The World Bank's Approach to Public Sector Management 2011-2020:

"Better Results from Public Sector Institutions"

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This publication has been prepared by the Public Sector & Governance Board (PSGB) of the World Bank with the intensive collaboration of the many Bank staff working on public sector and governance challenges. The role of the PSGB is to develop and update the Bank's strategy in public sector and governance work, to manage expert staff strategically, to manage the Bank's knowledge on public sector and governance, and to maintain effective partnerships.

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Introduction

1. Public sector management (PSM) reform is concerned with improving public sector results by changing the way governments work. It is a challenging reform area in which to offer assistance. Sustainable institutional change often requires that thousands of public agents alter their behavior, and political incentives may be at odds with improving public sector performance. "What works" in PSM reform is highly context-dependent and explicit evidence remains limited.

2. The Bank's Approach to PSM for 2011-2020 emphasizes that public sector reform is a pragmatic problem-solving activity, which seeks to improve results by identifying sustainable improvements to the public sector results chain. The Approach reflects continuing evolution in the Bank's PSM work. It responds to changing demands from client countries, as well as changes in the Bank's own operating environment, including opportunities presented by results-based lending and risk management strategies. It puts into practice the lessons learned from significant progress research has made in recent years in unpacking the nature of institutional reform. Overall, it seeks to achieve better results by better adapting the way in which the Bank supports client countries to the distinctive nature of PSM reform.

3. This Companion Piece is structured as follows. First, it sets out what PSM reform is and why it is a particularly challenging reform area. Second, it identifies three key roles for the Bank in PSM reform: as a development actor; as a thought leader and knowledge generator; and as a disciplinary integrator bringing together diverse skills and capacities to assist in PSM reform.[1] It notes the Bank's long term strengths and weaknesses in each of these roles. Third, it pinpoints emerging new challenges and opportunities and their implication for these roles.

4. The Companion Piece concludes by setting out key actions that the Bank should take in order to become a more effective partner to client countries in improving their public sector results. It proposes that, in monitoring the PSM Approach, the Bank should hold itself accountable for delivering more, and better, results from its PSM interventions. The bottom line is that, allowing for country circumstances, Bank support for PSM reforms should lead to better results and, over time, it should be possible to measure these results in practice.

What is Public Sector Management, why does it matter and why is reform difficult?

What is it?

5. **The public sector comprises upstream core ministries and central agencies, downstream bodies including sector ministries, and non-executive state institutions.** Upstream bodies include core ministries and agencies at the center of government, such as the Ministry of Finance and the offices that support the head of government, which have functions that cut across sectors. Downstream bodies include both sector ministries and agencies, including education and health providers which deliver and fund services under the policy direction of government.[2] They also include a diverse group of more autonomous bodies such as regulators and State-Owned Enterprises and corporate bodies which, in many countries, still provide the majority of infrastructure services despite extensive privatization. Non-executive state institutions include judiciaries,[3] legislatures and institutions such as Supreme Audit Institutions.

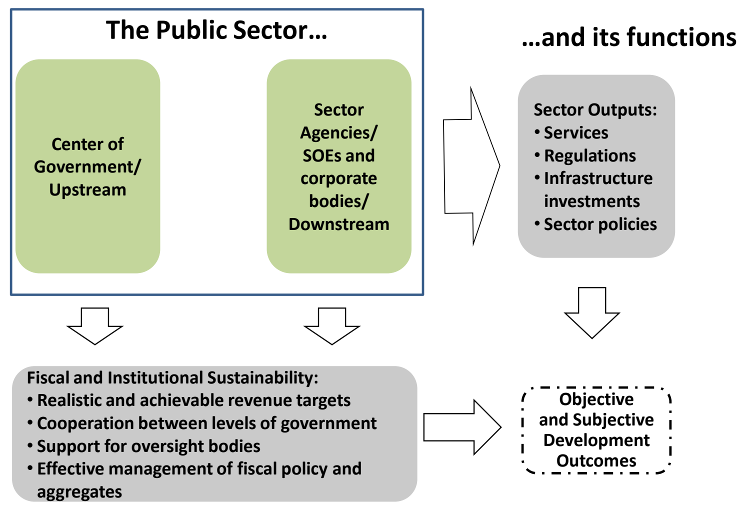
1 These roles are the specific implications for PSM of the Bank's overall drive to deliver measurable results (development actor), its commitment to Open Development (knowledge generation and sharing) and to improving how staff are deployed (collaboration). See http://www.worldbank.org/html/extdr/worldbankreform/

2 This conceptual distinction between upstream and downstream bodies applies across levels of government. For example, in federal states, each state will have "upstream" and "downstream" bodies.

3 The public sector management concerns primarily relate to the role of the judiciary in ensuring executive accountability through maintaining oversight of administrative procedures and redressing grievances. See "New Directions in Justice Reform" for a review of the many other roles of the judiciary.

6. **The upstream/downstream distinction approximately reflects the current "division of labor" among Bank staff.** "PSM Specialists" tend to focus on upstream, cross-cutting PSM reforms at the center of government, whereas "sector specialists" tend to focus on downstream reform aspects. The distinction between these two reform areas largely reflects the internal organization of the Bank's support to PSM reform.[4]

Figure 1: Public Sector Organizations and Functions



7. **Downstream, the public sector delivers outputs that directly matter to citizens and firms** (see Figure 1). *It provides firms and households with services*, such as health and education, housing, transport, electricity or security, through direct provision and through funding. *It manages infrastructure and other public investments* which the private sector may be unable to finance or for which the private sector may be unwilling to bear all the risk. *It regulates social and economic behavior* when necessary, such as food or road transport safety. Equally importantly, *it develops and manages competing policy proposals*, pro-actively (ideally) identifying emerging social and economic challenges and proposing solutions and *it sets sector policy objectives*, such as reimbursement methods for allocating recurrent budgets to hospitals, or incentives for water use efficiency.

8. **The public sector is also responsible for some less tangible but equally critical outcomes**. It must encourage both *fiscal and institutional sustainability*. It must provide systems and processes that enable governments to *manage public revenues, expenditures and debt* ensuring that they remain within agreed fiscal aggregates. It must manage the allocation of fiscal, administrative and functional authorities *across levels of government* in a way that *ensures cooperative and constructive engagement between them*. The public sector must also work with and *support accountability and governance mechanisms* (judiciaries, legislatures and other non-executive state institutions such as Supreme Audit Institutions) to ensure that they provide transparency through credible arms-length oversight.

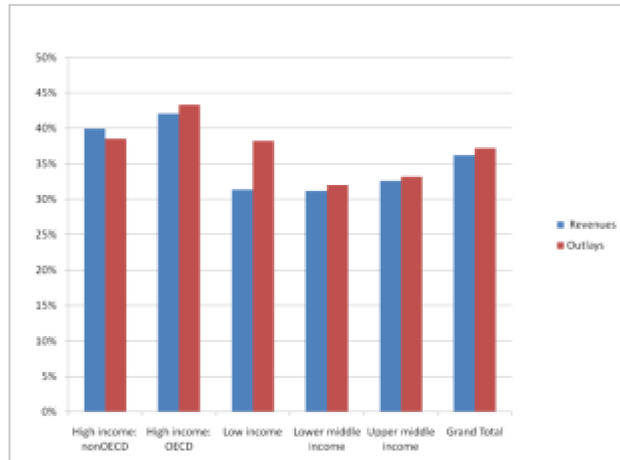
9. **How these public sector results are achieved matters.** The subjective individual, household and firm perception of "being well-governed" is a desired outcome of well-functioning public sector arrangements, not least because a trusted government is one which generates less resistance from tax payers. In other words, the public sector is not only important for what it does, it is also important for how it is seen to do it.

[4] In a sample of 179 PSM projects, projects led by PSM specialists had component indicators mostly at the upstream level (85 percent), with only 15 percent of indicators referring to downstream, sector or service delivery targets. By contrast, for PSM projects led by non-PSM specialists (typically health, education or transport specialists), the proportions were 36 percent and 64 percent respectively.

Why does it matter?

10. **The size and economic significance of the public sector make it a major contributor to growth and social welfare.** It is important to understand, and improve, what it is achieving with its very significant expenditures (see Figure 2). Its achievements emerge in the quality and nature of the services it provides, the infrastructure it finances or underwrites and the quality of its social and economic regulation and its sector policy objectives. How well those public sector activities are managed is a key development variable.

