

World Bank Approach to Public Sector Management 2011-2020

BETTER RESULTS FROM PUBLIC SECTOR INSTITUTIONS



Extended Working Draft
for Consultation

6 April 2011

ABOUT THIS DRAFT OF THE PSM APPROACH

This working draft is a contribution to the development of a World Bank Public Sector Management (PSM) Approach for 2011-2020. The draft's primary purpose is to encourage an active dialogue within the Bank and amongst its partners in governments and in other development agencies concerning the Approach. Many of the ideas raised in the draft will not survive the consultation period but many new empirical findings and imaginative possibilities will emerge. The final version of the 2011-2020 PSM Approach will accompany the Bank's broader GAC Phase II Strategy which is expected to be approved by the World Bank Governance and Anti-Corruption (GAC) Council in late 2011.

This draft version has emerged from numerous consultations. Particular thanks are due to the external Advisory Group, and to the many practitioners and managers within the Bank who have given generously of their time to discuss the points covered. Public Sector Management Thematic Group members and staff in health, education and other sectors have also been helpful in suggesting ways through some complex territory. It has been reviewed by the Bank's Public Sector Governance Board on 24 February 2011 and has benefitted from initial external expert reviews. As next steps, further consultations are envisaged with clients, regional teams and with other donors.

Topics highlighted in gray require further data collection and analysis, and will be completed in the next iteration.

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Abbreviations

AGI	Actionable Governance Indicator
APL	Adjustable Program Loan
CEM	Country Economic Memorandum
CPIA	Country Policy and Institutional Assessment
CRS	Creditor Reporting System of the OECD Development Assistance Committee
CSR	Civil Service Reform
DPL	Development Policy Loan
ESW	Economic and Sector Work (Bank analytic work)
FM	Financial Management
FMIS	Financial Management Information System
HRMIS	Human Resources Management Information System
ICT	Information and Communications Technology
IEG	Independent Evaluation Group
IL	Investment Lending
LIC	Low Income Country
LIL	Learning and Innovation Loan
MIC	Middle Income Country
MTEF	Medium term Expenditure Framework
NLTA	Non-Lending Technical Assistance
OBA	Output Based Aid
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OECD DAC	Organisation for Economic Cooperation and Development, Development Assistance Committee
ORAF	Operational Risk Assessment Framework
PEFA	Public Expenditure and Financial Accountability Assessment
PFM	Public Financial Management
P4R	Program for Results lending (formerly RBIL – Results Based Investment Lending)
PRMPS	World Bank public sector and governance "anchor"
PSM	Public Sector Management
SAL	Structural Adjustment Loan
SIL	Specific Investment Loan
SWAp	Sector Wide Approach
TG	Thematic Group (a World Bank community of professional practice)
TRS	Time Recording System
TSA	Treasury Single Account
TTL	Task Team Leader
WB	World Bank

A. EXECUTIVE SUMMARY

1. This Approach is about the World Bank's role in improving the ability of the public sector to deliver results – results that are needed for citizens' today in sectors such as health, education, agriculture and transport and the less obvious results such as fiscal stability which maximize the prospects that those results will still be delivered tomorrow. It is about how the whole Bank, not just the units and staff that have "public sector" in their titles, uses its instruments to achieve impact, how it learns about what works, and how it deploys its staff to the greatest effect. Reflecting today's operating environment within the Bank, which emphasizes modernization within a flat budget, it is about trade-offs, not growth, and it is about opportunism – many pieces of the World Bank architecture are being reshaped and its proposals take advantage of the opportunities that those changes provide.

2. The public sector can be envisaged mechanically as comprising two broad parts – the *upstream core ministries and central agencies* including the Ministry of Finance and the offices that support the head of government in the center of government; and *downstream sector agencies* such as education, agriculture, transport or health providers which deliver, fund and regulate services.

3. **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 money, people and physical resources are deployed and accounted for. This change can affect the *formal* arrangements, the laws, regulations and codified practices, but it is also about changing *informal* behaviors which, for good or ill, determine daily practice.

4. **How the public sector machinery works is crucial because it enhances or undermines governments' ability to deliver results across sectors.** Public sector systems influence how public agents act and whether government is able to provide *quality services*, make *productive infrastructure or other capital investments* or produce *quality regulation and policies*. The public sector is also responsible for some less tangible but equally critical outcomes. It must encourage *fiscal stability*, reducing the prospects of year to year volatility in expenditures, and *institutional stability*, through supporting and responding to oversight bodies such as external audit and the judiciary that can deter unconstitutional or ill-considered changes in the structure of the public sector.

5. **While PSM reforms promise high returns for development, they are also inherently uncertain.** PSM is one of the most challenging reform areas for the Bank's clients and for the Bank itself

Box 1: The World Bank and Public Sector Management¹

- Since 1995, the World Bank has approved over 1,500 lending projects with significant public sector components. In FY2010 alone, it committed nearly 3.6 billion US\$² to public sector lending.
- 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 total lending has remained relatively stable over the past decade, around the 10 percent mark.
- Most Bank public sector management work is led by staff working in the transport, agriculture, health, education and other sectors. Less than half of all PSM projects are mapped to the Bank's Public Sector Governance Board.
- The average success rate³ of public sector lending projects has been about 76 percent.

- changing how governments operate is not easy. Beyond making superficial changes in the formal rules of the game, effective change requires that many thousands of public agents alter their behavior, much of which is hidden from view. Well-intended reforms may only be partially introduced. In addition, changing government's operating systems also poses many political risks. Politicians often need to balance the goal of using these systems to provide public goods to citizens with the need to serve powerful vested interests – public sector unions or influential elites who

are part of a delicate political equilibrium. Reforms may be undertaken for reform's sake in a hunt for credit for having been seen to reform. Finally, reforms may fail to achieve results for reasons of technical design, as much uncertainty remains about what works and why in public sector management reform in

different contexts. Practitioners have developed a strong body of tacit or "craft" knowledge that has proven crucial in developing practical reform strategies. But explicit codified evidence about what works in PSM remains in short supply.

6. **Inherent risk and uncertainty is reflected in the mixed success of the Bank's public sector management lending portfolio.** The Bank has been a significant partner to governments in supporting their public sector management reform agenda in the past (Box 1). Yet, its mixed track record raises questions about how the Bank can become more effective in its PSM work.

7. **Changes in client demand for PSM reform call for responses from the Bank.** Total lending volumes for PSM have increased over the past two decades, from an average annual inflation-adjusted total of \$1.8 billion during the 1990s to \$2.7 billion in the 2000s.⁴ At the same time, there is reportedly a decline in client appetite to borrow for technical assistance, and clients increasingly demand shorter and quicker just-in-time policy advice, suggesting a trend away from long-term set-piece reports. Middle Income Country clients are looking to the Bank for OECD and upper middle income country experiences. The Bank is under healthy competitive pressure as in many countries, its importance as a source of finance has been declining compared to other traditional and non-traditional donors, including concessional lending from China. Clients can choose from new sources of finance and, often implicit more than explicit, new approaches to public sector management.

8. There are other reasons for change. Within tight Bank budgets, and at a time of increasing concern to demonstrate measurable results, it is possible that funding will flow to those areas and sectors where an increase in resources can be more confidently related to an improvement in development effectiveness. It is crucial that PSM reform can be shown, empirically, to be a contributor to development outcomes.

9. **The Bank cannot respond to these pressures by seeking to do more with more** – increasing funding for research or offering new unfunded business lines of analytic work. The budget environment for the Bank makes it clear that these external, market pressures have to be responded to by tradeoffs and not by additional resources.

10. **The Bank has four major roles – and there are opportunities to respond to these pressures within each of them.** As a *thought leader*, the Bank has the opportunity to develop 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 returns. As a *development actor*, the challenge for the Bank is to use its large and influential portfolio to obtain the greatest impact – by better adopting its way of doing business to the uncertain nature of PSM reform. In particular, the new Bank lending Program for Results instrument (P4R), with appropriate design features, opens room for flexibility and can be a powerful new addition to the lending menu for PSM. As a *knowledge-generator*, the Bank has the opportunity to supplement and test extensive tacit or "craft" knowledge on PSM through the development of more explicit, codified knowledge. As an *integrator*, the opportunity is to incentivize collaboration between sector specialists, and to ensure a common disciplinary background enshrined in robust technical competencies.

11. **The PSM Approach highlights Public Sector Management as a key aspect of governance, but emphasizes that it is far from the whole picture.** Often, the challenge for Public Sector Management is to achieve sustainable results under constraints of closely intertwined governance arrangements that can ultimately undermine them. It seems paradoxical but is accurate to say that even poorly governed jurisdictions can have areas of reasonable public management. The state of PSM in the Middle East and North Africa was not the primary driver of the current wave of public concern regarding governance.

12. **The 2011-2020 PSM Approach focuses on achieving better public sector results by enhancing the Bank's ability to manage the risk inherent in PSM reforms.** The high level of

uncertainty in PSM means that significant risk is inevitable. The prospects for success in PSM interventions can be maximized, but success cannot be guaranteed. Managing risks wisely to achieve results is therefore a theme that runs through the PSM Approach. It seeks to enhance the Bank's ability to manage risk along three strategic directions.

Strategic Direction 1: Confronting and mitigating risk in design – with agility in delivery

13. Better results are first and foremost achieved by reshaping the way in which the Bank engages with clients in selecting and implementing its PSM lending projects. In project design, the Approach seeks to strengthen the Bank's capability to assess risks and returns, with a "diagnostic" rather than "best practice" approach. In project implementation support, the Approach emphasizes flexible instruments in order to adjust to the nature of PSM reform trajectories – which are often incremental and require room for experimentation and constant adaptation.

14. The Approach proposes more continuous support to clients in reforming their public sector institutions, independent of the project cycle. Currently, in many countries, the Bank's support for PSM reforms is episodic and often dependent on the development of a loan. Continuous engagement enables the client and the Bank to build trust and to seize political windows of opportunity, as and when they open. It allows a deep understanding of the client's long term reform trajectory and to develop reform designs jointly that truly "fit" the client's most pressing problems. Continuous engagement allows for the provision of just in time technical assistance, much of it not captured within formal instruments but crucial to support reformers when the time is ripe. While continuity is crucial to identifying risk, it is costly and the Bank's budget envelope is tight. The Approach therefore suggests that the Bank should work more closely with partners to ensure continuity in the dialogue in client countries – and fund it via fee-based services, coterminous positions and trust funds. Close collaboration with other donors will be crucial to strengthening continuous dialogue.

15. Second, the Approach calls for improving project design and selection, exposing risk tradeoffs, through piloting a diagnostic approach for selecting and designing public sector projects. Over the past decade, the development community has converged in a call for focusing on how institutions function, not on their form. This was the powerful message of the 2000 World Bank Strategy "Reforming Public Institutions and Strengthening Governance" (World Bank, 2000). Yet, "best practices" remain seductive. Jointly with the Human Development network, the Approach seeks to counter these pressures by piloting an innovative results-focused diagnostic process for designing interventions. This Approach highlights four key stages in assessing risks and returns of PSM reform options: identifying the "*functional problem*" and the institutional "*binding constraints*" along with the political economy purpose that they serve. It also assists in identifying a *range of possible solutions* for addressing the binding constraints and structures a *review of available comparative evidence* which helps determine what has been learnt from similar reforms in other contexts and what these lessons imply for this context.

16. Third, the PSM Approach will seize the opportunity provided by results-based lending for public sector reform. Flexibility and deeper engagement with the forces that drive reform go hand in hand. The Approach pilots a more pro-active Bank method for engaging with stakeholders to create space for public sector reform.

Strategic Direction 2: Balancing tacit with explicit knowledge to achieve results

17. Investing in learning about what drives results in public sector reform is key to enabling the Bank and its clients to make better-informed reform decisions in the future. While practitioners have access to a significant body of tacit knowledge, as of today the explicit evidence-base for understanding what works and why in public sector reform remains poor. The Approach argues that, similar to the catalytic role the Bank played for growth research in the 1990s, the Bank needs to create a "sputnik moment" for filling this knowledge gap. It proposes *improved country-level tracking of institutional reform impact* – through

a strong push for expanding the depth and scope of indicators that measure the strength of country institutions, and for spurring more rigorous qualitative and quantitative research on reform impacts. It opens new opportunities for *learning more from Bank projects*, through standardized progress indicators. It adopts an *open-source approach to sharing data*, in order to spur both external research and internal learning. Not least, it sets out a path for asserting *Bank leadership in stimulating a multi agency research agenda* that inform practical support strategies for future public sector reforms.

Strategic Direction 3: Whole-Bank staffing and structures that foster collaboration

18. Focusing on results and better managing risks in client countries has implications for how the Bank itself works as an organization. Clients should expect the Bank to provide integrated solutions to their problems and not to speak with different voices. Public sector results require an integrated approach along the results-chain. Sustained improvements in education, health and other sectors depend on institutional reforms upstream, at the center of government. The Approach therefore seeks to bridge persistent gaps within the Bank between units working on public sector reforms. To this end, it promotes integrated teamwork on PSM reforms within regions. It also suggests piloting "global public sector practices" within the Bank in order to make scarce public sector reform expertise – such as on civil service, decentralization or tax reform – more easily available to clients around the globe when they need it. Enhancing public sector staff skills is part of this agenda. The Approach proposes more technically focused PSM competency profiles for all staff working on these issues.

19. The PSM Approach is designed as...

- *...a "whole Bank" approach.* Since PSM is a core part of the work of so many staff working on diverse sectors, it brings the experience and judgment of all staff working on public sector management to bear on all dialogue and all analytic and lending activities that have public sector management improvement as their objective. Since the entire Bank is working on PSM reforms, the Approach identifies staffing and structural approaches which motivate the Bank to speak with one voice and which capitalize on the many insights that have been gained in other sectors such as the "systems approach" identified in the new education strategy.
- *...a plan for trade-offs, not for growth.* The Approach is developed at a time of constrained resources. With that in mind, for each proposed action, the Approach notes if there is a cost and if so where the resourcing trade-off would have to take place. Some items seek the collaboration of other agencies – and the Approach seeks to clarify why they may wish to join with the Bank in some of the identified priorities.
- *...a plan for seizing the opportunities that are emerging in the Bank's corporate modernization agenda.* The lending reforms, and the knowledge and staffing reforms, provide opportunities for a new direction in the Bank's work on PSM.⁵
- *...an approach that values and builds on staff skills.* The Bank is fortunate to have a large cohort of experienced PSM specialists. The Approach builds on and leverages the talent and experience of this cohort.

20. **In monitoring the 2011-2020 PSM Approach, the Bank will hold itself accountable for delivering more, and better, results from its PSM interventions.** The bottom line is that, allowing for country circumstances, more Bank support for PSM reforms should lead to better results, and it should be possible to see this in practice.

B. RATIONALE FOR CHANGES IN THE PSM APPROACH

What is Public Sector Management and why does it matter?

21. **The public sector can be seen in two parts:** those *upstream core ministries and central agencies* including the Ministry of Finance and the offices that support the head of government in the center of government; and *downstream sector agencies* such as education or health providers which deliver, fund and regulate services.⁷

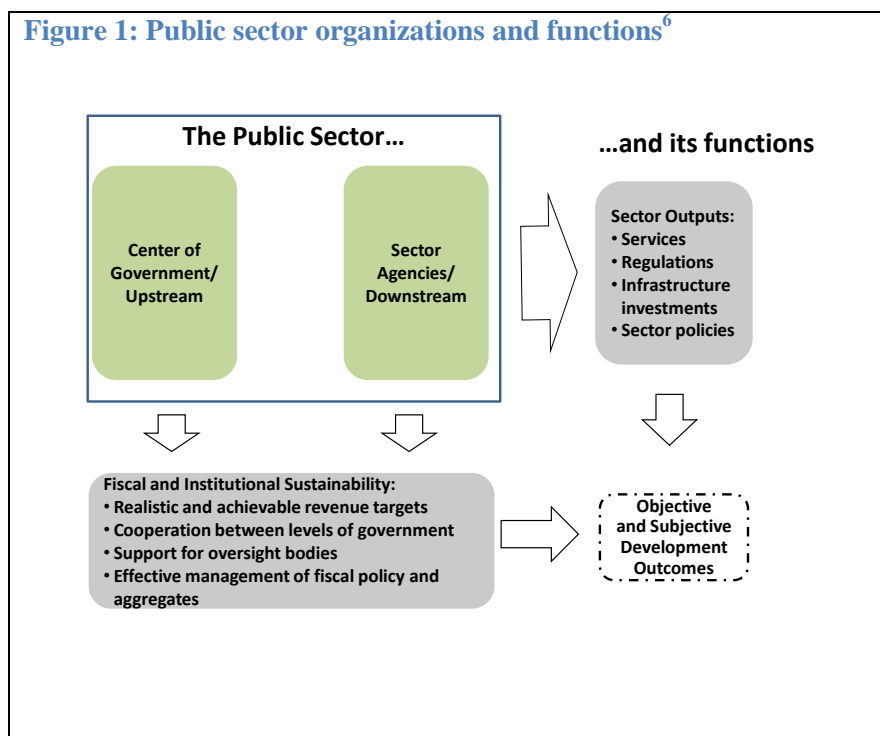
22. **Downstream, the public sector delivers outputs that matter to citizens and firms** (Figure 1). *It provides firms and households with services, such as health, education, housing or security, through direct provision and through*

funding. It manages infrastructure and other public investments for which the private sector may be unable to finance or unwilling to bear all the risk. It regulates social and economic behavior when necessary, such as with food or road transport safety. Equally importantly, it sets sector policy objectives, such as reimbursement methods for allocating recurrent budgets to hospitals, or incentives for water use efficiency.

23. **When these downstream functions are weak, they negatively impact families and communities' lives and firms' willingness to invest.** Schools without teachers or books, clinics without doctors, medicines or finance, roads without maintenance, investors without confidence or citizens without trust in the institutions of the state – all are symptoms of a weak public sector. They are often associated with low growth and limited progress in social development and poverty reduction.

24. **While these downstream outputs are crucial, and are directly experienced by citizens and firms day to day, the public sector is also responsible for some less tangible but equally critical outcomes.** It must encourage both *fiscal and institutional stability*. The public sector must provide systems and processes that enable governments to manage public revenue, debt and expenditures in a way that ensures that they remain within sustainable fiscal aggregates. If it is to achieve this, the public sector must, for example, ensure that estimates for tax revenues are realistic, and that the revenue administration is able to meet the targets set in the budget. The public sector must also ensure a degree of institutional stability, through responding to and supporting oversight bodies such as external audit and the judiciary that can deter unconstitutional or ill-considered changes in the structure of the public sector. The public sector must assist in negotiating with state or local governments over the allocation of fiscal, administrative and functional authorities to ensure cooperative and constructive engagement between levels of government. It must also establish and maintain governance and budgetary arrangements which enable judiciaries, legislatures and other non-executive state institutions (e.g. Supreme Audit Institutions) to have a credible arms-length relationship to the executive.

Figure 1: Public sector organizations and functions⁶

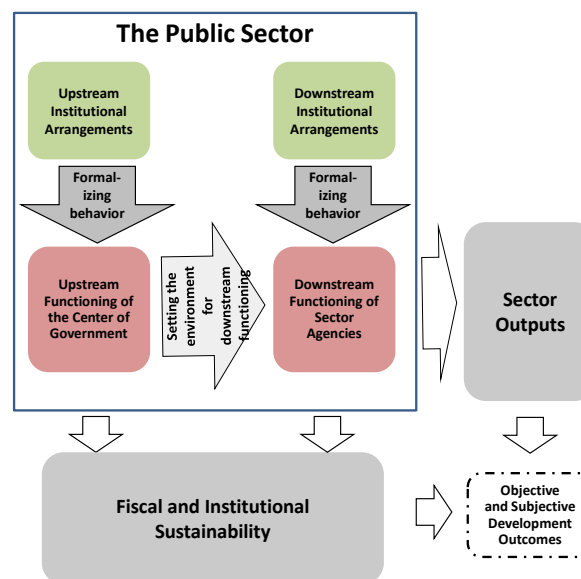


25. **Public sector management (PSM) reform is the art and science of making the public sector machinery work.** It is about deliberately changing the interlocking structures and processes within the public sector that define how money, people and physical resources are deployed and accounted for.

