arab countries. M'Cormack (2011) argues that PSR can address some of the reasons for the failure of economic reform to deliver inclusive growth in Egypt after 2004. Outside of MENA, one of the key causes of Peru's failure to achieve inclusive growth, for example, and has been an ineffective public administration (Moron et al. 2009).

2. Public sector reforms in MENA

2.1 World Bank case studies

A 2010 study surveys public sector reforms, specifically public financial management (PFM), reforms across ten MENA countries: Algeria, Egypt, Iraq, Jordan, Lebanon, Morocco, Syria, Tunisia, the West Bank and Gaza, and Yemen (World Bank 2010). The study finds that the reforms that have been particularly successful in MENA fall into two categories: efforts to improve budget transparency and classification; and the reform of revenues, particularly tax and customs.

In relation to improving budget transparency, the study notes that while there may be some resistance to such reforms stemming from basic bureaucratic inertia, no fundamental interests are challenged or mandates threatened. Once implementation is complete, the reform becomes part of the system and remains so. For reforms in tax and customs, however, reform can be much more difficult. Revenue agencies are often the places where corruption is most pronounced. Efforts to restructure and reorganise their functions can be met with fierce resistance from both inside and outside the agencies. At the same time, the gains from reform may well also be significant. For governments facing significant fiscal deficits, it is often more politically palatable to raise revenues than to engage in painful cuts in expenditure. The study concludes that in such economic situations, reforms in tax and customs are able to gain the requisite high level political support to see them through despite opposition.

A variety of lessons have emerged from these case studies and other detailed assessments of PFM reforms that are equally valid to other public sector reforms. These are summarised as the Ten Principles of Implementation for PFM reforms in MENA.

1. **Know the value and limitations of political economy analysis:** Political and bureaucratic factors do matter, but reformers should not mechanistically seek to transfer approaches and practices that work well in one setting to other very different institutional contexts despite similar political economies. Each reform experience is unique and

endogenous to a particular time and country, as well as to an individual set of political, bureaucratic, institutional and personal dynamics.

2. **See PFM reform as a means and not ends:** PFM reforms are only effective when they are a solution to a broader set of problems. In the MENA region, the most far-reaching reforms were implemented in response to an acute fiscal crisis and the need to fundamentally restructure tax practices to attract foreign investment.
3. **Context matters, so swim with the current:** Major reform agendas can stretch over years, whereas political and economic conditions can change much quicker. Reforms are more likely to succeed when they are largely technical in nature, have a solid rationale behind them, are supported by well-positioned champions within the relevant ministries, and if they avoid alienating powerful constituencies.
4. **The wisdom of muddling through; grand strategy versus incremental change:** A suitable approach is a combination of using an overarching strategy and acting when opportunity presents. Reform is most effective when it is ‘patient, deliberate, methodical, and opportunistic, looking for an opening here and there’ (World Bank 2010: xi).
5. **Establish basic systems before contemplating more advanced reforms:** It is important to get the basics right before moving on to tackle more advanced reforms. In MENA countries, the difficult reforms have been the move to a Medium Term Expenditure Framework and the effort to introduce greater performance orientation into the budget process. These have been complicated and problematic to implement as their realisation depends upon a number of preconditions to be in place before they can be effective.
6. **Whenever possible, keep reforms quick, simple and mutually reinforcing:** Major PFM reforms are difficult, complex undertakings where laws and regulations must be drafted; longstanding practices restructured; political and administrative cultures changed; and institutions built and capacities strengthened. This may take time to implement well. On the other hand, there may be a small political window in which to achieve reform and political will can weaken over time so expediency may take precedence over comprehensiveness in some cases.
7. **Be wary of large financial management information systems:** An integrated financial management information system (IFMIS) can offer great benefits for a variety of PFM activities, especially budget execution. At the same time a simple computerised system to fit the specific needs of the budget execution system of the country would have much lower initial development costs, and may be an efficient way of habituating officials only familiar with paper based systems.
8. **Internal challenges: leadership, coordination, skills and incentives:** The most far reaching and successful reforms within MENA have been driven by powerful ministers of finance, whose role has pivotal in the process. At the same time, many reform initiatives include a wide array of stakeholders with no coordination mechanism. Inter-agency task forces can facilitate coordination in these situations, if done well.
9. **External stakeholders are useful, but do not count on them:** The Executive Branch is extremely powerful throughout MENA. Other stakeholders operate at a distinct disadvantage when it comes to influencing political and administrative decision-making. Those that are considered external stakeholders are legislative or judicial branches, various civil society organisations, academics, think tanks or the private sector.
10. **Lessons for donors: be more strategic, selective, modest and flexible:** Many donor-supported reforms have been too ambitious, overstating the amount of political and bureaucratic support for reform; not fully aware of the role of legacy systems and whether the necessary preconditions were in place; and in general trying to do too much within too limited a period of time and without the required capacity. Donor modalities, analysis and