Figure 2: General Government Revenue and Outlay as a Percentage of GDP



Averages by Country Income Group for 2002-2009

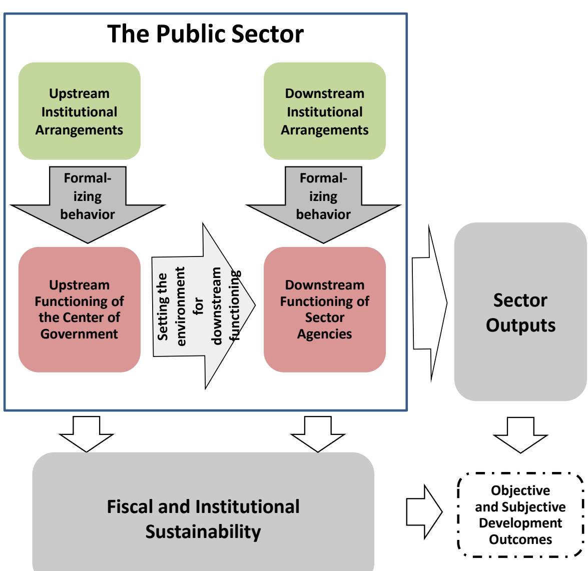
Source: Government Finance Statistics and International Financial Statistics of IMF.

What is PSM reform?

11. **Public sector management (PSM) reform is the art and science of making the public sector machinery work.** It is about deliberately changing the interlocking structures and processes within the public sector that define how financial and physical resources and people are deployed and accounted for.

12. **PSM reforms are often thought of as changes to the formal (*de jure*) institutional and managerial arrangements in the center of government and in sector agencies,** such as new civil service laws or budgetary procedures, revised funding arrangements for health care etc. Changes to formal arrangements are often critical, **but ultimately PSM reform is about changing the informal *de facto* behaviors of agents within the public sector**. Changing these actual behaviors does not necessarily commence with legal or other formal reforms – changes in how downstream agencies and departments function day-to-day can provide the springboard for more formal changes in the laws and procedures. The public sector results chain (Figure 3) is about ensuring that the formal institutions and the actual behaviors are mutually consistent and targeted towards delivering results.

Figure 3: The Public Sector Results Chain



13. **Poor public sector performance can be traced to weak links within the chain**. For example, poor education quality can be caused both "downstream", for example by school management arrangements that weaken accountability, or "upstream" by transfer financing mechanisms that allow funds to dissipate before they reach schools.

14. **"Weak links" can be found in the formal laws and procedures – but often the problem is that these formal rules are not followed in practice.** For example, many countries have meritocratic employment regimes *de jure* – but *de facto*, these often remain only partially enforced and provide insufficient protection against patronage or the sale of public posts. Similarly, an excessively rigid employment regime in the education sector, preventing action being taken on poor performers for example, can ensure that the sector remains hostage to the particular vested interests of groups of employees

rather than being driven by results or can provide the sector with a justification for departing from the official rules in the name of efficiency.

15. **Public sector management reforms are defined by their purpose – they seek to achieve sustainable improvements to the public sector results chain.** They are not pre-defined by assumptions about the right place to start. The key questions for PSM reform are: "In order to improve public sector results, how do we need to change the results chain? How do we assess where in the chain efforts should usefully be placed and how might those changes best be effected?"

Why is it difficult?

16. There have been many important advances in practitioner and academic understanding of institutional reform in recent years. But PSM reform remains a distinctively difficult policy area as it must overcome five challenges, well-known to PSM practitioners.

17. **One challenge is that there is relatively little explicit evidence about what matters most in improving public sector performance.** The connection between strong PSM and social and economic development is evident to any experienced government official or practitioner – but hard to pin down precisely. The institutions that have been shown to matter for economic development are largely those that protect the returns to private investment, in particular property rights and the rule of law. But equivalent evidence is lacking for those institutions centrally involved for example in managing public sector financial and human resources. Lacking robust empirical evidence, practitioners rely on a strong body of tacit or "craft" knowledge to develop practical reform strategies.

18. **Another challenge is that there is significant uncertainty about the *institutional forms* that are suited for improving public sector performance in a given context**. For example, there is evidence that merit in staffing decisions matters for public sector results and merit-based recruitment of staff has a long history within and outside of those countries that are currently members of the OECD. However, it is highly contestable whether a strictly apolitical civil service oversight body is always suited for ensuring that there are no political considerations engaged in staffing. The *function* of merit protection is necessary, but the *form* that it should take is open to question. In addition, relying on tacit knowledge provides few checks against unfounded fashions in PSM reform; simplistic mantras about the relevance of private sector management approaches for the public sector or about the power of performance-based rewards can assume a mythic status.

19. **It is challenging to change the actual behavior of public agents.** Governments can introduce formal reforms upstream in the public sector results chain (see Figure 3) (say a new civil service law or a Medium-Term Expenditure Framework), or more downstream (for example school-based management). They can reach further along the chain and try to directly change the behaviors of senior staff or regional education officials for example through training. However, well-intended reforms risk being implemented only partially. Public management changes are implemented through the day-to-day decisions of thousands of administrators and managers. Improving results hinges on changing the daily transactions they make – yet finding effective entry points for changing engrained behaviors and values is hard. It takes expert judgment to identify such entry points, careful management and persistent effort to make change and an understanding that transcends formal appearances to assess whether changes are more than superficial.

20. **Even if PSM reforms are implemented in practice, they may not make the intended difference for development outcomes.** A PSM reform may be ineffective if other weak links in the chain are more fundamental obstacles to improving the types of public sector outputs necessary to achieve real progress in growth, social development or poverty reduction. For example, in a given country, the quality of teaching staff may be the key constraint to improving children's learning outcomes. Introducing a school-based management regime in this country may improve school autonomy in managing their resources, but will have little impact on learning outcomes if it does not enable schools to attract better teachers. The problem of the long time lags before institutional change takes effect adds to this uncertainty.

21. **Finally, political economy factors may not be fully evident until the reform process plays out.** Powerful actors may block reforms to ensure that the public sector serves their or their supporters' interests, rather than the public good. Abundant potential rents in the form of public money, contracts, jobs etc. that political and administrative elites can directly control make the public sector particularly vulnerable to rent-seeking behavior. PSM reforms are often challenging because they are about changing the rules that determine the allocation of these rents. Reforms can also pose a political collective action problem – why be the first minister to abandon the political capital that patronage can bring? Development assistance for PSM reform in itself can distort reform incentives. Apparent reform "championing" may owe more to the need to keep aid flowing and relationships with donors positive, than to any deeper determination to drive change. Conversely, political pressures by citizens and firms may be pro-reform. For example, pressures to improve their business environment have motivated many client countries to introduce reforms to their tax and customs administrations. In the Middle East and North Africa, poor PSM was not the primary driver of the current wave of public concern regarding governance – but the new political incentives for transparency and responsiveness to popular concerns may be drivers of a significant improvement in management systems.

What are the Bank's current strengths and weaknesses in supporting PSM reform?

22. **A review of the Bank's approach to PSM reform must start by identifying the Bank's current strengths and weaknesses** which enable or hinder the Bank in helping clients improve their results. These strengths and weaknesses relate to the Bank's three major roles. As a development actor, the Bank's task is to use its large and influential portfolio to obtain the greatest impact. As a thought leader and knowledge-generator, the Bank's task is to generate operationally relevant knowledge that helps improve the impact of its work and development efforts more generally. As an integrator, the Bank's task is to adopt staffing arrangements that enable it to provide integrated solutions, in which all skills and all organizational units within the Bank pull together.

Development Actor

23. **The Bank has a large and influential public sector lending portfolio.** It remains, by far, the largest traditional donor provider of funds to support public sector management. For example, for Public Financial Management, Bank financing (IBRD and IDA) totaled more than all other donors combined.[5] Since 1995, the World Bank has approved over 1,500 lending projects with significant public sector components. In FY2010 alone it committed nearly US$3.6 billion to public sector lending.[6] Between 2001 and 2008 (pre-financial crisis) the number of lending projects with significant public sector components has grown by 63 percent. The Bank's public sector lending volume as a share of its total lending has remained relatively stable over the past decade, around 10 percent.

24. **However, the track record of the Bank's lending portfolio is seen as distinctly mixed.[7] Key factors that limit the Bank's effectiveness in supporting PSM results through lending in client countries include the following:[8]**

a. **The Bank's dialogue on PSM reform with some clients is discontinuous**. Current financing for Bank staff to engage with key counterparts on PSM can be dependent on the identification of a possible lending opportunity and can be split between many different technical areas. This can result in episodic engagement which can prevent trust-building dialogue and, crucially, can make it difficult for the Bank to develop an in-depth understanding of the reform context.

5 Source: OECD DAC Creditor Reporting System.

6 This lending amount represents the sum of commitments made to all lending projects in FY2010 (excluding grants), multiplied by the share that each project allocated to a PSM theme.