26. Public sector management reforms are often thought of as changes to the *formal* institutional and managerial arrangements in the center of government and in sector agencies: new civil service laws or budgetary procedures, revised funding arrangements for health care etc. While these are indeed PSM reforms, they are a modest part of the total endeavor. Beyond changes to formal arrangements, PSM reform is about changing the de facto behaviors and functioning of agents within the public sector. *A more complete view of public sector management*

reform is that it is improvements to the public sector results chain (Figure 2) that determines fiscal and institutional stability and sector outputs and ultimately contributes to objective and subjective development outcomes.

Figure 2: The public sector results chain



Source: authors drawing on (Fiszbein et al., 2009; Garrido et al., 2009)

27. **Poor public sector performance can be traced to weak links within this chain.** These "weak links" can be found in many places. 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. "Weak links" can indeed be found in the formal laws and procedures. But often these formal rules are not followed in practice. PSM reform approaches therefore focus on changing actual behavior – balancing the ambition of adhering to formal rules with realism about the incentives to follow them.

28. The focus within this framework on de facto functioning underpins the Accra commitment to strengthen and use "country systems" rather than donor ring-fencing in partner countries which either "adhere to (a) broadly accepted good practices or (b) have a reform program in place to achieve these" (OECD, 2008).⁸

29. **A key PSM concern is to create an environment at the center of government, within which the sector agencies can work effectively.** The public sector is not a set of disconnected islands of activity. Sector ministries and agencies, the downstream entities that deliver services and regulate, inhabit an environment that can be more or less supportive to quality outputs. The upstream imposition onto sector agencies of an over-prescriptive employment regime can ensure that the education sector remains hostage to the particular vested interests of groups of employees rather than driven by results. Conversely, a weak or unenforced legal employment regime provides no protection against patronage or the sale of posts in the roads agency. An upstream financial management regime which fails to predict accurately the funds available to health sector agencies is demoralizing and undermines any prospect of realistic planning. *In sum, the enabling environment for service delivery in the sectors is key to their sustained performance.*

30. **PSM reform activity has intensified in the last 20 years across all country types.** Reasons include: a greater recognition that the public sector is key to growth and social development; the increase

in government expenditures and hence the heightened significance of achieving efficiency improvements⁹; the increasing complexity of the functions assigned to government; and the growth in domestic and international consultancy firms. There is also a second order effect as public organizations become increasingly complex, with the solution to one set of problems raising others, for example patchworks of functionally specialized agencies leading unintentionally to surveillance-proof recesses.

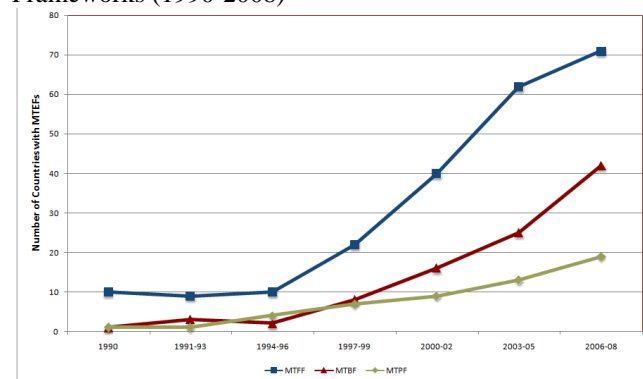
31. Consistent patterns in PSM reform are visible – but at a rather high level of generality (Box 2).

Box 2: 30 years of Public Sector Management reform - the examples of the OECD and Latin America¹⁰

OECD	Latin America
Reforming public financial management <ul style="list-style-type: none"> • Moves from incrementalist input-oriented line item budgeting towards the use of performance information in preparing and executing the budget, and some, limited, moves towards accruals budgeting. • Moves from cash-based and subsequently double-entry bookkeeping towards some accruals accounting. • Moves to incorporate performance and evaluation measures within traditional financial and compliance audit. 	<ul style="list-style-type: none"> • The development of strong fiscal controls has enabled governments to move beyond in-year cash-based control. Limited progress in performance budgeting. • Integrated financial management systems to support budget-rule reforms (and move from cash-based controls). • Strengthening of traditional financial and compliance audit.
Reforming human resource management in the public sector <ul style="list-style-type: none"> • Incentives for workforce reduction and for aggregate wage bill control now joined by greater lateral recruitment from outside – particularly for senior staff. • Moves towards position-based system and, in some cases, towards the use of general labor law, with decentralization of the employer function, limited introduction of performance-related pay and moves towards defined contribution pension schemes. 	<ul style="list-style-type: none"> • Caps on workforce size and improvements in establishment control. • A merit-based regime has been a major reform objective, but has often failed. Modest moves towards the use of performance measures and "islands" of reform have been established.
Restructuring <ul style="list-style-type: none"> • There has been a major growth in independent regulators and the creation of central bodies and procedures for regulatory quality management. • Some functional and fiscal decentralization to sub-national governments • The creation of "arms-length" agencies has been followed by significant delegation of managerial authority within central ministries and departments 	<ul style="list-style-type: none"> • Many new regulatory agencies have emerged in the wake of privatization and sectoral reform. • Strong decentralization process, most recently in education and health. • Arms-length revenue and service-delivery agencies created to by-pass bureaucratic constraints and shield from politics.
Demand-side reforms <ul style="list-style-type: none"> • Market-based approaches to delivering public services (including user charges and some use of vouchers). • Provision of information about services and entitlements through charters. Freedom of Information legislation rolled out and offices of ombudsman introduced. • Provision of information about services and entitlements through e-government. E-government infrastructure and legal frameworks developed. 	<ul style="list-style-type: none"> • Some outsourcing, voucher systems, and client participation have been introduced. • Freedom-of-information legislation is progressing. Ombudsman offices have become effective in protection human rights in some countries and social entitlements in others. • E-government infrastructure and legal frameworks under development.

Figure 3: An increasing focus on the medium term

Global Adoption of Medium Term Expenditure Frameworks (1990-2008)



Source: (PRMPS FM Team, 2011 (forthcoming)-a) ¹¹

much behavior in the public and private sectors, the degree and nature of public sector corruption, all influence how the public sector works and what can be done to change it. However, PSM is not solely a dependent variable emerging from a larger governance question. It is also a point of entry to governance reforms. One way to see this is to envisage public sector and governance as a set of relationships of trust and mistrust (Figure 4).

35. *Politicians* have a relationship with the public sector which is part contractual, part-adversarial. For politicians to leave the public sector to perform along professional lines requires a degree of trust that it will still be broadly responsive to their interests. Politicians can become dissatisfied when they perceive civil servants to be indolent, incapable, or unresponsive to their directives. They can by-pass the bureaucracy or tighten up controls (through privatization, outsourcing or performance incentives) – but it is an equally rational strategy for them to move towards more political interference.

36. *The public* can view politicians with a healthy skepticism, encouraging a perspective based around political programs and stated intentions. Or they can have a level of trust based around the certainty that they will continue to receive rewards (very often jobs) based on patronage.

37. *The public* can also have varying levels of trust in the public sector's ability to provide services and to act fairly. Without trust, there is little public demand for better service quality.¹³ Survey evidence from several regions and evidence concerning subnational public sector performance suggests that improving public sector management can change this dynamic.¹⁴

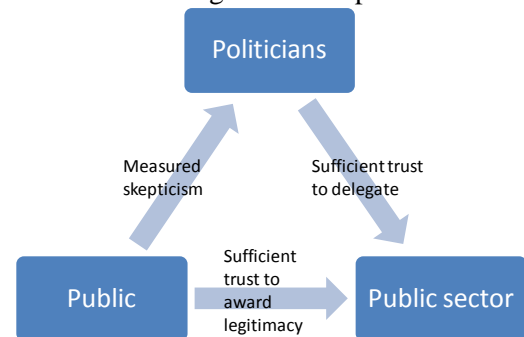
32. However, some more specific patterns are readily identifiable, for example regarding the adoption of Medium-Term Expenditure Frameworks (Figure 3).

33. Donor support for PSM reform has also grown dramatically, with the total financial commitment to public sector reform, in real terms, increasing fourfold in the last decade, and for public financial management reform increasing by a factor of seven over the same period (Data Annex Figure 1 and Data Annex Figure 2).

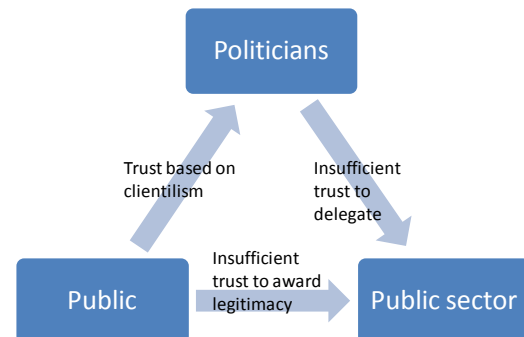
34. PSM reforms take place within a larger governance environment. The way in which political competition plays out in the country, the informal traditions and practices that shape

Figure 4: Public Sector Management reforms can change the patterns of trust

Functional trusting relationships



Dysfunctional mistrust



Source: (Manning et al., 2010) building on (World Bank, 2003b)¹²

Risk and uncertainty are inherent to PSM reform

38. There is intrinsic uncertainty in any change to Public Sector Management arrangements. But reformers need to weigh the risk of reform failure (measured by the probability and impact of that happening) against the costs of inaction.

39. The most prominent risks in PSM reform concern implementation and relevance stemming, respectively, from practical or political problems in rolling out the reform design and from the possibility that the project will not have the intended development impact, for political or other reasons.¹⁵ The uncertainty in PSM has three sources, well-known to PSM practitioners.

40. **First, there is relatively little explicit evidence about what matters for results in improving public sector performance.** While undoubtedly "institutions matter" for economic development,¹⁶ how they matter is a rather different question. The institutions that have been shown explicitly to matter for economic development are largely those that protect the returns to private investment, in particular property rights and the rule of law, rather than those centrally involved in public financial and human resource management. 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.¹⁷

41. While robust empirical evidence may be in short supply, practitioners have developed a strong body of tacit or "craft" knowledge that has shown itself to be powerful in the development of practical reform strategies. It does however raise some challenges (Box 3). One particular area of uncertainty concerns the institutional forms that the public sector should adopt. For example, while there is evidence that merit matters in staffing decisions, and merit-based recruitment of staff has a long history within and outside of those countries that are currently members of the OECD, it is highly contestable whether a strictly apolitical oversight body to ensure that there are no political considerations engaged in staffing is always necessary. The *function* of merit protection is necessary, but the *form* that should take is open to question.

42. **Second, it is challenging to change the actual behavior of public agents, deep within the public sector results chain** (Figure 2). Government, maybe with an external actor such as the Bank, can intervene to introduce a reform in the institutional arrangements upstream (say a new civil service law or a well-designed Medium Term Expenditure Framework), or more downstream (schools based management for example). It can reach further along the chain and try to change the behaviors of senior staff or regional education officials through training. However, public management changes are implemented through the day to day decisions of thousands of administrators and managers. Improving results hinges on changes 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 and incisive questioning to assess whether changes to institutions or to behaviors are more than superficial.

Box 3: Tacit or "craft" knowledge in PSM

Much knowledge about PSM is tacit or "craft" knowledge in the sense that it is known to practitioners but hard to specify in generalizable terms.¹⁸ "Craft knowledge (concerning Public Sector Management) *can be tremendously useful, always assuming that it is applied by craftspersons – those who already have an experienced feel for what allowances to make for local taste and context... (it) is more likely to come unstuck when applied by newcomers or experts who are just passing through...*" (Pollitt and Bouckaert, 2004, p. 198).

The body of tacit knowledge is a tremendous resource for the PSM community, and has enabled some significant improvements in the functioning of governments. However, without a supporting body of explicit or "scientific" knowledge to rebut false claims, firmly stated and attractively simple certainties in PSM can gain currency. Simplistic mantras about the relevance of private sector managerial developments or the universal incentive power of performance-based rewards can assume a mythic status.

43. **Even if the PSM reforms are implemented in practice, they may not make the intended difference for development outcomes.** It may be that other weak links in the chain are more fundamental obstacles to improvements in the types of outputs that are necessary to achieve real progress in growth, social development or poverty reduction. The introduction of a devolved management regime for schools will have little impact on the overall supply of quality teaching to children if it was ineffectively designed or introduced, and will have little salience if the teaching staff were already of good quality and highly motivated. The problem of the long time lags in institutional change adds to this uncertainty.

44. **Finally, uncertainty arises from political economy factors.** The interests of the actors may not all be evident and some powerful actors may block reforms to ensure that the public sector serves the interests of their constituents. Politicians may be interested in distinctly different types of public sector performance, many of which do not equate with improved service delivery for the poor – or at least, not in the short term (Box 4). Recent work on the evolution of the state suggests that the ability of key stakeholders to use the public sector to obtain "buy in" to a non-violent political equilibrium can be important.¹⁹ Development assistance for PSM reform is in itself a potential complicating factor as some apparent "championing" of reform may owe more to the need to keep aid flowing and relationships with donors positive, than to any deeper determination to drive change.²⁰ Politicians and counterparts may also have an incentive to convince donors that there is the possibility of a large scale, integrated reform – a conclusion that is somewhat at odds with the more general finding that PSM reform is generally incremental and often uncertain.²¹

Box 4: Political interests in PSM

Changes in formal and informal political participation by voters and citizens has implications for political strategies to improve (or not) service delivery – but the presence of democratic machinery of campaigning and voting etc. does not ensure improved public sector management.²²

In some settings, service delivery improvements can lead to increases in approval for the political incumbent. The story from a recent large scale review of survey data in Africa, Latin America and the Arab world is essentially that, in terms of absolute levels, improvements in the technical quality of services are outweighed by reductions in corruption and improvements in procedural justice as a vehicle for building the necessary political capital (Sacks, 2011 (forthcoming)). However, a more micro-level study in Medellin, Colombia shows that a rapid improvement in the city's less favored districts, combined with a stronger enforcement of the rule of law, improved the traditionally low levels of support for the city's politicians and institutions, breaking the equilibrium of distrust in government. This evidence suggests that perceived improvements to services which have an immediate impact on households matter significantly - until a tipping point is reached when service quality is perceived as reasonable and there are few political returns to be gained from further improvements (Guerrero, 2011 (forthcoming)).

At other times and in other settings, ensuring stability and providing employment opportunities within the public sector can be more politically rewarding than delivering services. During a period of considerable unrest within the Middle East and North Africa, Kuwait is increasing defense and civilian public sector pay significantly and Oman is hiring an additional 50,000 public sector workers.²³ The use of public sector employment for policy objectives other than performance, and on occasion driven by an interest in distributing positions in exchange for votes, is observable in low income countries, in some Middle Income countries and, strikingly, in poorer regions of OECD countries.²⁴ Often politicians prefer to increase public sector employment to increasing public sector efficiency; they prefer supplying easily observable quantity to difficult to observe quality. These are the same preferences that non-democratic regimes in the Middle East have pursued. For example, while ranking very high in student-teacher "face time", Tunisia has ranked low in student learning.

Illustrating success in difficult circumstances - TBC

45. Acknowledging uncertainty is not an argument for inaction. Skilled interventions in many areas of public management have shown that weak links in the results chain can be found, and fixed.

A set of positive cases will be summarized here –illustrating particular PSM thematic reforms in particular country types (fragile, post conflict, MICs etc.), linking "upstream" developments to improvements in performance.

A fuller summary of the cases will be provided in *Attachment 1: Cases (upstream/downstream linkages)* - TBC, which also sets out the questions that the cases will address.

Cases identified to date:

- Sierra Leone (PFM reforms in a post-conflict setting)
- Tajikistan (CSR and PFM reforms)
- Afghanistan (CSR and restructuring in a fragile setting)
- La Rioja (revenue administration, service delivery and PFM reform)
- Mongolia (mining and PFM reform)
- Tanzania (health and PFM reform)
- Indonesia (education and PFM/CSR reform)
- India (e-government)
- MENA - tbd

Evolving roles for the Bank in Public Sector Management

46. The Bank has four significant roles in Public Sector Management: as a *thought-leader*, *development actor*, *knowledge-disseminator* and as a *disciplinary integrator*, which have evolved in step with the Bank's growing support for PSM (Box 5). There are pressing external reasons for change in these roles, and changes within the Bank and its products, and developments in the field, provide opportunities.

Box 5: Key stages in Bank support for PSM

There are four periods of World Bank support for Public Sector Management reform, highlighting the significant change in the depth of Bank involvement in this area:

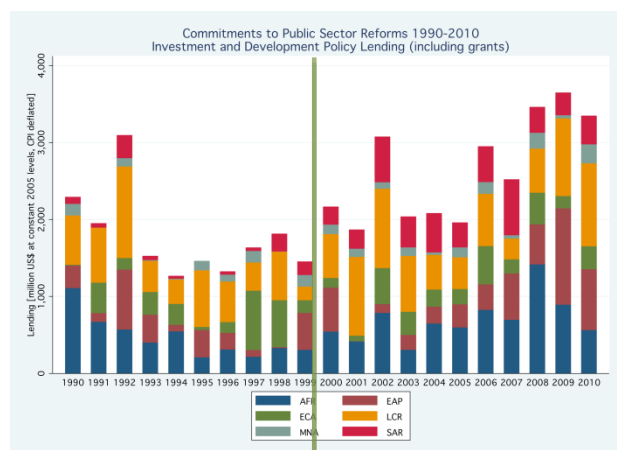
- | | |
|-----------|---|
| 1946–82 | PSM was neglected except in the building of institutions to carry out public investment projects that the Bank was financing. |
| 1983–89 | Institutional development gained recognition as a key component for carrying out policy reforms supported by adjustment lending. |
| 1990–96 | The collapse of communist states, frequent failures of macroeconomic adjustment programs, and persistence of project loan failures in Africa convinced many people that institutional development needed to be central in most Country Assistance Strategies. |
| 1997–2007 | The public sector and governance agenda was formalized, and anticorruption was added explicitly to the agenda. |

(Independent Evaluation Group, 2008b)

47. **The changes in the external environment that have the most significant impact on the Bank's work in PSM are changing demands for services from clients.** Anecdotal evidence suggests a decline in client appetite to borrow for technical assistance in this area, but as yet this is not manifest in lending trends. Total lending volumes for PSM continued to increase until FY 2008 (Figure 5), as did the number of lending operations, but 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 (Figure 6 and Data Annex Figure 6). Thematically, public financial management reforms have become the dominant area of World Bank PSM engagement over the past decade, while civil service and decentralization have become less prominent compared to the 1990s (Figure 7). The changing picture of analytic work highlights the broad trend away from long-term set-piece reports, towards shorter and quicker just-in-time policy advice (Figure 8). The themes within the growing PSM fee-based services

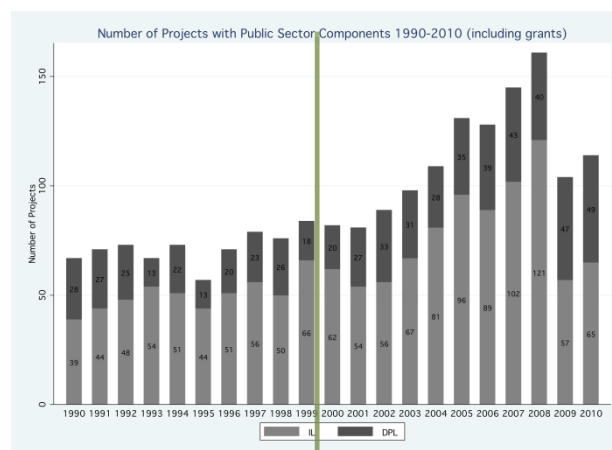
business of the Bank, suggest that Middle Income Country clients are looking to the Bank for OECD and upper middle income country experiences.²⁵

Figure 5: World Bank Lending for PSM²⁶



Source: World Bank

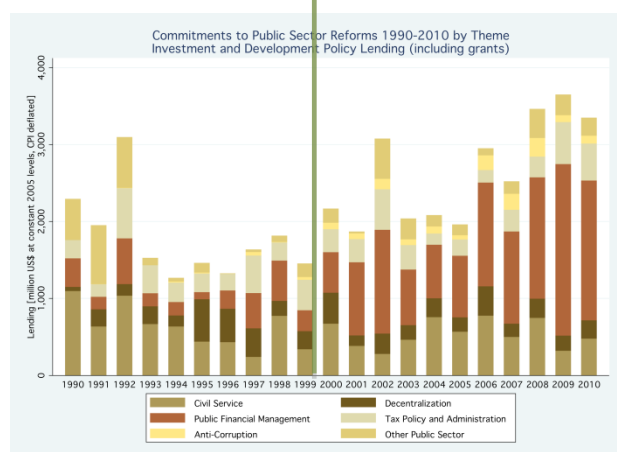
Figure 6: Types and numbers of World Bank PSM operations