staffing needs to be developed to better respond to the dynamic nature of the PFM reform process.

2.2 OECD case studies

The MENA-OECD Initiative aims to support public sector reform in the Middle East and North African (MENA) region. A 2010 OECD report produced through this initiative argues that since the start of the initiative in 2003, there has been continuous policy action in MENA countries to improve and enhance institutions for good governance and that significant progress has been made (OECD 2010). The report argues that the reforms have had a very positive impact and MENA countries have achieved impressive results in recent years in reinforcing institutions, modernising legal frameworks and building capacities for improved integrity. The report also argues that more needs to be done in the way of reform.

Reform strategies have varied across countries in the region, but they generally emphasise policy-making capacities, public finance, human resource management and the rule of law. Different governments have taken different approaches with differing results, yet successful programmes seem to share the following common features.

- The most effective approaches have included consultation with internal and external stakeholders, experimentation to test innovations followed by a gradual, decentralised approach to implementation.
- Value-based methods, such as developing codes of conduct, have helped, when combined with stakeholder consultation and participation in implementation.
- Sustained leadership and determination despite obstacles have been crucial to success in the MENA, as in other regions.

3. Effectiveness of technical assistance in public sector reform

3.1 World Bank evaluation of public sector reforms

The World Bank's Independent Evaluation Group conducted an evaluation of World Bank support between 1999 and 2006 for public sector reform in four areas: public financial management, administrative and civil service, revenue administration, and anticorruption and transparency. The evaluation concludes that three quarters of countries receiving World Bank support for PSR experienced improvements in governance, based on their Country Policy and Institutional Assessment (CPIA) assessments (Webb et al 2008). CPIA country ratings are based on criteria that cover various aspects of governance, specifically economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions. In a quarter of the countries that received PSR support, the improvement in ratings has been substantial given the relatively short period covered. On average, countries that received PSR support improved their CPIA ratings, whereas countries without such support did not show a major change.

Webb et al (2008) conclude that this correlation indicates that World Bank support helps improve public sector performance, but also that a there is a selection process: countries that are more enthusiastic about PSR (and would improve somewhat anyway) are more likely to receive support. It is not possible to identify which of these two factors predominates.

Though all countries were more likely to improve their ratings when they received PSR support, the likelihood of improvement was greater in countries with poor initial governance, as measured by low CPIA ratings. A number of countries improved without World Bank PSR support, though in many cases those countries were supported by external sources other than the World Bank.

Under the World Bank classification process for loans and funding allocations, countries designated as eligible for International Bank of Reconstruction and Development (IBRD) assistance tend to be middle-income countries, as these are the ones generally considered credit-worthy. Countries eligible for International Development Association (IDA) assistance are generally the poorest countries. The study found that IBRD countries with PSR projects improved more frequently than IDA countries. At the same time, among those countries with low initial ratings, the rate of improvement was higher in IDA countries than IBRD. This observation suggests that technical assistance for PSR reforms are more likely to produce improvements in middle-income countries than low-income countries, but when low-income countries improve, they improve by a greater degree.

Webb et al (2008) argue that the World Bank has a comparative advantage for diagnosis in the technical aspects of PSR but that the extent to which this advantage is used varies across themes and across country types. They note that typically in IBRD countries where governments have the financial freedom and in-house technical capacity to decide whether, when, and for what they will borrow for a PSR project, the strategy tends to be custom made to the country circumstances. In IDA countries, the World Bank and other donors more often insist on wide-spread public sector reforms – a ‘one size fits all’, off-the-shelf reform. The authors argue that success comes with long-term, tailored commitment – when experts work over time with government counterparts to design and implement a project that fits local circumstances.