7 The average success rate of public sector lending projects has been about 76 percent. The average success rate is calculated for public sector lending projects with available IEG outcome ratings. Projects are counted as "successful" if their IEG outcome rating is "moderately satisfactory" or above.

8 It is not possible to provide "hard" evidence that these factors are detrimental to the effectiveness of the Bank's PSM lending portfolio. They have been identified through a comprehensive consultation process with stakeholders inside and outside the Bank.

b. **While PSM reforms are inherently uncertain, the Bank tends to downplay the consequent risk.** Although there have been some notable advances in risk identification, prevailing incentives encourage Task Team Leaders to underreport risk and managers to manage it implicitly rather than openly.[9]

The Bank has yet to put "best fit" fully into practice. In its interventions, the Bank, along with many other development actors, has made significant strides in implementing the shift in thinking towards "best fit" in PSM reform. This move was first expressed in the 2000 World Bank Strategy "Reforming Public Institutions and Strengthening Governance" (World Bank, 2000). Today, the historical criticism that the Bank is invested in "best practice" is much less justified. Diagnostic approaches, such as those enabled by the Public Expenditure and Financial Accountability (PEFA) initiative allow the Bank to undertake a functional review of PSM performance and to reduce bias towards best practice priors. However, some significant gaps remain to be bridged between the 2000 World Bank strategy's call for moving towards "best fit" and daily reality in the Bank's PSM work. This not only remains a common observation expressed by academics concerning donor practices but is also an often expressed staff concern.[10] A number of factors persist that make "best practice" reform recommendations attractive (see Box 1).

Box 1: The continuing attraction of "best practices"

There are four reasons why "best practice" continues to play a part in dialogue with governments concerning PSM reforms:

- **Governments often ask for them as a source of legitimacy**. Client governments recognize that they risk losing support, including sometimes from the World Bank, if they do not make their public administrations "look like" broadly recognized "best practice" standards. Meeting such standards can help ensure domestic and professional legitimacy for PSM reforms through "isomorphism".
- **It is unrealistic to assume that advisors can start from scratch on every occasion**. To the extent that "best practices" are shorthand for some tacit knowledge conclusions supported within the field, it is inevitable that they will be used, cautiously one hopes, as a starting point for many discussions.
- **There are interests in creating "best practices" for "selling" them.** An entire industry has developed around the packaging and transmission of "New Public Management" ideas to developing countries, even though there is evidence that the ideas were not implemented consistently in many "successful" OECD and Middle Income Countries, and that "effective" reforms tends to refer to the situation that countries enjoy after crises have passed, not what they used to get through them.
- **The lack of a well-developed explicit body of knowledge on "what works" in PSM makes it hard to debunk "best practice" claims.**

Thought-Leader and Knowledge Generator

25. **The Bank has extensive implicit knowledge on PSM reform, but explicit research is lagging.** Currently, PSM specialists bring a significant and powerful body of tacit knowledge on PSM reform to bear on complex, multi-dimensional problems. However, the explicit theory and evidence base for understanding what works and why in public sector reform remains strikingly limited compared with other policy areas.

26. **The Bank has made early strides in collecting data on the strength of country systems – but such data are still lacking in key PSM areas.** In the field of PFM, the success story of the multi-donor Public Expenditure and Financial Accountability (PEFA) tool, developed in 2004 and today applied in over 110 countries, and the discussion on Actionable Governance Indicators, have highlighted the promise of such data for learning and debate in client countries, among donors and in research on PSM reform. PEFA has demonstrated

[9] The Operational Risk Assessment Framework (ORAF) is an initial approach to identifying and managing risks and returns more clearly in project preparation and implementation support (World Bank, 2010).

[10] Staff survey undertaken for the PSM Approach.

that it is possible to track behavioral changes resulting from PFM reforms and has fueled new research. To date, no equivalent data are available for other institutional areas, such as civil service or tax systems.

27. **The Bank does not reap the potential for learning from its PSM project portfolio.** In principle, the Bank's projects provide a rich source of learning about "what works" in PSM reform. However, recent portfolio reviews have shown that such learning is restricted by the type of data which the Bank seeks to obtain from its own projects. Currently, much of the knowledge generated in such projects remains tacit and unshared – and many opportunities for systematic learning, such as building research into project design, remain unexploited.

Integrator

28. **The Bank's work on PSM reform is truly cross-cutting – but this poses challenges for integration**. The Bank is engaged in PSM activities in all sectors, from agriculture to education, health and transport. Out of all the lending projects approved between 1995 and 2010 with a significant public sector management theme, over 50 percent of projects concerning public financial management, tax administration, decentralization, and civil service reform are led by sector specialists, not by PSM specialists. This underscores how important it is for Bank staff to collaborate across disciplines in order to bring all Bank skills to bear on a given challenge and to send consistent messages to client governments on how to address them. Currently, the Bank's structural divisions incentivize distinctions, particularly between staff whose focus is upstream (center of government reforms), and staff working separately on downstream PSM reforms (e.g. service delivery in the social sectors). This distinction can lead to a disconnect between the Bank's upstream and downstream interventions. The Bank runs the risk of fostering upstream reforms which fail to address "binding constraints" to improvements in service delivery or other outputs in the sectors. Conversely, if the Bank develops sector reforms without consideration of the overall public sector enabling environment, this can make them less sustainable.

29. **The Bank has a highly qualified body of staff working on PSM reform. But it is facing problems in attracting senior professionals and the PSM practice is facing problems in retaining them.** This is particularly true for the higher-level integrative skills that provide a whole-of-government perspective necessary for advising on complex reforms. In the context of a distinctively flat hierarchy for PSM staff with few opportunities for advancement within the PSM field, recognition from colleagues is a major incentive for Bank staff to remain in the PSM practice and develop new or deeper skills. This incentive is not always adequate.

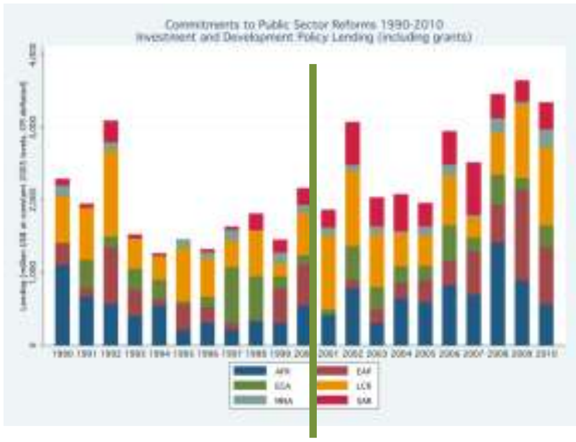
Emerging challenges and opportunities

30. **The Bank's PSM Approach for 2011-2020 responds to three sets of challenges and opportunities which the Bank faces in its work on PSM reform**. First, the Bank is operating in a changing external environment. Client countries' demands for advice on and finance for PSM reform are evolving and the Bank faces increasing competitive pressures in serving these demands. Second, the Bank's operating environment entails both challenges, such as a flat budget and growing pressures to demonstrate results, and opportunities for the PSM Approach, such as the development of a new and more flexible, results-oriented lending instrument. Finally, and most significantly, the Bank's own understanding of "what works and why" in PSM reform has significantly evolved. Along with other donors, and in many ways leading the international development debate, the Bank has an increasingly nuanced understanding of what enables institutional change. The PSM Approach needs to translate this understanding into practice.

Changes in the Bank's external environment

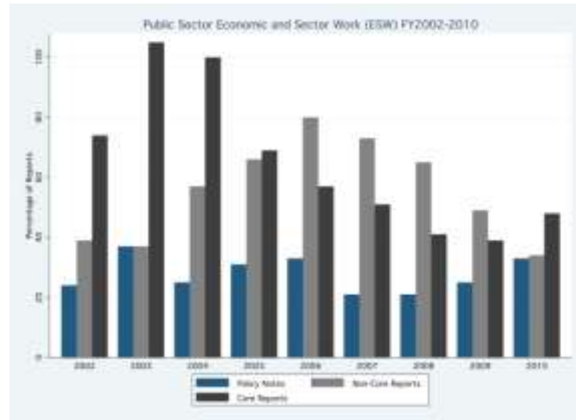
31. **Overall, lending volumes for PSM reform have seen a continuing, if uneven, growth over the past two decades** (Figure 4). Recent PSM lending has been concentrated in Africa, Europe and Central Asia and Latin America, although the latter is now diminishing following the 2008 peak in commitments. While it is ultimately not easy to distinguish between demand and supply-driven changes within this aggregate picture, the data are consistent with a staff perception that the increase in lending is a response to country requests.