Source: World Bank

2000 strategy

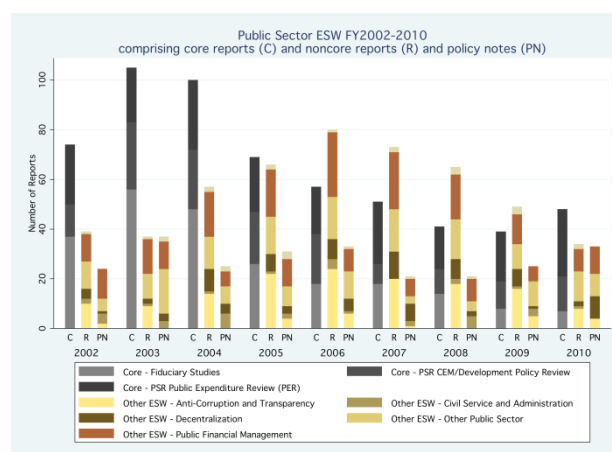
Figure 7: Themes within World Bank PSM operations



Source: World Bank

2000 strategy

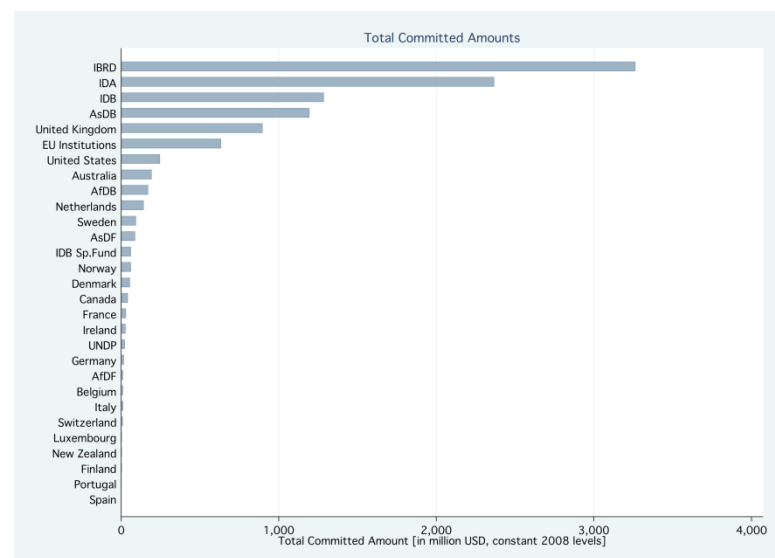
Figure 8: World Bank PSM Analytic and Advisory work²⁷



Source: World Bank

48. **Another important change is that the Bank is under healthy and increasing competitive pressure from other suppliers of finance, both from traditional and non-traditional donors (Data Annex Figure 2).** In addition, non-traditional donors, very strikingly led by the concessional lending from China, enable clients to chose from new sources of finance and, often implicit more than explicit, new approaches to public sector management.²⁸ However, the Bank's claim that it provides an attractive overall package of robust technical advice and lending is borne out by its continued position as the largest single development actor in key PSM areas (Figure 9).

Figure 9: The Bank remains, by far, the largest donor in PFM (2005-9)



Source: OECD DAC Creditor Reporting System (CRS).

Note: Commitments are in constant 2008 USD. Committed amounts include all projects classified in the CRS database under CRS purpose code 15111 ("public finance management") with a nominal committed amount greater than 300 thousand USD. Projects include both grants and loans and both investment and development policy projects.²⁹

49. There are other reasons for change. Within tight Bank budgets, and at a time of increasing concern to demonstrate measurable results, it is possible that funding will flow to those areas and sectors where an increase in resources can be more confidently related to an improvement in development effectiveness. Broader concerns for "governance" will likely remain on the donors' agendas, but in the context of persistent questioning of effectiveness, whether it will be seen as a tractable area that is responsive to external assistance is another question.

50. **The Bank cannot respond to these pressures by seeking to do more with more** – increasing funding for research or offering new unfunded business lines of analytic work. The budget environment for the Bank makes it

clear that these external, market pressures have to be responded to by tradeoffs and not by additional resources.

51. **The opportunity for the Bank as thought leader 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 returns. This implies a "diagnostic" rather than "best practice" approach – finding out where the shoe pinches and concentrating pragmatically on fixing that.

52. **As a development actor, the challenge for the Bank is to use its large and influential portfolio to obtain the greatest impact.** The opportunity is to shape the design of the new Bank lending Program for Results instrument (P4R) which, with appropriate design features, can be a powerful new addition to the lending menu for PSM.

53. **As a knowledge-generator, the opportunity is to supplement and occasionally test the extensive tacit or "craft" knowledge on PSM** including through the development of more explicit, codified knowledge through clear indicators of "upstream" functioning.

54. **As an integrator, the opportunity is to incentivize collaboration between sector specialists,** and to ensure a common disciplinary background enshrined in robust technical competencies.

a) Thought-leader: from special pleading to confronting and mitigating risk

55. **The Bank can reasonably claim to have helped give prominence to two distinctive trends in development thinking: state capacity is key to development, and politics matters in how that capacity is built.** The World Development Report 1997 marked a determined shift in thinking about the role of public sector institutions in the economy, moving from an implicitly (and occasionally explicitly) minimalist view of the state towards a more pro-active perspective, highlighting "that development requires an effective state, one that plays a catalytic, facilitating role, encouraging and complementing the activities of private businesses and individuals."Certainly, state-dominated development has failed. But so

has stateless development... Without an effective state, sustainable development, both economic and social, is impossible." (World Bank, 1997, p.3) Although somewhat muted, the political economy nature of public sector reforms was clearly acknowledged: "In any situation many people will have a vested interest in keeping the state as it is, however costly the results for the well-being of the country as a whole." (World Bank, 1997, p.4). The 2000 World Bank Strategy "Reforming Public Institutions and Strengthening Governance" offered a sharpened view of how political and institutional realities could be accommodated – with its now well-known call for "good fit" rather than any one-size-fits-all notion of "best practice" (World Bank, 2000). Subsequent work in developing and implementing the Bank's Governance and Anti-Corruption strategy has led to practical lessons in designing projects and country strategies that take account of political economy conditions.³⁰

56. **The Bank's success in highlighting the importance of nuanced context for public sector reform has combined with the very mixed picture of successes and failures emerging from recent evaluations to paint a picture of PSM reforms as distinctly challenging.** The recent Independent Evaluation Group review of PSM found that activities aimed at strengthening financial management and tax administration were far more effective than those focused on civil service and administrative improvements (Independent Evaluation Group, 2008b). A somewhat narrower review (Quality Assurance Group, 2008) was more sanguine and concluded that there was little evidence that PFM projects generally have better outturns than Civil Service Reform.³¹ Other donors report qualitatively worse findings.³² It could be argued that effectiveness at the project level is too aggregate as projects, typically, contain several components each of which may have performed differently. However, a review of the effectiveness of individual project components also finds a very mixed picture, and one which broadly replicates the pattern found by the IEG report.³³ In sum, the message is that PSM projects carry a significant risk of failure, albeit less in some thematic areas than others.

57. **The consequence is that PSM projects are widely seen as distinctively risky.** More nuanced political economy considerations need to be taken into account in PSM reforms than in projects in other sectors, and PSM projects have been distinctively mixed in their effectiveness and development impact.

58. **As a thought-leader, the Bank has a significant opportunity to lead in a more active management of risk in PSM reforms.** The opportunity for the Bank as thought leader is to encourage the development of risk management approaches that move governments, other donors and the Bank beyond a broad recognition of concern in PSM reform ("*this is a risky business*"), towards a clearer capability to assess risks and returns ("*risk is endemic but we can tell you more precisely where it is and when it is worth taking*"). More accurately assessing risk and proposing mitigation measures, while more clearly specifying the potential returns to development effectiveness, can change the focus from one of concern about a mixed track record, to one of assessing openly whether the risk is worth taking. Without an explicit focus on the risk/return calculus, the concern about project effectiveness will drive project design towards simpler and less ambitious projects. In other words – avoiding the risk return debate drives projects towards easy to implement but low impact design.

59. **This opportunity in part arises from corporate Bank-wide reforms, which provide a supportive frame for better managing risk in public sector projects.** In particular, the new Operational Risk Assessment Framework (ORAF) provides a frame for identifying and managing risks and returns more clearly in project preparation and implementation support.³⁴ In addition, investment lending reforms and the emerging new Program for Results lending instrument (P4R) open space for more flexibly adjusting project designs during implementation in response to emerging risk factors.³⁵

60. **ORAF is a special case of a broader movement in development thinking, towards more structured diagnoses of the binding constraint, and more honest assessments of the prospects of success.** "Diagnostic" rather than "best practice" approaches target an overall "system" rather than a specific organization, and start with relative agnosticism on what works and what does not and which put into practice the 2000 World Bank strategy recommendation of moving towards "best fit". The purpose

of the structured diagnostic approach is to counter strong preconceptions about the nature of the problem and the best solution.³⁶ There is growing experience in making risk and return assessments through more structured diagnostic approaches in PSM work in the health, education and other sectors (Box 6).

Box 6: Diagnostic and data developments in World Bank strategies

Developments in system-wide diagnostics³⁷

- The draft **Education Sector Strategy 2020** defines an "education system" and emphasizes the use of system diagnostics that identify the context specific binding constraints to improved educational outcomes.
- The **2020 Trade Approach Paper** notes that diagnostic approaches have uncovered unexpected constraints to trade integration.
- The **Urban and Local Government Strategy** is developing a more structured approach to diagnostics that incorporates demographic trends, land and housing availability and affordability, and access to jobs and infrastructure.
- The **Health Nutrition and Population Strategy** defines a "health system" and emphasizes a system-wide approach with the development of a new generation of diagnostics. Subsequent work on the strategy has assessed the impact and utility of the emerging diagnostic frameworks.
- The **Private Sector Development Strategy** Implementation Progress report describes progress in the investment climate diagnostics.

Developments in comparative data on institutional reform³⁸

- The **Agriculture Action Plan** makes a commitment to collect more rigorous data along the results chain to understand what drives farm production
- The **Social Protection and Labor Strategy** will measure the institutional impacts of reforms in similar institutional contexts.
- The **Transport Business Strategy** makes a commitment to monitor infrastructure provision to determine the impact of reform programs.
- The **Health Strategy** refers to the significance of work in progress to measure the impact of reforms on institutional behavior and on outcomes.
- The **Private Sector Development Strategy** Implementation Progress report reports on progress in developing standard indicators of outcome.

61. The criticism that the Bank is always invested in "best practice" is somewhat overstated. Diagnostic approaches, such as those enabled by the Public Financial Management Performance Measurement Framework within the Public Expenditure and Financial Accountability (PEFA) initiative allow the Bank to undertake a functional review of PSM performance, and to avoid bias towards best practice priors.³⁹ However, the risk remains (Box 7), and staff remain concerned that this is often the case.⁴⁰ This also remains a common observation expressed by academics concerning donor practices.⁴¹

Box 7: 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:

1. Governments often ask for them. They recognize that they will lose support, including sometimes from the World Bank, if they do not look like actors in other comparable settings or act in similar ways. These needs to ensure domestic and professional legitimacy for the reforms can be met by an appeal to "best practices".⁴²
2. 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 strongly supported within the field, it is inevitable that they will be used, cautiously one hopes, as a starting point for many discussions.
3. "Best practices" are created, often by those with an interest in "selling" them. An entire industry 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.⁴³
4. The lack of an explicit body of knowledge in PSM makes "Best Practices" resilient to any attempt to debunk them (see "myths" in Box 3).⁴⁴

b) Development actor: from big to agile

62. **The Bank is distinguished by the size and scale of its lending and advisory activities** (Figure 9 and Data Annex Figure 4 and Data Annex Figure 5). Lending volumes for PSM reform have seen a continuing, if uneven, growth. The number of investment lending operations fell after 2008 following the financial sector crisis, but the number of PSM-related development policy loans continues to rise. 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.

63. Thematically, the big story is the continued growth in lending for public financial management reform. Public Financial Management (PFM) is by far the most common theme in PSM lending. The number of PFM projects has risen rapidly since 2000. This has been associated with a dramatic increase in PFM conditionality, reflecting the growth of PRSCs and other budget-support lending, in which the expected positive effect on poverty depends on improving the country's institutions to manage the budget funds. Civil service and administrative reform is the second most prevalent theme in public sector reform.

64. Nearly 10% of the Bank's analytic work is committed to PSM. Public Expenditure Reviews (PERs) top the list of analytic products, but the Bank increasingly delivers small and focused pieces of analytic work, typically undertaken in response to a specific and often urgent request from government. Non-lending Technical Assistance has rapidly increased, mainly accounted for by an increase in Fee-Based Services.

65. The challenge is for the Bank to use this large and influential portfolio to obtain the greatest impact. In recent years, the Bank has become more flexible in the operation of existing investment lending instruments, with easier recourse to additional financing for successful projects, and simpler processes for restructuring of projects facing implementation difficulties. Staff with responsibility for PSM projects feel that the greater flexibility has enabled them to be more responsive and creative with existing investment lending (IL) instruments.⁴⁵

66. However, like other donor project structures, Bank investment lending instruments suit set-piece reforms like tax administration and PFM development. It is more difficult to identify in advance the correct sequence in civil service reforms, and these are less likely to feature large capital outlays (for example, for ICT) which are a better fit for the investment planning cycle of the traditional model. The typically long duration of SILs allows for extended implementation support by Bank staff, important for technically complex projects like introducing an FMIS (which can take around 7 years for the design, procurement and implementation of countrywide solutions), but their design assumes that reforms will stay on course.

67. Programmatic Development Policy Loans (DPLs) can be used successfully for most PSM categories, but they are best suited where there is continuing Ministry of Finance leadership and technical competence, and the reform program is built upon clearly understood and broadly consensus-based policy change and institutional actions. Budget, procurement and broader FM reform, and public enterprise reform suit this type of lending, which can be further underpinned by accompanying technical assistance. Civil service reforms may also be supported by DPLs, but clear, ex ante specification of the policy and institutional changes needed is more challenging because the gap between formal changes and actual behavior is often large, and because many of the challenges emerge only during implementation.

68. **The emerging opportunity is to shape the design of the new Bank lending Program for Results instrument (P4R)**

which is intended to avoid the design template trap by emphasizing Bank support for building

Box 8: An engineering template restricts flexibility - TBC

Data about pro-activity will follow – making the point that the thresholds for project restructuring make it difficult to take action to "save" a failing Investment Lending project.

country systems, reducing the distraction of managing transactions (World Bank, 2009c). This instrument will not be universally relevant, but with appropriate design features to make it suitable for PSM reforms, this can be a powerful new addition to the lending menu.

69. The development of P4R is a significant step forward. There remains, nonetheless, a gap in Bank instruments and a continuing challenge in how they can be deployed if the space for reform is to be identified and fully exploited. On the instruments, often there is neither the time for investment lending (IL) preparation nor broad enough ownership for a DPL or P4R operation. The need is for a highly flexible instrument which can support a local stakeholder's efforts to enlarge the space for reform. Financing could be available on a call-down basis, supported by strong Bank implementation support. Existing grant facilities, including trust funds, go part of the way to meeting this, but may not provide sufficient resources, and require too much tailoring of requests to meet grant window criteria.

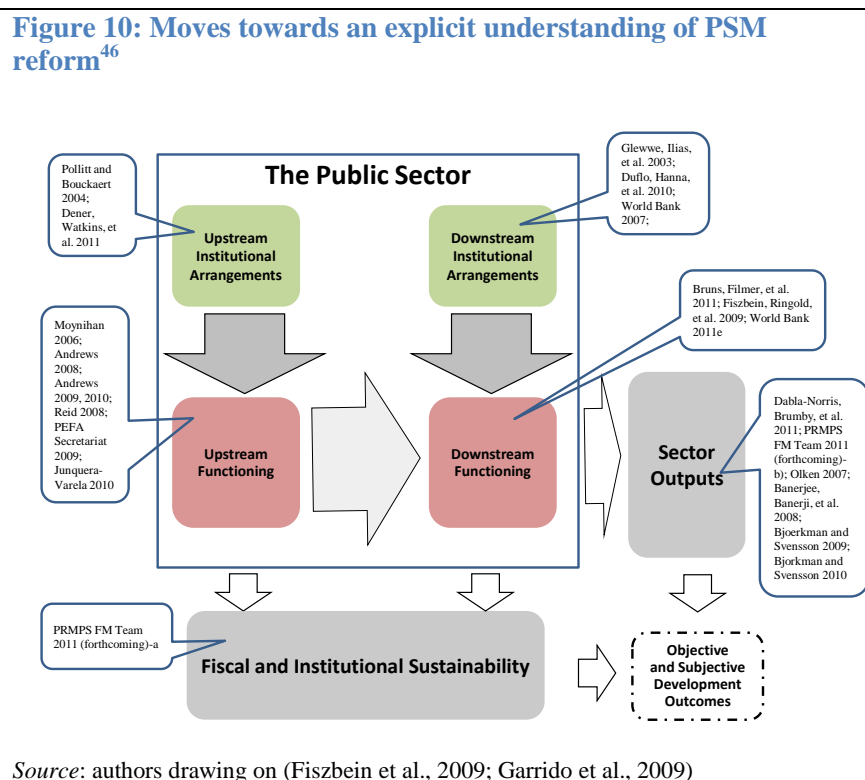
70. With any instruments, the underlying challenge in deploying them is to ensure that the Bank has the trust of the counterparts and strong insights into political and managerial developments, so that windows of opportunity can be identified *before* detailed design of the instrument begins. This requires a continuing engagement on PSM issues between the Bank and clients, outside of the project cycle, so that opportunities can be identified and seized early. Current financing for Bank staff to engage with key counterparts is often dependent on the identification of a possible lending opportunity – this is unduly restrictive and prevents early, trust-building dialogue.

c) Knowledge-generator: from tacit to balanced

71. **Tacit or "craft" knowledge has been a powerful contributor to effective public management reforms, but by itself it is insufficient.** The power of the tacit knowledge held by PSM specialists is the real world experience that it brings to bear on complex, multi-dimensional problems. Explicit or codified knowledge does not replace this body of knowledge, but it does offer an opportunity to supplement it and on occasion to test it.

72. The Bank has been a leader in empirical analysis of downstream PSM interventions, such as changes in teacher and health staff incentives and the use of performance contracting. There have been significant gains in understanding about the use and impact of interventions that, scaled up, have substantial implications for public sector structures, such as conditional cash transfer programs.

73. **In its work to balance tacit with explicit knowledge "upstream", the Bank has made a valiant start, but there is much further to go.** Its contribution to the development of the PEFA indicators has shown that it is possible to track changes in behaviors resulting from reforms to PFM



institutions. However, while excellent progress has been made in conceptualizing the problem, there is much to be done in other institutional areas.⁴⁷ Early work is also emerging concerning the impact of upstream reforms on development objectives, again particularly in relation to PFM.