There were also regional differences in rates of improvement. Europe and Central Asia had the highest rate of improvement for countries getting PSR lending support, though non-borrowers improved as well. The authors attribute this to the influence of the European Union who have supported reform and offered accession to some countries. Second in terms of improvement was Latin America and Caribbean which had a high rate of improvement and notably higher rate for borrowers over non-borrowers. Here IDA countries improved more than IBRD countries. Africa and East Asia were next with a greater advantage for those who borrowed as shown by the different rates of improvement for those who borrowed versus those who did not. Last was the Middle East and North Africa, who experienced the lowest levels of improvement in governance CPIA scores amongst PSR borrowers.

Looking at PSR at the project level, three quarters of PSR projects were rated successful (i.e. receiving a ‘satisfactory’ or above level). The authors conclude that where there was failure, one of the main reasons were that project objectives that were over-ambitious.

PSR projects to IBRD countries received better ratings than IDA countries. This could be because the design of reforms is sometimes based on models for developed countries. Such reform is complex for still-developing countries and especially so for IDA countries who tend to have institutions that are further from those of developed countries. Another factor may be that expectations and objectives in heavy budget-support projects were more ambitious and global. The authors argue that this reflects the donors' list of things they consider need fixing rather than the government's list of things they are ready to do. Consequently the reason for the lower success rate in IDA countries may be because IBRD borrowers have had a stronger say in selecting project components and conditions.

Looking at a geographical breakdown of project success, projects in MENA were amongst the least likely to perform well. Projects implemented in countries with better governance ratings received higher project ratings. Projects in countries with high governance scores scored exceptionally highly in specific ratings related to the borrower preparation, implementation, and compliance.

Also of note is that ratings for recent PFM reform projects have greatly improved overall. Projects approved between the fiscal years of 2002 and 2005 have been rated 'satisfactory' or above in 99 per cent of cases.

3.2. AusAID evaluation of Papua New Guinea public sector reforms

A cluster evaluation of three public sector reform activities in Papua New Guinea (PNG) found positive impacts from some of the activities undertaken through technical assistance (Ives et al. 2004). The main conclusions were that public sector reform activities are effective when they are strategically developed, properly targeted and prioritised. Reform should be implemented in a way that strengthens the overall capacity and performance of the country institutions in support of government priorities, and not just so as to improve technical performance in a specific area. The more specific, pragmatic recommendations were:

- A strategic framework is needed for identification, direction and prioritising of assistance.
- Design remains essential – with clear objectives, good risk and sustainability strategies, comprehensive monitoring frameworks, and an explicit link to poverty reduction.
- Attention to the implementation environment can make or break an intervention.
- Technical Assistance Facilities have a role as an employment and support mechanism.
- Addressing partners' quality of management is often more important than further improving their policy and technical capacity.

The three reform activities evaluated were the Ombudsman Commission Institutional Strengthening Project, the PNG-Australia Treasury Twinning Scheme and the Advisory Support Facility Phase I project. The evaluation identified lessons from each project.

<u>Ombudsman Commission Institutional Strengthening Project</u>

The Ombudsman Commission (OC) in PNG is tasked with investigating alleged misconduct or discriminatory practices by government agencies. The goal of the Ombudsman Commission Institutional Strengthening Project (OCISP) was to improve governance in PNG so that leaders and government bodies perform in a more open, transparent, accountable and equitable manner that is responsive to the population. To achieve this goal the programme set out to improve the work practices of the OC and to enable it to effectively discharge its role, purposes and functions.

The evaluation team concluded that the project had been managed in a professional manner and that it had achieved its objectives with, among other things, substantial increases in productivity (estimated at 30–50 per cent by the project team) and effectiveness in detecting corruption, as well as improvements in public awareness and assistance to other government bodies in resolving complaints from dissatisfied members of the public.

The authors argue that the reasons for success were involvement and support of OC management throughout design and implementation, a professional approach by the project team and a good design. The evaluation concludes that the significant efficiency gains achieved during the project have continued to be maintained and longer-term sustainability was possible.