Figure 4: World Bank Lending for PSM[11]



Source: World Bank 2000 strategy

Figure 5: World Bank PSM Analytic and Advisory Work[12]



Source: World Bank

32. **There is increasing demand for more flexible problem-solving in both the Bank's lending and analytical work.** While as yet not manifest in lending trends,[13] anecdotal evidence suggests a decline in client appetite to borrow for technical assistance in PSM reform. Instead, there is growing demand for more flexible forms of advice outside of investment lending. In Middle Income Countries (MICs), the growth of non-lending technical assistance has mainly been accounted for by an increase in Fee-Based Services. In analytic work, the demand for more flexible problem-solving is manifest in the broad trend away from long-term set-piece reports, towards shorter and quicker just-in-time policy advice (see Figure 5).[14]

33. **The frontier of PSM reform has shifted in many settings, leading to changing client demand for assistance with newly emerging problems**. One example is the area of Public Financial Management (PFM) reform, which is by far the most common theme in PSM lending.[15] The widespread (at least formal) adoption of medium-term frameworks among developing countries over the past two decades, entails new challenges in ensuring *de facto* functioning of these sophisticated instruments. Such shifts in frontiers pose new demands on the Bank's knowledge and on its staff's capacity to deliver effective responses.

34. **In parallel, the Bank is under healthy and increasing competitive pressure from other suppliers of finance and technical assistance, both from traditional and non-traditional donors**. While the Bank remains the largest single development actor in key PSM areas, donor support for PSM reform has grown dramatically. The total financial commitment to public sector reform, in real terms, has increased fourfold in the last decade. Public financial management reform commitments have increased by a factor of seven over the same period.[16] In

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11 Project data comprises all lending projects approved between FY1995 and FY2010 that comprise at least a 25 percent component tagged to a public sector theme (coded as Bank themes 25-30) or sector (coded as BC, BH, BZ). It excludes grants. This universe is significantly larger than the universe underlying (Independent Evaluation Group, 2008). The lending amounts reported represent the sum of commitments made to all lending projects in the respective financial year (excluding grants), multiplied by the share that each project allocated to a public sector theme.

12 "Core - Fiduciary Studies" comprise "Country Financial Accountability Assessments", "Country Procurement Assessments", and "Integrative Fiduciary Assessments". "Other ESW" (Economic and Sector Work) comprises all other reports or policy notes that are tagged to the respective public sector theme. ESW tagged with multiple public sector themes are only reported once and attributed to their primary public sector tag. Reliable data is unavailable prior to FY2002.

13 Total lending volumes for PSM continued to increase until FY 2009 (see Figure 4), as did the number of lending operations. In the context of the global financial crisis the number of investment lending operations for PSM then saw a dramatic decline in FY 2009, hitting a historical 15 year low. However, the number of PSM-related development policy loans continued to rise, explaining the overall high lending volumes.

14 Figure 5 illustrates that, prior to the financial crisis, non-core reports (i.e. not mandatory reports on country systems) declined – but slower than the decline in other reports. Policy notes, which tend to be short and more rapidly prepared, have increased in absolute numbers and have very significantly increased as a proportion of the total.

15 The number of PFM projects has risen rapidly since 2000. Civil service and administrative reform is the second most prevalent theme in public sector reform.

16 Source: OECD Development Database on Aid Activities (Creditor Reporting System).

addition, non-traditional donors, very strikingly led by the concessional lending from China, enable clients to choose from new sources of finance and, often, less prescriptive approaches to public sector management.

35. **Not least, the technology available to governments in supporting PSM reform has changed dramatically.** The rapid expansion of Information and Communication Technology (ICT) usage and, in particular, mobile phone coverage in many developing countries opens new opportunities for improving efficiency and accountability within the public sector, for example through improved Financial Management Information Systems, e-procurement, e-filing of taxes or by enhancing transparency and accountability to clients in service delivery. Many Bank clients look to the Bank for professional assistance in seizing these opportunities.

Changes within the Bank

36. **One major challenge the PSM Approach faces is the Bank's flat budget environment.** This dictates that the PSM Approach is a plan for trade-offs, not for growth. It cannot plan to do more with more – but it has to offer a way forward for doing more with the same.

37. **A second challenge arises from the increasing pressures to demonstrate results.** Support for Public Sector Management within the Bank is strong. Bank and other donor staff believe that public sector institutions matter crucially for sustainable service delivery improvements. However, as the "results agenda" permeates the Bank's corporate reporting,[17] pressures for demonstrating results are growing. As PSM institution-building is a long-term agenda it may have less resonance in this results-hungry environment. Part of the challenge for the PSM Approach is therefore to develop medium-term metrics of progress for PSM reform that credibly demonstrate progress towards longer-term institution-building.

38. **The general push towards open-source data** provides an opportunity for the PSM Approach to address the scarcity of data on PSM arrangements in order to spur external and internal learning.[18] Transparent and readily available data are expected to deepen public debate and to stimulate external research and Bank staff skill-building.

39. **The growing emphasis on risk management at the corporate level** provides a significant opportunity for the Bank to lead in a more active management of risk in PSM reforms. The opportunity is to encourage the development of risk assessments that move governments and the Bank beyond a broad recognition of concern in PSM reform, towards a clearer capability to assess risks and return in order to assess openly whether the risk is worth taking. The corporate risk management agenda may provide an opportunity to shape incentives that encourage more honesty in assessing risks in individual projects – with a greater emphasis on managing risk at the portfolio level.

40. **Importantly, a major new lending instrument will provide a key opportunity for making the Bank's PSM Approach more results-oriented and flexible**. The new Bank Program for Results lending instrument ties disbursements to results and emphasizes Bank support for building country systems. Whereas investment lending projects define what Bank funds are spent on *ex ante*, the Program for Results instrument will allow for much more flexibility in restructuring projects as needed during implementation. It will also help in aligning client and Bank incentives for achieving results. While this instrument will not be universally relevant for PSM reforms, with appropriate design features it can be a powerful new addition to the PSM lending menu.

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17 See (Independent Evaluation Group, 2011).

18 See (Zoellick, 2010) and http://data.worldbank.org/.

Changes in understanding of PSM

41. **The Bank's PSM Approach must reflect the Bank's improving understanding of "what works and why" in PSM reform** – based on the Bank's own experience as well as lessons-learnt by other practitioners and from academic research. Views on how public sector institutional reform can effectively improve public sector results, in effect understandings of the underlying "theory of change", have evolved. While there is no specific unified "theory of change" for PSM reform that would find broad agreement, there is a clearly discernable evolution in broadly held assumptions about PSM reform (see Table 1).

42. **The trajectory of "theories of change" on PSM reform has been marked by two key developments.** First, there is more willingness to *expose the assumptions* underlying PSM reform approaches in order to make them testable and open to improvement today than there was in the past. For example, the old notion that capacity-building is a commonsensical and obvious entry-point to reform is no longer widely agreed. Second, there has been a shift in emphasis from a sole focus on reform *contents* (what should be done) towards a broader concern that includes reform *context* (where it is to be done) and *process* (how the problem is to be agreed and the solution developed or reform sequenced). Accordingly, there has been a strong move away from "Washington Consensus"-style theorizing about PSM reform, entailing broad claims about PSM reform contents that should work across a number of different contexts, towards the idea that "what works" in PSM reform is highly context-contingent.

43. **The move towards emphasis on context was expressed in the call for "best fit" rather than any one-size-fits-all notion of "best practice" (World Bank, 2000).** This move has also been reflected in the Bank's learning from its PSM lending portfolio. While earlier portfolio reviews, including (Independent Evaluation Group, 2008) and (Quality Assurance Group, 2008), emphasized performance differences between PSM reform *contents* (public financial management and civil service reform most prominently) – a recent review[19] highlights the importance of *contextual* factors for reform success. In the Bank and the development field more broadly, the emphasis on *context* is also evident in "diagnostic approaches", which seek to do justice to the specificities of an individual country's context, including both capacity and political economy constraints. Diagnostic approaches play important roles in the Bank's work in the health, education and other sectors or in the growth diagnostics approach.[20]

44. **Recently, the process of PSM reform is increasingly emphasized as key for success**, to the extent that it helps uncover the real incentives and interests of the actors involved in conducting PSM reform change and finds a compromise between them. In this view, PSM reform is seen as an "adaptive" challenge that cannot be solved through "perfect fit" "technical" solutions developed on a whiteboard – but ultimately as a political and behavioral problem which can only be resolved in a carefully managed process. A process that engages local stakeholders is seen as critical for ensuring ownership of the reform agenda. Table 1 summarizes this evolution of ideas, reflecting broader changes in theorizing about development economics.

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[19] Portfolio review undertaken for the PSM Approach.