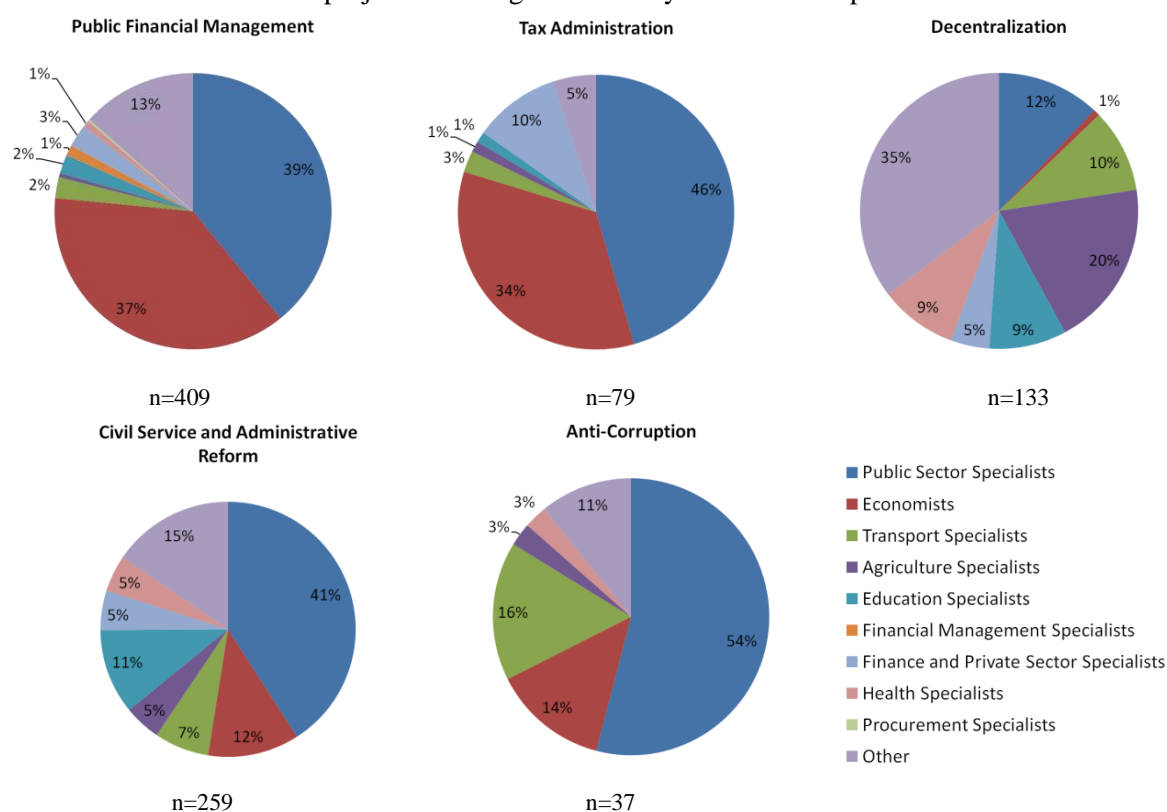
74. In sum, we are seeing early and very welcome signs of a move towards a more explicit understanding of the way in which reforms are implemented and their outcome. Significant empirical work is underway within the Bank (Figure 10). The challenge now is to scale up this effort.

d) Integrator: from stove-piped to "Whole Bank"

75. **Finally, the Bank can perhaps be described as a potential disciplinary integrator.** It is engaged in PSM activities in all sectors, from agriculture to zoology. Figure 11 highlights that World Bank PSM projects are led by different disciplines within the Bank. However, this body of institutional reform experiences is not well integrated within one body of expertise.

Figure 11: Who leads PSM projects?

1995-2010 World Bank PSM projects showing the % led by different disciplines within the Bank⁴⁸



Source: World Bank.

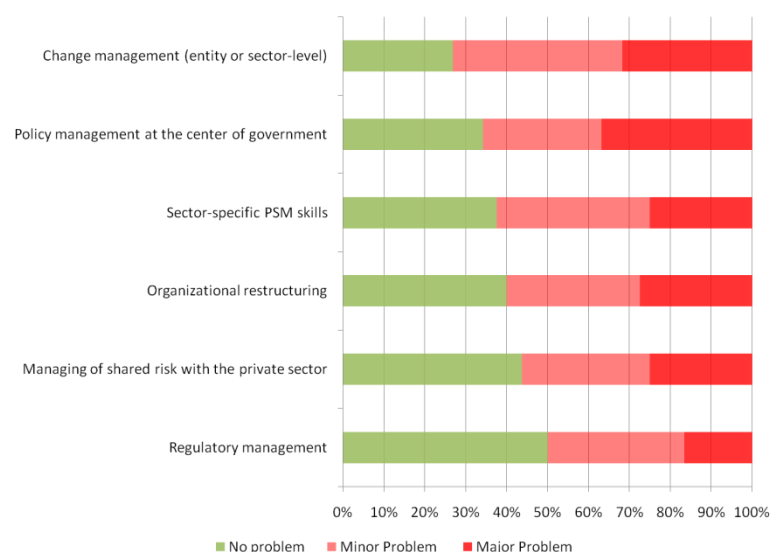
76. **The Bank's structural divisions incentivize distinctions between those whose focus is upstream, and those working separately on downstream PSM reforms.** This distinction can allow upstream reforms to be fostered which have not been identified as the "binding constraint" to improvements in service delivery or other outputs in the sectors – and, conversely, can reduce the

Figure 12: Need for disciplinary integration - TBC

Data about cross-support between sectors will follow

prospects of long term sustainability for sector reforms if they are developed without consideration of the overall public sector enabling environment.

Figure 13. Skill gaps that may constrain project design or implementation



Source: TTL Survey on the PSM Approach for 2011-2020 (partial results)

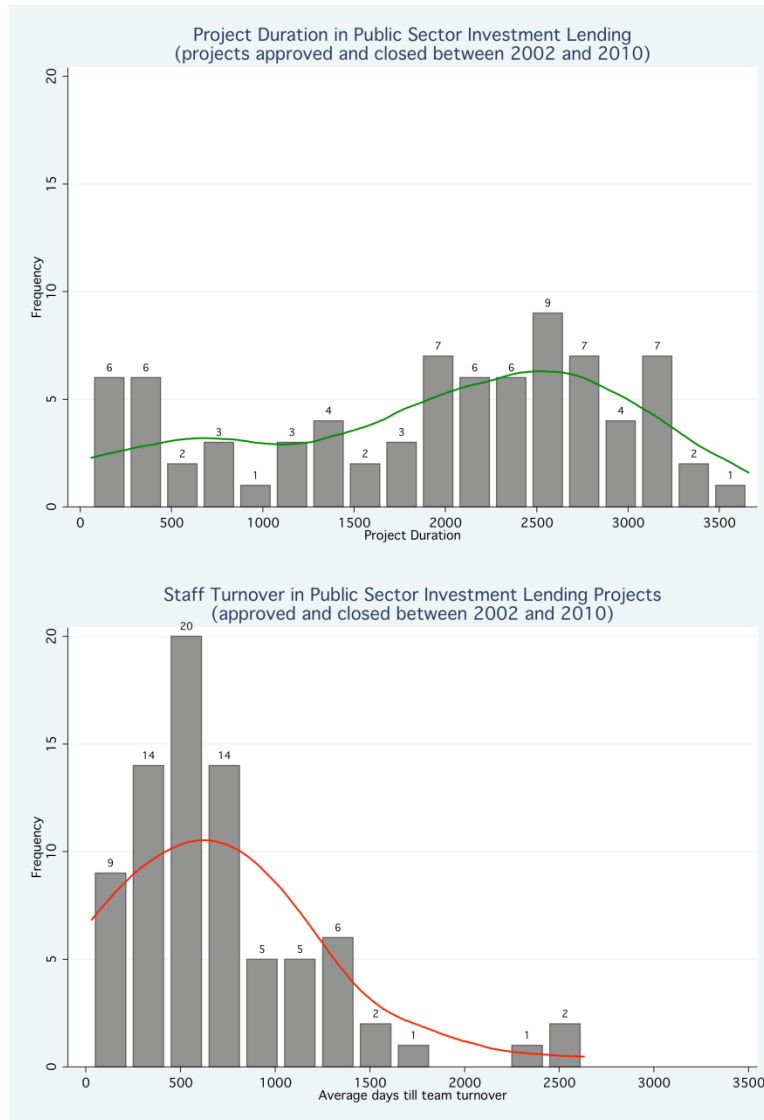
Note: The above chart reports TTL responses to the question: "In your project teams, has a lack of Bank expertise in a particular public sector management area severely constrained design or implementation?" The above chart is based on preliminary survey results, comprising N=49 responses to this question as received by 1 April 2011, missing answers are omitted.

77. The way forward is to incentivize collaboration between sectors, and to ensure a common disciplinary background enshrined in robust technical competencies. Many staff consider that there is also a need to broaden the range of staff skills, with skills in change management and policy management featuring prominently in those concerns (Figure 13).

78. Longer term, as Figure 14 suggests, the Bank may also need to strengthen continuity in public sector dialogue during implementation support. The average time until the core project team (i.e. the two staff members spending most time on a project) is replaced is 2 years or less for over half of all investment lending projects. But most public sector investment lending projects have a duration of 5 years or longer. This implies that the average public sector investment project sees several team changes – with likely significant impact on the continuity

of the dialogue.⁴⁹

Figure 14: Team turnover time versus investment project duration



Source: World Bank

Notes: The histograms show team changes and project duration of an identical sample of public sector investment lending projects approved in or after March 2001 and closed before or in December 2010.⁵⁰ The lines in both charts are rolling averages.

C. THE WORLD BANK'S 2011-2020 PUBLIC SECTOR APPROACH

79. The 2011-2020 PSM Approach focuses on achieving better results from public sector institutions by enhancing the Bank's ability to manage within the inherent uncertainty of public sector management reforms. Above all, *the 2011-2020 PSM Approach seeks to adapt the Bank's way of doing business to match the nature of PSM reforms.*

80. Uncertainty means that there are risks. The prospects for success in PSM interventions can be maximized, but success cannot be guaranteed. Managing risks wisely to achieve results is a theme that runs through the PSM Approach. The Approach confronts and mitigates risk in project design. The PSM story is about best fit and country context, so the Approach emphasizes the capability to assess risks and returns, with a "diagnostic" rather than "best practice" approach.

81. Since PSM reform trajectories are about incremental change and constant adaptation, the Bank's instruments need to be flexible enough to allow for flexibility and experimentation, particularly in the context of changing demand from clients. The Approach emphasizes agility in using the Bank's large and influential portfolio to obtain the greatest impact.

82. Since tacit knowledge can be strengthened when tested against explicit knowledge, the Approach underscores the significance of stronger empirical learning, particularly through robust indicators of "upstream" functioning.

83. Since the entire Bank is working on PSM reforms, the Approach identifies staffing and structural approaches which motivate the Bank to speak with one voice and which capitalize on the many insights that have been gained in other sectors such as the "systems approach" identified in the new education strategy.

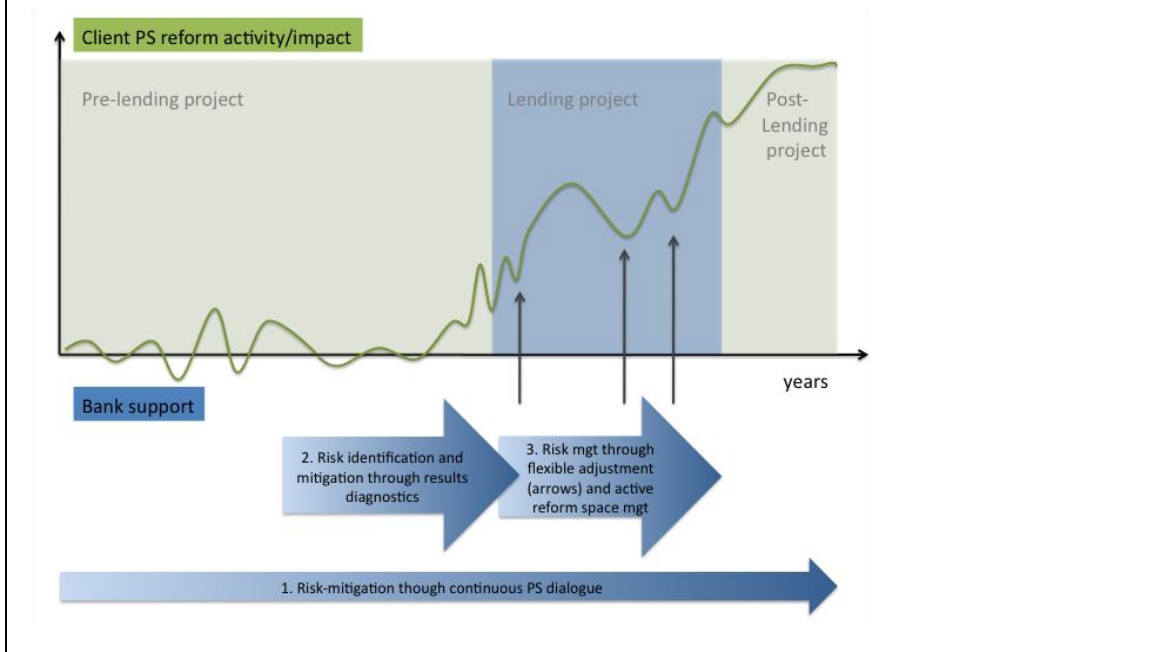
84. In monitoring the 2011-2020 PSM Approach, the Bank will hold itself accountable for delivering more, and better, results from its PSM interventions. In holding itself accountable, the Bank will move towards a capacity to identify, with improved precision, where it will help governments achieve improvements in results for today's citizens, and for tomorrow's.

85. The Approach is developed at a time of constrained Bank resources. For each action in the proposals set out below, the Approach it notes if there is a cost and if so where the resourcing trade-off would have to take place. Some items seek the collaboration of other agencies – and the Approach seeks to clarify why they may wish to join with the Bank in some of the identified priorities.

Strategic Direction 1: Confronting and mitigating risk in design – with agility in delivery

86. In order to improve its ability to manage risk, the Bank first and foremost needs to adjust its way of engaging with clients to better suit the nature of public sector reform dynamics. The first strategic direction suggests three complementary changes in the way the Bank engages with clients. These changes comprise more continuous, long-term support to clients in reforming their public sector institutions, support for a more structured diagnostic approach that helps avoid getting stuck in prior assumptions about the nature of the problem and the appropriate fixes, and flexibility and active reform space management in project implementation. These adjustments seek to adjust the Bank project cycle to PSM reform dynamics as shown in Figure 15.

Figure 15: Better risk management through three complementary changes in client engagement



a) Improving responsiveness to country programs

87. The PSM Approach proposes more continuous support to clients, independent of the project cycle. Currently, in many countries, the Bank's support for PSM reforms is episodic and dependent on the development of a loan or credit in the form of an investment/technical assistance project. Continuous dialogue on public sector reforms is crucial for selecting and designing effective projects. It enables client and the Bank to build trust, to address collective action obstacles and to seize political windows of opportunity, when they open. It allows a deep understanding of the client's long term reform trajectory and to develop reform designs jointly that truly "fit" the client's most pressing problems. In addition, while lending projects can provide a powerful focus for reform, the incremental and opportunistic nature of many public management reform programs is ill-suited to the degree of ex ante specification that such projects require. Continual engagement allows for the provision of just-in-time technical assistance, much of it not captured within formal instruments but crucial to support reformers when the time is ripe.

88. While continuity is crucial to identifying risk, it is costly and the Bank's budget envelope is tight. One possibility is that the Bank makes savings in its current project preparation and implementation support costs in order to finance more continuous dialogue and just in time technical assistance. The trends towards smaller investment loans in all areas of the Bank's work, and in PSM in particular, suggest that there may indeed be some opportunity for greater consolidation of loans (see Data Annex Figure 10 and Data Annex Figure 11). However, this is a fine balance as the counter-argument is that the reduction in lending volumes in investment lending operations is a positive sign of a more tailored, boutique approach and that this should be preserved. Under any circumstances, the most likely way forward is for the Bank to work more closely with partners to ensure a continuous dialogue in key client countries – and fund it via fee-based services, coterminous positions and trust funds. Development partners may find this form of collaboration with the Bank a distinctly efficient way to meet their own objectives concerning support for the strengthening of "country systems".

b) Improving project design and selection, exposing risk tradeoffs

89. The 2011-2020 PSM Approach emphasizes the need for a more structured diagnostic protocol that helps busy operational staff in several ways. It should assist staff in identifying the functional problem in complex institutional environments – minimizing the risk that the problem that is being described is merely the absence of a preferred organizational form ("best practice"). It should assist in identifying the most plausible weak link in the results chain. It should provide a structure within which alternative institutional reform solutions can be tested against each other. Finally, drawing on available tacit knowledge and explicit empirical findings, the protocol should assist in estimating the likely risk and return from implementing the institutional reform.

90. Bank Task Teams 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. Box 9 highlights the lessons emerging from the careful PSM diagnostic work on health sector management in Mexico.

Box 9: Learning lessons for the diagnostic protocol from the Health Sector Management reforms in Mexico

Since 2010, the World Bank has been supporting health sector reform in Mexico. Mexico has significantly improved its health outcomes over the past two decades, having about halved infant, child and maternal mortality rates between 1990 and 2007. It is one of the few countries on track to meet the health MDGs. Yet, this overall achievement masks disparities in health outcomes across population groups. Improvements in health outcomes in the public system over the past decade have largely been driven by major investments in the underfunded public provision system, tripling per capita spending on the public system. In particular, the Mexican government has expanded a public health insurance scheme – the Seguro Popular. The scheme is well on track towards universal coverage and now faces the challenge of improving the efficiency of public health spending in a context where per capita health spending is unlikely to grow further.

A diagnostic protocol⁵¹ highlights four key stages in assessing risks and returns of PSM reform options. First, it suggests that the "*functional problem*" is concerned with the quality of the outputs – essentially inequity because there is an available, and achievable, efficiency frontier which some states reach but which many do not. Second, in looking further upstream, it suggests that the "*binding constraint*" for improving efficiency is the incentives set by the federal government which provide no rewards for states to improve the performance of their health systems – but which do serve a more political purpose. These incentives are allowing the existence of duplicate and underutilized capacities due to the fragmentation of the Mexican health provision system and the waste of resources within each of the separate systems. Third, it points to a *range of possible solutions* for addressing the binding constraint - incentives for states to improve value for money or for designing their health systems in specific ways. Contestation between these alternative solutions took place over time with counterparts, rather than at a single meeting or in a single forum. Finally, the protocol directs attention to a *review of available comparative data* which helps determine what has been learnt from similar reforms in other contexts and what these lessons imply for this context.

Further details of the diagnostic protocol are set out in *Attachment 2: Cases (diagnostic protocol in practice)* - TBC.

91. HD-PREM "Public Sector Management Clinics" will 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 will not be one-off events but will provide task teams with continuous, on-demand support throughout the project design process – as they conduct an integrated analysis of the public sector results-chain (Figure 2), 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.

92. The "Public Sector Management Clinics" will provide guidance on how to use emerging Bank instruments to facilitate this disciplined diagnostic approach – very particularly including the use of the new programmatic results-based lending instrument (P4R), and piloting a revised ORAF (World Bank, 2010a).

93. HD-PREM will also collaborate in a program of analytic work that will synthesize emerging research that highlights the probability of success and the potential development impact, to ensure that it is readily available to TTLs, building on ongoing work on health and education "systems diagnostics".

c) Enhancing the impact of PSM projects

94. The Approach also calls for flexibility and more strategic use of "reform space" in order to enhance the impact of public sector projects during implementation. The Approach suggests harnessing the potential of the new Program for Results lending instrument (P4R) for PSM, which is expected to receive Board approval in 2011 (World Bank, 2009c). P4R offers a new

approach for the design and implementation of Bank projects⁵², tying disbursement to targeted results achieved via country systems. While its use for public sector projects will not be without challenges, it bears significant promise for enhancing effectiveness by allowing for needed flexibility and experimentation in implementing some types of PSM reforms.

95. The new P4R instrument will be a valuable complement to existing investment and development policy lending instruments, which are suited for some but not all types of PSM reform.⁵³ Staff have welcomed increased flexibility in existing investment lending instruments as existing IL instruments tend to suit set-piece reforms, such as tax administration and PFM, better than civil service or anti-corruption reforms.⁵⁴

96. P4R lending can support strengthening of PSM in different ways with different challenges:

- Where upstream PSM reforms are the specific focus of a P4R operation, developing robust indicators which can be linked to disbursements is likely to be the key challenge. For upstream PSM projects, results are harder to capture with performance indicators. Mechanistically linking indicators and disbursements can encourage gaming. Developing indicators that capture meaningful change and are hard to game is the priority.⁵⁵ An additional question is the degree to which implementation support budgets will allow for sufficient technical assistance to ensure that the Bank can support countries as they seek to meet demanding institutional targets.
- P4R may be particularly suited to combined upstream and downstream public management and sector service delivery operations, like most current SWAPs. In such combined projects the challenge of finding appropriate indicators is somewhat lessened as the key metric is service delivery improvements.
- Where P4R operations are entirely located within downstream sectors, P4R may generate incentives for reformers to create stand-alone islands of better performance, and neglect upstream reforms needed to sustain them beyond the project. In such cases, the challenge is to demonstrate that "upstream" reforms are necessary to sustain the "downstream" service delivery improvements.

Box 10: Results-based lending in Argentina (Government of La Rioja)

The Argentina Sub-national Government of La Rioja was facing cross-cutting public sector challenges (low tax collection and expenditure rigidities), which impacted on the efficient use of public sector resources and the effectiveness of public service delivery. Rural water management was a particularly critical case given La Rioja is facing severe desertification.