<u>PNG-Australia Treasury Twinning Scheme</u>

The PNG-Australia Treasury Twinning Scheme (PATTS) was a direct 'twinning' arrangement between the Treasury in Australia and the Treasury in PNG. The formal objectives of PATTS under the twinning agreement are: to strengthen the economic policy capacity of PNG staff; to strengthen PNG's budgetary systems; to provide advisory support to key agencies to promote change, sustainability and skill transfer to counterparts; and to provide high level economic advice to the Prime Minister and Treasurer.

The evaluation team concluded that the broad objectives expressed above had not been, and could not reasonably have been expected to have been achieved. While some important activities, such as macro-economic forecasting, had been pursued with commitment, others had not been pursued as actively and overall, the impact of the activities have been modest to date. The evaluation concludes that the impact of the project has been partly diagnostic in nature, partly capacity building and partly to provide urgent short term assistance in agreed areas. This has not created the conditions for high impact and sustainability. The authors argue that the essential architecture which had assisted the OCISP to be successful was not present in this project, and there was no diligent monitoring. The project progressed in a confused environment, with little ownership, strategic direction or coherence.

<u>Advisory Support Facility (ASF) Phase I project</u>

The stated goal of the Advisory Support Facility (ASF) Phase I project was to improve the quality of service delivery provided by PNG government agencies through raising the level of expertise within government to formulate and implement government programmes, to deliver government services and to facilitate the release of key staff for training. This was to be done by providing specialist short and longer term advisory support placements.

The evaluation finds that the ASF I project largely achieved the specific objectives of placements and has provided a standard of outputs that is well regarded by the stakeholder agencies. The evaluation also notes, however, that the initial objectives of placements were usually overly ambitious, with many having to be scaled back or an extension sought. Much of the credit for the achievements rests with individual advisors, who were professional, enthusiastic and committed. Where placements are reliant on external actors' support, they are less likely to achieve their objectives. The shorter the placement, the less likely it is to have sustainable outcomes. Agencies which are supportive and have available and accessible senior advisors are more likely to be sustainable.

The evaluation concluded that the overall impact of ASF Phase I was likely to be modest. There were some significant successes of individual placements, but these were often outside the strategic objectives of the aid program, with no opportunity for reinforcement.

4. Public Sector Reforms for Inclusive Growth

A number of studies argue that an effective public sector can be a necessary, but not sufficient, condition for inclusive growth. Public sector reforms can improve economic governance and remove one set of constraints to inclusive growth.

For inclusive growth in Arab economies, Derviş et al (2012) argue that Arab public sectors require modernisation of state institutions. There must be reform to deliver better services that is devoid of unsustainable deficits, poorly targeted subsidies, cronyism and many public employment sinecures (salaried positions with office little or no work). They argue that Arab states have been captured by elites and have mainly benefitted a few well-connected private citizens. This must change and be replaced by a new public sector culture of responsiveness to all citizens, freedom of information, audits to combat corruption and reforms focusing on service delivery.

In response to the question why did post-2004 donor-supported economic reform programmes in Egypt fail to deliver inclusive growth, M'Cormack (2011) lists reasons as problems within the labour market, cronyism, subsidies, lack of democratic space and insufficient attention to dynamic sectors. Possible measures to address these issues include shifting resources out of subsidies; expanding the economic reform programme to widen benefits; political reform, good governance, and socio-economic development; the creation of jobs that would absorb Egypt's growing labour force; and addressing constraints on small businesses. Reform should focus on the rule of law, quality of government services, human rights practices and political participation.

Literature relating to regions outside of MENA also emphasise the importance of the public sector for inclusive growth. In the case of Peru, Morón et al (2009) argue that one of the main obstacles to achieving inclusive growth has been the lack of a well-functioning state apparatus. The Peruvian state has been characterised as bloated, bureaucratised, inefficient, and lacking in professionalism. The public sector acted as a significant deterrent to private investment and was biased against the rural population, as most of the public sector was located in Lima and no significant effort was made to decentralise its power to the provinces. The author argues that the state needs a professional civil service with merit-based career paths; a results-based budgeting system with sound monitoring; and that the government should decentralise and empower local and regional governments to improve basic social programmes.

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6. Additional information

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