[20] Developments in system-wide diagnostics can be seen in the following Bank strategies: Education; Trade; Urban; Health; Private Sector Development; and Social Development.

Table 1: Stylized Evolution in Theories of Donor Influence

Period	Broad theories of economic growth[21]	Theories about PSM reform	
		Changing theories	Underlying changing ideas
60s	Development promotion more about capital flows, less about government policies and institutions. Emphasis on capital accumulation, technological adoption and import substitution under state guidance.	Theories of PS institutional reform were implicit - embedded and unstated assumptions about filling capacity gaps, (knowledge, ability, technical expertise) particularly in newly independent countries.	*Gap-filling* (in capital and in capacity)[22] as a commonsensical, obvious and uncontested approach.
70s	Capital flows not enough, turn to macro policies.		
80s	Macro not enough, turn to a more comprehensive package including fiscal discipline, broadening of the tax base and outward orientation with freeing and enabling markets. Early emergence of the Washington Consensus.[23]	Theories of PSM reform begin to emerge more explicitly – greater focus on incentives inside the public sector which can be changed through transfer of best practice. Broader incentives of state actors, including politicians, excluded from debate.	Reform *contents* begin to dominate ("this reform is universally the right thing to do"). There are dissenting views about the "right" reform contents, but a "small state" ideology is particularly important.
90s	Donors see high growth in mediocre policy environments and slow growth in good policy environments. Policies not enough, turn to "institutions" within "New Growth Theory" although the notion of institutions is broadly and ambiguously articulated.	Theories begin to get more explicit concerning matching reform content to the country institutional context. Good fit begins to emerge as a concern (World Bank, 2000).	Broad country *contexts* increasingly seen as primary issue; reform contents to be judged in terms of their suitability for the context.
2000s	Begin to add "political incentives to pursue development" into the mix. Demise of the original Washington Consensus – some argue that inadequate attention paid to original institutional concerns of the Washington Consensus, others that the list of institutional concerns needed augmenting.	Concept of context widened and deepened. Contextual considerations broadened to include incentives of political actors to implement reform. Increasing concern with shaping interventions to meet political realities; nibbling away at political constraints at the margin (e.g. transparency initiatives). The concept of context also deepened to extend to sequencing theories such as the PFM platform approach and leading to the "Strengthened Approach" (Joint World Bank/IMF/PEFA Public Expenditure Working Group, 2006).	The definition of *context* has become much more encompassing.
2005+	Continuing slow progress suggests need for experimentation/diversity. Recognition that there are multiple paths. Overall, argument for moving away from formulaic policy making to focus on the binding constraint(s).	Sequencing theories continue but theories also start to embrace the actors' subjective understanding of the reform process more directly since the problem that is to be solved in PSM reforms is primarily "adaptive" and not "technical", and notions of change space emerge. The 2005 Paris Declaration placed "ownership" first in the principles for effective aid.	The *process* of understanding the problem is now moving to the forefront. *Context* remains critical, and reform *content* is whatever can be contained within the space that is found to be available.
2010+	Social mobilization is associated with changed political incentives that constrain growth, although uncertainty about which way the causality runs.	Theories start to suggest that intervention requires a finer-grained view of the context and that the context can be changed as good governance can, sometimes, be *demanded*.[24] Changing political incentives to supply good governance may mean improving citizen capacity to demand good governance. Sequencing now more open to challenge.	The *process* of understanding the problem remains pre-eminent, but *context* considerations have become more complex. Reform *content* is the residual.

[21] This table draws extensively on (World Bank, 2005)

[22] It is important to note that the 60's notion of "capacity" was a narrow concept focusing on the lack of technical ability to perform a task, in contrast to more recent, broader ideas of capacity which comprise political commitment and institutional design.

[23] This is a reference to the consensus that Williamson identified as emerging *de facto* with its emphasis on a paradigmatic shift in favor of macroeconomic stabilization and market-based development – not the more ideological version which was subsequently the basis for much controversy.

[24] See the Companion Piece on the Demand for Good Governance. See also (Zoellick, 2011). The demand-side work has its early roots in social participation approaches.

45. **This changing view of how PSM reforms work has three major implications:**

a. **First, it implies an emphasis on diagnostic approaches in designing and implementing World Bank projects.** Taking context and process seriously implies that Bank teams need to start with a degree of agnosticism on what works and what does not in a given client country. A structured diagnostic approach starting from a functional problem helps counter "strong priors about the nature of the problem and the appropriate fixes" (Rodrik, 2008). They focus on engaging in-country stakeholders in a problem-identification process that ensures a common understanding and local ownership of the problem to be solved. Diagnostic approaches focus attention on the question why a desired functional outcome cannot be achieved (e.g. better education/learning outcomes) in a specific context, asking which elements in the overall system are the largest obstacles to achieving those desired outcomes. They use political economy analysis prospectively, asking why a dysfunctional system represents an equilibrium given stakeholder incentives and why any proposed solution could be compatible with those incentives. They use both comparative data, often using indicators ("how does this compare with what we know about what is going on elsewhere?")[25] and situation-specific information ("what is the specific constraint here and who agrees with this?") to identify the most promising entry-points to reform in a specific context.

b. **Second, it implies an emphasis on explicitly formulating and empirically testing theory about what works in PSM reform.** Beyond the broad trend towards recognizing that "context" and "process" matter, explicit theory about "what works" in PSM reform in developing countries and supporting evidence remains scarce compared with other policy fields. Two distinct types of evidence about reform feasibility and impact are needed. One set of evidence is about probabilities in the average case – what types of reforms are most likely to work in the average country or education sector? Such broad-brush comparative data provides useful pointers.[26] However, the implications of such big-picture evidence must be balanced against evidence from particular cases. Ultimately, it is specific and rich country context information that enables us to answer the question: "how can we help broker reform – what will enable us to maximize the prospects of reform implementation here, in some cases beating the odds?" This latter type of data comes from case studies and detailed qualitative inquiries, examining reform content, detailed local context and the process of reform – all seeking to answer the question "could this work here?"

c. **Third, it implies an emphasis on flexible problem-solving.** Traditional emphasis within the Bank on project design and approval in Investment Lending is now countered by the growing evidence that the implementation process matters crucially for results. If experimentation and learning-by-doing, as well as the reform process itself are increasingly seen to be key to success, the traditional distinction between "design" and "implementation" in World Bank projects gets blurred – and more flexible instruments are needed.[27]

Which directions should the Bank's PSM Approach follow?

46. **How should the Bank's key roles be adjusted to meet the changing demand from clients, to take advantage of corporate developments within the Bank and to build on new and emerging knowledge?** Ultimately, the Bank's 2011-2020 PSM Approach must adjust the Bank's way of doing business to the nature of

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25 Developments in comparative data collection on institutional reform within Bank strategies are evident in the following Bank strategies: Agriculture; Social Protection and Labor; Transport; Health; and Private Sector Development.

26 For example, it is enormously valuable to be able to conclude that, since civil service reform is likely to change the rewards for a large number of people with political influence, it will be difficult to implement it in the average poor country with a fragile dominant coalition since it is likely to threaten to destabilize it. We know that we are up against the odds in attempting reforms that have not worked in similar settings.

27 The importance of the implementation process is consistent with staff views that the frequent Bank team changes during project implementation are detrimental to project success (data from staff survey). Similarly, a recent portfolio review finds that during a high frequency of Bank team changes during project supervision is a statistically significant predictor of a (small) variation in World Bank investment lending project performance. The likely driver behind this phenomenon is the ability of the task team to work with government counterparts as trusted colleagues and solve problems as they occur.

PSM reform. In response to arising opportunities and challenges and building on the Bank's strengths and weaknesses, the PSM Approach proposes that the Bank should pursue three key strategic directions.

47. **As a Development Actor, the direction is towards increasing agility in the Bank's operational and analytic work.** Agility in project design and implementation is the key theme in order to manage more realistically the uncertainties inherent in PSM reform. In project design, agility first means adjusting to changing client needs. More continuous engagement will enable the client and the Bank to build trust and will allow a deeper understanding of the client's long-term reform trajectory to develop reform designs jointly that address the client's most pressing problems. Second, moving towards more "diagnostic" approaches in project design is key to putting the idea of "fit" within the available reform space into practice. In project implementation, agility means increasing flexibility and experimentation and the Program for Results lending instrument offers a valuable opportunity. Not least, agility implies more realism about project level risks and more open and active risk management at the portfolio level, based on an assessment of both risk and potential returns.