The Government and the Bank prepared a results-based SWAp based on a multi-sector Adaptable Program Loan (APL) entailing two loans that supported the Governments Public Sector Reform Program. The objective of the first project in the series is to increase tax collection, improve expenditure quality (introduction of fundamentals in public procurement and performance-oriented budgeting), and pilot improvements in public service delivery in the area of rural water management, a pressing priority for citizens. Disbursements are made against eligible expenditure programs to the state treasury and are linked to the achievement of targets, providing incentives for coordination and alignment between the participating agencies to achieve results. "Disbursement Linked Indicators" include upstream PSM results such as: improved management arrangements for the urban cadastre (land tax); improved linkages between the development plan and the budget; strengthened staff competencies in strategic planning and program budgeting; updated strategic and operational plans; improved compliance with the new procurement law and regulations. They also include results related to downstream PSM improvements and results in the sectors such as: increased number of water user associations complying with irrigation regulation; additional number of households in remote areas with access to drinking water; and the number of farmers with improved skills in managing access to water.

In parallel, triggers have been established to ensure that the reform agenda of the first loan is sufficiently advanced to support further improvements in public sector cross-cutting areas and extend improvements in service delivery to other sectors. The specific objective and scope of the second loan will not be designed before triggers are met. Triggers include establishment of a Procurement Policy Unit, the introduction of a programmatic structure and effective physical indicators in the budget process.

97. Results-based lending allows for more closely engaging with key stakeholders as they experiment with reform options – rather than proposing solutions or analysis from the outside. It can build broad acceptance of these solutions, creating "space" for reform. It is often through such processes of often informal engagement between government, private sector and civil society stakeholders that the rules of the game really change.⁵⁶

Box 11: Why reform space matters for reform success – Lessons from PFM reform in Russia

Russia's public financial management reform trajectory illustrates how "change space" matters for the success of public sector management interventions. Russia's reform trajectory has been driven by the need to solve a series of PFM problems – but as solutions come into sight, ambitions for further reforms expand. In each iteration, change space, comprising *acceptance*, *authority* and *ability*, is needed.

The entry point to PFM reforms in Russia seemed a tractable problem. In the aftermath of the late 1990s fiscal meltdown, officials in the Russian Ministry of Finance – and the Treasury in particular – *accepted* a shared belief that fragmented public finance flows constituted a major risk to economic stability and growth. A group of officials from multilateral agencies and the Russian Treasury committed to solve this problem once and for all – by adopting a Treasury Single Account (TSA). The officials worked to establish the *authority* needed to solve this problem (through laws, regulations and political alliances) and built the technical, informational and human resource *ability* required for a TSA-type solution.

Interestingly, these efforts led to more ambitious reforms. The Russian Treasury realized that its newly centralized system could facilitate better transaction controls. This more stretching goal required much more information, leading Treasury to coordinate with the Budget Department which was trying to use performance information to enhance its allocative decisions. To address this second order problem, the Treasury began engaging with the Budget Department to create a shared vision of the kind of FMIS both needed.

The FMIS system in Russia is now in place and functional, but yet a further generation of problems has emerged. The government has to ensure that all budget entities use the FMIS – local governments, line ministries and beyond. The government has started to focus on building *acceptance* of the new systems amongst this deconcentrated set of users, ensuring all users know that they are *authorized* to use the system (instead of paper), and training users to ensure they have the *ability* to use the IT functionality at their disposal. The projects are now focused on building these crucial change space dimensions. Project and funding extensions and project restructuring have been required to attain the flexibility to expand the change space in this way.

The Russian reform experience suggests a number of key lessons:

- PSM intervention success is enhanced when time is spent building change space to address the entry point problem (acceptance, authority and ability).
- PSM intervention success can be leveraged over time if reform ambitions expand from an endogenously obtained "change space"
- PSM interventions require flexibility to allow new approaches to emerge, so that change space can be built to address the next generation of problems.

Source: (Andrews, 2011 (forthcoming))

98. Framed within Phase II of the Bank's Governance and Anti-Corruption Strategy, the PSM and DFGG Approaches will jointly pilot a new "reform space" approach in implementing public sector projects. In the context of more flexible results-based lending, volunteer task teams (based in the field, with experience in managing "political" processes) will pilot the "reform space" approach 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. The "reform space" approach will be piloted in PSM reform areas, where the engagement of demand-side stakeholders is particularly crucial, such as:

- Reforms aimed at reducing corruption in tax and customs administration. Citizens and businesses have a key role in advocacy and in monitoring reform impact on predatory behavior / corruption;
- Public investment management reforms. Businesses can inform investment priorities and monitor transparency and fairness in procurement.

Box 12: Resource implications of confronting and mitigating risk in design – with agility in delivery - TBC

Action	Implication
<ol style="list-style-type: none"> 1. <u>Improving responsiveness to country programs</u> <ul style="list-style-type: none"> • Enable PSM dialogue/TA through flexible instruments that reduce dependence on PSM projects 2. <u>Improving project design and selection, exposing risk tradeoffs</u> <ul style="list-style-type: none"> • Develop a professionally recognized set of results-focused diagnostic standards agreed jointly with other sectors • Establish clinics to support staff in using the diagnostic approach 3. <u>Enhancing the impact of PSM projects</u> <ul style="list-style-type: none"> • Increased flexibility in implementation through the use of new results-based instruments • Expand the use of reform space/demand-side initiatives. 	

Balancing tacit with explicit knowledge to achieve results

99. 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. But today the explicit evidence-base for understanding what works and why in public sector reform remains strikingly limited.⁵⁷ In the early 1990s, through its work on growth the Bank has proven its ability to act as a catalyst for spurring progress in a crucial research area.⁵⁸ The Approach calls for a similar "sputnik-moment" in balancing tacit knowledge with more explicit "scientific" knowledge gap on public sector reform. The Bank needs to earn and assert leadership as a provider and custodian of data on public sector institutions and as a catalyst of an international research agenda on public sector management reform.

a) Improve country-level institutional tracking

100. The World Bank will make 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 regarding data on public sector institutions. Gathering comparative data on public sector institutions and their effectiveness is not an easy task but looking into the "black box" of the results-chain is crucial for understanding where the causal links are broken. Recent advances in this field, such as the success story of the multi-donor Public Expenditure and Financial Accountability (PEFA) tool – developed in 2004 and today applied in over 110 countries⁵⁹, and the discussion around the development of Actionable Governance Indicators⁶⁰ – illustrates the promise of such data for learning and debate in client countries, among donors and in research on PSM reform (Figure 16).

101. Quantitative indicators are not the only way forward. Developments at the country level can also be tracked through high quality case studies and through impact evaluations when there are "natural experiments" that can be exploited.

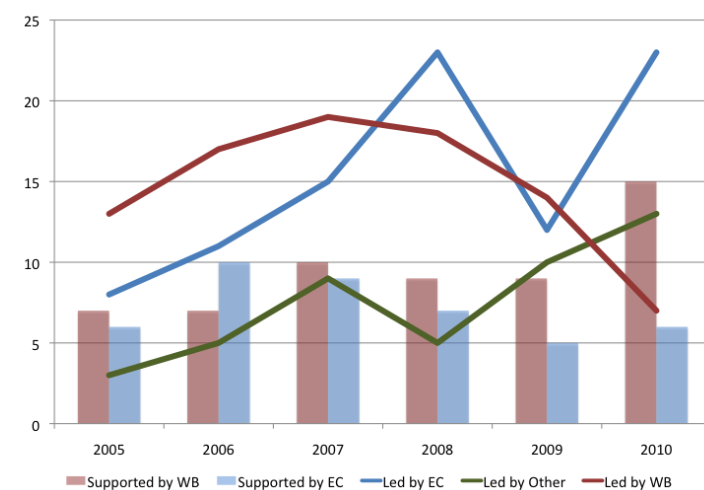
b) Learning more from Bank projects

102. The Bank will enhance learning from the public sector projects it supports in client countries. Bank-supported reform efforts in client countries provide opportunities for both clients and the Bank to learn about what works and why in PSM reform. Much of the knowledge generated in such reform efforts remains tacit and unshared. Many opportunities for systematic learning remain unexploited. The Bank's PSM Approach will advance learning from Bank projects:

- It will develop a set of more standardized project progress indicators that are meaningful and measurable and can serve as a guide to TTLs. Aiming for standardized indicators does not imply imposing a results-corset for projects. Rather, they will support task teams with optional menus of indicators that can be tailored to context.⁶¹
- 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 on public sector institutions will stimulate demand from clients, other donors and researchers, and spur both external research and internal learning. It will support the development of a "secondary industry" of analysis of Bank project data by making this data openly available to the research community (Zoellick, 2010). Annual (non-financial) Bank

Figure 16: The PEFA success story

Number of PEFA assessments conducted 2005-2010



Source: Stocktaking of PEFA Assessments by the World Bank.

Note: PEFA assessments are shown by lead agency (lines) and for the EC and the World Bank also in supporting roles (bars). The year refers to the main mission when most of the interviews for the PEFA assessment were conducted. The number of assessments reported includes both "finalized" and "draft assessments". While every effort was made to take stock of PEFA Assessments comprehensively, some assessments may have been omitted in the dataset.

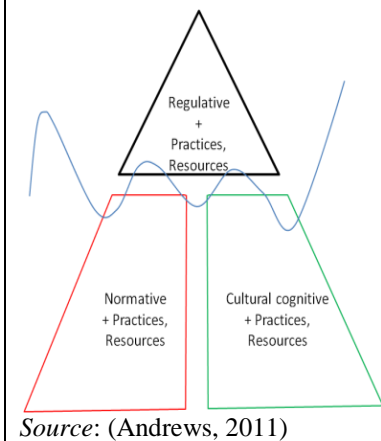
awards to the researchers that have made the most productive use of this data will highlight the significance of this agenda.

c) Renewing Bank leadership in PSM research

103. Data on public administration in developing countries are expensive and time-intensive to gather, and the field of public administration is far from equaling economics and political sciences as an academic discipline that offers a rigorous methodological core and attractive academic career paths.

104. At the same time, emerging research trends show that the field is gaining promising momentum, including within many sector strategies (Box 6).⁶² Yet, large areas remain unexplored on the map of PSM research – in particular regarding the implementability and effectiveness of PSM reforms at the center of government. Available research on these questions often focuses on the "visible" peak of the "institutional iceberg" – i.e. the formal institutions – but tends to neglect the hidden and harder to change part of the iceberg – public agents' (informal) behavior (Figure 17).

Figure 17: Research focuses on the visible peak of the institutional iceberg



105. The PSM Approach recognizes that these blanks will not fill themselves. The Bank and other donors have a catalytic role to play to encourage research that they and their clients urgently need. It commits the Bank to assess the opportunity for and interest in a series of high profile and full cost recovery conferences with client countries, other donors and academia to jointly define and support an ambitious multi-agency research agenda on PSM reform relevant for practical support strategies.

106. Supporting this multi-agency agenda, the Bank will focus its own research on public sector management on key knowledge gaps. This agenda could in particular comprise:

- Research on frontier issues, including: PSM reforms in highly aid-dependent countries; the political economy of PSM reforms (including when and how virtuous circles of performance improvement and stronger trust in government can be facilitated, and typologies of political tactics); and the measurement of public sector productivity;
- More rigorous impact evaluations of PSM reform interventions where feasible (where n is large enough) – in sectors and selected upstream reform areas;
- High quality interdisciplinary case studies and theory development on the political dynamics and impact of public sector reforms.

107. The broader goal here should be beyond the immediate supply of better data and broadening the coverage and relevance of research findings. The Bank can and should take a major role in shaping the international discourse on public sector management reforms. The debate about tactics and strategy remains uninformed by evidence and by any well-accepted theories of change. The Bank has an opportunity to fill that larger gap.

d) Supporting professional communities within the Bank

108. While emphasizing this deepening of the formal knowledge base, the Approach emphasizes the importance of retaining and deepening the "tacit" knowledge on PSM within the Bank. It will encourage and support knowledge sharing within specialist professional communities. Most Bank staff report that they learn most from sharing experiences with

colleagues. The PSM Approach proposes to re-launch the Thematic Groups and to consolidate the Communities of Practices. It will make it attractive for staff to share their knowledge through PREM connect and Wikipedia-type open-access platforms.⁶³

Box 13: Resource implications of balancing tacit with explicit knowledge to achieve results - TBC

Action	Implication
<ol style="list-style-type: none"> 1. <u>Improving country level institutional tracking</u> <ul style="list-style-type: none"> • Extend the range of indicators of strength of country systems • Develop quality standards and priority areas for case studies • Pilot more rigorous (impact) evaluation of PSM reform results 2. <u>Learning more from Bank projects</u> <ul style="list-style-type: none"> • Movement towards more standardized project progress indicators • Supporting the development of a "secondary industry" of analysis of Bank data through more open access to the research community on Bank project data and indicators of strength of country systems 3. <u>Renewing Bank leadership in PSM research</u> <ul style="list-style-type: none"> • Focusing Bank research on key knowledge gaps • Setting a multi-donor research agenda relevant for practical support strategies 4. <u>Supporting specialist professional communities within the Bank</u> 	

Whole-Bank staffing and structures that foster collaboration

109. Taking forward the directions outlined in the PSM Approach will require some substantive staffing and organizational changes. Despite challenges in its internal coordination and in the communities of professional practice, the Bank is fortunate to have a large cohort of experienced PSM specialists. While many staff have developed their experience within the Bank, others have joined the Bank in mid-career and have deep practical experience at senior positions within government as senior managerial and technical staff, as members of cabinets, as negotiators concerning EU accession, and as leaders of non-profits placing demand-side pressure on governments for improved performance.⁶⁴ The talent and experience of this cohort can be more effectively leveraged by providing opportunities for collaboration and complementarity between Bank staff, and by deepening the pool of staff skills and nurturing scarce skills within the Bank through more structured training and strategic recruitment processes.

a) Improving the coherence of PSM advice

110. Focusing on results and better managing risks in client countries has implications for how the Bank itself works as an organization. Clients expect the Bank to provide integrated solutions to their problems and not to speak with different voices, despite its many internal structural divisions. Public sector results require an integrated approach along the results-chain (Figure 2). While results are achieved in education and health, they often require institutional reforms at the center of government. The Approach seeks to bridge gaps within the Bank between units working on public sector reforms – between sectors and different units focusing on the center of government. To this end, it promotes opportunities for collaboration between Bank staff. It will do this through establishing "principles of joint working" for teams at the regional level and "principles of good practice" in key PSM areas. The Bank will review the different business models in use in its different regional departments for PSM support in use in the regions against criteria of cooperation, flexibility and sustainability. It will also 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.

b) Enhancing staff skills

111. Deepening the pool of staff skills further, particularly in ensuring that there is a strong link between skills required for supporting cross-cutting institutional reforms and those necessary to support technical improvements in sectors, requires a fundamental rethink concerning the Bank's competency and incentive framework. The Bank is facing problems in attracting senior professionals and the PSM practice is facing problems in retaining them within the Bank. This is particularly true for the higher level integrative skills that provides a whole of government perspective necessary to advise on complex reforms. In the context of a distinctively flat hierarchy for PSM staff with few opportunities for advancement within the PSM field, the incentives for serving Bank staff to remain and develop new or deeper skills must rely heavily on recognition which is an inadequate incentive. Structural biases that restrict advancement of PSM staff would have to be addressed if a lasting solution is to be found. 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.

c) Deploying scarce skills

112. The current staffing arrangements within the Bank are not conducive to the recruitment of mid-career PSM professionals. Complex Bank operational procedures also pose a hurdle as they require a substantial investment in training for newcomers to the Bank. The possibility described above of establishing more externally-funded positions to maintain dialogue with clients, also provides an opportunity to rotate more senior staff from governments into the Bank.

113. Finally, the PSM Approach proposes piloting of "global public sector practices" within the Bank in order to nurture scarce public sector reform expertise through the centralized career management and deployment of relevant specialists. Possible candidates include revenue administration and public sector workforce reform. The latter could address the additional concern of bridging HRM work in central government with HRM work in the sectors, particularly health and education.

Box 14: Resource implications of Whole-Bank staffing and structures that foster collaboration - TBC

Action	Implication
<p>1. <u>Improving the coherence of PSM Advice</u></p> <ul style="list-style-type: none">• Principles of joint working established to ensure that the Bank speaks with one voice on PSM• Principles of good operational practice established in relation to core PSM areas• Review regional PSM business models to identify those that maximize collaboration• Find additional incentives for PSM staff to make contributions to sector projects, including revisions to the OPE to give more credit to "influence" rather than TTL responsibilities.	
<p>2. <u>Enhancing staff skills</u></p> <ul style="list-style-type: none">• Training and recruitment: To extend skills to: regulatory and policy management; change management.• Recruitment: To recruit more mid-career professionals	
<p>3. <u>Deploying scarce skills</u></p> <ul style="list-style-type: none">• Create "Global Practices" to manage scarce skills strategically.	

D. ENSURING PROGRESS

114. The PSM Approach is clear – **demonstrating country level results is essential to energize the PSM Approach**. Setting targets for results at the country level, and making a commitment to track progress towards them, is at the heart of the PSM Approach. The Bank should be accountable for both the analysis within the PSM Approach and the effectiveness of its implementation. Monitoring country level PSM results against targets is the clearest way to achieve this accountability.

115. However, the challenges of identifying indicators of institutional strength and setting reasonable targets are well-known. In principle there are two ways to identify country level indicators: (i) identifying those specific areas for improvement that have been targeted for improvement by Bank PSM projects; or (ii) selecting indicators that capture changes concerning PSM at the country level. The first method is, in essence, a proposal to hold the Bank to account for success in its projects and programs. While monitoring and managing project performance clearly is key to implementing the PSM Approach, this is not considered to be a sufficient way forward for holding the Bank accountable for results from the PSM Approach as it is not obvious that aggregate project level success ratings should in fact rise. If PSM projects are to work at the frontier of what is possible in PSM improvements, one would expect a more or less constant rate of project failure – while country indicators would improve. To derive targets from project ratings alone would require intricate computations concerning the assessed risk of the project – and the Bank's current risk data do not allow this.

116. 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 widely agreed standards must be defined
- Robust indicators of the compliance of countries with these standards 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.

Box 15: 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, and the PEFA-based assessments are becoming the starting point for discussion of PFM reform plans in many countries and 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.

117. The PSM Approach proposes a way forward. First, it notes that the normative standards can be derived from the Bank's CPIA indicators. As these have a wide legitimacy within the Bank and more broadly, they can be used as the basis for a set of assertions about institutional areas that should, generally, be seen to improve. Second, many of the CPIA standards and ratings

are supported by data collection efforts that take place outside of the CPIA round, and some of these data (currently known as Actionable Governance Indicators) provide relatively robust measures of compliance with the standards. The third and final challenge represents one of the most difficult. The PSM Approach proposes the use of a "pool" of country systems monitoring data that covers countries distinguished by: (i) high/low Bank support for PSM, as measured by lending volumes and numbers of relevant operations; and (ii) high/low public sector management ratings, as measured by the relevant CPIA scores. This will allow for some comparisons to be made between comparable settings where the Bank has been more or less active on this agenda.

118. A further proposal is that a country systems monitoring advisory body be established, 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 15). This body, on technical advice, would be responsible for accepting indicators into the "Country Systems Monitoring Pool".

119. Urgent work will be needed to develop indicators of strength of country systems in relation to public employment, revenue administration and reducing corruption, and to develop a body of data behind them, for consideration for acceptance into the Country Systems Monitoring Pool. Work on these will be challenging but progress is crucial as movement towards a system for monitoring country level PSM results is conditional on making progress in developing widely accepted indicators of country systems strength.

120. Table 1 in *Attachment 3: Monitoring implementation of the PSM Approach* shows the specific targets and monitoring arrangements.