48. **As a Knowledge Generator, the direction is towards balancing the Bank's tacit understanding of PSM with "scientific" knowledge.** Investing in learning about what drives results in public sector reform is fundamental to enabling the Bank and its clients to make better-informed reform decisions in the future. The challenge for the Bank is to balance tacit with explicit knowledge on PSM reform. The evidence-base for understanding what works and why in public sector reform is expanding but remains limited. The new PSM Approach must deepen and broaden the metrics available for measuring the strength of country institutions, elicit more powerful learning from Bank projects, and show leadership in developing a research agenda on PSM including more rigorous qualitative and quantitative research on reform impacts. Open-source approaches for sharing data can be harnessed to stimulate external research and internal learning.

49. **As an Integrator, the direction is towards collaboration to create a "Whole Bank" PSM Approach to Public Sector Management.** The challenge for the Bank is to adopt staffing arrangements that enable it to provide more integrated solutions. The Bank is fortunate in having a large cohort of experienced PSM specialists. Yet, the talent and experience of this cohort can be more effectively leveraged to meet client needs, particularly through bridging persistent gaps within the Bank between units working on public sector reforms. Integration first means a shared recognition that public sector results require an integrated approach along the results-chain; sustained improvements in education, health and other sectors often depend on institutional reforms upstream, at the center of government. Second, integration means shared competencies. Clients expect the Bank to provide consistent solutions to their problems and not to speak with different voices about the same problem. Third, integration means shared determination to remain at the cutting edge of learning from research. The key implications are: integrated teamwork on PSM reforms within regions, based on common training and analytic frameworks together with incentives for collaboration; a more robust competency framework that is consistent where it overlaps between public sector and other specialists together with rapid mobilization of scarce PSM professional staff where these are unevenly spread geographically; and enhancing and deepening public sector staff skills through training and skill-building which places equal weight on progress in tacit and scientific knowledge.

How should the Bank pursue these directions?

50. **Which actions should the Bank take in order to achieve change in the three strategic directions set out in the previous section?** This section sets out the actions that would represent significant steps along these paths and argues how they respond to emerging challenges and opportunities. Given the Bank's flat budget constraint, the proposed actions are, overall, resource neutral.

51. **The actions proposed in this section provide guidelines, but will require active management by the Public Sector Governance Board.** Public sector work is not a narrow line of business where the key question is "did we do better in delivering our product?" It is a complex multifaceted set of activities which touch on the entire Bank's work and which cross all organizational boundaries within the Bank. In consequence, a pre-determined action plan is not appropriate. Having emerged from broad consultations within the Bank and with outside stakeholders, the actions proposed here represent broadly shared views about how the Bank should

change to become a more effective partner for client countries in supporting PSM reform. These actions should be seen as consensus-based guidelines for the way forward, but not as a constraining or static strategy for PSM reform in the Bank. The Public Sector Governance Board will keep these actions and priorities under review, as evidence on their effectiveness becomes available.

Achieving agility in operational and analytic work

52. Better results are first and foremost achieved by reshaping the way in which the Bank engages with clients in selecting and implementing PSM lending projects. To become a more agile partner to client governments, the new PSM Approach proposes five areas for action.

Actions that ensure continuous engagement on PSM issues

53. **Bank staff often note that financing to engage with key counterparts is dependent on identifying a possible lending opportunity, which can result in episodic engagement on public sector management issues**. Yet, a process of continuous engagement is crucial for enabling the client and the Bank to build mutual trust, to seize political windows of opportunity and to provide continuous focus and support to reforms. Both trust and a thorough understanding of the long-term institutional reform trajectory facilitate diagnostics; they are crucial for jointly developing reform designs that truly "fit" the client's most pressing perceived problems and are essential for facilitating implementation and enabling strategic intervention at critical moments to move the reform forward. Continuous engagement also allows the Bank to find an honest broker role in identifying possible ways forward. Continuous engagement is more than regular missions or consultant activity – it means a continuing dialogue around country priorities which is embedded in the Bank's work program. It could be one of the Bank's most important responses to growing competitive pressures from other non-traditional suppliers of finance and technical assistance. It can enable the Bank to position itself as a long-term trusted partner to client governments and to provide more flexible and rapid responses to client requests.

54. **The Bank should work more closely with development partners concerning pooled funding to ensure a continuous dialogue with client governments when financing is the constraint.** Continuous engagement (and just-in-time technical assistance) can be costly and the Bank's budget envelope is tight.[28] An increase of resources could be contingent on a commitment to show that continuous engagement in particular, and the PSM approach more generally, is beginning to make a visible difference for PSM reform results in client countries. Development partners may find collaborating with the Bank to support continuous engagement a distinctly efficient way to meet their own objectives concerning support for the strengthening of "country systems".[29]

55. **Clients can experience Bank engagement on PSM as discontinuous even when there is in fact constant Bank support for various aspects of PSM.** Sometimes the PSM dialogue is carried jointly between PSM specialists and other specialists from other sectors (e.g. reforms in education staffing or in health financing) but not always with explicit collaboration. In other situations, even if there is continuous engagement from PSM specialists, the technical dialogue can be split between sub-specialties (civil service, public financial management etc.), between different instruments or between different counterparts. In these cases, even though the Bank is continuously engaged, the client may not experience it as a continuous dialogue.

56. **A regular review of country PSM developments could help strengthen this experience of continuous dialogue, by taking stock of progress and emerging challenges and opportunities for support in**

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[28] The Bank could finance it by savings in its current project preparation and supervision costs. A trend towards smaller investment loans (across the Bank and in PSM) suggest that there may indeed be some opportunity for greater consolidation of loans. However, declining investment loan sizes are also a positive sign of a more tailored, boutique approach which may merit preserving. A fine balance thus needs to be struck in consolidating loans.

[29] Within the current Global Partnership Fund portfolio of 88 projects, 12 can be categorized as Public Sector Management with a combined value of $4.7 million. This relatively modest contribution was intentional given the current GPF broader focus on governance. With discussions continuing concerning a new Window 4 with a more specific focus on PSM, then the investment in this area is likely to increase.

PSM, for example using indicators of the strength of country systems where available. Such reviews could help Bank staff adopt a holistic perspective on country engagement. The Bank has many diverse lending and non-lending instruments;[30] reviews can ensure that these are woven together to maintain the dialogue and to provide advice, guidance, technical assistance, and supporting country reforms on a continuous basis.

Actions that emphasize a "diagnostic" approach in project design and selection

57. In contrast to a "best practice" approach, a "diagnostic" approach focuses on finding out where the shoe pinches most in a given context and concentrates pragmatically on fixing that. The increasing recognition of the importance of reform context and the growing experience in process-focused diagnostics both outside and inside the Bank provides an opportunity for the Bank to use them for truly putting "best fit" into practice.

58. **Specifically, the PSM Approach proposes to develop a results-focused diagnostic protocol that helps operational staff**. Bank Task teams piloting this results-focused diagnostic protocol will need to be true pioneers. They will need creativity and courage to push the frontiers both in how they engage with the client and gather and analyze data, in order to build agreement around a convincing diagnostic story and suggested solutions. While the specific shape and methods of such a diagnostic are being developed in various pilots across the Bank, some key principles are clear (Box 2).

Box 2: Principles of good diagnostic work

1. *Focus on the functional problem, rather than the solution*
   - Functional problems define a problem in terms of insufficient results or counterproductive behaviors of public agents rather than in terms of the absence of a particular institutional form.
2. *Engage stakeholders to take advantage of local knowledge and "insider" information to identify functional problems, likely binding constraints and potential mitigators*
   - Identifying a functional problem is an inherently political process of negotiation and priority setting, and only to some extent a deductive exercise.
   - Key domestic stakeholders (not just a few "reform champions") need to agree on and own a functional problem in order to build political support for specific solutions.
3. *Use political economy analysis prospectively*
   - Why are the losers from the current policy unable to influence decision-makers to change the policy?
   - Why does the current policy best serve key interests? What are the informal/*de facto* purposes of current arrangements?
   - What does this imply for reform strategy and design?
4. *Use available evidence and accepted theory to make the case that a given reform will fix the functional problem - and spell out the assumed theory of change*
   - Draw from available data sources (likely sparse but not non-existent) and make any assumptions explicit and testable.

59. **HD-PREM "Public Sector Management Clinics" could provide task teams with timely advice and assistance in the diagnostic process by a team of HD and PREM staff from different regions.** These clinics should not be one-off events but should provide task teams with on-demand support throughout the project design process as they conduct an integrated analysis of the public sector results-chain (Figure 3), maximize the use of available evidence in diagnosing constraints within that chain, and draw on broader research to predict the probability of implementation and of the potential development impact. The "Public Sector Management Clinics" could provide guidance on how to use the new Program for Results instrument to facilitate this diagnostic approach.

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30 Various forms of analytic and advisory work funded by the Bank or through grants and trust funds, regional and Bank-wide knowledge management initiatives, and both investment and development policy lending.

Actions that take advantage of the Program for Results lending instrument

60. **Taking advantage of the new Program for Results lending instrument will allow for flexibility and experimentation in PSM project implementation.** A key insight from the Bank's evolving understanding of "what works" in PSM reform is that process matters. "What works" to improve PSM results may be hard to know at the design stage, but may only emerge during project implementation through stakeholder engagement and experimentation. As the Bank has become more flexible in the operation of existing Investment Lending (IL) instruments, staff leading PSM projects feel this greater flexibility has enabled them to be more responsive and creative with existing IL instruments.[31] Yet, this flexibility remains insufficient in many projects, given the degree of *ex ante* specification that IL projects require.

61. **The PSM Approach therefore suggests harnessing the potential of the new Program for Results lending instrument for PSM reforms**. The instrument will not be suited to all PSM projects and its use will not be without challenges, yet it bears significant promise for enhancing effectiveness by allowing for needed flexibility and experimentation in implementing some types of PSM reforms. Integration of "upstream" public sector management reforms with sectoral reforms, such as in health and education, will be important for harnessing the potential of the Program for Results instrument. A key challenge will be to develop robust indicators that can be safely linked to disbursements in Program for Results lending projects. This can be achieved in the context of a broader push for developing indicators of the strength of country systems within the Bank.

62. **During implementation of Program for Results projects, staff see the need to take lessons from change management processes into account.** In particular, Bank staff could seek to enlarge the "reform space" strategically by engaging closely with a broad array of government, businesses and civil society stakeholders, and other donors – including through workshops, evidence-based discussions of problems, coaching, small experiments and relationship-building.

Actions that incorporate stakeholder feedback more systematically into PSM projects

63. **The rapid spread of new ICT provides an opportunity to gather subjective views on project implementation progress from stakeholders more easily and at lower costs.** ICT can provide a vehicle for both broader stakeholder engagement in proposing PSM reforms and more frequent monitoring of progress, which is particularly important in flexible project designs such as Program for Results. For example, asking public officials using an FMIS system to provide regular feedback on the value that they see in it (as proposed for Mozambique), or using hotlines that citizens can call via mobile phones for reporting corruption in the land registry (India) can be powerful tools.

Actions that improve risk management at the project and portfolio level

64. **In order to improve the performance of the public sector portfolio, the Bank needs to move from broadly recognizing that PSM is a risky business towards better assessing and actively managing that risk.** The development of corporate risk management approaches offers an opportunity for changing prevailing incentives for underreporting risk in PSM projects. Two actions will assist here. First, some movement towards defining risk tolerances ("what percentage of ineffective projects is reasonable?") at the portfolio level will allow Task Team Leaders (TTLs) to be more honest about the uncertainty in a particular project. Second, a more robust assessment of economic and other returns from the project will focus attention on the question of whether the risk is worth taking.[32]

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[31] This is particularly so with Sector-Wide Approaches (SWAps), where staff have been innovative in "pushing the envelope" of what can be done within existing rules.

[32] Work in progress on the Update of OP10.04 (Economic Analysis for IL Operations) is noting that it may only be possible to capture benefits in qualitative terms. (Independent Evaluation Group, 2010) points out that some elements of a more quantitative cost-benefit analysis are applicable in more circumstances than they are currently applied,

Balancing the Bank's tacit understanding of PSM with "scientific" knowledge

65. Investing in learning about what drives results in public sector reform is key to enabling client governments and the Bank to make better-informed reform decisions in the future. To balance the Bank's tacit understanding of PSM with "scientific" knowledge, the PSM Approach proposes three key action areas.

Actions that extend the work on metrics of the strength of country systems

66. **The PSM Approach calls for a major push towards improving country-level tracking of public sector institutions and their functioning.** World Bank economic and human development data fuel research and learning around the world, but currently the Bank plays only a limited role as a provider of data on public sector institutions. Gathering comparative data on public sector institutions and their effectiveness is not an easy task. But there are compelling reasons for the PSM Approach to call for a strong push in this direction. First, looking into the "black box" of the results-chain is crucial for understanding where the causal links are broken. Metrics such as those provided by PEFA provide powerful clues about the origins of service delivery failures downstream. Such metrics are also key for spurring more rigorous qualitative and quantitative research on reform impacts. Second, better data on the strength of country systems will be also be fundamental for maximizing the impact of the new Program for Results financing instrument, which relies on disbursement-linked indicators of reform progress. Third, such data will be part of the response to increasing pressure for measurable results at the Bank's corporate level.

67. **Overall, given its global presence, its established role as a data custodian and its engagement in PSM reform, the World Bank has a unique responsibility and a comparative advantage for providing better data on PSM.** Such data should not be supply-driven however. Open-source data is now positively welcomed and enabled (Zoellick, 2010). Annual (non-financial) Bank awards to the researchers that have made the most productive use of this data could highlight the significance of this agenda.

Actions that enable better learning from projects

68. **In principle, the Bank's PSM projects provide a rich source of learning about "what works" in PSM reform.** Yet, recent portfolio reviews have shown that such learning is difficult based on the type of data and evaluations the Bank produces on its own projects. Project contents (civil service reform projects vs. PFM for example) or outcome indicators are ill-suited for meaningful comparisons. Much of the knowledge generated in Bank reform projects remains tacit and unshared. More detailed learning from individual Bank projects is particularly crucial in order to enhance the Bank's understanding about how process and context matter for project effectiveness. The approach therefore calls for more systematically using the Bank's own projects as valuable experiments for both clients and the Bank to learn about what works and why in PSM reform.

69. **This could be achieved both through more standardized groupings of project progress indicators and through quality evaluations.** Aiming for standardized indicator groups does not imply imposing a results-corset for projects. Rather, they would support task teams with optional menus of indicators that can be tailored to context.[33] At the same time, more thorough monitoring and evaluation of PSM projects is key to managing them better (especially in the context of Program for Results) and learning from them. This could be achieved both through selective in-depth qualitative evaluations and case studies and through quantitative impact evaluations where applicable.[34]

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33 One challenge in developing more standard metrics to enable learning from Bank projects is to keep this separate from a temptation to micro-manage through ever more detailed results indicators.

34 Whereas over the past decade a rigorous Impact Evaluation (IE) literature on PSM reforms has emerged in the human development (HD) sectors (education and health), equivalent research on other types of PSM reforms is lagging behind. In particular, a push is needed in advancing IE or cross-country regression research on (i) "downstream" PSM reforms that affect public sector frontline providers beyond the HD sector (such as customs, police, tax authorities, utilities, etc.) and (ii) "upstream" PSM reforms at the center of government that affect multiple sectors.

Actions to stimulate and lead a multi-agency research agenda on PSM reform

70. While explicit or "scientific" knowledge does not replace tacit knowledge, it needs to complement it in order to test theory about "what works" against evidence. Similar to the catalytic role the Bank played for growth research in the 1990s, the Bank should move decisively in filling this gap in knowledge which donors and their clients urgently need. The Bank should not and cannot do this alone, particularly under tight budget constraints.

71. **The PSM Approach calls upon the Bank to take a leading role in stimulating and leading a multi-agency research agenda on PSM reform.** Such a multi-agency research agenda could in particular comprise: (i) research on frontier issues (including PSM reforms in highly aid-dependent countries, the political economy of PSM reforms, and the measurement of public sector productivity); (ii) more rigorous impact evaluations of PSM reform interventions where feasible – in sectors and selected upstream reform areas; and (iii) high quality inter-disciplinary case studies and theory development on the political dynamics and impact of public sector reforms.

Encouraging collaboration in a "whole Bank" PSM Approach

72. Taking forward the directions outlined in the PSM Approach will require some substantive but incremental staffing and organizational changes. To encourage collaboration in a "whole Bank" PSM Approach, the new PSM Approach proposes three sets of actions.

Actions to strengthen a shared understanding of the public sector within the Bank

73. **The PSM Approach calls for moving towards a shared understanding of the public sector.** Public sector results require an integrated approach along the results-chain. As noted, sustained improvements in education, health and other sectors downstream often depend on institutional reforms upstream, at the center of government, and the majority of PSM operations within the Bank are not led by public sector specialists. Yet currently the Bank's structural divisions encourage distinctions, particularly between staff focusing on downstream and those focusing on upstream reforms. The way forward is to incentivize collaboration between sectors, through integrated teamwork on PSM reforms within regions.