Box 16: Resource implications of results and implementation monitoring of the PSM Approach

Action

Steering Committee for a "Country Systems Monitoring Pool"
Technical support to the "Country Systems Monitoring Pool" Steering Committee

Implication



E. SUMMARY OF THE RESULTS FRAMEWORK

Goal	Better results from public sector institutions		
Purpose	<p>The Bank will be able to identify, with reasonable precision, areas and countries where it will achieve improvements in results... for today's citizens:</p> <ul style="list-style-type: none"> • Quality services to firms and households • Effective management of social and economic regulations • Productive public investment management • Realistic sector policies <p>for tomorrow's citizens:</p> <ul style="list-style-type: none"> • Realistic and achievable revenue targets • Cooperation between levels of government • Support for oversight bodies • Effective management of fiscal policy and aggregates 		
Strategic directions	Managing risks wisely		
	Confronting and mitigating risk in design – with agility in delivery	Balancing tacit with explicit knowledge to achieve results	Whole-Bank staffing and structures that foster collaboration
Implementation levers (Bank outputs and activities)	<ol style="list-style-type: none"> 1. <u>Improving responsiveness to country programs</u> <ul style="list-style-type: none"> • Enable PSM dialogue/TA through flexible instruments that reduce dependence on PSM projects 2. <u>Improving project design and selection, exposing risk tradeoffs</u> <ul style="list-style-type: none"> • Develop a professionally recognized set of results-focused diagnostic standards agreed jointly with other sectors, which assist in: <ul style="list-style-type: none"> ○ Identifying the "functional problem" ○ Diagnosing the "binding constraints" ○ Ensuring a robust contestation between potential solutions ○ Estimating the likely risk and return from implementing this institutional reform • Establish clinics to support staff in using the diagnostic approach 3. <u>Enhancing the impact of PSM projects</u> <ul style="list-style-type: none"> • Increased flexibility in implementation through the use of new results-based instruments • Expand the use of reform space/demand-side initiatives. 	<ol style="list-style-type: none"> 1. <u>Improving country level institutional tracking</u> <ul style="list-style-type: none"> • Extend the range of indicators of strength of country systems • Develop quality standards and priority areas for case studies • Pilot more rigorous (impact) evaluation of PSM reform results 2. <u>Learning more from Bank projects</u> <ul style="list-style-type: none"> • Movement towards more standardized project progress indicators • Supporting the development of a "secondary industry" of analysis of Bank data through more open access to the research community on Bank project data and indicators of strength of country systems 3. <u>Renewing Bank leadership in PSM research</u> <ul style="list-style-type: none"> • Focusing Bank research on key knowledge gaps • Setting a multi-donor research agenda relevant for practical support strategies 4. <u>Supporting specialist professional communities within the Bank</u> 	<ol style="list-style-type: none"> 1. <u>Improving the coherence of PSM Advice</u> <ul style="list-style-type: none"> • Principles of joint working established to ensure that the Bank speaks with one voice on PSM • Principles of good operational practice established in relation to core PSM areas • Review regional PSM business models to identify those that maximize collaboration • Find additional incentives for PSM staff to make contributions to sector projects, including revisions to the OPE to give more credit to "influence" rather than TTL responsibilities. 2. <u>Enhancing staff skills</u> <ul style="list-style-type: none"> • Training and recruitment: To extend skills to: regulatory and policy management; change management. • Recruitment: To recruit more mid-career professionals 3. <u>Deploying scarce skills</u> <ul style="list-style-type: none"> • Consider "<i>Global Practices</i>" to manage scarce skills strategically. Possible candidates: <ul style="list-style-type: none"> ○ Revenue Administration (objective to nurture a small group of specialists) ○ Civil service reform (additional objective of bridging HRM work in central government with HRM work in the sectors, particularly health and education) ○ Decentralization (additional objective of creating a coherent business line concerning intergovernmental functional allocations and fiscal relationships)

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DATA ANNEX

World Bank and other donor support for Public Finance Reform – trends reported by the OECD Creditor Reporting System⁶⁵

a) Caveats concerning CRS data

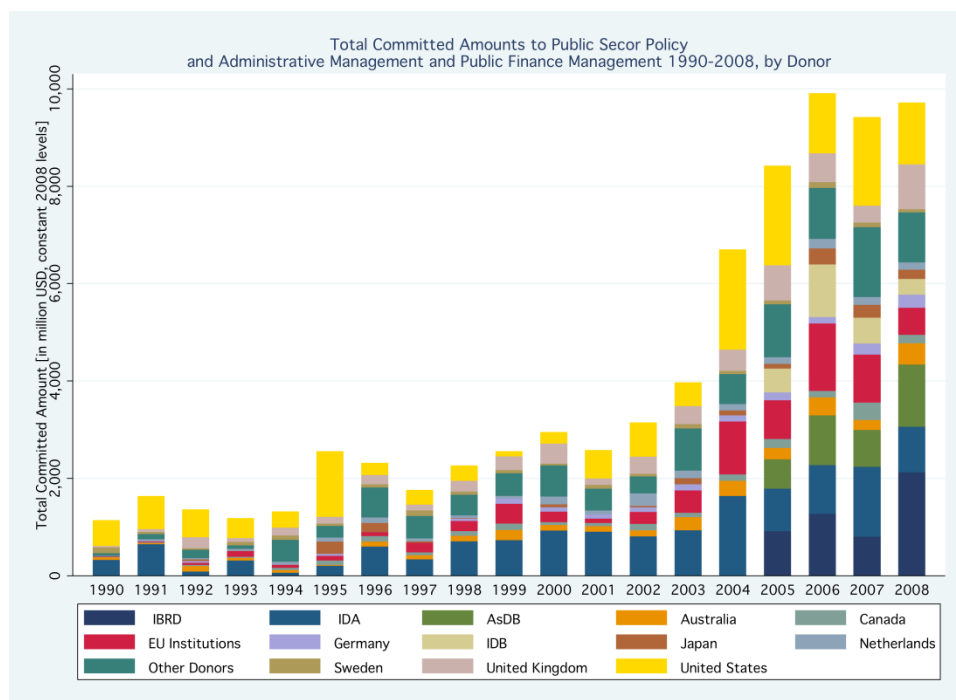
The trends of Official Development Assistance (ODA) flows dedicated to public sector management reforms must be interpreted with care. The data below are provisional and are being reviewed with the OECD to verify the conclusions.

There are two major reasons for caution. The steep increase in lending volumes (reported in constant 2008 USD) over the past two decades may partially reflect increases in reporting, rather than increases in actual aid flows.⁶⁶ In addition, the classification of aid flows by purpose in the CRS system does not allow the precise identification of ODA flows dedicated to public sector management reforms at the centre of government and within sectors.

Precise identification of ODA flows dedicated to PSM reforms is challenging because, except for PFM reforms, PSM reforms at the centre of government do not fall within narrowly defined ODA categories. Therefore, reported ODA flows may include significant amounts not dedicated to PSM reform.⁶⁷ The conversion rules from the CRS reporting codes for the period 1990-2008 to a newly adopted set of codes (CRS++) are pending clarification from the OECD DAC.⁶⁸ Also, PSM reforms within sectors cannot reliably be distinguished from non-PSM reforms (OECD DAC, 2011; OECD, 2011).⁶⁹

b) Volumes and trends in development assistance for PSM

Data Annex Figure 1: Aggregate annual trends in development assistance for public sector reform (all donors, constant 2008 USD)

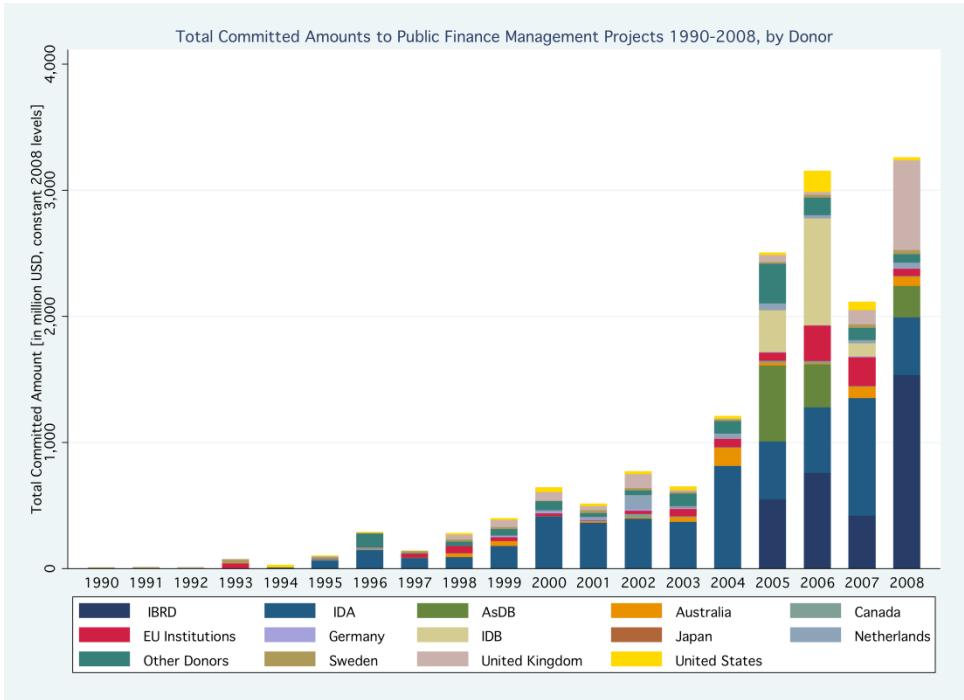


Source: OECD Development Database on Aid Activities (Creditor Reporting System)

Notes: Commitments are in constant 2008 USD. Committed amounts include projects classified in the CRS database under CRS purpose codes 15010 ("public sector policy and administrative management") and 15111 ("public finance

management") at any committed amount. Projects include both grants and loans and both investment and development policy projects. Projects are included only for recipient countries in which the World Bank has had at least one lending project (regardless of sector) in the period from 1990-2008. Regional projects and projects in former Yugoslavia are also excluded. Reliability of the data reported is subject to further verification with OECD DAC.

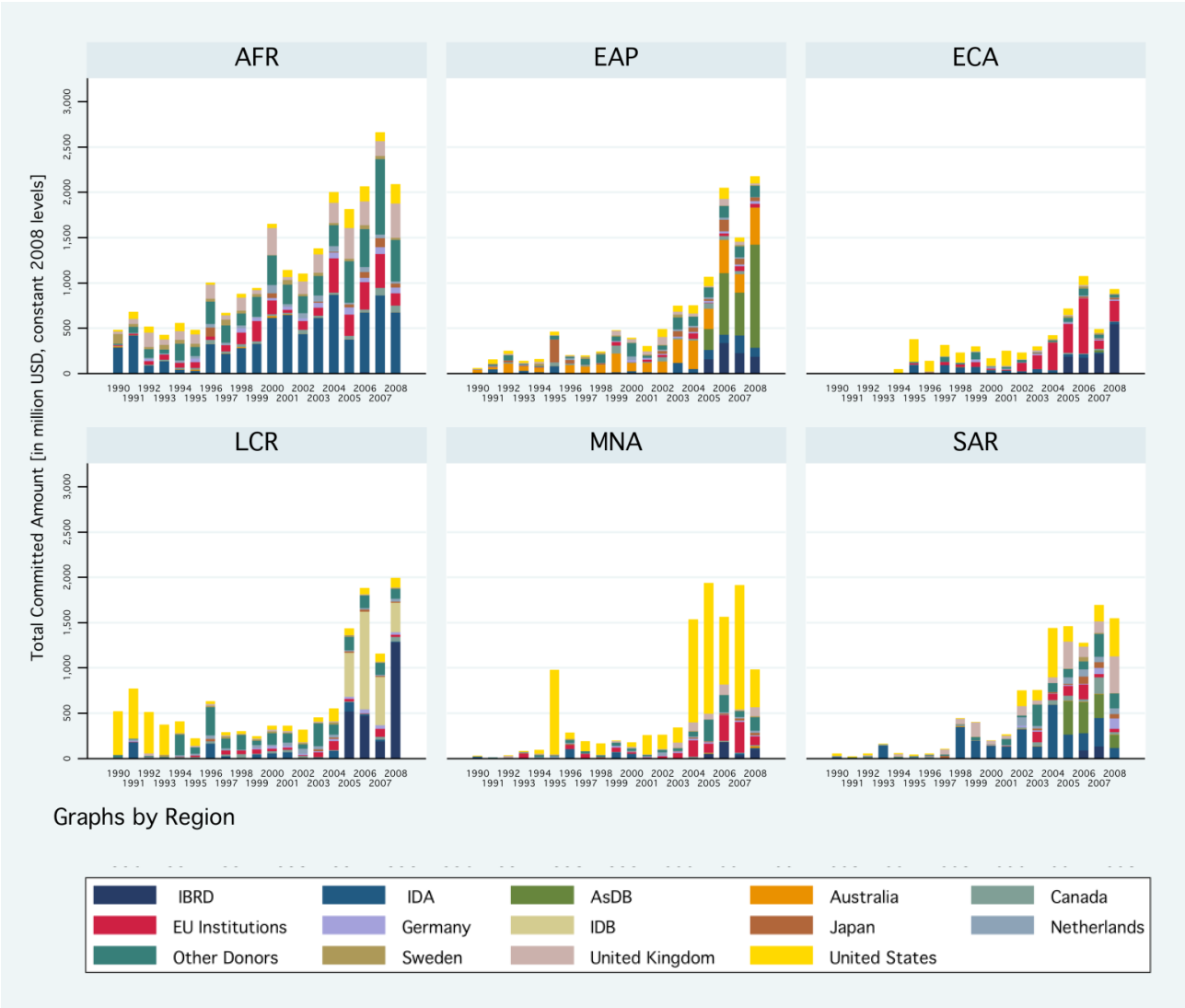
Data Annex Figure 2: Aggregate annual trends in development assistance for PFM (all donors, constant 2008 USD)



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

Notes: Commitments are in constant 2008 USD. Committed amounts include projects classified in the CRS database under CRS purpose code 15111 ("public finance management") at any committed amount. See notes for Data Annex Figure 1 for further detail.

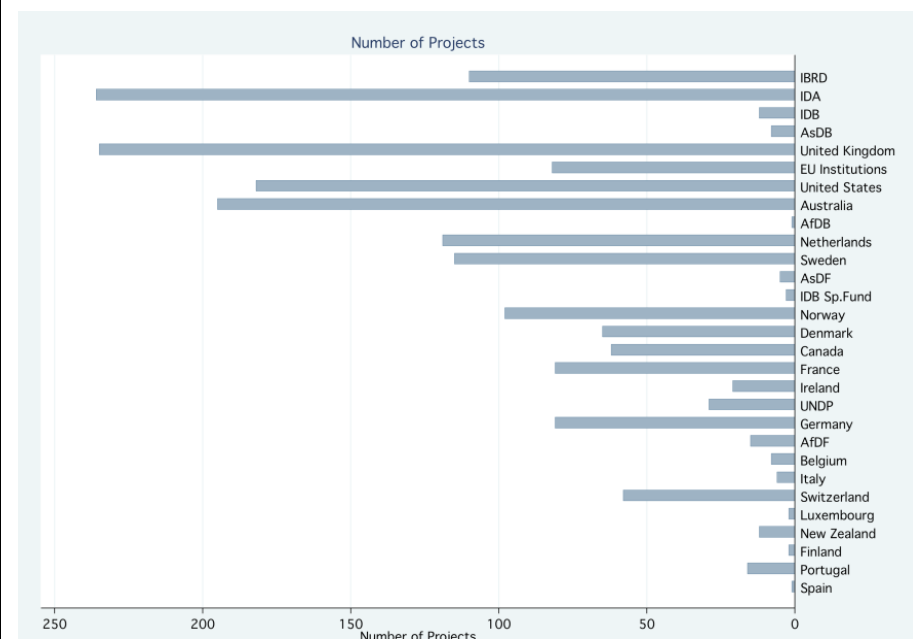
Data Annex Figure 3: Aggregate annual trends in development assistance for public sector reform, by region (all donors, constant 2008 USD)



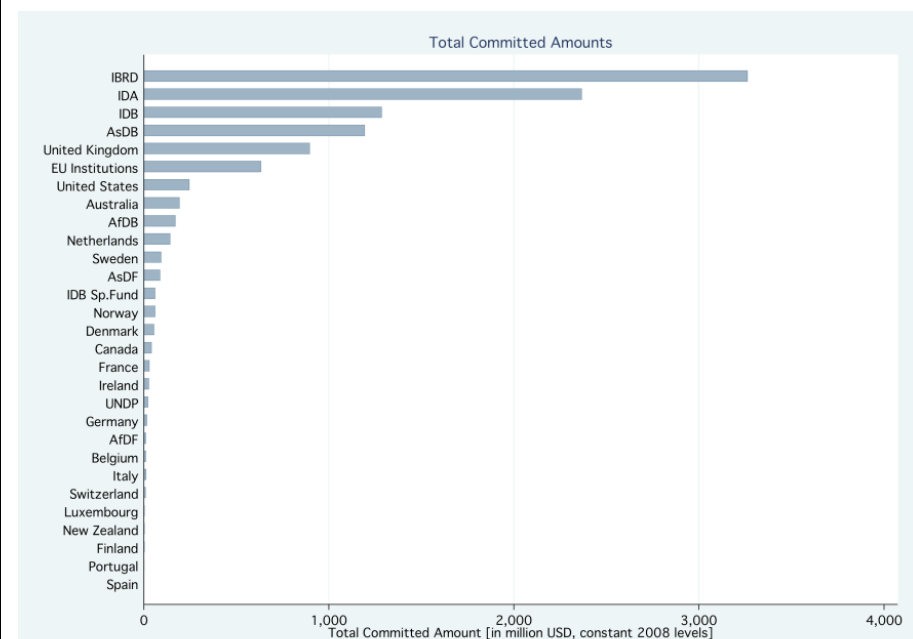
Source: OECD Development Database on Aid Activities (Creditor Reporting System)

Notes: Commitments are in constant 2008 USD. Committed amounts include projects classified in the CRS database under CRS purpose codes 15010 (“public sector policy and administrative management”) and 15111 (“public finance management”) at any committed amount. See notes for Data Annex Figure 1 for further detail.

Data Annex Figure 4: Number of Public Finance Management Projects (2005-8) by Donor



Data Annex Figure 5: Total Committed Amounts to Public Finance Management Projects (2005-8) by Donor

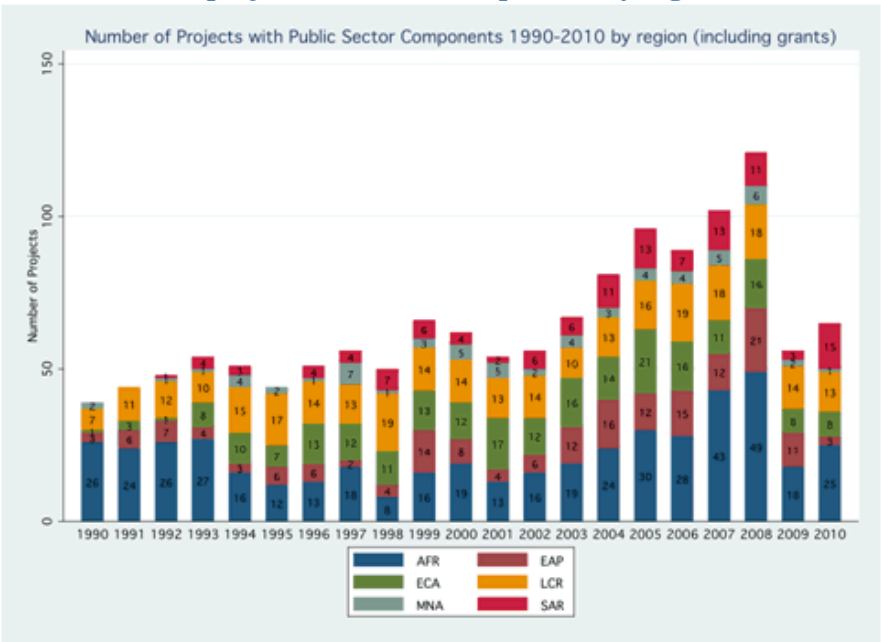


Source: OECD Development Database on Aid Activities CRS.

Note: Commitments are in constant 2008 USD. Committed amounts include all projects classified in the CRS database under CRS purpose code 15111 ("public finance management") with a nominal committed amount greater than 300 thousand USD. See notes for Data Annex Figure 1 for further detail.