74. **To this end, the PSM Approach suggests strengthening professional communities, developing common training and analytic frameworks and rewarding "influence" on other projects**. A shared understanding of the public sector can first be achieved by strengthening professional communities within the Bank. While some professional communities such as the Revenue Administration and Policy Thematic Group (RAPTG) and the Financial Management Information Systems (FMIS) Communities of Practice (CoP) are active, other Bank "Thematic Groups" and CoP have seen a near-demise, partly due to underfunding.[35] The Approach proposes to re-launch or strengthen these Thematic Groups and Communities of Practices in order to encourage and support knowledge sharing within specialist professional communities. In doing so, it will be important to ensure that these are "whole Bank" communities and not restricted to staff mapped to the Public Sector and Governance Board. Most Bank staff report that they learn most from sharing experiences with colleagues. Mutual learning can be made more attractive through PREM connect and Wikipedia-type open-access platforms, but ultimately it is through personal contact that much tacit knowledge is shared. Second, the PSM Approach proposes developing common training and analytic frameworks for staff working on upstream and downstream PSM issues, in order to strengthen a culture of collaboration and shared understanding. Third, it proposes to introduce additional incentives for staff to make contributions to sector projects, including revisions to the performance evaluation regime, to give as much recognition for "influencing" as for "managing" projects.

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[35] According to a discussion paper on the World Bank's Thematic Groups prepared in 2009, "there is a widespread perception that the Bank is losing its leadership in global expertise through a confluence of factors including decentralization, retirement of technical leaders, and a culture that undervalues learning from experience… 58% of Thematic Groups that participated in the (2009) survey revealed that their Communities of Practice receive (minimal) annual budget… including a quarter with no budget at all…. (Thematic Groups) no longer enjoy the same visibility they had in the late 90s, leading to a perception among some managers that they have failed."(World Bank, 2009, p.ii).

Actions that strengthen shared competencies

75. Clients expect the Bank to provide consistent solutions to their problems and not to speak with different voices about the same problem. **The PSM Approach calls for ensuring a common disciplinary background of staff working on PSM issues, enshrined in robust technical competencies**. A revised competency framework would specify, in significant detail, levels of technical PSM knowledge within different public sector specialisms as well as the integrative/leadership skills required to guide such work, particularly in fragile states. Advancement through levels of technical competence could be explicitly acknowledged. This framework should be consistent where it overlaps between public sector and other specialists. The PSM Approach also proposes the use of special Chief Technical Specialists or other senior positions in order to mobilize rapidly scarce PSM professional staff assets. A clear decision concerning the mobilization of scarce skills will be needed, based on lessons from the existing Global Expert Teams about whether central management of small groups of staff with rare skills is preferable to uneven location within regions.[36]

Actions that keep the Bank at the cutting edge of emerging knowledge

76. **To remain at the cutting edge of both "craft" and explicit knowledge, the Bank needs to broaden and deepen its public sector staff skills** in response to changing client demands for PSM assistance and the Bank's evolving understanding of what matters for successful PSM reform. For example, many staff consider that additional skills in change management and policy management are needed within the Bank. Deeper staff skills may be needed in relation to emerging priorities in public financial management and civil service reform. New skills may also be needed in order to utilize fully the potential of new technologies. For example, the Bank is currently perceived as having a significant lack of staff able to meet client demands for professional advice on the use of ICT solutions in public management. To address these evolving needs, the PSM Approach proposes to enhance and deepen public sector staff skills through training and skill-building which places equal weight on progress in tacit and scientific knowledge. Training should ideally comprise two components. One would be directly linked to competencies ("at the end of this training, you will know how to…"). The second should emphasize confidential sharing of project successes and failures, to assist in strengthening Communities of Practice and to help surface tacit knowledge.

Ensuring progress

Monitoring implementation

77. **The PSGB Approach proposes that the Sector Board develops a rolling action plan.** This rolling action plan should comprise a one-year future agenda of actions that support movement along the directions set out in this PSM Approach, an indicative agenda for the following two years, and a cumulative review of implementation achievements. Annually, the Sector Board will review and update the rolling plan, and review implementation to date. It will provide a summary to the PREM Council and to all staff mapped to the Sector Board and other TTLs with current or recent responsibility for projects or analytic work with a significant PSM component. The Anchor will support the Sector Board and help develop the rolling action plan.

Monitoring outcomes

78. **In addition to monitoring implementation of the PSM Approach, demonstrating country-level results is essential**. In addition to accountability for the implementation of actions that drive movement along the key directions, the PSGB should be accountable for ensuring the effectiveness of the PSM Approach in improving results. Setting targets for results at the country-level, and making a commitment to track progress towards them, is key. Those targets are ultimately an assertion that if the analysis in this PSM Approach is correct, and if the recommendations are implemented, then country-level results will follow. Showing progress in country-level PSM results against targets is the clearest way to achieve this accountability.

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36 See http://info.worldbank.org/etools/bspan/PresentationView.asp?PID=2485&EID=1130

79. In principle, there are two ways to identify indicators of PSM reform results: (i) identifying those specific areas for improvement that have been targeted for improvement by Bank PSM projects (project-level indicators); or (ii) selecting indicators that capture broader PSM reform objectives at the country level (country-level indicators).[37]

80. The first method is, in essence, a proposal to hold the Bank to account for success in its projects and programs. While project performance is important, focusing on improvements at the project level are not an adequate way forward for holding the Bank accountable for results from the PSM Approach for two reasons. First, holding the Bank to account for immediate project objectives (such as introducing a new civil service pay scale) disregards whether project results make a difference for broader PS reform objectives (increasing performance of the civil service). Without this relevance check, the Bank might be supporting projects that are "successful" but that do not make a significant contribution to development outcomes. Second, it is not obvious that aggregate project level success ratings should in fact rise. If the Bank is to take managed risks by selecting PSM projects with significant potential returns for broader PSM reform objectives at the country level, one would expect a more or less constant rate of project failure – while country indicators would improve.

81. The second method is not without problems however. In order to define indicators and set targets at the country level, there are three hurdles to be cleared:

- Some directions of improvement in PSM institutional areas must be defined and widely agreed;
- Robust indicators of the degree to which countries have improved on these dimensions must be found;
- Targets must be set which take into account the likely trend without Bank assistance, and which recognize the intrinsic uncertainty of institutional reform and the long-time frames involved.

82. The Bank's CPIA indicators may be useful in overcoming the first hurdle. They have a legitimacy within the Bank and more broadly and can be used as the basis for identifying country public management systems where the direction for improvement is widely agreed. Regarding the second hurdle, tracking progress against the disaggregated standards underlying the Bank's CPIA indicators across a range of countries can provide data on progress in areas where there is some consensus. Many of these standards and ratings are supported by data collection efforts that take place outside of the CPIA round, and some of these data provide relatively robust measures of the strength of country systems.

Box 3: The example of PEFA

The Public Expenditure and Financial Accountability (PEFA) Program was founded in December 2001 as a multi-donor partnership between the World Bank, the European Commission, and the UK's Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, and the Royal Norwegian Ministry of Foreign Affairs, and the International Monetary Fund.

In June 2005, the PEFA Program issued the PFM Performance Measurement Framework. It is a robust and comprehensive technical tool with wide geographical coverage and high quality of reports. PEFA-based assessments are becoming the starting point for discussion of PFM reform plans in many countries. They are widely used by international financial institutions and aid agencies to decide on the use of country systems for individual operations. International researchers and aid evaluation departments seek PEFA assessments for reliable and wide ranging datasets needed in their work.

A Steering Committee comprising these agencies manages the Program, while the Secretariat implements the PEFA activities.

83. However, while the CPIA is broadly accepted, the detailed disaggregated standards that lie behind it have not been exposed to extensive debate and there are varying views on the robustness of the available datasets. Given this technical uncertainty, there may be some value in establishing a country systems monitoring advisory body, involving representatives of governments and donor partners. The value of a broad-based Steering Committee in bestowing legitimacy is highlighted by the PEFA experience (see Box 3). This body, on technical advice, could be responsible for accepting indicators into a "Country

[37] Project-level and country-level indicators need not be mutually exclusive.

Systems Monitoring Pool".

84. The third hurdle represents one of the most difficult. Overly ambitious or short-term targets may bias reform efforts towards the readily achievable, and away from tougher reforms needed for sustainable change that only show results many years down the line. In addition, it will be very difficult to establish a credible counterfactual for what would have happened without the Bank's interventions. One way of addressing this challenge could be to distinguish countries by high/low Bank support for PSM, as measured by lending volumes and numbers of relevant operations. The target could simply be that, on balance, more progress has been made in the group of countries with high Bank support groups than in the low support group.[38]

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[38] As an added complexity, the comparison between the high and low support groups would need to be divided between high and low pre-existing public sector management ratings, as measured by the relevant CPIA scores – as feasible progress will be different between these groups.