Thematic and regional developments in World Bank lending and analytic work for PSM reform

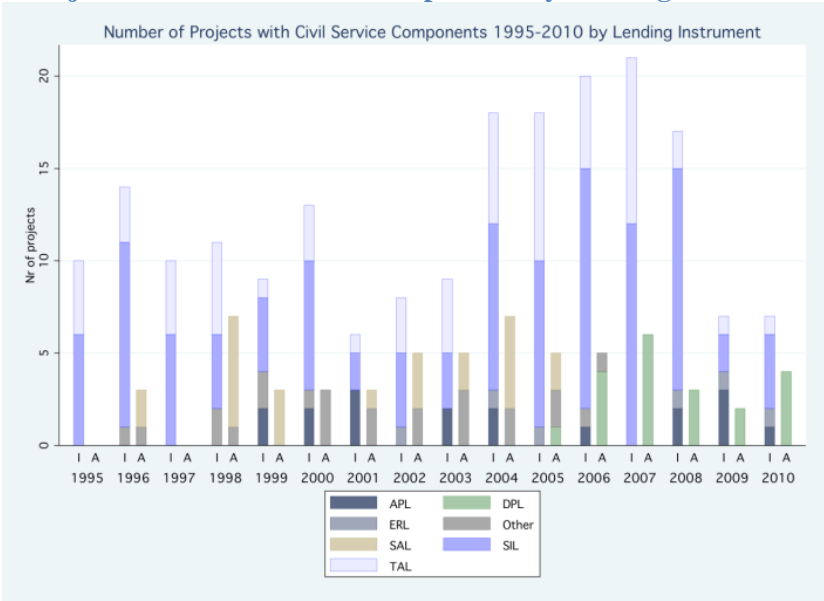
Data Annex Figure 6: Numbers of projects with PSM components by region



Source: World Bank

Note: The universe of public sector projects referred to in the above figure 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 includes grants. This universe is significantly larger than the universe underlying (Independent Evaluation Group, 2008b).

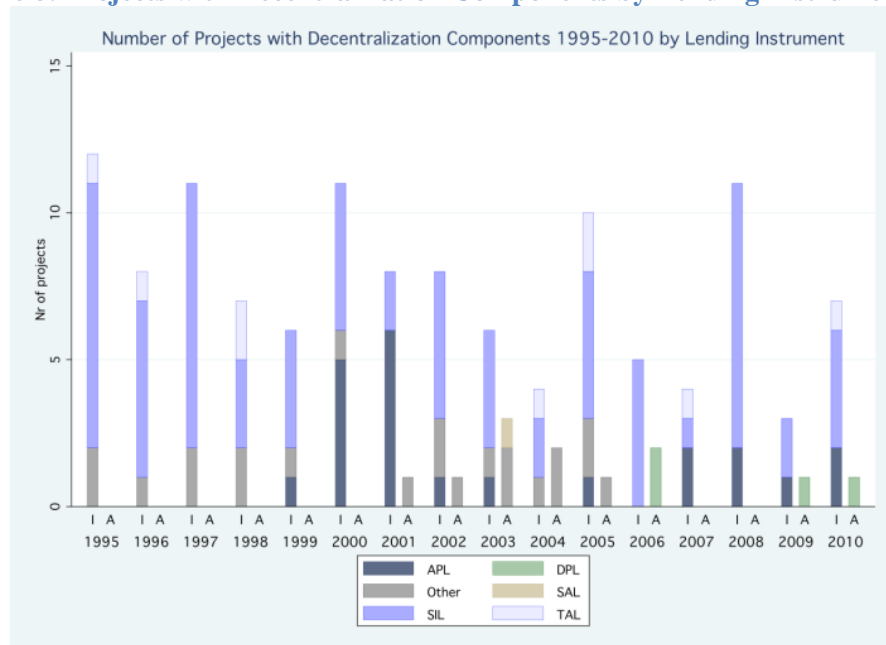
Data Annex Figure 7: Projects with Civil Service Components by Lending Instrument



Source: World Bank

Notes: n = 259. I = Investment Lending, A – Adjustment or Policy-based lending. See the note for Data Annex Figure 6 for universe definition.

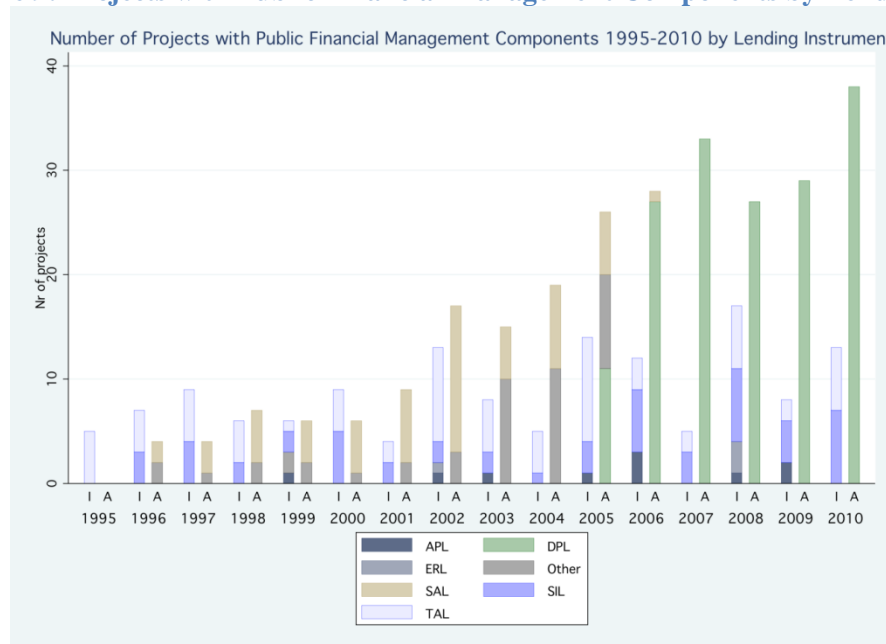
Data Annex Figure 8: Projects with Decentralization Components by Lending Instrument



Source: World Bank

Note: n = 133. I = Investment Lending, A – Adjustment or Policy-based lending. See the note for Data Annex Figure 6 for universe definition.

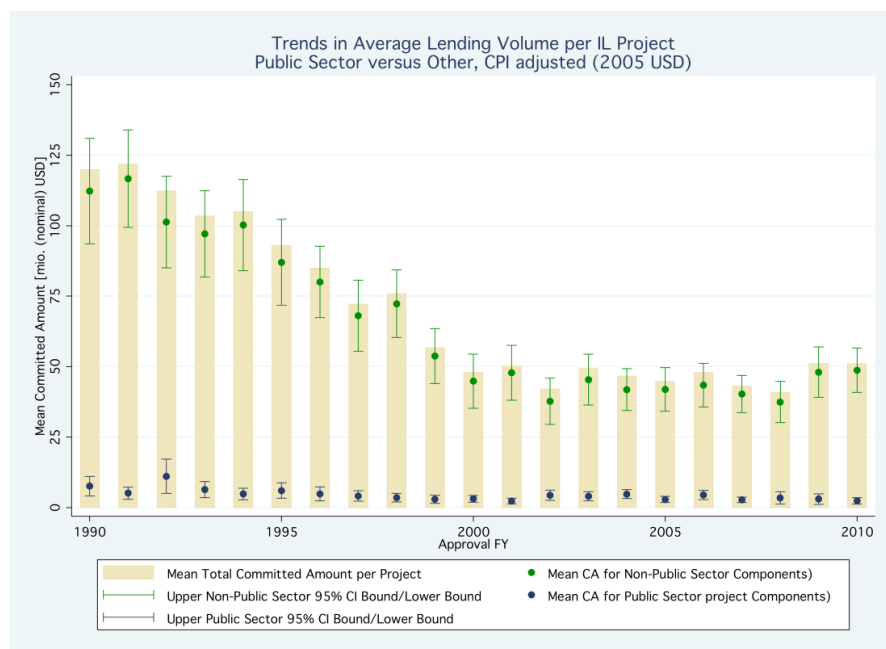
Data Annex Figure 9: Projects with Public Financial Management Components by Lending Instrument



Source: World Bank

Note: n = 409. I = Investment Lending, A – Adjustment or Policy-based lending. See the note for Data Annex Figure 6 for universe definition.

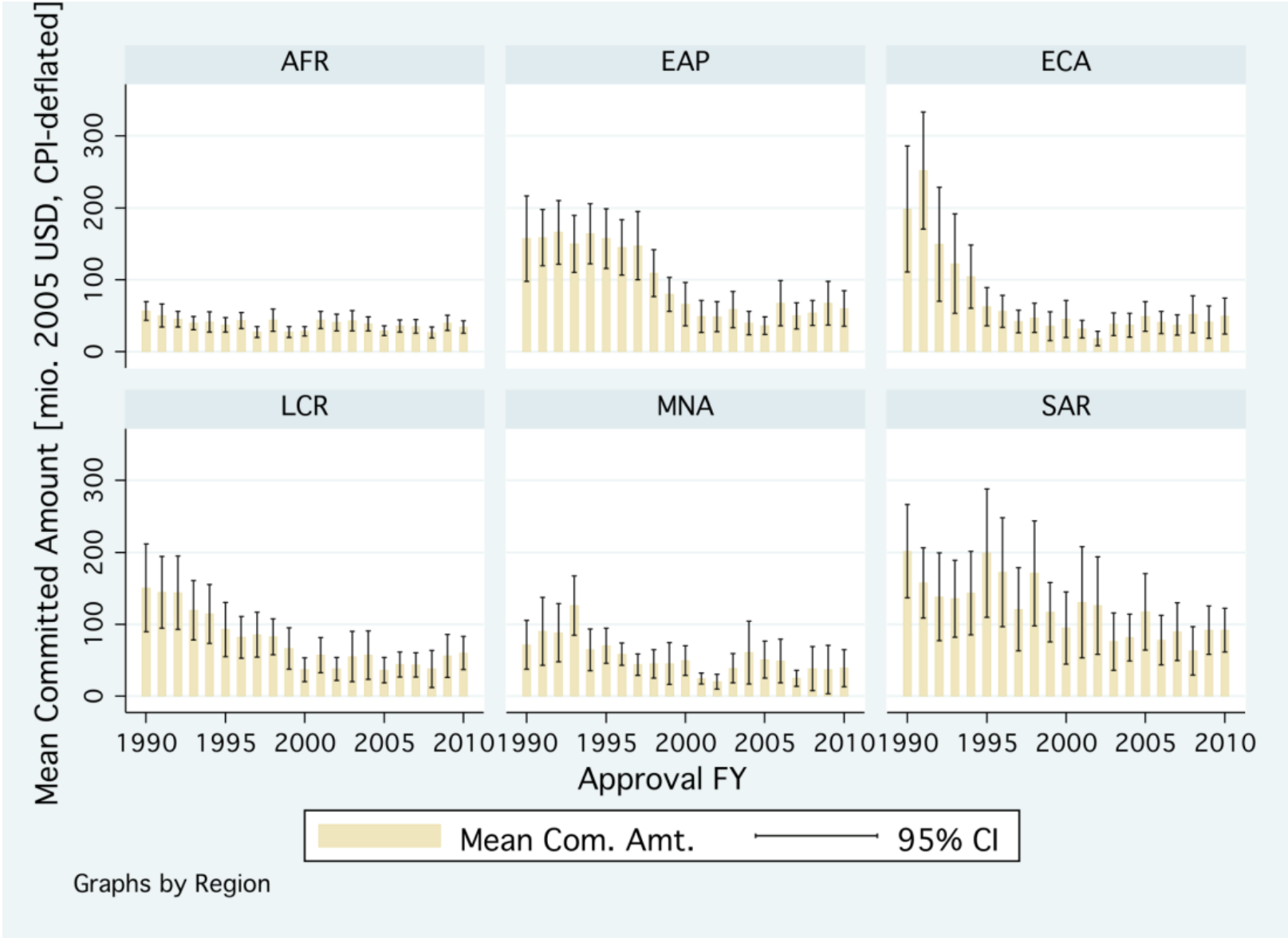
Data Annex Figure 10: Overall trends in average commitments per Investment Loan (public sector vs. other themes)



Source: World Bank

Note: See the note for Data Annex Figure 6 for universe definition. Within the mean committed amount per project and fiscal year, the mean committed amounts (CA) for public sector and non-public sector project components are based on the project shares tagged to public sector themes (25 to 30).

Data Annex Figure 11: Trends in Average Commitments per Investment Loan (public sector, by region)



Source: World Bank
Note: See the note for Data Annex Figure 6 for universe definition.

Attachment 1: Cases (upstream/downstream linkages) - TBC

Positive cases that illustrate the linkages between upstream and downstream PSM reforms in diverse country types (fragile, post conflict, MICs etc.).

The cases will address the following questions:

1. Were there identifiable problems "upstream" (Ministry of Finance/Civil Service Department) a few years ago? (from PEFA, PER, CPIA or similar)
2. What were the consequences of that poor upstream functioning?
 - a. at the sector level (poor service delivery, public investment, or regulatory functions)
 - b. at the whole of government level (unrealistic or unachievable revenue targets, lack of cooperation between levels of government, or poor management of fiscal policy and aggregates)?
3. Who wanted change - and what changed first? (the sectors identified a constraint/the center pushed a reform through/something else)?
4. What has happened at the center - how do things upstream look more recently?
5. How has the Bank helped? What's our claim of attribution in the improvements? What part was played by others?
6. Do we now see improvements (or at least the promise of improvements) at the sector level, or at the whole of government level?
7. What's the next problem to be addressed? Who is interested in addressing it (other than the Bank)?

Cases under preparation:

- Sierra Leone (PFM reforms in a post-conflict setting) –Verena Fritz
- Tajikistan (CSR and PFM reforms) – Svetlana Proskurovska
- Afghanistan (CSR and restructuring in a fragile setting) – Satyendra Prasad
- La Rioja (revenue administration, service delivery and PFM reform) – Alexandre Arrobbio
- Mongolia (mining and PFM reform) – Graeme Hancock
- Tanzania (health and PFM reform) – Julie McLaughlin
- Indonesia (education and PFM/CSR reform) Rosfita Roesli and Susiana Iskandar
- India (e-government) – Ranjana Muherjee
- MENA – project to be identified

Attachment 2: Cases (diagnostic protocol in practice) - TBC

Illustration of the diagnostic approach undertaken in diverse settings.

Cases identified to date:

- Mexico Health Sector Management reform – Christoph Kurowski
- LAO Treasury Modernization – Mathew Vergis

Attachment 3: Monitoring implementation of the PSM Approach- TBC

Table 1: Monitoring actions and targets - TBC

Actions	Targets
Confronting and mitigating risk in design – with agility in delivery	
1. <u>Improving responsiveness to country programs</u> <ul style="list-style-type: none"> • Enable PSM dialogue/TA through flexible instruments that reduce dependence on PSM projects 	Targets to be set at the regional level
2. <u>Improving project design and selection, exposing risk tradeoffs</u> <ul style="list-style-type: none"> • Develop a professionally recognized set of results-focused diagnostic standards agreed jointly with other sectors • Establish clinics to support staff in using the diagnostic approach 	Final draft to be agreed by all relevant bank Boards by end 2011 Clinics to be operational by Q1, 2012
3. <u>Enhancing the impact of PSM projects</u> <ul style="list-style-type: none"> • Increased flexibility in implementation through the use of new results-based instruments • Expand the use of reform space/demand-side initiatives. 	Review of the use of P4r to be undertaken by the PSGB by Q1, 2012 Initiative to be formalized between PREM and SD by Q1, 2012
Balancing tacit with explicit knowledge to achieve results	
1. <u>Improving country level institutional tracking</u> <ul style="list-style-type: none"> • Extend the range of indicators of strength of country systems • Develop quality standards and priority areas for case studies • Pilot more rigorous (impact) evaluation of PSM reform results 	Business plan for the development of a suite of indicators to be agreed by the PSGB by end 2011 Business plan including standards and priority areas to be agreed by the PSGB by end 2011 Business plan for impact evaluations to be agreed by the PSGB by end 2011
2. <u>Learning more from Bank projects</u> <ul style="list-style-type: none"> • Movement towards more standardized project progress indicators • Supporting the development of a "secondary industry" of analysis of Bank data through more open access to the research community on Bank project data and indicators of strength of country systems 	Website for TTLs that groups indicators into standard "buckets" and that provides an incentive to use these (access to other comparable projects) to be established by end 2011 Business plan showing how Bank PSM data are to be shared with the wider PSM community is to be agreed by the PSGB by end 2011
3. <u>Renewing Bank leadership in PSM research</u> <ul style="list-style-type: none"> • Focusing Bank research on key knowledge gaps • Setting a multi-donor research agenda relevant for practical support strategies 	Business plan for Bank research to be agreed by DEC and the PSGB by end 2011
4. <u>Supporting specialist professional communities within the Bank</u>	Business plan for revitalizing the Thematic Groups to be agreed by the PSGB by end 2011

Whole-Bank staffing and structures that foster collaboration

<p>1. <u>Improving the coherence of PSM Advice</u></p> <ul style="list-style-type: none"> • Principles of joint working to ensure that the Bank speaks with one voice on PSM • Review regional PSM business models to identify those that maximize collaboration • Find additional incentives for PSM staff to make contributions to sector projects, including revisions to the OPE to give more credit to "influence" rather than TTL responsibilities. 	<p>Principles to be proposed by PSGB for agreement by other relevant Sector Boards by end 2011</p> <p>Review to be completed by end 2011</p> <p>Proposal to be made to HR by end 2011</p>
<p>2. <u>Enhancing staff skills</u></p> <ul style="list-style-type: none"> • Training and recruitment: To extend skills to: regulatory and policy management; change management. • Recruitment: To recruit more mid-career professionals 	<p>Business plan for PSM training to be agreed by the PSGB by end 2011</p> <p>Proposal to be made to HR by end 2011</p>
<p>3. <u>Deploying scarce skills</u></p> <ul style="list-style-type: none"> • Create "<i>Global Practices</i>" to manage scarce skills strategically. 	<p>Review to be completed by end 2011</p>

End Notes

- ¹ The universe of public sector projects referred to here and elsewhere in the report, unless specified otherwise, 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 includes grants. This universe is significantly larger than the universe underlying (Independent Evaluation Group, 2008b).
- ² 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.
- ³ 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.
- ⁴ CPI-deflated constant 2005 US \$ levels.
- ⁵ For the Bank's corporate modernization agenda see (World Bank, 2010d; World Bank, 2011c). For current lending reforms see (World Bank, 2009c), and for the knowledge and staffing reforms see (World Bank, 2009a).
- ⁶ The figure introduces a distinction between objective and subjective outcomes. The latter reflects an insight most recently underscored in the Sarkozy Commission report (Stiglitz et al., 2009) that 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 thought to do it.
- ⁷ "Upstream functions" are typically undertaken by center of government ministries and departments. "Downstream functions" are typically undertaken by line departments or agencies. This 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. Distinguishing between these two reform areas reflects the internal organization of the Bank's support to PSM reform. 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.
- ⁸ To date the Accra agenda has not led to as much progress as was hoped (Knack and Eubank, 2009). If progress does accelerate, it might heighten de jure rather than de facto reforms. (Andrews, 2009) argues that reforms driven by the motive to seek legitimacy in the external (donor) environment are likely to have only limited effects as they may enhance convergence towards "good practice" in institutional designs that do not fit local circumstances and are likely to focus attention on the easier, "upstream" budgetary reforms.
- ⁹ OECD government responsibilities have grown during the 20th century. In the 1930s, they took on new responsibilities for full employment and macroeconomic policy. After the Second World War, they adopted significant new social responsibilities followed by environmental responsibilities. In 1870, public expenditures were less than 10 percent of total GDP in today's OECD countries. By 1995 this share had grown to almost 50 percent. The growth in public expenditures explanation is less convincing as an explanation of the increasing focus on PSM in developing countries as, on average, they spend much less than developed countries and the totals have not been increasing as a percentage of GDP, with the averages around 15-20% in Asia and Latin America, and 28% in Africa (Fan et al., 2008).
- ¹⁰ This table draws on (Pollitt and Bouckaert, 2004; OECD, 2005a; OECD, 2005b; OECD, 2007; Joumard et al., 2004).
- ¹¹ The three types of MTEF frameworks are defined as follows. MTEF: the government has rolling aggregate, expenditure, revenue, and other fiscal forecasts. Features include the availability of a macro-fiscal strategy, macroeconomic and fiscal forecasts, and debt sustainability analysis. MTBF: budget, spending agency or other reports explain aggregate and sectoral expenditure objectives and strategies, budget circulars detail medium-term expenditure ceilings and revenue forecasts, and budget documents contain some detail about medium-term estimates. Note that countries which introduced piloted MTBFs were considered as MTEFs, since the health sector might not be part of the pilot. MTPF: budget, spending agency or other reports explain program objectives and strategies, and list specific agency and/or program output or outcome targets, as well as results.
- ¹² The accountability triangle in (World Bank, 2003b) emphasizes institutionalized relationships. This box highlights trust as a metric for how those relationships are working in practice.
- ¹³ Figure 4 also highlights that some public skepticism about politicians' actions helps ensure scrutiny of programs and policies rather than acceptance of ethnic or patrimonial connections as the primary way of doing business. Research in

Central and Latin America has shown that excessive trust in individual politicians deters the skepticism necessary for program-based elections. (Cleary and Stokes, 2009; Espinal et al., 2006).

(Guerrero, 2011 (forthcoming); Sacks, 2011 (forthcoming))

See (World Bank, 2009c) for further details.

Most famously (North, 1990). Poor institutions have long been put forward as explaining the relative underperformance of economies and cross-country empirics confirm this relationship with studies relating better institutional quality with higher levels of per capita income and greater economic growth (Mauro, 1995; Knack and Keefer, 1995; Acemoglu et al., 2001; Dollar and Kraay, 2003; Rodrik et al., 2004).

(Henderson et al., 2003) sum it up well when they note that: "there is in general a strong relation between the competence and effectiveness of public bureaucracies and their consequences for poverty reduction. While it is important to recognise that correlations are not the same as causal connections and that in the social world the latter rarely, if ever, can be empirically 'proved', we suggest that given a solid and sustained record of economic growth, the balance of presumption must be that the bureaucratic quality of public institutions in a given country is decisive for that country's ability to reduce poverty" (Henderson et al., 2003, p.15)

Tacit or craft knowledge is taken to be knowledge that is difficult to articulate or formalize, and is in distinction to explicit knowledge which is "knowledge that is "amenable to the written page," or codifiable" (Hedeström and Whitley, 2000, p.5). (Schon, 1983) sets out the issue rather starkly in distinguishing between the "swamp" of practitioner knowledge and the "high ground" of more rigorous research: "Shall the practitioner stay on the hard, high ground where he (sic) can practice rigorously... but where he is constrained to deal with problems of relatively little social importance? Or shall he descend to swamp where he can engage the most important and challenging problems, if he is willing to forsake technical rigor?" (Schon, 1983, p.42) cited in (Head, 2010).

Most prominently (North et al., 2007).

From a review of recent literature and research, (Heeks, 2011) suggests that the limited progress in anti-corruption reforms is primarily because the cause of anti-corruption is attractive to be seen to espouse, but of little real political interest.

"Most democracies undertake comprehensive reforms of administration from time to time. They create special commissions or parliamentary initiatives to overhaul the administrative machinery of government. Those efforts regularly have their beginnings hailed, their aspirations praised and their recommendations ignored". (March and Olsen, 1995, p. 195) quoted in (Pollitt and Bouckaert, 2004). Also see (Premfors 1998).

Empirical evidence suggests large impacts of elections and voter turnout on some aspects of service delivery. On the African continent, when countries transition to more competitive elections, governments are more likely to abolish primary school fees, a populist policy which is easy for citizens to observe (Stasavage and Harding, 2011). (Skoufias et al., 2011) suggests that electoral reforms that promoted grass roots democracy made a positive difference in health, education and fiscal balances. But elections *per se* may not be sufficient to improve less visible aspects of service delivery, such as better quality of schooling. Even in a setting of highly competitive and regular elections such as on the Indian sub-continent, the empirical patterns suggest that education spending is more likely to be used to deliver the jobs of teachers as political patronage, rather than improved quality of learning in public schools (Khemani, 2011 (forthcoming)). Evidence from Brazil is more encouraging, showing that shifts to electronic voting technologies, which enabled the poor and less educated to increase their participation, resulted both in shifts in public spending towards public health care and improved service quality (Fujiwara, 2010).

Further evidence of how even competitive elections can be driven by clientelist and populist political platforms, at the expense of broad improvements in service delivery comes from the Philippines. In the province of Isabela, in villages where there are greater reports of "vote-buying" as the selected political strategy of municipal governments, municipal investments in maternal and child health services is lower, households have lower access to such services, and there are a greater proportion of children with very-below-normal birth weights (Khemani, 2011).

Nevertheless, there are well-recorded instances of dramatic expansions in public service provision in areas that are institutionally weak, because of strong political commitments from elected leadership (Banerjee et al., 2007). Ongoing research is examining the conditions under which there are strong political incentives to pursue such large-scale improvements in service provision. .

See (2011; Global Arab Network, 2011)

(Jaimovich and Rud, 2011)

This is potentially challenging for the Bank as it has no direct experience in OECD countries to draw on.

Project data represented in Figure 5 to Figure 7 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, 2008b). 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.

"Core - Fiduciary Studies" comprise "Country Financial Accountability Assessments", "Country Procurement Assessments", and "Integrative Fiduciary Assessments". "PSR Public Expenditure Reviews" and "PSR CEM/ Development Policy Reviews" comprise the subset of these core report types that were tagged either to a public sector theme (themes 25-30) or sector (BC, BH, BZ). "Other ESW" 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. "C" is short for "core reports", "R" is short for "Non-core Reports" and "PN" is short for "Non-core Policy Notes". NLTA is not reported. Reliable data is unavailable prior to FY2002.

The availability of new financing sources has been one of the most significant changes in development assistance in recent years (Manning, 2006). New bilateral donors with significant resources, such as China, India and Brazil, are now active in their support of infrastructure development in Africa although the volume of aid flows is hard to determine (World Bank, 2006, p.75; Brautigam, 2009 ; 2010). Sovereign wealth funds and foundations are said to be expanding their outreach and impact, although again hard evidence is in short supply. And, notwithstanding the current crisis in the financial sector, domestic and international capital markets are playing a larger role in the financing strategies of middle-income countries. Emerging new financing sources for PSM reform may be reduce the effectiveness of PSM reform conditions (Paloni and Zanardi, 2006). (Mold, 2009) highlights the ambiguity in the lack of governance conditions on Chinese assistance, noting that it might represent a capture of undemocratic African elites by Chinese interests, or might be the signal that a new relationship based on mutual respect is being established.

Projects are included only for recipient countries in which the World Bank has had at least one lending project (regardless of sector) in the period from 1990-2008. Regional projects and projects in former Yugoslavia are also excluded. Reliability of the data reported is subject to further verification with OECD DAC. See DATA ANNEX for an important caveat concerning CRS data, and for time trends by region.

(World Bank, 2009d)

Earlier reviews of civil service reform project outcomes also found them generally unsatisfactory. (World Bank, 1999). (Independent Evaluation Group, 2008a) reviewed the impact of Bank support to country decentralization programs. It found a mixed picture but noted, consistent with other reviews, that the Bank's support was often insufficiently grounded in an understanding of the country's political economy, and that analytical work did not ask basic questions about the interest of some stakeholders in undermining reforms or whether a sustainable political equilibrium might emerge at the end of the decentralization process.

(Agulhas Development Consultants Ltd., 2009; Swedish International Development Cooperation Agency, 2009; Foster, 2010)

Review of World Bank Public Sector Management portfolio, undertaken for the PSM Approach.

For ORAF, see (World Bank, 2010a). For the shift in emphasis from project supervision to project implementation support, see (World Bank, 2009c).

(World Bank, 2009c; World Bank, 2011d; World Bank, 2011c)

The purpose of the structured diagnostic approach is to counter the "strong priors about the nature of the problem and the appropriate fixes" (Rodrik, 2008). This mirrors broader developments in economics that emphasize a "binding constraints" approach to development which in essence entails finding out where the shoe pinches and concentrating narrowly and pragmatically on fixing that (Rodrik, 2005; Hausmann et al., 2006).

Developments in system-wide diagnostics within Bank strategies:-

Education:

For definition of an "education system" see (World Bank, 2011b). For use of system diagnostics that identify the context specific binding constraints to improved educational outcomes see (Independent Evaluation Group, 2011).

Trade:

"Diagnostic trade integration studies (DTISs) conducted in over thirty LDCs find that the primary barriers to their trade integration are typically not trade policies per se (i.e., high import tariffs, export taxes, and

quantitative trade restrictions), but rather the high costs of producing goods and services for export and delivering them to buyers in foreign markets." (World Bank, 2010c, p.7)

Urban:

"The Bank will assist countries in responding to urbanization pressures by piloting a new diagnostic framework and analytical tool. The Urbanization Review will be a client-driven instrument to examine demographic trends nationally and within critical urban agglomerations. It will look at impacts on land and housing availability and affordability. It will also look at mobility and access to jobs and critical infrastructure services. It will monitor the urban-rural spatial transformations." (World Bank, 2009e, p.7)

Health:

"A health system comprises all organizations, institutions and resources devoted to producing actions whose primary intent is to improve health" (World Bank, 2011f). For earlier definition of a "health system" and development of a new generation of diagnostics see (World Bank, 2007a).

Subsequent work on the strategy has assessed the impact and utility of the emerging diagnostic frameworks (Bitrán et al., 2010).

Private Sector Development:

In describing how Bank work is improving the mix of diagnostic tools, the Private Sector Development Strategy Implementation Progress report notes that: "The Doing Business indicators and the firm surveys are complementary tools for understanding the investment climate. The firm surveys identify the relative severity of investment climate constraints, such as the degree to which firms are harassed by bureaucrats or whether firms consider labor regulations to be a serious constraint. The Doing Business indicators complement these findings by bringing out institutional details underpinning these constraints." (World Bank, 2003a, p.11)

38 Developments in comparative data collection on institutional reform within Bank strategies:-

Agriculture:

"Both non-farm income and agricultural activities will be captured along with multisector information to provide a better understanding of what drives farm production" (World Bank, 2009b, p.50)

Social Protection and Labor:

"In many cases, the World Bank's comparative advantage will lie in transmitting its learning from interventions and programs among contexts with similar institutional constraints" (World Bank, 2011a, p.8)

Transport:

"(T)he Bank Group will continue to work with participating countries to establish baseline indicators of transport infrastructure provision" (World Bank, 2008, p.83)

Health:

Extensive work in progress to measure the impact of reforms on institutional behavior and on outcomes (Weber et al., 2010)

Private Sector Development:

"More rigorous and standardized measurement is now underpinning diagnostics, both of the constraints facing firms as well as the ensuing firm-level performance which leads to the creation of more productive jobs and hence poverty reduction. A common set of survey instruments has been agreed Bank-wide." (World Bank, 2003a, p.i)

39 (PEFA Secretariat, 2009)

40 Staff survey undertaken for the PSM Approach

41 "Development practitioners... (have a) default position (which) is to look at the world from the perspective of a 'developed' country, aspiring to introduce governance reforms that would align the institutions of poor countries in the South more closely with those of an OECD state... The conventional donor approach to governance has been to analyse problems in developing countries in terms of deficiencies when compared to this ideal model... Western policymakers too often view governance and development challenges in terms of their model of a developed state, and rush to find solutions without stopping to ask themselves what they can actually see." (Centre for the Future State, 2010, p.1)

42 This is referred to as "isomorphism", a tendency for organizations and institutional arrangements to look like each other arising from three pressures – coercive (arising from external pressures from funders and managers, and from wider societal expectations); mimetic (a response to uncertainty); and normative (generally the consequence of the development of a professional culture sharing similar assumptions) (Di Maggio and Powell, 1983). Of these, perhaps the strongest pressure for isomorphism is a response to uncertainty when there is no obvious first best way forward

(Frumkin and Galaskiewicz, 2004). (Andrews, 2009) argues that "isomorphism" is the lever most often used by development agencies including the World Bank.

For the positive reasons why countries seek "best practices", see (Andrews, 2009; Fernandez and Rainey, 2006; Ashworth et al., 2007). For a more skeptical interpretation, see (Garrett et al., 2006; Bouckaert et al., 2005,p.460; Suleiman, 2005).

(Common, 1998; Manning, 2002; Andrews, 2008b; Andrews, 2008a)

See, for example: (Jácome and Vázquez, 2005), which highlights the lack of evidence suggesting a causal link from central bank independence to reduced inflation; (Hallerberg et al., 2007; Hallerberg et al., 2001) on the strongly contingent nature of any use of fiscal rules; (Matheson et al., 2007) on the difficulty in asserting that recruitment to senior staffing positions in the civil service should be kept immune from political considerations; and (Kidd and Crandall, 2006) which highlights the lack of any relationship between autonomous revenue authorities and improved revenue administration.

This is particularly so with Sector-Wide Approaches (SWAs), where staff have been innovative in "pushing the envelope" of what can be done within existing rules. See (Stevens et al., 2011).

The work referred to in Figure 10 is:-

Reform of upstream institutional arrangements:

- Design of upstream reforms in the OECD: (Pollitt and Bouckaert, 2004)
- Implementability of upstream public financial management reforms (Dener et al., 2011)

De facto upstream functioning:

- Impact of upstream public financial management reforms on behavior: (Moynihan, 2006; Andrews, 2009; Andrews, 2008b; Andrews, 2010).
- For the design of indicators of upstream behavioral change: (Reid, 2008; Junquera-Varela, 2010; PEFA Secretariat, 2009)

Reform of downstream institutional arrangements:

- Impact evaluations on teacher incentives: (Glewwe et al., 2003; Duflo et al., 2010)
- School-based management reforms: (World Bank, 2007b)

De facto downstream functioning:

- Education accountability mechanisms see (Bruns et al., 2011)
- Design of indicators of downstream behavioral change: (Fiszbein et al., 2009; World Bank, 2011e)

Fiscal and institutional stability:

- Impact of Medium Term Expenditure Frameworks on fiscal discipline and efficiency (PRMPS FM Team, 2011 (forthcoming)-a)

Outputs:

- Impact of upstream reforms on public investment: (Dabla-Norris et al., 2011; PRMPS FM Team, 2011 (forthcoming)-b)
- Demand-side accountability mechanisms: (Bjoerkman and Svensson, 2009; Bjorkman and Svensson, 2010; Banerjee et al., 2008; Olken, 2007)

Practical political economy research on the implementation and impact of PSM reforms remains limited. While donor attention to the political economy of reform has grown rapidly over the past years, research focusing on the interactions between PSM reforms and political economy contexts remains scarce. Both the academic literature ((North et al., 2007) is a prominent example) and donor tools (most importantly (Fritz et al., 2009)) have increased the potential for understanding how political economy contexts influence the impact of PSM reforms along the results-chain. However, the field remains thin in facilitating the identification of approaches and tactics that are likely to have the most traction in a particular context.

See (World Bank, 2010b) for example.

N for each theme comprises all investment and development policy lending projects approved between FY1995 and FY2010 that comprise at least a 25 percent component tagged to the respective theme. Who leads the projects is approximated by the sector board the project is mapped to. All sectors not explicitly mentioned are labeled "other".

TTL Survey on the PSM Approach for 2011-2020 (partial results - 55 respondents). TTL responses to the question: "In your experience, how does it affect project effectiveness if TTLs change every 2 to 3 years?"

The histograms on team changes and project duration are based on an identical sample of n= 79 public sector investment lending projects approved in or after March 2001 and closed before or in December 2010, for which time recording system (TRS) data is available. Project duration is here defined as the time between the first month and the

End notes: e

last month in which staff time was recorded in the time recording system (TRS). This includes both time for project preparation and supervision. This sample significantly underestimates the average duration of public sector investment projects in the project population, because long-duration projects that were approved in this period but are still ongoing are underrepresented. On average, the time from approval to revised closing date for projects in the sample was 1755 days, compared to an average of 2491 days for the entire underlying population of public sector investment lending projects (with relevant data available). Average days till turnover for each project equal the project duration divided by the number of team changes for the respective project. A team change is counted when the two staff members who on average spent most time on a project over a period of six months both change. The lines in both charts show a smoothened Epanechnikov kernel density estimation, using a kernel half-width of 400 days.

(Blum, 2010)

Operational details are still being worked out, but the general outline is clear. The instrument will finance the costs of nationally owned multi-year sector or sub-sector programs, often in association with other development partners, using, as far as possible, country systems. Unlike DPLs, which provide general budget support for policy and institutional actions, P4Rs will finance agreed program expenditures. They will disburse not against transactions under Bank procurement and FM rules, like SILs, but for targeted results achieved using country systems. Each P4R loan will necessitate the creation of a monitoring and evaluation system with disbursement linked indicators, to assess results. Existing SWAp-type operations have many of the features of P4R lending, but one very fundamental difference in P4R is that it removes the requirement to identify eligible expenditures. Bank disbursement will be triggered by the indicator and no matching eligible expenditure will be necessary.

It has become easier to obtain additional financing for successful projects, and processes for restructuring of projects have been simplified.

For the latter, large capital outlays (e.g. for ICT) are less likely, sequenced actions are more difficult to determine and government support to sustain reforms against vested interests is seldom long enough for successful outcomes. (Stevens, 2011).

The area of PSM most suited to P4R lending may be PFM, where indicators are more developed and a programmatic approach could help coordinate multiple donors.

(Andrews, 2009; Pritchett et al., 2010; Centre for the Future State, 2010)

This empirical weakness amplifies a further problem in the field – namely that Public Sector management does not have a very solid theoretical underpinning. The tradition of public sector management is both normative and conflicted. The research and academic background is conviction-based rather than oriented towards problem-solving. In addition, however, there are many implicit conflicts which are only occasionally surfaced. The consequence is that "archetypes like New Public Management or the New Weberian State... (are) commonly misused through oversimplification and unstated ideological preferences of the proponents..." (Scott, 2009, p.12).

(Easterly, 2001)

<http://www.pefa.org/>

(World Bank, 2010b; Reid, 2008)

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 (Natsios, 2010).

Measures of public agents' behaviors, corruption (Banerjee et al., 2009) and service delivery (Amin et al., 2008) have significantly advanced over the past decade enabling innovative research. Leading economists have advanced micro-research for example on the relation between public accountability and services (Olken, 2007; Bjorkman and Svensson, 2010), on school-based management and teacher incentives (Glewwe et al., 2003), on the effects of decentralization (Faguet and Sanchez, 2008) and on corruption in public procurement, customs and tax (Bandiera et al., 2009).

The Bank's "Thematic Groups" and Communities of Practice have seen a near-demise, partly due to underfunding. "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, 2009f, p.ii). Without these engines of enthusiasm and shared concerns, it is unclear how the Bank will develop a robust climate of inquiry.

Source: staff survey undertaken for the PSM Approach.

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- ⁶⁵ The Aid Activity database of the DAC (the Creditor Reporting System) contains statistics on individual aid activities. The system, in existence since 1967, covers the activities of most of the 23 members of the OECD's Development Assistance Committee (DAC) as well as those of multilateral development banks and some UN agencies.
- ⁶⁶ The OECD DAC use a measure of "coverage ratio" to show the comprehensiveness of aid activity data. It indicates the extent to which the data can be exploited in analytical work. High coverage permits an in-depth analysis. Low coverage means that the data, though descriptive, may not present a balanced picture of DAC members' aid. Thus an increase in reported aid flows might be an increase in the "coverage ratio" of aid data, rather than increases in the actual flow of aid. According to OECD DAC, "the completeness of CRS commitments for DAC members has improved from 70% in 1995 to over 90% in 2000 and reached nearly 100% starting from 2003 flows." The actual growth rate of ODA flows is thus likely less steep than reported.
- ⁶⁷ For the period 1990-2008, three purpose codes best approximate "public sector management reforms" (15120, 15140, 15110). Among these, only purpose code "15120" precisely identifies "public finance management" as a PSM area. Purpose code "15140", entitled "government administration", captures key aspects of PSM reform, but also serves as a generic code for support to sectors that do not have a dedicated purpose code of their own – such as police and fire protection. Similar concerns apply for purpose code 15110 ("Public Sector Policy and Administrative Management"). See (OECD DAC, 2011; OECD, 2011).
- ⁶⁸ The OECD Development Assistance Committee has adopted a new classification (as part of the "CRS++ Format") for the reporting on purposes of aid flows, which takes effect in 2011 for reporting on flows in 2010. Aid flows for years 1990 to 2008 were originally reported by member countries according to the old pre-2010 purpose codes. However, in the latest CRS database, these codes have already been converted to the new coding system and this conversion may be problematic. While the new classification captures PSM reforms rather precisely (code 15110), the old codes that may have been converted to this code were significantly less precise (15110 and 15140). See (OECD DAC, 2011; OECD, 2011).
- ⁶⁹ For each major sector, such as health, a generic purpose code entitled for example "Health policy and administrative management" exists. However, these codes, according to the OECD DAC, are "the most general CRS codes", referring "to policy, planning and programmes; administration, institution capacity building and advice; combinations of activities and unspecified activities falling outside other code headings." (OECD, 2011). These codes thus comprise downstream PSM reforms, but are much broader in coverage, making them unsuitable for identifying trends in ODA flows for downstream PSM reforms. They are explicitly dedicated to be used as generic categories, which capture ODA flows that cannot be attributed to more specific classifications.